

## LEARNING AND MANAGEMENT SKILLS: THE INTERNATIONALIZATION OF GRUPO ARCOR. ANALYSIS FROM A PROCESS-BASED APPROACH\*

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### RESUMEN

En este documento se realiza un análisis sobre la trayectoria de expansión internacional de Grupo Arcor, empresa multinacional argentina dedicada a la producción de golosinas. El objetivo es identificar las estrategias corporativas y los aprendizajes empresariales que llevaron a esta firma latinoamericana a constituirse como una de las más importantes manufactureras en su ramo, particularmente en el siglo XXI. La metodología de este análisis es principalmente cualitativa para identificar a la dimensión económica como determinante en el proceso de internacionalización, a partir de la utilización de un enfoque de procesos derivado de la Escuela de Uppsala. No obstante, el estudio también se complementa con un análisis de regresión para probar si la empresa fue motivada a expandirse internacionalmente por las expectativas sobre el grado de globalización de la industria y la acumulación de experiencia en los mercados extranjeros, y si la elección del destino de sus inversiones externas fue afectada por la distancia psicológica; dada la influencia de estas variables en la formulación de las estrategias de negocio de Grupo Arcor. Las conclusiones señalan que las estrategias corporativas de Grupo Arcor, tales como la integración vertical, la diversificación de productos y mercados geográficos (basados en la distancia psicológica) fueron determinantes para su expansión internacional, y en efecto, algunas estrategias fueron consecuencia de la globalización de la industria y la acumulación de experiencia internacional.

**Palabras clave:** *multilatina*, compromiso internacional, distancia psicológica, internacionalización de la firma, inversión extranjera directa.

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## ABSTRACT

This paper analyzes the path of the international expansion of Grupo Arcor, an Argentine multinational company specializing in confectionery. The objective is to identify corporate strategies and business learning that led this Latin American firm to establish itself as one of the leading manufacturers in confectionery industry, particularly in the 21<sup>st</sup> Century. The analysis is primarily qualitative in order to identify the economic dimension as a determinant in the internationalization process; a process-based approach from the Uppsala Model is used for this. However, the study is also complemented with a regression analysis to test if the firm was driven to expand internationally by the expectations on the degree of globalization of the industry and the accumulation of experience in foreign markets, and if the company was influenced by psychic distance in choosing the location of its investment; given the influence of these variables in Grupo Arcor business strategies. Our findings suggest that Grupo Arcor, was able to become global due to strategies such as vertical integration, diversification of products and geographical markets (based on psychic distance) and indeed some strategies were consequence of the globalization of the sector and the accumulation of experience in foreign markets.

**Key words:** *multilatina*, international commitment, psychic distance, foreign direct investment, internationalization of the company.

**JEL Classification:** F23.

## 1. INTRODUCTION

The internationalization of Latin American companies is not a recent phenomenon; but what is, is the analysis of various business conglomerates in the region due to the global environment and competition that puts them up against multinationals from developed countries.

This paper aims to analyze the path of internationalization of Grupo Arcor, an Argentine company, by analyzing with a process-based approach from Uppsala Model in order to learn about the corporate strategies and business learning that led this Latin American company to become one of the most important manufacturers in the field of sweets and treats, particularly in the 21<sup>st</sup> Century.

This analysis is part of a research project in which a total of six *multilatinas*<sup>1</sup> are analyzed along with their regional impact on the creation of jobs. Methodologically, the analysis is qualitative and quantitative, using the specialized information collected from existing literature, and data generated by financial and sustainability reports on the company itself. This information has reconstituted the development of the company since its inception, with special emphasis on the path of internationalization.

In specialized literature on this company, one of the major works is that of Kosacoff *et al.* (2014), which, from an academic point of view, details the stages of internationalization of the company by analyzing endogenous and exogenous factors surrounding business decisions. There is also the case of Barbero (2011), who, in

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<sup>1</sup> Multilatina is a firm originated from economies in the Americas that were colonized by Spain, Portugal and France, and have added value operations abroad (Cuervo-Cazurra, 2010)

addition to working with Kasacoff *et al.* (2014), presents a historical analysis of the development of Argentine business groups throughout the 20<sup>th</sup> Century. In this sense the work of Barbero (2011) is a comparative study of Arcor and other Argentine companies (Bunge and Born, Tornquist, Devoto, Technit and Pescarmona), allowing the author to discover the strengths and weaknesses of these companies in their consolidation (or disappearance), based on the contexts of origin, characteristics of structure, ownership, control, competitive skills, the role of social networks and links with the state system.

Wainer and Schorr (2006) compare the development paths of Arcor and Servotron, both in the manufacturing industry but in different branches; the former agro-industrial and the latter in the electrical industry. The researchers place the analysis of microeconomic decisions (or business strategies) on the background and emphasize public policies implemented and their functionality to explain the business behavior of both. Both researchers conclude that the success of Arcor did not lie in the leadership of directors, but in a favorable macroeconomic context and a (agro-industry) sector in which Argentina has become more specialized, placing it in the world market.

Meanwhile, Baudino (2010) aims to explain Grupo Arcor's entry into the global market using a model of capital accumulation. Baudino (2010) agrees with Wainer and Schorr (2006) by mentioning that the success of the company lies in the productivity of the industry branch in which it operates, rather than business emphasis. In fact, Baudino (2010) shows that state subsidies led to a successful export program by the company.

In this sense, the literature addresses both macroeconomic and microeconomic contexts for the study of the internationalization of Grupo Arcor, but not strictly from a process approach applied to microeconomic analysis. In addition to this introduction, the paper consists of a first section that sets the general process approach to the internationalization of companies. Then, it was reconstituted the company's path of internationalization. Subsequently, the fundamental analysis of this study is to identify the main business learning and strategies that have enabled Grupo Arcor to move closer to international consolidation, through the guidance of the theoretical foundations of the process-based approach. In the next section, an ordinary least squares (OLS) regression analysis was performed in order to test if Grupo Arcor was driven to expand into foreign markets by expectations of the company on the degree of globalization of the sector and the accumulation of experience in foreign markets, and if the company was influenced by psychic distance in choosing the location of its investment; given the influence of these variables in Grupo Arcor business strategies in concordance with the theoretical framework. Finally, the conclusions of the paper are presented.

## **2. PROCESS APPROACH TO THE INTERNATIONALIZATION OF COMPANIES**

The central aspect of approach to internationalization as a process lies in assuming experiential learning as sequential or cumulative (Melin, 1992), to managerial strategies and decision-making as key aspects to the internationalization of the company.

The focus of the internationalization of the company from a process perspective has its backbone in the work of Johanson and Vahlne (1997)<sup>2</sup> who, after empirical

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<sup>2</sup> Also known as Uppsala Model or Nordic School.

research of Swedish companies, established an internationalization pattern referred to as chain establishment. Under this scheme, companies start by exporting, before formalizing their entry into foreign markets through agreements with intermediaries, usually agents representing parent companies in foreign markets. Generally, as sales grow, companies replace their agents with their own sales organizations and begin production in the foreign market to overcome trade barriers.

Within this approach, the concept of psychic distance is defined as the set of factors that impede or alter the flow of information between company and market. Examples are differences in language, culture, political systems, level of human capital, level of industrial development or even business practices (Johanson and Vahlne, 1977, p. 24).

The experience builds knowledge of the company's market, and that level of knowledge influences decisions regarding the level of engagement and action that subsequently grow out of it; this leads to the next level of engagement, leading to more learning. Learning and engagement take time and this explains why companies gradually make riskier investments (Johanson and Vahlne, 1977).

According to Canals (1994), companies then follow three stages of internationalization. In the first stage, the company begins a process of passive exports, even somewhat experimental ones; at this stage the process is slow and exports are usually specific. Then comes a development stage where the company starts with strategic alliances, and in turn exports become more active. Next, the internationalization process speeds up and the company begins an assessment of how to enter the foreign market through transactions with peers already established in that country.

Finally, there is the consolidation stage; now the company not only makes exports and alliances, but also delves into foreign direct investment and chooses alternatives like mergers and acquisitions.

Canals (1994) considers that the decision to go international is motivated by expectations of the company on the current or future degree of globalization of a certain sector. The factors influencing these decisions are as follows:

- Economic forces: economies of scale, technology, finance, cost differences, tariff barriers, infrastructure and transport.
- Market forces: international consumers, distribution channels, convergence of needs, publicity.
- Business strategies: competitive games, business management.

Trujillo *et al.* (2006) mention that, as well as the gradual commitment<sup>3</sup> of the company, there is a need for the full knowledge of the external (market, industry structure) and internal (business strategy) environments. They also specify that the dynamics of internationalization are conditioned by the industry sector; some sectors will be more open to international competition, just as some sectors will be driven by factors such as economies of scale (automotive industry), while others will be held back by cost differentials (cement industry).

In general, this approach introduces the process of internationalization of the company in a dynamic sense, focusing on explaining how and why a strictly national

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<sup>3</sup> Commitment is defined in terms of the product of the size of the investment times its degree of inflexibility

company becomes a multinational one and when it is ready to take the steps to move it to its highest point of internationalization.

Under this model, the first relevant factor in conceiving internationalization would be the possibility to offer a quality product or service that is strong enough to compete in foreign markets. Having decided the market in which to enter, it is important to entrust the responsibility of the process to a person who knows thoroughly the specificities of customers in the destination country, as well as distribution and advertising patterns, hence the importance of business strategies, in addition to the determinants of market factors.

Business strategies, and economic and market factors will determine the appropriate points in time to export, invest abroad or license the product or technology; it will also be necessary to analyze the feasibility for an alliance or even to acquire a local company or a merger.

As the internationalization process matures, decisions are made regarding the nature of business operations, such as the centralization or decentralization of activities or mechanisms of coordination and control, and the delegation of responsibilities.

### **3. GRUPO ARCOR: ORIGIN AND DEVELOPMENT**

Candies are sumptuary products<sup>4</sup> that have low participation in the family budget, Consequently, faced with contractions in the income level of an economy – for example, caused by natural economic cyclical fluctuations or more strongly by an economic crisis – the probability of consumption of these goods tends to decrease significantly. Moreover, candy products are subject to regulations due to their high calorie content.<sup>5</sup> If we factor in that in developing countries income is relatively low for a company in this sector to achieve internationalization, strong management skills need to be deployed, and an ambitious vision and firm strategic direction need to be developed.

This production branch saw the development of Grupo Arcor, founded in 1951 in the city of Arroyito, Córdoba province, Argentina by the Pagani, Maranzana, Brizio and Seveso families, and other minor partners, making a total of 23 shareholders (Arcor, 2014) after the construction of a ten thousand-square meter production plant (Barbero and Marín, 2014).<sup>6</sup>

Grupo Arcor's path of international expansion can be described through four major stages. The first occurred during the 1950s and 1960s, when the company strengthened in the local market. The second began in the 1970s when the candy

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<sup>4</sup> In economics, a sumptuary or luxury good or product is an economic asset, for which demand increases more quickly than its income, unlike normal or inferior goods. Sumptuary goods have high income elasticity of demand, which means that as income increases the domestic economy more than proportionally increases its consumption of luxury goods. This also means that, if income falls, the demand decreases in greater proportion than the drop in income (Nicholson, 2011).

<sup>5</sup> For instance, in the case of Mexico from 2014, these products have an additional tax of 8% to be considered as drivers overweight problems and obesity (CNN Mexico, 2014).

<sup>6</sup> Arcor was born in an Argentine context conducive to the emergence of Argentine small and medium enterprises (SMEs) due to the boom of mass consumption and public policies to promote domestic industry. However, the macroeconomic environment has tended to show imbalances in the foreign sector (Kosacoff *et al.*, 2014).

company started with passive exports and became a company with a diversified product portfolio. The third stage occurred from 1980 to the early 1990s when the company showed its first serious step towards internationalization, as did its assets. Lastly, the final stage started from the 1990s, when Grupo Arcor consolidated its global position and its position as a *multilatina* company, by decentralizing its production and actively investing in countries in the region, and then exported to all five continents. What followed was a detailed review of each of these stages.

### 3.1 Strengthening in the domestic market

In the first stage of Arcor, the company went to the domestic market; specifically in the regional market, namely Córdoba, Santa Fe, Entre Ríos and Tucumán, and gradually began to spread into other provinces. The company made its first sales in Buenos Aires in 1953, although its effective entry into the capital's market only came in the 1970s (Fortaleza *et al.*, 2014).

In the late 1960s, the Argentine company had 50% of the national market share for candy (Barbero and Marín, 2014). Grupo Arcor was developed in a protectionist context defined in the model of import substitution industrialization and with a lack of technology and goods (Kosacoff *et al.*, 2014).<sup>7</sup> Arcor took advantage of the non-existent foreign competition to dominate the domestic market and add technological consolidation.

The centerpiece of the company's strategy was to compete with low costs and products aimed at a mass market. The production structure of this organization made solid vertical integration in order to reduce supply costs of raw materials, supplies and machinery and thus be able to offer competitive prices and to diversify risks (Fortaleza *et al.*, 2014).

Since the late 1950s, increases in scale were based on the increasing mechanization of production, with a technological leap between 1958 and 1960, thanks to the possibility to import capital goods duty free. Parallel to the investment in production, Arcor began to set up a distribution system. From the beginning, the company favored selling to wholesalers and, in the 1960s, added new channels, one of which was the distribution of cigarettes to be sold at newsstands, and another was the official distribution, implemented from 1967 (Barbero and Marín, 2014).

At this stage, the company acquired the characteristics of an integrated multi-plant company with its offices located in Arroyito and the city of Córdoba, but continued to operate as a single company and not as a group. From the mid-1960s Arcor started to diversify its final production, based on the manufacture of other confectionery and sweets. However, the main feature at this stage was to diversify into non-industrial activities, mainly the purchase and use of fields for agriculture (Kosacoff *et al.*, 2014).

From the 1970s, the company focused on developing new product markets and finding new geographic markets, inside and outside Argentina. The growth and diversification of production were implemented through the purchase and establishment of new investments, based in several Argentine provinces such as Tucumán, Mendoza, Buenos Aires, Santiago del Estero or in other areas of the province of Córdoba (Villa del Totoral) (Barbero and Marín, 2014).

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<sup>7</sup> The overall performance of Argentina's economy was somewhat nascent during the 1950s, with an average GDP growth rate of 2.9% per annum, and showed improvements in the 1960s, with an average annual GDP growth of 5.5% annually.

The creation of new subsidiary companies began in 1970 with the establishment of Misky, a company aimed at manufacturing chocolates and sweets in the province of Tucumán, and continued with the creation of enzyme factory Milar in 1975. In 1976 came the acquisition of the Pancrek cookie factory, followed by the purchase of Vitopel in 1979, a company manufacturing transparent films and flexible packaging. Arcor also bought the company Guillermo Padilla Ltda in 1979, which was the basis for the launch of the plant in San Pedro, for the production of alcohol and corn products (Fortaleza *et al.*, 2014).

Similarly, the group set about constructing new production plants in other locations, like the establishment of Arcor San Rafael, in the province of Mendoza, to make fruit pulps, beginning operations in 1972 (Pagani, 2012). This local investment benefited industrial promotion regimes in different parts of Argentina. In the late 1980s, the company already had 23 production plants located in eight provinces of Argentina. By then, Arcor's participation in the domestic market was already around 70% (Pagani, 2012). Between 1985 and 1988 Arcor installed industrial complexes in San Juan, San Luis and Catamarca. Each included the production of final goods and inputs, for local factories and for the group, thus becoming decentralized production centers. The company also continued to equip existing plants; it installed automatic candy production lines, expanded the machinery workshop and papermaking plant and diversified the production plant in San Pedro, which incorporated dry milling and oil processing. The Milar plant was also expanded, with machinery built in the workshops of the company and silos were purchased to expand the capacity of cereal collection (Fortaleza *et al.*, 2014).

### 3.2 The first steps abroad

In the late 1970s, the group began to explore foreign markets through passive exports and by promoting itself through international fairs.<sup>8</sup> The first exports consisted of the sale of glucose by-products to European countries and the United States (Arcor, 2014).

Exports increased their impact on total company sales.<sup>9</sup> While to some extent exports contributed to sustaining increased production scale and mitigating fluctuations of the domestic market, their effects were more important on a qualitative level, as they served to improve logistics and control the quality of products (Barbero and Marin, 2014).

In that decade, the company started its first foreign direct investment, which was implemented with the establishment of its first production plant abroad, located in Paraguay in 1976 under the brand ARCORPAR. This was joined in 1979 by a new investment in Uruguay with the acquisition of 50% of the company VanDam. Additionally, in 1976 a distributor was set up in Chile, and closed four years later (Arcor, 2014). Arcor showed an early understanding of the value of entering Latin America and the potential for a large common market in the region.

At the end of this stage of its first steps abroad, total assets of the company grew from 37 million Argentine pesos to over 54 million Argentine pesos; while sales

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<sup>8</sup> The first of these was the International Confectionery Fair in Cologne, Germany in 1970.

<sup>9</sup> According to the annual reports of Grupo Arcor, while in 1974 company exports totaled 1.2 million USD (2% of total company sales); in 1980, they amounted to 7 million USD (10% of total company sales); and in 1977, they reached a maximum of 11% of total company sales.

expanded from 52 million Argentine pesos at the beginning of the decade to over 68 million Argentine pesos at the end of it; furthermore, the number of company employees increased from 1 200 to 1 640. All this was in response to the pressures of the domestic market, and at the same time as a need for expansion to a potential foreign market (Arcor, 2014). The company growth was generally slow during this time, although following the start of its international investments its operations improved substantially.

### 3.3 The leap to internationalization

In 1981, Arcor opened its first candy factory in Brazil (Arcor, 2014), along with sales offices in the United States (Pagani, 2012). Overseas sales generally remained at high levels, and since 1985 their volume increased more than domestic sales (Baudino, 2010).

Exports recovered from 1982, but began to grow significantly from 1985 onwards (see Appendix). The main export destinations were North America (United States and Canada), neighboring countries and other Latin American countries. In the last years of the decade sales started in the Middle East and Europe, although in European countries the company was hampered by high tariffs, which ranged from 38% to 50% (whereas in Argentina they were 20%). New markets also began to open up, with exports to Japan and African countries (Barbero and Marín, 2014).

However, the 1980s introduced a turbulent time for the development of Argentine companies. Economic growth in that decade had an average annual drop in GDP of 1.52% (CEPAL, 2007). There was also a transition to democracy in the context of the foreign debt crisis and failed attempts at stabilization. The macroeconomic outcome was highly negative, with a steady decline in per capita income and several hyperinflationary outbursts throughout the decade (Kosacoff, *et al.*, 2014).

The ability to diversify activities, but also markets, was necessary in order to stand out. This situation catapulted the company's decision to consolidate the foundational elements towards the constitution of a multinational firm (Pagani, 2012).

The stage that saw the Argentine company's leap to internationalization was defined by a series of strategies that allowed Arcor to significantly increase its international presence, triple its sales and remain a competitive leader both in Argentina and in the Latin America region where its expansion began.

The company diversified its international ranges, added exports of inputs and machinery and sustained itself on its skills and its technical, production and distribution knowledge (Kosacoff *et al.*, 2014).

To achieve lower costs, Arcor continued its vertical integration aimed at the company entering the production of inputs, through the establishment of new subsidiaries, which were: Converflex, which produced flexible packaging materials for foodstuffs (for Arcor and the market); Dulciora, for sweets and marmalades (raw materials: San Rafael fruit pulps and syrups and glucose, from Arroyito and Tucumán); Productos Naturales, for the manufacture of essences; Metalbox, which manufactured packaging and tin lids (for Arcor and others);<sup>10</sup> Carlisa (baked goods: sweet bread, sandwich cookies); Candy (starch- and gelatin-based candies); Alica (pre-powder

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<sup>10</sup> Tinplate manufacture was crucial to reducing input costs of canned foods, because at first tinplate produced in the country was expensive and of poor quality.



mixtures); and Flexiprin (printing of flexible packaging for food products, for Arcor and others) (Morero, 2006).

At this stage the company sought to streamline the network and the sales system was innovated, initiating direct sales to supermarkets. In turn, new marketing systems required increased investment in packaging and advertising, designed to make product presentation more attractive (Fortaleza *et al.*, 2014).

In the late 1980s, Arcor conducted a thorough organizational restructuring, which culminated in 1990 in the adoption of a multidivisional structure, organized using business units, geographical areas and functional units, with each division headed by a manager with a high degree of autonomy (Fortaleza *et al.*, 2014).

Moreover, the decision to operate overseas plants was in response to a number of factors. Firstly, to the saturation of the local market, which meant that any strategy to expand production had to include investment in other countries. Secondly, one of the objectives of direct investment was to strengthen the export position of the company as subsidiaries combined production with the distribution of products imported from Argentina (Barbero and Marín, 2014).

Other key issues were the improvement of information systems and finding fluidity of analysis, operational flexibility and synchronization of controls, in order to ensure correct decision-making (Barbero and Marín, 2014).

### **3.4 Building a *multilatina* company**

Arcor's consolidation as a global leader came in the last two decades, precisely with the construction of the *multilatina* Company that it is today. At the end of the 1980s the company already had a strong regional presence with investments in Paraguay, Uruguay and Brazil, although its supply process was still based on exports. It was not until the 1990s that Arcor diversified all through Latin America by way of direct investments in countries in the region.

The company returned to Chile in 1989 with the addition of Alimentos Indal. A year later the company started commercial operations in Bolivia. Meanwhile, the group arrived in Peru in 1996 with the installation of the candy plant in Chancay. By 1998, the company had begun operations in Ecuador with the opening of sales offices in Quito. The year 2000 saw the arrival of Arcor in Mexico with the opening of sales offices; in the same year sales offices were also opened in Colombia. 2001 was the year the company arrived in the Canadian market with the opening of sales offices, and a year later it joined the American market through joint ventures with Brach's Confections, the leading company in the American candy industry. The company went to Spain in 2002 and set up sales offices in Barcelona, and by 2006, the company had started production in Mexico through a partnership with Grupo Bimbo for the production plant in Toluca. In the same year, the company opened sales offices in Venezuela and South Africa, and, a year later, in China (Arcor, 2014).

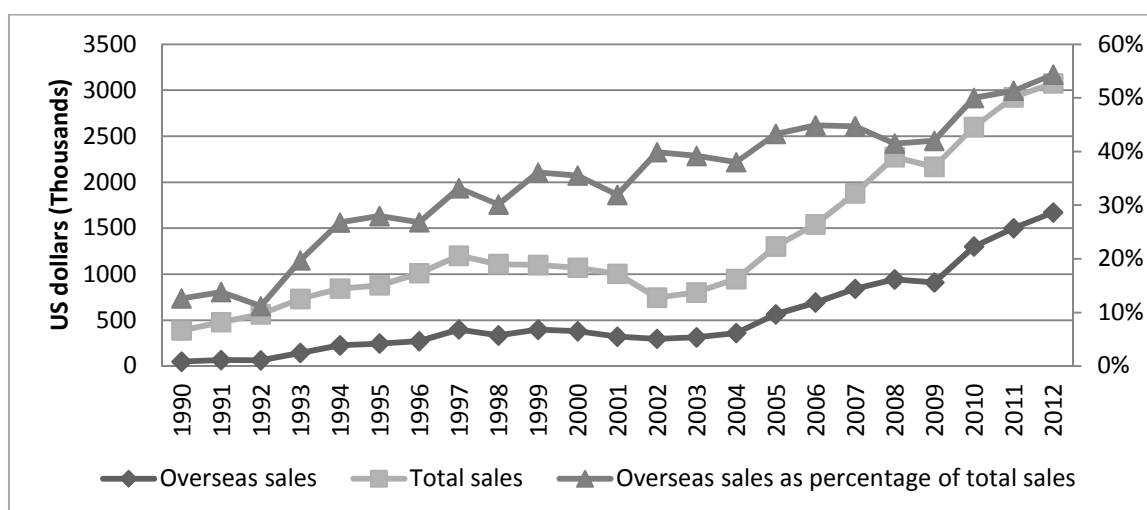
Strategic alliances with other companies also provided the impetus for internationalization. In 2004, the company succeeded in becoming the largest producer of cookies in South America, by consolidating an alliance with the French multinational Danone, which yielded 51% of operations of the company Bagley, a leading producer of cookies. This alliance resulted in sales growth in the cookie sector from 246 million USD in 2005 to 645 million USD in 2012 (Kosacoff, 2014). On the other hand, the alliance with Grupo Bimbo in 2007 allowed the company to increase its sales by up to

100 million USD a year and gain 3% of market share in foodstuffs in the Mexican economy (Arcor, 2014).

In 2010, Arcor signed a contract with The Coca-Cola Company, thereby acquiring the right to market some of the candy and ice cream using certain Coca-Cola brands. All these events are some of the most important aspects of Arcor’s performance in the last decade.

Overseas sales experienced a dramatic increase, rising from 49 million USD in 1991 to 397 million USD in 2000, while the share of foreign sales experienced a similar increase, representing 36% of total sales for 2000 (see Graph 1). With regard to the destination of its total sales, the South America region became the main market for the company, specifically for the Southern Common Market (Mercosur) region. In 2013 the company’s South American sales represented 61% of its total foreign sales, followed by sales in North America (18.4%) and Central America and the Caribbean (7%) (Arcor, 2013). This translates to the company having a clear trend of regional concentration, with all its productive assets located in Latin America and, even though it exports to 120 countries, sales are concentrated in the region.

**Graph 1. Share of overseas sales of Grupo Arcor in the last two decades**



Source: own calculations based on company financial reports. Figures in US dollars (thousands) for the overseas sales and total sales

Employed personnel increased from 13 000 people in 2002 to around 20 000 in 2012, with a geographical distribution of 13 000 in Argentina, 4 200 in Brazil, 1 750 in Chile, 149 in Mexico, and 245 in Peru and the rest of its subsidiaries in South America (Kosacoff, 2014).

Arcor’s intense international expansion in recent decades is an essential part of its modernization and restructuring in a relatively new context of openness and competition with major transnational corporations. Competitive gains require full utilization of economies of scale; while opening new markets can overcome the limitations of size and dynamism of the domestic market (Barbero and Marín, 2014).

The company also continued to reaffirm its policy of permanent reinvestment within its country of origin. So in 2004, it opened the plant for the conversion of

flexible packaging in Cartocor, Buenos Aires, thus establishing the only plant of its kind in Latin America (Arcor, 2014).

In the 1990s the policy of stabilization and convertibility produced an initial impact of strong recovery of real wages and rapid expansion of consumption. These policies benefited Arcor's sales while the market opened up to competition from imported products. Cost factors showed strong variations in their relative prices: labor costs increased, while the addition of new equipment and technology was comparatively cheap. The creation of the South American Common Market, MERCOSUR, involved changing the definition of the accessible market for a domestic company (Kosacoff *et al.* 2014).

At the end of the decade, the beginning of a long period dominated by recession and price deflation caused increasing tensions and changed expectations regarding the growth potential of Argentina's economy and the solvency of the public sector, finally causing the definitive collapse of the economic system. This negative economic climate worsened for companies that had investments or interests in several countries in South America, since the turmoil in the global economy was starting to become a widespread regional crisis. The gradual return to normality of Argentina's economy came in the second half of 2002 and the subsequent sustained recovery was only achieved in 2007, when once again Argentina's economy would face difficulties after being affected by a severe financial crisis that began in the United States (Kosacoff, 2014).

Given this dramatic change in the competitive environment and the serious economic situation experienced by the national economy, Arcor could have collapsed and chosen to sell its businesses, as was the case of most domestic companies. None of this happened and Arcor instead established itself as the world's seventh largest confectionary company (Candy Industry, 2014) and Argentina's largest food industry company. All this was possible thanks to the company's development of abilities and skills at that time.

The company bought established competitors that weakened in such a macroeconomic environment. One example was the purchase of Aguila Saint, leader in chocolate production in Argentina (Arcor, 2014). The company worked on redefining the domestic market, with Mercosur as a regional market; it secured its strong presence in Chile, and built up a leading position in Brazil. With regard to global export segments, it made bets from the successes already achieved in categories like chocolates and candies. The company focused on entering other large emerging markets such as China. All this was mainly supported by the creation of an international business culture (Pagani, 2012).

The capabilities set up and generated in the previous decade were exploited, and the latest plants were developed. Furthermore, knowledge on the changing economic scenarios that it had accumulated over half a century of existence ensured Arcor had a better reading of what could happen once the crisis accelerated and transformed into a depression. And it also gave greater flexibility to quickly adapt to the changing environment, both from a financial perspective and on a commercial level (Fortaleza *et al.*, 2014).

The company sought synergies and savings in marketing costs by unifying mass consumption business structures and buying the right to use licenses for recognized

brands in the field of core businesses.<sup>11</sup> In this respect the most important breakthrough was undoubtedly the strategic alliance with Danone, which also enabled Grupo Arcor to become a leading producer of cookies in Latin America (Kosacoff, 2014). In the same vein, Arcor made joint ventures for the manufacture of sweets that allowed large cost saving measures for production and the positioning of its brand in foreign markets, the clearest example being the construction of Mundo Dulce with Grupo Bimbo in Mexico.

The financial policy aimed to increase the level of liquidity to meet funding requirements of operations and financial obligations in the absence of credit and non-liquid markets. In 2005, in a context of increasing sales levels, employment and investment both in Argentina and abroad, Arcor signed a financing program with the International Finance Corporation (IFC) of the World Bank Group, which aimed to extend debt limits. The signing of the loan agreement with the IFC for a total of 280 million USD meant a substantial improvement in the capital structure and financial cost of Grupo Arcor.

To summarize, Figure 1 shows in detail how the dynamic process of international expansion of Grupo Arcor happened, by showing the countries in which the Argentine manufacturing company operates and the years in which it ventured into those markets.

#### **4. THE INTERNATIONALIZATION OF GRUPO ARCOR IN THE CONTEXT OF THE THEORY OF THE COMPANY'S INTERNATIONALIZATION FROM A PROCESS APPROACH**

The study filed on the development of the internationalization of Grupo Arcor allows the establishment of some features that are compatible with the theory of the company's internationalization from a process-based approach. Particularly it is considered that the internationalization decisions of the company were founded on economic forces, market forces and corporate strategies (Canals, 1994). These factors determined the type of learning and corporate strategies that the company has used in its internationalization process. At the same time, the accumulation of experience in several markets, translated into learning; and transcendental elements, such as psychic distance, have been determinant factors in the implementation of corporate strategies addressed to the global expansion of the company.

In accordance with the development path of this company, Grupo Arcor first concentrated on achieving leadership of the local market. To do this, the company reached out to the advantages that it developed in this process, as was the competition for costs against vertical integration to produce its own inputs. Similarly, the Argentine company expanded its investments in different provinces of the country to cover the entire market; finally, Grupo Arcor also bought established companies, as was the case of Aguila Saint to join the competition within the same company and strengthen market leadership in Argentina.

Canals (1994) states that in the second stage of the internationalization process of companies, there are ventures into foreign markets by expectations of globalization of the sector, which in turn depend on a number of factors grouped into market and economic factors and business strategies.

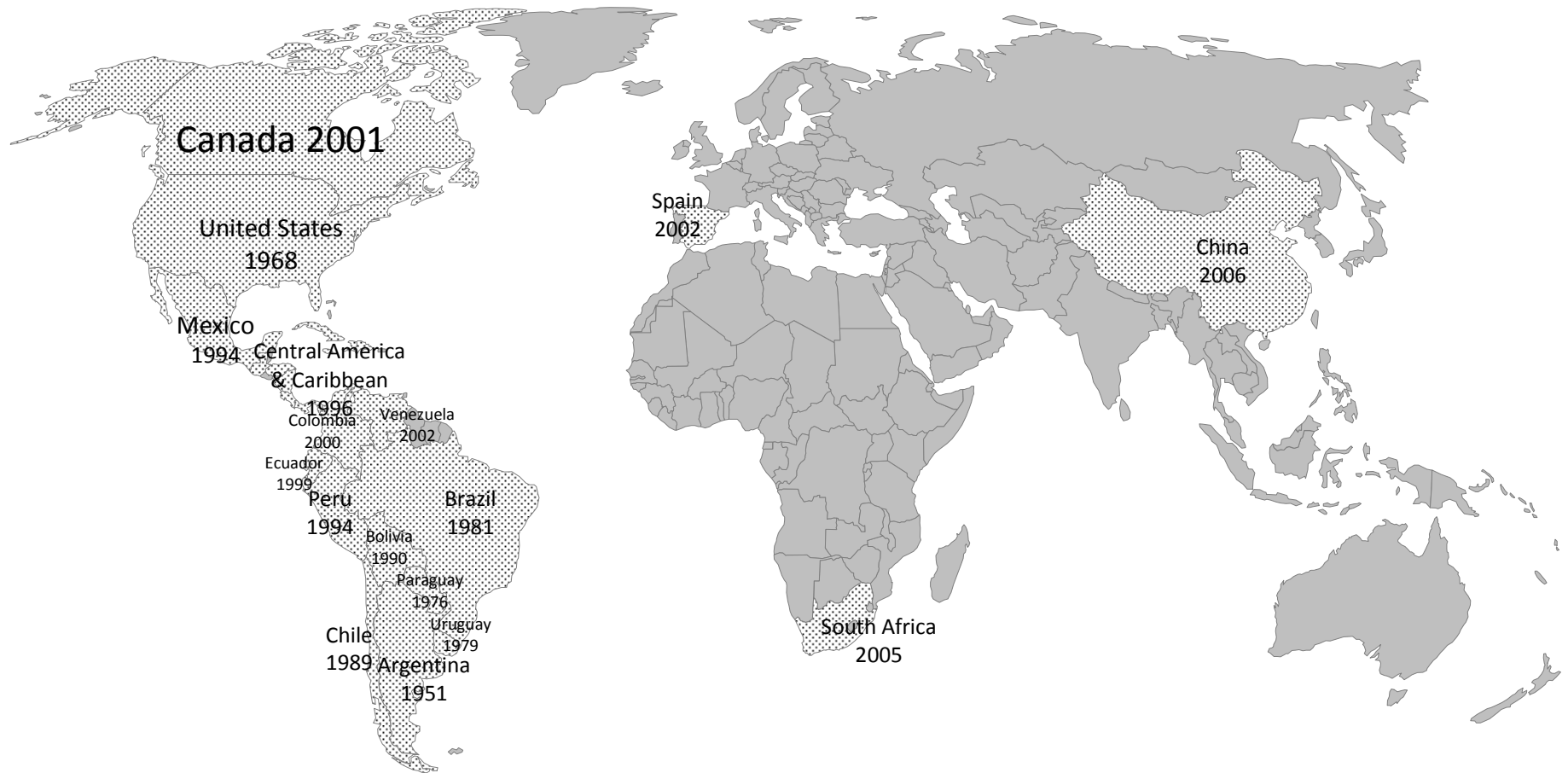
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<sup>11</sup> For example, the agreement with Kraft to use candy brands Sugus and Suchard in Argentina and other countries in the region.

Within this sector, Grupo Arcor was driven to expand into foreign markets by factors related to the difficult macroeconomic climate that was experienced in Argentina during much of the last five decades, as it required overseas sales that could balance the internal consumption slowdowns; namely economic factors.

The firm also was clear that it had to turn to the world and seek opportunities, that is, business strategies in the face of a depletion of the domestic market. Together, the potential consumers in foreign countries or international consumers as named by Canals (1994), which represented a great business opportunity, also encouraged the group to decide to supply not only the local market but also overseas, where in this case the market factors served as incentives (Canals, 1994).

**Figure 1. Grupo Arcor's International Position and development of its international expansion**



Source: Own research

\* The map shows the countries where Grupo Arcor operates, either because it has plants or because it has sales offices. However, from its 39 plants in Latin America Grupo Arcor exports to a total of 120 countries including Germany, France, India, Italy, the United Kingdom, Algeria, Australia, Sweden, Norway, among other

The second stage of internationalization of the company was motivated by the aforementioned elements, and once the firm ventured outwards it did so as an exploration, based on passive exports to try its luck in uncertain conditions. This was the case of Grupo Arcor with the start of its exports to the United States in 1964, which gradually grew and diversified into other geographic regions such as Brazil, Chile and Mexico, the largest consumer markets in the region.

The economic literature mentions that it is then that a link to transfer knowledge, skills and abilities is created and a chain of learning is generated and will increase the level of resources committed by the company outside its home market. After the experience of the start of its export operations (in other words, accumulation of experience), the decision of the internationalization of the firm was influenced by corporate strategies related to distribution and logistics systems (Canals, 1994). These newly acquired advantages prompted the company to take the next step in its internationalization process; at first through the establishment of overseas agents to market its products (as was the case of the establishment of sales offices in the United States); and later, through international direct investment, as with the entry to the Paraguayan market in 1976; that is, there was an increase in the level of engagement by the company.

With regard to the choice of destination for international investment, Uppsala Model refers to the psychic distance as the main determinant of the decision on where resources go. In this regard, Grupo Arcor – despite supplying 120 markets across five continents – has its 39 production plants in Latin America, which is explained by the concept of psychic distance. The choice of destination for foreign assets is a response to the persistent language and culture similarities and links in the region, similar to those known and handled in its original market.

In the next stage followed by companies in the process of international expansion in the context of the theory of the internationalization of the company from a process perspective; the chain originated by the transfer of knowledge generates greater specific advantages derived from the learning and integration of technology and capabilities in new markets. Companies are willing, then, to risk the incursion of markets with increased uncertainty caused by the greater psychic distance; additionally, companies will become involved in more complex foreign direct investment processes such as mergers and acquisitions. This was the case that Arcor followed from the 1990s with purchases of established companies in foreign markets, to exploit its advantages; as was the case with the purchase of Dos en Uno, the largest confectionery producer in Chile, or the merger with Grupo Bimbo in Mexico in the confectionery sector, through the establishment of Mundo Dulce. Also, in this stage Arcor began to open sales offices in more unfamiliar markets, such as China and South Africa.

Finally, in the last step considered in the theoretical framework, companies have developed enough advantages to become global leaders, so most of their assets are located outside of their home country, sales in other markets outperform those in the domestic market, and the nationality of companies virtually disappears. Market factors become the greatest incentives for continued global dominance, while business strategies are focused almost entirely on achieving maximum expansion of companies. This is precisely the moment that Arcor is experiencing with a substantial increase in the share of foreign sales as a proportion of the total.

## 5. THE EMPIRICAL TEST

As mentioned, the accumulation of experience, the psychic distance and economic factors (economic and market forces) were essential in defining Grupo Arcor corporate internationalization strategies. In the same line, we proceed to perform an empirical test in order to determine the impact of the degree of globalization of the industry and the accumulation of experience in foreign markets on the internationalization of the company strategies. Considering the theoretical framework implies as the sector becomes more globalized the company is encouraged to expand into foreign markets because of the increasing competition and to hedge risk from domestic market (Canals, 1994); and given the premise that the company develops an specific advantage from its experience in international operations which strengthens the competitive capacity of the firm and motivates the company to move into new markets, at the same time this experience reduce the uncertainty the firm may face in foreign markets, therefore the liability of foreignness may be reduced too and the company finds another incentive to expand internationally (Johansson and Vahlne, 2009).

Subsequently, we also test if the company was influenced by psychic distance in choosing the location of its investment; we take up again the ‘liability of foreignness’ concept (Johansson y Vahlne, 1977; 2009) to highlight the significance of this conception in the formulation of the company’s strategies regarding international expansion. We follow the premise that incursion in foreign markets represents a risk to the firm given the degree of uncertainty the company has from those markets, thus the enterprise international expansion strategies might be addressed at the beginning to hedge risk. For this reason it is understandable the psychic distance might be a filter regarding the location choice of the company’s international investments because the similarities from markets closer in psychic distance may reduce the degree of uncertainty in foreign investment. After that, as the company gains experience from international operations the barrier from psychic distance becomes less important so the company it is willing to expand into foreign markets further in this sense (Johansson y Vahlne, 2009).

The data used cover the foreign activities (exports and foreign direct investment) of Grupo Arcor from 1976 to 2013 as published by the company in its annual financial reports, data from Dow (2014) psychic distance scales, data of KOF globalization index from Swiss Federal Institute of Technology (2014) and economic data from CEPALstat (2014). The basic hypotheses are:

- H<sub>1</sub>. Grupo Arcor’s foreign commitment increased as the degree of globalization of the country increased and as the company’s competitive advantage improved due to its increment of experience in foreign markets.
- H<sub>2</sub>. The decision on the destination of Grupo Arcor’s foreign resources was influenced by the liability of foreignness (and therefore to the psychic distance).

Regarding H<sub>1</sub>, we shall take as our dependent variable the share of foreign activities (F) from total sales (TS), representing this ratio (F/TS) the foreign commitment of the firm. As this ratio represents a relation between foreign and domestic operations we could measure the international resources committed from the company from the supposition that as this ratio increases the internationalization of the firm is bigger so the commitment is. As well, as independent variables we consider



KOF globalization index<sup>12</sup> to assess the degree of globalization of the sector, as we already mentioned the globalization degree of the industry as treated by the theory influenced the strategy of foreign resources committed because as the sector becomes more globalized the firm is motivated to expand into foreign markets given the competition and to hedge domestic risk; and concerning the improvement of the company's competitive advantage due to its increment of experience in foreign markets, we follow Kogut and Singh (1988) to measure the breadth of an MNCs international experience prior to the observed investment by the firm "multinationality", which is the number of countries in which the firm is active (Kogut & Singh, 1988), the accumulation of experience turns into a specific advantage of the firm because of the decreasing uncertainty of foreign markets and therefore is an element driving the company's increasing in international resources committed. With the purpose of test our H<sub>1</sub>, an ordinary least square (OLS) regression analysis was performed. The basic model is:

$$\frac{F}{TS} = \alpha + B_1KOF + B_2Exp + e_i$$

Table 1 presents the results of this test<sup>13</sup>; we find that Grupo Arcor's internationalization process indeed is influenced by the degree of globalization of Argentina and its accumulation of international experience. These two variables might explain the increment in the share of foreign activities from total sales almost 90%. We can also see how experience accumulation is the most important variable explaining the increase of international commitment of the firm, this might suggest the company increase its foreign activities as it gains a competitive advantage from its experience in foreign markets and lessen its liability of foreignness.

**Table 1. Regression analysis: determinants of Grupor Arco's increment in international commitment**

	Model*			
	B <sub>i</sub>	s-B <sub>i</sub> **	t-statistic	Sig.
α	0.071		1.728	0.032
KOF	0.003	0.163	1.997	0.006
Experience Accumulation	0.30	0.840	13.127	0.000
F-Value	86.762			
Adjusted R <sup>2</sup>	0.901			

\*p<0.05

\*\*Standardized coefficient

Source: Own calculation using software SPSS v. 20

<sup>12</sup> The KOF globalization index was created in 2002 by Dreher and the Swiss Institute of Economics. The calculation of the first index started in 1970, with the statistical data of 122 countries. The KOF globalization index includes three key areas of globalization: economic, social, and political. Economic globalization is defined as the flow of goods, capital and services, as well as information, over long distances. When measuring economic globalization, two indices are formed: one measures the actual economic flows, the second measures restrictions on trade and capital. The present study only considers the economic dimension from the KOF globalization index, as we are interested in testing the relation between the economic globalization of the industry and the internationalization of the firm and we consider this as factor explaining Grupo Arcor's strategy of internationalization given the context of liberalization in Argentina after ISI model.

<sup>13</sup> Number of observations for this test: annual data from 1976-2013 because it was the firm's first foreign investment

Concerning  $H_2$ , to assess the significance of the psychic distance in Grupo Arcor's location of foreign investment we compare two models. Firstly, we test a simple model using control variables on the determinants of Latin American FDI based on Mogrovejo (2005) and Blomkvist and Drogendijk (2012) studies. For this purpose, we follow Blomkvist and Drogendijk (2012) using as our dependent variable the mean amount of Grupo Arcor's outward FDI over 1976-2013 (we use annual data from Grupo Arcor financial reports in a logarithmic scale considering 16 countries from Latin America, Europe, North America, Asia and Africa where the firm has presence). Concerning the independent variables we shall take GDP and total Population<sup>14</sup> (both in a logarithmic scale) as indicators of market size which is widely accepted as determinant of FDI among economic literature (Mogrovejo, 2005). Blomkvist and Drogendijk (2005) and Mogrovejo (2005) also agree that the numbers of patents per country<sup>15</sup> might be considered as an element which influence the location of FDI, as countries with the largest patents registered show healthy institutions and intellectual property protection so are attractive to FDI. We include this variable as independent in our model in a logarithmic scale. Finally, it is widely known among economic literature that economic aperture<sup>14</sup> (measured as exports plus imports) could be a determinant of FDI from the premise that trade could be complementary with FDI depending on the industrial organization of the economy (Mogrovejo, 2005).

We test the model 1 performing an ordinary least square (OLS) regression analysis, with the control variables representing the incentives of Grupo Arcor's Outward FDI.

$$OFDI = \alpha + B_1LGDP + B_2LPOP + B_3XM + B_4PAT + e_i$$

where OFDI is Grupo Arcor's outward FDI, LGDP is Gross Domestic Product of host countries, LPOP represents host countries population, XM is exports plus imports of host countries, PAT is the number of patents registered per year,  $\alpha$  is a constant and  $e_i$  are the residuals. We used the natural logarithm in line with how previous research has operationalize.

Subsequently, an OLS regression analysis was performed for a second model including another independent variable: the psychic distance stimuli. The theory of the internationalization of the firm from a process-based approach considers the psychic distance, defined as factors that make it difficult to understand foreign environments, as a key factor explaining the strategy regarding the location of the firm's foreign resources (Johansson y Vahlne. 1977; 2009), incursion in foreign markets represents a risk to the firm given the degree of uncertainty the company has on international markets. For this reason the company may decide to expand into foreign markets close to the domestic market in terms of psychic distance, the companies would then gradually enter other markets that were further away in psychic distance terms, the larger the psychic distance the larger is the liability of foreignness. As psychic distance is a term which refers to primarily qualitative aspects it results problematic to measure this variable, in this sense, Kogut and Singh (1980) developed one of the most relevant studies regarding the measurement of psychic distance presenting the cultural distance index, which measures the cultural distance between two given countries using the Euclidean distances of Hofstede's (1980; 2001) scores of cultural dimensions. In order

<sup>14</sup> Data taken from CEPALstat (2014) database for the period 1976-2013

<sup>15</sup> Data taken from World Intellectual Property Organization (2014) database for the period 1976-2013

to determine the impact of psychic distance in Grupo Arcor's outward FDI we calculate a psychic distance index for Argentina including the original Kogut and Singh (1980) index based on Hofstede's (1980; 2001) but we followed Dow and Karunaratna (2006) in measuring the respective psychic distance stimuli, so we constructed the index with the five specific factors: Differences in Languages: Differences in Religions, Differences in Industrial Development, Differences in Levels of Education and Differences in Political Systems as considered by Dow and Karunaratna (2006).

$$LD_j = \sum_{i=1}^n \frac{(I_{ij} - 1)^2}{\frac{V_i}{n}}$$

where  $LD_j$ ,  $RD_j$ ,  $ID_j$ ,  $PD_j$  and  $ED_j$  are the language, religion, industrial development, education or political system differences of the  $j$  th foreign market from the home market;  $I_{ij}$  denotes the index of the  $i$  th c language, religion, industrial development, education or political system dimensions and the  $j$  th market, 1 represents the home market and  $V_i$  is the variance of the index of the  $i$  th dimension (Kogut and Singh, 1988).

After that we followed Blomkvist and Drogendijk (2012) and calculated the psychic distance between Argentina and the respective host countries of Grupo Arcor's FDI using the Kogut and Singh (1988) formula. We then transformed the resulting scores to a scale from 1 to 100 using the following formula (Martín Martín and Drogendijk, 2014):  $X'_j = \left[ \frac{(X_j - \min_{PD})}{R_{PD}} \right] 99 + 1$ , where  $X'_j$  is the transformed psychic distance value of country  $j$ ;  $X_j$  is the psychic distance score of country  $j$ ;  $\min_{PD}$  is the minimum value of psychic distance, and  $R_{PD}$  is the range of psychic distance (see appendix 2 for results) and we include this variable as independent in our model for Grupo Arcor's outward FDI<sup>16</sup>.

Table 2 shows the results of both models, as we can see the adjusted explanatory value for model 2 is 89%, almost an increase in explanatory value of 8% compared to model 1. This significant result demonstrates the fact that psychic distance is an explanatory factor for Grupo Arcor's location of foreign resources which would suggest the strategy regarding the location of foreign activities it is influenced by the liability of foreignness, hence Grupo Arcor started its expansion into international markets with similarities to its domestic market in order to hedge the risk from the uncertainty of international markets. Afterwards as its competitive capacity increased it enter markets, and then the company gradually entered other markets that were further away in psychic distance terms.

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<sup>16</sup> We use data from Dow (2014) distance scales for 16 countries where Grupo Arcor has presence (see appendix 2 for details)

**Table 2. Regression analysis. Influence of psychic distance in Grupo Arcor's OFDI**

	Model 1*				Model 2*			
	B <sub>i</sub>	s-B <sub>i</sub> **	t-statistic	Sig.	B <sub>i</sub>	s-B <sub>i</sub> **	t-statistic	Sig.
LPIB	0.50	0.545	19.309	0.00	0.61	0.563	12.282	0.00
LPOP	2.86	0.366	11.424	0.00	2.70	0.342	10.789	0.00
LXM	0.74	0.080	3.320	0.00	0.80	0.082	3.403	0.00
LPAT	0.144	0.053	1.774	0.051	0.166	0.057	2.002	0.041
Psychic distance index					-0.292	-0.272	6.515	0.00
F-Value	80.234				87.789			
Adjusted R <sup>2</sup>	0.81				0.89			

\*p&lt;0.05

\*\*Standardized coefficient

Source: own calculations using software SPSS v. 20

## 6. CONCLUSIONS

The rise of multinational companies from emerging countries has recently become very important within economic literature, not because it is a new phenomenon, but the recent importance with the size and leadership that some of these companies have achieved. Such is the case of Grupo Arcor. In this sense, there is insufficient scientific literature to contrast this kind of analysis in Latin American firms. Most specific studies on the internationalization of multinationals are qualitative; so an additional quantitative analysis, such as that presented in this case is an added value for this paper.

The process approach to explain the internationalization of a company allows us to discover the cumulative learning and business strategies developed by a company to attain insertion and global consolidation. The analysis of Grupo Arcor is interesting for a company that maintained its competitive advantage to become one of the global leaders of the industry, despite the economic environment in which it evolved and given the characteristics of the confectionery market.

Globalizing elements that motivated the international expansion of Grupo Arcor were the slowdown in domestic demand in Argentina, the tightening of the competitive environment in the face of globalization and corporate strategies of international expansion and risk diversification.

What helped to sustain companies' competitiveness to new environments were advantages that companies developed during the first phase (securing the domestic market). In the case of Arcor, these advantages were its vertical integration, management of distribution channels and cost reduction.

Additionally, the increase in the level of engagement of external resources was motivated by the benefits generated through international experience and related learning and transfer of knowledge, skills and abilities. This meant that after the exploration stage through exports, Arcor would hold direct investments and, later, mergers and acquisitions.

Furthermore, the choice of the location of Grupo Arcor foreign resources responded to the psychic distance of the target markets and this explains why today, despite the company supplying 120 markets, its 39 production plants are located in

Latin America, as it was probed by the empirical test. It should be pointed out it might surge a problematic when trying to measure qualitative aspects like psychic distance, this paper tried to develop a quantitative analysis to demonstrate the significance of psychic distance in Grupo Arcor's foreign activities but there is always a margin of error around any estimate including qualitative factors.

The increasing regional integration in South America, specifically with Mercosur, became a cause of the acceleration of the company's direct investment in the region over the past two decades.

Specifically, the strategies implemented by Grupo Arcor to achieve its international expansion were as follows:

- A rebranded vertical integration strategy oriented at lower costs.
- Diversification of products with significant participation in the value chain of the goods offered.
- Geographical diversification as a priority in order to eliminate risks and reduce possible fluctuations in the local economy.
- The development of an excellent management of distribution channels, which allowed wholesalers to retailers and individual consumers to get to the company.
- The sublime skill to make beneficial strategic alliances that also allowed further cost reductions.

Finally, indeed some strategies were consequence of the globalization of the sector and the accumulation of experience in foreign markets.

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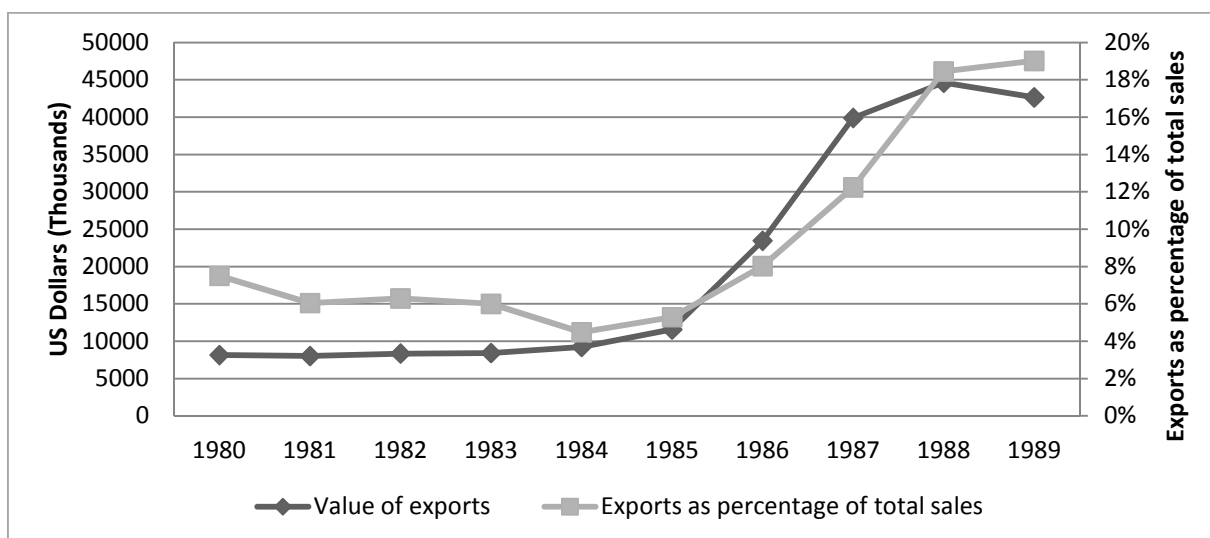
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**Appendix 1**

**Graph 2. Evolution of Grupo Arcor exports**



Source: own calculations based on company financial reports. Figures in US dollars (thousands) for the value of exports

**Appendix 2**

**Table 3. Psychic distance to Argentina**

Country	Psychic Distance	Country	Psychic distance
Uruguay	1.00	Mexico	15.81
Paraguay	2.57	Bolivia	21.36
Chile	3.55	Spain	22.24
Venezuela	5.96	Guatemala	27.04
El Salvador	9.34	Brazil	46.10
Panama	9.7	South Africa	58.17
Colombia	10.37	United States	58.61
Costa Rica	10.54	The Caribbean	61.23
Peru	12.76	Canada	65.23
Ecuador	15.49	China	100

Source: own calculations using data from Dow (2014) distance scales, <http://www.mbs.edu/home/dow/research>