

# Theory of the MNE and Outward Investors from Emerging Economies

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## The Origins of Foreign Investors (% of worldwide FDI stock)

Region/Country	1914	1969	1980	1990	2008
Europe	93%	43.2%	41.1%	49.5%	55.5%
	U.K. 50%	16.2%	14.1%	12.8%	9.3%
	France 43%	n.a.	4.2%	6.1%	8.6%
	Germany Netherlands	n.a.	n.a.	7.5%	8.5%
		n.a.	7.4%	6.0%	5.2%
United States	6%	55.0%	37.7%	24.3%	19.5%
Japan	0%	1.3%	3.4%	11.2%	4.2%
Emerging Markets	0%	0%	12.7%	8.3%	15.9%
Worldwide OFDI stock (US \$ Bill.)	n.a.	n.a.	571	1,791	16,205

[Source: Yair Aharoni and Ravi Ramamurti, 2008]

## Is China Special?

Country-of-Origin effects are likely important, but they are only one aspect of explaining the contemporary patterns of EE-MNEs:

1. EE-MNEs are at an early stage of their internationalization, whereas most well-known MNEs have been around for a very long time.

→ Need to look at the maturity of the firm, rather than the maturity of the home country!

## Is China Special?

Country-of-Origin effects are likely important, but they are only one aspect of explaining the contemporary patterns of EE-MNEs:

2. Due to 'globalization', EE-MNEs are face different challenges / opportunities than firm that internationalized 20 or 30 years go.

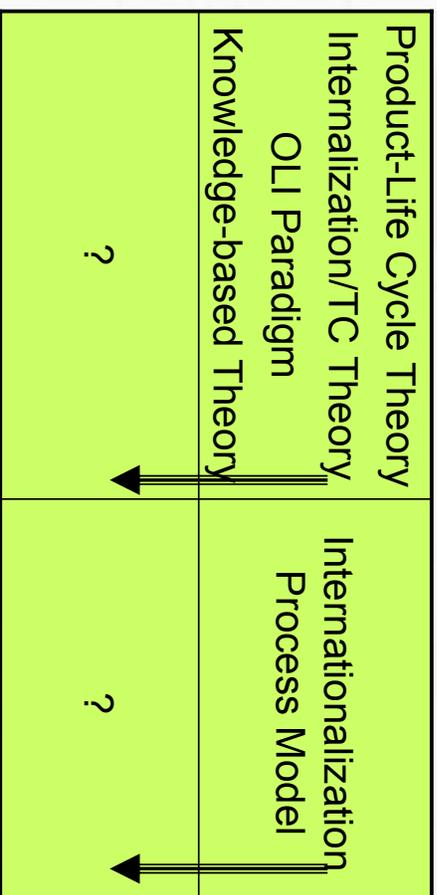
→ Need to study the effects of changes in the global business environment, and their effects of FDI  
e.g. capital markets make it easier to acquire firms!

Mature  
MNEs

Early Stage  
MNEs

Advanced  
Economy  
MNEs

Emerging  
Economy  
MNEs



## What does Theory Have to Say?

### Internalization / Transaction Cost Theory

#### Basic Proposition:

Firms 'internalize' transactions when costs of internal transaction are lower than those of external transactions [Buckley & Casson 1976, etc]

#### Traditional Application:

A major source of transaction costs is the *transfer of knowledge* from HQ to overseas operations.

→ MNEs prefer high control modes to secure their knowledge transfers

#### Application to EE-MNE:

A major source of transaction costs is the *acquisition of knowledge* overseas and its 'reverse transfer'.

→ EE-MNEs prefer high control modes to secure their acquisitions of brands and technologies

Most overseas operations require intangible transfers from foreign **and** local partners. **Both** need to be taken into account when assessing ownership / entry modes [Hennart, JIBS 2009; Meyer et al., SMJ 2009]. **Always**.

**The Theory holds.** There were problems in its empirical application though.

## What does Theory Have to Say?

### OLI Paradigm (John Dunning)

#### Basic Proposition:

Firms engage in FDI when they 1) have ownership (O) advantages, 2) utilize locational (L) advantages elsewhere and 3) internalization (I) works better

#### Traditional Application:

O-adv. arise from technology and brands, L-adv. include market access, raw materials and low cost labour

→ Traditional North → North and North → South FDI

#### Application to EE-MNE:

O-adv. include home market access and capabilities of dealing with peculiar institutions

→ EE-MNEs may exploit different sorts of O-adv.

→ EE-MNEs use FDI both to exploit and to build O-adv.

“**Strategic asset seeking FDI**” is one of four motives identified by Dunning. This motive is more common among EE-MNE, but not per se new.

**The Paradigm holds. There are differences in the types of O-advantages though.**

## What does Theory Have to Say?

### Internationalization Process Model

#### Basic Proposition:

Firms go through an iterative process of learning about a context, increasing commitment, and thus learning even more, enabling further commitment

#### Original Application:

Swedish MNEs in the 1970s

→ The process of internationalization takes a long time, and involves distinct stages of increasing commitment

#### Subsequent Research:

Firms can accelerate their Internationalization by several Mechanisms, e.g. acquisitions

→ The process is now often much faster than in the 1970s.

Do not confuse the underlying **process** (learning → commitment → learning), which is general, and the **stages models** developed on the basis (licensing → JV → WOS), which is context specific.

**The Theory holds. However, there are important moderating variables to explore.**

## Internationalization Process Model

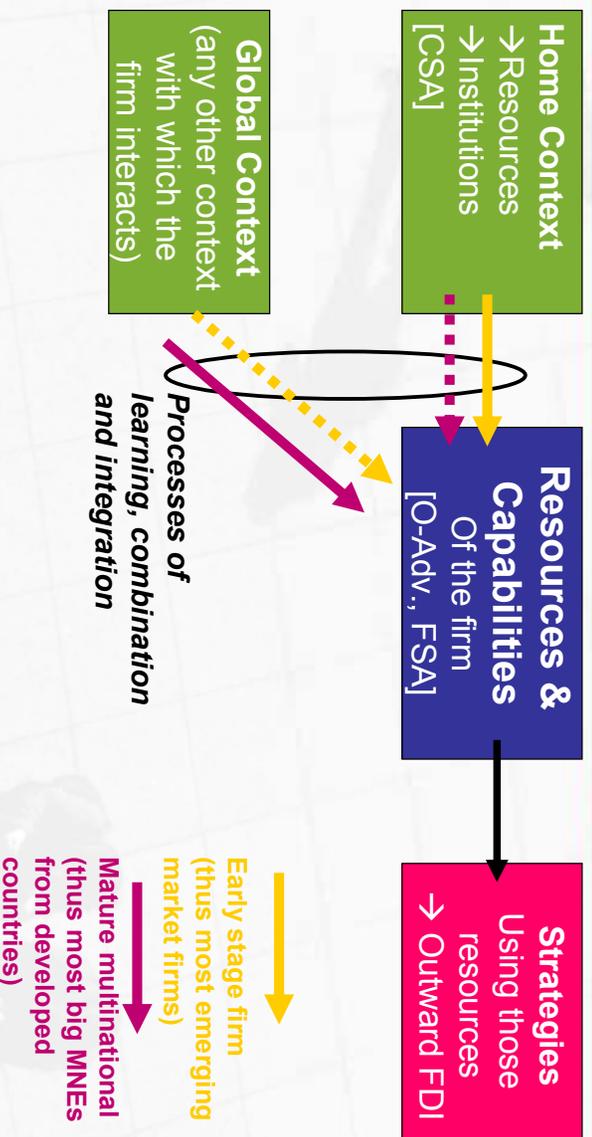
### Traditional Internationalization Processes

- **Experiential learning** and knowledge acquisition within the firm
- **Network building** and exploitation

### Accelerated Internationalization Processes

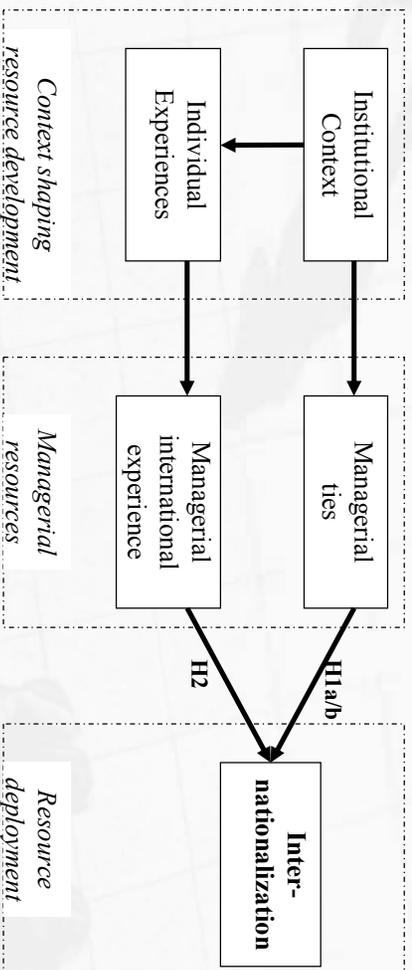
- Building an **entrepreneurial team** with international experience
- **Learning from importing** and inward foreign investors ('inward-outward link')
- **Learning from other** foreign investors operating in the foreign country
- **Acquiring resources** in the foreign country, possibly entire firms

[Peng & Meyer, 2011, Chapter 11]





# A Resource-based Framework for Internationalization of Emerging Market Firms / BGS



[Tan, Danchi & Meyer, Klaus E. (2010). Business Group's Outward FDI: A Managerial Resources Perspective, *Journal of International Management*, 16(2): 154-164]

**Klaus Meyer's Blog**  
On Global Business and Economics in Volatile Times

**My Blog**  
June 13

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Klaus Meyer  
Welcome to my website!

**News**

- Presentations slides on 'Y81 from Emerging Economy', A16 Frontiers Conference
- Charleston - and the paper on business group internationalization.
- A16 Insights article - Thinking Strategically during the Global downturn!
- Follow what the global economic crisis means for businesses in my Blog.

**Research**

My research focuses on international business and management in emerging economies. See here for an overview.

**Testbook**

The testbooklet for our textbook *International Business that goes off to the field!*. The second price point is...

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- The State in the Economy [C2]
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**May 2010**

In recession while the economy has been in different forms of state and the state as a whole. In the middle of the crisis, the state is directly involved in building highways, developing countries trying around regulation: apply (like the railways), or regulating health...