

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		n.a.	7.5%	8.5%	9.0%
Netherlands		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.

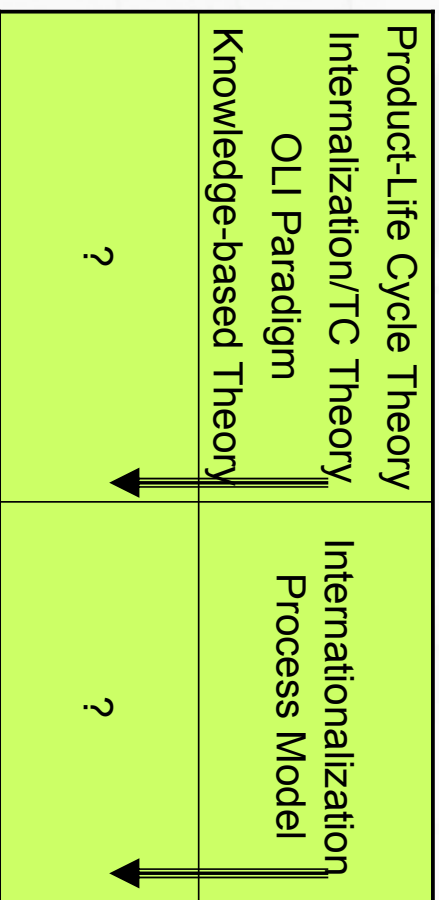
→ Need to study the effects of changes in the global business environment, and their effects of FDI
e.g. capital markets make it easier to acquire firms!

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 confused 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

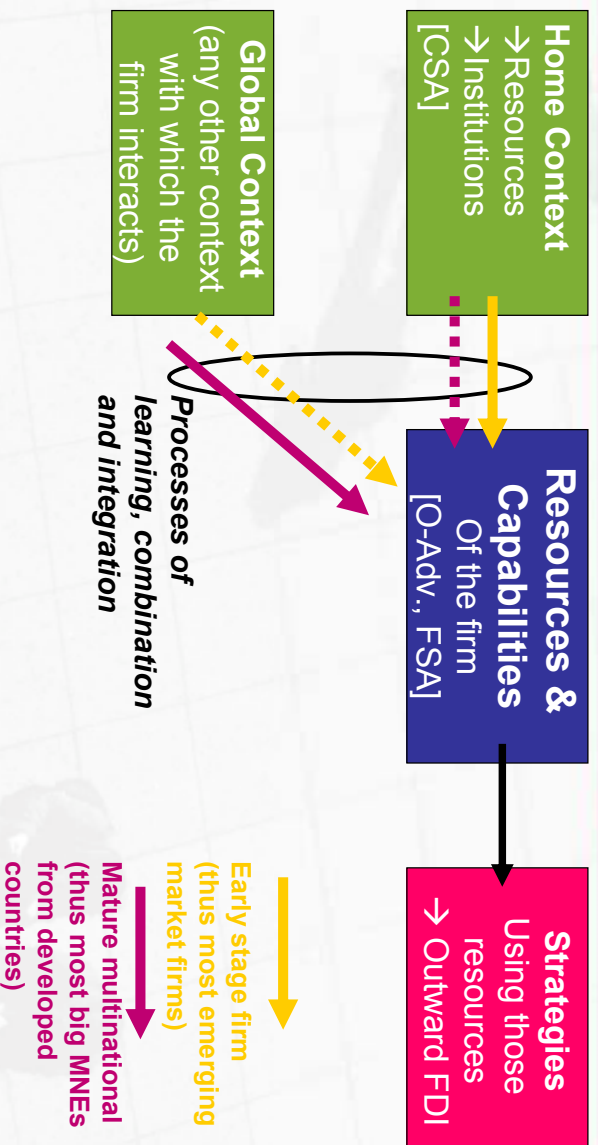
Traditional Internationalization Processes

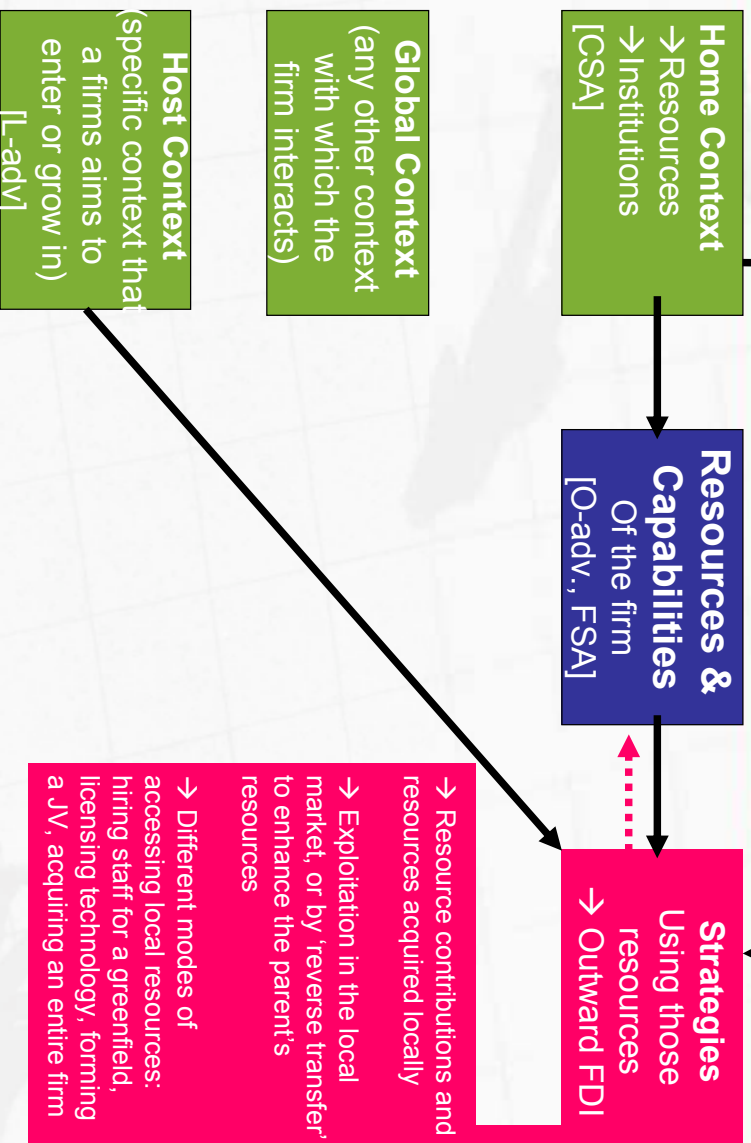
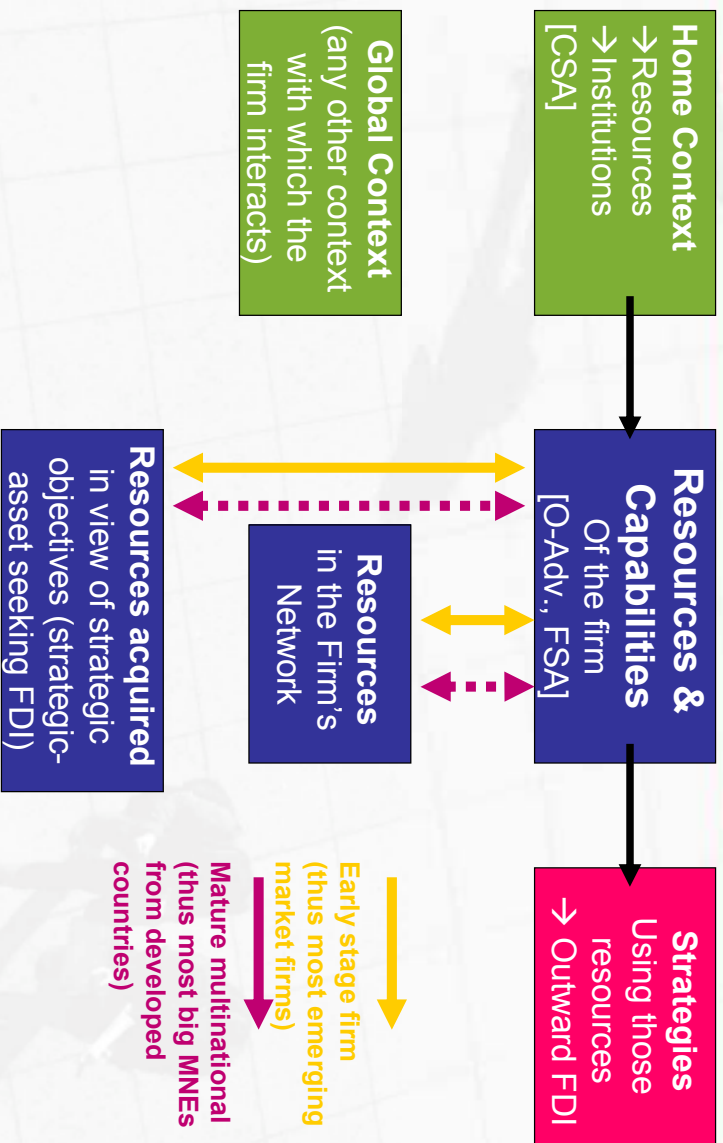
- **Experiential learning** and knowledge acquisition within the firm
- **Network building** and exploitation

Accelerated Internationalization Processes

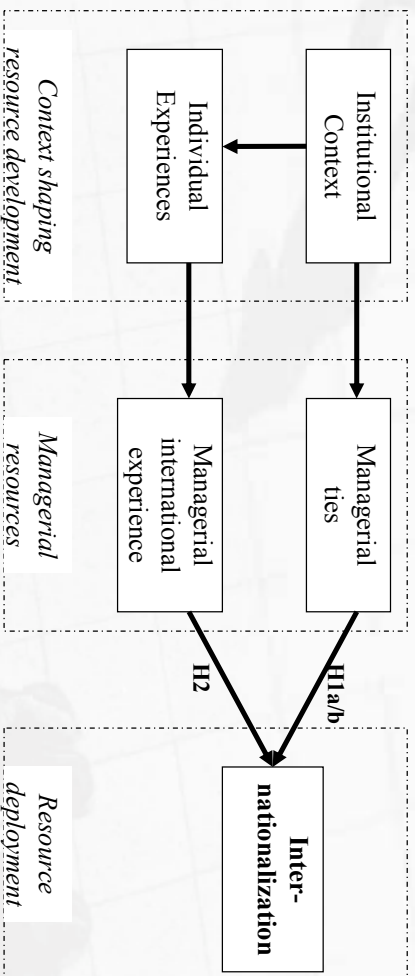
- Building an **entrepreneurial team** with international experience
- **Learning from importing** and inward foreign investors ('inward-outward link')
- **Learning from other** foreign investors operating in the foreign country
- **Acquiring resources** in the foreign country, possibly entire firms

[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]

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In recession while the economy has been different forms of state and the state as the directly involved in building highways around regulation: apply (like the railways), or regulating health

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