

Internationalization strategies of emerging country multinationals (EMNCs): the case of *Multilatinas*

Mauricio Losada Otálora (Universidad Externado de Colombia,
Universidad de Los Andes)
Veneta Andonova (AUBG, Universidad de los Andes)

OUTLINE

Research question
Theoretical background
Key constructs
Hypotheses
Methodology
Results
Conclusion

RESEARCH QUESTION AND INTENDED CONTRIBUTION

Research question:

- ✓ How does the institutional environment of emerging countries interact with firms' resources to shape the internationalization strategies of EMNCs?

Objectives/Intended contributions:

- ✓ Provide a theoretical framework focused on the relationship between institutional environment of EMNCs, strategies, and strategic decisions during the internationalization
- ✓ Empirical test of hypothesis framework

THE DEBATE

Practical interest:

Growing participation of OFDI flows (25% at 2010; Ramamurti, 2012)

Multinationals of emerging countries (EMNCs)

Theoretical interest:

Do extant theories explain the success of EMNCs?

Posture 1:

Matthews (2006)

EMNCs are different to DMNCs

- ✓ Firms from the periphery
- ✓ Move abroad rapidly
- ✓ Catch-up motivations (vs.OLI)



**We need
“new
theories”**

Posture 2:

Rugman (2010a);
Dunning et al., (2008)

EMNCs base their internationalization on their OLI advantages.



**We do not need
“new theories”**

Posture 3:

Ramamurti (2012)
Cuervo-Cazurra et al.,
(2008, 2011, 2012)

**EMNCs could be used to extend
the extant theories about MNEs.**

KEY CONSTRUCTS AND VOCABULARY

Internationalization: value creation process based on firm resources through investment in foreign markets (OFDI)

Resources: All assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that allow it to conceive and implement strategies (Wernerfelt, 1984; Barney, 1991)

→ **Market resources:**

- ✓ Technological resources that travel in a frictionless way across borders (knowledge intensive resources –Yiu et al., 2007)
- ✓ Context-specific resources (Rugman et al., 1992)

Non-market resources: intangible assets created to face the institutional environment such as favors (Cuervo-Cazurra, 2011)

MARKET RESOURCES

Technological resources

1. Knowledge intensive resources (Anand et al., 1997b)
2. Highly standardized (Teece, 2000)
3. Require strong mechanisms of protection (e.g legal)
4. High fungibility across markets (Zahra et al., 2003)

- Highly sensitive to institutional uncertainty.
- Usable at various countries without major modifications (replication)

Context-specific resources

1. Entrenched in the environment (Rugman et al., 1992)
2. Difficult to standardize (Anand et al., 1997)
3. Legal mechanisms of protection are less effective or needed
4. Low fungibility across markets (Rugman et al., 1992)

- Less sensitive to institutional uncertainty.
- Their value abroad is limited. Firms require complementary resources (acquisition).

KEY CONSTRUCTS

Institutional uncertainty (Santangelo et al., 2011)

- ✓ (a) **Institutional weakness** (La Porta et al., 1999; Kahna et al., 1997) (property rights protection).
- ✓ (b) **Instability of institutions** (Delios et al., 2003) (government intervention, politic instability, public corruption).

Strategies: a plan to identify, protect, and exploit their resources in order to gain competitive advantage (Tallman, 1991).

Strategies are characterized in terms of speed of investment, entry mode and host country's institutions.

Strategic intent: EMNCs invest abroad to fulfill strategic goals set at the corporate level (Hamel et al., 1989; Deng, 2004, p. 10; Rui et al., 2008).

HYPOTHESES 1

Technological resources

1. Knowledge intensive resources (Anand et al., 1997b)
2. Highly standardized (Teece, 2000)
3. Require strong mechanisms of protection (e.g legal)
4. High fungibility across markets (Zahra et al., 2003)

- Highly sensitive to institutional uncertainty.
- Usable across markets without major modifications (replication)

H1a: EMNCs that compete in their home markets based on technological resources and perceive high institutional uncertainty at home follow a strategy of resource exploitation.

HYPOTHESIS 1

Context-specific resources

H1b: EMNCs that compete in their home markets based on context-specific resources and perceive high institutional uncertainty at home follow a strategy of resources acquisition.

1. Entrenched in the environment (Rugman et al., 1992)
 2. Difficult to standardize (Anand et al., 1997)
 3. Mechanisms for protection are less effective (e.g legal)
 4. Low fungibility across markets (Rugman et al., 1992)
- Less sensitive to institutional uncertainty.
 - Their usability abroad is limited. Firms require complementary resources (acquisition)

HYPOTHESIS 2

H2a. The resource exploitation strategy is related

speed

(a) positively with the speed of investments in foreign countries;

mode

(b) positively with the choice of the greenfield entry mode; and negatively to acquisition entry mode.

host

(c) negatively to the selection of host markets with weak institutions.

HYPOTHESIS 2

H2b. The resource acquisition strategy is related:

speed

mode

host

*(a) negatively with speed of investments in foreign countries;
(b) negatively with the choice of greenfield; and
(c) positively with the choice of acquisition;
(d) positively with the selection of host countries with weak institutions.*

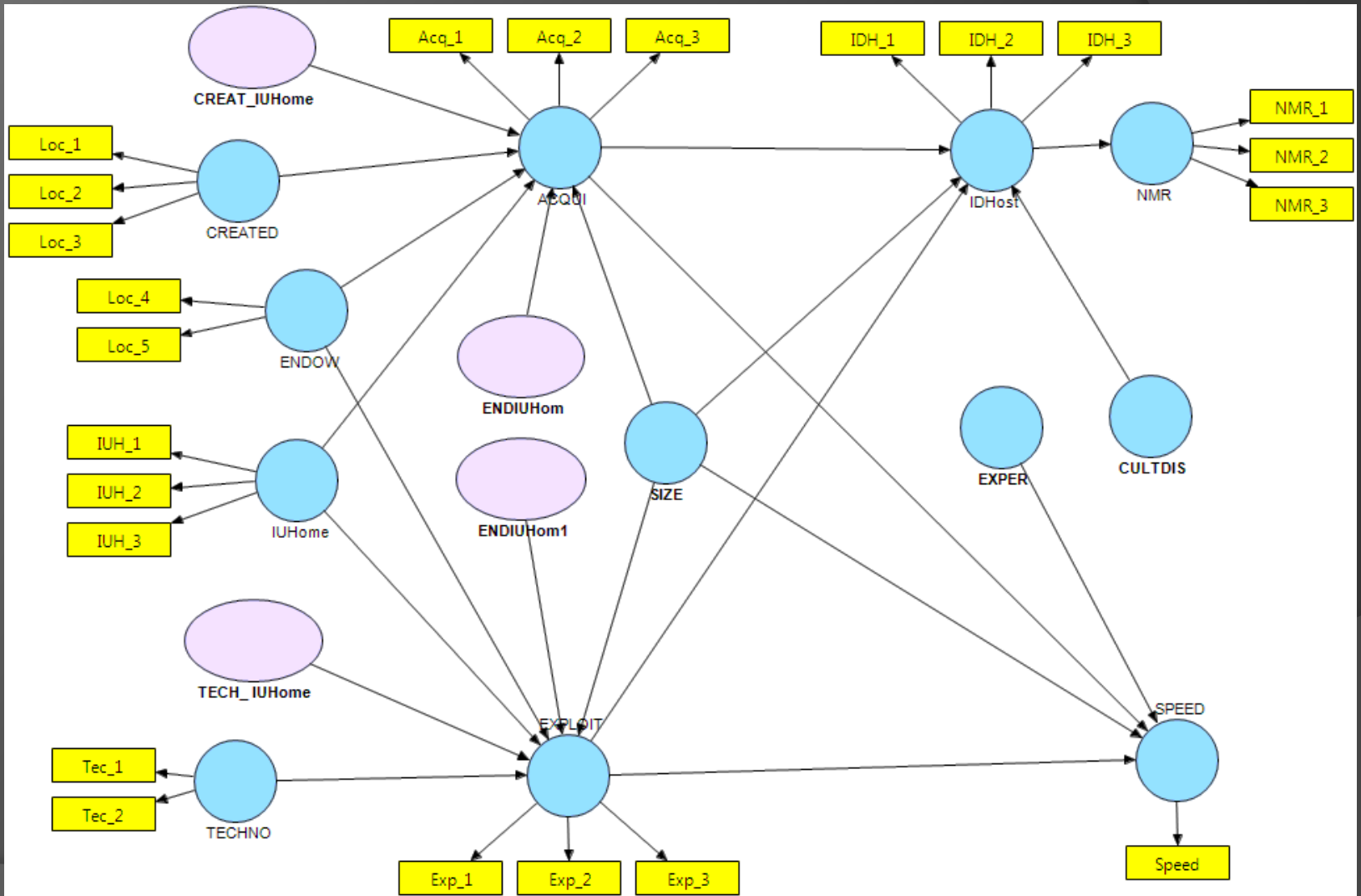
HYPOTHESIS 3

H3a. The use of non-market resources is positively related to investments in countries with weak institutions.

BUILDING THE DATABASE

Ranking source of data	Number of firms in the ranking	Step 1: firms with sales below US 100M	Step 2: subsidiaries of firms outside LA	Step 3: firms engaged just in national operations	Step 4: Firms on assurance and banking business.	Step 5: Purely State Owned Enterprises (SOE)	Steep 6: doubled counted firms	Number of LAMNEs at each list.	Pure holding companies (not included in AE)	Conglomerate s with filials included in the AE list	Firms included in the final population
500 biggest Latin American companies (2009 to 2010)	583	0	218	161	0	41	0	163	5	14	144
494 most important Mexican companies (2011)	494	0	219	131	76	1	45	22	0	0	22
500 biggest Chilean companies (2011)	500	102	75	220	41	0	32	30	1	0	29
100 biggest Colombian companies (2012)	1000	582	234	147	8	0	8	21	2	0	19
Total LAMNEs in the lists								236	Final population		214

RESULTS




Strategy of resource exploitation

LAMNEs use their technological resources to create abroad similar advantages to those that they had at home and to avoid the institutional pressures at home. (H1).

- ✓ Replication is fast and cheap way to expand internationally.
- ✓ Increasing efficiency by investing in related business.
- ✓ LAMNEs are not looking for an institutional protection of resources (or may be these markets are already taken)

DISCUSSION

Strategy of resources exploitation in the case of endowed resources (labor and access to natural resources)

- 
- ✓ Non transferrable and difficult to immitate
 - ✓ Changes in the home-country price of labor or in the access to a natural resources press firms to exploit “part” of their business model abroad in markets that are endowed with the same resouces.
 - ✓ Brazilian footwear sector (Barcelo, 2010).

DISCUSSION

Resource exploitation strategy and host market choice

LAMNEs that follow resource exploitation prefer to invest in countries with low levels of institutional development instead of countries with strong institutions.

- ✓ LAMNEs are looking for new markets
- ✓ Natural markets to replicate their business models.
- ✓ Diminish the risk of misfit between LAMNEs resources and host market (e.g prepay cards by America Movil).
- ✓ Low liability of foreignness
- ✓ Developed markets may create disadvantages *vis a vis* global competitors.

DISCUSSION

Resource exploitation strategy and speed of investment

LAMNEs invest rapidly

- ✓ High pressures to compensate loss of advantages at home
- ✓ LAMNEs know their natural markets
- ✓ Exploitation: investments in related business lines
- ✓ Investment in previously served markets through exports
- ✓ Wait and see is not an option (e.g. window of opportunity for competitors)

DISCUSSION

Resource exploitation strategy and mode of entry

LAMNEs prefer acquisitions

- ✓ Faster than greenfield
- ✓ Exploitation is eased by acquiring a company with a knowledgeable workforce and good connections in the local market, than by setting up a new subsidiary from zero (Harzing, 2002; p.213).
- ✓ High control of valuable resources
- ✓ LAMNEs acquire valuable market knowledge, non market resources
- ✓ Exploitation: investments in related business lines
- ✓ Opportunity-based mode of entry

Resource acquisition strategy

LAMNEs → acquire created resources (brands, networks and managerial knowledge) regardless the institutional environment at home.

- ✓ E.g. brands often are tied to the routines, systems, and cultures of specific firms, which make them difficult to transfer across countries (Capron and Hulland, 1998; p.43)
- ✓ Complementary intangible assets abroad even if they invest in their natural markets (Chitoor et al., 2009; p.190).
- ✓ Motivation: strengthening ownership advantages to compete globally (e.g Bimbo & Sara Lee).

DISCUSSION


Resource acquisition strategy and host market choice

LAMNEs acquire resources in countries with low levels of institutional development.

- ✓ Resources and routines of firms are more embedded in the cultural and political structure of the selected markets (Henisz and Delios, 2004; p.389) (Natural markets).
- ✓ Lower CAGE distances
- ✓ 47% of M&A concluded by Latin American companies in 2010 took place in a country from the region (ECLAC, 2010; p.12).
- ✓ Similar behavior to DCMNEs. (regionalization rather than globalization)

Resource acquisition strategy and mode of entry

The evidence does not show a relationship between the strategy of resource acquisition and entry mode.

- 
- ✓ LAMNEs use all available entry modes in order not to miss an opportunity for internationalization.

Business group:

- ➔ (a) Pervasive organizational form in EM (Kahnna and Palepu, 2000)
- ➔ (b) tangible and intangible resources to make acquisitions or greenfield in foreign markets depending on the desired speed during the process.
- ➔ (c) Greenfield to capitalize previous entries by the business groups

DISCUSSION

Resource acquisition strategy and mode of entry

LAMNEs that follow a resource acquisition strategy and are affiliated to a business group are more likely that use greenfield than acquisition or JV.

- ✓ BG provide the required resources (tangible or intangible) to accomplish a greenfield project.
- ✓ Natural markets → small CAGE differences allow LAMNEs take advantage of the group experience and make greenfield more viable.
- ✓ Acquisition → acquire more resources than needed.
- ✓ Internal development → Creation of perfectly fitted resources
- ✓ Internal development → ease of unification of LAMNEs' global strategy

DISCUSSION

Resource acquisition strategy and speed of investment

LAMNEs spend a long of time taking the investment decision

- ✓ LAMNEs are able of take advantage of being latecomers
- ✓ Strategically delayed investments:
 - ✓ Identify high value market niches.
 - ✓ Relevant benchmarking with market leaders
 - ✓ Introduce new business models

DISCUSSION

Use of non-market resources

LAMNEs use three kinds of non market resources in countries with weak institutions.

Bargaining abilities: managerial knowledge of non- formalized rules-in-use about solving conflict, non-verbal cues, etiquette, vocabulary, etc. (Amado and Vinagre, 1991; p.43; Becker, 2004).

Favors: exchanges of outcomes between individuals in a network... one part of a relationship uses its status, influence, or connections to help the other party (or him/herself) to get around (or even break) formal regulations and processes that impede business activities (McCarthy, Puffer, Dunlap, & Jaeger, 2012).

Money giving is a (informal) payment to induce someone to act in favor of the money giver (Tian, 2007; p.437)

Use of non-market resources

a. Why LAMNEs use favors?

- ✓ In order to gain efficiency while LAMNEs transfer “abilities” to foreign markets.
- ✓ LAMNEs invest in other developing countries such as Mexico or Brazil which have scores of restrictiveness to FDI above the average of OECD countries (OECD, 2012).
 - ✓ The more the rules, the greater the chances that they contrast with each other, the less likely they can be effectively enforced, and the greater the chances of using bribes, bargaining or favors to get favorable conditions at host market (Mudambi et al., 2012; p.491).

DISCUSSION

Use of non-market resources

Advantages for LAMNEs.

Avoid institutional deficiencies at host countries (e.g. the prominence of big business group is based in part on the close personal elite ties of the big business–public policy maker connection (Hogenboom and Fernández, 2012; p.12).

LAMNEs maximize their growth opportunities at the host countries. LAMNEs use favors to secure bureaucratic favoritism in obtaining contracts. **Petrobras**, for example, used the “political friendship” (Goldstein, 2010; p.106).

Reduce uncertainty about the changes in public policy and reaction of groups of interest to firm activities. Strong ties with LA governments allow business groups to receive privileged treatment involving subsidies, and special loans by governments during privatization waves (Hogenboom et al., 2012; p.5).

THANK YOU!

Veneta Andonova

vandonova@aubg.bg

vandonov@uniandes.edu.co

veneta.andonova@gmail.com