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Dynamic capabilities, entrepreneurial rent-seeking and the investment development path: The case of Samsung

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Abstract

As noted by Narula and Dunning [Narula, R., Dunning. J.H., 2000. Industrial Development, Globalization and Multinational Enterprise: New Realities for Developing Countries. Oxford Development Studies, 28, 141–167.], it has been observed that some of the more advanced developing countries, those rapidly 'catching-up', outpaced the postulated Investment Development Path (IDP), in which the strategic asset-seeking type of outward foreign direct investment is supposed to occur in later stages, i.e., when countries reach the higher "developed" levels of economic progress. Firms who led the outpacing in those countries did so through their entrepreneurial commitment to upgrade technological capabilities to maintain and augment their O-advantages rather than because of the overall economic development of their home country. Samsung Electronics' recent success in the semiconductor industry allows us to identify and analyse the factors whereby it not only utilised status-quo resources but also developed dynamic capabilities as it rose to the top. Aggressive and risk-taking investment behaviour in search of entrepreneurial rent and the effective policy of managing technology development contributed to the extraordinary achievement of Samsung Electronics. The company's remarkable transformation over the last decade or so can shed light on how a firm's dynamic capabilities, the ability to improve its O-advantages by reconfiguration, transformation and learning, contribute to its home country's idiosyncratic development path.

Keywords: Resource-based view (RBV); Investment development path (IDP); Dynamic capability; Technological capability; Entrepreneurship; Third-world multinationals; Samsung electronics; Semiconductor industry

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1. Introduction

Since the early 1980s, the world economy has experienced rapid ‘globalisation’. Globalisation has changed the pattern of trade, foreign direct investment (FDI) in world economic activity. However, globalisation has not affected all countries and regions to the same degree. Narula and Dunning (2000) contend that globalisation has resulted in both convergence and divergence: whilst it has resulted in increasing convergence among developed countries and between developed countries and the more advanced developing countries, it has also led to a widening gap between ‘catching up’ countries (e.g. newly industrialised countries) and ‘falling behind’ (less developed) countries. Mathews (2006) states that those firms from Far-East countries able to take advantage of the new opportunities arising from globalisation have achieved remarkable success and have even risen to challenge incumbent multinational enterprises (MNEs), leaving behind the firms which did not adapt themselves to the new environment.

Globalisation has brought about changes in the Investment Development Path (IDP) paradigm, in which a country’s FDI position is systematically associated with its economic development. As is well-known among International Business scholars, The IDP paradigm postulates that countries have a tendency to go through five stages of development and that these stages can be categorised according to the pattern of inward and outward investment. The pattern will rest on three factors in the ‘eclectic’ paradigm: ownership-specific (O) advantages of the local firms; location-specific (L) advantages of the country; the degree to which local and foreign firms choose to employ their O specific advantages coupled with L specific advantages by the way of internalising the cross-border market (i.e., their (I) advantages) (Dunning and Narula, 1998).

However, the rapid economic development of the Newly Industrialised Economies (NIEs) has disturbed the original IDP concept. MNEs from the Far-East have accelerated their internationalization, leading to an increase of outward FDI from those countries on a scale earlier than the IDP would suggest. Outward FDI from developing countries increased from $60 billion in 1980 to $148 billion in 1990 to $871 billion in 2000 and, in 2005, it surpassed $ 1.25 trillion (UNCTAD, 2006). Outward FDI from Asia Pacific firms comprises more than two thirds of the 2005 total. Furthermore, out of the top 40 transnational companies from developing countries identified by UNCTAD, 30 corporations are based in Asia-Pacific and 8 of the top 10 are all from Asia-Pacific.[2] Perhaps more revealing, only 3 of the 30 Asian firms compared with more than half of the non-Asian are natural resource-based.

How could globalisation enable firms from the NIEs to emerge so rapidly in the world arena? As Narula (1996) has pointed out, the shape and position of the IDP for any particular country is idiosyncratic. However, there appear to be some generalisable implications of globalisation for the IDP. First, Globalisation allowed the new challengers or latecomers to take advantage of new opportunities such as unexplored consumer markets, extended firm linkages, and facilitated resources leverage (Mathews, 2006). Second, in this process, the companies that developed technological capability and creative assets played a major role in the increase of outward FDI from the ‘catching-up’ countries. Third, the globalisation process, itself, helped the MNEs from developing countries to organize and integrate their global business effectively through new strategic and organizational innovations that are well suited to the new business environment.

[2] Mathews (2006) terms these ’Dragon Multinationals’ and briefly states short histories of how they emerged, using the examples of Ispat (India), Acer (Taiwan), City Developments Ltd (Singapore), Li & Fung (Hong Kong), Lenovo (China) and Samsung (Korea).