



Country specific advantage, firm specific advantage and multinationality – Sources of competitive advantage in emerging markets: Evidence from the electronics industry in China[☆]



Sumon Kumar Bhaumik^a, Nigel Driffield^{b,*}, Ying Zhou^c

^a Sheffield University Management School, University of Sheffield, Sheffield S10 1FL, United Kingdom

^b Warwick Business School, Warwick University, Coventry CV4 7AL, United Kingdom

^c Birmingham Business School, University of Birmingham, Birmingham B15 2TT, United Kingdom

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ABSTRACT

The extant literature on emerging market multinationals (EMNEs) suggest that they derive their advantages from country-specific advantages (CSAs) such as economies of scale, as opposed to traditional firm specific advantage (FSA) such as technology. We use firm level data from the Chinese electronics industry and an empirical methodology that has thus far not been used in the literature to provide clear empirical support for this proposition. Further, we demonstrate that not all emerging market firms can leverage CSAs equally and that EMNEs are better at exploiting CSAs than their non-MNE domestic counterparts. We also demonstrate that developed country MNEs operating in emerging market economies are not as good as leveraging available CSAs as their EMNE competitors, arguably on account of liability of foreignness. Our results have implications for outward investment by emerging market firms as well as for the ability of developed country MNEs to significantly benefit from efficiency-seeking FDI in emerging market economies.

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1. Introduction

As several authors have noted, notably Meyer and Xia (2012), Meyer and Peng (2005) and Ramamurti (2008, chap. 13), MNEs from emerging economies present a challenge for international business theory, as their firm specific advantages do not conform to the standard analysis of ownership advantages that is applied to western firms. Bhaumik, Driffield, and Pal (2010), for example, highlight the importance of EMNEs' ability to manage assets across subsidiaries, access to finance, and the ability to coordinate resources in the context of varying institutional quality as at least as important in explaining FDI by EMNEs as the more traditional

analysis that is built around the notion that ownership advantages of MNEs correspond to intangibles such as technological advantage. The literature on EMNEs further emphasises country-specific advantages (CSAs) such as access to natural resources as an alternative to traditional firm-specific "ownership" advantages (FSAs). In the context of large emerging market economies, the literature highlights the importance of home market size and therefore resulting economies of scale as a key country-specific advantages explaining outward investment by EMNEs.

The existing literature on EMNEs is possibly sufficient to explain how emerging market firms can internationalise through overseas investment without having any pronounced technological advantage (e.g., Dunning, Kim, & Park, 2008; Gaffney, Kedia, & Clampit, 2013; Kedia, Gaffney, & Clampit, 2012; Luo & Tung, 2007; Mathews, 2002, 2006; Ramamurti, 2012), and less how these emerge over time. More troublingly, given that CSAs, by their very nature, are available to all firms operating within an emerging market economy, there is little attempt to explain how apparently some firms are better able to gain from CSAs than others. Indeed, evidence from emerging market economies suggests that a handful of domestic firms are serial investors overseas and internationalisation through overseas investment is not a broad-based phenomenon (Nayyar, 2008). As such, our understanding of

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* Corresponding author at: Strategy and International Business Group, Warwick Business School, Warwick University, CV4 7AL, United Kingdom.
Tel.: +44 02476 524622.

E-mail address: nigel.driffield@wbs.ac.uk (N. Driffield).

EMNEs is incomplete, with the literature emphasising the process of internationalisation – either by way of extending the OLI framework (Dunning, 2006) or by way of proposing an alternative framework with which to explain the internationalisation of EMNEs (Mathews, 2002, 2006) – without sufficiently discussing the core issue of competitive advantage itself.

Yet, as Dunning (2006) argues, while the FSAs of EMNEs are unlikely to be the same as those of their developed country counterparts, the former “possess some unique and sustainable resources, capabilities or favoured access to markets which, if they chose to engage in asset augmenting foreign direct investment, they might expect to protect or augment” (p. 139). In other words, not only might EMNEs possess some non-traditional non-technological FSAs, these FSAs may be expected to evolve subsequent to internationalisation. This in turn will enable such firms to better exploit CSAs, thereby increasing their competitive advantage over domestic competitors and perhaps even competitor firms from other countries. In a parallel literature on emerging market firms, scholars emphasise the abilities of the more successful emerging market firms to operate within environments of weak institutions and market failure (Bhaumik et al., 2010; Bhaumik & Driffield, 2011). Specifically, these firms can benefit from disproportionate access to managerial talent, tacit or embossed assets such as political and business networks, and organisational structures that are optimised for environments of weak institutions and missing markets (Guillen & Garcia-Canal, 2009). In other words, they may have FSAs that do not directly facilitate internationalisation but can facilitate it through better use of CSAs. The subsequent literature, however, has not extended this line of argument in a systematic evidence-based manner.

The ambiguity concerning the nature of CSAs also has implications for the long-term competitive advantage of EMNEs. It is well documented in the literature that many of the EMNEs are technology-seeking and that they use their investment in developed countries to develop traditional ownership advantages (Guillen & Garcia-Canal, 2009). However, this is rarely (if at all) reconciled with the fact that investments by developed country MNEs in emerging markets too is aimed at accessing CSAs such as natural resources, cheap labour and economies of scale that many (if not most) developed countries do not offer. Indeed, it is well understood in the extant literature on developed country MNEs that their investment in emerging market economies can be – and in part is – efficiency seeking (Athukorala & Chand, 2000; Bevan & Estrin, 2004; Dunning, 2000; Vernon, 1966). But while the difficulties of assimilating new (developed country) technology in the production processes of EMNEs has been discussed in some detail, there is little in evidence-based discussion of the extent to which developed country MNEs can tap into these CSAs of emerging market economies.

Our paper, therefore extends the literature on EMNEs and makes three distinct contributions. First, to the best of our understanding, it is the first paper to provide empirical evidence of the relative importance of CSAs and traditional (or technology-based) FSAs for productivity growth – the basis for competitive advantage – of firms operating in emerging market economies. For reasons explained below, we focus on scale economies as our measure of CSA and technological progress as our measure of traditional FSA. We clearly demonstrate that firms CSA contributes much more to productivity growth of emerging market firms than traditional FSA. Second, it adds to the discussion about whether there is a significant difference in the ability of emerging market firms to exploit or leverage CSAs such as scale economies, i.e., whether, following Dunning (2006), EMNEs have non-traditional FSAs that enable them to better exploit emerging market CSAs. Third, we shed light on the relative disadvantage of developed country MNEs to exploit emerging market CSAs which has

implications for the relative competitiveness of EMNEs and their developed country counterparts in the longer run.

We do this by comparing the contribution of scale economies to the productivity growth of Chinese firms, both MNEs and non-MNEs, with those of western MNEs, within the electronics industry, a well-defined sector¹ that accounted for 10 percent of China's GDP growth and about 35 percent of China's foreign trade at the end of the last decade (APCO, 2010). We are able to do so by exploiting a methodological approach that, to our knowledge, has hitherto not been used in the international business literature and which enables us to decompose growth in total factor productivity into the contributions made by scale economies, technological change and efficiency.

Our results, discussed in Section 5, suggest that EMNEs do indeed demonstrate firm specific advantages over their domestic competitors, and in some aspects are as efficient as OECD MNEs. However, the FSAs associated with the EMNEs appear to be linked to the ability to harness scale economies, rather than any technological superiority over other firms in their home country. The results also demonstrate that developed country MNEs might not be able to leverage CSAs such as scale economies in large emerging markets as successfully as the EMNEs, thereby highlighting the limitations of efficiency-seeking FDI in emerging market economies.

2. The research setting

The focus of our analysis is the electronics sector, an industry in which it is accepted that China has significant comparative and competitive advantage, at least in terms of production. This is fuelled in part by the high levels of both inward investment and outsourcing to China by western firms, and benefiting from significant economies of scale.

From 2001 to 2008 the Chinese electronics sector generated double digit growth rates, peaking in 2005 with a growth rate of 45%. Based on Ministry of Industry and Information Technology (MIIT) figures, the industry grew at 6% even in 2010, recovering from the decline on global demand through the crisis. The sector also accounts for some 30% of total exports, exceeding \$520 billion in 2009. Equally, imports exceeding \$130 billion in 2009. The US is the largest export market, followed by Japan and the EU, led by Germany and the Netherlands. This shows clear evidence of export penetration into the most technologically advanced electronics markets, though domestic demand is also very strong, with home sales growth outstripping export growth over the period. This is boosted by government intervention, encouraging adoption of newer more energy efficient consumer electronics domestically.²

However, at the same time, there has been much talk of the position of Chinese manufacturing within global supply chains, and the “smile of value creation”, suggesting that China dominates by volume but not by value. The financial crisis has therefore placed significant pressure on the margins of Chinese exporters, who as a result are seeking to move up the value chain, with internationalisation playing a key role in this (Wei, Zheng, Liu, & Lu, 2014).

As such therefore, this industry is one that may be expected to be an industry that can spawn “traditional” EMNEs whose competitive advantage lie in economies of scale and other country-specific advantages, but also provide a comparison in

¹ For further discussion of this sector, and its global value chain, see Dedrick, Kraemer, and Linden (2010), Sturgeon and Kawakami (2010) and Tung and Wan (2013).

² The best known examples of this are the “Home Appliances to the Countryside” and the “Household Appliance Replacement” programmes, and the “Energy Saving Products Benefits People” project.

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