

Is there a liability of localness? How emerging market firms respond to regulatory punctuations

Luis A. Perez-Batres^{a,*}, Lorraine Eden^{b,1}

^a Department of Management, College of Business Administration, Central Michigan University, Mount Pleasant, MI 48859, United States

^b Department of Management, Mays Business School, Texas A&M University, College Station, TX, United States

Received 28 January 2007; received in revised form 30 August 2007; accepted 2 October 2007

Available online 30 July 2008

Abstract

In the 1990s, emerging economies all over the world deregulated, privatized and liberalized their domestic markets. These regulatory punctuations caused radical institutional changes for emerging market firms (EMFs). We argue that, for EMFs, regulatory punctuations created a liability of localness, parallel to the liability of foreignness that firms face when they go abroad. Whereas liability of foreignness comes from the differences caused by changing one's geographic place from 'here' to 'there'; liability of localness comes from changing one's point in time from 'then' (pre-exogenous regulatory shock) to 'now' (post-exogenous regulatory shock). In both cases, firms incur additional costs, and the ones that survive are ones that best develop strategies for coping with "being in a strange land". We apply our arguments to the Mexican banking industry, which was privatized and liberalized in the 1990s.

© 2008 Elsevier Inc. All rights reserved.

Keywords: Liability of localness; Liability of foreignness; Emerging market firms; Punctuated equilibrium; Regulatory punctuation; Mexico; Banking; International diversification; Acquisition strategies; Multinational enterprises

1. Introduction

Emerging economies² have experienced radical transformations in their business landscapes due to the massive wave of deregulation, privatization and liberalization of their economies that started in the late 1980s (Hoskisson et al., 2000). These huge changes in government regulation affecting emerging market firms (EMFs) can be seen as

* Corresponding author. Tel.: +1 989 774 2841.

E-mail addresses: perez1la@cmich.edu (L.A. Perez-Batres), lorraine.eden@tamu.edu (L. Eden).

¹ Tel.: +1 979 862 4053.

² As defined by Hoskisson et al. (2000, p. 249) "Emerging economies are low-income, rapid-growth countries using economic liberalization as their primary engine of growth. They fall into two groups: developing countries in Asia, Latin America, Africa, and the Middle East and transition economies in the former Soviet Union and China."

regulatory punctuations; that is, major discontinuities in the business landscape caused by “sudden and extensive shifts in state constraints on business operations” (Haveman et al., 2001: 254).

While the importance of radical environmental change has been recognized for some time now (e.g., Meyer et al., 1990; Gersick, 1991, 1994; Wollin, 1999; Sabherwal et al., 2001), firm strategies and characteristics that facilitate or hamper firm performance under radical environmental change have not received the same attention (Keister, 2002). We know from statistics that the effects of large exogenous shocks cannot be estimated by marginal changes using comparative static methods, but rather require comparisons between cumulative totals (Caudill and Jackson, 1989). This suggests that successful firm strategies may be quite different when situations change; that is, when firms are faced with the large shocks that plague emerging economies rather than the smaller environmental changes that typically affect developed economies.

In this paper, we focus on emerging market firms’ strategies as they respond to large exogenous changes called punctuated equilibria (Haveman et al., 2001). Examining firm responses to regulatory punctuations in emerging economies should enable us to better identify the causes behind a successful or failed (radical) adaptation. For instance, DeCastro and Uhlenbruck (1997) suggest that different government privatization approaches evoked diverse domestic firm strategies, as privatization policies drastically changed the business landscapes of these countries and the old institutional rules of the communist system became useless in the new environment (Peng and Heath, 1996). Similarly, after major liberalization policies carried out by most Latin American governments during the 1990s, multinational enterprises (MNEs) suddenly could easily enter the Latin American markets (Sheahan, 1987, 1997; Toulan, 2002). In turn, this abrupt policy change forced domestic³ firms to quickly adapt to the new landscape or face going out of business.

In attempting to better understand domestic firm responses to regulatory punctuations in their home countries, we find useful insights in the international business (IB) literature on liability of foreignness. The strategic management and IB literatures have produced a wealth of research gauging the actions and strategic shifts of MNEs (e.g., Ferrier, 2001; Luo and Peng, 1999). When firms venture overseas they face costs of doing business abroad (Hymer, 1960/76; Eden and Miller, 2004). A core component of the costs of doing business abroad is the liability of foreignness that firms face when they enter a foreign country (Zaheer, 1995; Zaheer and Mosakowski, 1997; Miller and Parkhe, 2002).

Definitions of liability of foreignness (LOF) vary. Eden and Miller’s definition of LOF—the one we use here—focuses on the socio-political and relational hazards associated with “being a stranger in a strange land”. LOF plus the economic costs of operating at a distance (e.g., communication and transportation costs) together comprise the costs of doing business abroad (see also Zaheer, 2002). Multinationals can overcome LOF through exploiting their firm specific advantages in the host-country (Hymer, 1960/1976; Buckley and Casson, 1976; Dunning, 1981). Much of the IB literature since the early 1980s has focused on these firm specific advantages as explanatory variables for performance comparisons between multinational and domestic firms.

If foreign firms suffer from liability of foreignness when they enter a host-country market, is it also possible that domestic firms can suffer from liability of localness (LOL)? Before the wave of regulatory punctuations in the 1990s, domestic firms in emerging economies were protected by a cocoon of high tariffs, license fees, state ownership, and close business–government relationships. Their inefficiencies were masked by protectionist policies that disguised the local firms’ natural disadvantages relative to their foreign counterparts.

When the barriers came down—and in many countries and industries the barriers came down very quickly—emerging market firms were faced with a tough decision: how to maneuver in the new competitive landscape? Regulatory punctuations created liability of localness for these firms; which we define as the additional socio-political and relational costs imposed by regulatory punctuations on local firms in their domestic market. Just as foreign firms experience a liability of foreignness when comparing “here” (domestic market) with “there” (foreign markets), we argue domestic firms can experience a liability of localness when comparing “then” (pre-regulatory punctuation) with “now” (post-regulatory punctuation). In both cases, firms incur additional costs, and the ones that survive are ones that best develop strategies for coping with “being in a strange land”.

There has been a dearth of research gauging how domestic firms in emerging economies are adjusting to radical environmental changes. Such changes range from regulatory punctuations at home to foreign exchange crises to the more general threats from technological change and globalization. We need to better understand firms’ strategic

³ Throughout this paper, the labels emerging market firm(s), domestic firms and local firms are used interchangeably to refer to firms that are owned by the citizens of a particular emerging market.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات