

# DRIVERS OF THE INTERNATIONAL EXPANSION OF EMERGING-MARKET MULTINATIONALS

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**Abstract:** *The purpose of the present paper is to analyze the drivers of the international expansion of emerging market multinationals and the strategies applied by these companies in other emerging and developed markets.*

*The paper applies a conceptual approach combined with analyses of statistics and secondary material and presents the company and the country specific advantages. The proposals for the Romanian companies and institutions are based on the comparison between the drivers of expansion in the BRIC countries.*

**Key words:** *emerging-market multinationals, strategy, expansion.*

## 1. Introduction

Emerging-market multinationals are expanding all over the world and are increasingly competing with major global firms for businesses and customers. In the Fortune Global 500 list of the world's biggest companies, in 2012, 73 companies were Chinese, 8 companies were Indian, 7 companies Russian and 8 companies were from Brazil. The advances in information technology, the policies of governments and the cheap capital have driven these companies to gain access to new markets through acquisitions and joint ventures. Other reasons for the international expansion were the access gained to raw materials and the reduction in the dependence on the domestic market. Substantial R&D investments and innovations in BRIC countries and other emerging markets have determined a rebalance of global power.

Global giants can be found in the BRIC countries but also in smaller countries as

Turkey and Egypt. Emerging-market multinationals have developed new technologies and new brands and are participating in the consolidation of global industries such as: car-making, chemicals and telecommunications.

The advantages of emerging-market multinationals compared to western multinationals are: they can better manage a broad range of risks, because of the experience gained in the challenging home environments, they can easily adapt products to local markets and they can use diaspora populations for global expansion.

In order to be competitive with Western multinationals and multinationals from other emerging markets, these companies must have a continuous access to natural resources, human resources and capital.

Regarding the ownership forms, most of the Chinese multinationals are owned by the state, but there are also many private or family owned companies. The conglomerate structure can be found in

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India, South Korea, Middle East and Africa and many economies of emerging markets are dominated by large, diversified business groups.

## **2. Drivers of international expansion**

According to Johanson and Vahlne, companies tend to enter the closest markets, from the geographical and cultural point of view, and then they expand into more distant markets. [6]

For example, companies from Russia invested in countries from the former Soviet Union, benefiting from the knowledge of local traditions and business practices and the common language. In case of the Brazilian multinationals, the theories regarding entering the closest markets because of the advantage of distance and similarities are no longer valid. A study made on the exports of 109 large Brazilian companies shows that for 53% of the companies, the first destination for exports are countries from Europe, North America and Asia. The Brazilian multinationals are targeting the largest and most dynamic markets in the world because innovation is the key to success in these markets and they set up the trends for different products and new technologies. For example, Embraer, the Brazilian airplane producer, set up subsidiaries in the United States, Europe and East Asia, which in 2007 accounted for 74% of its revenues. USA was in 2009 the country having the greatest number of Brazilian companies. China has also attracted a big number of Brazilian multinationals because of low production costs, qualified labour and a huge market. The most important drivers of the international expansion of emerging-markets multinationals are the firm specific advantages and the country specific advantages. The most important competitive advantages of companies are linked to technology and innovation. In order to face increasing competition,

companies should adopt measures for increasing the trust of real or potential customers in the quality of their products and services.” [7]

The acquisition of companies, mainly in developed countries, for improving technology, was a strategy used by Chinese companies. An example could be the acquisition of an IBM business, by the Chinese computers manufacturer, Lenovo.

Many companies from China are exploiting the ownership advantages based on the low labour costs and these advantages are expected to rise with the level of education and the sophistication in science and technology infrastructure.

A company can invest abroad only after reaching a strong competitive position in the domestic market and after having accumulated experience and some exceeding resources. Lenovo has gained international business experience and had access to improved technologies and international networks. They have acquired new technological and managerial knowledge and they have succeeded in becoming a global player in the field of computers.

Other company's specific advantages which can be considered drivers of international expansion are the alliances made by companies in the local and foreign markets. Russian companies entering sophisticated markets of Western Europe and North America, as well as Asian countries, tend to rely on strategic alliances because local partners facilitate entry into foreign markets. Strategic alliances are becoming an essential vehicle of developing and sharing new technology.

Companies from China had the opportunity to learn from different alliances with foreign companies in the Chinese market and western multinationals have greatly improved the efficiency of the Chinese economy. Many small and medium sized Chinese firms are affiliated in business networks with western

multinationals. In order to improve the R&D capability of Chinese telecom enterprises, the governments played an important role in creating a strategic alliance between Huawei and foreign telecom giants as Motorola, Siemens and Nokia.

Regarding the country specific advantages, the government and the policies adopted can be considered an important driver of international expansion for the emerging-markets multinationals. The Brazilian state, together with different other institutions, like the National Development Bank, the Ministry of Development and the Brazilian agency for the Promotion of Exports and Investments, had an important role in the restructuring of local companies and in the international expansion. Industrial policies were used to stimulate innovations and the development of new technologies. The Brazilian government also provided incentives and protection in the formation of large private groups, privatization being sometimes restricted to national capital. All these policies have tried to reduce the economy's dependence on commodities.

Different institutions, such as the Bank of Brazil and The Brazilian Trade and Investment Promoting Agency are involved in supporting the multinational activities of Brazilian firms, promoting Brazilian products and services abroad and attracting foreign investments to strategic sectors of the Brazilian economy. APEX has six „Business Centres” located in Miami, Beijing, Moscow, Warsaw and Havana where Brazilian companies can benefit from logistical support, warehouses and offices. APEX works together with the local diplomacy to negotiate the entry of firms to markets considered very restrictive, or closed, like Cuba.

The Brazilian government is trying to support companies intensively in technology, innovation and knowledge, which could improve the credibility of the

Brazilian economy.

The Russian government has not developed a consistent policy of assisting Russian multinationals in the global expansion yet, but invited local companies to use a similar policy with China, to expand overseas and to cut the dependence on foreign technology.

The Chinese government is also supporting the technology development of local companies and investments in innovation. The government of China has used the extensive network of overseas Chinese to promote the sales of Chinese goods worldwide because business and social networks can help companies to transnationalize. [10] For example, the Chinese government provided soft loans for Huawei's international operation, two state-owned banks – The Export Import Bank of China and China Development bank providing Huawei 10,6 billion \$ credit in 2004. As a high technology company, Huawei benefited from the priorities of access to capital resources, raw materials and preferential tax policy and gained several advantages from the foreign policy and the „go global” policy. The „go global” policy was launched in 1999 by the Chinese government to encourage Chinese companies to improve their competitiveness by investing overseas.

The governments can support the international expansion of multinationals from emerging markets by creating the infrastructure, by promoting the country's capabilities, by attracting investment and promoting research and development and by creating a favourable and predictable business environment.

Another important driver of the international expansion of emerging-markets multinationals was the globalization of markets. The increased economic liberalization, the reduction of tariffs and other barriers and the change of commercial policies has created new

global markets. In the international expansion, Chinese companies are trying to gain access to new resources, investing in countries like Algeria, Iran, Saudi Arabia and many other countries from Africa, in sectors ranging from extractive industries to financial services.

The national prestige can be considered an important reason of the international expansion, governments from emerging markets making efforts to support local companies which can improve the national image. Indian companies like Tata and Infosys, Chinese companies like Lenovo, Huawei and the Brazilian company Embraer are well known all over the world.

### 3. Strategies used by emerging-markets multinationals in international markets

Emerging-markets multinationals have approached the base-of-the-pyramid markets, trying to attract the low-income customers. Examples refer to the Indian Tata group, which has launched the car Nano, with a price of 2500\$ and the Brazilian retail chain Casas Bahia which has used a credit rating system allowing low-income consumers to buy products.

Another strategy used by emerging-markets multinationals was the adaptation

of products, taking into account customers' requirements and cultural differences. For example, the Korean company LG has used the localization strategy in the BRIC countries group.

Regarding the branding strategies, emerging-markets multinationals have developed local brands which were used in international markets, as it is the case of the Chinese computers producer Lenovo, have acquired established brands, as it is the case of the Indian group Tata, or have developed new brands in order to meet local preferences.

Innovation and R&D are new strategies used by emerging-markets multinationals because they are considered an important competitive advantage. The R&D Scoreboard of the top 1000 global companies by R&D investment, published by the UK Department of Business, Innovation and Skills shows that, in 2009, from the total number of 1000 companies, 24 were from the BRIC group, China having the biggest number of companies-12. The research and development expenditure will increase in China from 1.97% to 2.5% of GDP by 2020 with the national government support. The expenditures on R&D for the year 2011 for the first 10 countries are presented in table nr. 1.

*List of countries by research and development spending*

Table 1

Rank	Country/ Region	Expenditures on R&D (billions of US\$, PPP)	% of GDP PPP
1	United States	405.3	2.7%
2	China	296.8	1.97%
3	Japan	160.3	3.67%
4	Germany	69.5	2.3%
5	South Korea	55.8	3.74%
6	France	42.2	1.9%
7	United	38.4	1.7%
8	India	36.1	0.9%

Rank	Country/ Region	Expenditures on R&D (billions of US\$, PPP)	% of GDP PPP
9	Canada	24.3	1.8%
10	Russia	23.8 <sup>n1</sup>	1.0%

Source: Wikipedia.org

Chinese and Indian companies are involved in extensive research. For example, Huawei from China has R&D centres in India, Russia, Sweden and the United States, and Tata Motors has an engineering research centre in India, with more than 1400 scientists and engineers.

Another strategy used by emerging-market multinationals is the collaboration with developed-market multinationals for the research and development of products. An example in the pharmaceutical industry is the collaboration between GlaxoSmithKline and Ranbaxy. In order to innovate, emerging –market multinationals must collaborate with universities, local governments and research institutes.

Regarding the entry on foreign markets, emerging-market multinationals tend to approach emerging markets first because they can better understand these markets and they can face different challenges and risks better because of the experience gained in the environments in which they have developed.

The human resources strategy involves the creation of customized training programs, inside the company or in collaboration with universities. Another rich source of talent is the diaspora of emerging nations because they bring the understanding of cultural diversity and international business practice. Beside advantages as cheap labour and natural resources in many emerging markets, other country specific advantages, such as skilled labour, advanced technology, advanced commercial and physical

infrastructure, should be developed. The most important advantages of India are: the low cost of labour, the design and development capabilities and the availability of a highly educated, English speaking human resource.

#### 4. Conclusions

Investments made by companies from emerging markets toward other emerging markets have increased because of the favourable policies adopted by local governments for foreign investments. For example, India has created Special Economic Zones providing exemptions on import duties for foreign investors. In the fields of telecommunications and financial services, restrictions on foreign ownership have been relaxed in Africa. Many foreign direct investments from China are directed towards emerging markets because companies are trying to gain experience from familiar markets before they approach more mature markets.

The multinational companies from emerging economies have a much more aggressive approach as compared to the developed markets multinationals. In order to face increased competition, Romanian multinational companies must build a strong position on the local market and must also expand in profitable foreign markets.

Romania should not be considered only an outsourcing destination for Western multinationals, but should try to develop the fields of business services and high value manufacturing.

A good strategy for the international expansion of Romanian companies might be the multi-regional niche-players strategy, appropriate for smaller companies operating in niche sectors in multiple regions using innovative technology and processes. Such a strategy could be used in the IT field, where Romania has the advantage of skilled low-cost labour and the availability of a highly educated, English speaking human resource.

Another strategy for Romanian companies would be the alliance with foreign partners in order to gain experience and have access to new technologies and know-how.

Regarding the government, a stronger support for financing and promoting the expansion of Romanian companies on international markets would be crucial. Different institutions, such as banks and agencies for promoting investments and exports should help Romanian companies expand abroad.

Investments in education, in new technologies and innovative products might help Romanian companies compete on the global stage.

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