The Internationalization of Multinational Companies (MNCs): An intra-sector comparison among firms from developing and developed countries

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Abstract

According to the international statistic data of the United Nations Conference of Trade and Development (Unctad, 2008), the majority of Multinational Companies (MNCs) are from developed countries. However, in the last decade the participation of MNCs from emerging economies in the international flows of Foreign Direct Investment (FDI) increased significantly, making them important global players. Although several scholars have addressed the internationalization process of emerging MNCs, no attempt has been made in the sense of directly comparing the internationalization process of firms from both developed and developing countries. To fill this gap, the aim of the present paper is to highlight the differences and similarities of the determinants and patterns of their internationalization. The integrated analytical model used in this study, which draws on insights from the Eclectic Paradigm and the Uppsala Internationalization approaches, has proved useful by helping to shed some light on the literature about MNCs’ internationalization process. The model in question has been structured in order to explore the differences and similarities of the internationalization processes of MNC from a developed and a developing country. This research uses a qualitative method with an exploratory nature, which allows deeper cross-cultural understanding. Multiple case studies of MNCs from countries with different levels of development (Brazil and Sweden) were carried out; this type of research allows addressing questions related to the determinants and patterns of internationalization. The results of the study show that there are strong evidences, which point out differences in term of ownership advantage development. However, the firms did not show substantial differences regarding internalization advantages. On the other hand, learning and experience of internationalization have been factors that have influenced the pattern and structure of the MNCs in both contexts. However, as the MNC from the developed country is more international and has longer experience, location decisions are no longer heavily influenced by these factors. The international network the MNC is part of and access to technology and knowledge partners are nowadays influencing the MNCs internationalization processes more. These findings are in line with earlier research that has pointed out that learning is most important in the early phases of MNCs international development while networks and location advantages are more important in later stages.
1. INTRODUCTION

Increasing globalization levels have led to a number of measures, such as lower trade barriers and higher international integration, which have created the institutional and economic conditions for a growth strategy of firms from developed and developing countries. Presence in foreign markets is an important growth tool for companies, especially in the case of limited home market. This may happen due to lack of domestic demand, when the market is too small or the industry is to narrow, or due to the maturity either from the firm’s action or from the competitors. Going abroad represents an opportunity for companies to reach new customers in a much larger extent, but they also must face challenges like different political and economic scenarios, new competitors, new laws and regulations, and different quality demands.

The majority of MNCs are from developed countries. According to the United Nations Conference for Trade and Development (UNCTAD, 2008), the group of developed countries represents 84.6% of all Foreign Direct Investment (FDI) stock in the world, but this index have been decreasing since the beginning of the 1990s. In the last decade, the FDI flows from developing countries grew at a higher year average than the developed countries’ flows, and in this same period, the developing countries group doubled its share on the World’s FDI flows, becoming important global players.

On the other hand, it is argued that MNCs from emerging economies do not hold the same property structure as those from well developed countries (Filatotchev, et al, 2007), which means that operating in more mature home markets gives the company an advantage to compete abroad; some other factors may influence the firm’s competitiveness, such as the education of the labor force and the access to capital. All of these factors make it difficult for a company from a least developed country to compete in a more global economy.

Although this research field has been growing lately, no attempt has been made in the sense of directly comparing the internationalization process of firms from both developed and developing countries. To fill this gap, this paper addresses the following question. How does the internationalization process of a MNC from a developing country differ from the case of one from a developed country? The aim is to highlight the differences and similarities from the internationalization processes, using a multiple case study from countries of different levels of development.

The rest of the paper is structured as follows. In Section two the existing literature on the different approaches of internationalization, the discussion of some empirical studies about the case of MNCs as well as the theoretical framework are presented. Thereafter, the methodology is discussed in Section three. Empirical findings are presented in Section four, followed by the discussion of the empirical data in Section five. The conclusions of the study are drawn in Section six, followed by the implication of the study in Section seven.

2. LITERATURE REVIEW

2.1 SOME SPECIFIC STUDIES OF MNCS’ INTERNATIONALIZATION PROCESS

Due to the growing academic and economic importance of MNCs from developing countries, several authors attempted to document the internationalization processes of such firms. Results from these studies unveil that an incremental behavior is also a feature from the internationalization of developing countries’ MNCs (Urban, 2006; Pillania, 208) and the psychic distance also affects the market selection process, even though it does not determine alone, for example, the foreign direct investment destination (Urban, 2006; Li, 2003).

Regarding the extent to which a firm will depend mostly on ownership, internalization and locational advantages (i.e. Eclectic Paradigm view) to internationalize its activities, Li (2003) and Lee and Slater (2007) suggest an adaptation for the specific case of developing countries MNCs; this is because these firms often end up developing ownership advantages on foreign
markets, mostly in developed countries, due to better access of technology and knowledge. Cuervo-Cazurra (2007) classified the MNCs from developing countries as those that seek on developing ownership advantages abroad and those that aim on exploring abroad the advantages acquired in their domestic market. Those firms that desire to develop new capabilities abroad should choose to settle a foreign subsidiary on developed economies, if they seek access to higher technology, or on developing economies, if they aim on obtaining access to a country’s abundant resources.

To overcome their disadvantage as latecomers, developing countries’ MNCs may opt for an audacious international strategy to quickly establish their reputation among foreign customers, such as the acquisition of strategic assets and already established brands (Luo and Tung, 2007; Bonaglia, Goldsten and Matthews, 2007). Heavy investments on R&D and networking are also assets of major importance for a successful internationalization process by a latecomer MNC (Yu, Lau and Bruton, 2007).

On the other hand, there are also several studies dealing with the internationalization of MNCs from developed countries. Ruigrok, Amann and Wagner (2007) found out that the relationship between the degree of internationalization and the firm’s performance of Swiss MNCs have a S-shaped curve relationship, which means that an increasing internationalization on early stages of the process affects positively the firm’s performance, but a downfall in this performance may occur in mid-stages of the internationalization process when the firm should soak up several costs related to this increasing commitment. According to the authors, firms on a very high degree of internationalization may have a variation of lower and higher average performance.

Regarding the psychic distance element, Andersson (2004) affirms that its effect as market selection element varies according to the firm’s entry mode. The psychic distance is more relevant when discussing exports substitution entry modes, whereas when it comes to FDI there are other elements that affect the market selection decision, turning the element of psychic distance into a partial model.

An evolution in the internationalization of MNCs from developed countries points out the tendency of conducting R&D activities abroad, while the traditional view considered that firms would only reproduce abroad their methods developed on their home markets (Pearce, 1992). Currently, researchers understand that MNCs seek for complementary assets abroad to enlarge their ownership advantages (Serapio and Dalton, 1999; Hayashi and Serapio, 2006), which means that developing countries MNCs are not the only ones to develop ownership advantages abroad.

In terms of competitiveness assets, it is believed that firms from developed countries have an inherent advantage over firms from less developed countries, which is the effect of the country of origin stereotype over its international branding. Thanasuta et al (2009) argue that products from highly industrialized economies usually are seen as superior in terms of quality and technology, making the country of origin effect to have a great influence over the consumers’ willingness to pay.

It seems that firms, both from developed and developing economies, conduct their internationalization processes based on incremental experience, on psychic distance criteria for market selection and also on networking, but the literature seems to indicate some differences when it comes to competitiveness and how these firms exploit their ownership advantages. But still, there are no studies performing a direct comparison among the similarities and differences among firms from developed and developing economies, which is the gap that this paper tries to fill.
2.2. INTERNATIONALIZATION THEORIES: Back to the basics
The first theories, aiding our understanding of internationalization of firms, had a microeconomic scope, and tried to explain the reasons for a company to produce abroad. Hymer (1960/1976) argued that producing overseas was costly for the firm, due to the great amount of uncertainty regarding this operation, such as exchanges rates fluctuation, more attention needed to switching costs, and lower market knowledge. Given these reasons, any local firm would have some kind of intrinsic advantage against any MNC trying to produce locally. Accordingly, Hymer suggests that a MNC should explore market and product imperfections abroad through an owned competitive advantage, related to its intangible assets. Such imperfection may refer to local producers’ inefficiency to provide the market or existent unexplored opportunities. The competitive advantage for firms exploring external markets has to do with product diversification (Caves, 1971) or knowledge acquired through research and development (Hirsch, 1980).

After Hymer, different approaches have contributed to the debate about the development of MNCs, like the theory of the product life cycle of Vernon (1966), the transaction cost theory (Coase, 1937; Williamson, 1975), and the Internalization Theory (Buckley and Casson, 1976; Rugman, 1981).

Dunning (1980, 1988) combined the different aspects from the international business’ theories in one single framework, which were denoted as the Eclectic Paradigm, also known as the OLI (ownership, location and internalization advantages) Paradigm, which considers three groups of advantages that configure the internationalization decision of a firm: ownership, location and internalization. Later Dunning and Narula (1996) related FDI strategies with a country’s development level in the International Development Path (IDP) theory.

2.3 THE NEED FOR AN INTEGRATED THEORETICAL FRAMEWORK
In the literature several theories or models, which help us to understand the internationalization processes and/or behavior of international marketers have been provided (Andersson, 2006; Dunning, 2000, 1988, 1980; Johanson and Vahlne, 1977; Johanson and Widersheim-Paul, 1975). In principle, each of the models or theories can be seen as complementary rather than competing with each other. However, no attempt has been made to integrate some of the influential theories or models, such as the Uppsala Internationalization model and the Dunning eclectic paradigm, each of which falls short in providing very rich and comprehensive insights into our understanding of the complex behavior or actions of international marketers in varied contexts. The attempt to integrate the Uppsala internationalization process model and Dunning’s eclectic paradigm in the present paper will go a long way to provide the rich and comprehensive insights into our understanding of internationalization of firms.

To understand why and where potential investors will undertake (FDI), the eclectic paradigm (Dunning, 1980, 1988, 2000) has proved to be very useful, albeit there are some criticisms (Williams and Wint, 2002; Asante, et al, 2000; Hollensen, 2001) against the paradigm. As argued in the theory, an investor’s decision to engage in FDI in a particular host country will, in large, depend on the extent to which (1) it can gainfully exploit its firm-specific assets through the process of internalization, (2) the location attractions of the firm’s country’s endowments compared with those offered by other countries, and (3) governments’ role in influencing international business patterns and taking advantage of available institutional infrastructures. According to Agarwal (1980:763), Dunning’s ‘eclectic’ approach provides some ray of hope for an integrated theory of FDI. But, the eclectic paradigm faces some criticisms. Among other things, emphasis is said to be placed on the relative bargaining power of firms and national governments, thus ownership advantages versus location advantages, which influence why and where FDI will be made (see Williams and Wint, 2002). Another
criticism is that the approach is predominantly concerned with manufacturing activities. The role of markets in motivating international expansion of a firm’s activities are virtually not stressed (Johanson, et al, 1994). The basic assumption of the Uppsala internationalization model (Johanson and Vahlne, 19977, 1990, 2003) suggests that the outcome of one decision generally becomes the input for a subsequent decision. This, in turn, rests on the assumption that internationalization process can be seen as learning and an experiencing process (Güli, 1999; Johanson and Vahlne, 1977). Thus, a firm’s knowledge about a market will influence its resource commitment into the market. The acquisition of knowledge about a market can come about through either some objective learning from, example, published materials and also from experience in performing activities in a particular (Vahlne and Johanson, 1977, 1990, 2003) market. The experiential knowledge and the general learning about a market will determine the resource commitment, which a firm will make in a particular market. In main, the Uppsala internationalization model, as briefly described above, predicts that a firm’s internationalization process will proceed incrementally, suggesting that the firm will first make use of export as an entry mode, followed by the use of an agent (s) in the foreign market, the use of own sales subsidiary, and then finally the use of own manufacturing base in the foreign market, steps that are influenced by the gradual development of knowledge (especially the experiential one); in each of the steps outlined above, resources committed to a particular market increases as one moves towards direct manufacturing in the host market.

Like the eclectic paradigm, the Uppsala internationalization process model has been criticized. Among other things, critics (Forsgren, 2002; Johanson and Vahlne, 1990) hold that lack of market knowledge is no longer a factor limiting the pace and pattern of the internationalization of firms. All this suggests that there is the need to have a multi-approach (Arranz and Carlos De Arroyabe, 2009) to explaining firms’ internationalization. Hence, in the present study combining insights from the Uppsala internationalization process model and the Dunning eclectic paradigm has been deemed necessary; the integration of these influential models will provide rich and comprehensive understanding of a firm’s internationalization. Our analytical model (see below) aids our understanding of the pattern, processes and pace of internationalization, which are seen to derive from a number of factors.

2.4 THE INTEGRATED ANALYTICAL FRAMEWORK
Building on the insights from the Uppsala internationalization process model and the eclectic paradigm, our analytical framework suggests that a firm’s internationalization process will be influenced by the firm’s knowledge and experience, which will determine the pattern and the pace of internationalization of firms, for example, the stepwise internationalization (Vahlne and Johanson, 1977, 1990). However, since lack of market knowledge, because of the general internationalization of industries and markets (Forsgren, 2002), is no longer a factor limiting the pace and pattern of the internationalization of firms, considering other factors will be useful. For example, a firm’s network of exchange relationship has been found to facilitate the firm’s internationalization process (Abrahana, et al., 2008; Moen, Gavlen, and Endersen, 2004; Blackenburg, 1999; Johanson and Mattsson, 1988). Moreover, other researchers consider a firm’s network of relationships as a platform to facilitate a firm’s decision to enter and make strategic commitment in a particular foreign market (Axelsson and Easton, 1992; Vahlne and Johanson, 1990).

Other factors which have been found to influence a firm’s internationalization have to do with how (1) a firm can gainfully exploit its firm-specific assets through the process of internalization, (2) the decision to choose to invest in a host country other than the firm’s
6

home market, and (3) governments’ role in influencing international business patterns and taking advantage of available institutional infrastructures (Dunning, 1980, 1988, 2000; Agarwal, 1980) will assume importance.

As the figure 1 depicts, a firm’s market knowledge, which will reflect how the firm learns about the opportunities and challenges in a particular market, will influence its decision to enter a particular market. And whilst in a particular market, for some firms, current activities in the market will influence their decisions to commit resources into the market in an incremental fashion (Vahlne and Johanson, 1977, 1990). For other firms, (1) gainfully exploiting their firm-specific assets through the process of internalization, (2) taking advantage of the location attractions of the host country’s compared with those offered by other countries, and (3) governments’ role in influencing international business patterns as well as access to some relevant institutional infrastructures will combine to produce a non-incremental internationalization. Above all, it is not unlikely that the same firm can exhibit any of the above behaviors at the same time as they enter different markets, for the factors in our model are interrelated. It is, therefore, crucial to be able to theorize on internationalization of firms, which will reflect on the above lines of reasoning. The above analytical framework will serve as our analytical tool in the present study.

Figure 1: Factors influencing a firm’s internationalization process.

3. METHODS

This research uses a qualitative method with an exploratory nature, which allows deeper cross-cultural understanding (Marschan-Piekkaru and Welch 2004). Eisenhardt (1989) had previously defended the use of qualitative research in a new area in which already existent theory seems inadequate. A multiple case study with two companies was carried out, the type of research said by Yin (1994) as being the preferred approach when ‘how’ or ‘why’ questions are to be addressed. Gauri (2004) argues that the strengths of a case study rely on allowing longitudinal approach and on it’s contextually ability, to help the researchers to explore the environment in depth. This allows not only theory testing, but in its holism, facilitates the investigation of a phenomenon from a variety of levels.

The purpose to compare the phenomenon of the internationalization processes of MNCs from developed and from developing countries has demanded the use of multiple case studies, in order to highlight the differences and similarities between the internationalization processes of companies from different environments. The number of cases is limited to two cases. The two firms selected to compose the sample of this research operate in the same industry, which is electric motors, power and automation technologies. Due to requests from both firms, their real names will remain anonymous; the Brazilian firm then will be named as Beta Firm while
the Swedish firm will be called Alpha Firm. Alpha merged with a Swiss firm in 1988, the merged companies will still be called Alpha in this study. Pauwels and Matthyssens (2004) would consider this case as a typical case against an atypical case, meaning that it represents the comparison of something that has been largely documented by now, which is the internationalization of a developed country MNCs, with something that it is new to the field of study, the internationalization of a developing country MNC. Using this scope, this study aims on filling a gap identified in the literature, which is the absence of a study that directly compares the internationalization processes of MNCs from developed and developing countries. The use of two firms from the same industry that are direct competitors seems to be a good idea. This makes it possible for a direct comparison of the results, avoiding influences from industry-specific factors in the analysis. The criteria for choosing both firms to be part of this research rely on the fact that both of them are leading players in their industry with a history of solid internationalization processes. Beta is one of the most prominent firms from developing countries, while Alpha is one of the largest conglomerate companies in the world. Face-to-face contact was not possible to be made with the respondents, so an interview guide was sent by email to them. All respondents answered the interview questions fully and sent them back. The respondents were directors from Beta’s headquarters in Brazil and from Alpha’s Brazilian subsidiary. The attempt to contact Alpha’s worldwide headquarters was made, but it was not possible to get anyone to answer the interview guide sent to the headquarters. However, the firm’s Brazilian subsidiary provided all data needed regarding the worldwide operations information from Alpha. Primary data were collected by sending interview questions (i.e. interview guide) to the respondents by email. The interview guide used to collect primary data was structured according to the theoretical framework developed in this study.

In addition to the interviewees’ answers to the interview guide, secondary data were also collected from both firms by reading the firms’ website, documents, press releases, articles, and other kinds of publication.

A comparative analysis is conducted in order to investigate how different factors can be important in each case and to highlight the substantial differences on the internationalization process of MNCs from developing and developed countries. These differences and similarities between the cases are clearly expounded in order to better understand, for example, the main aspects that differentiate MNCs from a developed and a developing country.

4. PRESENTATION OF THE CASES

4.1 THE CASE OF ALPHA

Alpha was founded in Sweden in 1883. In 1988 Alpha merged its assets with a Swiss firm, which was also a leading firm in the industry, forming by that merger one of the largest corporations in the world. For the purposes of clarity, Alpha still is the name of the firm being studied here, even after the merger with the Swiss Firm. Alpha’s headquarters is located in Zurich, Switzerland; its stocks are handled in the Zurich, Stockholm and New York exchange markets. Having currently around 120 thousand employees spread over 100 countries, Alpha is a global leader in potency and automation technologies that enable performance gain by its customers. The European market is responsible for 46% of Alpha’s total sales. Asia accounts for 27% of its sales, while America represents 17% and Africa 10%. This study is going to focus on (1) Alpha’s internationalization processes prior to its merger with the Swiss Firm and (2) Alpha’s (here after the merger) internationalization processes during the 1988 onwards.
When Alpha was founded in the end of the 19th century, the firm produced electrical lighting solutions, being a dynamo the firm’s first main product. Later on, the firm moved to provide electrical power systems solutions for industrial and transportation applicants. Alpha developed the first three-phase transmission system for generators, transformers and motors in 1893. The firm mastered new technologies of high voltages and large power outputs, leading Alpha to become the most important player in the industry inside Sweden and to operate in foreign markets.

In the first decade of the 20th century, Alpha started exporting to other Scandinavian countries, to the United Kingdom and to Russia, besides some failed attempts to sell its products to some Latin American and Asian markets. In 1910, Alpha settled its first sales subsidiary abroad in the United Kingdom, establishing other branches later in Spain, Denmark, Finland, Norway and Russia. The firm’s plans were to settle its first production plant abroad in Russia, but this plan was aborted due to the Bolshevik Revolution in 1917. Partnerships were important for Alpha to distribute its products on markets where the firm did not have any subsidiary and also to obtain experience from more difficult markets, which was possible due to alliances with other Swedish MNCs already established on the selected markets.

During the 1990s, with the establishment of Alpha’s merger with the Swiss Firm, strategies to set up production plants in emerging markets from Asia and Eastern Europe, benefiting from growth opportunities and low manufacturing costs, were adopted and implemented. Expansion to Eastern Europe was intense after the fall of the iron curtain, but in Asia it occurred on a slower pace. Due to the Asian financial crisis in 1997, Alpha cut down over 10 thousand jobs worldwide, but its ambitions in Asia still were strong, since the weakened currencies lowered manufacturing costs even more. In the year after, in 1998, Alpha performed the largest acquisition in its history, becoming the world’s leader in automation. In 1999, the firm quit nuclear power, power generation and rail business to focus on alternative energy. In the 2000s, Alpha entered the IT business by acquiring software firms and gradually eliminating its activities in Financial and Oil, Gas and Petrochemicals, to focus only on power and automation technologies.

Over the years Alpha’s international success could be credited to its innovative behavior on taking its products to the technical and economic limits, introducing novelty to the market. The development of the first three-phase electrical system was preponderant for Alpha’s success in its early years. But, later on, some venturesome attitudes on launching high voltage transmitters and entering new segments like nuclear power and robotics has allowed the firm to succeed in difficult markets, such as North-America, other than Europe, where the company has been long established. Taking a step further is what made the company to distinct itself from its competitors.

According to the respondent, Alpha’s main drivers of its decision to produce abroad are to increase sales, obtain access to better information, strategic assets and also to gain control over markets, contracts and business. To minimize costs, to diminish uncertainty and to obtain access to resources also motivates the firm to perform foreign direct investment. When it comes to the internationalization barriers, bureaucracy and logistic issues are pointed out as the main problems, but foreign competition and the lack of partnerships were also cited. When selecting foreign markets to build a production plant, Alpha prioritizes access to technology and labor force, the host marker profitability, the networking and partnerships and the institutional elements of the host market, such as business practices, law and political scenario. Other relevant matters are access to knowledge, logistics and cultural proximity. The firm’s Brand equity was evaluated as the most important element of ownership advantage for Alpha’s international competitiveness, followed by the product’s quality. Technical assistance, delivery and distribution and product’s design were also significant.
4.2 THE CASE OF BETA

Founded in 1961, Beta (Brazil) has around 22 thousand employees worldwide, and grew at a 23% year average between 2004 and 2007 (higher than the GDP average growth of the country). The company has 14 production plants worldwide, which produces 10 million electric motors a year. Eight factories are in Brazil, three in Argentina, one in Mexico, one in Portugal and one in China. Besides electric motors, the company also produces other electrical products, automation products and paints. Currently the American continent represents half of Beta’s foreign sales, whilst Europe stands for about 31% of it.

The first export were made in 1970, to other countries from Latin America, namely Paraguay, Ecuador and Uruguay. A few containers were sent later to Canada on consignment. By that time, Beta had already built its own motor with technology acquired from Germany. This motor was made according to international standards. The company started engaging trade fairs abroad to obtain its first contracts of distribution and representation.

Beta could perform an expensive international growth, settling fully owned sales force in other markets. The first sales subsidiary was placed in 1991, in the United States, 21 years after its first export. Afterwards, the firm chose to strengthen its position in neighboring markets, in Latin America, and other developed markets, specifically Europe, Japan and Australia. In 2004 the firm started focusing on other emerging markets besides Latin America. By August 2008, the company had 20 sales subsidiaries abroad (source: company data on the website).

But the internationalization process only reached higher levels in 2000, when the company finally built production plants in different markets. To operate a factory abroad, the way that most suited the company was the acquisition of already existing motor factories. The company entered the Asian market, acquiring a global coverage. The flows of Brazilians employees traveling abroad and foreign workers going to Brazil have been intense in order to spread Beta’s culture within its branches around the world. The company’s productive plants are listed on Table 2.

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>2000</td>
</tr>
<tr>
<td>Mexico</td>
<td>2000</td>
</tr>
<tr>
<td>Portugal</td>
<td>2002</td>
</tr>
<tr>
<td>China</td>
<td>2004</td>
</tr>
<tr>
<td>India</td>
<td>2010*</td>
</tr>
</tbody>
</table>

Source: Company’s Data. (*) Estimated.

The previous experience of foreign markets is indeed considered by the firm as a factor of vital importance when choosing a place to build a production plant abroad, just like the cultural proximity. Other relevant aspects are expected profitability from a given market and the access to natural resources and labor force as well. Logistics strategy, the local law regarding trade and economic freedom and the local business practice are also considered important, but on minor proportions.

When it comes to the foreign direct investment drivers, Beta identifies that to gain control over markets, contracts and business are the most important, just like as to increase sales. To obtain access to resources and strategic assets, just as to diminish uncertainty are also
significant drivers. The firm cites that the main barriers for their international activities are mainly the bureaucracy and logistic issues. The adaptation of its products to the consumer needs is considered by Beta as the most important ownership advantage held by the firm. The product’s quality, the technical assistance and the firm’s brand equity are also relevant competitive aspects for Beta, just as the distribution and delivery and the products design.

5. DISCUSSION

The cases from Alpha and Beta contain some aspects that may be useful for the discussion of some similarities and differences when analyzing the internationalization of MNCs, which originate from the developed as well as the developing countries. Figure 2 below summarizes some main similarities and differences, when analyzing Alpha and Beta’s respective internationalization processes.

<table>
<thead>
<tr>
<th>Element</th>
<th>Alpha</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning</td>
<td>Incremental</td>
<td>Incremental</td>
</tr>
<tr>
<td>Experience</td>
<td>More than 100 years on foreign markets.</td>
<td>About 40 years on foreign markets.</td>
</tr>
<tr>
<td>Networks</td>
<td>International</td>
<td>Lonely International</td>
</tr>
<tr>
<td>Locational Access</td>
<td>Access to technology and knowledge, partnerships and political scenario</td>
<td>Previous experience and access to natural resources</td>
</tr>
<tr>
<td>Internalization / Ownership</td>
<td>Branding and access to better information</td>
<td>Adaptation</td>
</tr>
<tr>
<td>Institutional Arrangements</td>
<td>Positive</td>
<td>Negative</td>
</tr>
</tbody>
</table>

Figure 2: Some similarities and differences between the internationalization of Alpha and Beta

**Learning, networks and international experiences:**

The differences between Alpha and Beta start to emerge right after checking some preliminary data. Alpha has a much larger structure, with currently 120 thousand employees worldwide and revenue of almost US$ 35 billion. Beta, in the meantime, has around 22 thousand employees and revenue of US$ 5.5 billion. Alpha also has a higher internationalization degree, not only when it comes to the number of foreign subsidiaries, but also to foreign sales as well. In the last five years, the Alpha’s foreign sales average is 53% of its turnover, while Beta’s percentage is 35%. Given that when Beta was founded Alpha was already an internationally established firm; this difference can be explained by the time of operations from both companies. Automation and electronics are very rational and production intensive industries, which make both less susceptible to changes than other high-technology businesses, meaning that changes occur within a longer time period. That said, a time gap can be very representative between both firms’ operations, because it takes time for one to establish itself. In this case, Alpha was founded in the 19th century, and obtained a worldwide reputation in the first half of the 20th century, while Beta was founded only in the 1960s and became more internationally active in the 1990s, when Alpha already had a great structure for international production. As posited by some researchers (Abrahm et al, 2008; Moen, et al, 2004; Johanson and Vahlne, 1977, 1990), learning and international experiences are important elements, which influence the internationalization processes of a firm.
**Psychic distance and internationalization pattern:**

Both Beta and Alpha presented an evolutionary behavior that is consistent with the notion that some firms start their foreign sales through indirect modes, passing through other stages until they reach international production (Johanson and Vahlne, 1990, 1977). The Brazilian company started its exports to Latin America first and then United States and Canada later, while Alpha first exported to other Scandinavian countries and to some other European countries later. Although Alpha tried to sell its products to Latin America and Asia, right after it started exporting its products, it was an unsuccessful effort. The firm only succeeded outside Europe after gaining more international experience. Still nowadays, the firms obtain the majority of its sales inside its geographical origin. Beta has a strong position inside Latin America, being the American Continent, from which the bulk of its revenue originates. In the meantime Alpha has the majority of its sales in Europe. All of these constitute strong evidences from the psychic distance factor, meaning that the companies choose to start their internationalization in countries which are similar to their home market, entering other tougher markets only after experiential learning and gaining international experience (Johanson and Vahlne, 1990, 1977; Johanson and Wiedersheim-Paul, 1975).

Even so, it is important to highlight that the results of this study also reveal that the psychic distance cannot be fully applied during the whole internationalization process; this is something similar to what was mentioned by Andersson (2004) and Urban (2006). Although the companies seem to consider the psychic distance when broadening their presence in foreign markets, this element may not be that preponderant when firms decide to upgrade their commitment to a single market. This means that psychic distance exercises a stronger impact when firms are choosing which markets they are going to enter, but its impact is lessened when firms decide to settle a sales office or a factory on given market. Beta, for instance, has subsidiaries in Singapore and Japan, but not in Paraguay and Bolivia (small markets, and they can be assisted from Brazil due to the regional integration agreement), which are countries much more psychically closer to Brazil than the Asian markets; but the impact of other variables made these options more appealing than other Latin American countries despite the larger psychic distance. But psychic distance can still be decisive when choosing a place to build a production plant. Taking Beta again as an example, in order to reach North America and Europe, the two richest markets in the world, the firm’s strategy was to place its investment on Mexico and Portugal, countries with little psychic distance to Brazil. With a company like Alpha, which holds a very strong international experience, factors such as experiential learning and psychic distance (Johanson and Vahlne, 1990) may not be as important as it is for a company with a less mature international action, such as Beta. The Brazilian company, Beta, considers previous experience and cultural proximity as two important localization advantages while Alpha does not consider them to be so important important. Therefore, it can be stated that psychic distance can determine the localization of the FDI, but it operates under different circumstances and exercises different impact.

If Beta relies on its previous experience and cultural proximity when choosing the place to build a factory abroad, Alpha prioritizes its partnerships. This results point out that Beta probably is inserted in what Johanson and Mattson (1988) classify as an Early Starter, a highly internationalized firm inserted in a network with low internationalization level, being the majority of its partners from the domestic market, while Alpha can be considered as International Among Others, a highly internationalized firm inside a highly internationalized network, and this can actually be true by considering that Beta has a little international experience when compared to Alpha, which is a merger of a firm from Sweden and Switzerland, economies with a much higher degree of openness than Brazil; this means that
the Brazilian firm (Beta) operates in a much less internationalized environment than that of Alpha. The difficulty of finding proper partnerships is a consequence of the importance that networks exercises over Alpha’s operations, turning this into a strong barrier for its internationalization. This indicates that operating on a highly internationalized network does not guarantee the access to the right partners. But networks are important for both companies when it comes to transacting its products and on its first entry in a foreign market.

Patterns and Determinants of internationalization’s strategies

The main reasons for both firms to internalize their production is to fortify their presence in the host market by gaining control over operations and achieving new sales opportunities, things that would not be possible only through export transactions. The drivers of internalizing the production of both firms are named mainly to gain control over markets, contacts and businesses, and to increase sales opportunity. On the other hand, cost reduction seems to be a factor of less importance. Obtain access to assets, information and resources, and diminish the uncertainty are also considered important internalization advantages. On the issue of internalization advantages, there were not any substantial differences between the firms, meaning that firms from developed and developing countries can have the same motivation to perform FDI. They both perform mostly market-seeking projects. Resource-seeking and asset-seeking projects also occur, but performance-seeking projects are less important. Both firms aim on constructing and ratifying their position on the market by strengthening their international position. This means that the operations on markets where the firms perform FDI can be strategically significant for their growth and the investors really seek for a long-term relationship with the host market, especially by the profits prospected.

The greater importance of partnerships as a barrier for Alpha can be explained by the fact that this item plays a vital role when the company chooses to establish a production subsidiary abroad. Other localization advantages which are important for the Swedish company (Alpha) is the institutional scenario in the host market and the access to knowledge and technology, while Beta prioritizes the access to natural resources, the previous experience in the market and the cultural proximity. For both companies, access to the labor force and the host market profitability are two of the most import localization advantages when considering the place to build a factory. It is an interesting result that Alpha seeks technology and knowledge and Beta looks for natural resources, because both companies actually hunt resources that are abundant in their home countries. According to Li (2003), firms from emerging economies should look for access to technology and knowledge when going abroad in order to develop new ownership advantages. But, since most of Beta’s subsidiaries are in other developing countries, it means that local resources are more important than technology and knowledge, like stated by Cuervo-Cazurra (2007). This happens because Beta’s subsidiaries abroad are production focused only, and that ownership advantages are developed in the home market. The fact that Alpha sees the institutional scenario in the host market as a more important localization advantage than Beta can be a sign that a company from a developing country, like Beta, by learning to operate in an unstable institutional environment may acquire a competitive advantage that makes the firm to have a sort of ability in working in such environments, when firms from developed countries, like Alpha, have more difficulties to operate in it due to its lack of experience on dealing with countries presenting weak institutions.

As for the ownership advantages, both firms share a similar structure, relying on the product’s quality, technical assistance and delivery as matters of international competitive advantage. These items can be seen as generic in the marketing context of the industry in which the firms operate in, a good performance in all of them is necessary to compete in the international market. But results actually reveal that the ownership advantage which allowed Beta to
compete internationally is the disposition in adapting its products to its customers needs. That is the main element to convince clients to buy the firm’s products instead of other well-known brands, since other elements such as product’s quality, technical assistance and delivery are essential in the business. The firm also believes that its participative management structure is essential for its success and it can be considered as an important competitive advantage. In the other hand, Alpha has an already consolidate brand, which the firm believes being its most valuable asset to compete in the international market, and this recognition is a result of the history of innovativeness carried by the firm’s predecessors.

Evidence from both cases shows that the case companies, Beta and Alpha, make use of almost the same internalization advantages. The localization advantages, which the companies use, are closely related to the companies’ home markets as well. They choose to invest in markets which provide the same factors that are abundant in its home market: technology and knowledge, in the case of Alpha, and natural resources, when it comes to Beta. Alpha still analyzes the attractiveness of the host market institutional scenario, because its home market did not provide enough ability for the firm to face difficulties regarding this element, something that cannot be said about the Brazilian company, Beta, which was founded and grew up in an unstable and weak institutional environment. While Alpha is more dependent upon partnerships when selecting a market to settle a build plant, Beta is more autonomous and relies mostly on its own experience and on the cultural proximity between its home market and the host market. Regarding the ownership advantages, Atsumi (2006) is right by stating that this factor sets apart MNCs from developed and developing countries. Alpha enjoys a higher branding prestige, built after several technological and innovative achievements, and Beta had to find a strategy of differentiation, which consisted on adapting its products to customers needs and finding a niche that it was not properly exploited by the competitors. Bonaglia, Goldsten and Matthews (2007) talk about the fact that developed countries’ MNCs own a better brand equity and that achieving this statues takes time, and this actually happens in this case study, but Beta found a differentiation action which is leading to a process of brand prestige gaining. The firms did not showed any major difference when it comes to its internalization advantages.

6. CONCLUSION

By a cross-country multiple case study, this paper proposed to investigate the differences in the internationalization strategy between a MNC from a developing country in comparison to one from a developed country. The integrated analytical model in this study, which draws on insights from the Eclectic Paradigm and the Uppsala Internationalization Model, has proved useful by helping to shed some light on the literature about MNCs’ internationalization process. The model in question has helped to explore the differences and similarities of the internationalization processes of MNC from a developed and a developing country. An interesting result points out that both firms seek for different resources regarding the localization advantages. While Alpha seeks for technology and knowledge, Beta prioritizes natural resources. While partnerships are more important for Alpha, Beta takes into account its previous experience and cultural proximity. The institutional scenario was more important for Alpha than it was for Beta. The firm did not presented substantial differences on its drivers and internalization advantages.

The study also reveals that operating in a more internationalized environment can be favorable for a firm to get access to more internationalized networks, raising the importance of partnerships on its international activities, whereas firms in a less internationalized network should depend more on its own experience. Alpha having its partners in the host market as a
localization advantage and Beta relying more on its experience is a sign of this. But, partnerships were proven important by both companies when first entering a market and for trading products. Something similar occurs with the psychic distance. This element is stoutly present at the beginning of the international expansion of both firms, when deciding about the markets to sell their products; but its effect when establishing a subsidiary abroad is conditioned by other factors, especially the profitability of the market and the access to specific resources.

There were a few implications regarding the concepts of the Eclectic Paradigm. The structure of ownership advantages, something that it was believed to be a factor of differentiation among firms from developed and developing economies, has presented some differences between the companies. Alpha, the firm from a developed country, has a strong brand that is a matter of competitiveness for the firm, which is a result of years of technological achievements and innovative behavior from the firms constituting the joint venture, at the same time as Beta had been growing by offering a differentiation service, that is to say providing customized products for its customers, which is leading to brand equity gain.

Learning and experience of internationalization has been factors that have influenced the pattern and structure of the MNCs in both contexts. However, as the MNC from the developed country are more international and has longer experience location decisions are no longer heavily influenced by these factors. The international network the MNC is part of and access to technology and knowledge partners are nowadays influencing the MNCs internationalization processes more. These findings are in line with earlier research that has pointed out that learning is most important in the early phases of MNCs international development while networks and location advantages are more important in later stages (Andersson, 2004; Johanson & Vahlne, 1990).

As a limitation of this study, there is the inherent factor of any qualitative study which is the impossibility of generalizing the results obtained, that is why a good suggestion it is to perform a similar research using quantitative methods, in order to achieve a more solid understanding about the topic. But other limitation that it should be highlighted is that the companies studied here operate as industrial goods suppliers. So, an interesting suggestion for future research would be to undertake a similar research with firms operating on a consumer-directed marketing context to evaluate how this aspect may have influence over different internationalization strategies and how the differences between MNCs from developed and developing countries changes within this context. One other interesting suggestion is to use a broader approach, assessing how the home environment of each company has affected their international operations, namely the country of origin specific factors outcome over the international competitiveness and ownership of competitive advantages by MNCs, and more specifically the differences of internationalization strategies among MNCs from developing countries.

REFERENCES


