1 The new multinationals

> The new multinationals have some distinct advantages in their sprint to the fore of global business. They are often family-owned or family-controlled (even when they are public companies), which helps them to make decisions quickly. They often enjoy cheap finance from state banks. But they also face particular problems, because they are trying to break into a world economy in which globalization is already well advanced.
>
> *The Economist* (January 10, 2008)

> Emerging-market multinationals might be relative newcomers to globalization, but they are quickly making up for lost time.
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> Mark Foster (Accenture 2008: 6)

The global competitive landscape is becoming increasingly populated by multinational enterprises (MNEs) originating from countries that are not among the most advanced in the world in terms of technology or brand reputation. These "new" multinationals come from:

(1) upper-middle-income economies such as Spain, Ireland, Portugal, South Korea, or Taiwan;
(2) emerging economies like Brazil, Chile, Mexico, China, India, or Turkey;
(3) developing countries such as Egypt, Indonesia, or Thailand; or
(4) oil-rich countries like the United Arab Emirates, Nigeria, Russia, or Venezuela.

The new multinationals operate internationally using multiple modes ranging from alliances and joint ventures to wholly owned subsidiaries. Some of them are small and product focused, while others are large and even diversified across many industries. The literature has referred to them in a variety of ways, including "third-world multinationals" (Wells 1983), "latecomer firms" (Mathews 2002), "unconventional multinationals" (Li 2003), "challengers"

(BCG 2009), or "emerging multinationals" (Accenture 2008; *The Economist* 2008; Goldstein 2007; Ramamurti and Singh 2009). In some cases, these firms are labeled according to their region of origin, using terms such as "dragon multinationals" (Mathews 2002), or "multilatinas" (Cuervo-Cazurra 2008). The new multinationals have become key actors in foreign direct investment and cross-border acquisitions (UNCTAD 2008). While they may not possess the most sophisticated technological or marketing skills in their respective industries, they have expanded around the world in innovative ways. The purpose of this book is to identify and analyze their competitive capabilities, which have to do with organizational, managerial, project-execution, political, and network skills.

The proliferation of the new multinationals has taken observers, policymakers, and scholars by surprise. Many of these firms were marginal competitors just a decade ago; today they are challenging some of the world's most accomplished and established multinationals in a wide variety of industries and markets. In this book, we chart and analyze the rise of the new multinationals from Spain, a country that one generation ago lacked firms of international stature but is presently home to some of the world's largest. Like South Korea, Taiwan, or Singapore, Spain was a developing country until the early 1970s. Within thirty years, these countries transformed themselves into industrial economies with rapidly rising incomes. They have also seen a globally competitive service sector grow in areas such as infrastructure and financial services. Studying the ways in which Spanish firms managed to develop the capabilities needed to make a dent in global competition offers a view of things to come as companies from Asia, Latin America, and the Middle East increasingly build a global presence in key industries.

One of the most intriguing features of the rise of the new multinationals is that it has happened very swiftly. Since 1990 a number of countries and their firms have come to play an important role in the global economy not just as exporters but also as foreign direct investors. Foreign direct investment (FDI) includes acquisitions and greenfield transactions in which the investor holds at least 10 percent of the equity of the invested foreign subsidiary. While the motivations for direct investment may be diverse, the goal always is to exercise managerial control over the invested company. Table 1.1 presents data on the world's most important sources of FDI. Leaving aside Hong Kong and the Netherlands, which serve as hubs for trade and investment, the United States, the United Kingdom, France and Germany continue to be the largest foreign direct investors. In recent years, Spain has raced ahead of Italy, with a total stock of cumulative outward FDI of nearly $602 billion as of the end of 2008, an amount equivalent to 37.5 percent of the country's gross domestic product (GDP). Other important new foreign direct investing countries include Russia ($203 billion), Taiwan (175), Brazil (162), China (148), South Korea (96), Malaysia (68), South Africa (62), India (62), the United Arab Emirates (51), Mexico (45), Chile (32), and Argentina (29). As in the cases of Hong Kong and the Netherlands, the figures for Singapore (189) and Ireland (159) reflect not only the investments of their own companies but also those of others that use the two countries as a platform for trade and investment. Taken together, the developing countries' share of total FDI stock has increased from 8.1 percent in 1990 to 14.5 in 2008.

One important characteristic of the countries that are home to the new MNEs is that they are not technology leaders, as measured by patents, with the exceptions of South Korea and Taiwan (Furman *et al*. 2002). By contrast, some of these countries stand out for the large numbers of quality management certificates, relative to the size of their economies, especially China, Taiwan, Malaysia, and Spain (Table 1.2). These data suggest that companies in these countries are efficient, world-class implementers whose innovations have to do with managerial and organizational skills. The sustainability of the competitive advantages that have enabled them to become major investors depends, to a large extent, on their ability to upgrade capabilities, as discussed at length in Chapter 2.

The largest non-financial new multinationals in terms of foreign assets appear in Table 1.3. They operate in a variety of industries

Table 1.1. *Outward foreign direct investment stocks, 1990 and 2008*

Country	Outward FDI stock				Number of multi-national firms[a]
	$ billion		% of GDP		
	1990	2008	1990	2008	
Brazil	41.0	162.2	9.4	10.3	226
Russia	–	202.8	–	12.0	–
India	0.1	61.8	–	5.0	815
China	4.5	147.9	1.1	3.4	3,429
Singapore	7.8	189.1	21.2	103.9	–
Hong Kong	11.9	775.9	15.5	360.3	1,167
Taiwan	30.4	175.1	18.4	44.6	606
South Korea	2.3	95.5	0.9	10.3	7,460
Malaysia	0.8	67.6	1.7	30.4	–
Argentina	6.1	28.7	4.3	8.7	106
Chile	0.6	31.7	0.5	18.7	99
Mexico	2.7	45.4	1.0	4.2	–
Turkey	1.2	13.9	0.6	1.9	2,871
United Arab Emirates	0.1	50.8	–	19.5	77
Egypt	0.2	3.7	0.4	2.3	10
South Africa	15.0	62.3	13.4	22.5	261
Ireland	14.9	159.4	31.2	58.6	39
Spain	15.7	601.8	3.0	37.5	1,598
United States	430.5	3,162.0	7.4	22.2	2,418
France	112.4	1,397.0	9.1	48.9	1,267
Germany	151.6	1,450.9	8.8	39.8	6,115
Italy	60.2	517.1	5.3	22.5	5,750
Netherlands	106.9	843.7	35.9	96.9	4,788
United Kingdom	229.3	1,510.6	23.1	56.7	2,360
Japan	201.4	680.3	6.7	13.9	4,663
Developing countries	144.9	2,356.6	4.0	14.0	21,425
World total	1,785.3	16,205.7	8.5	26.9	82,053

Note: [a] Most recent available year.
Source: UNCTAD (2009).

Table 1.2. *Technology and quality management indicators*

Country	GDP[a] $ billion	Patents[b] Number	Patents[b] Per billion GDP	Quality management certificates[c] Number	Quality management certificates[c] Per billion GDP
Brazil	1,976.6	2,210	1.1	15,384	8.4
Russia	2,288.4	2,456	1.1	11,527	5.5
India	3,388.5	4,082	1.2	46,091	14.9
China	7,903.2	7,222	0.9	210,773	29.9
Singapore	238.5	4,466	18.7	4,150	18.0
Hong Kong	306.5	9,275	30.3	3,251	11.1
Taiwan[d]	402.6	86,798	226.4	10,402	27.1
South Korea	1,358.0	62,767	46.2	15,794	13.2
Malaysia	383.7	1,117	2.9	7,838	22.1
Argentina	571.5	1,052	1.8	8,808	16.6
Chile	242.4	272	1.1	4,013	17.4
Mexico	1,541.6	1,912	1.2	3,946	2.9
Turkey	1,028.9	238	0.2	12,802	13.9
United Arab Emirates[e]	226.1	–	–	2,422	12.4
Egypt	441.6	94	0.2	1,535	3.8
South Africa	492.2	3,456	7.0	3,283	7.1
Ireland	197.1	2,558	13.0	1,999	10.6
Spain	1,456.1	6,301	4.3	65,112	46.3
United States	14,204.3	2,096,055	147.6	36,192	2.6
France	2,112.4	99,397	47.1	22,981	11.1
Germany	2,925.2	261,683	89.5	45,195	16.6
Italy	1,840.9	44,125	24.0	115,359	64.9
Netherlands	671.7	34,423	51.2	18,922	30.4
United Kingdom	2,176.3	99,760	45.8	35,517	17.4
Japan	4,354.6	718,729	165.1	73,176	17.1
World total	69,697.6	3,854,057	55.3	951,486	14.5

Notes:

[a] In current US dollars at purchasing power parities, 2008.

[b] Granted by the US Patent and Trademark Office between 1977 and 2008 to residents of the country who are listed as the first-name inventor.

Notes to Table 1.2 *(cont.)*

[c] ISO 9001:2000 quality management certificates issued by national quality organizations to processes that comply with a set of guidelines, as of the end of 2007.

[d] Source: National Statistics, Republic of China (Taiwan) http://eng.stat.gov.tw/mp.asp?mp=5.

[e] GDP data for 2005.

Sources: US Patent and Trademark Office; International Organization for Standardization.

ranging from oil and mining to cement and chemicals, automobiles and electronics, and various infrastructure sectors like electricity, transportation, and telecommunications. Similarly, the Boston Consulting Group publishes an annual list of the Global Challengers, most of which are important foreign investors. Chinese, Indian, and Brazilian companies top the list, which excludes Spanish, Irish, South Korean, and Taiwanese firms (Table 1.4). Yet another way to show the national distribution of the new multinationals is to examine the Fortune Global 500 ranking of the world's largest corporations in terms of revenue. China, South Korea, and Spain lead the ranking (Table 1.5). Although they define and measure the population of new MNEs in different ways, these rankings indicate unambiguously that the global economy is increasingly inhabited by companies based in countries that few people would identify as being at the leading edge of technological or brand development.

The first "new" MNEs emerged from the so-called Asian tiger economies – those that industrialized during the 1960s (Haggard 1990). Taiwan, a country that excels both at technological and process innovation, has proved to be the most fertile ground for outward foreign investors, including such powerhouses as Formosa Plastics, Taiwan Semiconductor, and Acer. Following a path to development much more oriented towards large-scale industry, South Korea is home to some of the best-known names in the electronics and appliances industries (Samsung and LG), and automobiles (Hyundai and Kia).

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Mauro F. Guillen and Esteban Garcia-Canal
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More information

Table 1.3. *The largest new non-financial multinationals ranked by foreign assets, 2006*

Company	Country	Industry	Foreign assets ($ bn)	Total sales ($ bn)	Number of foreign affiliates
Telefónica	Spain	Telecom	101.9	66.4	165
Hutchison Whampoa	Hong Kong	Diversified[a]	70.7	34.4	115
Grupo Ferrovial	Spain	Infrastructure	60.2	9.1	–
Repsol YPF	Spain	Oil	38.3	64.4	71
Endesa	Spain	Electricity	31.4	25.8	65
Petronas	Malaysia	Oil	30.7	51.0	4
Samsung Electronics	South Korea	Electronics	27.0	91.9	78
Cemex	Mexico	Cement	24.4	18.1	493
CRH	Ireland	Building materials	22.9	23.5	514
Hyundai Motor	South Korea	Automobiles	19.6	68.5	19
SingTel	Singapore	Telecom	18.7	8.6	103
CITIC Group	China	Diversified[b]	17.6	10.1	12
Formosa Plastic Group	Taiwan	Chemicals	16.8	50.4	11

Table 1.3 *(cont.)*

Company	Country	Industry	Foreign assets ($ bn)	Total sales ($ bn)	Number of foreign affiliates
Jardine Matheson	Hong Kong	Diversified[c]	16.7	16.3	108
LG Corporation	South Korea	Electronics	15.0	70.6	3
CVRD	Brazil	Mining	15.0	46.7	17

Notes:

[a] Ports, telecommunications, property, hotels, retail, energy, and infrastructure services, among others.

[b] Telecommunications, construction, media, and financial services, among others.

[c] Transportation, construction, retail, IT services, and financial services, among others.

Source: UNCTAD (2008).

Table 1.4. *The new multinationals on the 2009 Boston Consulting Group 100 Global Challengers list, by country*

Country	Number of firms	Country	Number of firms
China	36	Malaysia	2
India	20	Indonesia	2
Brazil	14	Thailand	2
Mexico	7	Turkey	2
Russia	6	Argentina	1
United Arab Emirates	4	Hungary	1
Chile	2	Kuwait	1

Note: BCG does not include firms from Spain, South Korea, and Taiwan.
Source: BCG (2009).

The city-state of Singapore has bred multinationals in food and beverages (Fraser and Neave, Want Want), electronics (Olam), telecommunications (SingTel), real estate (CapitaLand), transportation (Neptune Orient Lines), and hotels (City Developments). For its part, Hong Kong is home to a large number of multinationals in a similar set of industries, led by Hutchison Whampoa, the world's largest port operator.

More recently, the new multinationals from Brazil, Russia, India, and China (BRIC) have made great inroads into the global economy. Among Brazilian firms, Companhia Vale do Rio Doce (CVRD) and Metalúrgica Gerdau are among the largest firms in mining and steel, Embraer holds with Bombardier of Canada a duopoly in the global regional jet market, and Natura Cosméticos has a presence in both Latin America and Europe. Lukoil, Gazprom and Severstal are among the top Russian multinationals, while India boasts an army of firms not only in IT and outsourcing services, in which companies like Infosys, Tata Consultancy Services (TCS), and Wipro are among the largest in the world, but also in steel, automobiles, and

Table 1.5. *The new multinationals on the Fortune Global 500 ranking by country, 2008*

Country	Number of companies
China	37
South Korea	14
Spain	12
India	7
Taiwan	6
Brazil	6
Mexico	4
Russia	8
Ireland	1
Malaysia	1
Poland	1
Portugal	2
Saudi Arabia	1
Singapore	2
Thailand	1
Turkey	1

Note: Ranking is based on total revenue during 2008.

Source: Fortune magazine.

pharmaceuticals. Chinese firms have erupted with force in global markets not only as exporters but also foreign investors, and in every industry from mining and oil to chemicals and steel. In electrical appliances and electronics, China boasts three increasingly well-known firms, Haier, Lenovo, and Huawei.

In Spanish-speaking Latin America some firms from Mexico and Argentina have become formidable global competitors. In food-processing, Bimbo and Gruma are among the largest firms in the world in their respective market niches, namely, packaged bread and tortillas. In cement, Cemex is the second- or third-largest, depending