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The influence of firm-specific and country-specific advantages in the internationalization of emerging market firms: Evidence from Turkey

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ABSTRACT

This paper examines the role of institutional factors that enable firm- and country-specific drivers of emerging market (EM) firms' internationalization based on case-based research conducted in one EM, Turkey. Findings indicate that 10 major factors comprised of firm-specific and country-specific advantages drove the focal case study firms abroad: the firm-specific factors ranged from financial and operations supremacy; excellence in value chain activities; inexpensive human resources; rapid learning capabilities in production and technology development; and adaptability to foreign markets; while the country-specific factors included home-government policies supporting internationalization; logistical advantages arising from geographical position; adaptability capabilities resulting from former survival through institutional voids; strong social ties formed through networks; and availability of low cost resources. These findings are discussed and future research questions are offered.

1. Introduction

This paper explores the enabling firm- and country-specific characteristics that drive emerging market (EM) firms to internationalize. This is a significant international business question to address because even though EMs and the rise of their internationalizing firms (EMMNCs) have had significant impacts on international business and the world economy generally (Khanna & Palepu, 2010), we know little about what drives these firms abroad, how they go abroad, what competitive advantages they exploit and explore as they internationalize, and how successful they have been in competing with their Western rivals.

Recent research has begun to explore at least two intertwined EM phenomena in response to this need: EMs as markets themselves and EM firms' internationalization from these marketspaces. EMs as markets is interesting to business scholars and managers because they paint pictures of EM markets' institutional transformations that underscore business opportunities: burgeoning markets with high populations and economic growth, revolutions of rising consumer expectations, urbanization, growing middle classes hungry for goods and services, and expanding digital commerce networks. Their large and well-educated but inexpensive labor pools with high technological and managerial skills and the growing entrepreneurial spirit of their younger populations who are pursuing opportunities for economic prosperity, in turn, provide a rich context in which EMMNCs flourish, enhancing their competencies with which they expand abroad (Khanna & Palepu, 2010; Chattopadhyay, Batra, & Ozsomer, 2012).

EM firms' internationalization has become interesting to scholars and managers because some of these firms have grown into world class players in their global industries, even though they have had to grow up without the typical firm- and country-specific advantages that their developed country counterparts have enjoyed and continue to exploit. Yet, many have been able to move upstream in their value chains to become branded product marketers while some have been able to effectively blend their scale-efficiency-based advantages with their more recently developed differentiation skills in global competition. Many, for instance, Haier, Huwai Technologies and Lenovo (China), Tata, Ranbaxy, and Wipro (India), Embraer and AmBev (Brazil), Gazprom (Russia), SAB Miller (South Africa), Arcelik (Turkey), Teva (Israel), and Cemex (Mexico), have recently outpaced their developed economy counterparts in internationalization, basing that effort on sometimes firm-, at other times on country-specific, and at still other times intertwined firm- and country-specific competitive advantages (Jormanainen & Koveshnikov, 2012; Khanna & Palepu, 2010; Ramamurti, 2012; Ramamurti & Singh, 2009).

Research has now begun to examine various dimensions of this

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transformation (see, for example, Cuervo-Cazzura & Genc, 2008; Khanna & Palepu, 2006; Luo & Tung, 2007; Madhok & Keyhani, 2012; Mathews, 2006; Meyer, 2004; Narula, 2012; Ramamurti, 2012; Ramamurti & Singh, 2009). Though a good volume of this earlier work has been on the internationalization of Chinese and Indian MNCs (Jormainen & Koveshnikov, 2012; Hsu, Lien, & Chen, 2013), more recent work has begun to delve more deeply into the broader inner workings of EM firms' internationalization, more generally (see, for example, Chattopadhyay et al., 2012; Demirbag and Yaprak, 2015; Jormanainen and Koveshnikov, 2012; Khanna and Palepu, 2010; Peng, 2012). Thus, there is still an urgent need for replication studies that will more deeply examine the undercurrents of EMMNCs' internationalization in different geographic and institutional contexts to help underscore, add to, and/or refute earlier studies' findings (Ramamurti, 2012). Our work responds to this need. We designed our research to help induct theory from case studies as this approach to research is most appropriate in understudied topic areas (Eisenhardt, 1989; Sinkovics, Penz, & Ghauri, 2008). Paralleling other studies on this question, we selected 13 internationalizing firms in Turkey to develop an in-depth understanding of their internationalization patterns, and chose five to study more comprehensively to derive an even deeper understanding of their internationalization. We developed patterns based on multiple sources of data (archival information, face-to-face interviews with company executives and managers), and cross-analyzed our findings to help establish triangulation in our results. Based on the convergence of our findings, we developed perspectives on how Turkish firms have internationalized, and by extension, how other EM firms might do so.

Next, we present a brief overview of the current literature on the internationalization processes of EM firms. We then focus on the Turkish context and how the unique dimensions of this environment might have inspired and accelerated Turkish firms' internationalization. We then explore how Turkish firms have succeeded in expanding abroad and the ingredients that are helping this trend continue. We conclude with a discussion of our findings and three major propositions driven from our study. Though our work is limited to only a handful of firms in only one country, it should shed light on our understanding of how EM firms internationalize and the special attributes that help them do so in other countries.

2. Relevant literature

The literature offers at least five theory bases that show alternative perspectives on EM firms' internationalization. Among these are the Resource-based View (Barney, 1991; Wernerfeldt, 1984), the Industry-based view (Porter, 1990), the Institution-based view (North, 1990; Peng, 2002, 2003; Scott, 2008), the Eclectic or Ownership- Location-Internalization (OLI) theory (Dunning, 1988) and the new-venture internationalization theory (Oviatt & McDougall, 2005). Though these theory bases intertwine in their explanations of EMMNCs' international expansion behavior, they each provide an independent and persuasive conceptual rationale for that behavior. For instance, while they all speak to EMNMCs' market, resource, efficiency, and/or resource-seeking motives that inspire them to move abroad, they differ in their explanations of how these motives activate internationalization behavior. As an example, while the RBV views EMMNCs' ability in operating in weak institutional environments and their entrepreneurs' capabilities in nurturing network ties as differentiating resources that they carry abroad for competitive advantage, the industry-based view theorizes that EM firms move abroad to develop greater competitive prowess in world markets, for instance, by acquiring new strategic assets, such as a (global) brand for greater competitive capability to outcompete their developed country counterparts in their home-country, host-country, and third-country markets.

Among these theories, perhaps the most popular theory for EMMNC internationalization has been the institution-based view from the economics literature (North, 1990), later adapted to the international business literature, primarily by Peng (2002, 2003) and his collaborators (Peng, Wang, & Jiang, 2008; Peng, Sun, Pinkham, & Chen, 2009). Proponents of this view contend that institutions that comprise both the home-country and the host-country institutional settings that make up the regulative, normative, and cognitive structures and activities in those contexts help frame and explain firm behavior in them (Peng et al., 2009). They argue that dynamic interactions between firms and these institutional contexts drive firms' strategic choices, organizational practices, and structures. They argue, for instance, that changes in institutional domains such as in industry-based competition (inter-firm rivalry among firms, formal government policies, and informal firm and consumer sentiments regarding acceptable behavior in an industry segment), in firm-specific resource and capability use (scale efficiency-based labor or scope effectiveness-based marketing capabilities), and in transitions in institutional conditions in an economy (evolution from an original equipment manufacturer (OEM)-supplier orientation to a brand-builder orientation) will affect firm behavior. They further hold that, the specific industry conditions in the firm's environment and firm-specific resources will interact dynamically with the formal and informal constraints that are exerted by the institutions on organizations and markets, and this interface will shape organizational behavior and performance (Peng et al., 2009).

The institution-based view highlights the role of firm-specific advantages (FSAs) and country- specific advantages (CSAs) arising from the institutional context. While developed primarily in the advanced economy world, the institution-based view carries greater weight in EM contexts through especially two mechanisms, namely transaction costs and social ties. Transactions costs, the costs of participating in a market, can vary due to the differences in home and the host- country institutional settings. For instance, while restricted home market institutional conditions, such as weakly-developed distribution networks for the firm's products, may push the EM firm abroad, host market institutional opportunities, such as more extensive distribution networks, will pull it to those markets (Khanna & Palepu, 2010). Similarly, failures in market and financial institutions which are typically not as perfectly developed in these markets as they are in the developed countries will lead to institutional voids in labor, product, and financial markets, such as weak rule of law, limited contract enforcement, inefficient judicial systems, and so forth, and these imperfections will lead the firm to move abroad in search of more-effectively functioning markets in order to reduce costs (Ahuja & Yayavaram, 2011; Khanna & Palepu, 2010).

Local institutions, such as (informal) social ties within a social network will serve firms' needs in the absence of formal contracting institutions (Granovetter, 1994). Political connections will help the best connected firms to take advantage of these connections when they cannot be cost, differentiation, or focus leaders in product markets (Oliver & Holzinger, 2008). Many EM firms' business group structures, for instance the keiretsus and chaebols in East Asia and the holding companies in Turkey, will help them internalize market uncertainties and minimize transaction costs, like those associated with mergers and acquisitions found in the Western world (Bugra, 2016; Khanna & Yafeh, 2007). Business group and interpersonal networks nurtured by managers, such as guanxi in China and government involvement in fostering these bonds, will help lower transactions costs and serve to connect the focal firm with its suppliers and distributors through partnerships and alliances in both their home and host markets (Peng et al., 2009; Yaprak and Karademir, 2011). As the EM context transforms from the network-based informal to the more market mechanism-based formal institutional contexts as many EMs appear to be doing today, EM firms will develop new competencies and capabilities that will transform their behavior as they internationalize. For example, they will shift from scale-economy generating OEM suppliers to scope-expanding differentiators (Peng et al., 2009).

Empirical studies underscore this theoretical rationale on the relevance of the institution-based view for analyzing EMMNC firms' internationalization. For example, Dunning, van Hoesel, and Narula