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MULTINATIONAL ENTERPRISES FROM EMERGING ECONOMIES. SEEKING NEW THEORETICAL FRAMEWORK

Abstract: The multinational enterprises (MNEs) from emerging economies have become important international players due to a few reasons. First of all, their activities have affected the level of development of their home economies, but also influenced host economies. So called "new multinationals" have also challenged well established companies from developed countries and forced them to redesign their operations. The aim of the paper is an attempt to develop unified theoretical foundations for expansion of MNEs from emerging countries. The analysis will predominantly focus on enterprises from India and China, but in order to present complete overview, the author will also take into consideration MNEs from Latin America and Central and Eastern Europe.

Keywords: multinational companies, foreign direct investment, emerging economies.

1. Global perspectives

According to initial data, year 2009 brought a change in the position of the largest exporter in the world – China surpassed Germany for the first time in history. The position of China as leading exporter was mainly achieved thanks to inflows of foreign direct investment (FDI) to various industries. But we should not only treat the country as "world's factory". The dynamics of global changes requires new look at China. The country has also become a significant source of FDI and Chinese companies search for new production possibilities abroad. Nowadays we can observe surprising changes in the world economy. Not only macroeconomic position of China and India has been underlined. More important is to notice the role of corporations from the group of countries named "emerging economies". This group consists of fast developing countries located in a few continents. Key representatives are China, India, Brazil, Russian Federation, but also Poland and Turkey.

The rising significance of the corporations originating in emerging countries has been underlined by various rankings. In the latest edition of *Fortune Global 500* there were 37 Chinese, 7 Indian, 6 Brazilian, 4 Mexican, 8 Russian, 1 Polish and 1 Turkish multinational corporations (MNC). Whereas in year 2005 there were only

Table 1. FDI outflows from selected economies

Economy	Measure	Year									
		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Brazil	Mio USD	1690.4	2281.6	−2257.6	2482.1	249.3	9807.0	2516.7	28202.5	7066.7	20457.1
	1999 = 100	100.0	135.0	NA	146.8	14.7	580.2	148.9	1668.4	418.0	1210.2
Chile	Mio USD	2557.9	3986.6	1609.7	343.2	1606.3	1563.1	2182.7	2742.5	3009.1	6891.2
	1999=100	100.0	155.9	62.9	13.4	62.8	61.1	85.3	107.2	117.6	269.4
China	Mio USD	1774.3	915.8	6885.4	2518.4	2854.7	5498.0	12261.2	21160.0	22468.9	52150.0
	1999=100	100.0	51.6	388.1	141.9	160.9	309.9	691.0	1192.6	1266.3	2939.2
India	Mio USD	80.0	509.0	1397.0	1679.0	1879.0	2179.0	2978.0	14344.0	17281.0	17685.0
	1999=100	100.0	636.3	1746.3	2098.8	2348.8	2723.8	3722.5	17930.0	21601.3	22106.3
Indonesia	Mio USD	0.0	0.0	0.0	0.0	212.7	3408.0	3065.0	2726.0	4675.0	5900.0
	2003=100	NA	NA	NA	NA	100.0	1602.5	1441.2	1281.8	2198.3	2774.3
Poland	Mio USD	31.0	16.0	−90.0	230.0	300.0	915.0	3399.0	8875.0	4748.0	3582.0
	1999=100	100.0	51.6	NA	741.9	967.7	2951.6	10964.5	28629.0	15316.1	11554.8
Russian Federation	Mio USD	2207.6	3176.8	2532.6	3532.6	9727.1	13782.0	12767.5	23151.0	45915.6	52390.0
	1999=100	100.0	143.9	114.7	160.0	440.6	624.3	578.3	1048.7	2079.9	2373.1
Turkey	Mio USD	645.0	870.0	497.0	143.0	480.0	780.0	1064.0	924.0	2106.0	2585.0
	1999=100	100.0	134.9	77.1	22.2	74.4	120.9	165.0	143.3	326.5	400.8
Developed economies	Mio USD	1007320	1075804	660034	482283	507183	795061	741972	1157910	1809 531	1506 528
	1999=100	100.0	106.8	65.5	47.9	50.3	78.9	73.7	114.9	179.6	149.6

Note: NA – not applicable.

Source: own calculation based on FDI STAT.

16 Chinese, 5 Indian, 3 Brazilian, 2 Mexican, 3 Russian, 1 Turkish and no Polish firms. During merely four years the number of MNCs from emerging countries doubled in almost all cases. It is also worth highlighting that in the top 10 world largest companies there are already three Chinese enterprises. We can expect that next years' reports will even more intensively present the position of corporations from emerging countries.

The investment positions of the emerging countries is gathering pace, which is notably visible when we compare dynamics of outward FDI increase in emerging and developed countries (Table 1). In almost all cases the investment outflows from less developed countries increased over tenfold within just 10 years. On the other hand, in a case of developed economies the growth was not larger than 50% during the same period.

The latest economic crises, in particular, highlighted the changes in world economy. One of the important indicators is the number of cancelled foreign investment projects due to the economic crises (Figure 1). The highest number of transactions was abandoned by the firms from North America and "old-EU" countries. The companies from emerging countries in many cases have chosen the period to acquire Western companies at lower prices. The same situation we could observe in activities of sovereign wealth funds. They were most active in purchasing shares of banks and automotive companies when their valuations were lowest.

Constitution of the group of emerging economies allows to draw following conclusions. Firstly, the group is very differentiated when it comes to size of the

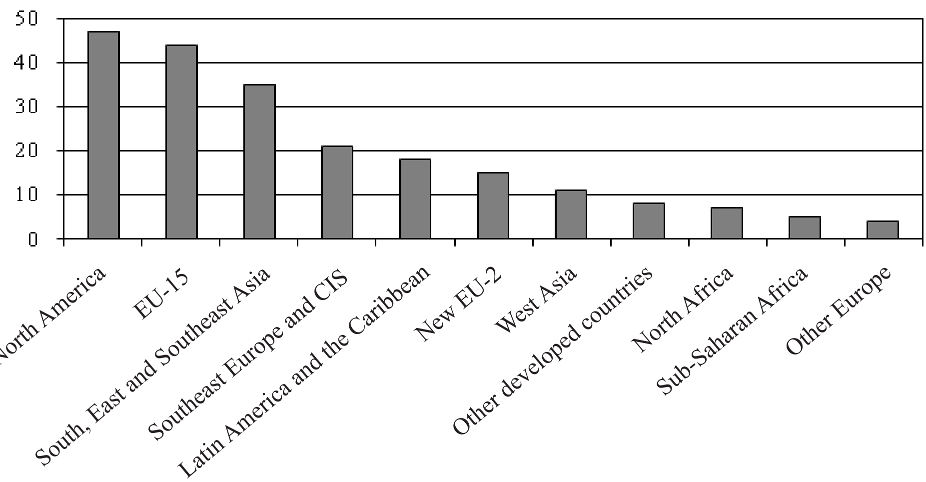

Figure 1. Percentage of TNCs planning to cut investments in different regions owing to the crisis

Source: *World Investment Report 2009*, UNCTAD, New York and Geneva 2009, p. 14.

economy, development level, abundance of resources and institutional systems. The countries have also completely different goals and position in global politics. Due to the fact arises a question about the possibility to find one explanation of the expansion of firms from these countries. Previous contributions have separately dealt with the theory for Chinese, Indian or Brazil companies. The author would like to merge the main theories and find similarities and differences in the internationalization strategies of firms from emerging economies. But is it possible to find one unified theory for the countries from various regions of the world, representing different development level and separate institutional environment?

2. Classic internationalization theory

A crucial foundation for further consideration is to analyse the emergence of multinational enterprises in the global economy in the historical context. The first wave of MNCs was named "early-movers". This notion has mostly referred to the expansion of firms from the United States and Western Europe in the 50s and 60s of the 20th century. In that period, activities of international companies were sufficiently explained by S.H. Hymer's[1] and R. Vernon's[2] theories.

A noteworthy explanation of firm's foreign expansion in this wave was described as Nordic school of internationalization. The key representatives of the school were J. Johanson and J.E. Vahlne[3] or J. Welch and R. Loustarinen.[4] The main assumption of their models was gradual method of foreign expansion. The process of internationalization was mostly affected by managers' abilities and resource base rising thanks to previous foreign activities. The absorption of knowledge helped to move to higher stages. The companies mostly started their foreign activities in close and similar countries in order to reduce uncertainty and lack of knowledge about foreign markets. After the company absorbed the knowledge about neighbouring markets it could move to further destinations. It was also important to underline that the Nordic school was developed in a specific macroeconomic conditions. The Scandinavian countries are relatively small and in order to survive the companies based there had to go abroad. The home markets were insufficient to achieve production scale economies. Especially in such industries like car manufacturing or home appliances.

[1] S.H. Hymer, *The International Operations of National Firms: A Study of Foreign Direct Investment*, MIT Press, Cambridge, MA, 1976.

[2] R. Vernon, International investment and international trade in the product cycle, *Quarterly Journal of Economics* 1966, Vol. 80, No. 2, pp. 190-207.

[3] J. Johanson, J.E. Vahlne, The internationalization process of the firm – a model of knowledge development and increasing foreign market commitments, *Journal of International Business Studies* 1977, Vol. 8, Issue 1, pp. 25-34.

[4] J. Welch, R. Loustarinen, Internationalization: Evolution of a concept, *Journal of General Management* 1988, Vol. 14, Issue 2, pp. 34-55.

The second wave of internationalization was a period of expansion of Japanese firms. During the 70s the companies from Japan were particularly active investors in the United States. After a few years Japanese companies have started their fully global activities. The beginning of the process was designed as imitation of best Western products and adjusting them to the specific features of Japanese technology. This was one of the first countries, whose firms' global expansion was heavily supported by the government policy. Japanese catch-up strategy can be divided into three subsequent sections:[5]

– learning at the production level (1945-1964),
– linking markets to the production process (1964-1973),
– consolidating the Japanese Production model (from 1973 onwards).

The expansion of Japanese firms changed the way of production and thinking about the products. It also highly influenced the global competition. After a couple of years other Asian states were bases for establishing multinational companies (South Korea, Taiwan, Singapore).

3. New multinationals – need for new theoretical foundations

For a few years we can notice the rise of publications on the topic of multinational corporations. In the first stage most of them concerned Indian, then Chinese enterprises. The companies from the two countries have also been the best examples of successful foreign expansion. After that the companies from South America, East Europe and few African enterprises emerged in the analyses (Table 2). The group of the enterprises can be described as late-movers.

Table 2. Basic characteristics of multinational enterprises from selected regions

Characteristics	China	India	Central and East Europe	South America
No. of firms	large	large	medium	small
Main regions of expansion	Asia, North America	Asia, Europe	Europe	North America
Method	acquisition	acquisition	acquisition	acquisition
Source of capital	state/stock	stock	state/stock	stock
Industries	computers, cars	cars, IT services	general manufacturing	general manufacturing, natural resources
Activities abroad	production, R&D	production and services	production, sales	production

Source: own elaboration.

[5] A. Fluery, M.T.L. Fluery, Understanding the strategies of late-movers in international manufacturing, *International Journal of Production Economics* 2009, Vol. 122, pp. 340-350.

The main motives of foreign investments have been divided into four groups:[6]
– resource seeking,
– market seeking,
– efficiency seeking,
– strategic assets seeking.

Each of the group of motives can be linked with the level of development of multinational corporation in the foreign environment. The first two steps are simple motives for increasing the size of the enterprise. The step named "efficiency seeking" means looking for optimal configuration strategies in the global market. The last stage mostly concerns looking for specific assets, which create strategic advantages. Most frequently it includes acquiring the technology or other type of knowledge. The aspect is particularly important for the "new multinationals" which have not created their own advantages in the field of organization or innovation and consequently make acquisition of firms possessing these assets.

One important factor when analysing multinationals from emerging countries is to define the role of state support in the internationalization process. This is not only the political support, but in some cases large amounts of money can be poured into Western enterprises in order to take control over them and meet global aspirations of governments.

The phenomenon of the multinational corporations from less developed countries was firstly indicated in the end of the 70s of the last century by D.A. Heenan and W.J. Keegan.[7] The theoretical explanation was first developed by S. Lall[8] and L.T. Wells.[9] The authors argued that the advantages of the multinationals from less developed countries mostly occur due to lower production costs. The firms do not possess frontier technology or knowledge to overtake Western multinationals. Most of new multinationals have not also developed well known brand names, so they are in worse situation than established multinationals from the advanced economies. Only few companies from emerging countries established brand-names backed by large marketing campaign.[10] Hence the companies prefer to engage in production than marketing.

The companies from emerging countries have also been more active in other developing countries, rather than in highly developed ones.[11] This is caused by the lack of modern technology, which could help in market success. What is more, the

[6] J.H. Dunning, Location and the multinational enterprise: A neglected factor?, *Journal of International Business Studies* 1998, Vol. 29, No. 1, pp. 45-66.

[7] D.A. Heenan, W.J. Keegan, The rise of Third World multinationals, *Harvard Business Review* 1979, January-February, pp. 101-109.

[8] S. Lall, *The New Multinationals: The Spread of Third World Enterprises*, John Wiley & Sons, Chichester 1983.

[9] L.T. Wells, *Third World Multinationals. The Rise of Foreign Investments from Developing Countries*, MIT Press, Cambridge, MA, 1983.

[10] S. Lall, *op. cit.*, p. 61.

[11] L.T. Wells, *op. cit.*, p. 4.

companies from emerging markets are usually at the beginning of the process of foreign activities. Therefore they treat the expansion in similar markets as tests for their future expansion to higher extent in developed countries. Such strategy allows the firms to learn about the foreign environment and develop the organization and managerial skills.

At the same time the idea of investment development path (IDP) was proposed by J.H. Dunning.[12] In this approach the level of outward foreign direct investment is correlated with the level of development of home countries. In his later work the investment projects of enterprises from emerging countries were divided into two groups: first and second wave.[13] First wave meant internationalization in neighbouring and less developed countries using specific home country advantages (e.g. cheap labour). While second wave denoted advanced foreign activities.

Similar approach to development of multinationals from emerging countries was proposed by R. Ramamurti. According to his findings the MNCs from emerging countries fall into three groups:[14]

– infant – competitive advantages are rooted in home market,
– adolescent – new competitive advantages created by international activities,
– mature – development of cutting-edge technologies in a global environment.

One of the most frequently underlined factors of foreign expansion is acquiring knowledge about the foreign markets and challenging competition. Hence we can treat multinational companies from emerging markets as three stage students (Table 3).

Table 3. Features of the multinationals by learning stage

Feature	Undergraduate	Graduate	Postgraduate
Knowledge	imitating	own studies	individual research
Capital structure	family/state	local exchange	global exchanges
Operations	centralised	limited decentralisation	configuration
Influence on competitors	none	winning niches	leader
Brands	private labels	known in several countries	global
Home/foreign production ratio	export higher than foreign production	foreign production significantly exceeds home production	home production is just a small fraction of global operations

Source: own elaboration.

[12] J.H. Dunning, Explaining the international direct investment position of countries: Towards a dynamic or development approach, *Weltwirtschaftliches Archiv* 1981, Vol. 119, pp. 30-64.

[13] J.H. Dunning, R. van Hoesel, R. Narula, Third World multinationals revisited: New developments and theoretical implications, [in:] J.H. Dunning (Ed.), *Globalization, Trade and Foreign Direct Investment*, Elsevier Science, Oxford 1998, pp. 255-286.

[14] R. Ramamurti, The theoretical value of studying Indian multinationals, *The Indian Journal of Industrial Relations* 2009, Vol. 45, No. 1, pp. 101-114.

In the first phase students acquire knowledge mostly from the books and professors. In the second stage they become more aware of their own abilities. In the latest step the best students run their own research. This method of dividing multinationals may also be helpful in explaining the number of companies in each stage. The first step seems to be the easiest and many students finish their education after achieving bachelor degree. The same situation we can observe for multinational corporations which mostly operate only in one foreign market. The second stage is less countless and requires additional efforts to arrange process in several locations. In the third step there are only the best "students" with high motivation for individual research.

Multinational companies from emerging markets usually develop their activities in close countries. For example, Chinese MNCs mostly focus on the Asia Pacific region and compete with other Asian enterprises. Some researchers underline that even in 20 years it is unlikely that many Chinese companies will run really global operations.[15]

Besides describing the emerging countries as one group it is necessary to treat them separately. Distinguished example is India. This is the country where numerous firms have started their foreign activities very early. Indian multinationals also represent large size of foreign operations. Researchers from this country proposed a new theory to explain internationalization process of Indian firms.[16] The theory consists of three elements. The first is exploration and learning motives, which means that Indian companies are acquiring resources and preparing unique organization before they start foreign activities. It is postulated that emerging market firms need to internationalize their resource-base prior to products-markets. This is contrary to well-established approach of learning-by-doing in foreign markets. The second distinctive feature is jumping the stages thanks to overseas acquisitions. Instead of gradual process of learning and development, the companies choose to buy knowledge, technology or brand-name. The last element is a unique role of business groups. They are formed by independent firms which are linked by formal and informal ties. Thanks to participation in such constellation a company which plans foreign expansion can be supported by pooling resources, sharing knowledge and managerial experience or giving reputation.

4. Conclusions

One very important asset of the largest multinationals from emerging countries is the political support, especially in the industries like oil, gas or metallurgy. But there is also the second group of enterprises of rather middle size, which are smaller players

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[15] A. Rugman, J. Li, *Can China's Multinationals Succeed Globally?*, Paper presented at the Internationalisation of Indian and Chinese Firms Conference, Brunel Business School, Uxbridge, London 2007, p. 79.

[16] R. Chittoor, Internationalization of emerging economy firms – need for new theorizing, *The Indian Journal of Industrial Relations* 2009, Vol. 45, No. 1, pp. 27-40.

in the global market and usually focus on niche markets. Furthermore, they do not represent the technological advance.

The MNCs form emerging countries prefer to purchase assets rather than to create them on their own. This is fully understandable, because they are usually on a lower level of development than companies from advanced economies and have to catch-up sooner than using organic growth.

The group of "new multinationals" is very differentiated and it may be difficult to put them under the same criteria. The corporations vary in size, foreign experience and sector of industry. It is important to notice the dynamics of the process of creating "new multinationals". We can expect rising role of the companies in the global economy and developing new areas of their activities.

Selected examples of multinational enterprises from emerging markets

Lenovo Group – Chinese computer manufacturer incorporated in Hong Kong in 1988. The company entered global market by purchasing 100% of shares in IBM's PC business. Thanks to the deal the company has acquired prestigious brand-name and become one of the main manufacturers of computers in the world. The company possesses production sites in India, Mexico and the United States. Plans to establish production plant in Poland were cancelled due to economic crises.

Tata Motors – India's largest car manufacturer established in 1945. The company has foreign operations in the United Kingdom, South Korea, Thailand, Brazil and Spain. Foreign activities were established mostly through acquisitions of well known brand-names: Jaguar, Land Rover or Daewoo. Besides production sites, the company operates in tens of countries by sales subsidiaries. Tata Motors is most active in developing and emerging markets.

Lukoil – state-controlled Russian oil and petrol company. Operates abroad through extraction (in Kazakhstan, Uzbekistan, Azerbaijan, Egypt and Colombia), refining (Italy) and petrol stations in many European countries and North and South America.

Sabo – a family company established in 1939 in Brazil. The main activity is production of sealing elements for automotive industry. The company started establishing production sites abroad in 1992, when the first plant in Argentina was set up. The next steps were directed to Europe, where the company possesses factories in Germany, Austria, Hungary, Italy and the United Kingdom. The company also established the factories in the United States and Australia.

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KORPORACJE TRANSNARODOWE Z KRAJÓW WSCHODZĄCYCH. POSZUKIWANIE NOWYCH PODSTAW TEORETYCZNYCH

Streszczenie: „Nowe" korporacje transnarodowe odgrywają dużą rolę na arenie międzynarodowej z kilku powodów. Po pierwsze, mają wpływ nie tylko na gospodarki krajów macierzystych, ale odgrywają coraz większą rolę w gospodarkach goszczących. Po drugie, rzuciły wyzwanie korporacjom z krajów rozwiniętych. W ten sposób „zachodnie" korporacje zostały zmuszone do przeprojektowania swoich dotychczasowych strategii. Celem artykułu jest próba skonstruowania jednolitej podstawy teoretycznej wyjaśniającej ekspansję firm z krajów rozwijających się. Artykuł opiera się na analizie procesu internacjonalizacji podmiotów pochodzących głównie z Chin i Indii, ale także z Ameryki Południowej oraz Europy Środkowej i Wschodniej.