The evolving global economy and emerging economy multinationals

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Trends in the global economy: The ‘new normal’

- Shifting of the economic center of gravity
  - Demographics, urbanization, consumerization
- The productivity imperative
  - The skills mismatch in the west
- Evolution of the global grid
  - South-south, south-north flows rising
- The ‘market state’
- Emergence of multinationals from emerging economies

The changing economic landscape: Some key questions

- What must be (vs is) the extent of a firm's market presence in the world's major markets?
- What must be (vs is) the extent to which a firm captures the cost-reducing and capability-enhancing potential of optimal locations around the world for the execution of various activities its value chain?
- Is the mindset of the company's top management and workforce sufficiently global? How can it identify and exploit new opportunities as they arise globally?

FIGURE 5–2 Organizational Configuration Models

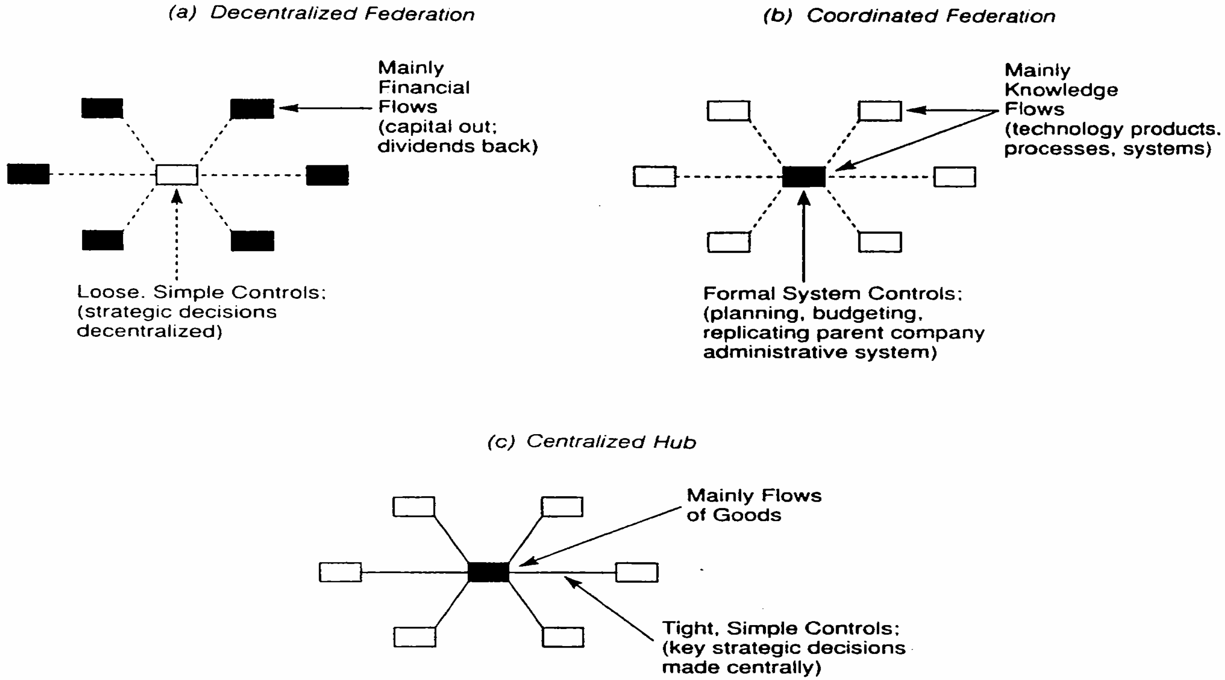
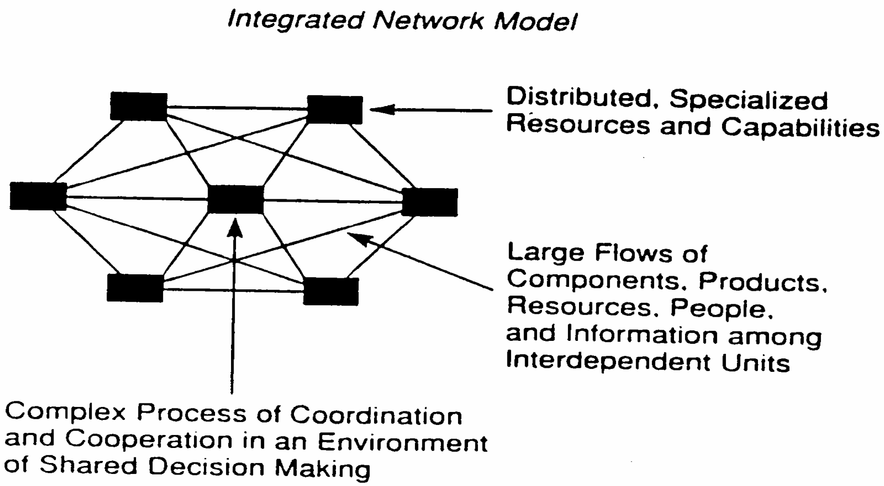


FIGURE 5–3 Integrated Network Model



The changing MNC

- Consolidation of large MNEs
  - Fewer plants
  - Concentration of value-adding activities e.g. R&D
  - Greater interdependence across subsidiaries
  - Global business units are replacing country-based structures
  - Regional hubs are emerging for back-office and supply-chain management
  - Layers of support operation that were run on a country-to-country basis are being cut out

Subsidiaries in the MNC network

- Traditional country managers are disappearing
- Reduced influence of country manager
- Often the amount of knowledge at the top about the subsidiary is limited and superficial, and derived more from external rather than internal stimuli.
- Integration into MNCs' operations is a must

Implications

For subsidiary manager:

- Subsidiary managers need to attract HQ attention
- Attention is best earned through recognition of subsidiary’s contribution to the MNE as a whole

The small subsidiary

- Small subsidiaries struggle to gain the interest/attention of executives at the corporate center
- Reason: Lack of *weight,* due to:
  – the size of the market as a proportion of world industry/sales;
  – the extent to which a subsidiary influences the activities of other units in the MNE;
  – the fact that it is distant from corporate HQ
- One solution: Increase *voice*
  – the extent to which the subsidiary takes *initiatives*, and
  – the effort it undertakes to improve its *profile* in the MNE
- To survive and thrive, subsidiaries need to reinforce their contributions to the MNE network

Subsidiary initiative

- The proactive and deliberate pursuit of a new business opportunity by a subsidiary, undertaken with a view to expand the subsidiary's scope of responsibility in a manner consistent with the MNC's strategic goals
- External initiative:
  - The principal means by which MNCs tap into new opportunities in markets throughout the world
- Internal initiative:
  - Enhances operational efficiency through internal competition among units

Internal competition

- Internal competition as a mechanism for allocation and re-allocation of activities within MNC
  - Relevant for non-location bound activities
- For subsidiary, what is its *sustainable* competitive advantage vis-à-vis their internal competitors?
  - What is my unit’s unique value in this corporation?
  - What do we do better than anyone else?
  - Why should anyone else care?

Strategies for gaining attention

- Performance: Growth and profitability
- Innovation:
  - Becoming a source of new ideas
  - Finding uncharted space and problems to solve
- Exporting talent: Intellectual and human capital, especially to senior positions

Country manager role

- Global networker and profile builder
- Advocate and defender of country operations
- Entrepreneur and catalyst for change

II. Multinationals from emerging economies

- Rapid emergence of EMNEs onto the global arena
- Little is known about their internationalization process:
  - Is it different from ‘conventional’ MNE behavior?
- The internationalization behaviour of EMNEs exhibits ‘abnormal’ patterns and paths
  - speed, scope and means

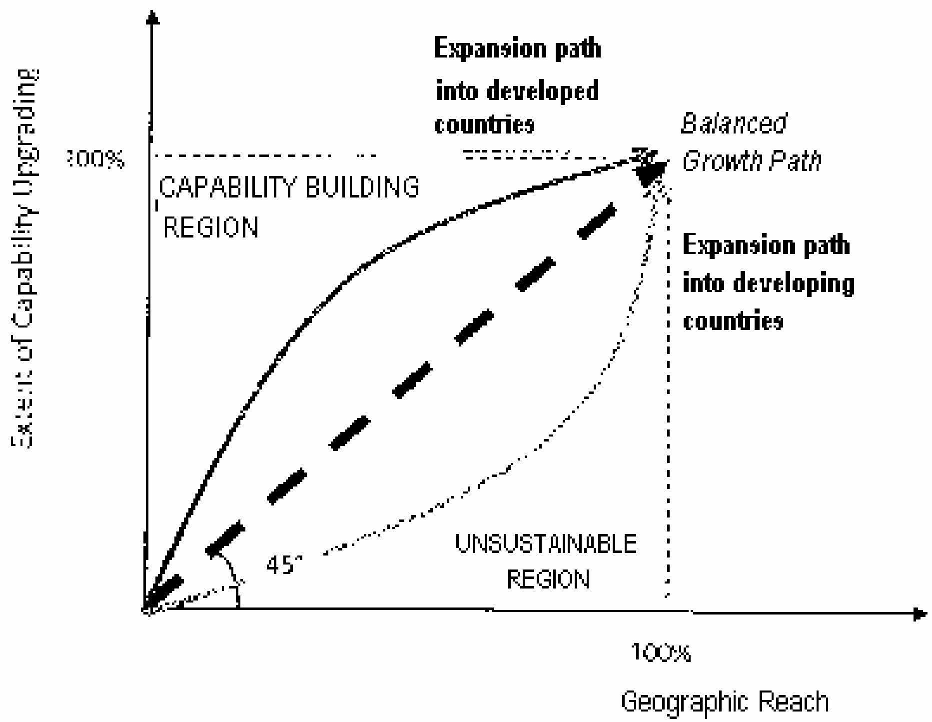
Theories of internationalization: The PLC model

- Firms follow a sequential internationalization process
- MN firms create advantages in their own (i.e. advanced) home markets due to leading-edge demands
- X→ sales subsidiary in other developed countries→ production in other developed countries and sales in developing →production in developing economies and X to developed countries

Theories of internationalization: The stages model

- MN firms create advantages in their own (i.e. advanced) home markets
- Firms follow a sequential internationalization process, both within and across countries
- X→ agents/partnerships/JVs → sales subsidiary in other developed economies→ production in host economies

Figure 1
Expansion Paths of New MNEs in Developed and Developing Countries



Multinationals from emerging economies

- Surge in outward FDI from ***emerging*** economies
- Substantial portion in ***advanced*** economies
- Substantial portion through ***acquisitions***
- Substantial portion to other less advanced economies, mostly through WOSs and partnerships

Examples

- Tata and Corus/Jaguar (UK)
- Geely (China) and Volvo (Sweden)
- Suzlon (India) and RePower (Germany)
- Bharat Forge and CDP (Germany)
- Essar and Algoma Steel (Canada)
- Hindalco and Novelis (Canada)
- United Breweries and Whyte and Mackay (Scotland)

Questions regarding current theory

- Is (and why is) firm advantage a necessary pre-condition for firms to invest abroad?
- Is (and why is) the firm advantage solely created in a leading-edge (advanced economy) market?
- Do (and why must) such advantages reside solely within the boundary of a stand-alone firm?
- Does (and why must) the liability of foreignness have to be remedied by the own effort of a stand-alone firm?
- Do (and why must) firms follow the psychic distance path?

The New Multinational Enterprises Compared to Traditional Multinationals

Dimension	New MNEs	Traditional MNEs
Speed of internationalization	Accelerated	Gradual
Competitive advantages	Weak: Upgrading of resources required	Strong: Required resources available in-house
Political capabilities	Strong: Firms used to unstable political environments	Weak: Firms used to stable political environments
Expansion path	Dual path: Simultaneous entry into developed and developing countries	Simple path: From less to more distant countries
Default entry modes	External growth: Alliances and acquisitions	Internal growth: Wholly owned subsidiaries
Organizational adaptability	High, because of their meager international presence	Low, because of their ingrained structure and culture

Emerging economy multinationals

- How much can we apply knowledge from extant internationalization theory to the MNEs from emerging economies?
  - E.g. liability of ‘emerging-ness’
- Extant MNE theories may not be so applicable, in terms of asking the right questions. For instance:
  - How do or can EMNEs achieve their initial competitive advantages?
  - How can the latecomers from the EEs catch up and compete with established MNEs from the developed countries?

The context: EMNEs and the liability of ‘emergingness’

- Liability of ‘emergingness’: The **additional** disadvantage that firms from emerging economies tend to face over and above the liability of foreignness faced by DMNEs, strictly because they are from emerging economies
  - Institutional deficit
  - The managerial/capability deficit
- No or inadequate firm specific advantage as a compensating mechanism

From advantage to asymmetries

- For EMNEs, how to build up on what they do possess, ***regardless of whether they are valuable or not***
- How to convert what they do possess, i.e. ‘ordinary’ resources, into an advantage
- Argument
  - Shifts focus from advantage to asymmetries as the starting point
  - Relaxes the traditional assumption that resources have to start off being valuable

Established vs EMNEs

- Possess key resources/capabilities
- World full of competitors trying to imitate their success
- Focus on own advantage
- Exploitation or augmentation of advantage

- Inadequate resources/capabilities
- World full of resources of others waiting to be tapped
- Focus on advantage of others that can be accessed
- Search for advantage: Exploration, discovery and opportunity seeking

Asymmetries and EE firms

- Semi-monopolistic position in growing markets
- Family- or business group-controlled enterprises
- Tacit (or explicit) government support
- Tacit knowledge of how to operate successfully in institutionally challenged, low income, resource poor environments
- Solving local problems that are not important in wealthier countries
- Lack of legacy systems
- Latecomers onto the global arena

Internationalization through acquisition

- Combination of entrepreneurship---opportunity seeking behaviour---with strategic management --- advantage seeking behaviour.
- Strategy consists of engaging in organizational processes that put the firm in an abundant flow of attractive opportunities
- Internationalization exposes the firm to novel opportunities
- Acquisition initiates a process that places the firm within a particular flow of opportunities

Why acquisitions in advanced economies?

- Acquisitions help overcome ‘liability of emergingness’
  - Institutional and capability deficits prevent firms from fully enjoying the benefits of the location
  - Lack adequate insight into host business and institutional environment
  - Discrimination hazards limit access to best human resources, suppliers, customers
  - Exclusion from business networks
- Acquisitions as opportunity for capability transformation

Acquisitions as opportunity for capability transformation

- Acquisitions function as source of knowledge acquisition and diffusion
- Technology *vs* organization and management, i.e. a new way of doing things
- Administrative control allows for more flexibility and ‘controlled experimentation’ with the opportunities that the target offers.

Acquisitions vs other forms

- A subsidiary cannot easily overcome the LoE
- A JV cannot offer all the advantages of acquisitions:
  - Shared ownership
  - Partially cordoned away from the parent, both structurally as well as to prevent leakage
  - Often only ‘second-best’ resources
  - Only partially helps overcome legitimacy concerns
- Licensing is relevant only when the main interest is technology

Disadvantages of acquisitions

- Integration problems and costs as well as difficulty in realizing synergies
  - Assumption that firm wants to, or that it is better to, integrate can be questioned
    - Less motive to integrate
    - Less need to integrate
- The price

Acquisitions by EMNEs

- Starting point and history shapes approach towards acquisitions
  - Learning/discovery vs efficiency/power
  - Less need to rationalize/re-structure
  - Structural and quick integration would destroy what they seek
  - Greater likelihood of complementarities
- Greater likelihood of:
  - Selective integration
  - Greater likelihood of supporting target
  - Genuine partnership vs hunter/hunted

Asymmetries and EMNE firms

- A firm's position depends on where it starts
  - EMNEs are already low cost and are seeking to learn and upgrade their capability base
  - EMNEs do not suffer from the burden of legacy investments
  - EMNEs' skills have been honed in low-income and institutionally capricious environments
    - → entrepreneurial agility (alertness, flexibility, adaptiveness, improvisation, etc)
    - → generalist skills
    - → reliance on heuristics

The importance of asymmetries

- Different starting positions, paths and processes result in asymmetries
- Unlike EMNEs, incumbents:
  - Primarily think of EEs as low cost locations that support only low cost work
  - Are not prepared to make radical departures from traditional expertise, invested capital and established position
  - See disjointed infrastructure and frustrations of doing business as obstacles vs sources of innovation
  - Don’t have the experience and/or will to make do with what’s around them

Asymmetries and the ‘asset of emergingness’

- Asset of emergingness
  - quickness, alertness, improvization, ability to improvise and ability to squeeze the most out of adverse circumstances, readiness to act, etc……..
- Strategic/organizational agility: The capacity to identify and capture opportunities more quickly than rivals
- Agility (vs just ability) as source of competitive advantage?

EMNEs

- EMNEs are searching for (different) ways to compete, e.g. different configuration
- From competitive catch-up to getting ahead
- From establishing a global presence to managing a global network

Implications and challenges for small economies

For firms/managers:

- How to become part of the EMNE’s emerging global system
- How to tap into opportunities that are yet to unfold
- How to be more entrepreneurial in this regard and get their ‘attention’

For policy makers:

- Understand the changing realities of the global and MNE context
- Be supportive of initiatives which can help the subsidiary gain ‘credits’ in the MNE system