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Learning from the New Global Giants

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Perhaps one of the most far-reaching developments of the last twenty years has to do with the rise of emerging economies, which once represented no more than 15% of the global economy and have now come to account for nearly 50% of economic activity. These economies are growing fast and are located around the world, including the BRICs (*Brazil, Russia, India and China*), MITS (*Mexico, Indonesia, Turkey and South Africa*), and many other like Africa, East Asia, South Asia, Latin America, and the Middle East. Some of these countries have become major exporters of manufactured goods while others sell agricultural, energy or mineral commodities.

In the last few years, these emerging economies have also become launching pads for new global corporations like Haier, Infosys or Cemex. These companies have expanded throughout the world, making acquisitions and setting up manufacturing and distribution operations not just in emerging economies and developing countries but in developed ones as well. Their rapid foreign expansion holds lessons that can be applied to any company in the world that wishes to adapt to the new winds of change in the global economy. This is the subject of my new book with Esteban García-Canal, *Emerging Markets Rule*, in which we analyze the rise to prominence of 18 companies from Argentina, Brazil, Mexico, Egypt, India, China and Taiwan.

The list of global leaders from emerging economies is long and getting longer: Argentina's Arcor is the largest candy company in the world, Mexico's Bimbo is the largest bakery, Brazil's JBS is the biggest meat

company, Argentina's Tenaris is the largest maker of seamless steel tubes, South Korea's Samsung Electronics is the largest consumer electronics firm, China's BYD is the leading manufacturer of nickel-cadmium batteries, Brazil's Embraer is the largest regional and executive jet manufacturer, and so on. The list of emerging-market firms poised to become number one in their respective industries over the next few years includes Cemex from Mexico in cement, Acer from Taiwan in personal computers, TCS and Wipro from India in IT services and outsourcing, Vale from Brazil in mining, and Sinovel from China in wind turbines, among others.

Emerging-market multinationals were born in a peculiar context. Emerging economies are characterized by incomplete or imperfect market development (*including the markets for labor, capital, intermediate goods, and final goods and services*), governments that intervene heavily in the economy, and relatively unpredictable dispute-resolution and legal systems. In addition, some emerging economies are characterized by policy uncertainty and a considerable degree of political interference in various industries. Hence, it is important to keep in mind that emerging-market multinationals reflect in their structure and behavior these characteristics of their home countries. They learned the ropes in a difficult environment in the home country, and thus they are uniquely equipped to deal with the growing uncertainty and volatility that characterizes the global economy nowadays.

Emerging-market multinationals differ in several crucial ways from their developed-world counterparts. They have expanded around the world much faster. Companies such as Vale in mining, Cemex in cement, or Lenovo in personal computers were mostly domestic firms twenty years ago. Nowadays, they operate in dozens of countries, and are among the top three firms in their respective industries. Emerging-market multinationals have relatively weak marketing and technological skills, so they have focused on the basics, finding new customers and borrowing the latest technology. This has proven to be a winning formula for Haier and Modelo, which developed new customer niches in global markets, and to Tata Communications, the world's largest voice wholesaler. Emerging-market multinationals tend to possess better

political capabilities, accumulated from dealing with discretionary and/or unstable governments in their home country, or from operating in heavily regulated environments that at some point were deregulated. Therefore, they are better prepared than traditional multinationals to succeed in foreign countries characterized by weak or rapidly changing institutional environments. Taking into account the high growth rates of emerging countries and their peculiar institutional environment, political capabilities have been especially valuable for these new multinationals from emerging economies. These 'political skills' however, are also proved useful in advanced economies. In the last twenty years, emerging-market multinationals have made acquisitions and increased their presence in the infrastructure industries of Europe and North America, including electricity generation and distribution, telecommunications, water, airport, ports, and toll-highway operation, among others.

Emerging-market multinationals have used foreign expansion as a way to acquire new capabilities. They have faced a significant dilemma when it comes to international expansion because they need to balance the desire for global reach with the need to upgrade their capabilities. They can readily use their home-grown competitive advantages in other emerging or developing countries, but they must also enter more advanced countries in order to expose themselves to cutting-edge market demand and develop their capabilities. Firms may evolve in a way that helps them to upgrade their capabilities or gain geographic reach, or both. Some firms place the emphasis on acquiring global market reach rather than upgrading their capabilities, as the case of Hyundai Motors in its early expansion illustrates, while others do just the reverse, as in the case of Tata Motors. Relatively few firms balance both goals simultaneously. The tension between capability upgrading and gaining global reach forces emerging-market multinationals to enter developed and developing countries simultaneously since the beginning of their international expansion. Entering developing countries helps them gain size, operational experience, and generate profits, while venturing into developed ones contributes primarily to the capability upgrading process. Emerging-market multinationals have certainly tended to foray into developing countries at the beginning of their international expansion and limit their presence in developed countries to only a few locations where they can build capabilities, either because they have a partner there or because they have acquired a local firm.

Another feature of emerging-market multinationals is their preference for entry modes based on external growth. Global alliances and acquisitions are used by these firms to simultaneously overcome the liability of foreignness in the country of the partner/target and to gain access to their competitive advantages with the aim of upgrading their own resources and capabilities. Some emerging-market multinationals like Acer built their early expansion on a network of alliances and joint ventures with a different local partner in nearly 20 different markets. Other emerging-market multinationals used their home market position to facilitate the entry of a global partner in exchange for reciprocal access to the partners' home markets and/or technology, as in the case of Lenovo and IBM. Besides the size of the domestic market, the stronger the position of emerging-market multinationals in it, the greater the bargaining power of the firm to enter into these alliances. This fact is illustrated by the case of some emerging-market multinationals competing in the domestic appliances industry like China's Haier, Mexico's Mabe or Turkey's Arcelik, whose international expansion was boosted by alliances with world leaders that allowed them to upgrade their technological competences. Capability upgrading processes based on acquisitions have been possible in some cases due to emerging-market multinationals' privileged access to financial resources, because of government subsidies or funding constraints in capital market, as illustrated by the Chinese firms.

A final feature of emerging-market multinationals is that they enjoy more freedom to implement organizational innovations in order to adapt to the requirements of globalization because they do not face the constraints typical of established multinationals. As major global players with long histories, many firms from developed economies suffer from inertia and path dependence due to their deeply ingrained, even fossilized values, corporate cultures and organizational structures. Emerging-market multinationals from Asia have adopted a number of innovative organizational forms that suited their needs, including networked and decentralized structures.

This organizational flexibility has enabled emerging-market multinationals to innovate in a novel ways. The first is the ability to adapt technology to the typically smaller-scale markets of developing and emerging economies, their cheaper labor, or imperfect input markets. Many of the famous Latin American multinationals grew in this way during the 1950s and 60s. Consumer-goods emerging-market multinationals also possess another potentially valuable skill, namely,

“ethnic brands” that appealed to customers not only in the home market but also to the ethnic diaspora in foreign countries, especially in Europe and the United States. Bimbo of Mexico, the world’s largest bakery firm, is a prime example of this pattern. Other emerging-market multinationals have been found to possess an uncanny ability to incrementally improve available products and to develop specialized variations for certain market niches. Acer of Taiwan or Samsung of South Korea built their early reputations in global markets exploiting this advantage.

Emerging-market multinationals also have the ability to organize production and to execute large-scale projects efficiently with the help of technology borrowed from abroad in industries as diverse as steel, electronics, automobiles, shipbuilding, infrastructure development, and turnkey plant construction. The South Korean shipbuilder Hyundai and Mexico’s Cemex have frequently been referred to as examples of this ability. A specific type of managerial skill that becomes critical in accelerated internationalization is the ability to manage effectively mergers and acquisitions or strategic alliances. These abilities become critical when extracting value from the organizational combinations that are necessary to learn and gain access to critical resources to increase the international competitiveness of the firm. The adoption of network based structures has also helped the development of emerging-market multinationals by facilitating the coordination of international activities.

In recent years, emerging-market multinationals have been found to possess even more formidable competitive skills. On the technology side, research has documented that firms from developing and emerging countries face lower hurdles when it comes to adopting new technology than their more established counterparts in rich countries. This is especially the case in industries such as construction, electricity, port operation or telecommunications, in which companies from Brazil, Chile, Mexico, South Korea, and Dubai, among others, have demonstrated a superior ability to borrow technology and organize efficient operations across many markets.

In our book, *Emerging Markets Rule*, we distill these competitive capabilities of the emerging-market multinationals, into seven principles that companies from any country in the world should adopt in order to be ready for the new kind of intense global competition of the 21st century. First, we argue that action should take precedence over strategy. In the rapidly changing global economy, companies need to experiment and to adapt incrementally rather than wait for the ‘perfect’ strategy to

arrive. We illustrate this principle with the rise to global prominence of Bimbo, whose emphasis on operations and execution rather than strategy enabled it to become the world's leading bread company. The second principle has to do with niche thinking. Companies must follow the path of least resistance into foreign markets, which typically is a narrow niche they can dominate. Later, they can use that niche as a platform or beachhead for mounting an assault on the mainstream of the market. This is the strategy followed by Haier in the US, a company that first targeted college students, and now is the world's largest appliance brand.

The third principle involves building up scale quickly so as to preempt competitors, attract price-sensitive customers, and build up market share. Samsung Electronics is perhaps the company that illustrates this principle best. It bet the farm by investing in huge factories for new products not just once but several times. It is now the world's largest consumer electronics company. If scale is important in the global economy, so is the ability to embrace chaos, the fourth principle. Acer expanded throughout the world without fearing chaos, either externally or internally. It used a network of local partners to minimize risk and maximize adaptation. Today the company is the second-largest personal computer brand in the world. In order to sustain rapid growth, and to learn new capabilities along the way, we propose a fifth principle which urges companies to acquire smart, in the dual sense of buying assets that complement its existing capabilities, and doing so at the right time and with a clear integration strategy in mind. Scale through internal and external growth should enable the company to implement our sixth principle: expand with abandon. We argue that if a company waits to make a foreign move until it's ready, then it has waited too long. Foreign expansion cannot be planned day by day. Companies need to be willing to experiment, to engage in trial-and-error, to expose themselves to new opportunities and ways of doing things. And it is at this point where our seventh, and most important, recommendation comes in. In this new, rapidly-changing global economy companies must abandon the sacred cows. What brought them success in the past cannot become a hindrance for pursuing new opportunities that are becoming available around the world. Our message is simple: follow these seven rules and your company will do just great in the global economy.

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