Gearing for Globalization: Third World Multinationals.

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Abstract

Today's global economy presents both challenges and opportunities for emerging companies from the third world. Many of these newly ambitious multinationals are using their bases in developing countries as a springboard to build global empires. Their strengths, competitive advantages, and core competences on their home turf provide them the foundation to conquer world-wide markets. The best of these firms are very innovative in their competitive strategies for global success, and they have learned from their advanced country counterparts. Therefore, they have the necessary managerial talents, technologies and capital resources. Third world multinationals are competing in markets previously held by established companies by providing alternatives to host countries and weakening the bargaining powers of traditional multinationals. Emerging multinationals have not only changed existing theories of foreign direct investment, but also have radically transformed industries and markets across various value chain activities worldwide.

Introduction

During the last two decades, we have seen increasing numbers of companies from developing states, or the so-called Third World, aggressively competing in different industries and across value chain activities. Today, these firms are moving from being original equipment manufacturer (OEM) suppliers and exporters to acquiring foreign subsidiaries and participating in joint ventures. This new breed of ambitious multinationals presents both challenges and opportunities for the established global players. Firms from Asia, India, Africa, Latin America, and Eastern Europe have taken the lead in this regard. They are competing fiercely in various industries, from farm equipment and refrigerators to aircraft and telecommunication services. Actually, they are changing the rules of global competition. These new Third World Multinational Companies (TWMNCs) challenge the markets previously held by the local established firms, by providing alternatives to host countries and weakening the bargaining power of certain traditional multinationals in their negotiations with developing countries. In some circumstances, these emerging multinational firms have combined with multinationals from the advanced countries in mutually beneficial joint ventures.

The emerging phenomenon of TWMNCs is intensifying debate issues such as: (1) How do third world companies become multinational? (2) What impact do factors such as home

market environment or historical ties with foreign counterparts have on their success? (3) What are the roles of third world governments in supporting multinational objectives of these companies? (4) How do these companies overcome the liability of foreignness given their historical positions? (5) What are sources of the competitive advantage for these third world companies? (6) How do multinationals from third world countries change the competitive landscapes in different industries? This paper will encourage scholars and practitioners to examine third world multinationals and their impact on value chain activities and across different continents.

Motivation for Investment Abroad

Initially, developing country firms preferred exporting their products and services to (as opposed to investing in) overseas markets. By exporting, firms could avoid much of the uncertainty and risk and still make a profit from their technologies, marketing skills, or other advantages. However, as local and global rivalries increased, these firms had to consider other approaches to stay ahead of competition. This is where direct foreign investment could help them overcome some of the home market threats and also allow them to exploit global market opportunities. So many of the third world companies began to invest abroad and locate plants or other facilities in those markets.

Factors that drive firms from less developed countries to invest abroad include: (1) foreign market demands, (2) transportation costs, (3) tariffs and barriers, and (4) the advantages of economies of scale. The traditional export model would be ideal if trade was frictionless. However, when risks such as external economies, barriers, and costs are drawn into the traditional model, investment flows become more complex. Also, as importing countries realize the opportunity for local manufacturers of these goods, they may raise barriers to the importing of such goods. As a result, many developing multinational firms respond to these restrictions on their exports by establishing manufacturing subsidiaries in those importing countries. Some of these emerging multinational firms use their competitive advantage options for direct investment, license, or even turnkey operations abroad. Others may choose to set up their own branches, joint ventures, or wholly owned subsidiaries overseas. The need for diversification explains some of the actions of foreign investors from the third world, but this article also elaborates on several models or theories that are different from the traditional theory. Other motivation factors for investment abroad are ethnic ties, economic and political instability at home, attempts to solidify business with trade partners, and human resource exports. Examples of early foreign direct investment due to ethnic ties were the enormous capital flows and business ventures among China, Hong Kong, Taiwan, and Singapore which predominantly are Chinese ethnicity (Kyung 11, 1980).

The growth of the emerging China economy attracts the regional Chinese investors from Southeast Asia to set up manufacturing plants and subsidiaries inside the mainland of China. Taiwanese investments in Hong Kong, China, Southeast Asia, South Africa, and the United States are classic examples of using trade relationships to stabilize a home country economy and political recognition. In the case of exporting manpower, South Korea took the lead. In the early 1980's, more than 50 Korea construction firms were operating in 25 countries in Asia, the Pacific Rim, Africa, the Middle East, and Central and South America (Korea: EPB, 1977).

Theories of Foreign Direct Investment of Third World MNCs Entities

Louis T. Wells (1983) noted that many theories of foreign direct investment start from the assumption that certain firms have special assets that give them a competitive edge abroad. Thus firms which are innovative in their home markets in terms of knowledge and management skills are able to exploit those innovative capabilities abroad. According to John Dunning (2001, 1992), the theories of FDI activity reside at the intersection between macro-economic theory of international trade and micro-economic theory of the firm. Dunning's `Eclectic Paradigm of International production` addresses international allocation of economic activity or production as determined by three significant advantages perceived by enterprises. These three advantages are ownership-specific advantages, location-specific advantages, and internalization advantages.

The most important ownership-specific advantage in today's multinational corporations continues to be the possession of technology and innovation. In this context, technology refers to knowledge and skills regarding products and production processes. Innovation refers to the changes that create a new dimension of performance. It includes both radical and incremental changes to products, processes, and services. Empirical evidence shows that multinational firms operating largely in research-intensive industries are often prone to internationalize in their production development (Hesselbein, 2002). Caves (1997) claims that product differentiation (under which he includes both technological intensification and marketing skills) is the main reason for foreign direct investment. Other competitive assets of multinational firms are their easy access capital resources, their control of raw materials, economy of scale, ability to diversify risks, and favorable government policies. In the context of third world firms, the ownership-specific advantages seem to be the suitability of their operating technologies, lower overhead and expatriate costs, familiarity with conditions and problems of developing countries, and their less threatening position (Kumar, 1982). Perhaps the most important strength of third world firms lies in their less advanced but efficient manufacturing technologies, which function reasonably well in other developing countries (Wells, 1978; Agrawal, 1981). It is a mistake to think that all third world firms compete in international markets on the basis of adapted or imitation technologies. Many of these firms have the capability to develop completely new products and production processes. Very early, countries like Brazil, Korea, Mexico, and Taiwan were able to make significant progress in the heavy machinery and tools industry to compete in the global market (World Bank, 1979).

The second condition for internationalization of goods or services is with "where" the production can best serve the interest of the enterprise. The location-specific advantages include both intangible assets and tangible assets. These include technology, trade barriers, transportation and labor costs, managerial skills, raw materials, market demand potentials, political stabilities and host government policies. In the eclectic paradigm, the choice of location for investments may be prompted by spatial market failure. Historically, the imposition of trade barriers has led to a lot of foreign manufacturing investment by MNCs. At the same time, a reduction in transportation costs and the formation of customs unions or regional trading blocs (such as EEC-European Economic Community and LAFTA- Latin American Free Trade Agreement) have prompted greater regional specialization of production by MNCs (Dunning JH, 1988). For example, American and European firms have established their overseas investments or

operations in many Southeast Asian countries to take advantage of lower labor and raw material costs. Even now, the promising market potential of developing countries such as China and India attract a lot of foreign direct investment around the world because of the political stability and abundant cheap skilled and/or non-skilled labor.

The third strand of the eclectic paradigm deals with internalization advantages and states that due to the structural market deficiencies or imperfections, foreign enterprises can diversify their value-added activities and realign the ownership and organization of these activities to seize competitive advantages. Dunning (1992) called this perceived advantage of hierarchical control internalization advantages. Though the above three advantages could be considered independently, these advantages could also be interrelated with each other (Dunning, 1992:80). We know that the motivation for Foreign Direct Investment (FDI) is to make the investing company become more profitable and competitive in the global marketplace. From the micro-perspective, Dunning (1992) identified four types of multinational enterprise activity: 1) reserve seekers, 2) market seekers, 3) efficiency seekers, and 4) strategic asset seekers. This is where Dunning indicates that micro-economic theories relating to the firm impact foreign direct investment.

Dunning's `eclectic paradigm of international production` attempted to identify and explain the variables that determine the foreign direct investment firms in terms of macro-economic perspective from typical developed countries. However, in Kojima's studies, he identified the difference between Japanese direct the investment model and the American direct investment model. He claimed that the Japanese foreign investment model is "trade-oriented". In contrast, the American (Western) investment model is considered "counter trade-oriented" (Kojima, 1978:15). Kojima argued that the objective of Japanese FDI is to complement Japanese competitive advantage strengths with overseas trade partners. Leaders of Japanese firms believe that through direct investment in either less-developed or developed countries they can also gain or trade comparative advantages with these countries. In comparison, in the American investment model, firms use their comparative advantages to strengthen their multinational market position. American firms prefer to invest in foreign countries in which a technological gap exists and the skilled labor or raw materials are cheaper so they can retain advantages against other global competitors. A majority of their FDI is targeted toward less developed or newly industrialized countries.

In summary, the mainstream theories of FDI state that primary advantages (either monopoly advantages or comparative advantages) would be key to explaining why firms go abroad to become multinational corporations. The distinctive difference between Dunning's theory and Kojima's theory of FDI is that Dunning's theory is based on the perspectives of the advanced country multinationals, while Kojima's theory may be more appropriate to explain developing or third world multinationals.

Transformation of Third World Multinationals

The old stereotypes of third world nations with agriculture economies or as exporters of raw materials for the advanced countries no longer hold. Today, these developing countries not only produce inexpensive clothes and shoes, but they are also very much involved in production

of steel, chemicals, machinery and equipment, household appliances, electronic components, and automobiles. In fact, some of them have gradually transformed into so-called Newly Industrialized Countries (NICs). They invest large sums of capital into research and development to produce high-end technology products such as digital cameras and televisions, computers and cellular phones. The so-called "Asia Four Dragons"—Hong Kong, South Korea, Taiwan, and Singapore—are the best examples of firms which are multinational pioneers from the Asian third world. Some of these pioneer third world MNCs have expanded rapidly from a few hundred subsidiaries in the 1960's to thousands today. In the early years, their investment was primarily in other developing countries. Today, they spread across both newly industrialized countries and advanced countries. In 1983, the Geneva-based institute for research and information on multinationals published a book entitled "Third World Multinationals' by Louis T. Well Jr. Among the findings, the third world country with the highest level of investment overseas was Hong Kong, which had over $2 billion in overseas investments in 1982. They were active in textiles, garments, plastic goods and consumer electronic products. The second largest capital exporter was Brazil because of its oil corporation Petrobras which invested heavily in oil exploration, construction, and agriculture development. India was the leading exporter of manufacturing machinery and technology. The largest pulp paper mill in less developed Africa was an Indian venture. In the 80's, India companies also assembled vehicles in Malaysia and Greece, and participated in a machine tools plant in Nigeria (Shorrock, 1984).

In recent years, ambitious emerging MNCs are slowly moving into the advanced markets like western European and North America. These contenders from the third world nations have initiated a wave of emerging Multinational Corporations. These new contenders are coming from Brazil, China, India, Russia, Egypt, and South Africa and are unlike their pre-successors, Japanese, Korean and Taiwanese conglomerates which benefited from protections and profits at home before they took on the world. These emerging giants are mostly companies that come from severe market inefficiency economies, and they often lack financial institutions and infrastructure to support their business. Even worse, these emerging companies have to compete with their home grown rivals and foreign counterparts as well. As a result, it is quite difficult for them to invest sufficient capital in research and development and brand building which is crucial for them to compete effectively with the global giant multinationals (Khanna and Palepu, 2004). Therefore, to compete in such environments, these emerging giants must make profits at price levels that are unheard of in the Western market. For example, cellular firms in North Africa, Brazil, and India are charging their customers a penny per minute. Yet these companies often thrive in such tough competition environments. In 2005, Egyptian cellular operator Orascom boasted a margin of 49 percent. Indian tractor builder Mahindra's pre-tax profit rose 81 percent. Chinese telecom equipment maker Huawei technologies Co. boasted a 15 percent market share in Asia and 9 percent in Latin America. At the same time, Huawei snared $8 billion in new orders, including contracts from British telecommunications PLC for its $19 billion program to transform British's telecom network (Engardio: Business week, July 31; 2006).

Development of Third World Multinationals

Development of multinationals implies more than mere production of goods and services. It involves laying the foundation for self-generating growth that can satisfy the growing needs and aspirations of different segments of a society. Therefore, their path toward multinational

status can only be achieved through the relative contribution of their overall impact on the economy, society, and polity in the host and home countries. In general, government policies of host countries have ranged from encouragement to discouragement. In the 80's, countries in Southern Asia all recruited investors from Northern Asia states, mainly for the economic advantages while the Egyptian government preferred Arab investors for the purpose of Arab unity (Wells, Jr, 1983:137). On the other hand, attitudes of home governments have been almost as diverse as those of host governments. Some countries like Mexico and Hong Kong require no approval for their firms to invest abroad. Others require potentials investors to obtain permits and fulfill the requirements according to the government's strict regulations (Wells, Jr, 1983:144). In this study, we briefly examined the development of third world firms in parity to the contributions from both host and home country.

Host Countries

Some empirical evidence suggests that, as compared to multinationals from advanced countries, third world firms are content with lower equity participation (Kumar and Kim, 1981). Because of the limited capital resources of these firms, they often need partners in host countries which can contribute capital and resources to serve as brokers with local authorities. In contrast, multinationals (MNCs) from industrialized states in the past preferred total ownership or at least majority ownership which aroused the suspicion of third world partners or governments about their economic independence. Therefore, the lower equity partnership strategies helped lessen the degree of perceived political and economic dependence on foreign investors, and at least partly fulfilled the political aspirations of the developing host countries in their quest for greater autonomy and ownership. Furthermore, the operating technologies that are transferred by developing firms are generally suited to the conditions of developing states. Some characterized this as "appropriate technologies" because they are mainly labor-intensive and can efficiently use locally available input (Kumar, 1982). In addition, many third world countries are not capable of handling the latest technologies from the advanced states. Besides, the terms of technology and cost transfer by the third world firms are more significant and favorable to host countries as compared to the developed states firms.

Most importantly, the presence of third world firms improves the bargaining strength of developing host states. In some way, these ventures could serve as a countervailing force without implying any idea of confrontation with developed countries (Agrawal, 1975:16). On the other hand, third world firms may not be as likely to provide a continuously flow of upgraded technologies to their subsidiaries or joint ventures (Wells, Jr. 1977). The reason is that they are deficient in research and development facilities which are a necessary development tool for most multinationals from industrialized states. In recent years, many giant enterprises from the third world have been making significant progress in the merger and acquisition of new technology in their overseas ventures. Some firms are already in a position to compete with advanced multinationals abroad. Examples are: (1) Lenovo Group, the Chinese computer maker which acquired IBM's $11 billion personal computer business; (2) Indian software firms—Infosys, Tata Consultancy Services, and Wipro which revolutionized the $650 billion technology services industry; and (3) Johannesburg brewer SAB-Miller PLC which is challenging Anheuser Busch Co. leadership in the U.S. (Engardio: Business Week, July 31, 2006). Boston Consulting Group (BCG) recently published a study based on data collected from 3,000 companies in 12

developing nations. BCG identified 100 emerging multinationals that appear positioned to "radically transform industries and markets around the world." In 2005, these 100 companies had a combined $715 billion in revenue, $145 billion in operating profits, and $500 billion dollars in assets. They have grown at 24 percent annually in the past four years (Engardio: Business Week, July 31, 2006).

In terms of disadvantages associated with development of third world multinationals in the host countries, in the 70's and 80's they had no advanced system for transferring management skills. Therefore, they relied heavily on the expatriate staff for maintaining control over their subsidiaries and joint ventures (Kumar and Kim, 1981; Lecraw, 1977). Historical evidence shows growth of local entrepreneurship in those industries that do not require sophisticated technologies or management skills in their early stages of development (Kumar, 1979:73). As a result, those ventures initially discouraged local entrepreneurship development in the host nations. Perhaps one reason was that most of these firms were involved in textile, clothing, shoemaking, utensil, sugar, soap, cement, and similar industries.

The ventures in the emerging developing economies can often be inefficient as a result of the lack of information, the high costs of capital, and the fact that venture capital support is difficult to find. In addition, the scarcity of quality educational institutions has created a void of skilled labor in the industry. Furthermore, the lack of mass media infrastructure also made it difficult to build brand name or launch sales and marketing strategies. A good brand name is highly valued by the local consumers because of lack of better alternatives in the developing market. Most importantly, the business relationships with local government officials are often crucial to success since contracts and agreements may not be well enforced by the legal system.

Home Countries

Is the path of third world companies to multinational status determined by home market institutional environment or historical ties with foreign counterpart? The answer is not so simple. In principle, the major advantage desired by some home countries is to increase its foreign exchange through overseas investment (Kumar, 1981). According to the experience learned from American and European firms, their actual investments are often much lower than their book values suggest because of the considerable amounts in the form of profits, expenses, and prices for raw materials. In terms of third world investors, there are several alternatives for them to get back reasonable foreign exchange return on their investments (Kumar, 1982). For instance, home nation investors subscribed their equity shares through the supply of machinery, equipments, and other services. These types of investment ventures are becoming a common practice for most of the third world MNCs. They use this strategy as a discount coupon to compete in developing world markets. In some cases, some firms established overseas subsidiaries or joint ventures only when they were threatened by competitors in the host country. This strategy presumably will protect their global business interest in the long term.

Some firms prefer to use third world nations as a spring board to help export goods into industrialized states and to avoid home government's taxations and restrictions. Others have chosen to invest in industrialized nations as a support infrastructure that can facilitate the import of goods or services from the home country. In this way, they can increase market shares and

business opportunities. The other benefits for home countries to support foreign direct investment include boosting economic growth and gaining access to new technologies and skills (Jo, 1981). In addition, the direct foreign investments can gain political benefits from the host country government. For example, Taiwanese authorities and entrepreneurs see their direct foreign investments as one way to strengthen political and economic ties with other countries. Korean multinational firms claim that their overseas investment ventures have led to the establishment of diplomatic relationship between Korea and other host nations around the world. A major disadvantage to the developing home country is the expatriation of the limited capital resources during the initial stages of investment. This can be a blow or discouragement for many third world firms in their quest for internationalization if the home government is not supportive. Overall, the third world firm's multinational objectives are the path toward economic progress that could increase the revenue for both host and home country in long term.

The Future Outlook of Foreign Direct Investment (FDI)

According to Kearney's 2004 FDI confident index report, China and India dominate the top two positions for most positive investor outlook, possible first-time investments, and most preferred offshore investment locations for business processing functions and Information Technology (IT) services. Compared to the other emerging giant markets, China and India are cited by CEOs as the most attractive FDI destinations in the short-term (next two years) and long-term future. Global investors view these two destinations as distinctly different markets: (1) China as the world's leading manufacturer and fastest growing consumer market; and (2) India as the world's business process and IT services provider with long-term market potential. The rising investor confidence in Australia, Hong Kong, Japan, Malaysia, and Singapore could further increase Asia's share of global FDI flows into both China and India. Therefore, it would be wise that newly industrialized and developed enterprises be prepared to invest, compete or work with developing and third world companies in the search for wealth inside the last two largest markets of the world (China and India).

Emerging Giants' Strategies in Global Competition

After World War Two, many industries moved from being predominantly domestic to become globally focused. Historical experience indicated that many firms progressed through the four distinct phases: Domestic, International, Multinationals, and Transnational. In today's global market, emerging multinational enterprises need to have a competitive business strategy to compete with the established giants abroad. The winning keys in competing overseas are based on the competitive advantages and core competences of the respective innovative enterprises. Before these firms establish a dominant position in developing markets, there are some questions that need to be addressed: How do they move from a dominant position in a particular country to a global presence? What are the possible strategies or approaches that can work? How do these companies overcome the liability of foreignness given their historical positions? How easy is it to be global at the start? Some of these answers can be gleaned from those successful third world multinational firms that practiced their own distinctive business strategies toward globalization. In the early 1980's through late 1990's, numerous case studies were written about third world MNCs in China, South Korea, India, South Africa, Turkey, Chile, Brazil and Mexico. Also scholarly books such as "Third World Multinationals" by Professor

Louis Wells, Jr. (1983), and "The Rise of the Rest: Non-Western Economies" (the rest means late globalizing countries) by Alice Amsden (2001) explain FDI strategies in developing economies. Wells' (1983) earliest effort emphasized the interaction between country or market size and viable technologies. This was particularly important in a time when many economies were relatively closed. In contrast, Amsden (2001) emphasizes the role of government in jump-starting successful companies in developing economies.

In this research, we focused on the countries of interest in the list of "Big 10" emerging markets which were identified by Jeffrey Garten, Dean of the Yale School of Management. According to Garten (2001) those "Big 10" emerging markets are China, South Korea, India, South Africa, Brazil, Mexico, Argentina, Indonesia, Poland, and Turkey. A majority of these countries have large populations. The huge market size indicates that a dynamic range of intra-country economic is feasible. The emerging multinationals from these countries have developed a radical business model or strategy that allows them to compete effectively with world-class multinationals from the first world. We selected the Haier Group from China as one of the successful multinational firms from this part of the world for a strategic analysis on its competitive advantages.

The "Chinese Model" of Multinational Company – Haier Group

The reason we chose to discuss the Haier Group is because it comes from China which is the largest emerging market in world. Also, China has the most diverse and biggest population both geographically and culturally. Successful multinational firms from this country must be able to cater to a wide range of customer tastes and behavior by adapting their goods and services for a multitude of possibilities. In addition, China today is playing an increasingly important role in the global economy. The entrepreneurs and corporate leaders in developing multinationals are aspiring to become the world class contenders. Their goal is to shape their companies to be globally competitive and to exploit the emerging global economies and market opportunities. Nonetheless, these developing multinationals are forced to compete head on with the giant multinationals from advanced countries which have the fundamental advantages of brand names, organizational capabilities, advanced technologies, financial resources, and efficient distribution networks. Worst of all, most of these developing enterprises are from economies that are inefficient and volatile. They often have to work well under imperfect institutions and poor infrastructures. Surprisingly, these companies have managed to convert these competitive disadvantages of operation into competitive advantages. Thereby, they have neutralized the incumbency advantages of the advanced multinationals. Some Chinese scholars argue that the impact of internal and external market forces and the need of economic growth are the main factors that push Chinese firms toward globalization success in overseas investment. According to the empirical studies of `eight big Chinese manufacturing firms` by Tong Lu (1999:94), the process of Chinese international operations tends to follow two phases—first, inward internationalization and then outward internationalization. The inward internationalization was carried out by importing foreign technologies and establishing joint ventures and technological cooperation. The outward internationalization mainly concentrated on exporting and establishing subsidiaries in foreign countries in order to explore or seize the global market potential. Through her statistical data analysis, Tong Lu (1999:100) also found the average internationalization index of Chinese firms was only 0.89 which indicates that the internationalization of Chinese

firms was still in the infancy stage. The survey showed a majority of internationalization progress was mainly focused inward, and firms which did very well in global markets or outward internationalization were also very successful in their inward progress. In summary, she claimed that inward internationalization is necessary or pre-requisite for outward internationalization victory (Tong Lu, 1999:100-107).

Another Chinese scholar named Fenhua Ji revealed three main reasons that Chinese firms invest abroad. Those reasons are: (1) to enlarge its exporting markets, (2) to seek innovative technology, and (3) to exploit foreign resources. In general, the major incentives that attract the third world enterprises to explore abroad are the rapid enlargement of emerging global economies, advancement of telecommunication and internet technologies, and improvement of international trade policy during the past two decades. All of these have created global market opportunities for entrepreneurs and corporation worldwide.

The best case example of a developing multinational that succeeded in exploiting these emerging global economies is the Haier Group in China which was established in 1984. For over 20 years, it has produced household electrical appliances including refrigerators, washing machines, air conditioners, microwave ovens, televisions, computers and cellular phones. It has 15 thousand varieties of items in 96 products lines (Ang Li, 2005). Today, Haier is the world's second biggest refrigerator maker after Whirlpool. It exports to more than 160 countries worldwide and has global revenue of $7 billion (Khanna and Palepu, 2004).

The development of China's Haier Group is similar to the historical path of Japan's Matsushita Corporation. In the early years, Haier's experienced a significant propriety in their inward internationalization which was based on German technology cooperation to improve the quality of its products. During the period from the 1980's to the 1990's, the company was primarily working on quality, brand name, and product diversification. The experience it gathered built a solid foundation on which to establish a localized mode of corporation management. After establishing itself on its home turf, Haier began to explore outward internationalization in the late 1990's. Its first international joint venture was launched in Indonesia in 1996. This was followed by investment in other developing countries such as the Philippines, Malaysia, and Yugoslavia before it moved to the United States in 1999. Haier's investment ventures in advanced countries include setting up design centers in Tokyo, Silicon Valley California, Amsterdam and Montreal. These research and development centers were used to absorb the innovative technology resources in order to meet the changing demand of global consumers (Tong Lu, 1999:75). In 2001, Haier merged with an Italian refrigerator plant and later opened a refrigerator plant in the United States. In 2002, Haier and Sanyo established a joint venture in order to enter the Japanese market. Perhaps in the very near future, Haier Group will graduate from its status as an emerging multinational company and become recognized worldwide as a transnational organization.

The Core Competency of Entrepreneurship

We believe that the success of a company's global investment strategy lies in its core competence of entrepreneurship. Corporate entrepreneurship is when an organization takes risks by making dramatic changes and inventing its future. The classic example of successful

entrepreneurship is Japanese Yamaha's transition from music to motorcycle business. The underlying core competence of Yamaha is its corporate entrepreneurship. Yamaha Motors was established in 1955 to venture into the motorcycle industry from its renowned music company affiliation. The first direct overseas investment was established in Thailand, then Malaysia, China, and Brazil, and eventually to Europe. The rest is history. Some other examples include: (1) Nokia's cellular phone company which started out in the Forestry business and (2) Wipro Technologies, one of India's dominant software off-shoring companies which has its roots in oilseed manufacturing. All of these have shown that those firms which can deliver quality assurance and group level competencies (as opposed to inclusive specific knowledge) can be leveraged to diversify their core business in the global economy. The logic underlying core competence is one thing, but its application requires care, nuance, and supplicate understanding of context (Khanna and Palepu, 2004:32). To cultivate the core competencies in the third world companies, the entrepreneurs and corporate leaders of these firms should:

- Develop (and deploy throughout the organization) clear corporate vision and mission statements;
- Promote innovation and ethnical values in their respective organizations;
- Encourage managerial and leadership development as well as entrepreneurship skills training;
- Implement analytical methods for quality evaluation; and
- Recruit foreign talent into the organization when necessary.

To succeed in the emerging global economies, perhaps organizations can mimic the Haier Group's successful experience—exports from the home base continue to be substantial even as the firm builds up an international manufacturing presence. As the firm achieves economies of scale and strengthens its network of hubs, the company can pursue economies of specialization through interregional mandates. It also decides what constitutes a region and chooses the most appropriate strategy to work with the organization's existing structures in order to deliver a powerful competitive advantage (Ghemawat P., 2005). In summary, the need to embrace regional strategies for global leadership requires flexibility and creativity.

Strategies in Achieving Competitive Advantages and Global Success

Today's global marketplace is becoming hypercompetitive. An essential component of current global business success is having a dynamic strategy that includes product knowledge as well as financial awareness of foreign monetary restriction. As a part of this study, we would outline some recommendations for these developing multinationals which they can adopt and use to formulate their own unique global strategies. The rule of the game is to adopt "continuous change" as norm in their global business strategy. The rapid changing of today's technology advancement and unpredictable behavior of consumers, competitors, suppliers, and regulators make it necessary for organizations to continuously review their traditional business strategies as they move toward transnational path. As most multinational firms are struggling to find ways to anticipate the new challenges and to avoid the potential threats, chief executive officers and other top managers increasingly depend on their companies' business strategies to maintain a competitive edge against rivals in the market.

To create an effective strategy for global success, it is essential to develop an alignment of strategic plan, operational plan, organizational plan, and quality plan so that these plans do not conflict with each other. To plan effectively, first, organizational leaders need to identify their organization's goals that support their organization's global mission and vision statements. These statements should be short, simple, and easy to follow and should guide an organization to achieve its competitive edge. Second, it is necessary to translate mission and vision statements into strategic objectives. The strategic objectives must be achievable and appropriate for the organization. These objectives should be prioritized, specific, measurable, time bound, and aligned with the corporation's vision. In addition, organizations must have in place a feedback or evaluation mechanism that is continuously looking for new improvement opportunities. Thirdly, to effectively implement dynamic global strategies, firms must command some competitive advantage over their competition. In fact, the focus point of business strategy for organizations seeking multinational status revolves around the common goal of achieving and maintaining competitive advantages over rivals.

Porter's Generic Competitive Strategies

Michael Porter (1985) suggested that there are two basic types of competitive advantage which most firms can possess: Lower cost or differentiation. In true global economy environments, the logic of his theory of competition still holds. These two basic types of competitive advantages combined with the scope of activities for which a firm seeks to achieve advantages, bring about three generic ways of competing called; cost leadership, product differentiation, and focus strategy.

Overall cost leadership requires a firm to develop an efficient scale of operations, business processes, and low cost production in its industry. The cost advantages may include the pursuit of economic of scale, proprietary technology, preferential access to raw materials and other factors. However, low cost does not always lead to low price. Producers could price at competitive parity and exploit the benefits of a bigger margin than competitors. For example, Japanese auto maker Toyota is very good at pricing its products. It has high quality automobiles at lower prices and premium brand (Lexus) autos at high prices. Indian generic drug makers often charge customers in their home market as little as 1 percent to 2 percent of what people pay in the United States. Cellular firms in North Africa, Brazil, and India offer phone service for pennies per minute. Yet these companies often thrive in such tough competition markets. Egyptian cellular operator Orascom boasts margins of 49 percent; Tractor equipment maker Mahindra's pre-tax profit rose 81 percent last year (Engardio: Business Week, 2006).

Differentiated products and services could satisfy the needs of customers through a sustainable competitive advantage. In this strategy, a firm seeks to be unique in its industry by selecting one or more attributes that customers perceive as important and positioning its product or service to meet those needs. It is rewarded with a premium price. Therefore, there is always an incentive to be innovative and to constantly differentiate your goods from others to stay ahead of the game.

In some cases, when a firm cannot create a wide scope cost leadership or product differentiation, a niche (focus) strategy might be more appropriate where efforts and resources

are focused on a "niche" or narrow segment of a market. The firm selects a segment or group of segments in its industry, and tailors its strategy to exclusively serve them. In the two variants, cost focus simply mean a firm seeks a cost advantage in its niche target segment while differentiation focus suggests that a firm seeks to differentiate in its narrow target segment.

Giant multinationals today are offering more than one product, and they attempt to serve several different markets and customers through cost and differentiation advantages. The classic examples in this case are cellular phone makers like Motorola and Nokia. The two rivals are offering various models of cellular phones that cater to every segment of consumers and markets around the globe. In many cases, multinational firms today must prepare to employ some combination of the above three generic strategies to stay in the market competition.

Keys to a Successful Global Strategy

In the last half of the twentieth century, many national tariffs and barriers to international trade have been removed. This has created a wave of emerging giant multinational firms from the developing countries. A well designed global strategy can help a firm to gain and sustain a competitive edge in many areas. Boston Consulting Group (Business Week, 2006) has identified 100 emerging-market companies that have the potential to reach the top of global competitors. These emerging companies are in a variety of industries worldwide. These giants are coming from China, India, Brazil, Russia, Egypt and South Africa. BCG listed some of the key strategies that these new contenders are using to compete with the established giants from the advanced nations. These key strategies are as follows:

Take Brand Global - Establish primacy at home, expand in neighboring states, and then move to advanced nations.
Target a Niche - Focus on an industry, build scale, and expand globally by acquiring smaller players in the markets.
Encourage to Innovation - Tap the ample low-cost talent at home and abroad, and develop innovative products or services.
Leverage Natural Resources - Take advantage of domestic oil, mineral, or timber resources to attain a cost edge, then moving toward global marketplaces.
Acquire Offshore Assets - Become a global player by buying foreign oil and mineral resources or partnering with other developing nation companies.
Export Business Model - Hone a management system or model and then replicate it globally through merger and acquisition.

Conclusion

Multinational corporations which were once the domain of industrialized and developed countries are now being challenged by the emerging giants from third world countries. Although some may argued that these third world firms pose little threat at present to the preeminent position of multinationals from industrialized countries, the best corporations from advanced nations are taking this threat seriously. In brief, an effective strategy is the key driving force behind retaining competitive advantage and global success. In today's true global economy, a firm cannot expect to achieve glory by simply sticking to its traditional business strategy without

embracing continuous change. It takes vision, leadership, strategy, continuous improvement, and patience to attain the ultimate objective. There is no one magic formula for a winning strategy that fits all firms. In order to succeed, leaders of third world multinationals should instill the core competence of entrepreneurship, overcome the liability of foreignness, embrace the supporting elements of home and host government policies, and continuously improve the quality of goods and production processes in order to gain respect from global contenders. The emerging multinationals from the third will increasingly change the competitive landscapes in different industries, and they will offer abundant opportunities and benefits to all levels of market, consumer, and global economy. Since third world companies are increasingly gearing for globalization, scholars and business practitioners should understand and prepare to deal with the current and future impact of third world multinationals.

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