11. Conclusions for Management Research

Klaus E. Meyer

INTRODUCTION[56]

This research project has analysed foreign investors' entry strategies with particular attention to transactional, resource and institutional aspects. Our research focus has been on the adaptation of entry strategies to the local business context, in particular the institutional environment and local resource endowment. This concluding chapter reviews emerging themes and implications of the research, and the case studies in particular, with relevance to the international management and strategy literature introduced in chapter 1.

To start, we revisit the global strategies of the investors and their implications for FDI in emerging economies. Global strategies are the prime determinants of entry strategies, and any analysis of entry has to take them into account. Secondly, I consider conceptual issues concerning entry strategies, and reflect over the appropriateness of the conventional classifications of joint venture versus wholly owned, and acquisition versus greenfield. The case studies reveal important features of modes that may go unnoticed with the conventional classification. I thus describe and classify the entry modes in more detail with the aim of enriching the conceptual analysis of entry modes, and to propose concepts for future research.

Thirdly, I review the crucial resource dimension of foreign entry in the spirit of recent literature on the resource-based view of the firm (Barkema and Vermeulen 1998, Anand and Delios 2002). Our study investigated what kinds of resources are crucial for success or failure of affiliates in emerging markets, and where FDI firms obtain these resources. The cases point in particular to the dynamics of resource contributions during the early years after the initial establishment. Eventually, we are concerned with the implications of mode choice for both corporate and societal performance: which local circumstances would suggest using either entry mode and when do for instance acquisitions perform better than greenfield projects? The main implication of the qualitative work is, however, that the design of the deal may be more crucial than the choice of mode: In practice, investors rarely face a choice between two clearly defined options.

Table 11.1 Overview of case studies

Foreign Investor	Country of origin	Acquired firm	Industry	Objectives (main group of targeted customers)	Year of entry
NGK Ceramics	Japan	---	Automotive suppliers	Global MNE (local & export)	2000
Behr	Germany	Federal Mogul, SA			1999
EST	USA	Ziton	Fire detection equipment	world-wide, mainly businesses	2000
ABN Amro	Netherlands	---	Banking	Local businesses and individuals, global customers.	1995
SEAB	Singapore / Denmark	---	Beverages	Local individuals	1993
ABB	Sweden / Switzerland	Hanoi Transformer	Electrical engineering	Local state-owned firms	1996
Honda	Japan	---	Motorcycles	Local individuals	1996
Bacardi-Martini	USA	Gemini Distilleries	Beverages	Local individuals	1998
Packaging	n.a.	Unit of a conglomerate	Packaging	Local businesses	mid 1990s, 2000

ABN Amro	Netherlands	Bank of America, IN	Banking	Local businesses and individuals, global customers.	1920, 1998
France Telecom, Motorola	France, USA	ECMS MobiNil	Telecom operator	Local individuals and businesses	1998
GSK	UK	ABI, APIC	Pharmaceuticals	Medical practitioners in Arab countries, Africa & parts of Europe	1981, 1997
Heinz	USA	---	Processed food	Local and Arab-wide individuals & restaurants	1992

GLOBAL STRATEGIES AND LOCAL ENTRY

Any explanation of foreign investment must start from an understanding of the global strategies pushing MNCs into emerging markets, including the impact of institutional changes at the global level such as membership in the World Trade Organisation or regional integration. Most investors in our study focus on a particular industry aiming for global leadership in their chosen segment. FDI in developing countries can serve this objective by providing a global supply base or by extending market reach.

The case studies have been selected to cover a diversity of countries of origins and investment objectives as well as a diversity of industries, with emphasis on manufacturing (Table 11.1). All foreign investors have undertaken new FDI in the last 10 years; however two investors had operations in the host economy for many years before: ABN Amro in India and GSK in Egypt.

The home countries of the investors include Europe, USA and Japan. The foreign investor firms in the sample are mainly large MNEs with several operations abroad; some even have a worldwide presence. They thus undertake substantive projects with potentially large impact in terms of employment, capital and knowledge transfer. They are not “average investors”, who, as the survey data show, often are small and medium size firms that in case of Vietnam and Egypt may originate within the region.

The industries span a wide range of manufacturing with variations reflecting the host countries’ industrial structure, plus a major business services case in three countries, respectively banking and telecommunications. To facilitate cross-country comparisons, we analysed ABN Amro in both India and South Africa; they do not have subsidiaries in Egypt or Vietnam.

Except for the South African manufacturing cases, all investors are primarily serving the local market. This corresponds to the pattern found in the survey, especially considering that the case-firms are at least medium size, while many export-oriented operations are small. The market-seeking cases cover both business-to-business industries, and manufacturers of consumer goods. In contrast, Behr and Edwards Systems Technology (EST) invested in South Africa to acquire technological resources of local firms that are valuable not just in a local context, and moreover provided access to customers worldwide. GSK Egypt has for many years served primarily the Egyptian market, yet in recent years, it has grown into one of the worldwide five production and supply hubs of GSK, serving the Middle East, Africa and parts of Southern Europe.

None of our cases reports an investment that is solely established with the aim to exploit local labour cost advantages or raw materials. This is indicative of the fact that most FDI projects are driven by a mix of motives.

Yet, global sourcing strategies lead to the transfer of supplier relationships, and thus local sourcing for local production. Manufacturing companies often prefer to use their same established suppliers worldwide, especially in the automotive industry. Thus, Honda's investment in motorcycle assembly in Vietnam triggered further investment by its Japanese suppliers, while Behr has reacted on requests by German automotive manufacturers in South Africa.

To explain the pattern of operations in emerging markets, one has to understand how global strategies drive of international entry. Globalisation has led to the opening of many markets and thus increased competition not only in emerging markets, but also in developed countries. In consequence, rather than building a strong position in several markets in their home country, more and more companies pursue a global strategy that is focused on one particular industry. In recent years, many MNEs have gone through a process of 'globalfocusing', as they have shed peripheral product lines and expanded their core businesses, often by acquisition (Meyer 2003). As industry-specialists, they aim for global leadership positions in their chosen segment.

FDI in emerging economies can serve this objective by providing a global supply base, or by extending the market reach. Among the case firms, in particular Heinz changed its strategy by refocusing on a narrower product line while strengthening its global operations, among other sites in Egypt. For companies aiming to become global leaders in their market segment, competitive interaction with global rivals may induce early entry in emerging economies in view of first-mover or fast-second advantages, as in the case of Carlsberg acting soon after Heineken entered Vietnam, and NGK Ceramics following competitor Corning into South Africa.

On the other hand, some firms have divested selected emerging market operations as part of a global restructuring, including ABN Amro. Moreover, two of the case firms acquired emerging market affiliates of firms that wished to divest from certain industries, namely ABN Amro taking over Bank of America's Indian retail banking operation, and Behr taking over a South African division of Federal Mogul of the USA. Global mergers and acquisitions can also affect operations in emerging markets, yet in the cases we have only one example. Glaxo Egypt changed its name to Glaxo-Wellcome Egypt in 1995 and to GSK Egypt in 2001 as result of global mergers.

In conclusion, the globalisation of industries and competition can be expected to generate more MNEs that aim to exploit locational advantages worldwide, and which thus establish operations in emerging markets as part of their integrated global operations. Further research ought to investigate this trend and its driving forces. It needs to be incorporated into both strategic management research and policy analysis of foreign direct investment.

Table 11.2 Entry modes

Firm	Mode	FDI ownership	Employment
NGK	Greenfield	100%	90
Behr	Acquisition from another MNE	100%	1081
EST	Acquisition of a firm with worldwide exports	100%	450
ABN Amro	Greenfield, then grown through an acquisition.	Affiliate 100%, which owns some businesses as JV.	2000: 350, 2003: 120
SEAB	JV with a SOE	35% (plus 25% investment fund up to 2003)	1995: 340
ABB	JV with a SOE, but effectively a partial acquisition	65%	1998: 470 2001: 260
Honda	JV with 'passive' SOE	70%	n.a.
Bacardi-Martini	JV with local conglomerate	74%	n.a.
Packaging	Stepwise acquisition from local conglomerate	Initially 51%, later 100%	n.a.

ABN Amro	Organic growth, acquisition from another MNE & JV with passive partner in different segments.	Affiliate 100%, which owns some businesses as JV	n.a.
ECMS MobiNil	Consortium-JV acquires a privatised firm	71.25% in JV, which owns 51% ECMS	1700
GSK	Multiple acquisitions of private firms	a) Stepwise to 87.8%, b) 97%	1057
Heinz	JV with a Kuwaiti firm	Initially 33%, now 51%	200

Note: In India, employment data are considered confidential and thus not readily available.

ENTRY MODES

Multinational firms normally prefer full ownership of their operations, as partial acquisitions and joint ventures with unequal partners are potentially subject to many conflicts. Exceptions are made for instance when a local partner is needed but cannot be incorporated in the firm, or when investment risk shall be shared. Moreover, expansion in industrialised countries is often in form of acquisition, while expansion in emerging markets is more frequently in form of greenfield or with shared ownership, as illustrated by our survey data (chapter 2). The cases include many joint ventures and partial acquisitions, and show a variety of entry modes not just in terms of types as discussed in the scholarly literature, but in the ways that these modes are actually designed. This variation concerns multiple dimensions, including equity control and resource transfers.

In all our cases, the foreign investor has a dominant influence over the management at least on strategic issues. However, in most cases the foreign investor holds less than full equity (Table 11.2). The variations in equity ownership appear mainly country specific. In South Africa, the foreign investors hold 100 per cent where they wish to do so. In Vietnam, all investors have formed joint ventures with state-owned firms. In Egypt, all foreign investors also hold majority stake in a JV, yet the partners are private firms, and the foreign stake has increased since the first entry in Egypt. In India, all three projects were initially established as JV, but two had been converted to 100 per cent ownership by 2002.

The cases include both acquisitions and greenfield projects, both among the fully foreign-owned firms and among those with shared equity. Only in South Africa, full acquisitions are common according to our survey data and they are represented in the cases. In the other countries, acquisitions occur as partial acquisitions, as in ECMS Egypt, or in the formal structure of a joint venture as in ABB Transformers, Vietnam or Bacardi-Martini, India.

The small number of full acquisitions may be surprising, considering that many investors need complementary local resources. In mature market economies, FDI capital flows from M&A account for more than 90 per cent of all FDI capital, while in emerging markets the proportion of FDI in form of acquisition fluctuate between a quarter and half of FDI capital (United Nations 2002). In our survey study, less than one in four FDI projects are in form of partial or full acquisition (chapter 2). Our cases include several acquisitions, but also firms that might be expected to expand by acquisition, but didn't. This research points to two complementary factors that may inhibit acquisitions in emerging economies: potential acquisition targets are rare as resource endowment of local firms is weak, and relevant capital market institutions are not well developed.

The survey data show that large affiliates are more likely to be created by partial or full acquisition, while greenfield dominates among affiliates with

(so far) less than 100 employees. Our cases show a similar pattern, as the only pure greenfield, NGK Ceramics in South Africa, is also the only subsidiary that has yet below 100 employees. The larger numbers of employees in the projects mostly originate from the acquired firm.

Another feature of the cases that has rarely been explored in the literature is the dynamics of ownership patterns over the lifetime of an FDI project (but see Gomes-Casseres 1987, Harrigan 1988). In our cases, foreign partners in Egyptian and Indian cases increased their equity stake, but the survey data also show foreign investors reducing their stake. In some cases, these equity changes appear pre-planned, in other cases the change occurred in response to changes in the environment, notably the FDI regulation. A low level involvement moreover provides a foreign investor with a platform from which to expand if the business develops favourably, while at the same time retaining the flexibility not to commit further resources if prospects turn out to be less promising.

GSK took 11 years to increase its stake in ABI to 87.8 per cent in 1992, Heinz soon after the initial entry increased its stake from 33 to 51 per cent. In the ECMS case, one of the foreign partners in the original MobilNil consortium left and its shares were taken over by France Telecom. Increases of foreign capital were also observed in both Packaging and ABN Amro in India, where it appears closely related to the removal of legal constraints on foreign ownership in the pertinent sector. In contrast, our cases do not show increases of foreign equity in Vietnam, though we know of other investors having increased their equity. It should be added that in ABB and Honda the foreign partner has managerial control, while SEAB has a rotating management arrangement. It appears that as long as the established relationship is working, and the local partner serves a role in for instance maintaining relationships with authorities and local businesses, foreign investors do not wish to ‘rock the boat’, i.e. disrupt trust in the relationships by suggesting to change the ownership pattern.

Many foreign investors engaging in a partial acquisition aim at eventually attaining full control. This is illustrated by the Packaging case. Lack of financial resources of the local partner to finance major restructuring or expansion became a trigger for change of ownership. However, it appears that both partners have considered the option of an eventually full acquisition early on. The local partners intended to exit the industry as part of a change in corporate strategy, and the foreign investor would prefer full control over its operation in an important and growing market. Similarly, GSK gradually increased it ownership in the Egyptian operation, yet this process stretched over a far longer period of time. In the Bacardi-Martini case, capital needs were met by issuing non-voting preference shares that the local ownership stake at the legally required minimum of 26 per cent. However, Bacardi-Martini would increase its equity stake if it were permitted to do so.

Increases in equity have consequences for the interpretation of FDI statistics. As we experienced in our sampling in India, many projects registered as new FDI appear to be increases of the equity of the foreign partner in a joint venture. In practice, it has sometimes been difficult to distinguish between 'entry' and 'expansion' in the way the scholarly literature does. This is illustrated among the cases for instance by ABN Amro in India and by GSK in Egypt. They have been established in the host country for decades, but in the 1990s increased their operations using a variety of modes of expansion, or entry, into new segments. National statistics differ how they record expansion of existing FDI operations by either mode. Acquisition-based growth may require additional permits, and would thus be recorded, while statistics may not capture organic growth. Thus, FDI statistics may over-report the number of foreign investors that are new in the country, especially if incumbent investors expand by acquisition. However, foreign expansion and equity increases can be an important source of capital inflow to a country, and thus relevant for certain policy issues.

The role of local partners in the joint ventures varies greatly, as illustrated by the three Vietnamese cases: In the case of Honda, the local firm appears to play a largely passive role, helping to gain legitimacy, and providing land use rights. In the case of ABB Transformers, the local co-owner has transferred all its operations to the newly created joint venture and remained as a shell-firm owning equity in the JV. ABB has effectively taken over the existing operation, and the local state-owned co-owner provides a means through which the ministry aims to influence an otherwise privately run firm, while facilitating access to other state entities that are important customers. SEAB/Carlsberg is structured as a conventional joint venture where both partners contribute resources, and share control. The local firm has also developed related business thus realising synergies and spillovers. Carlsberg Breweries of Denmark maintains control indirectly through its brand name, and by having a Danish financial investor as a partner that locals perceive part of the "Danish side".

Hence, Honda's local partner can be classified as silent, and at least one of ABN Amro's partners in India also falls in this category (Figure 11.1). ABB transformer Vietnam is best described as partial acquisition, and thus has much in common with Bacardi-Martini's investment in India, where the local partners also transferred a business unit to the JV. Carlsberg's relationship with Halimex represents a traditional JV, apart from the involvement of IFU as financial investor.

In Egypt, two local joint venture partners are operating on a pan-Arab basis, providing location-specific resources to several foreign investors. The Al Kharafi group originating in Kuwait is acting as local partner to a variety of foreign businesses in Egypt, among other businesses using the brand name Americana. It has operated in Egypt for many years prior to setting up the JV with Heinz, and serves as link to local customers and facilitates operating in

Arab cultural context. MobilNil was set as a consortium between two Western investors and a local firm to bid for ECMS. The local partner, Orascom Telecom, has subsequent expanded beyond Egypt, mostly through similar partnerships with Western partners in other Arab countries and in Africa, including in 2003 Iraq. The “regional local partner” is contributing resources to a JV that are region-specific. As international business is often regional rather than global (Rugman & Verbecke 2003), this phenomenon may be of increasing importance in international business worldwide.

These diverse roles of local JV partners suggest introducing a new terminology to analyse joint ventures. Figure 11.1 suggests a classification and concepts for joint ventures based on these types of observed joint ventures.

Role of Partner

	Partner		
	Local firm	Regional firm	Global firm
Transfer of entire business unit	**Quasi-partial acquisition:** ABB, VN Bacardi-Martini, IN	---	---
Both partners make substantive contributions	**Traditional JV:** SEAB, VN	**Regional specialist:** Heinz, EG: Al Kharafi ECMS, EG: Orascom	**Consortium:** MobiNil, EG: bid consortium
Partner is largely passive	**Silent partner:** ABN Amro, IN: leasing business Honda, VN	---	**Financial investor:** SEAB, VN

Figure 11.1 Role of partners in the joint ventures

The acquisitions vary in two important dimensions: the previous owner, and the pattern of ownership change. The literature to date mainly presumes that previous owners are private firms or individuals, while a separate literature analyses privatisation. However, the phenomenon of acquisition of a foreign-owned operation by another foreign investor seems quite common in emerging economies, but it has not yet been explored in the scholarly literature. Figure 11.2 suggests that these dimensions might be related, as

state-owned firms appear more frequently to be acquired partially, while foreign owned affiliate change owner full and in one transaction. This is plausible as the capital markets are typically more developed concerning foreign owned businesses than for state-owned businesses. However, the type of acquisition is highly dependent on the wider institutional context, which suggests that one should be wary of excessive generalisations based on

Figure 11.2.

Type of Acquisition	**Previous Owner**		
	Foreign investor	Domestic private	State-owned firm
Full	Behr, SA ABN Amro, IN	EST-Ziton, SA GSK, EG: APIC	-
Stepwise	-	GSK, EG: ABI Packaging, IN ABN Amro, SA	-ABB, VN
Partial	-	Bacardi-Martini, IN	ECMS, EG

Figure 11.2 Role of acquired firms in acquisitions

Note: 'partial' includes firms that were in shared ownership by 2002, they might change into 'stepwise' at a later point in time.

The case evidence moreover suggests that acquisitions from the state need more extensive restructuring, as do some of the domestic private firms. In the two cases of acquisition from the state, ECMS Egypt and ABB Transformer in Vietnam[57], this restructuring occurred even with shared ownership and control. In contrast, the deep restructuring in Packaging appears to have been implemented only after the foreign investor acquired full ownership.

The dynamic perspective on entry taken in this research also reveals that decision-making processes concerning foreign entry strategies are not made as rationally as theoretical models may suggest. Foreign investors may be to a high degree simultaneously reacting to opportunities and designing entry strategies (Antal-Mokos 1998). Moreover, observed strategies may often be 'emergent strategies' (Minzberg and Waters 1985) that diverge from the originally designed strategy as decision makers obtain new information and adjust strategy, or delegated decisions on lower levels of the hierarchy gradually change the overall direction that the firms is taking. For example, ABB Transformers Vietnam entered a new business segment earlier than planned, and engaged in deep restructuring with downsizing of the

workforce, which in this form was not anticipated. ABN Amro gradually build its operations in India and South Africa, seeking new opportunities as they emerged, yet exiting other segments as result of changes in global strategy or unsatisfactory local performance.

Another important aspect of entry illustrated by the cases is the dynamic interdependence of entry and exit. Foreign investors enter emerging economies to pursue business opportunities that extend their global strategies. Yet, they may as well leave when it suits them. Exit may result from changes in global strategies, as for ABN Amro South Africa. The global trend of firms focusing on more narrowly defined core lines of business, where they aim for global leadership, leads to divestment of non-core businesses. This may lead to divestment of affiliates in a peripheral emerging market, even if the business as such is profitable. Other exits arise from dynamics of the local industry. For instance, liberalization often leads to entry of many investors; yet the wave of entry may be followed by a period of consolidation when some competitors leave, for instance by selling their operation to another foreign investor.

In conclusion, we find a considerable variety of entry modes serving different needs and accommodating contextual idiosyncrasies. With respect to the received literature (see chapter 1), this suggest that international business scholars may have been excessively concerned with the choice between stylised alternative entry modes, rather than studying the design and the dynamics of operation modes. Future research may thus aim to enrich concepts such as 'joint venture' and 'acquisition', and analyse further the adaptation of modes, rather than the selection between modes from a presumed set of alternative choices. It may thus integrate the work on mode combinations and mode switching (Benito and Welch 1994, Petersen et al. 2000).

RESOURCE-BASED PERSPECTIVES

Table 11.3 summarises the key resources that provide case firms with competitive advantages in their respective markets, and alternative sources for these resources, including the foreign investment firm and the local partner in cases of JV or acquisition. As would be expected, the most important resources are knowledge-based assets, including production technology as well as managerial and organizational capabilities. The pattern varies across sectors as technology is considered important in most manufacturing operations, while brand names and marketing are important for consumer goods manufacturers focusing on local markets, and some service industries. Many cases show a traditional pattern with foreign investors contributing technology and global marketing and management

Table 11.3 Resources in the local firm

Firm	Key resources	Contribution by foreign firm	Contribution by local firm	Other
NGK	Access to global customers	Technology, market knowledge, supplier relations with car industry	n.a. (Greenfield)	Stainless steel, precious metal technology
Behr			Industry-specific capabilities and facilities for lower cost production	---
EST	Cost, technology, distribution	Global operation in the up-market segment in the same industry.	Global brand & distribution, technology, low-cost production base,	---
ABN Amro	Broad bundle of resources	Global network, brand, operational know how	Customer relations, retail bank network, market research	---

SEAB	Technology, brands	Technology and marketing know-how, machinery, global brand, capital	Educated workforce (absorptive capacity), distribution network, local brand, land and buildings, political know-how.	Water quality
ABB	Technology	Technology & management, especially production-process related knowledge, machinery, capital,	Staff, physical assets & liabilities, relationship with state-owned firms as customers, industry-specific human capital (absorptive capacity)	---
Honda	Broad bundle of resources	Brand, technology, machinery, local sales network!, capital, etc	Land use rights, political legitimacy.	---
Bacardi-Martini	Brand, technology	Brand, marketing, technology, e.g. waste treatment	Legitimacy, local knowledge concerning regulatory issues	Managerial resources, local farm produce (molasses)

Packaging	Technology, location	Technology, financial capital	Existing operations, customer relations	---
ABN Amro	Broad bundle of resources	Global brand, Organizational procedures, …	Organic: n.a. Acq.: retail network, organizational procedures JV: regulatory permit only	Managerial resources
ECMS MobiNil	GSM license, management	Industry specific management knowledge, technology	GSM license	Network of base stations (newly created)
GSK	Patents, human capital	Patents, capital, production technology	Existing market share, licenses, approvals, sales force real estate	---
Heinz	Brand, recipes, quality of inputs.	Brand name, recipes, marketing & management knowledge, Machinery & technology.	Local & regional market knowledge, access to fast-food outlets.	Local farm produce (tomatoes)

knowledge, while local partners contribute knowledge and network access related to the local business environment.

The local contributions vary across industries, with most investors setting up manufacturing operations citing human capital relevant to their particular type of operations as attraction of the location selected. Customer access can be provided by local JV partners or acquired firms in various forms, from existing customer base in the service industries (ABN Amro, ECMS) and manufacturing (Behr, EST, Packaging), to relations with authorities when aiming at public sector procurement contracts (ABB Transformers, GSK), and to distribution channels and local brand names for consumer goods (SEAB, Heinz). However, such contributions are not required by foreign investors with an already established brand name and distribution channel and service network, such as Honda in Vietnam.

Where the operation is export oriented, foreign firms mostly contribute access to export markets, especially to other units of the same MNE, and with their global brand and distribution network. An exception is Heinz, where the El Kharafi group as regional partner also facilitates accessing markets in other Arab countries.

The Carlsberg and ABB cases discuss the partner selection process, and thus illustrate the resources that the foreign investor has been seeking. Carlsberg had several co-operations in form of turnkey projects prior to establishing the joint venture in 1993. The chosen partner, Halimex, had demonstrated high ‘absorptive capacity’ (Cohen and Levinthal 1990, Steemsma and Lyles 2000), i.e. ability to adapt and apply received technology. This, and good political standing of the firm, compensated for the fact that it was a relative newcomer to the brewing industry. ABB chose a partner with a track record of production and innovation in the industry, including experience in reverse engineering. This firm thus was technologically advanced by local standards, and commanded a substantial market share.

A few years after the establishment, both joint ventures would primarily compete on the basis of the foreign investor’s technology, thus it is correct that ‘foreigners contribute technology’. However, at the outset the technological competence of the local partner is crucial for establishing the joint venture and to be able to apply the transferred technology locally. The cases thus illustrate, how absorptive capacity matters for technology transfer in joint ventures. High levels of education of individual employees, as well as organizational structures and cultures promoting learning, innovation, and flexibility enhance the technological progress of the acquired business unit or the local joint venture.

Only in one case, ECMS, the business license has been of prime importance, yet business licenses have been a secondary resource in other cases as well. Various forms of ’assets’ created courtesy of local regulation are mentioned in the cases. While it is apparent why licensing of GSM

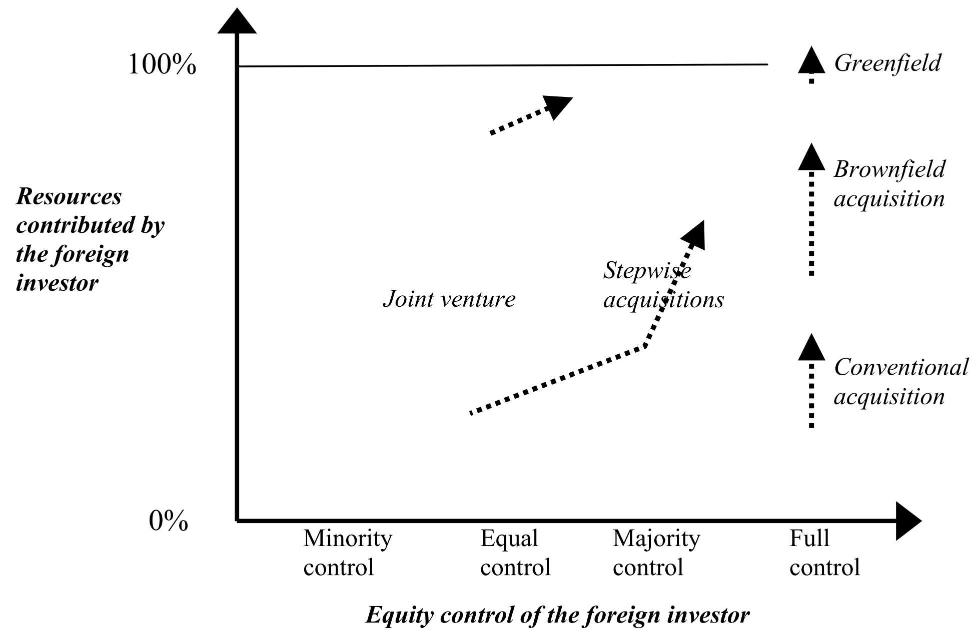

Figure 11.3 Evolutionary paths of FDI during the initial years

Note: Arrows represent possible evolutionary paths over the first years of operation of an FDI.

networks in necessary, it may be more surprising that state-owned firms are needed as a partner in Vietnam to access 'land use rights' due to restriction of private land ownership, or to obtain permission to engage in export and import (only in 1999, private firms were allowed to import and export directly, before that everything had to be handled by SOEs). In Vietnam, only state-owned firms have access to land, while private domestic firms do not, such that only state-owned firms are able to be partner for foreign investors. Beyond a formal requirement, local partners provide legitimacy that facilitates relations with authorities, which appears to be important for many businesses.

The type of resources sought from local partners is also a function of the corporate strategy. Market-oriented investors, such as Heinz, seek licenses and marketing-related assets. Industry-specific technology that is competitive on international stage has attracted foreign investors aiming to build an export base in South Africa. EST and Behr would probably not have invested in South Africa if it weren't for the specific acquisition opportunity. However, such organizationally embedded resources are unusual in emerging markets; South Africa is an exception to the rule and illustrates this point. In consequence, acquisitions of local firms are relatively rare, as shown in the survey data. This can be attributed to the weak endowment of local firms with internationally competitive resources. Thus, acquisitions and in consequence the volume of FDI capital that enters emerging markets is constrained by the lack of local firms with capabilities that are valuable in international competition.

Some cases also point to local resources other than those obtained from local partners, for instance quality of management, as stressed in the Indian cases, and industry-specific technological expertise such as precious metal technology for NGK. Moreover several investors depend on the quality of local raw materials, especially if transportation costs are high, as for stainless steel (NGK), or in food and beverage sector relying on clean water (SEAB), and farm produce such as tomatoes (Heinz) and molasses (Bacardi-Martini).

The resource transfer from the foreign parent has been extensive in all ownership forms, and contributed substantially to organizational performance, as observed in earlier studies (Uhlenbruck and De Castro 2000, Steensma and Lyles 2000). In several cases of acquisitions the resources transferred by the new owners quickly came to dominate over those of the acquired firm, such that they can be described as brownfield projects. The most important result here is that brownfield investments are found across emerging economies, and they are not specific to Central and Eastern Europe, where they have been described before (Estrin et al. 1997, Meyer and Estrin 2001). Fast restructuring and resource upgrading happened in particular in the two case-firms that were previously owned by the state: ECMS Egypt and ABB Transformers Vietnam. However, it also happened in some acquisitions

from private owners, such as GSK's acquisitions of ABI and APIC, though not in the South African acquisitions.[58]

The extent of the resource transfer appears to be related to the foreign equity stake, as transaction cost theory would lead us to expect (Figure 11.3). The more control a foreign investor has over local operations, the more it would be willing to transfer sensitive knowledge. In a shared venture, the possibility of local partners using received assets for unauthorised, competitive purposes is higher. However, the Vietnamese cases, in particular Carlsberg and ABB, illustrate that even without majority ownership, extensive knowledge transfer can take place, especially if the relevant technology is not considered 'leading edge' in terms of the foreign partners' global competition. In stepwise acquisitions, the resource transfer may set in soon after the initial entry, but the deep restructuring may also be delayed until the foreign investor attains majority control, as in the Packaging case.

A prime concern in these restructuring processes is human resources. Many MNEs compete on the basis of organizational or technological capabilities. New affiliates need to recruit employees that fit into their global organization, and train them accordingly. This is a particular challenge when acquiring an existing organization that may have a non-entrepreneurial or public sector style organizational culture. In some cases, investors may be able to select the employees whom they take over from the existing organization, as in ECMS in Egypt. Elsewhere, the employment restructuring has been more painful, as for ABB Transformers in Vietnam, where ABB took responsibility for the entire operation. However, layoffs at an early stage may be followed by employment growth. GSK Egypt made 380 of ABI's 741 employees redundant, but recruited 1190 new employees. In part such shift are due to the different skill profile expected by foreign investors, but it may also reflect deliberate focusing and outsourcing strategies that generate growth in the long-term.

Deep restructuring seems less complex where businesses were acquired from another foreign investor as for Behr South Africa and ABN Amro India. This apparent relationship between previous owner and intensity of restructuring arises from the competitiveness of firms in different forms of ownership: Foreign affiliates have an organizational structure and culture that serves most of the needs of a new owner, while state-owned firms often have a fundamentally different organizational logic, which may not be conducive to competitiveness. Hence the brownfield phenomenon appears to be associated with privatisation and weakly competitive local private firms, which may be found in many emerging economies. Empirical research may test if this relationship between types of previous owners and intensity of the restructuring can be generalised beyond our case studies.[59]

On the other hand, the cases do not support the notion that deep restructuring would require full ownership. In fact, the deepest restructuring

is found in two partial acquisitions. Thus, the effective managerial control of the foreign investor over the operation seems to be more important than ownership. Consider the case of ABB Transformers in Vietnam: The formal structure and lack of local experience with deep restructuring and layoffs severely constrained ABB's management. However, they had managerial control and worked cooperatively with the relevant authorities to implement not only the technology transfer, but the organizational change in the jointly owned operation. In contrast, Packaging in India engaged in deep restructuring only after the foreign investor had established full ownership.

The transfer of knowledge, often the most important resource-transfer, occurs in multiple forms. Most important has generally been managerial training on the job with foreign advisors, or rotation of staff to other affiliates of the investor. In SEAB, Vietnamese employees were send to other Asian subsidiaries of their parent firm, as learning from application of technology in other Asian contexts was deemed more conducive to transferring tacit organizational and managerial knowledge. ABB's Vietnamese employees were sent to Norway and Finland where the specific technological expertise was concentrated. Naturally, the success of such training depends on the individual and organization capabilities that the recipients can contribute. Hence, preparation and selection of individuals and groups from training is crucial, as is the creation of an organizational context in which trained employees can implement their ideas. Other means of technology transfer include transfer of machinery that embodies new technology, such as the turnkey arrangements that preceded Carlsberg's JV in Vietnam.

In conclusion, the management of resources is probably the most complex and challenging aspect of establishing operations in emerging markets. Crucial differences arise with both the resources needs in such environments, and their local availability embedded in local firms or otherwise. This suggests that the resource-based view of the firm may hold great potential as theoretical grounding for future empirical research aiming to explain the variations of entry strategies in emerging economies.

INSIGHTS FOR MANAGEMENT

This research aimed primarily at identifying relevant influences on entry mode choice, rather than the effectiveness of alternative strategies. Our performance indicators did not exhibit clear differences across entry modes, in part because entry mode choice is endogenous and observed performance differences would reflect primarily unexpected difficulties encountered post-entry. Hence our managerial insights concern primarily factors that decision-makers ought to include in their analysis when preparing an FDI in an emerging economy.

First, the analysis of alternative entry strategies has to start with the global strategy, which in turn determines the envisaged role of the new emerging market operation. In particular, which markets shall be served by the new affiliate, which resources does the parent firm provide, and which resources need to be obtained locally. An understanding of these resource-flows then allows an analysis of interfaces with local firms and other local agents, and thus alternative modes of operation, such as joint venture, acquisition of a local firm, or establishment of a greenfield operation without local partner.

Second, the types of entry modes are not fixed. Decision-makers thus ought to think creatively how to design an entry mode. Many obstacles may best be overcome by customising a mode to the local context, rather than opting for a second best mode. The contributions of local or regional partners can be arranged in many different ways, from contractual cooperation to full acquisition. Joint ventures allow for many different roles of the partners, and acquired firms play different roles in establishing a new operation. Figures 11.1 and 11.2 provide classification schemes that may be developed for managerial analysis. Moreover, the entry strategy should permit sufficient flexibility to be adjusted to a changing institutional framework.

Third, the resource contributions vary for each project, and they evolve over time. This change over time in some cases follows initial plans, but in many cases changes in the competitive environment or a reassessment of the affiliates own resources lead to unpredicted changes. Decision-makers thus need to analyse the resources needs, the investor's own resources, and the resources controlled by local firms. Complementary resources and objectives are essential. MNE would normally know their own core competences, and their transferability. But they need to assess what complementary local resources they need to make best use of their core competences as these might vary from their experiences in mature market economies. As illustrated in Figure 11.3, the processes of transferring resource and of acquiring local resources stretch over several years, and may require continuous reassessment of the affiliate's organizational form.

Fourth, foreign investors need to analyse the institutional environment, paying special attention to industry-specific institutions, sub-national institutions, and (if an acquisition is considered) capital markets. It may be obvious that regulatory institutions and law enforcement are different in each emerging economy. However, even within countries there are more differences than many investors expect. Thus entrants have to invest in getting to know the local institutions and in network relationships. Moreover, they have to anticipate possible changes in the institutional framework. These issues are discussed in more detail in connection with the policy discussion in chapter 12.