The Future of Spanish Businesses

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Going global is no longer a luxury

Sound strategy: most sales by Manuel Rodriguez, Toledo-based flamenco guitar maker, are outside Spain Reuters

With the domestic economy in crisis, many executives feel the need to diversify abroad is a matter of survival, writes *Miles Johnson*

When reading through the presentations of a typical large Spanish company over the past three years, one could be forgiven for occasionally forgetting which country it is from.

Since the onset of the financial crisis, which has pushed the eurozone's fourth-largest economy to the brink of a sovereign bailout, corporate titans have appeared to be at pains to distance themselves from their country of origin.

While Spain's domestic economy has slumped, its largest companies have relied on earnings pouring in from abroad, with many members of the Ibex 35 index proud to declare to their investors how the share that Spain contributes to their sales is slipping each quarter.

A decade ago this drive to internationalise was more of a luxury than a strategic imperative. Now, with the state of the domestic economy, little or no growth is expected by many businesses for the next five years. Many executives feel the need to diversify in foreign parts is a matter of survival.

"With the current state of the Spanish economy all large Spanish companies are trying desperately to derive as much business as they can from abroad," says Jorge Delclaux, managing partner of consultants Roland Berger.

Not only large companies with long established business abroad, but also medium sized and smaller family-owned businesses are making the bulk of their sales outside Spain. These range from companies as varied as the Navarran sausage skin manufacturer Viscofan, to Toledo-based flamenco guitar maker Manuel Rodriguez.

"Fifteen years ago there were only the top three or four companies in Spain with large international operations," says Daniel Carreño, head of General Electric in Spain and Portugal. "Now the bar is lower, and smaller companies are following the same path."

Last year total revenues of the companies in Spain's blue-chip index were €207bn, of which 61 per cent came from outside Spain. Some of these companies, such as the Galician fashion retailer Inditex, have expanded organically, others have spent billions of euros snapping up assets across the world over the last 15 years.

In 1995 the total amount invested outside Spain by Spanish businesses was the equivalent of €11bn, according to government statistics. By the turn of the millennium this had risen to almost €100bn.

> 'Spanish executives understand Latin America much better than others'
> **Javier Santiso, Esade Business School**

Latin America, with a shared language and historical ties, was at first the logical destination for Spanish companies on their first venture into foreign markets. Now, these groups arguably enjoy a position spanning banking, infrastructure and telecoms that is unrivalled by any other European country.

Javier Santiso of the Esade Business School argues that both Spain's ability to understand the culture of business in Latin America, as well as its geographical position as the hub for arrivals from that continent into Europe, have given Spanish businesses an advantage over rivals.

"Cultural ties and language played in favour of Spanish companies," he says. "Spanish executives understand Latin America much better than others."

Annual total Spanish investment into Latin America rose from a mere €783.7m in 1995 to €9bn by 2001, according to the ministry of industry.

But at the same time, Spanish companies have moved aggressively into other regions, most notably the UK, where assets ranging from Heathrow airport to a large chunk of the mortgage market have been under the control of Spanish companies since the middle of the past decade.

Yet while shrewd investments by Spain's large companies abroad have helped shield them from the domestic downturn, these purchases contributed to a large build up of external debts which must now be paid off.

Telefónica, the former Spanish state telecoms monopoly, became the darling of its sector among investors as it made a string of bold foreign acquisitions, including the UK's O_2, and the Vivo network in Brazil.

This enabled Telefónica to quickly distinguish itself from Europe's far

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'Reconquest' of New World is lifeline as profits suffer at home

Banks in Latin America Markets do not offer easy growth but look like El Dorado compared with Europe, reports *Jonathan Wheatley*

When Spanish banks led by Santander and BBVA – along with a host of Spanish non-financial companies – began investing heavily in Latin America in the 1990s, it was quickly dubbed a "reconquest" of the New World by its original colonial masters.

Nearly two decades later, the parallel is even more striking. Just as the continent's gold and silver mines did 400 years ago, Latin America's banking industries are providing a basis of support and defence at a time of increasing insecurity in Spain.

Last year, Santander and BBVA made more money from their operations in Latin America than they did at home. This year, reckons Credit Suisse, more than €5bn of Santander's estimated €7bn of profits will come from Latin America, with Brazil generating more profits than its operations in Europe (including the UK) combined.

Of course, one reason for the rising importance of Latin America for both banks is the dwindling role played by profits at home. In the past few years, the significance of their Latin American operations has grown sharply.

"The expansion of Spanish companies into Latin America was their first step to become global. Now it has become their way to survive," José Antonio Ocampo, a Columbia University economics professor and former Colombian finance minister, told the FT this month.

Nothing illustrates this more clearly than the enormous share issues undertaken in the region by Santander since the onset of the global financial crisis, overcoming what for many other would-be issuers were dauntingly adverse market conditions. Santander raised $7bn in an initial public offering of its Brazilian business in 2009 and raised another $4.1bn this year in Mexico.

Both issues were crucial in improving the bank's capital ratios in Madrid, in response to pressure from Spanish and European regulators.

Last month, BBVA said it would consider following suit by listing Bancomer, its Mexican bank, which accounted for half of group profits last year.

That, however, is not a trick that can be pulled off very often. If Latin America is to continue holding out a lifeline to Spanish banks, it must offer sustainable growth.

This has meant some rethinking of strategy. When Santander and BBVA begin investing in the region from the mid-1990s, Santander at first went after banks with significant interests in investment banking and bought large shareholdings. BBVA, in contrast, gradually built partnerships with local banks by buying small initial stakes.

In Brazil, its biggest market, Santander has changed its focus, concentrating less on wholesale banking and more on retail banking, where the potential for growth is greatest given the large numbers of people – about 16m adult Brazilians – that still do not have bank accounts.

In Mexico, BBVA's strategy has long been a gradual expansion of its retail operations, in a market where less than a third of the adult population uses banking services.

Santander office in Rio de Janeiro. Brazil is the bank's biggest market AFP

So it is fortunate for both banks that Spain's economic troubles have coincided with a spurt of economic growth in the New World. It is true that in Brazil – where Santander is strongest and BBVA is absent – growth has been erratic. GDP grew by 7.5 per cent in 2010 but was followed by just 2.7 per cent in 2011 and an estimated just 1.5 per cent this year.

In Mexico – BBVA's biggest market in the region, much less important for Santander – GDP growth is steadier at about 4 per cent a year.

But despite Brazil's erratic growth, its banking sector holds similar promise to Mexico's. In both countries, incomes have risen sharply over the past few years, bringing goods and services into the reach of tens of millions of new consumers. As they join the middle classes, many consumers want not only a bank account but also access to credit and to more sophisticated products such as life and health insurance.

But Latin America's markets offer no guarantees of easy growth. In Brazil, especially, analysts and investors have been worried by government pressure on banks to keep a consumer boom alive by offering ever cheaper and more abundant credit. The government has driven down interest rates at the big public-sector banks and pressed them to offer new forms of lending. Private-sector banks have been obliged to follow suit, leading to a worrying spike in rates of non-performing loans this year.

Such pressures have eased off in recent months as the government appears to have recognised that cheap credit can be destabilising. But Brazil's willingness to intervene in both the public and private sectors has set warning lights flashing.

This kind of unpredictability is an even greater worry in Argentina, where Santander and BBVA are the only two big foreign banks in operation. The Spanish and Argentine governments have been in a state of open hostility since the expropriation of Repsol's stake in YPF, the oil group, this year.

There is no such hostility in markets such as Chile and Colombia – nor, indeed, in Mexico or Brazil.

Compared with Spain and the rest of Europe, they look increasingly like a new El Dorado.

Sharp reversal of fortunes fuels expansion

Investing in Brazil

As domestic crisis deepens, interest is even greater, says *Samantha Pearson*

Three centuries ago, the southern Spanish city of Cádiz was one of the richest in the world, flowing with the treasures of the country's vast empire. With better access to the Atlantic than nearby Seville, the city enjoyed a near-monopoly on trade with the Americas.

However, the reversal in fortunes between the two regions has since been dramatic. This month, Cádiz hosted the 22nd Ibero-American Summit where Spain and Portugal wooed the leaders of their former colonies, appealing for more cross-border investment to lift their countries out of one of the worst economic crises in history.

While television crews swarmed around President Dilma Rousseff of Brazil, who attracted more attention than Spain's King Juan Carlos, hundreds of angry Spanish workers rallied at the docks to protest against austerity measures.

Over the past few years, Brazil has become a big target market for European companies looking to offset slowing growth and the effects of the global financial crisis. The recent China-driven commodity boom and Brazil's growing middle classes helped Brazil overtake the UK last year to become the world's sixth-biggest economy.

Brazil offers huge opportunities for investors as it embarks on infrastructure investments estimated at about $1tn in its preparations to host the World Cup in 2014 and the Olympics two years later.

In many respects, Spain has a head start in Brazil. It was the third-biggest contributor of foreign direct investment after the US and the UK last year, according to Ernst & Young's 2012 attractiveness survey. This accounts for 7 per cent of Brazil's FDI, with investments of $4.48bn in 37 projects, helping to create 7,660 jobs in 2011.

Santander has become one of the few foreign high street banks to break into the Brazilian market and ranks as the fifth biggest lender in the country by assets. The Brazilian subsidiary of the Madrid-based bank held the biggest initial public offering in the country's history in 2009, raising $7.5bn.

Many Spanish companies, such as telecoms group Telefónica, have been in the country for at least a decade. "In the 1990s, when Brazil experienced a process of privatisation and the market opened up, Spanish companies realised that they had to be in Brazil as well as other Latin American countries," says Maria Luisa Castelo Marín, the executive director of the Spanish Chamber of Commerce in Brazil.

When they first started investing in Brazil, many shareholders were sceptical about whether Brazil, which has long been referred to as "the country of the future", would ever reach its potential.

Multinational companies' Brazilian assets have since become the jewels in their crowns, providing a vital revenue stream from what is the world's second biggest emerging market.

As Spain's crisis at home has become more acute, Brazil has evolved into an even more attractive destination.

Ms Castelo Marín says the Spanish Chamber of Commerce receives more than 100 CVs every month from hopeful Spaniards looking for work in the country. "We get many engineers, telecoms and IT professionals . . . the majority are qualified university graduates," she says.

Strong cultural and linguistic links have helped to forge ties. While Brazil is one of the few countries in South America not to speak Spanish, the language is widely understood.

Spanish companies have been fortunate to break into industries such as infrastructure and energy, which are expected to experience the highest growth rates over the next few decades, says Ms Castelo Marín. Construction company OHL is one of the largest operators of toll road concessions in Brazil, with more than 3,200 kilometres of roads.

Meanwhile, Iberdrola, the energy company, is one of the leading shareholders in Neoenergia, the largest private sector power distributor in Brazil.

Elsewhere in the energy sector, Gas Natural Fenosa has been operating in Brazil since 1997, distributing natural gas in Rio de Janeiro and São Paulo. At the end of last year, the Barcelona-based group had 842,000 customers and a distribution network of more than 6,000 km.

> Brazil offers huge opportunities as it embarks on $1tn of infrastructure investments

In the fast-growing oil industry, Madrid-based Repsol is one of the biggest holders of oil rights in the promising Santos basin.

Spanish companies have gained a strong presence in the telecoms and information technology industries, through companies such as Telefónica and Indra.

This month Indra reported that a quarter of its sales now come from Latin America, where the technology company has grown 12-fold over the past six years.

However, in spite of the large presence of Spanish companies in Brazil, the effects of the financial crisis may make it harder to win big contracts over the next few years.

Concerns over the debt and possible funding problems of some Spanish companies could mean the Brazilian government is particularly reluctant to award strategic infrastructure concessions to them for fear the government may have to intervene at a later date, analysts say.

However, Ms Castelo Marín says Spanish companies' experience in the Brazilian market will always make them an attractive bidder. "Many Spanish companies have been here so long that they're considered Brazilian anyway," she says.

Seizures highlight pitfalls of Latin America

Risks

Companies advised to invest where treaties are in place, writes *Miles Johnson*

In a period when few large Spanish companies can boast of roaring success at home, many have been at pains to stress the steady, occasionally spectacular, growth in their international operations.

Many of the shrewdest investments made over the past 15 years have been in Latin America, especially Brazil. This has helped Spanish companies ranging from Banco Santander to power utility Iberdrola and telecoms operator Telefónica to offset falls in revenues in their home market.

In 2011, the constituent companies of Spain's Ibex 35 index had combined revenues of €207bn, with 61 per cent coming from outside Spain, the highest level on record. A large chunk of this derived from operations in Latin America.

Yet investments in the region for Spanish companies have not always been pain-free. While the significantly higher growth rates across Latin America continue to appeal to companies already established or seeking to expand there, for others their time in Latin America has been a source of headaches.

This year, Repsol, the Spanish oil group, underwent the traumatic experience of seeing its YPF unit in Argentina stripped from it by the government of President Cristina Fernández de Kirchner. This threw the company into temporary disarray as it rushed to convince investors that the amputation would not prove fatal to its future.

Two weeks later the government of Bolivia decided to expropriate the local unit of Red Eléctrica, the Spanish power grid operator.

Though less important to the company than YPF was to Repsol – the Bolivian business contributed less than 3 per cent of Red Eléctrica's group operating revenues compared with a fifth by YPF to Repsol – it was worrying that two seizures took place in quick succession.

While these expropriations occurred in countries that have a track record of international disputes and are governed by leaders who are often openly hostile to foreign companies, other Spanish companies were reminded that investing in Latin America does not always go smoothly.

"There is not much we can do," said an executive of a company with operations in Argentina at the time of the YPF expropriation. "Obviously, we disapprove, but we can only sit back and say nothing, or else they might retaliate against us."

Repsol is fighting for compensation from the Argentine government but it must take its place in a long queue of foreign investors that have claims outstanding against the government.

Foreign companies that have units expropriated often have to wait years before they see any money. At the same time, they lose the research and investment they have poured into the asset.

"There is a sense that the expropriation risk is higher in Latin America than in many other regions," says Andy Moody, a partner at law firm Eversheds.

Warning signs: President Cristina Fernández de Kirchner of Argentina

"Political risk tends to be higher than in many other places, which can be seen in terms of the number of outstanding treaty claims there currently are against several countries."

Many observers argue, however, that companies are aware of the countries in Latin America that pose larger risks than others and that some of those that have been worried have departed ahead of problems arising.

"There are the usual suspects but investors know to assess risks country by country," says Javier Amantegui, a partner in the Madrid office of Clifford Chance, the law firm.

"The risks for those countries with a history of expropriations are there, [but] for the other countries there is good security for investors, and companies generally feel secure there."

Banco Santander, for example, struck a deal with the government of Venezuela ahead of a possible expropriation by selling back Banco de Venezuela to the state in 2009.

Others can use international treaties to enforce compensation, such as the case of the government of Ecuador being ordered last month to pay $1.77bn to Occidental, the US oil company, after seizing some of its assets.

The best option for a company, Mr Moody says, is to ensure that any country where they invest is subject to international treaties and agreements to protect investors, such as the International Centre for Settlement of Investment Disputes.

Settlements awarded under the ICSID agreement are generally considered to be strongly binding, as failure to comply can result in the World Bank lowering a country's credit rating, or putting its foreign assets at risk of seizure.

"If you are an investor, the best thing you can do is chose a country that has treaties in place," Mr Moody says.

"If not, you can find yourself suing locally the government of the country you are in, which is never very likely to succeed."

Yet the misfortune of some companies is unlikely to dissuade other Spanish investors that Latin America is still one of the most attractive locations in the world for their capital.

"I am positive, as it is a region growing very quickly, while at the same time risks are specific to certain countries," Mr Amantegui says.

"I believe many Spanish companies will continue to look to Latin America in spite of these events".

As domestic economy struggles, going global is no longer a luxury

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sleepier former state owned telecoms groups.

Yet while Telefónica gained significant positions in important markets across the world, the acquisition spree worth nearly $85bn over a decade left the company nursing a debt pile of €57bn.

Since Europe's sovereign debt crisis enveloped Spain, the company has been forced to take emergency action to avoid a credit rating downgrade, selling off a stake in its German business and moving towards spinning off parts of its Latin American operations, the jewel in its crown.

Moreover, with the collapse of the construction sector, and consequent losses sustained by the banks, the days of abundant cheap credit, both at home and abroad, are over.

Ferrovial, the construction and infrastructure group, bought BAA, the British airport operator, for £10bn in 2006 using just under £600m of its own money. Such daring deals, which allowed Spanish companies to expand quickly, would now be impossible.

"There was a large amount of debt taken on at the time but companies have used this to in general buy high quality assets abroad," says GE's Mr Carreño. "There might be liquidity issues for some now, but these assets will be an important source of growth for some time to come."

As such, many companies that have fallen into difficulties because of their large debts have reversed course and used their foreign assets as cash machines, selling down stakes to pay back borrowings.

The jump in the value of many foreign assets bought by Spain's largest companies, as Latin America has experienced strong growth, means only small parts of the best subsidiaries can be sold off to raise capital in an emergency, with the parent company retaining control.

Emilio Botín, executive chairman of Banco Santander, was praised for his shrewdness when in 2009 he listed 14 per cent of the bank's Brazilian business to raise $7bn, after buying it all as part of a break-up bid for ABN Amro for €19.9bn. The purchase included an Italian bank he sold on for €9bn two months after he bought it. Spain's biggest bank by assets has since repeated the trick of listing chunks of its foreign subsidiaries in Poland, Chile and Mexico, although plans to spin off part of its sizeable UK operations have been forced to be postponed on several occasions because of the low valuation a sale would achieve.

"The international businesses of Spanish banks and other companies are there to stay but they can also act as a valuable source of capital in difficult moments," says Fernando Maldonado, head of investment banking at Credit Suisse in Iberia, who has worked on several large spin offs and listings of Latin American assets for Spanish companies.

"Companies can diminish their exposure by selling off stakes in these businesses, or can exit altogether in countries where they have low market share."

> Spanish-owned foreign assets 'can act as a valuable source of capital in difficult moments'

The question hanging over all businesses now, big and small, is where their future lies. While their domestic market is in the doldrums, it may at this moment appear that there is no option but to move quickly into selling as much as possible abroad.

Yet companies in Spain that have stayed at home have too been rewarded, if they can get their business model right, and their sector allows them to. Loewe, the luxury goods house that makes nearly all its designer products in Spain, is doubling the size of a factory near Madrid to meet demand.

For the rest, those who have not begun the process of internationalisation will have to catch up quickly.

"Spaniards tend to be great lovers of their homeland and not as adventurous as others might be," says Mr Delclaux at Roland Berger.

"They have also been historically slower than British companies at moving abroad . . . In Spain this has been only happening for two decades, so in that sense there is much more to come."

Push continues into markets of India and China

Manufacturing in Asia Investors look past obstacles, write *Victor Mallet* and *Sophie Cohen*

Since the global financial crisis erupted in 2008, the Spanish companies that have survived and even thrived have been mostly those with the foresight to have invested or secured new custom overseas, whether they sell shirts (such as Inditex's Zara shops), bathroom fittings (Roca) or car parts from the Basque country.

Corporate Spain's push into foreign markets began several years before 2008, and foreign earnings have provided a lifeline for businesses, from banks to building contractors, as Spain has sunk into a mire of fiscal and economic troubles.

Brazil, with its big economy, and Spanish-speaking Latin America were inevitably the early targets for Spanish investors. Spanish chief executives and entrepreneurs were generally slower, however, than their European and US rivals to seize opportunities in the unfamiliar markets of Asia.

Now though, with Brazil having slowed and parts of Europe in even deeper difficulty than before, Spain is belatedly paying more attention to the prospects for China and India, the world's two most populous nations.

"Spanish investment is slower than in previous periods, but we still have steady growth," says Diego D'Alma, the Shanghai-based president of the Spanish Chamber of Commerce in China. "Companies have not stopped coming here."

China, where the chamber has 473 Spanish members, and India, where about 150 Spanish companies are based, have each had economic problems of their own. But despite India's much lamented slowdown, its economy is still growing at more than 5 per cent a year. Only a month ago, King Juan Carlos of Spain visited India with a delegation of business leaders to try to strengthen his country's relationship with India.

Spain's Gamesa, which designs, makes, installs and manages wind turbines, is in a sector that is struggling globally with intense competition and cuts in renewable energy subsidies. But without foreign markets it would be doing hardly any business at all.

The company began manufacturing in India, in the southern city of Chennai, less than two years ago. By last year India accounted for nearly a fifth of the wind-generating capacity Gamesa sold worldwide and the group had become one of the largest Spanish investors in the country.

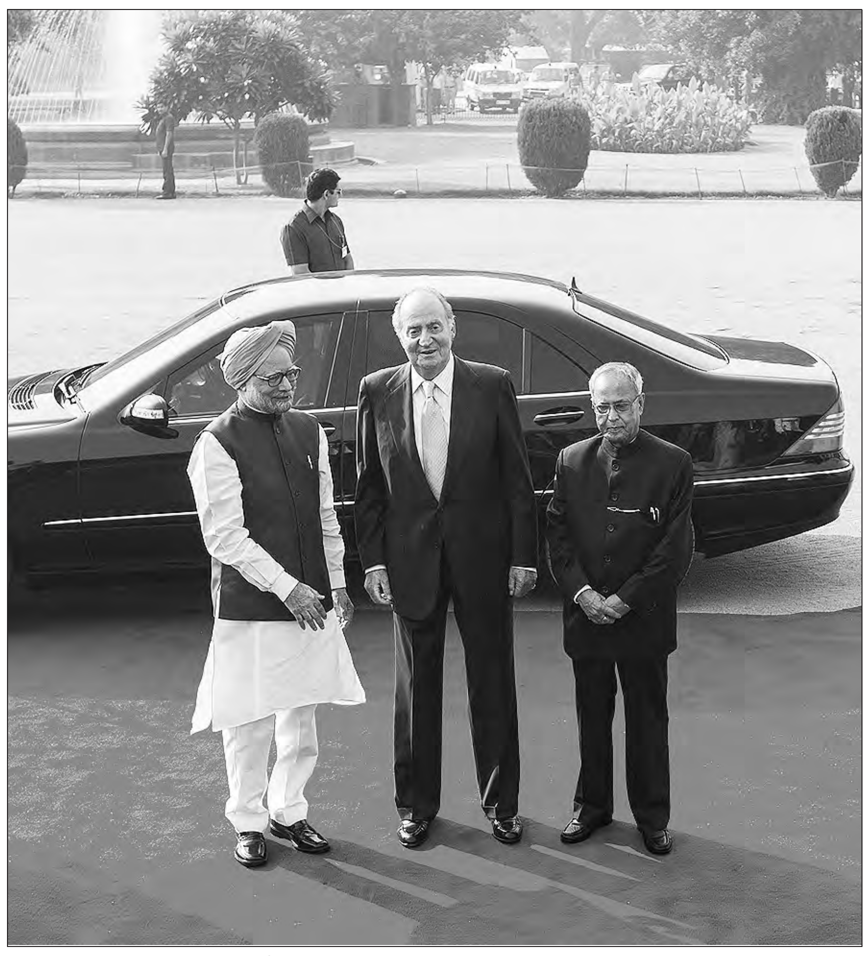
Next year, India's share of Gamesa's global sales is expected to rise further (China's has fallen sharply and is predicted to be 9 per cent in 2013). India and Latin America between them will make up more than 60 per cent of revenues for the Spanish company.

"The main driver has been shortage of power," says Ramesh Kymal, a former Vestas executive who heads Gamesa in India, referring to the country's notorious inability to meet demand for electricity. "As in other markets, subsidy cuts have hit the profits of renewable energy groups, but Mr Kymal is confident the setback is temporary.

"This year is pretty bad for the wind business in India," he says. "But it is expected to come back very strongly next year and after that."

Investment in remote and sometimes difficult Asian markets is not confined to Spain's big companies.

> 'The Chinese government has a clear idea of what it wants to do, and you may or may not enter into its plans'
> **Ignacio Mestre, Dogi**



Royal patron: King Juan Carlos meets Indian president Pranab Mukherjee Getty

Walter Pack, a specialised maker of plastic vehicle parts created with "in-mould decoration" technology, has three factories in the Basque country and one in Pune in the west of India employing 40 people.

"It was a decision from before the crisis," says Miguel Bernar Borda, managing director, speaking from Mexico, where he also sees opportunities to invest in a fast-growing motor industry.

He says he is delighted with the Indian investment, including the latest deal to make parts for Tata's new Safari Storme sport utility vehicle. "The experience we have had in India has been very positive. We set up the factory in less than a year."

Spanish companies are nevertheless as vulnerable as others to the obstacles investors often encounter when doing business in India or China.

India's transport and power infrastructure is unreliable and its officials and politicians are much criticised for corruption, bureaucracy and delay.

China, by contrast, has invested heavily in roads, ports and power stations, but foreign businesses face corruption there too. This includes cheating by joint venture partners and what one Spanish businessman calls "a certain protectionism and support for national champions" that makes it hard for foreign entrants to generate profits in China's domestic market.

Dogi International Fabrics, a medium-sized Spanish textile company, says it was forced to close its decade-old factory on the outskirts of Nanjing in China this year after the local government decided it wanted to develop the land.

Ignacio Mestre, chief executive, says Dogi was eventually compensated with Rmb105m ($16.9m). This was well below the sum the company thought it needed to manage the disruption and build new facilities to service its Asian customers at a time when Spanish demand had dropped by a third.

Initially, says Mr Mestre, Dogi was offered half this amount and told that refusal would result in the matter being taken to court, where a judge was likely to award far less.

"In the end, we simply weren't felt to be a strategic enough business for the Chinese government," he says. "The Chinese government has a clear idea of what it wants to do, and you may or may not enter into its plans."

Spanish companies have learnt that while investing in Asia can save them from dependence on the struggling home market, a bold move abroad is not without risks.

Portals help build 'network of learning'

Case study
Educational projects

Sophie Cohen finds students and professors increasingly harnessing the internet

From Madrid to Mexico City, university representatives from all corners of the Hispanic world gathered last month in Cartagena, Colombia, to discuss innovative new ways of disseminating knowledge across institutional and geographical borders.

Educational institutions across the Iberian peninsula and Latin America are increasingly turning towards the internet to exchange knowledge and enrich the intellectual experience of students and professors alike. Spanish companies are getting in on the act, with many of those with long-established educational projects in Latin America seeing the internet as an important and cost-effective tool to help develop their work in the region.

A digital education project by Spain's largest university by number of students, the National University of Distance Education (UNED), was showcased at last month's Ibero-American Conference for Higher Distance Education in Cartagena.

Launched in September with the financial support of two of Spain's biggest companies, Telefónica and Santander, and with technical help from the Massachusetts Institute of Technology, its two online technology platforms offer some of the largest non-paying educational resources for Spanish and Portuguese speakers in the world.

The UNED, which has just under 1 per cent of its students living outside Spain, hopes the portals will tap into a continent with hundreds of millions of potential new students. With modules ranging from history of art to controls engineering, the project, according to rector Juan A. Gimeno, will "create a network of learning for all speakers of Spanish or Portuguese in the Americas with a desire to learn".

In February, an even bigger portal will be launched by Telefónica and Universia, a network of 1,216 educational institutions scattered across Spain, Portugal and Latin America and which is part of Santander Universities Global Division, a branch of Santander bank which spends millions each year on higher education.

The Santander-sponsored portal, which will initially offer 40 courses, will enable Universia's network of 888,500 teachers from some of Latin America's leading higher education institutions to start offering their courses online, again for free.

Carolina Jeux, head of Telefónica Learning Services, the Telefónica subsidiary which designed the educational portals, believes the aim behind such projects is clear. "We want to change the societies in which we operate," she says, and "to create a hub of knowledge in Spanish and Portuguese".

Leo Burd, a research scientist at MIT's Centre for Mobile Learning which helped develop one of the UNED portals and co-authored course content, agrees. "This is technology for civic engagement, for under-served communities" in a continent where "there is a huge demand for skilled people," he says.

Spanish companies with a large presence in Latin America are equally beginning to experiment with the internet in the charity work that they do.

Telefónica's charitable foundation, for example, recently set up an online social network for teachers across Latin America in the hope it would prove of particular use to those living in more isolated areas on the continent. At the last count the network, a platform on which education professionals from Nicaragua to Argentina discuss and dissect teaching techniques and ideas, had 16,000 users. The site hosts online debates, with a range of digital activities and workshops.

Juan de la Peña, director of education and online knowledge at the foundation, says such projects demonstrate "the power of globalisation".

With ever-strengthening ties between Spanish educational facilities and those in Latin America, the continent's future may well portray a reality in which, as Ms Jeux puts it, "someone from the most rural parts of Peru can gain access to an education at some of Latin America's and the Iberian peninsula's finest universities."

Profitability begins at home as companies tap rich skill base

Domestic production

Flexibility and lower labour costs prevent exodus of operations, writes *Miles Johnson*

While some of Spain's longest established and most famous companies appear to be doing more and more to distance themselves from their country of origin, others are keeping large parts of their operations in Spain.

As labour costs fall, and the price of manufacturing in Asia steadily increases, those companies that have decided to stay in Spain have steadily regained some competitiveness. But they have also created jobs, much needed with unemployment at nearly 26 per cent.

When Spanish companies and the country's economy in general are seen to have lost competitiveness because of wage increases and the adoption of the euro, exports have recovered strongly. This has occurred during the most acute phase of the country's financial crisis.

Spanish exports this year have hit an all-time high of €214.5bn, according to government data. This is an increase of about 25 per cent over the past five years – despite the country's economic malaise.

When Inditex, the Galician owner of the Zara fashion chain, overtook Telefónica, Spain's former state telecoms monopoly, as the country's largest company by value in May, the message was not lost on most local businesses: it pays to manufacture locally.

Once seen as so down-market that when it launched its first store in Madrid in the 1980s ashamed customers would throw away their bags when leaving the shop, Zara has risen to the status of one of the world's best known clothing brands. Inditex itself is now worth more than €61bn.

Inditex has grown from its origins as a bathrobe manufacturer founded in 1975 to become the largest fashion retailer in the world by sales. Much of its success has been attributed to the decision to keep large parts of its production process in Spain or nearby countries such as Portugal and Morocco.

In comparison, rivals such as H&M have largely outsourced their manufacturing.

While basic costs are higher, keeping production local allows Inditex to respond quickly to changing fashion demands. New designs can leave the drawing board and arrive within a fortnight in shops across the world.

The Galicia-based company beat already lofty investor expectations by announcing its profits had jumped by almost a third in the first half of this year.

Loewe: produced in Barcelona and Getafe, near Madrid

Elsewhere, Loewe, the country's best known luxury goods house, owned by LVMH of France, is known for its use of Spanish leather in designs that are modern takes on traditional Castilian clothing.

The bulk of the company's designs are produced in factories in Barcelona and Getafe, near Madrid, where a recent expansion will double its size and create about 150 new jobs.

For Lisa Montague, a Briton who left Mulberry in 2009 to become Loewe's chief executive, keeping production in Spain is a core part of the company's identity.

"Loewe did in the past flirt with outsourcing, but when I came we quickly managed to repatriate things going on outside Spain," she says.

"The artisanal skills have been preserved in this country, and it is wonderful for us to be able to work with them as we see that as part of the DNA of the brand."

While less glamorous, another area of Spanish business that has in several cases thrived by remaining in Spain has been the country's technology sector. International investors that can provide venture capital for start-ups have been attracted by a mix of low-cost bases and highly trained workers.

"The level of technology investment in Spain is high, and comes at a low price," says Nico Goulet, managing partner of Adara Venture Partners, a Madrid-based venture capital group specialising in technology that has made several investments in the sector in Spain.

"The cost of an engineer in Spain is much lower than in Silicon Valley, and if you are a good project you can operate worldwide from a Spanish base," Mr Goulet says.

AlienVault, one of the fund's investments, operates network security systems. The company was founded in Spain and then moved its headquarters to Silicon Valley in California. This brought it to the international hub of the US tech sector, while keeping many of its lower-cost development operations at home.

Scytl, which provides electronic voting systems across the world, was founded in Barcelona in 2001. The business was a spin-off from a research group at the Autonomous University of Barcelona that had been investigating election technology since the mid-1990s.

The company has since secured investment from Balderton Capital, Nauta Capital and Spinnaker, the venture capital groups.

"These are the things that will help Spain, in the medium term, to get back on the right track," says Mr Goulet.

"Maybe right now it is a little more difficult because they are Spanish, but there is real potential here."

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Groups make most of good connections

UK acquisitions Bold inroads have created 74,000 jobs in Britain, the Spanish government says. *Miles Johnson* reports

While Spain's largest multinationals are more typically known for their shrewd moves to the sunny shores of Latin America, some of them have made equally bold inroads in the rainier climes of Britain.

It may often be lost on the nearly 79m passengers passing through London's Heathrow airport each year, but the world's busiest international airport has been owned by Ferrovial, the Spanish construction and infrastructure operator, since it bought BAA, the UK airports operator, for €10bn in 2006.

Once visitors to the UK have landed, passed through customs, and ventured out on to the high street, they are likely to pass an office of Banco Santander, Spain's largest lender by assets and, following acquisitions of Abbey, Alliance & Leicester and Bradford & Bingley, the UK's second biggest mortgage lender.

Similarly present is Zara, the clothes chain owned by the Galician group Inditex, a regular fashion staple for the Duchess of Cambridge, that has 64 stores across the UK, with other Inditex outlets adding to the count.

Following that, millions of UK residents make their telephone calls using O_2, the country's second largest mobile provider, owned by Telefónica, Spain's former state telecoms monopoly, while the purchase of Scottish Power by Iberdrola, the country's largest power utility, in 2006 made it one of Britain's top electricity and renewable energy operators.

Spanish companies operating in Great Britain, or large UK companies that are funded with capital originating in Spain, are estimated to employ 74,000 workers in the country, according to a recent estimate by the Spanish government.

"I think Spanish companies view the UK as a very competitive, but open place to do business," says Roger Cooke, president of the British Chamber of Commerce in Madrid.

"There are several advantages for a Spanish company investing in the UK. If you speak another language, it tends to be English. It is a stable place to do business, without the shocks you see in places like Venezuela and, as a financial hub, it has other attractions."

Fast-mover: Zara, the clothes chain owned by the Galician group Inditex, has 64 stores across the UK Alamy

While the best-known brands, both acquired and brought in by Spanish companies, have attracted the most attention, the flow of smaller and medium sized Spanish businesses into the UK has continued throughout the financial crisis.

The large, often highly debt weighted, deals of the middle of the past decade are now no longer possible, with pressures placed on the Spanish government's own credit rating forcing the country's companies to reduce borrowing quickly, and sell assets. At the same time, the once abundant supply of cheap credit from banks keen to support Spanish companies gallivanting abroad has dried up.

Instead, larger investments have come in the form of bolt-on acquisitions, or as a source of diversification for companies seeking revenues outside of the euro area.

In 2011, Applus, the private equity-controlled Catalan car certification and inspection company, bought the Velosi Group, the British quality control testing company serving the energy sector, while Repsol, the Spanish oil company, purchased SeaEnergy, an offshore wind technology company. Investments this year have ranged from financial services, with N+1, the Spanish medium sized company-focused investment bank, taking over the UK's Singer, and Meliá Hotels preparing to open a new hotel in London.

"The UK economy has not been in great shape over recent years, but these companies are not taking decisions with a short-term view," says José Antonio Zamora, economic and trade counsellor at the Spanish Embassy in the UK.

Yet in spite of the continuing inflow of Spanish companies to the UK, some of the largest investments in the past 10 years have not always been problem free.

Ferrovial found out soon after it had purchased BAA that it had not only taken control of one of the world's most heavily scrutinised airports, which had for years suffered from low quality maintenance. The Spanish company, at a time when the threat of terrorism had made managing large international airports more sensitive than before, took significant flak from the British media for difficulties it said were due to mistakes made before it took over.

Worse still, after the sale had gone through the UK's Competition Commission decided to investigate whether BAA held an outsized share of British airports, and eventually forced it to sell Gatwick and Edinburgh airports, and later said it must sell Stansted airport, too.

For Santander, although the lender's jump to the top tier of British banks has been profitable, with executive chairman Emilio Botín's daughter Ana Patricia placed at the helm of the subsidiary, the weak state of the UK economy has meant the investment has not paid off as well as others in locations such as Brazil.

A plan to spin off the unit into a UK listed subsidiary has been delayed on several occasions due to market conditions and investor demand.

"There have been some issues but I think that Spanish companies are basically happy," says Mr Zamora. "In the embassy, we have Spanish companies visiting who are interested in investing in the UK almost every day. The connection between the countries is very strong."

Two-way links bring benefits

Cultural connections

Miles Johnson finds Latin American and Spanish companies think the same way

A shared language, similarities in business style and historical connections made Latin America the most logical destination for Spanish companies when they first began to internationalise in earnest in the 1990s.

Now, these cultural connections continue to aid both Spanish companies moving into Latin America, and have helped establish Spain as a hub for fast expanding companies from the continent seeking a hub within Europe.

For Jaume Llopis, a professor at the Iese Business School and who sits on the boards of both Latin American and Spanish companies, companies from both places can work well together because they understand each others' business practices.

"They get on better, and understand each other," he says. "Emotions and feelings are important when you are doing business here. The business culture is far more informal and less rigorous."

While companies from North America or other places in Europe may find it harder to adjust to this, Spanish companies are able to understand better and can in many instances thrive, Mr Llopis says.

The US office of Iese offers courses for North American companies on how to understand cultural differences better when in Latin America, and on how not to make faux pas.

'Two decades ago there was a lot of risk, not everyone wanted to be there'
Javier Santiso, Esade Business School

"US companies often export their business model without taking into account the characteristics of the local market," he says, noting that Spain can play an important role as a bridge between US business styles and Latin American ones.

Javier Santiso, a professor of economics at the Esade business school, who next year will publish *The Decade of the Multilatinas*, a book examining the relationship between Spanish companies and their Latin American counterparts, argues that a better understanding of Latin America allowed Spanish groups to remain or expand there over the past two decades.

"Two decades ago there was a lot of risk, not everyone wanted to be there. The French, for example, pulled out of Latin America over the past two decades," he says. "Latin America is now the dream continent, where many want to invest, but if you already wanted to be there 20 years ago, when there were riots and coups d'état, the opportunities were greater," he says.

Those Spanish companies that had first, or early, mover advantage in countries such as Mexico, Chile and Brazil have reaped the rewards. Now, since Spain's economic crisis has reduced possibilities at home, the attractions of the region have lured a further wave of Spanish companies over the past five years.

But at the same time the world is increasingly "turning upside down", Prof Santiso notes, with a new "reverse colonisation" taking place in which more Latin American companies are investing in their Spanish peers, or choosing Spain as a base from which to expand abroad.

Cemex, the Mexican cement company owned by Carlos Slim, has its international headquarters in Madrid.

"The love affair is not a recent one," Prof Santiso says. "Spanish and Latin American executives understand each other much better than anyone else."

Firms achieve success with brief encounters

Lawyers

Expansion overseas has been matched by strength at home, says *Miles Johnson*

As Spanish companies have expanded internationally, they have taken numerous types of service providers along for the ride.

This virtuous circle has seen utility companies issuing debt in Latin America choosing to use a Spanish bank to arrange the sale, or a Spanish bank operating in the US opting for a compatriot to organise its information technology services on the ground.

But it is arguable that lawyers have benefited more than any other Spanish industry from this outward surge. Many of the country's leading firms now boast large networks of international offices, or partnerships with foreign law offices, as they do work for Spanish companies abroad.

A glance across any European league table will show the country's traditional domestic partnerships have maintained their place at the top of Spain's legal industry while indigenous firms in markets such as France and Germany have suffered amid stiff competition from US and UK rivals.

In the 2012 Financial Times Innovative Lawyers awards, Spanish firms performed strongly, with Garrigues, Uría Menéndez, and Cuatrecasas, Gonçalves Pereira coming first, second and fourth in the most innovative non-UK European law firm rankings.

Part of the explanation for this local resilience, and subsequent globalisation, of Spanish legal firms was that international competition arrived later in Spain than in other European markets, meaning foreign rivals have had less opportunities to seize market share from better organised domestic partnerships.


Fernando Vives: think global

But at the same time, lawyers working within Spain have not only followed their clients abroad, they have also increasingly taken on the role of using their own international networks and experience to help domestic companies seize opportunities in new markets.

"We have helped our clients expand abroad, and by doing that we have become more international as time has gone on," says Fernando Vives, managing partner of Garrigues, one of Spain's leading international law firms. "In the modern market, firms, like their clients, have no option but to think globally."

Many of Spain's leading firms now have offices across the world and long established reciprocal agreements with leading legal partnerships in the UK and elsewhere to offer their clients contact points in markets spanning from China to Brazil.

Salans, a law firm founded in France with offices in Spain, has benefited from its strong presence in Poland, a market that has seen an increasing interest from Spanish companies, most notably Banco Santander, which bought Bank Zachodni and later Kredyt Bank to create the country's third-largest lender.

Jesús Varela, a partner in the Salans Madrid office focusing on real estate, says the firm's presence in emerging European markets has helped it carve out an important niche as Spanish companies do more businesses there.

While Spain's recession has reduced the amount of business for all lawyers at home, the increasing need for clients to diversify internationally means that activity in other markets has helped offset the downturn.

"If we are not advising Spanish clients on projects within Spain, then we are helping them abroad," says Mr Varela.

Ramón Hermosilla & Gutiérrez de la Roza has adopted a strategy distinct from many other international Spanish law firms by eschewing referral agreements with foreign groups, but also avoiding simply setting up offices of Spanish partners in new markets.

Instead the firm created a global partnership called Ontier, through which it establishes offices in international markets alongside local partners, who then themselves hold a stake in the partnership. This allows each office to be incentivised to work as a standalone unit with local expertise, but within an international network that can provide crossborder services.

The Ontier partnership has numerous offices in Latin America and has also allowed the firm to have a presence in the Brazilian market, which as a result of rules that limit foreign firms practising in Brazil, has long been a lucrative market that remains out of reach for many competitors.

"It is a global law practice but with a local soul," says Ramón Hermosilla Gimeno, managing partner of the firm, echoing the Ontier marketing slogan. "This structure allows us to create business flow in every direction, not just Spanish clients moving into foreign markets, but also clients from other countries going to other markets."

Yet while Spanish lawyers expand their international reach, they remain aware of the need to preserve local expertise for a recovery at home that will see more cyclical practice areas become busy again.

"Clients continue to trust in local firms," says Mr Hermosilla Gimeno, "and that will continue to be the case."