Int. J. Production Economics 140 (2012) 439–449

Contents lists available at SciVerse ScienceDirect

Int. J. Production Economics

journal homepage: www.elsevier.com/locate/ijpe

Is production the core competence for the internationalization of emerging country firms?☆

Afonso Fleury [a,*], Maria Tereza Leme Fleury [b,1], Felipe Mendes Borini [c,2]

[a] Departamento de Engenharia de Produção, Universidade de Sao Paulo, Avenida Prof Almeida Prado, 531, 05508-900 São Paulo, Brazil
[b] Escola de Administracao de Empresas, Fundacao Getulio Vargas, Avenida Nove de Julho, 2029, 01313-902 São Paulo, Brazil
[c] Escola Superior de Propaganda e Marketing, Rua Alvaro Alvim, 123, 04018-010 São Paulo, Brazil

ARTICLE INFO

Article history:
Received 4 May 2012
Accepted 25 June 2012
Available online 4 July 2012

Keywords:
International operations management
International production management
Competence management
Emerging country multinationals
Brazilian multinationals
Subsidiary role

ABSTRACT

The rise of new multinationals in countries like Brazil provides an opportunity to revisit and carefully construct theories of how firms internationalize, a topic on which extant theory is weak. Brazilian firms are "infant multinationals", unlike developed country firms that are "mature multinationals". They are also internationalizing in a very different global context, and can do so on the basis of different competitive advantages than multinationals that came before. Therefore, this study aims at creating subsidies for theory building about early-stage internationalization. Emerging country firms have Production competences as main competitive asset to internationalize, what reflects their competitive positioning in home markets and their entry strategy in international markets. In the case of early-entrants – Western multinationals in the 1950s and Japanese in the 1980s – the Production competence played a key role for successful internationalization. Thus, the focus of the study is the role that the Production competence plays in the internationalization of late-entrants, the emerging country multinationals. The research design considers not only the position of the headquarters but also the initiatives of the subsidiaries and the dynamic interplay between both. The paper allows a better understanding of internationalization processes and the role of Production, when firms start building their own international networks. It brings relevant insights about the paths that are being followed by emerging country multinationals, the difficulties they find, the solutions they develop. These are important inputs not only for new theory building but also for managerial practice.

1. Introduction

The area of International Operations Management (IOM) is relatively new, dating from the late 1980s (Ferdows, 1989). Its development was slow, at first; the assessment made by Vereecke and Dierdonck (2002), concluded that. "despite the importance attached to it by both academics and practitioners, the field of International Operations Management [IOM] is still at a relatively early stage of theory development" (Vereecke and Dierdonck, 2002).

Today that statement has to be reconsidered because, in the recent past, some branches of IOM became hot issues: global value chain management, international sourcing, international procurement (Holweg et al., 2011; Contractor et al., 2010). Those branches focus essentially on developed country multinationals and research issues that are critical for their repositioning in global production networks.

On the other hand, there is a new breed of firms that are becoming multinationals, originating from emerging countries. Studies about their approaches to International Operations Management are still rare. However, this is an important topic because emerging country multinationals are initiating their international paths whereas developed country multinationals already have a strong foothold in international markets. Moreover, in the condition of late-movers, they face challenges that are distinct from the ones faced by the incumbents as follows: (a) they have to internationalize fast to catch-up with established multinationals (Mathews, 2006); (b) since they must not stand as followers of early-movers if they aim successful catch-up (Bartlett and Ghoshal, 2000), they must be smart innovators; (c) as breeders of new business models (Ramamurti, 2009) they have to transfer efficiently for their overseas operations.

☆ Paper selected from presentations at the "5th International Conference on Production Research – Americas Region", Bogotá, Colombia, July 21st- 23rd, 2010. The selection process has been managed by Professor Luis Quezada, Department of Industrial Engineering, University of Santiago of Chile (USACH) and Professor José Ceroni, School of Industrial Engineering, Pontifical Catholic University of Valparaíso (PUCV), Chile.

* Corresponding author. Tel.: +55 130915363; fax: +55 1130915399.
E-mail addresses: acfleury@usp.br (A. Fleury), mtereza.fleury@fgv.br (M.T.L. Fleury), fborini8@gmail.com (F.M. Borini).
[1] Tel.: +55 11 3799 7800.
[2] Tel.: +55 11 5085 4500.

0925-5273/$ - see front matter © 2012 Elsevier B.V. All rights reserved.
http://dx.doi.org/10.1016/j.ijpe.2012.06.027

Therefore, in principle, emerging country multinationals, since the very start of their internationalization processes, should be "making the most of their foreign factories", in the expression adopted by Ferdows (1997). In the different taxonomies proposed for the roles of subsidiaries, emerging country multinationals' subsidiaries should perform as strategic leaders (Bartlett and Ghoshal, 1989) or have world mandates (Birkinshaw and Morrison, 1995) as early as possible.

Historically, the internationalization of firms is supported by novel productive models: the internationalization of American firms in the early 20th century was supported by the American Manufacturing System (Best, 1990) and the expansion of Japanese firms in the late 20th century was based on the Japanese Production Model (Womack et al., 1990). The same seems to be the case for firms from emerging economies which rely on distinctive competences in Production at home for successful internationalization (Zeng and Williamson, 2007; Ramamurti, 2009). The question that remains is: are Production competences the main driver for the international expansion of emerging country multinationals?

We address that question through the application of a competence-based management/competence-based competition approach (Hamel and Prahalad, 1994; Hamel and Heene, 1994; Teece, 2009). In other words, we depart from the standpoint that what provides competitive advantage for any firm is the set of organizational competences they develop. Thus, for a firm to emerge as a multinational it must rely on a distinctive set of competences when compared to international competitors and, from then on, build a dynamic relationship between parent company and subsidiaries for the fast and continuous enhancement of organizational competences, irrespective of location and mode of entry.

The reasons for the choice of the competence-based management/competence-based competition approach are the following: (a) the multinational might be considered as a network of competences geographically dispersed (Rugman and Verbeke, 2001); (b) competence formation at firm level suffers a strong influence from the local environment (Kogut, 1991; Leo, 1994), what differentiates multinationals originated in different countries; (c) more than seeking to understand the environmental factors that may motivate companies to go international, this approach prioritizes the issue of how companies create dynamic capabilities to become internationally competitive (Teece et al., 1997; Knight and Kim, 2009); (d) the competence-based competition approach (Prahalad and Hamel, 1990; Hamel and Heene, 1994), which had enormous repercussions in the early 1990s, has resurged as the basis for a large number of studies in recent years (Barney and Clark, 2007; Verbeke, 2009; Teece, 2009); for instance, Verbeke (2009:84) assumes that "… the notion of core competencies is largely equivalent to the higher-order concept of Firm Specific Advantage,…".

We will initially elaborate the analytical framework, based on the construct organizational competences; this will allow us to refine the research questions. The analytical framework will be applied to the group of Brazilian multinationals, as a representative of multinationals from the emerging countries. Through a survey research method, we will analyze their internationalization process in two moments in time: 2006 and 2010. The first survey was made during the entry phase of Brazilian multinationals and collected information about the role of the Production competence, amongst the other organizational competences, both at the parent company and the subsidiaries. The second survey had the same aim, but it generated information related to the expansion phase of Brazilian multinationals.

The results showed that Brazilian multinationals are not yet integrating their subsidiaries fast and effectively; they are not profiting from their foreignness. Only when the Production competence is considered, the learning loop is being closed: there is an initial transference from the headquarter (HQ) to subsidiaries and, after some time, subsidiaries become competent and start transferring competences for the HQ. But that seems not be the case in regards to the other organizational competences. In other words, only the Production competence has entered a virtuous cycle. Therefore, Brazilian multinationals are not yet making the most of their foreign subsidiaries.

2. Production as core competence for internationalization: A historical perspective

From a historical perspective, POM's theory and practice began with the "American Manufacturing System" (Best, 1990), rooted in the Springfield Valley experience and structured by Frederick Taylor's and Henry Ford's seminal works. The American model was disseminated throughout the world by the American multinationals since the beginning of the 20th century and through the American-inspired literature, beginning with Taylor's "Principles of Scientific Management", dated 1911. It prevailed for almost a century as the model for the whole world, independently of industry or country specificities.

For a number of reasons the American model began to lose power (Ruigrok and vanTulder, 1995) and was challenged by the Japanese Production Model (JPM) in the 1980s. This was first decoded by western authors (Schonberger, 1982), academic groups commissioned by western governments (Dertouzos et al., 1989; Coriat, 1994) and worldly diffused by the Lean Manufacturing thinking and practices, symbolized by the bestselling "The machine that changed the world" (Womack et al., 1990). The Japanese multinationals also played an important part in that diffusion process through their foreign subsidiaries and the production networks that they established (Mair, 1994; Tolliday et al., 1998; Elger and Smith, 1994).

Three points are worth stressing. First, that the adjectives American and Japanese are an important part of the argument: those productive models (Boyer and Freyssenet, 2002) were rooted in specific national contexts. Second, they were not easily transferable across borders: Ford's attempts to transfer the original Detroit's River Rouge model to England and Japan were ill-succeeded; the transfer of the Japanese Production model to other countries required hybridization (Tolliday et al., 1998) since its principles had to be adapted to each local reality. Therefore, historically, competences in Production played a key role for internationalization.

Emerging country multinationals are now on the rise. Interestingly, some firms of those countries had already made efforts to internationalize during the 1980s, but failed. At that time, Louis Wells, from the Harvard Business School, launched a hypothesis that third-world country multinationals targeted other developing countries and relied on the competitive advantages related to distinctive competences in small production runs using low cost labor (Wells, 1982).

The authors who are currently analyzing the competitive advantages of emerging country multinationals are, once more, identifying production-related competences as their main source of competitive advantage (Zeng and Williamson, 2007; Ramamurti, 2009; Khanna, 2007).

Thus, it is not unthinkable that a multinationals from the emerging countries are developing innovative organizational models that might break with the current patterns and establish new best-practices. A recent article in the Economist (March 5th 2011, p.16) looks at the trajectory of the Tata Group and other emerging country multinationals – from Brazil, Embraer and Votorantim are cited – to conclude that "The best emerging-market companies have learned a great deal from the West in recent years. It is time for the Western multinationals to return the compliment".