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Research of the Development Strategies of Multinational Corporations in Emerging Markets

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Abstract: Emerging markets are significant target markets for a range of goods and services due to their large consumption potential. Yet, because of the general lack of market liquidity in emerging markets, the growth of multinational firms just so happens to increase market liquidity and draw in additional investors. Therefore, the development of multinational corporations plays a vital role in promoting the prosperity of emerging markets. This paper focuses on the development strategies of multinational corporations in emerging markets. Through searching and collecting the development process and relevant information and data of well-known old multinational corporations, this paper analyzed and compared them, and summed up three important strategies. It can be concluded that in order to make established multinationals play a bigger role in emerging markets and get more emerging market companies to become multinationals, there are three important strategies: stick to direct investment, create unique business models, and promote internationalization.

Keywords: emerging markets, multinational corporations, direct investment

1. Introduction

Today's emerging markets have great potential, but they also face multiple challenges, the most serious of which is that they remain illiquid. Illiquidity not only brings liquidity risk to the company but also affects the stock market. Liquidity risk is a very fatal risk. For example, even if a bank is in good condition but cannot support all depositors withdrawing their money at the same time, it will be closed down due to a lack of liquidity. To solve this problem, multinational corporations can make up for it well. The financial liquidity of multinational corporations is very strong, so in an emerging market with insufficient liquidity, multinational companies occupy an important position and have a lot of space for development. However, it is not easy for multinational corporations to grow in emerging markets. What path should the company take? What are the company strategies? What kind of business model should the company adopt? Multinational corporations are likely to play an increasingly important role in emerging markets in the future, and emerging markets need more MNCS (multinational corporations). Therefore, through the research in this paper, we try to find out the most suitable strategies for the development of multinational corporations in emerging markets.

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2. Analysis of the Current Situation of Emerging Markets

Emerging markets are defined as markets with rapid economic growth and significant market development potential. Recently, emerging markets have been in the global spotlight because they have become a driver of global economic development. Emerging markets have the following advantages:

First, there is a sizable population, a relatively developed domestic economy, and abundant natural and human resources.

Second, although there are many tariff and non-tariff barriers, there is a high degree of openness that tends to protect domestic fundamental and significant sectors.

Third, in an export-oriented economy, it depends increasingly on utilizing and absorbing modern technology and foreign money.

Fourth, the continuous improvement of infrastructure and the economic system not only stimulates domestic demand, but also provides good conditions for the introduction of foreign investment.

And there are also some risks and pitfalls in emerging markets:

First, political instability, unreliable government authority, erratic management, a volatile economic environment, and an unfavorable investment climate can all raise costs for businesses, increase risks, and have an impact on inbound investment.

Second, there is inadequate legal protection for intellectual property rights, as well as ignorance of property rights and poor enforcement of existing laws.

Third, Bureaucracy breeds lengthy administrative procedures and a lack of transparency. There is also fraud and high transaction fees.

Fourth, finding compatible mates is difficult in small and medium-sized nations.

Fifth, there is a strong nationalist sentiment, making it simple to oppose and discourage foreign investment.

China's Lenovo, Chery, India's Tata Group, Brazil's Natura, Mexico's Cemex, and Turkey's Arcelik are all multinationals that have built global businesses with powerful brands. They are called emerging market multinationals (EMMs), as opposed to the traditional trading iron triangle of the United States, Europe, and Japan. Through a simple analysis of the success paths of these powerful multinational corporate brands, we can easily find that there are several keys to their success.

The first one is making strategy according to practice. Building on 20 years of research into emerging market multinationals, Maro Guillan and Garcia-Janar have come up with seven rules to illustrate how to do business globally in the 21st century, the most important of which is the first: "Practice, strategizing, practice." In established companies, strategy formulation is both a routine and an important pillar of the business. Panasonic is "the poster child for strategy madness." Panasonic, a Japanese electronics company, once launched a 250-year strategic plan with great fanfare, but it later failed due to a lack of attention to detail. Bimbo Group, a Mexican company, improved and eventually acquired the baking business of Sally Group, an established company, through a relentless pursuit of detail in its operations. In the face of increasing competition, the Mexican upstart knew that its only chance was to get ahead in practice. Bimbo has come to realize that freshness is crucial to bread, so it has implemented electronic improvements to its distribution network. On the other hand, when expanding its business in China, Bimbo chose to use three-wheelers to deliver bread to some underdeveloped areas in a timely manner. In doing so, Bimbo's operators strive to follow an approach that Maro Guillen and Garcia-Janar call "implement-centered strategy... discovering what works in the process of doing it, and then relentlessly pursuing that strategic goal through the practice itself."

The second one is 'Listen to the market'. Established multinationals are used to simply imposing their will on the market. Emerging market multinationals, by contrast, let the market itself determine their strategy, not only in the macro and objective sense, but also in unpredictable markets that reflect the extremely variable needs and desires of individual consumers. Catering to niche markets is only one way in which emerging market multinationals conform to the market. Haier is a model in this regard. In the 20th century, when Haier focused on the domestic Chinese market, there were always customers who used its machines not only to wash clothes but also potatoes and other vegetables. In this regard, Haier did not correct and educate customers on the "correct" way to use washing machines, but found and seized another demand of customers. It has designed a special dual-use washing machine for customers with such needs. It can be seen that the strategy made according to the market can better adapt to market demand and continuously expand the company's market [1].

Moreover, good business conditions in emerging markets are one of the keys to their success, too. They have a great starting point in their constantly expanding home economies. As a result of their enormous natural resources and affordable human resources, they have a natural edge over multinational corporations from industrialized nations. While those established businesses in developed nations are burdened by a long history and operate in a high-cost, low-growth environment, emerging market businesses can immediately adopt cutting-edge resources and technologies, giving them not only a great head start but also a strong foundation for future expansion. From the experience of enterprises themselves, there are many difficulties in operating in emerging markets, which honed the managers' adaptability and resilience in emerging market enterprises. The domestic market of emerging market countries has gradually opened up, and multinational corporations have begun to face competition with multinational corporations from developed countries. The threat to emerging markets from rich-world multinationals has also driving them to upgrade their skills [2].

3. Analysis of the Strategies of Multinational Corporations in Emerging Markets

In order to enhance the development of emerging market multinationals, we need to think of some effective strategies. In my opinion, EMMs should first stick to outward foreign direct investment (OFDI). OFDI is to directly transfer one's own resources to the other country, build, produce, sell and occupy the local market. The advantages of OFDI are as follows.

First, it can shorten the distance between production and reduce transportation and logistics costs. Because it is built locally, purchased locally, produced locally and sold locally.

Second, foreign direct investment in local production can make full use of the relatively cheap local labor force, relatively cheap raw materials and so on, and help enterprises reduce production costs.

Third, it has access to local market data and product reviews at any time, allowing it to adapt production in line with consumer demand.

Fourth, compared to export, OFDI also enables businesses to get over certain trade and non-trade restrictions put in place by the government of the host country, and direct investment may occasionally be given favorable treatment. You can encounter a lot of trade and non-trade barriers, such tariffs and other restrictions, if you decide to export to another nation. They can be avoided if you pick foreign direct investment [3].

Therefore, for multinational corporations, carrying out and expanding direct investment activities can not only maximize profits, but also continuously increase the amount of investment to occupy the international market on the largest scale.

By looking at the successful multinational corporations in emerging markets, it is not difficult to find that they all have a common characteristic, that is, they have created a unique business model. So, the second important strategy to promote the EMMs is innovation. A major factor in increasing economic competitiveness is innovation. The global technology and innovation area have long been dominated by developed nations and regions like the United States, Japan, and Western Europe. Yet growing economies like China and India are currently working to progressively transition from being technology copycat to innovators.

While corporate R&D is concentrated in technologically advanced nations, there are several indications that R&D investment is moving to developing nations, especially China and India, who have emerged as the new leaders in global R&D investment. Statistics show that in 2005, there were 315 new FDI R&D project days in South, East, and Southeast Asia, with China and India accounting for 4/5 of those days. There were 750 R&D centers with foreign funding as of the end of 2005 in China [4]. According to the research, some emerging-market multinationals have invented interesting business models. For example, "Cemex Way".

Cemex, which has aggressively expanded through acquisitions. It was the first company to use this type of expansion, which was a successful innovation. The Mexican business has grown to become one of the biggest cement producers in the world. When acquiring a company, the benefits of a merger arise from the synergy of the operational management processes of the acquirer and the target. This project was introduced by Cemex to coordinate and correctly execute the integration process. They work on best to make it fit all internal collaboration processes and then translate and scale them across the enterprise. This process starts with the establishment of benchmarks and requires the porting of all best practices and the random selection of special practices before porting. Under Cemex's influence, many emerging-market multinationals have learned to use acquisitions to gain global market share.

Nonetheless, developing multinationals generally offer a lot of special knowledge, not just in managing the businesses they buy, but also in making logical acquisitions, such as of businesses with a strategic mindset and the potential to bring value to the organization. An excellent example is the Argentine business Tenaris. Because to the company's daring strategy of growing acquisitions globally, it became a world leader in the steel pipe sector. With the firm's management, it can give its large oil company clients the regional support they need to offer the quickest shipping times globally [5].

The third strategy is internationalization. Through the international expansion and internationalization of enterprises, more emerging market companies can stride forward to become world-class multinational corporations.

Internationalization consists of three main parts: Internationalization of production, internationalization of brands and internationalization of technology.

The first one is internationalization of production: EEMs start the process of globalization by "decomposing" the industry, joining the existing multinational corporations' global industrial chain from a specific production link (such as "OEM," which is OEM manufacturing for multinational corporations), in order to create development opportunities. They then move up the value chain to enter higher value-added businesses.

The second one is internationalization of the brand. EMMs has used several major branding strategies to go global: (1) Internationalization of domestic brands. Some companies are pushing their national brands abroad. For instance, Mexico's Gupo Modelo has elevated Corona beer to the top spot among imported foreign brews and established it as a luxury product in the United States.

(2) Purchase foreign brands. For instance, the popular British tea brand Tetley was purchased by the Indian giant Tata Group, providing Tata Group access to the sizable European market. Tata Tea is currently the second-largest tea producer in the world.

The third one is internationalization of technology: (1) Develop new technologies and apply domestic technological advantages on a worldwide basis. Several multinational corporations operating in emerging markets have their own technological advantages, which they translate to a global level. For instance, Brazil's aviation business has supplanted Canada's Bombardier as the top producer of regional planes globally. They replaced the traditional, noisy turboprop aircraft with cheap, fast, small planes. In 2005, revenues of $3.8 billion were generated outside of Brazil by more than 95%. By a mix of low manufacturing costs and cutting-edge research and development

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technologies, the company has grown to become one of Brazil's major exporters. Also, by establishing a joint venture with China's Aviation Industry First Corporation, the corporation has raced ahead of Boeing.

(2) Make international investments in R&D. Multinational corporations in emerging economies frequently invest in developed economies to acquire technology, set up research and development facilities abroad, and take advantage of technology spillover in the industrial agglomeration area of foreign science and technology in order to compete with the strongest multinational corporations [6].

4. Conclusion

This paper mainly explores the development strategies of multinational corporations in emerging markets. Through the research in this paper, we can draw the following conclusion that sticking to direct investment, creating unique business models, and promoting internationalization are all vital strategies that can help prosper EMMs and emerging markets. However, there are still many viable strategies that are not discussed in this article. In the future, more studies will be carried out to further refining the above three strategies and find more effective tactics.

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