PALGRAVE STUDIES OF INTERNATIONALIZATION IN EMERGING MARKETS

International Business and Emerging Economy Firms

Volume II: European and African Perspectives

Edited by

Jorma A. Larimo · Marin A. Marinov
Svetla T. Marinova · Tiina Leposky

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Palgrave Studies of Internationalization in Emerging Markets

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International Business and Emerging Economy Firms: The Contexts of Central and Eastern Europe and Africa

Svetla T. Marinova, Jorma A. Larimo, Tiina Leposky and Marin A. Marinov

The internationalisation of firms from emerging and transition economies has become a rather debatable area of research in international business (IB). The debates are often drawn to the issue whether well-established theories in IB can offer plausible explanations of the motives

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and approaches used by firms from these economies when internationalising and serving foreign markets. While such firms are usually lagging behind in the scope and scale of their international activities when compared to their developed economy counterparts as they come from economies that are arguably at the lower stages of the Investment Development Path (Dunning and Narula 1995; Gorynia et al. 2007; Bensebaa 2008; Kutzel 2017), many of these firms, especially when positioned in niche markets, engage in rapid early internationalisation showing enviable agility and adaptability supported by innovative solutions either targeting specific unmet customer needs or formulating offers that can satisfy existing needs in new ways and at a lower price point.

Firms that succeed in their international markets are embedded in the home market resource capital (Child and Marinova 2014) in the form of natural endowments, knowledge base, technical expertise, and social spaces (Marinova and Marinov 2017) and are fast learners in the internationalisation process. They compensate for resource deficiency through network attachments in the form of knowledge-based network ties (Masango and Marinova 2014), social ties in own, family or diaspora spaces, or through being part of larger business groups or international value chains.

Many of these firms may seek internationalisation to spread risk that is often higher in their domestic markets, trying to compensate for home market or institutional inefficiencies, unpredictability and volatility. While access to home country resource capital, in its various shapes and forms, is a basis for the internationalisation of emerging and transition economy firms and a key compensatory mechanism for limited financial resources, many of these firms internationalise without having access to home country institutional capital or even despite the limitations of not having access to such capital in their home country environment and notwithstanding country-of-origin liability, supplemented by liability of newness, smallness and outsidership to Western host market networks. Arguably, they may use composition capabilities that allow ordinary firms with limited ordinary own resources to creatively integrate them with readily available open resources in order to achieve fast speed of adaptation to international market requirements and favourable price-value ratios for consumers (Luo and Child 2015).

Whether their success in internationalisation is associated with specific local production expertise or application of home country resources, or with knowledge, innovation and opportunity creation, firms from emerging and transition economies demonstrate speed, agility, and aspiration to "make it happen" in markets and find clients wherever they are and whatever their institutional or resource conditions. Their internationalisation is not necessarily unidirectional, instead it is multidirectional often combining market entry, expansion and withdrawal at one and the same time in relation to a multitude of markets in search for a portfolio of customers that can secure financial income in the short, medium and long term.

While industry is indeed an important institutional setting for the internationalisation of these firms, providing a possible shared learning and capability development platform in the case of clusters (Lattemann et al. 2017), more often transition and emerging market firms tend to compete against those alike as co-operation and joint economic utility is sometimes perceived as a remnant of the collective socialist past rather than another way to learn in the market-led present. Nevertheless, there have been some achievements in this regard in IT clusters, service provision and manufacturing clusters.

Central and Eastern European Perspectives on Internationalisation

Central and Eastern European (CEE) companies offer a fascinating platform for research on internationalisation in transition economies. The analysis of the internationalisation process of CEE firms can provide better understanding of the similarities and differences in the pathways to foreign market expansion used by CEE firms compared to those suggested by theories devised on the examples of developed market firms (Jindra et al. 2015). CEE companies originate from countries on a range of economic development levels although historically and culturally they form an area that shares similarities in their geographic position and in their economic development post-WWII that allow scholars to group them loosely together.

According to the statistics in the World Investment Report (WIR 2018), Russia holds a leading position among the transition economies in foreign direct investment (FDI) outflows with US$36 billion in 2017, an increase of 33% compared to that in 2016). Among the transition economies second in FDI outflow is Azerbaijan with an amount just a tenth of the Russian one and standing at US$2.6 billion. However, defining the exact area under study is challenging, as the countries in scope are not strictly limited by specific geographic boundaries or cultural determinants because the latter are often underpinned by ethnic similarities and belief systems, among others. For example, the WIR does not include European Union (EU) countries at an advanced level of development such as Estonia, Latvia or Lithuania in transition economies, while in this book these three are considered as CEE countries and therefore included in the scope of the volume. Yet the small size and limited economic clout of these countries hardly makes much of a difference when analysing FDI outflows, as in 2017 only Poland (with US$3.6 billion) and the Czech Republic (with US$1.6 billion) exceeded the billion-dollar mark (WIR 2018). Therefore, with the clear exception of Russia, the CEE area is largely made up of smaller economies at varying levels of development.

The heterogeneity of the area is also noted in a literature review of 42 studies on the internationalisation of CEE companies in the period 1989–2010 (Wilinski 2013). The review paper draws special attention to the advantages of Russia and the EU countries in research focusing on the drivers, processes and entry strategies of internationalising CEE companies, yet it points to a continuing need to understand why most CEE companies have not been internationally as successful as comparable companies from the Asia-Pacific region. The underlying reasons for the international obscurity of companies from the CEE region require greater scrutiny, especially considering their close proximity to and cultural familiarity with the developed EU markets, which are targets for the internationalisation of CEE firms (WIR 2018).

Karasiewicz and Nowak (2014) found out that the internationalisation of Polish firms follows a U-shaped curve and reaping the greater performance benefits requires time to build international experience and ownership advantages, and thus most Polish companies are still at an early stage of internationalisation. Some support, but from a different perspective, for this is offered by Jankowska and Głowka (2016), who argue that Polish clusters are at an early stage of internationalisation and have a low level of interaction, therefore, providing fewer opportunities for knowledge exchange, co-operation and experiential learning than their Western counterparts have. Agreements such as the Visegrad Group between the Czech Republic, Hungary, Poland and Slovakia have been set up to bolster co-operation between countries that share historical and cultural ties but even with such linkages, internationalisation of business ventures is at a low level. Consequently, a more consolidated network approach might offer insights into the differences in the internationalisation of CEE and Asian firms, where business networks have a well-documented prominent position in firm internationalisation.

The rapid transformation and reforms of transition economies have forced companies to react differently to the dramatic changes in the business and institutional environment. Internationalisation has driven innovation and has forced companies to develop innovation capabilities (Boermans and Roelfsema 2012). Conversely, the presence of foreign firms in CEE has had a positive spillover effect and has become a source of learning in transition economies, where inward FDI has been found to enhance domestic firms' internationalisation endeavours (Andreff and Andreff 2017). Future research is therefore needed on learning—either learning from more experienced partners, from experience, or from internal networks. While CEE companies have in general taken great strides toward internationalisation, a more profound explanation for their internationalisation performance is still at an early stage of development.

African Perspectives on Internationalisation

The internationalisation of African firms has generated interest among scholars due to its paradoxical nature: while many African countries are rich in resources, their participation in IB operations has been generally low. The colonial history and its socio-political aftermath can be a viable explanation of these economic consequences, but the ways in which different African countries have developed and the challenges and opportunities they face today vary wildly alongside the equally multifaceted cultural and geographical diversity. As African firms have been recently expanding their operations abroad, more research is needed to uncover patterns and behaviours that explain both unique cases and the phenomenon of African firm internationalisation as a whole.

WIR (2018) shows that FDI flows in and out of Africa have been somewhat turbulent. According to the report, FDI inflows to Africa decreased by 21.5% in 2017 compared with the levels in 2016 due to weak oil prices and continued effects of the economic downturn, which hit commodity-exporting economies the hardest. More diversified exporters such as Morocco, however, were able to attract more FDI. On the other hand, FDI outflows from Africa increased by 8%, although this is largely explained by the significant growth of the top five economies, i.e., South Africa (64.5%), Angola (40.3%), Morocco (65.7%) and Togo (22.9%) with only Nigeria keeping a flat volume at US$1.3 billion. The FDI outflows target both other African countries and other countries across the globe.

Internationalisation within Africa remains at low levels in comparison to other regions, where intra-regional trade is much more common (Ngwu et al. 2015). South Africa is an exception, with its MNEs largely focusing on other African countries. It is regional leader in terms of FDI outflows—with US$7.4 billion in 2017, followed by Angola with US$1.6 billion (WIR 2018). This low level of intra-African trade is surprising as one of the competitive advantages African companies can develop is operating under uncertainty and navigating institutional voids and market imperfections (Boso et al. 2019). This is evident in the case study of the South African Breweries (SAB), where the company followed an internationalisation path from institutionally and geographically close African markets to transition economies sharing similar features, before moving to developed markets to seek access to resource capital and minimise its home-country institutional risk exposure (Luiz et al. 2017). SAB moved its headquarters under a holding company to the United Kingdom in 2002, where it operated as SABMiller until it was acquired by Anheuser-Busch in 2016.

The low number of Africa-to-Africa investments is also evident in mergers and acquisitions (M&A), where domestic M&As accounted for about 40–50% of all M&As in the period 2009–2013 period, whereas

M&As by companies originating from outside Africa accounted for 38–47%, and the remaining 10–15% were intra-African M&As (Degbey and Ellis 2017). Interestingly, while service firms have received less scholarly attention as African countries are typically dominated by natural resource endowments, financial services with a special focus on banking may provide a most fertile field to examine intra-African internationalisation (Boojihawon and Acholonu 2013). South African and Nigerian banks have shown persistent interest in regional expansion with the former enjoying an early-mover advantage substantiated by capital access, and the latter adopting a long-term orientation, rather than going head to head with the big global banks (Ngwu et al. 2015). Understanding the local needs and being able to spot opportunities to create value for customers can therefore aid African firms to expand successfully.

Understanding situational needs is especially important as the African continent offers so much socio-political variety. South Africa stands out with successful international businesses, such as the paper and pulp company Sappi, yet, it exhibits unique characteristics due to the disparities in infrastructure development and other post-apartheid features such as healthcare and innovation potential, as well as the mineral reserves of gold and diamonds (Goldstein and Prichard 2009). Culturally, there are big differences between areas with varying degrees of colonial influence, reflected also in the religious make-up of the different countries. However, arguably more than cultural differences, the situational variety and uncertainty prevalent in many of these countries presents difficulties for businesses. Crises and increased investment risk influence companies' ability to operate, and this is particularly egregious for micro-, small- and medium-sized companies, which are common in the African market, as their internationalisation is vulnerable to currency fluctuations (Balakrishnan 2016). Uncertainty and a degree of risk tolerance therefore underline African firms' capability development.

African firms remain largely uncompetitive in global markets and the reasons for this can be found both externally and internally. A study on the African airline industry revealed that state protection blocking market competition together with limited resources, skills and capital have led to a situation where local airlines are losing competitiveness and only 20% of inter-African air traffic is run by African carriers (Amankwah-Amoah 2018). Truly understanding this low level implies that the internationalisation of African firms requires more attention from scholars and practitioners alike. A review of 54 studies of African internationalisation (Ibeh et al. 2012) indicates that progress has been made, although a critical mass of resources and capabilities from big internationalisers are still needed to boost internationalisation, while firm-level skill development is critical for African firms. Access to relational capital is also found to be important and some authors argue that networks and co-operation with foreign partners could facilitate internationalisation efforts. Moreover the rapid development of online businesses can increasingly offer new ways to reach foreign markets that allow even smaller African firms access to global markets.

The Book

The collection of studies in this book examines the role and influence of emerging markets from the perspective of Central and East European as well as African companies. The authors come from different universities, countries and backgrounds, but they all represent scholarly interest on how emerging markets are visible in the IB arena. Methodologically, the approaches used in these studies vary and the book as a whole contains conceptual and empirical papers, as well as quantitative analyses and case studies. Understanding emerging markets as active participants, partners and drivers of IB is still limited and thus the phenomenon represents a fruitful space for exploratory research using a wide range of methodological and theoretical approaches.

Chapter 2 of the book discusses how different institutional environments of developed and emerging economies affect the business practices of small- and medium-sized enterprises (SMEs). With the current focus of national institutions on better integrating SMEs into both international trade and sustainability goals, the chapter investigates the role played by socially and environmentally responsible business practices (RBPs) in SMEs' IB relationships. The qualitative approach employed in this chapter reveals that environmental responsibility is not prominent in cross-border business relationships between Finnish and Russian SMEs, while social responsibility in terms of ethics, transparency and partner responsibility is crucial. The study thus contributes to the literature on environmental and ethical responsibility in IB and international entrepreneurship by (1) suggesting that IB relationships can help raise the ethical behaviour of SMEs from emerging economies; (2) extending the research on sustainability-related issues in IB and international entrepreneurship in the context of emerging economies; and (3) applying an institutional lens to explaining RBP in SME IB relationships.

The third chapter considers how misunderstandings can be triggered and amplified over time, and how they can influence the outcome of a Western European corporation subsidiary establishment in Russia. While conventional literature generally studies the nature of misunderstandings occurring between two individuals at a given moment in time, this chapter focuses on a longer chain of communications. Research demonstrates that difficulties can arise prior to actual exchanges of information and that approaches promoted by Intercultural Communications experts do not go far enough to guarantee successful intercultural communication between partners. Data analysis identifies numerous malfunctions in relation to the "other", prompting the outbreak of misunderstandings. In addition, intercultural aspects only broaden the recognition of the problem, while specific partner behaviour can lead to a further blockage of the exchange process. This chapter aims to create an overview of the process that might help define and refine comprehensive management training on how to deal with cross-cultural misunderstandings that can be resolved rather than exacerbated.

Chapter 4 offers an interesting viewpoint on IB. The chapter aims to find out how many and which types of jobs Estonian born global firms, both exporters and non-exporters have created, and how many and which types of jobs they have destroyed. Based on firm-level data from the Estonian Commercial Registry, Statistics Estonia and the Estonian Tax and Customs office, it shows that non-exporters had the highest job creation and hiring rates, while the rates of job creation and hiring of born globals were much lower. On the other hand, non-exporters also