INTERNATIONALIZATION OF EMERGING MARKETS MULTINATIONALS: STRATEGIES

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Abstract:
Enormous studies have gone deeper to understand internationalization of emerging markets multinationals and different views have emerged. Despite their best efforts and studies still the strategies on the internationalization of merging markets multinationals are found elusive and incomplete. Internationalization theories are not capable of defining the internationalization of emerging markets multinationals. There are challenges and problems. Global financial crisis can simply dislocate all the strategies of multinationals irrespective emerging markets or advanced markets. Theories are theories and the problems are occurring and reoccurring with various impacts and effects. Theories are with assumptions and the assumptions are neither universal nor sacred. New challenges bring new strategies and new aspirations for success. National problems and national economic policies directly influence the strategies. The microeconomics and macroeconomics do shape strategies silently.

Keywords: Multinational Firms, Internationalization Theories, Internationalization strategies, Foreign Investment, International Business

JEL Classification: F1, F21, F230

I. INTRODUCTION

Emerging market refers to country which is in transition of achieving economic development and contributes in the international trade like any other Multinationals in the world. Emerging markets are the nations with low income and rapid economic growth after institutional changes and liberalization (Hoskisson et.al. 2000). Advanced markets are North America, Western Europe, Australia, New Zealand and Japan. IMF adds Hong Kong, Singapore, Korea and Taiwan (International Monetary Fund (2011) According to Morgan Stanley there are 26 emerging market countries in 2006. According to US State Department of Commerce in 1994 there are 10 emerging markets which include China, India, Indonesia, and South Korea in Asia, Poland and Turkey in Europe, Brazil, Mexico and Argentina in South America and South Africa in Africa. According to BRIC emerging markets include Brazil, Russia, India and China (Yong Fan (2008). China is the leading nation having the largest multinationals in the world among the internationalized emerging market with 24 firms on the Fortune Global 500 followed by India with six firms in 2007. Huawei is one of the largest Chinese multinational company, networking and telecommunication equipment suppliers. It has overtaken Sweden’s Ericsson to become the largest telecom equipment maker and it is now a $32 billion business empire with 140,000 employees in 2012(The Economist (2012). Huawei spends 10% of revenue in R&D each year and it has 12 R&D Centres in seven Chinese cities, and in Bangalore in India, Silicon Valley and Dallas in USA, Stockholm in Sweden and Moscow in Russia.

There are worries in the international market on the basis of MNCs from developed nations and emerging market economies (Carl F. Fey et.al (2016). The worries do have a pendulum of shifting from 180 degrees to 360 degrees depending upon the challenges. The products from China have altered the market perceptions in the global market. India has become super power of software technologies because of vast manpower. The trend has drastically changed over period of time. The electronic products of Korea have taken over from Japan in a span of two decades. Auto manufacturing in India has altered equations of the automobile markets globally. The process of internationalization of emerging market multinationals has created a new philosophy of strategies. MNCs from developed nations have been critically examined for several decades and enough criticisms have surfaced regularly but the benefits of success are found everywhere. One of them is the internationalization of emerging market multinationals.

II. INTERNATIONALIZATION THEORIES

Internationalization is the process of realization of familiarity with the consumers of external environment away from home. It is simple process but the issue is made complex with their knowledge and understanding. Market is product driven. Market is customer driven. Market is rarely strategy driven. Where there is demand the supply flows from any part of the world. The strategy of creating demand is important to familiarizing the product. There economic factors and political factors. Such factors cannot study without reference.

The internationalization theories are studying these factors and suggesting strategies. These theories form references. Thus the internationalization theories are neither instruments of success nor consequences of failure. There are several internationalization theories and these include the transaction cost perspective, the ownership, location and internalization (OLI), and the knowledge development process mode. The emerging market multinationals do not have firm-specific advantages (FSA). It is equally found that there are international factors on the overseas investment strategies of emerging market multinational companies. The Traditional Marketing Approach is one of the internationalization theories and it advocates core competences of the firm and opportunities which are available or can be generated.

The second is the Life Cycle Concept –International concept. The life cycle concept is derived from the life cycle of product. The elimination for new introduction is core principle. This is associated with the Schumpeter theory of innovation. New products are always finding markets replacing the existing. There is another theory of the Uppsala School Approach explaining the sequential pattern of entry to foreign markets. The Transaction Cost Analysis (TCA) model advocates that the firms have to choose the least-cost international location to internationalize markets. The common ownership and control will continue until another better location is established where there is low-cost international location. In continuation of this model the Network Model is developed and it advocates building networks of business relationships in other countries through extension, penetration and integration. The main merits are minimizing the knowledge development, minimizing efforts for adjustment, and exploiting the network s established.

Different authorities have suggested many models of internationalization of markets kike the life cycle of the product, the foreign direct investment and the transaction costs (Frank Bradley (1995); internationalization modes (progressive models), contingency models, business network (interactive models), and social construction(Sorensen (1997); the product life cycle, the Uppsala model, the transaction cost, the international business network, and the globalization (Svend Hollensen (2004,2008) ; and Uppsala model, international network, REM and electic models (Rubaeva (2010).

III. STRATEGIES

The strategies of emerging market multinationals are varying from nation to nation. China has developed three strategies such as market seeking, resources or asset seeking and efficiency seeking (Buckley et. al. (2006). Institutional environment support is the primary internationalization strategy in China. Sometime it is also called “the rules of the game”. There is a demand for FDI in energy and mineral sectors at home and accordingly China has built MNEs in Singapore, South Korea and Malaysia. In respect of natural resources oriented FDI it has decided to have in developing economies. Further China has adopted internationalization strategies and these include gaining foreign proprietary technologies, strategic assets and capabilities of brands, distribution channels and foreign markets by acquisition, exploiting natural resources, and diversifying businesses to improve their international competitiveness. The government of China provides export rebates, and foreign exchange assistance since 1999 particularly for the promotion of FDI on trade related items like textiles, machinery and electrical equipment sectors.

The Indian ICT-ITES sector has earned the reputation for low-cost software programming in the Western world. Indian company has followed the internationalization strategy of establishing service delivery facilities and regional offices for customers. This strategy helps them to acquire domain knowledge of clients and ascertain new business opportunities (Hattari. R & Rajan R (2010). Five internationalization strategies are Vertical Integrator of natural resources, Local optimizes, Low cost Partner, Global consolidator, and Global first mover. These strategies are applied to Trajectory of internationalization in which the generic strategies are referred to as Forward and backward vertical integration, Focus on other emerging markets, Focus on developed markets, Focus on global markets, mergers and acquisitions of less efficient competitors and Focus on global markets (Ramamurthi,Ravi & Singh,Jitendra V (2009). There are two advantages known as CSAs (Country-specific advantage) and FSAs (firm specific advantage.

A comparison of internationalization of markets was carried out in respect of internationalization strategies in respect of multinationals from emerging countries and multinationals from industrialized countries. In respect of speed of internationalization it is accelerated in emerging market multinationals but it is gradual in respect of multinationals of advanced economies. In respect of competitive advantage it is weak for emerging markets multinationals and it is strong for multinationals of advanced economies. On political capabilities emerging market multinationals it is strong unlike weak in multinationals of advanced economies. With reference to expansion path, there is dual path for emerging market multinationals and for multinationals of advanced economies there is simple path. Dual path refers to simultaneous entry into developed and developing countries while simple path it is from less to more distant countries. There is external growth by alliances and acquisitions on default entry modes to emerging market multinationals while for multinationals of advanced economies it is internal growth of wholly owned subsidiaries. With reference to organizational adaptability it is high for emerging market multinationals and it is low in case of multinationals of advanced economies (Mauro F. Guillen and Estebon Gorcia-Canal (2009).

IV. CHALLENGES

Multinationals are from the developed countries before globalization while the emerging market multinationals are from the developing economies after globalization. The rules of game appear to continue with changes which pose a serious challenge to internationalization strategy because of new players. Normal theories of internationalization do not find solutions as the conditions of internationalization of emerging market multinationals are different to developed economies and thus it is desirable to develop indigenous theory (Yong Fan (2008).

V. CONCLUSION

Every company wants to expand. In the process it explores new markets externally. New markets have many advantages and new opportunities. The government promotes it as it is participating in the growth of domestic economy in terms of income and foreign exchange. The foreign countries invite enterprises to open business and for the various incentives are offered. Therefore internationalization emerging markets multinationals brings value additions to global economy in terms of trade and employment. Three conditions become prerequisites to internalization strategies such as the commitment of internationalization of project for the long term, the allotment of sufficient resources to the project and the engagement of advantages evolved in the foreign market (Victor DANCIU (2012). There shall be continual improvement in acquiring competitive advantages in the resources area, property rights, diminished costs and higher competence of employees.

The internationalization theories and models may have common features but varying from period to period and nation to nation and hence uniformity is lacking. Similarly the models may be different. The progressive and contingency models are objective and static and therefore rational analysis may yield to quantitative results. The interaction models are subjective and dynamic which allow innovation and creativity. The international theories do not find solutions to all the problems but they form references.

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