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Emerging market multinationals' role in facilitating developed country multinationals' regional expansion: A critical review of the literature and Turkish MNC examples

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ABSTRACT

The recent expansion of emerging market multinationals into world markets has generated a rich literature. While this literature has addressed the potential motivations, behaviors, and strategic implications of these firms' moves abroad, their possible role as facilitating agents in regional expansion has not been adequately explored. In this paper, we explore this question through a critical review of the literature and examples from Turkish multinationals. We also offer questions for future research.

1. Introduction

The expansion of emerging market (EM) firms into other country markets has inspired a growing body of literature (Buckley, Cross, Tan, Xin, & Voss, 2008; Cuervo-Cazzura & Genc, 2008; Del Sol & Kogan, 2007; Khanna & Palepu, 2006; London & Hart, 2004; Ramamurti & Singh, 2009). This has become such a significant phenomenon in international business research that two journals, the *Journal of International Business Studies* and the *Journal of International Management*, have dedicated special issues to its study in 2007 (Aulakh, 2007; Luo & Tung, 2007). This significance is underscored in the managerial practice of international business as well: UNCTAD data (2005) show that firms based in EMs, especially those in the Asian sphere, are expanding into foreign markets at a more rapid pace than their developed country (DC) counterparts while taking advantage of differences in technology, labor, and production costs in doing so. While China's role as both a recipient and a donor of trade and investment flows has received the greatest degree of attention in this regard (Buckley et al., 2008), an increasing body of studies has more recently focused on other emerging market firms' growing importance as investing, rather than as receiving, investment entities (Demirbag, Tatoglu, & Gleister, 2008; Erdilek, 2008; Kaya & Erden, 2008; Li, 2007; Panond, 2007). For instance, a recent study has underscored that (a) outward foreign direct investment (OFDI) from the EMs grew sevenfold between 1990 and 2003, as compared to a 3.5 times growth for the developed countries; (b) the share of EMs in world OFDI rose from only 7% in 1990 to 11% in 2003; and (c) though most OFDI from EMs has been from countries in Asia, such as China, many more countries, such as Brazil, India, Mexico, Chile, S. Africa and Turkey, are becoming significant investors in world markets (UNCTAD, 2005).

The literature that has focused on better understanding this phenomenon has addressed, for instance, (a) the typical internationalization paths followed by EM MNCs, (b) the competitive advantages typically leveraged by them as they internationalize, (c) the industries where they are most active, (d) whether they internationalize to gain new competitive advantages or exploit existing ones, (e) whether they initially target advanced, emerging or less developed markets and why this might be so, and (f) whether and the extent to which new theoretical explanations might be needed to more comprehensively explain their international expansion (Buckley et al., 2008; Mathews & Zander, 2007; Ramamurti & Singh, 2009). An interesting question that has not yet received sufficient attention, however, is the *facilitating role* that might be played by EM MNCs as network partners in fostering the expansion of developed country multinational firms (DC MNCs) into not only their own markets but also those markets that are in their geographic and cultural sphere. Indeed, we are aware of only a few studies that have directly addressed this question (e.g., Del Sol & Kogan, 2007; Del Sol & Duran, 2002). While the literature has

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theorized about the significance of this capability, it has remained scant in studies that synthesize conceptually or examine empirically this dimension of the internationalization of the EM MNC phenomenon. This is despite Rugman and Verbeke's argument (2004, 2008) that most MNCs pursue *regional*, rather than global strategies. They argue that it is difficult for firms to transfer their effective regional firm specific advantages (FSAs) into global FSAs. In this paper, we aim to contribute to this stream of literature by critically reviewing the literature on the expansion of EM MNCs, commenting on that literature, and suggesting avenues for future research.

Our primary thesis is that EM MNCs, in their roles as alliance partners, can function as *facilitators* for DC MNCs' entry into markets that are in their geographic and cultural sphere, as well as, if not better than their previous roles in serving as partners when DC MNCs entered their home markets. We use examples from Turkish MNCs' roles in helping foster the entry of DC MNCs' entry into the Middle Eastern, North African, and Asian markets to underscore our thesis. Coca Cola's recent entry into the Iraqi, Syrian, and the Jordanian markets was facilitated, for example, through its earlier-established partnership with the Anadolu Group, its network partner in both Turkey and the Turkic Soviet republics. Coca Cola chose to enter these markets through an affiliation with the Anadolu Group, rather than entering them independently or in collaboration solely with a local partner in each of these countries. As an another example, Alliance Boots' entry into the Egyptian, Algerian, and Russian markets was facilitated through its partnership with the Hedef Alliance, a network partner of Alliance Boots in Turkey. Alliance Boots chose to establish its pharmaceutical and toiletry distribution channels in the Egyptian and Algerian markets through an affiliation with Hedef Alliance rather than establishing them independently or in partnership solely with local partners.

Our paper is organized as follows. After presenting the relevant strands from the extant literature on EM MNCs, we comment on the merits of the themes explored in each of those strands. In this context, we explore (1) the adequacy of extant internationalization theory in explaining EM MNCs' internationalization; (2) the unique advantages that might enhance EM MNCs' roles in facilitating DC MNCs' expansion into neighboring markets; and (3) the strategies that are typically followed by EM MNCs to serve in these facilitating roles. We then discuss Turkish MNCs' role in this context through examples that underscore our primary thesis. We conclude with suggestions for future research.

2. Theory

2.1. Is internationalization theory adequate in explaining EM MNCs' internationalization?

Theory describes the international expansion of firms through several explanations. Among these are incremental internationalization (i.e., the Uppsala learning stages model, Cavusgil, 1980; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), monopolistic advantage (Hymer, 1976; Vernon, 1966), reduction or elimination of transaction costs in markets (Hennart, 1988), and OLI theory (Dunning, 1988). The Uppsala model views internationalization as incremental, sequential and learning based; that is, building in each stage on the accumulated market knowledge and commitment in the previous stages (Erdilek, 2008). The monopolistic advantage theory argues that market imperfections, especially in oligopolistically structured markets, drive firms to attempt to maximize their returns from their tangible assets, such as proprietary technology or from intangible ones, such as ownership of a global brand, by transferring them to other locations where these can earn monopoly profits and the firm can exert full managerial control over these assets (Erdilek, 2008). The transaction cost theory argues that firms will expand abroad through direct exporting or wholly owned subsidiaries to avoid transactions costs they would otherwise incur in resource markets were they to invest through indirect or contractual modes (Buckley et al., 2008). OLI theory, presumed to be the most comprehensive of these explanations, views internationalization as a function of ownership, location, and internalization (OLI) advantages possessed and exploited by some firms over others who do not possess these advantages (Buckley et al., 2008; Dunning, 1988). That is, countries which have firms that possess and wish to take advantage of these advantages are likely to be donors of foreign investment (FDI), while countries that have firms who are at a comparative disadvantage in these dimensions will be recipients of inbound investment from other countries (Buckley et al., 2008; Dunning, 1988). Firms that possess an ownership advantage, such as the ability to develop differentiated products or exploit an advantage in innovativeness, for instance, will choose to internalize and vertically integrate, rather than externalize to protect these assets from external threats, and will aim to minimize transaction costs in markets where these assets, competencies or capabilities are traded (Buckley et al., 2008) [see Fig. 1].

All these theories, however, were developed in the economically advanced countries by developed country scholars and attempt to explain the internationalization processes of those countries' firms. Thus, their ability to explain the internationalization process of firms from emerging economies has been questioned recently, and the need to develop newer theory or to describe the specialized conditions under which current theory would hold has been emphasized in the literature (Buckley et al., 2008; Ramamurti & Singh, 2009).

Several new explanations have been developed as a response to this need. For example, a framework developed by Mathews (2002) suggests that emerging market firms' linkage to multinationals' networks and their ability to leverage learning advantages more rapidly than those from developed economies will explain EM MNCs' internationalization patterns much more comprehensively than theories in the extant internationalization literature. In this context, Mathews and Zander (2007) argue that some unique resources in internationalizing EM MNCs, such as entrepreneurship, will be a magnet for attracting foreign resources and will drive the discovery of new opportunities, the deployment of resources in exploiting those opportunities, and engagement with competitors through alliances and networks. While the merits of this LLL (linkage, leverage, learning) model has been criticized in the literature somewhat (see Li, 2007; Ramamurti, 2009, for example), it remains a valuable contribution to explaining the internationalization patterns of EM MNCs.

Similar explanations have been offered by other scholars. Buckley et al. (2008), argue that EM MNCs hold unique ownership advantages that accrue to them from their experience in and knowledge about operating in difficult home country conditions (embeddedness). Developing these capabilities gives EM MNCs the ability to operate in markets, usually those similar to their home markets, much more effectively than do DC MNCs. Buckley et al. (2008) argue that operating in environments that are plagued by chronic economic and political uncertainties, such as chronic inflation and coalition governments, non-transparent or dysfunctional regulatory environments, inefficient market institutions, and business transactions characterized by social relationships makes EM MNCs more facile players in these markets. Cuervo-Cazzura and Genc (2008) underscore this point: they indicate that EM MNCs can often transform the disadvantages of operating in home countries with underdeveloped institutions into advantages because they are typically more accustomed to operating under difficult governance conditions. They argue that EM MNCs can convert such ownership disadvantages in branding, country of