

Developing high-technology latecomer firms to compete internationally: A three-sector growth model

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Abstract

In contrast to the mainstream approach, which focuses exclusively on how foreign multinational enterprises move into developing countries, this paper researches how high-technology latecomer multinational enterprises grow from the domestic institutional context into the international market. It draws on the economic development theory and the dynamic capabilities perspective to present a three-sector growth model to understand how high-technology latecomer firms establish themselves in international competition through the interplay of the social sector, the state, and the market. The three sectors may work together when they are pushed by external threats or pulled by internal interests. High-technology latecomer firms, at the stage of “getting there,” would call for the caring hand of the social sector; at the stage of “staying there,” would need the competition of the market; and between these two stages, the discipline of the state.

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1. Introduction

The study of foreign multinational enterprises (FMNEs) *in* developing countries occupies a central position in the field of international management. A typical FMNE from a developed country has hundreds of business units, which are actively participating in scores of developing countries. Through their international networks, FMNEs have an advantage of being able to transfer moveable resources across national borders to be combined with less mobile ones, in response to local opportunities (Bartlett and Ghoshal, 1998). In sum, as Stopford and Wells (1972) long stated, at the core of the theory of FMNEs is the management of size and diversity.

However, as Calas and Smircich (1999: 650) asked, “what is represented and what is not represented in organizational theorizing?”; it is conspicuous that, thus far, researchers have made little effort to investigate latecomer multinational enterprises (LMNEs) *from* developing economies. This neglect is probably, in part, due to the fact that third world multinationalism was regarded for so long as a contradiction in terms (Heenan and Keegan, 1979) and, in part, due to the fact that scholars are plagued by parochialism and, thus, are not sufficiently aware of non-American MNEs (Dunning, 1989). This paper thus aims to bring LMNEs from the periphery to the forefront of international management research.

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A main research agenda in the extant international management literature is to link the characteristics of FMNEs to performance. For example, studies have examined how product diversity (Tallman and Li, 1996; Hitt et al., 1997), organizational slack (Nohria and Gulati, 1996), and mode of entry (Barkema and Vermeulen, 1998), as well as ownership, international geographic scope, and location (Dunning, 1980) influence performance. However, researchers who use this cross-sectional approach have largely ignored the longitudinal nature of how a firm's advantage is created and sustained. Although a few researchers (Wilkins, 1970; Chandler, 1986) recognize the importance of this process, unfortunately, their contribution has been primarily in analyzing the experiences of FMNEs, not LMNEs. To complement the orientation of previous cross-sectional research, the model developed in this paper contains a longitudinal component.

LMNEs, according to David Teece (2000: 124), are regarded one of the “engines” in the economic development process in the newly industrializing economies, through which process the levels of living of common people could be enhanced. In line with this view, some scholars, when researching economic development, employed LMNEs as their unit of analysis. For example, Alice Amsden (1989) found that large, diversified business groups (i.e., chaebol) are an institutional characteristics of late industrialization of South Korea. Another economic development scholar, Peter Evans, also uses LMNEs, particularly in the information technology industries, as analytical focus to explore the economic development in Korea, Brazil (Evans and Tigre, 1989) and India (Evans, 1992). A recent report by OECD, arguing that it is worthy exploring that how firms from developing countries manage to internationalize, shows that there is a strong association between the growth of LMNEs and economic development (Bonaglia and Goldstein, 2007).

LMNEs today have a larger presence than ever before in the international market, and some of them have made it into the Fortune 500 (Business Week, 2001; Mathews, 2002). Thus, the motivation for this article stems from the unique institutional context of developing countries that could cultivate successful LMNEs. Economic development scholar Amartya Sen (1999) once argued that economic development could be regarded as the enhancement of the capabilities of latecomer firms; whereas international business scholar Dunning (2006) recently also maintains that the resource, capabilities, and market opportunities of the local firms are crucial to economic development. This paper hence advances the argument that the growth of LMNEs in a developing country presents a fascinating opportunity to integrate economic development theory and the dynamic capabilities perspective. Moreover, inspired by Joseph Stiglitz (1998) who contends that the issue of economic development is one of balance among the three sectors (i.e., the state, the market and the social sector), this paper contributes to the international management by addressing how, through a balanced influence of the three sectors, LMNEs develop their capacities to compete in the international market.

To answer the question “how to develop LMNEs to compete internationally,” this paper begins by building a three-sector growth model, focusing on the longitudinal process that latecomer firms move through from “getting there” to “staying there” (Mintzberg, 1989: 367). Latecomer firms, at the stage of “getting there,” would call for the caring hand of the social sector; at the stage of “staying there,” would need the competition of the market; and at the transition stage between these two stages, would need the discipline of the state. This three-sector growth model is in line with the economic development literature that suggests, as latecomer firms mature, they should be able to stand market competition (Boisot and Child, 1996; Nee, 1989). Yet, what leads to the establishment of LMNEs in the international market remains less clear. Thus, this paper further identifies the conditions under which the three sectors would work together and the way in which they would have the division of labor. In summary, this paper adopts an “Inside-Out” approach in order to understand how LMNEs grow from the domestic institutional context into the global economy, in contrast to the mainstream “Outside-In” approach, which focuses exclusively on how established FMNEs move into developing economies.

This paper pays special attention to the high-technology industries in Asia because since the 1980s, high-technology industries, especially electronics, have been the largest, fast-growing export sector in Asia (Hobday, 1995), and out of the top ten global LMNEs, three were from Taiwan's semiconductor and telecommunication industries, two were from China's telecommunication industries, and one was from South Korea's semiconductor industries (Business Week, 2001). Another survey conducted recently by Boston Consulting Group (2006) revealed that, 44 of the top 100 global LMNEs were from China, and 21 were from India.¹ Provided the focus of this paper is on the high-technology

¹ Excluding South Korea and Taiwan, the countries included in the BCG's report are Brazil, China, the Czech Republic, Hungary, India, Indonesia, Malaysia, Mexico, Poland, Russia, Thailand and Turkey.

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