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Foreign Diversification of Philippine Firms

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The paper catalogues listed Philippine companies that have either expanded operations into foreign markets or announced plans to do so. The paper uses both newspaper accounts and company disclosures to the Philippine Stock Exchange as sources of information on foreign diversification. The paper finds that for the large majority of the companies in the study, diversification moves—both planned and actual—occurred only in the last five years. More recently, these moves are in the direction of ASEAN and neighboring East Asian countries, are in the same lines of business as in the Philippines, are undertaken by companies belonging to the largest business groups in the Philippines, and exclude banks.

With a shrinking world on account of liberalized trade regimes and improvements in global transport and communications, the capacity of home country enterprises to compete in the global or regional arenas can be taken as indicative of their vitality as economic institutions. In Southeast Asia, the imminent implementation of ASEAN as a regional economic bloc provides more immediate challenges and opportunities for the survival and growth of business firms in the region, including those in the Philippines.

This paper will describe the diversification into regional markets and beyond, of Philippine enterprises in the past, present, and possibly in the near future. The determination of whether a company diversified or plans to diversify in foreign markets is based on public sources of information, specifically, company disclosures on diversification projects and plans, newspaper reports in the Business World, Philippine Daily Inquirer, etc., and others profile data and financial reports in the Philippine Stock Exchange (PSE). Disclosures in the Philippine Stock Exchange and in Pse.Edge were browsed more or less regularly since early 2013 to around May 2015.

Since company disclosures on diversification are a major source of the data for this study, the 22 firms included come only from the set of listed firms in the PSE.

1 Foreign Diversification

In this paper, foreign diversification refers to a local firm's expansion or planned expansion beyond its domestic operations by creating the infrastructures for both the production and the distribution of its products or services in a foreign market. Under this definition, firms in the Philippine mining and agriculture industries that merely export commodities locally produced to foreign markets (e.g. gold, nickel, copper, bananas, etc.), are excluded. The term "regional diversification" is sometimes used in this paper and denotes diversification by Philippine firms into the ASEAN or the East Asian region.

Firms undertake diversification to foreign markets for a variety of reasons. Among these are to respond to increased competition in the home market, to search for growth, to establish supply chains, to achieve backward integration, to take advantage of lower labor costs, to search for strategic assets, to take advantage of favorable macroeconomic fundamentals in destination countries, and to take advantage of regional integration (ASEAN Investment Report 2012, 2013). Echanis (2008) lists the expansion of market scope, the conduct of R&D, and locating plants and factories in countries to lower product costs, among the major reasons for foreign diversification by multinationals. She also examined the various mechanisms for entering foreign markets such as joint ventures, franchising, wholly owned subsidiaries, and so on. Ang's (2007) study of New Zealand and Australian companies also suggested that firms facing performance pressures in their home markets tend to diversify abroad, particularly regionally, and that such diversification does not guarantee improved performance. Wiersema and Bowen's study (2008) of US manufacturing firms suggested that firms diversify internationally as a result of the globalization of their industry and because of foreign competition in

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their home market. Moreover, they showed that firms with greater product diversification are more likely to undertake foreign diversification. Dawar and Frost (1999) and Khanna and Palepu (2006) suggested that companies from emerging markets can and do challenge their multinational competitors when their corporate capabilities are transferrable in markets similar to their home countries in terms of consumer preferences, distribution channels, government regulations, and so on.

As noted by the ASEAN Secretariat, the ASEAN region has become a major destination of Foreign Direct Investment (FDI) from various parts of the globe in the last decade because of the region's attractive growth prospects and macroeconomic fundamentals (ASEAN Investment Report 2012, 2013). More noteworthy is the observation that since 2011, outbound foreign direct investment (or OFDI) from countries within ASEAN destined for neighboring countries in ASEAN, have become a major component of FDI flows in the region. The ASEAN Secretariat further expects this development to continue in the future. Thus far, Singapore, Malaysia and Thailand are the major sources of such OFDI (ASEAN Investment Report 2012, 2014). Interestingly, the Philippines is considered a laggard in this development, even lagging behind Vietnam (ASEAN Investment Report 2012, 2014).

Diversifying Philippine Firms

The firms included in this study may be divided into three groups as follows:

1. Those which have diversified abroad earlier than five years ago;
2. Those which have diversified abroad five years ago or less; and
3. Those which have formally announced their intention to diversify abroad

The first group, which we shall label as "Early Diversifiers", consists of Philippine manufacturing and service firms that expanded operations into foreign countries prior to 2010. The year 2010 is taken as an arbitrary cut-off point and is meant only to emphasize how recently the second and third groups of companies in this study have diversified or announced their decision to diversify, relative to the first group of diversifiers.

The second group, which is labeled "Recent Diversifiers", consists of companies which have undertaken actual commercial activities in foreign markets five years ago or less. Most of the companies in this group established foreign operations only in the last two or three years.

The third group of companies in the study, which we labeled "Prospective Diversifiers", consists of those who have formally announced or confirmed through PSE disclosures, their intent to diversify abroad and many of whom have actually conducted formal negotiations or discussions with foreign groups or governments to establish operations in specific foreign countries. Thus, the foreign diversification of these firms remains still at the level of "strategic intent" and the firms in the group have no appreciable operations or revenues in foreign markets yet.

2 Early Foreign Diversifiers

There are five companies in this group: San Miguel Corporation, Universal Robina, International Container Services, Integrated Microelectronics, Inc., and Jollibee Food Company. Of the five firms in the group, the San Miguel Corporation has the longest experience in foreign operations, having diversified, through its beer division, into several foreign markets in the East Asian region even prior to the 1990's.

The five companies and the foreign markets they operate in are shown in Table I below:

Table 1

Company	Country Destination
International Container and Terminal Services (ICTS)	Australia Brazil China Ecuador Madagascar Pakistan Poland USA

Company	Country Destination
Integrated Micro-Electronics, Inc. (IMI)	China Europe Mexico Singapore USA
Jollibee Foods Corporation (JFC)	Brunei Hong Kong Middle East Vietnam Singapore USA
San Miguel Brewery (SMB)	China Indonesia Vietnam
Universal Robina Corporation (URC)	Indonesia New Zealand Malaysia Myanmar Thailand Vietnam

Being early diversifiers, it is not surprising that these companies have established operations in at least three foreign countries. It is notable that, of the five in the set, ICTS has the largest number of countries where it is present and has the widest reach, geographically, while the other four focusing themselves preponderantly in ASEAN and China.

2.1 Recent Diversifiers

The companies in this group are shown in Table 2 below:

Table 2

Company	Country Destination	Partner(s)/Stake
Ayala Land, Inc. (ALI)	China Malaysia	Keppel Land Local Government of Tianjin, 40% GW Plastics Inc
Manila Water Company, Inc. (MWCI)	India Indonesia Myanmar Vietnam	Saigon Water Infrastructure Corporation, 21.4% Thu Duc Water Boo Corporation, 49% Keng Dong Water, 47.5%
Metro Pacific (MPI) Manila Toll Roads	Thailand Vietnam	Don Muang Toll Way Public Co., 29.45%
Manila Electric Company (MER)	Nigeria Singapore	Integrated Energy Distribution & Marketing Company Pacific Light & Power, 28%
Petron (PCOR)	Malaysia	
Philweb (WEB)	Cambodia Guam Timor Leste	
SM Prime Holdings (SMPH)	China	

Note that with the exception of MERALCO, this group has limited foreign diversification also within the ASEAN region and China. Also notable is that the majority in this group have entered their foreign markets with foreign partners.

2.2 Prospective Foreign Diversifiers

There are 10 firms in this group. As previously mentioned, all the firms in this group have formally announced their intention to establish operations abroad, often in a specific country, within the last two or three years (i.e., 2013-2015). One firm, PLDT, later expressed disinterest in pursuing its diversification plan when it discovered that the policies of the target country were too heavily "in favor of local business".

The firms in this group and their announced foreign market destinations are shown below.

Table 3

Company	Country
Aboitiz Power (AP)	Papua New Guinea Indonesia
DM Consunji (DMC)	Myanmar Timor Leste
Energy Development Company (EDC)	Chile Peru
Emperador (EMP)	Africa China United Kingdom Vietnam
Rockwell Land (ROCK)	ASEAN
Philippine Airlines (PAL)	Cambodia
Philex (PX)	Myanmar
PLDT (TEL)	Myanmar
Roxas Holdings, Inc.(ROX)	Indonesia
Solaire (BLOOM)	Japan, South Korea

It is notable that though the preponderant majority of the firms in this category target primarily ASEAN destinations, there are also a few who are targeting East Asian countries (e.g., China, Japan, and Korea) as well as countries farther east.

3 General Observations on Diversifying Philippine Firms

The first notable observation concerning our group of diversifying firms is that 16 firms, or 72%, belong to, are subsidiaries, or affiliates of many of the eleven Philippine business groups described by Gutierrez and Rodriguez (2013). These business groups are among the largest in terms of capitalization and market position in Philippines and are engaged in multiple related and unrelated business fields. This suggests that a strong or secure competitive position in the home market may be associated with the desire to enter foreign markets.

In this connection, it is also worth noting that all 22 in the three groups shown above have diversified or plan to diversify into foreign countries in the same line of business that they are pursuing locally. As in the case of EDC, the largest geothermal power producer in the Philippines, the choice of such far-off countries as Chile and Peru as diversification destinations can only be because of the large geothermal potential in those countries. The only possible exception to this pattern of entering a foreign country in the same line of business as in the home market is Emperador, a local distributor of branded brandy drinks, whose announced intention to diversify into the UK and African markets is related to its acquisition of Whyte and Mackay, a manufacturer and distributor of branded Scotch whiskey based in Scotland.

While the above observation should not be surprising, it reinforces the supposition that firms tend to diversify into business domains where they feel they have the competitive competencies and know how.

A third observation which may be made about this entire group of Philippine firms is that, for the most part, their target destinations are mainly within ASEAN and to a lesser extent, the larger East Asian region including China, Japan and Korea. Only two firms in the entire set plan to diversify farther afield (i.e., to Europe, South America and Africa).

A fourth observation about the firms that are more recent diversifiers vis-à-vis the first group is that most are entering foreign markets with joint venture partners from those countries. Four of the seven firms in Table 2 have joint venture partners in their destination countries whereas none in Table 1 have. As Echanis (2008) pointed out, having joint venture partners in foreign markets can be a means of overcoming regulatory barriers in those markets.

4 The Imminence of ASEAN Economic Integration

For the firms in this study, the imminent implementation of an ASEAN common market appears to be one clear impetus for the decision to diversify abroad, if not, at least, for the timing of the implementation of this strategic decision. With the exception of the companies in group I, almost all of the other companies in this study implemented or announced their decision to diversify to foreign markets only in the last two or three years. This "rush" to diversify abroad by so many firms in the set so close to the 2015 target for the actualization of the ASEAN Economic Community (see ASEAN Economic Community Blueprint, 2008) seems too striking to be mere coincidence. The desire to position their firms in the emerging ASEAN market is explicitly mentioned by at least five of the firms as a reason for their intention to diversify abroad in their press announcements or in their PSE disclosures. These firms are Ayala Corporation (Dela Fuente & Feliciano, 2013), Metro Pacific (Feliciano & Portillo, 2013), MERALCO (PSE Circular 4806, 2013), SM (Dumlao, 2014), and Aboitiz Power (Feliciano & Portillo, 2013).

Philippine Banks

It is noteworthy that none of the Philippine banks appear to have diversified or to have signified their intent to diversify into ASEAN as other Philippine companies have. Although the largest Philippine banks have established branch offices in many foreign countries for some time now, these branches are, for the most part, remittance offices intended primarily to service the remittance business of overseas Filipino workers (OFWs) and not full blown banking operations. As such, these branches are located primarily in locations with large concentrations of OFW's (e.g., Europe, the United States, the Middle East, Japan, and Hong Kong), and not in ASEAN countries except Singapore.

One reason for the seeming absence of interest to diversify into ASEAN among Philippine banks might be that until the ASEAN Banking Integration Framework is fully implemented in 2020, banking in most countries in this region remains a highly regulated industry that is usually reserved for nationals and where foreign presence is tightly controlled. It is also worth noting that since June 2014 and the passage of RA 10641, the Philippine banking industry has been liberalized (Moss, 2014) and the prospective entry of larger banks from Japan, Australia, South Korea and Taiwan, among others, will pose a significant challenge to the market position of Philippine banks in the near to medium term. Philippine banks may also feel that they have no clear competitive advantage over other banks in the region. As one Philippine banker put it, the natural market of Philippine banks in ASEAN would be Philippine firms operating therein. However, as previously noted, Philippine firms lag their regional counterparts (e.g., Singapore, Malaysia and Thailand) in diversifying within the region. Finally, it is well known that Philippine banks have smaller capitalizations vis-à-vis their counterparts in some ASEAN countries (e.g., Singapore, Malaysia and Indonesia).

5 Conclusions

Until the turn of the century, barely a handful of Philippine firms expanded operations into foreign markets. Since 2010, however, a significant number of firms in manufacturing and services have ventured abroad or have announced plans to diversify abroad. This collection of companies is mainly comprised of the larger business enterprise groups in the Philippines although there are a number of smaller, less diversified ones as well.

Foreign diversification too, has largely been regional diversification for Philippine firms, with a few exceptions. The diversification destinations of these Philippine companies, both realized and planned, have been preponderantly the ASEAN region, although a good number also include East Asia, particularly China, with a few targeting countries further afield across the Pacific and in the Middle East.

The move of many Philippine firms to reach out beyond national markets appears to follow a trend among ASEAN companies that was noted by the ASEAN Secretariat in 2012. Of the various possible reasons for embarking on foreign diversification discussed in this paper, the imminent actualization of ASEAN as a single economic bloc appears to be the strongest one for Philippine firms. The attractions of ASEAN neighboring countries as diversification destinations for the firms in this study seem compelling. These include a large market size, geographic proximity, cultural similarities, more favorable regulatory treatment as members of the bloc, and the favorable growth prospects of the region.

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Appendix A

Company		Description	Market Capitalization (July 2015)
International Container and Terminal Services Inc.	ICT	ICTSI operates, manages, develops, and acquires container terminals around the world.	226,443,615,596.00
Integrated Micro-Electronics Inc.	IMI	IMI is one of the leading manufacturers of electronic components in the country.	10,687,671,261.94
Jollibee Foods Corporation	JFC	JFC's principal business is to operate, and franchise quick-service restaurants.	206,100,407,487.00
San Miguel Brewery Inc.	SMC	SMC is one of the biggest Filipino conglomerates that participates in the food, banking, energy, infrastructure industries.	123,683,298.58
Universal Robina Corporation	URC	URC is involved in the sale of branded consumer foods, production of hogs and day-old chicks, manufacture of animal feeds, glucose and veterinary compounds, flour milling, and sugar milling and refining.	407,940,861,471.00
Ayala Land, Inc.	ALI	ALI is one the biggest Filipino property companies with operations in property development, commercial leasing, and services.	562,814,734,612.10
Manila Water Company, Inc.	MWC	MWC is the water concessionaire of the East Zone in GMA.	48,492,139,819.50
Manila North Tollways Corporation	MPI	MPI is one of the biggest conglomerates in the Philippines that operates the Manila Toll Roads.	143,330,621.54
Manila Electric Company	MER	Manila Electric Company is the biggest energy distributor in the country.	332,494,117,975.00
Petron Corporation	PCOR	Petron is the largest retailer of gasoline, LPG, and oil lubricants in the country.	76,875,856,875.40
Philweb Corporation	WEB	WEB is a gambling company that operates PAGCOR e-Games cafés, the launch of the Genesis Console, and Premyo sa Resibo among others.	27,076,580,634.60
SM Prime Holdings Inc.	SMPH	SMPH is the number one operator of commercial shopping malls in the country.	592,022,314,527.00
Aboitiz Power Corporation	AP	Aboitiz Power is one of the biggest producers of energy in the country.	324,882,380,154.05
DMCI Holdings Inc.	DMC	DMC's is engaged in construction, real estate, nickel and coal mining, power generation, and water distribution.	178,183,647,400.00
Energy Development Corporation	EDC	EDC is the leading producer of geothermal power in the country.	140,625,000,000.00
Emperador Inc.	EMP	Emperador is in business of manufacturing, bottling and distributing distilled spirits and other alcoholic beverages.	145,080,000,000.00
PAL Holdings Inc.	PAL	PAL is the holding company of the Philippine national flag carrier.	115,241,416,125.44
Philex Mining Corporation	PX	Philex is in the metals and the hydrocarbon businesses.	29,494,182,435.96
Philippine Long Distance Telephone Company (PLDT)	TEL	PLDT is the number one telecommunications service provider in the Philippines.	618,351,628,050.00
Roxas Holdings, Inc.	ROX	Roxas Hodings Inc. produces raw and refined sugar and provides customized sugar solutions to cater to the unique specifications of these customers.	7,197,783,775.00
Bloomberry Resorts Corporation (Solaire)	BLOOM	BLOOM owns the Solaire Resort & Casino and operates also the casino business.	102,435,344,487.25