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Multimarket contact and performance: Evidence from emerging economies

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Abstract The organizational structure of multinational enterprises (MNEs) is mainly made up of subsidiaries located in emerging and advanced countries. Consequently, they usually compete against the same rivals simultaneously in both emerging and advanced contexts. Multimarket contact (MMC) theory analyzes the competitive dynamics that arise in these situations. However, researchers have paid more attention to the consequences of multimarket contact in developed countries than to its effect in emerging countries. To explore the impact of the macroenvironment on the relationship between MMC and performance, we examine how coinciding with multimarket rivals in emerging economies alters the effect of MMC on firm performance. Our research, which is developed with a sample from the mobile telecommunications industry, shows that the presence of MNEs in emerging countries hinders the development of mutual forbearance practices and, therefore, reduces the positive effect of MMC on firm performance.

Introduction

In recent decades, countries from Asia, Latin America, Africa and the Middle East have undergone a process in which government policies have favored economic liberalization and the adoption of free-market systems (Hoskisson et al., 2000). These countries are known as *emerging market economies* and, despite the efforts of governments to move toward a market-based economic system, they are characterized by governmental discretion, political instability and poor property rights protection (Meyer et al., 2009). In spite of these institutional voids, emerging economies can be an opportunity for foreign investors because of the growth in demand for many industries in these economies (Hoskisson et al., 2000). As a consequence, multinational

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enterprises (MNEs) often base their organizational structure not only in countries with a higher institutional stability, that is advanced economies, but also in emerging economies.

Because of the large number of countries in which MNEs are present, it is likely that they will compete with the same rivals in different markets at the same time. Thus, besides the complexity of managing different subsidiaries, MNEs also have to manage the consequences of competing against the same rivals in both emerging and advanced markets. Multimarket contact theory analyzes the competitive dynamics that arise in these kinds of situations, that is, when firms meet each other simultaneously in different markets (Karnani and Wernerfelt, 1985). Due to the current globalization of competition, multimarket contact (MMC) has become a frequent determinant of rivalry between firms (Greve, 2008; Yu and Canella, 2013) and, therefore, MMC theory has gained momentum among strategic management scholars (Greve, 2008; Guedri and McGuire, 2011; Upson et al., 2012). Nevertheless there is still no general agreement about the consequences of coinciding in multiple markets on interfirm rivalry. On the one hand, some scholars have defended a linear relationship between MMC and rivalry (Gimeno and Woo, 1996; Gimeno and Woo, 1999; Greve, 2008). According to these scholars, increases in MMC would always result in a low rivalry between firms. On the other hand, other researchers have suggested that the relationship between MMC and the intensity of rivalry may be represented as an inverted U-shape (Baum and Korn, 1999; Fuentelsaz and Gómez, 2006; Haveman and Nonnemaker, 2000). These researchers argue that, when MMC is low, rivalry between firms tends to be high. However, when MMC is high, MMC rivals tend to tolerate each other and, as a consequence, the rivalry between them lowers.

Apart from studying the relationship between MMC and interfirm rivalry, research has also paid a lot of attention to the contingencies that moderate the mutual forbearance hypothesis (Yu and Canella, 2013). For instance, Gimeno (1999) examines how the strategic importance of markets affects the reduction of rivalry between firms in MMC environments. Haveman and Nonnemaker (2000) explore the effect of mutual forbearance in markets dominated by a few large firms. Fuentelsaz and Gómez (2006) analyze the impact of strategic similarity among rivals on MMC dynamics and Vonortas (2000) studies the consequences of market and technological uncertainty on mutual forbearance agreements. As these examples show prior research has mainly focused on how industry and firm characteristics moderate the effect of MMC on firm performance. However, with few exceptions (see Yu et al., 2013), the impact of the characteristics of the macroenvironment on the relationship between MMC and performance has been underexplored. To our knowledge, there is no previous study that analyzes whether the relationship between MMC and performance is the same for subsidiaries in emerging economies, prior MMC studies having tended to focus on advanced economies.

Recent literature has highlighted how the features of emerging markets can change the findings of traditional managerial theories that have mainly been developed in advanced economies (Hoskisson et al., 2000). While some authors suggest that it is necessary to develop new theories to explain the behavior of firms in emerging economies, others understand that traditional theories are still applicable but need to be extended if we are to better understand the behavior and outcomes of firms in this context (Cuervo-Cazurra, 2012). This article seeks to analyze the extent to which market overlap in emerging countries conditions previous theory about the effect of MMC on firm performance.

This research argues that MMC has a U-shaped effect on firm performance and we examines the influence of MMC on firm performance, taking into account the degree of market overlap of MNEs in emerging countries, that is the number of emerging countries where MNEs encounter their multimarket rivals in relation to the total number of markets in which they compete against multimarket rivals. We propose that MMC is more effective in reducing interfirm rivalry when multimarket rivals meet in advanced markets rather than in emerging markets. Our underlying logic is that the observation of rivals' behaviors and internal coordination among subsidiaries may be more difficult in emerging economies due to information asymmetries, uncertainty and higher requirements of local adaptation. As a consequence, mutual forbearance dynamics could arise more naturally in advanced markets than in emerging markets. We test our hypotheses in the mobile communications industry from 2000 to 2012 by considering MMC between the whole population of MNEs that coincide in emerging and non-emerging markets around the world.

The contribution of this study is twofold. First, we provide evidence of the effect of MMC on firm performance in an international context. Whereas prior research mainly focused on examining how industry and firm characteristics determine the effect of MMC on rivalry, we pay attention to the moderating influence of the macroeconomic context on MMC dynamics. Second, we extend MMC literature by suggesting that MMC is more effective in decreasing rivalry and creating above-average returns when it mainly takes place in advanced markets rather than in emerging markets. A better understanding of how the context influences the effect of MMC on firm performance can enrich MMC theory and clear up some concerns about MMC dynamics.

The rest of the paper is organized as follows. In the second section, we review the literature about MMC and the main characteristics of emerging countries. This will help us to better understand the hypotheses of the third section. The fourth section addresses the variables and the methodology, and the results are presented in the fifth section. The last section is devoted to the main conclusions and future research lines.

Literature review

Multimarket contact competition

MMC theory describes the competitive dynamics among firms that compete against each other across several markets (Karnani and Wernerfelt, 1985). In the first stage, MMC increases the chance of direct competition. However, MMC theory defends the *mutual forbearance hypothesis* – i.e. the reduction of rivalry between multimarket firms due to the MMC between them – and sustains that multimarket rivals tend to refrain from aggressive competitive behaviors in their common markets (Greve, 2008; Parker and Röller,