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Domestic firms competing with multinational enterprises: The relevance of resource-accessing alliance formations

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ABSTRACT

The literature includes several papers that compare multinational enterprises (MNEs) to local firms along several dimensions such as financial strength or production capacity. Nevertheless, the focus on how latter firms compete against the former is often missing in the literature; local firms are typically seen as inferior in terms of resources and thus, unable to compete against MNEs. This paper aims at revisiting this competitive 'battle'. Through a case-based design in a 'multinational' domestic market that seems to favour MNEs, we explore how local firms respond to MNEs' purported superiority. Findings indicate that local firms respond through alliance formations that enable them to access fitting resources and counter ownership advantages of MNEs. Therefore, resource-accessing strategies spearheaded by local firms suggest that ownership advantages should not be inherently translated into competitive advantages for the MNEs. Implications for international business are discussed and avenues for further research are suggested.

1. Introduction

An increasing number of authors caution about the lack of contextualisation in the international business (IB) field (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2010) stressing the need for 'deep contextualisation' (Tsui, 2007, p. 1357) and a clearer understanding of contextual effects (Li & Meyer, 2009). Following such calls, we adopt a context-specific view on how local firms in a single, multinational market respond to competitive challenges stemming from MNEs' ownership advantages (OA). On the one hand, this contributes to the limited and rather a-contextual knowledge on the competitive 'battle' between MNEs and local firms. While there is fairly extensive literature that specifically *compares* multinationals with domestic enterprises along several dimensions (e.g. Coucke & Sleuwaegen, 2008; Halkos & Tzeremes, 2007; Mata & Portugal, 2002; Xu, Pan, Wu, & Yim, 2006), there is a dearth of research on how local firms confront the challenges of competing against the usually better-resourced MNEs.

As Chang and Xu (2008) note, 'research in strategic management . . .has typically studied these phenomena *only from the perspective of multinational firms* [emphasis added]. . . Except for studies on joint ventures, it has paid little attention to local firms, which compete with multinationals in local markets' (p. 495). More specifically, local firms are mostly seen as passive recipients of, e.g. technology spillovers and not as active competitors in a given market (Chang & Xu, 2008). Wright,

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Filatotchev, Hoskisson, and Peng (2005) also walk along the same lines and stress the need for more contextualised research on how domestic firms react to the strategies of foreign firms. Dawar and Frost (1999) also note the little guidance that local companies in their own markets can receive on how to compete against MNEs (p. 120), while Wu and Pangarkar (2006) suggest that future research should examine competitive interactions between MNCs and local firms observing that 'an interesting possibility in this regard might include examining the role of alliances... to see if the more successful *local firms were able to use alliances to enhance their competitive position* [emphasis added]' (p. 310).

This perspective also allows us to put into context the tacit or explicit tendency to associate MNEs' 'ownership-specific (or competitive) [sic] advantages' (Dunning, 1993, p. 183; Dunning, 1988) with competitive advantages (Cho & Lee, 2004; Grant, 1987; Kogut & Kulatilaka, 1994; Sethi & Guisinger, 2002), i.e. the 'systemic' competitive advantages that the multinational network itself may offer to subsidiaries (Rugman & Verbeke, 2001, p. 243). These may also come as a result of 'size, monopoly power, and better resource capability and usage' as well as the co-ordinating abilities of MNEs (Dunning, 1993, p. 191). Based on an empirical, inductive analysis of how local firms respond to competitive threats posed by MNEs, we shed more light on the contextual forces under which OA of MNEs may not be translated into competitive advantages. We thus, follow calls from scholars who suggested that an in-depth lens allows organizational practices which vary across contexts (Bamberger, 2008; Johns, 2006) to be unearthed contributing to the well-documented need for a contextual approach in IB research (Li & Meyer, 2009; Tsui, 2007; Welch et al., 2010).

We follow a qualitative, case study approach among FMCG firms in Greece, where large scale cross-border mobility of consumers/tourists in effect creates a multinational domestic market during the tourist season, which can be most of the year. This is not unique to Greece; there are several countries with large influxes of foreign tourists, from many countries and for a significant part of the year such as Spain, Italy, Austria, Mexico, France, Egypt, and Thailand. During the tourist season, local and foreign firms face the 'international' task of serving not only the 'native', permanent population but also a multinational group of consumers. Clearly not only tourism-related firms (e.g. tour operators or travel agents) are affected as tourists also consume a whole range of goods and services that are not produced by the tourist industry such as beers, soft drinks, ice creams and fast or snack food, i.e. fast-moving consumer goods (FMCG). Therefore, British tourists in Spain or American tourists in Mexico create additional challenges for such firms.

The remainder of the paper is structured as follows. Section 2 elaborates on the conceptual background and Section 3 examines the resource 'deficits' of local firms explaining more fully two types of resource deficits, namely knowledge and property deficits. Section 4 focuses on the alliance-based, resource accessing strategy options that may in principle be available to local firms in competing with MNEs. Section 5 explains the methodological choices that helped us explore our topic. Section 6 provides detailed analysis of our cases and based on this analysis, in Section 7, we advance a posteriori propositions and we conclude by stressing the implications of our study for international business research and practice and by highlighting limitations and avenues for further research.

2. The competitive 'battle' between MNEs and local firms: the relevance of resource-accessing alliance formations

The observation by Chang and Xu (2008) that local firms are not portrayed as active competitors in the market implicitly reflects the assumption that MNEs have superior OA *vis-à-vis* local competitors. Liability of foreignness is not regarded as inhibiting the MNEs (Zaheer, 1995) as they proactively equip their subsidiaries with unique, superior than local firms' resources (Elango, 2009; Mata & Portugal, 2002; Peng, 2001b; Rugman & Verbeke, 2001). Yet the internationalisation literature has also shown that the impact of internationalisation on performance is decidedly mixed (Verbeke & Brugman, 2009; Yang & Driffield, in press). This mixed outcome is often explained in terms of the environmental and institutional unfamiliarity and the learning imperatives for MNEs without however any specific reference as to the competitive challenges posed by domestic competitors in foreign host countries. The focus is thus typically on macro or meso environmental impediments/facilitators rather than on the competitive 'battles' with host country firms. A focus on such competitive battles is clearly useful as it can help not only to inform whether or how local firms may counter particular OA of MNEs in their markets but also indirectly enrich our understanding of how OA may translate into varying degrees of competitive advantage for MNEs in various contexts.

In this paper we endeavour to make a contribution towards this observation. In order to achieve this objective it is first necessary to clarify the notion of 'competitive battles' as employed in this paper. The extant literature on the issue has a somewhat variegated take on the notion of competition between local firms and MNEs. Some studies focus on how emerging economy firms (typically Chinese or Indian) can 'catch up' with their more established Western counterparts (Chittoor, Sarkar, Ray, & Aulakh, 2009; Elango & Pattnaick, 2007; Luo & Tung, 2007; Mathews, 2006). The emphasis is on capability building and deliberate learning processes that enable these firms to overcome the strategic limitations of their home environment and acquire ownership assets for internationalisation. While these studies stress the creation and ownership of resources, such strategy may not always be viable for local firms seeking to defend their markets from competition by MNEs. Asset creation and learning could be a lengthy (and risky) process and may be too slow in generating competitive advantage (Rahmandad, 2008); domestic firms may lose their home markets before they manage to assimilate new skills and capabilities.

On the other hand, other researchers advocate that local firms should adopt strategies that, essentially, avoid direct confrontation with MNEs. Rather than directly competing with MNEs, local firms should occupy niches following strategies based on identity and cultural criteria (Ger, 1999; Miller, Thomas, Eden, & Hitt, 2008). In the context of tourism-oriented