

# Push oriented concept in process of internationalization economics essay



**ASSIGN  
BUSTER**

The literature regarding the process of internationalization has been using the “ push-oriented” concept which states that the outward movement of the firms is driven by strategic objectives. However, based on the recent phenomena of newcomers and latecomers MNCs, internationalization is reconsidered to be a “ pull” process as well. John A. Mathews (2006) argues that the best definition for internationalization nowadays is “ the process of the firm’s becoming integrated in international economic activities”. He emphasizes on the important use of the term “ integration” which covers both the “ pull and push” concept of previous authors’ definitions.

Internationalization is considering the global economy as pre-existing and offering resources to the companies which aim for involvement in the international global market place.

The conceptual and theoretical frameworks developed regarding the drivers of firms to internationalize start from the idea that firms expand abroad because of their capacity to utilize their advantages in the host countries. This concept was formulated by Hymer (1960) and Kindleberger (1969), who built up on even earlier idea of internationalization discussed in terms of international trade and FDI and not in terms of the specific firm’s activities.

Theoretical perspectives that explain the level and pattern of FDI or MNCs activities vary from conventional economic theories (Caves, 1971; Hymer, 1976; Kindleberger, 1969), internationalization models (Buckley & Casson, 1976) to Dunning’s eclectic paradigm (Dunning, 1988, 2006). The eclectic paradigm based on the experience of Anglo-American successful-international firms together with the Uppsala school (Johanson & Vahlne 1977) have been the dominant conceptual models in IB research concerning

<https://assignbuster.com/push-oriented-concept-in-process-of-internationalization-economics-essay/>

the internationalization of firms from developed countries. The international business literature provides explanations of the motivations and challenges, entry mode decisions and characteristics of MNEs from developed countries. Unfortunately, there is no single theory that explains the outward FDI from emerging country economies which is the major topic of this dissertation (Buckley et al., 2007; Luo & Tung, 2007). Previous work on developing economies or third world MNCs has been adapting the transaction cost theory in order to explain the model of internationalization (Kumar, 1982). Most recent observations by Bonaglia et al., 2007; Luo & Tung 2007; Mathews, 2006 have argued that the international expansion of EM MNCs is much more complex and requires attention from different perspectives.

### **The Eclectic Paradigm: OLI Framework**

John Dunning, a finding scholar of the international business, discusses in his works the modern capitalism which suggests that big businesses from developing economies are becoming important players in the global economy. He traces the path through which these firms succeed to expand overseas by establishing joint ventures in home markets, after that expanding into regional markets and later becoming independent by buying out its OECD-based partners. Dunning's work, *Multinational Enterprises and the Global Economy* (1993), discusses the eclectic paradigm which predicts that is essential for a company to possess specific advantages in order to successfully invest abroad. Also, the foreign location needs to be more attractive compared to the one at the home country. According to Dunning, expanding abroad is the best mode of maximizing those specific to the company advantages. Therefore, a question rises if companies from

emerging or transition economies possess such kind of advantages with location-specific ones as well as if it is possible to internalize them.

The ownership, location, and internationalization (OLI) perspective is based on international firms which can easily bring the resources and the capabilities to expand abroad if they wish to do so. Dunning combines several factors that offer a greater explanation of MNE or FDI activity in open markets and emphasizes on the importance of both structural and transaction cost deficiency for MNE activity.

The first factor, the “ownership advantage”, is the potential advantage derived from extending the firm’s proprietary assets abroad (brands and proprietary technologies). By doing so the firm brings greater power against its domestic competitors in host markets. The second factor is the “location advantage” which the firm has by being able to integrate activities across countries with different factor and resource costs. This advantage is specific to a country and dictates the choice of production site of the firm. Last, the “internationalization advantage” which derives from building economies of scope and scale by internationalizing the firm’s activities around the foreign regions. The latter advantage determines whether foreign production will be organized through licensing or FDI.

Even though, Dunning’s paradigm provides an appropriate framework explaining the FDI activity of EM MNCs, it is challenged by prominent authors (Luo & Tung, 2007; Mathews, 2006) because of its assumption that EM MNCs should possess ownership advantages in order to operate internationally.

Dunning’s principle does not take into consideration the cases where firms

can derive advantages by their expansion abroad in order to access resources that are not available at their home country. Therefore, it can be concluded that EM MNCs do not have the same motives as MNCs from developed countries – the asset exploitation motive instead they are driven by asset seeking one (to develop ownership advantage) such as technology, brand and distribution networks, and management expertise which compensate for their capability disadvantages. Finally, according to Makino (2002) asset exploitation perspective considers FDI as the transfer of firm's proprietary assets internationally and in asset seeking, the FDI is a means of acquiring strategic assets. Therefore, both assets seeking and asset exploitation motives are distinct but at the same time complementary motives which can be together observed in the expansion models of EM MNCs.

## **The Alternative LLL Framework**

Mathews (2002, 2006) is one of the authors who criticizes Dunning's OLI framework. He believes that the EM MNCs expand internationally in pursuit of resources and customers which are not otherwise available. Mathews proposes a modified OLI framework, a more globalized one, which consists of considerations that apply to the recent EM MNCs driven by resource linkage, leverage and learning (LLL framework).

The first one, linkage refers to the focus of EM MNCs not on their own advantages but on the ones which can be acquired internationally. Mathews considers the global orientation as a source of advantage because of the opportunities which can be found by a firm by its expansion to the global market rather than at its domestic one. The challenges of this proposed <https://assignbuster.com/push-oriented-concept-in-process-of-internationalization-economics-essay/>

outward orientation are higher compared to the ones of inward orientation – overcoming problems of market intelligence and uncertainty of the quality of knowledge available. The resource access as a motive is “ an attempt to access external resources in order to offset the weaknesses of the investor” (Chen and Chen, 1998: 446). Globalization offers opportunities for networks such as joint ventures or other collaborative partnerships as a mean of gaining entry to the new market. By using those linkages, latecomers such as EM MNCs, can draw themselves into an environment of exchange and sources of advantage.

The driver of resource leverage focuses on the resources themselves and how accessible they are in terms of limitability, transferability and substitutability.

Lastly, learning results from the repetition of linkage and leverage processes when the firm starts to perform its operation more and more effectively.

Table 1 depicts the differences between Dunning’s OLI and Mathew’s LLL framework explaining the success of MNEs over their competitors at home (Mathew, 2006)

Table 1 Why do MNEs out-compete their domestic rivals? OLI and LLL framework compared

## **Criterion**

### **OLI**

### **LLL**

Resourced utilized

Proprietary resources

Resources accessed through linkage with external firms

Geographic Scope

Location established as part of vertically integrated whole

Location tapped as part of international network

Make or buy?

Bias towards operations internalized across national borders

Bias towards operations created through external linkage

Learning

Not part of the OLI framework

Learning achieved through repetition of linkage and leverage

Process of internationalization

Not part of the OLI framework: MNE's international reach assumed

Proceeds incrementally through linkage

Organization

Not part of OLI framework: organization could be multinational or transnational

Global integration sought as latecomer advantage

Driving paradigm

Transaction cost economies

Capturing of latecomer advantage

Time frame

Comparative static observations, comparing one point in time with another

Cumulative development process

## **Uppsala Sequential International Process Model**

The evolutionary approach of internationalization is also characteristic of the Uppsala sequential international process model according to which the firm's path of foreign expansion is slow and incremental, with frequent loops of experimental learning (Johanson and Vahlne, 1977). The firm focuses on its development through gradual acquisitions and integration. The sequential Uppsala model is reflected not only in terms of the knowledge about foreign markets and operations, and the intensity of commitment of the firm to the foreign market, but also in terms of the diversity of modes used in product offerings of geographical penetration (Welch and Luostarinen 1988: 158-9). The model indicates that typically firms start to internationalize by exporting to a country via an agent followed by establishment of sales subsidiaries and at the end starting to produce in the host country. This sequence of stages specifies an increasing commitment of resources to the market. However, as latecomers, EM MNCs need to accelerate their activities of



internationalization in order to be able of catching up with the traditional MNCs. Therefore, the existing criticism against this model is that internationalization is not always a step-by-step learning process of its stages because the knowledge of foreign expansion can be gained from other firms instead of mimicking other firm's internationalization experience (Eriksson et al, 1997) and by setting a network with others (Johanson and Mattson 1986).

According to the internationalization process theory, during the procedure of foreign expansion, learning is transferred through institutionalized organizational practices (decision-making procedures and corporate policies) which facilitate companies' progress through acquisitions of site-specific knowledge (Andersen, 1993). Despite the fact that importance of learning refers to EM MNCs, their commitment to size of investments are often large and not necessarily engage step-by-step process. Another contradiction to the Uppsala model's suggestion that as the firm's commitment to the host country increases and the entry mode is riskier, the firm's senior representatives' control must increase as well (Hennart, 1989; Hill et al., 1990). However, in the case of EM MNCs, they are more likely to use senior management team which is localized instead of representatives from the company's home country.

## **Springboard Perspective**

As mentioned earlier in the paper, the framework which analyzes the internationalization of EM MNEs is considered to be unique compared to the one of traditional MNEs. One of Luo and Tung's (2007) empirical work

presents a springboard prospective according to which EM MNEs use  
<https://assignbuster.com/push-oriented-concept-in-process-of-internationalization-economics-essay/>

international expansion as a springboard to access strategic resources as well as to reduce their constraints at home both institutional and market ones. By using that kind of outward investments these companies are becoming more effectively competitive against their global rivals. The authors concentrate their studies on the top six attractive global business locations – Brazil, Mexico, Russia, China, and India. The following factors are being taken into consideration in the observation of these countries' MNEs: their motives and strategies, facilitating forces, risks and challenges of their internationalization. EM MNEs usually face many disadvantages when expanding abroad because of being the so called “latecomers” to the global market. However, they successfully overcome challenges by aggressive and risk-taking strategies, by acquiring or directly buying significant assets from mature MNEs in order to be able to compensate their weaknesses. Hence, most of the EM MNEs do not follow a particular path of internationalization or a model of selecting entry modes and country locations.

According to Luo and Tung (2007) EM MNEs are pushed to invest abroad because of their position as latecomers, the strong presence of competitors at the domestic market, the quick innovations in technology as well as product development, and last but not least their institutional obstacles at home. It can be concluded that nowadays EM MNEs are much less path dependent compared and much more risk-taking compared to the traditional MNEs and the “Third World” ones.

According to Luo and Tung (2007), the “springboard” perspective characterizes EM MNCs activities as repetitive since they use subsequent acquisitions of foreign companies through which they gain brand awareness

<https://assignbuster.com/push-oriented-concept-in-process-of-internationalization-economics-essay/>

and access to foreign customers. It also distinguishes itself from the “leapfrog” EM MNCs which entails late entrants catching up with earlier mover’s companies by avoiding risks in technological obsolescence and ownership of technological diffusion to competitors (Anderson and Engers, 1994). Therefore, “springboard” strives for more extensive strategic gains beyond the late comers’ advantages and most importantly it links a company’s international expansion to its operations at home. EM MNCs successful foreign operations are highly dependent on their sales, market, and manufacturing activities at its home base. Hence, it can be concluded that the long-term capability and effective performance of EM MNCs is based on their abilities to continually control their activities at home while seeking opportunities by integration abroad.

### Springboard Motivations

The “springboard” perspective outlines several behaviors of EM MNCs companies which relate to their motivations and reasons of expansion abroad. This type of companies internationalizes in order to compensate for their competitive disadvantages through acquiring companies with high technology or superior manufacturing facilities, therefore contradicting Dunning’s ownership-specific complete advantage of foreign expansion. As latecomers, EM MNCs face many disadvantages; therefore by path-independent strategy of acquiring foreign companies they become able to overcome their deficiencies in the consumer base, brand awareness, and technological areas. Hence, their outward FDI is driven by “pull” factors such as need for specific resources, managerial expertise, and access to consumers. Since the traditional MNCs have already entered the EM MNCs

<https://assignbuster.com/push-oriented-concept-in-process-of-internationalization-economics-essay/>

countries, companies from emerging economies use international expansion as a counter-attack.

Many EM MNCs enter their rivals' home countries in search of market share and a way of becoming global or transnational. Some outward foreign direct investments are also triggered by the companies' desire to avoid or overcome trade barriers. Companies with production of standardized products depend on exporting abroad by using intermediaries or distributors. In this way they facilitate their massive production capabilities and establish connections with customers from other countries. EM MNCs' home markets are characterized by many institutional voids such as weak legal protection of ownership rights, no enforcement of laws and non-transparent judicial system, inefficient market intermediaries; and political instability – unpredictable changes, interference of the government, corruption and bureaucracy.

All of the mentioned factors challenge the competitiveness of the domestic firms, therefore pushing them to seek further development at foreign markets – opportunity-seeking motivation. For instance, niche players from Russia, and countries from Central and Eastern Europe (CEE) are driven by a desire to gain a foothold in the enlarged EU. They seek market opportunities by expanding to their neighboring CEE countries seeking better legal protection overseas. Facing the institutional and political obstacles is both financially and time-wise costly; therefore companies try to select more transparent and efficient country environments which permit EM MNCs to concentrate on developing and utilizing their competitive advantages.

EM MNCs use internationalism as a springboard in order to secure favored treatment offered by emerging market governments. The so called “ reverse investments” take place when EM MNCs first make an investment abroad by creating a subsidiary, and then use it as a “ foreign” unit to invest at their home country. By doing so the company receives financial and non-financial benefits such as cheaper land fees and access to scarce resources offered by emerging market governments. Many emerging market governments provide financial privileges for encouraging their business to expand globally (Andreff, 2002).

Finally, EM MNCs expand internationally as a springboard so they can make use of their competitive advantages in other emerging markets. One of the specific characteristics of EM MNCs is that they are national giants at home, being experts in mass production they spread internationally to other emerging countries to manufacture technologically standardizes products. Hence, they generate a low-cost position of a latecomer offering prices suitable for local consumers which allows them to successfully compete with companies from industrialized countries that have entered much earlier. It can be concluded that companies from emerging markets are less likely to seek opportunities for inexpensive production because of their home supply which allows them constant access to low-cost advantages because of their vertically integrated global production system.

Table 2 International Expansion of Emerging Market MNEs: a springboard perspective

Springboard External and Internal Issues

<https://assignbuster.com/push-oriented-concept-in-process-of-internationalization-economics-essay/>

Following the main drivers for internationalization according to the springboard perspective, it is important to present and analyze the external and internal issues which influence EM MNCs to invest overseas. Luo and Tung (2007) identify five main factors starting with the role of the government in the MNCs activities for going global. The liberalization of government policies is a critical issue which affects outward foreign direct investment. The theoretical and empirical findings of the latter topic are discussed later on in the paper's literature review. Second factor indicated by Luo and Tung is the corporate entrepreneurship and strong motivation for entering important markets. For EM MNCs the interaction between the institutions of emerging countries and their corporate entrepreneurs is essential for the decision-making of their internationalization strategy. In order to successfully expand and operate abroad, corporate executives in EM MNCs need to receive political support which gives them the ability to be independent and follow their own expansion strategies without the involvement of institutional legacies (Andreff, 2002).

Springboard behaviors in outward FDI are also driven by the willingness of advanced countries' MNCs to sell their strategic business units or create partnerships which allows EM MNCs to acquire or cooperate with rivals in order to increase their competitive advantage and international experience. The fourth factor which influences EM MNCs' international strategy is the big competition of advanced countries MNCs needed to be faced domestically. In order to successfully compete with these rivals, companies from emerging countries take extreme measures by aggressively expanding their scale and scope through capital investments in new projects or reinvesting

accumulated retained earnings in already established projects. The last issue, quick changes in the technology and market environment together with the increased globalization of the world's economy, motivates EM MNCs to expand overseas. The current competitive environment which international companies from emerging economies face is characterized by high tech facilities, shorter product life cycle, and increased awareness of knowledge and information importance.

### Internationalization Challenges

The springboard perspective does not only provide EM MNCs with latecomer's opportunities but with some unique global challenges for them as well. The first challenge identifies by Luo and Tung (2007) is the disfavored market environment at the home country such as poor accountability, lack of transparency, and weak corporate government. These factors decline company's reputation and decrease domestic and global shareholders' confidence. The measures which need to be taken in order successfully to cope with the country's instability is that the EM MNEs to appoint top executives of the essential frontline units. Using the services of well-known international accounting firms is an option for improving the financial accountability in the company.

The second challenge according to the springboard perspective is the post-acquisition stage difficulties such as establishing effective working relationships with host shareholders, fitting the host and home companies' cultures together, aligning their objectives and integrating the two companies' operations. The lack of previous experience in cross-cultural

acquisitions and mergers trigger major challenges for EM MNCs. Therefore, they need to have sufficient knowledge in global planning and execution; the companies should be able to plan ahead the entire product and resource related issues before engaging into risky expansion.

Third challenge, the lack of global experience and managerial competence,