At a recent meeting with Indian CEOs in Mumbai, Professor Mauro Guillén was asked to put the decline of the U.S. dollar into perspective. “Wouldn’t you want to be able to write checks that nobody deposits because people keep them in a safe place as a store of value?”

This simple yet cogent reply is typical of Guillén, the Dr. Felix Zandman Professor in International Management, Professor of Management and Sociology, and the new director of Wharton’s Joseph H. Lauder Institute for Management & International Studies.

When Guillén is not teaching and running the Lauder Institute, he is researching issues related to multinational corporations and the global economy. Guillén is author of the noted book, *The Rise of Spanish Multinationals: European Business in the Global Economy*, as well as many op-eds and articles on the subject. Increasingly, his advice and commentary are sought around the world.

Guillén’s next book will focus on emerging companies from emerging economies in Latin America, China, and India — and what makes them succeed or fail. Guillén, a native of León, Spain, is also studying international investments by U.S. venture capital firms. A “fun” project he is revisiting in this year of the summer Olympic Games looks at why some countries do better at sports than others.

“If you only know one country then you know no country because you have no perspective,” says Guillén, who knows many countries through his extensive international research. The Guggenheim Fellow won in 2005 the Fundación Banco Herrero Prize for best Spanish Social Scientist under the age of 40. “I’ve always thought that an interesting way of looking at the world is by comparing countries.”
Emerging Companies in Emerging Economies

For the last 15 years, Guillén’s work has scrutinized successful businesses in countries one might not think of as breeding grounds for world-class companies, work that began with a focus on Spain when it was still regarded as an emerging economy. He has since expanded his focus to Latin America and plans to further expand it to China and India.

“When I started this research, there were very few Spanish companies that were world-class, but now Spain is one of the top 10 economies in the world and is the fourth largest acquirer of companies in the U.S.,” he says. “I analyzed how those companies managed to establish themselves in a global economy and not just in their home country.”

Guillén explains that, for many years, industry observers looked for some unique aspect that explained the success of companies from developing countries. What he has found, however, is that these companies share many of the same traits as their successful American or European counterparts.

“The twist is that many of these firms have expanded in the world not with consumer products, but with infrastructure industries like construction firms, port operators, or telecommunications, which are very political and regulated by governments,” he says.

Successful companies learn how to anticipate governmental changes and view such changes in a positive way. For example, says Guillén, if a company wants to build a profitable turnpike in Chile, it needs to make a long-term commitment, entering into a license with the government for 20 or even as many as 99 years. While the company may hope to have a long relationship with the government that granted that license, it also needs to be realistic and recognize that governments come and go, even in democracies.

“You have to not sell your soul to the current government only to see whatever terms you have negotiated with that government become negated after the next election or coup d’état,” he says. “This is a unique capability that companies from emerging economies have in infrastructure industries where the government plays an important role. Successful companies have been able to use this as a skill to help them compete in foreign markets. Once they learn how to deal with the government and anticipate changes, it gives them a set of procedures that will help them in any market around the world. It’s something that’s difficult to learn and only a few firms learn it well and can use it across multiple markets.”

Another of Guillén’s findings is that emerging companies in infrastructure industries tend to make a very specific mistake. “Companies know that they will be more profitable if they strike a deal with the government that will prevent many other firms from entering the market or gives them a sweet deal like the ability to charge higher prices,” he says. “They assume these deals will be in place for 20 years and do not realize that if there is a change in the government a few years down the road, the new president will have every incentive to try to renegotiate the deal.”

Guillén describes this as a “systematic error.” It’s a mistake for companies to prioritize relationships with countries in which the governments are more willing and able to provide a good deal for entering companies, he argues. “The appropriate country to enter is one in which the government has less autonomy and has to go through more channels to change a deal, such as having Congress approve a special deal for foreign firms.”

While it seems like a catch 22, he says, it is important for firms to learn that if a government can make a good deal, then it can also take that good deal away when administrations change. “This has tremendous implications because companies lose a lot of money this way … which leads to high tensions for both the company and consumers.”

VC Investors’ Leap of Faith

Guillén is also looking at the largely unstudied area of venture capital outside of the U.S.

“This issue has become of great interest recently because there are just not enough good entrepreneurs to give money to in the U.S., but there are a lot of opportunities in other parts of the world,” he says. “The problem for venture capital firms is that they have to keep a close eye on the ventures they are funding, which is hard to do when the venture is a six-hour or more plane ride away.”

Guillén says, “It is a leap of faith to give money to an idea and most of these investments end up with nothing. However, out of every 10 or 15 investments, there may be an IPO or trade sale and they make a lot of money — which compensates for all of the other losses. And when you go abroad, the risks multiply and are so much more difficult to monitor.”

Guillén says that when firms invest outside of the U.S., they tend to put their money into ventures in Canada, Britain, France, Japan, and to a lesser extent into China, India and Latin America. “It is amazing that they are supposed to know how to manage risk, but are incredibly risk averse at a country level,” he says.

Another finding is that well-known and successful U.S. venture capital firms also tend to do well outside of the U.S. “It shouldn’t be surprising that good firms here are good firms elsewhere, but venture capital firms don’t usually invest alone,” he says. “They invest with other firms, governments, banks, or forms of syndicates. You have to persuade the coinvestors that you are reliable, which is easier for prestigious firms. So it is a kind of rich-get-richer dynamic and rarely will you see small venture capital firms invest abroad.”

Guillén has also found that U.S. venture capital firms tend to rely quite heavily on “ethnic links.” He explains that “if a
company has a lot of Indians working for it or it is located in a part of the country with a lot of Indian migration, then it tends to invest more in India.

“Some would say that this is an indication of the power of the free spirit and that individual initiative is more important than governments telling people what to do,” he says. “I haven’t had time to compile more data on all of the Olympics since then, but that is what I intend to do in the future. I want to know to what extent the wealth of a country plays a role and I want to look at the interplay between how much a country can do to make it more competitive and its actual ability to win medals. Can governments do anything about it and to what extent is individual initiative playing a role?”

Since all this plays out in the Olympics — and in individual sports like tennis and golf in general — Guillén plans to study the question with several undergraduate Wharton students.

An Olympic-Sized Study
While studying the Olympics may seem far afield to topics like emerging economies and venture capital, Guillén says that his sports research is actually an extension of his globalization work.

After the 1996 Atlanta Olympics, Guillén sorted the medal results by country to see if he could explain the differences. He found some interesting patterns: Richer countries earned more medals, countries with governments that intervene more in the economy also earned more medals, and democracies on average earn more medals than non-democracies.

“Some would say that this is an indication of the power of the free spirit and that individual initiative is more important than governments telling people what to do,” he says. “I haven’t had time to compile more data on all of the Olympics since it was 25 years ago.”

He plans to achieve this goal by helping students integrate what they learn at the Lauder Institute, which combines a Wharton MBA with a master of arts in international studies. The Institute also offers a masters/JD joint degree. Lauder students receive high-level language and culture training, a two-month in-country immersion and coursework from both Wharton and the School of Arts and Sciences.

“We are going to better help our students integrate everything they learn by creating new hands-on projects around the world,” says Guillén. Such projects include students traveling to Senegal or Cape Verde to help local entrepreneurs launch businesses by teaching them how to use basic accounting and marketing principles in areas such as agriculture for export, tourism, health care, and even credit unions. Another project will compile emerging companies’ databases in China and India. And a third project, in conjunction with Knowledge@Wharton, will allow students to travel the world to gather data, conduct interviews, and compile materials for a series of reports on topics such as family businesses.

He notes that his biggest surprise as director has been the high level of commitment from Lauder alumni, of whom there are more than 1,100 around the world, as well as the active involvement of the Lauder family, and in particular Leonard Lauder, W’54, who co-founded the Institute with his brother, Ronald Lauder, also W’54. “I get an e-mail from Leonard every week or sometimes every other day. He has been very generous not only in endowing the institute, but also with his time. He provides advice and a fresh perspective from the outside. It’s great to have someone on his level who is very smart and knows how to anticipate changes.”

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