CLASSICAL STRATEGIES OF TRANSNATIONAL COMPANIES FROM EMERGING COUNTRIES

SERGHEI MĂRGULESCU*
ELENA MĂRGULESCU**

Abstract
The analysis of strategies adopted in the last 10-15 years by companies in emerging countries that have managed to reach the status of global companies, enables us to appreciate that, in a first stage, emerging companies have followed the "normal" principles of corporate strategies that have lead Western companies to a multinational or a transnational status. But more important is what happened in the second stage, namely that many emerging companies were able to overcome the classical principles and strategies and to develop new business models, such as the integration of "functions" resulted from the global value chain restructuring, based on the new "functional" specialization in manufacturing and services, the building up of global networks of suppliers or the reverse outsourcing. However, the range of strategies implemented by emerging companies in their efforts to become global players comprise also "classical" strategies such as the global brand development, the global development and supply of niche products, the non-organic growth or the strategy of geographical adjustment of business flows on South-South and South-North directions.

Keywords: *emerging countries, emerging companies, classical strategies, modern strategies*

1. Introduction

One cannot talk about globalization without taking into account the economic momentum of emerging countries, their development in rates two times higher than in developed countries and projections that indicate that the cumulative Gross Domestic Product will be at a higher level within 25-30 years. The BRIC countries (Brazil, Russia, India and China) will surpass the G7 countries from this point of view, and the first 15 emergent countries will surpass the G7 after 2030.

Table 1
The rise of emerging countries

- Trillion $ –

	G7	Developed countries	BRIC	The next 11 emerging countries	All emerging countries
2005	27,3	32,4	4,2	2,9	8,9
2015	33,0	39,6	10,2	5,6	19,0
2030	43,0	51,6	28,2	12,5	46,8
2050	64,2	77,0	90,0	35,5	138,0

Source Table 1: Antoine van Agtmael, in "The Emerging Markets Century", Free Press, New York, 2007, based on Goldman Sachs estimates for BRIC and another 11 emerging countries and JPMorgan for another countries.

Before, however, the years will validate or not this scenario, we can see the nowadays realities in the world. A study undertaken by Boston Consulting Group (BCG) has recorded impressive economic concentrations that exist in emerging countries. In 2006, a total of 100

* Ph. D. University "Nicolae Titulescu" Bucharest, margulescu@univnt ro
** Ph. D. University "Nicolae Titulescu" Bucharest, margulescu@univnt ro.

companies in these countries have assets of 520 billion USD, this means more than the top 20 global automobile manufacturers.

UNCTAD inventoried until 2004 a total of five companies from emerging Asia, which were among the top 100 transnational companies regarding the size and another 10 external assets, which could be included among the first 200 companies.

In 2006, FDI from the emerging economies (including mergers and acquisitions) reached the level of 174 billion in the USA, 14% of world total, up from 5% in 1990. Their share in world FDI stock was 13%, representing $ 1600 billion in US (compared to 8% in 1990).

Investment flows take place increasingly SN and SS relations as emerging economies invest both in developed and in the less developed countries.

2. Tipology of strategies implemented by emerging companies

According to Antoine van Agtmael, one can see three historical steps (the author calls them „waves”) that define the commercial relationships between industrial and Third World countries during the last century:

- First wave defined by FDI in production facilities overseas;
- Second wave dedined by outsourcing and offshoring;
- The third wave defined by competition between transnational companies from developed countries and strong global companies in emerging countries;

Today, we stand in the early stage of the third „wave”.

Rise of a growing number of companies from emerging countries to the status of global companies is obvious. From the methodological point of view, we accept the criteria the author proposes to trace the entrance of a company in the selected category of global companies, as following:

1.to be the world leader in the industry;

2.to have a global presence in exports and even production;

3.to have one of the top three market share position as a sufficient number of countries in order to be considered a global player;

4.to be globally competitive, not only in Chapter price, but also in quality, technology and design;

5.To refer to the biggest and the best companies in the world.

The ways of achieving these performances, the strategy adopted, there has never been a single abstract step, but a succession of steps. These attempts have however one common denominator: the courage of strategic management decisions, allowing faster browsing of those steps, getting out of the classic pattern of organic development that the Western occidental companies have run across.

Analysis of strategies adopted in the last 10-15 years by companies in emerging countries that have managed to reach the status of global companies, enables us to appreciate that, in a first stage, emerging companies have followed the principles of "normal" corporate strategies that lead Western companies to multinational or transnational status, as following:

- Focus on activities or core competencies and outsource other;
- Accession to the status of market leader in key markets around the world;
- Keeping costs at a low level and quality high level;
- Impeccable customer service;
- R & D investment;
- Hiring the best specialists and their corresponding reasons;
- Building a strong brand;
- Motivating employees through options and other incentives.

But more important is what happened in the second stage, namely that many emerging companies were able to overcome the conceptual principles and strategies to develop classical and new business models.

Currently, we cross a time when we try, by specialists and researchers, to "unveil the mystery" of how many emerging companies were able to achieve this unexpected success. For example, Boston Consulting Group concludes that there are five types of strategy determinants, namely:

1.Growth of local brands globally (eg.: Hisense in China for consumer electronics, Bajaj Auto in India for two or three wheeled vehicles, Tata Motors of India for cars);

2.Transforming engineering excellence in innovation globally (eg.: Embraer of Brazil for the production of regional jets);

3.Acceding to the status of a global leader in a niche product (eg.: BYD in China which produces batteries, Johnson Electric in Hong Kong that produces electric motors and video cameras for cars);

4.Widening ownership advantage of natural resources by implementing new ways of marketing and distribution (eg.: Sadie and Brazilian companies in international distribution Perdigao cereal, chicken and pork, Brazilian Vale Company in world exports of iron ore);

5.Implementing new models for business performance or new types of market penetration (eg.: Mexican company Cemex in cement and construction materials).

Certainly, the list of examples of each type of strategy presented above can be extended enough to validate these trends.

In the following, we want to systematize in our own way the range of the main strategies implemented by emerging companies until now, facing their efforts to become global players in an increasingly globalized world.

We believe that the most remarkable and ongoing process developed in the last 10-15 years, and its effects will increase in the following decades, in a manner which cannot be said to have been predicted the "functional" specialization of companies affects the strategies of emerging companies. We call them "modern strategies."

They join to a category of strategies that have direct link with the new division (national and international) of labor specialization based on "functions". We name them classical strategies, and based on these we refer to those who have provided the greatest success in recent years as emerging companies in their globalization plans.

We believe that the following structure of strategies practiced by emerging companies to accede to the status of global companies can be enlightening for today:

- **Classical strategies,** which:
  - The strategy of global brand development;
  - The strategy of development and global supply of niche products;
  - The strategy of non-organic growth;
  - The strategy of geographical adjustment of business flows on South-South and South-North directions;
- **Modern strategies,** which:
  - The strategy of integration of "functions" resulted from the global value chain restructuring, based on the new "functional" specialization in manufacturing and services, completed by the strategy of “steps getting on” on the overall chain of the "product" value;
  - Strategy based on organizing global networks of suppliers;
  - Reverse outsourcing strategy on South-North direction;

3. Classical strategies implemented by emerging companies

3.1. Global brand development strategy

The building of single product brands and, more than that, of a company brand, is a desirable strategy for any company. Logistic and financial effort to achieve this goal is huge, but further benefits are essential to the company. As a result, this strategy was adopted by a number of corporations from emerging countries, and the overcoming of this challenge finally led to their success and competitivity on the global stage. A number of companies took the road of systematic construction, like Samsung, BenQ, Grupo Modelo, while others tried to make their effort easier through acquisitions and mergers, like Lenovo and Haier.

Samsung Case

Samsung General Stores Company was founded in 1938 as a Korean company exporting fish, vegetables and fruits to China. In the 1990s, Samsung Group had become the most influential Korean conglomerate with activities in various fields, from consumer electronics to insurance, petro chemistry and shipbuilding.

If we consider only consumer electronics industry, Samsung has managed to blow away the competition of Japanese firms, so that, according to the Interbrand's classification of brand value, Samsung has been ranked as one of the fastest-driven companies on the list, surpassing even Sony (see Table 2).

Table 2

Samsung's Competition in 2005

	market capitalization ($billion)	sales volume ($ billion)
Samsung	107,0	56,7
Intel	147,7	38,8
Nokia	76,3	42,5
Philips	15,2	9,8
Sony	46,4	66,0
Motorola	56,5	36,8
Matsushita	49,2	78,6
LG Electronics	12,6	43,4

Source: Antoine van Agtmael – "The Emerging Markets Century" Free Press, 2007.

Among the factors that led to the success of Samsung in the global marketplace we have to mention the specific organizational culture, access to the best technology and highly skilled workforce, the early government support, the restless search for excellence in all areas. Of particular importance was the focus on exports, on research-development as well as on brand building and promotion.

The marketing campaign sustained in a totally unconventional way has achieved the main four important goals, namely:

- led the company's brand to international recognition,
- succeded in a subtle and original use of the design of brand, in the shape of the shell, in a world where imitation exceeds inspiration
- showed incredible growth of the company's global power
- has reiterated that, according to a study conducted by Interbrand-Business Week on top global brands, Samsung steped on the 20th place, for the first time surpassing Sony, ranked 28th on a list of competitivity driven by the value of the company's brand.

Interbrand's ranking was a confirmation that Samsung is not only the first brand of emerging markets, increasing in recent years it's value faster than any other brand in the world, but succeeded in the fight for brand value, to outperform a series of symbols of the global market, such as Pepsi, Nike, Budweiser, The Gap, Ikea, Starbucks and Harley-Davidson.

All this significant evolution took place after the monetary and financial crisis of 1997-1998, when Samsung, on the verge of huge losses, was forced to prove a large market discipline and apply a real shock treatment. It took into account a total transformation of the activity by removing the low-value consumer electronics and memory chips (DRAM) and embedded approach to high value products such as multifunction mobile phones, flat panel displays for electronic equipment, multimedia equipment, specialized chips for digital cameras, iPods, etc.. In this way, Samsung has managed not only to capture a large share of the consumer electronics market, but has become the most profitable multifunctional mobile phone maker in the world.

The company consolidated its corporate brand by significant amounts invested in promotional activities (more than $ 10 billion, which represents the maximum amount for this purpose dedicated in emerging markets) and sponsorships awarded at the Sydney, Seoul and Beijing Olympic Games.

Finally, we can estimate that the success of Samsung's efforts in establishing a brand of worldwide reputation was due not only to global marketing and advertising campaign, but also to the huge success won by the distinctive shell-shaped style of its mobile multifunctional phones. Thus, in 2005, Samsung was ranked 3rd on the production of mobile phones (over 100 million pieces), approaching Nokia and Motorola. The high value design of Samsung's products has transformed the company from a second hand maker of electronics, into a world-renowned brand, which had also the inspiration to:

- set strategic steps that seemed completely out of scale at that time
- keep their obsession for quality in execution
- combine technology, global distribution and design
- invest large sums in research and development.

Concha Y Toro Case

Concha y Toro was founded as a winery producing wines since 1875, becoming a globally active Chilean company until the economic policy of this country in the 80es forced it to change its owners. Since 2004, however, the company sells wine in 110 countries, and in 1994 became the first wine producing company listed on the New York Stock Exchange, considered the largest vineyard in Chile and Argentina. With a turnover exceeding $ 300 million, Concha y Toro is the undisputed leader of wine producers in South America, is among the top 20 companies in this category in the world and ranks 2nd in U.S. imports.

When traditional wine producers such as France, Italy, Spain lost ground latelly infront of the new production methods in the U.S., the global wine industry has moved the center of interest from northern areas to those in the south, Australia, Chile and South Africa becoming the main suppliers. Chilean exports grew from $ 10 million in 1985 to $ 835 million (60% of production) in 2004, Chile reaching the 5th place in the top of world wine exporters.

Tables 3

Concha y Toro's Competition in 2005

	market capitalization ($billion)	sales volume ($ billion)
Concha y Toro	1,1	0,4
Constellation	0,5	0,5
Robert Mondavi	0,6	0,5

Source: Antoine van Agtmael – "The Emerging Markets Century" Free Press, 2007.

Concha y Toro has built a successful business based on exports, the modernization of wine producing processes, an aggressive distribution and a global brand promotion. The company tries to find a balance between affordable wine production, competing with other global brands of wine and delivering very high value (eg. Don Melchor) to customers with a very good knowledge of wines.

In this regard, the company turned to a successful brand strategy, whereby a major brand launches a subbrand, targeted at customers with a very good knowledge of wines, so that the master-brand could be raised in association with the subbrand. Therefore, the company produces large amounts of wine with very attractive prices, along with some elite brands that can be appreciated only by knowledgeable specialists in the field.

As a global exporter, the company has always tried to tailor the wines to the tastes and trends of various markets. Thus, for example, most popular on the Chilean market are the oldest and sweet wines, the American consumers want especially fruity and fresh wines, the British prefer wines with more complex flavors.

Since 1980, Concha y Toro has doubled its vineyard area, employing in the same time, one expert for each of them, in order to achieve a severe quality control, and since 1990 it has invested heavyly in vineyards in Argentina, becaming a big exporter of this country too.

It achievedbalso a special location for the production of special wines for the UK and in cooperation with Philippe de Rothschild Bordeaux vineyard, focused on achieving the first "Grand Cru Classe" in Latin America.

Factors that have contributed to the international success of the company were:

- understanding the need to achieve substantial exports of wines
- a focus on quality
- addressing marketing techniques and strong distribution
- focusing obtaining important positions in the rankings made by prestigious publications in this field.

3.2. The strategy of development and global supply of niche products

The strategy of development and supply of niche products for which demand is uncovered globally, can be considered one of the main successful ways that a company can follow, showing thus such innovative qualities, which involve a well-organized business and marketing strategy, and also a special attention given to the research and development department.

Risks assumed by companies in this case are quite high, the market should be well prepared to absorb as quickly as possible the products offered, but finally the obtained advantages by implanting on such market segments are rewarding. As examples, in this case, companies like Concha y Toro and Haier could be mentioned.

<u>Haier case</u>

In 1984, Haier began its major restructuring through which, in one year it managed to become profitable, in 1991 started exports, in 1993 was listed on Shanghai Stock Exchange and in 2004 had a turnover of about $ 2 billion.

Haier is considered the undisputed leader in the Chinese market of household appliances, with a market share of 34%. Its products can be obtained not only through Wal-Mart network, but also through a number of other chain stores in many countries. Haier has achieved significant growth in exports, having production facilities in 22 countries, starting with Italy and the U.S. and going to the Philippines and Iran, 18 international design institutes and 30,000 employees worldwide.

It currently produces more than 6 million refrigerators, as well as air conditioners, TVsets, washing machines, microwave ovens, mobile phones, etc.. Its main competitors in the field of home appliances are Whirlpool, Electrolux and Bosch-Siemens, Haier being on the fourth place (third in refrigerators), with a global market share of 3%.

Table 4

Haier's Competition in 2005

	market capitalization ($billion)	sales volume ($ billion)
Haier	0,5	0,6
Whirlpool	5,7	14,3
Electrolux	11,0	16,4

Source: Antoine van Agtmael – "The Emerging Markets Century" Free Press, 2007.

Company's management realized early that only by improving product quality (although this was a major requirement) a world-class status can be reached. "The making of a global brand can be achieved only by testing the company's competitiveness on the global market and this is the only way Haier can demonstrate that it has become an international class company " said one of the managers of Haier.

Thus, in 1999, Haier has launched a campaign of expansion, opening its first U.S. production capacity, worth $ 30 million, aware that, by direct production in the U.S.it can get rid of the cheap label of the image of "Made in China". On this occasion, Haier has identified a niche hitherto unexplored by any company producing household appliances, namely: minifriges for college rooms and hotel mini-bars. In this way, taking over 30% of this growing niche, Wal-Mart began to sell Haier branded refrigerators in different sizes, while Haier began to build a solid reputation in the production of mini-electric refrigeration cellars, washing machines, dishwashing machines, etc..

Through the strategy approached by Haier, it has gained a competitive advantage over its competitors, not only by increasing quality and reducing production costs, but also by identifying market niches and innovation of original products, this being the safest way to build a brand and enter new foreign markets.

3.3. The strategy of non-organic growth

The non-organic growth of multinational companies involved carrying out mergers and acquisitions of companies, this strategy being increasingly important especially in emerging markets which in past years have seen fast economic growth, particularly in Eastern Europe and Asia (China, India, Russia, etc..).

Examples of that kind are companies such as China National Petroleum Corporation which has acquired PetroKazakhstan in 2005, Mittal Steel which has acquired Arcelor Group in 2006 (considered the largest transaction that year - $ 32 billion), Tata Group which has acquired British - Dutch company Corus Group, etc..

We can also mention CEMEX (global Mexican company producing cement), and Tenaris (producing steel pipes for petroleum industry, created by the merger made by Argentine company producing stainless steel pipes for oil and gas industry SIDERCA with Techint's subsidiaries in Mexico, Brazil, Europe and Japan).

<u>CEMEX Case</u>

Company was founded in Mexico in 1906 under the name Cementos Hidalgo, with an accelerated growth rate during the 1960s by building new factories and acquisitions across the country. In 1976, CEMEX acquired Cementos Guadalajara, the main local competitor, thus becoming the largest cement producer in Mexico.

In 1989, it consolidated its position in the Mexican market through the acquisition of the second largest producer, Cementos Tolteca, and since 1990, it began to jump on a global producer status due to international acquisitions that followed . Thus, in 1992, CEMEX has bought two cement manufacturing companies in Spain, a market which until that time was dominated by an European group of companies active in this field.

Anti-dumping measures taken by the U.S. meanwhile, by charging 58% on cement imports, have forced the company to continue its global procurement strategy in Latin America, Asia, USA and Europe, maintaining its dominance status on the cement market in Mexico. His latest acquisition, the RMC company, almost doubled its turnover, has dramatically expanded its product line and drove CEMEX at number one on the U.S. market and number two in the UK.

Currently, as a strategy, CEMEX is recognized internationally for its strong centralized management, development and focus on IT activities and highly integrated teams built after the acquisitions made. Company's declared mission is to transform cement from a commodity, into a branded product.

The factors that determined the company's international success, were:

- the dominance of the Mexican market, from which the company began the global development
- global competitiveness
- the permanent strategy of foreign acquisitions
- effective integration of post - acquisition integration
- the assumed position of industry leader in using IT.

Table 5

CEMEX's Competition in 2005

	market capitalization ($billion)	sales volume ($ billion)
CEMEX	21,0	14,9
Lafarge	15,7	19,8
Holcim	15,6	14,8
Siam Cement	7,1	5,4

Source: Antoine van Agtmael – "The Emerging Markets Century" Free Press, 2007.

3.4. The strategy of geographical adjustment of business flows on South-South and South-North directions

The increase of the competitiveness of companies from emerging countries has made it possible to adapt the strategy of their geographical expansion from the South-South direction to the South-North direction. We are refering not to the conquest of market segments by increasing sales volume, but to the implantation of "functions" of the value chain in the field of production of goods or business services.

Examples of such companies can be:

- Indian generic drug maker, Ranbaxy, which, by virtue of a high concentration in terms of global development, strengthened its manufacturing facilities in seven countries, selling its products in 100 countries. In 2005, three quarters of the sales volume were realized internationally, 36% in the U.S., and with a major presence also in emerging markets.
- Brazilian company Embraer, manufacturer of regional aircrafts with a capacity of 50-110 seats, for buyers like US Air, Let Blue, Cross Air and even Chinese Southern Airlines.
- Hyundai Heavy Industries (HHI) of Korea, the largest sea-going vessels producer in the world, which is building tankers, bulk cargo ships and container ships, chemical hi-tech carriers, etc.., as well as marine Diesel engines and construction equipment (excavators, loaders, etc..), electrical equipment, etc.., performs deliveries in both developing countries (South-South flows) and the highly industrialized states (South-North flows).
- CEMEX SA, the Mexican cement company , which has acquired two Spanish companies in 1992 and subsequently continued this strategy by acquiring companies in U.S., Latin America and Europe, becoming one of the leading cement producers globally.
- Chinese firm Haier which became one of the most renowned global manufacturer of electronics manufactured in production facilities in 22 countries (Italy, USA, Philippines, Iran, etc..) and which has 18 international design centers and 30,000 employees worldwide.

It had become noticeable latelly also the growing number of jobs created by multinational companies from emerging countries, which have invested directly in industrialized economies, such as Samsung, Hyundai, CEMEX, Tenaris, etc..

Thus, Samsung, Hyundai, Sasol, TSMC, Haier and other companies are major employers in the U.S., with more than 30,000 employees. It is considered that, in 2003 in the U.S. there were a total of 160,000 employment made by emerging multinationals ("Survey of Annual Business", August, 2005, Bureau of Economic Analysis, USDepartment of Commerce), which further quickly increased. In addition to these we must taken into consideration all other connections created, activities such as design, marketing, supply of equipment and materials, dealers, etc.., which also involve indirect hired personnel.

4. Conclusions

The analysis of strategies adopted in the last 10-15 years by companies in emerging countries that have managed to reach the status of global companies, shows that, as a first step, they followed the principles of "normal" corporate strategies that have led Western companies to the multinational or transnational status.

In the second stage, however, many emerging companies have managed to overcome the classical principles and strategies and to develop new business models. Some of these new business models are directly related to the development of the "functional" specialization of companies.

They come together, however, with a class of strategies that do not have direct link with the new division of labor based on the "functional" specialization. We named them classical strategies and we made reference to those who have largely ensured recently the success of the emerging companies in their efforts to accede to the status of global companies, namely: the strategy of global brand development, the strategy of development and global supply of niche products, the strategy of non-organic growth and the strategy of geographical adjustment of business flows on South-South and South-North directions.

References

- Baldwin R.& Martin P. (1999*):"Two Waves of Globalisation: Superficial Similarities and Fundamental Differences"*. Capitol 1, p. 3-59. Ed. H.Siebert.
- Berger Suzanne and the MIT Industrial Performance Center, How We Compete: *"What Companies Around the World Are Doing to Make It in Today's Global Economy"*, Currency Book, 2006.
- Dunning H. John: *"The New Globalism and Developing Countries*" – N.Y., 1997.
- Fung K. Victor, William K.Fung, Yoram (Jerry) Wind: *Concurenta intr-o lume plata: cum sa construim o companie intr-o lume fara granite*, Ed.Publica, 2009.
- Goerg H., Greenaway D. & Kneller R. (2008):" *The Economic Impact of Offshoring*. Nottingham University's Globalisation and Economic Policy Centre".
- Grossman G. & Rossi-Hansberg E. (2006): *"The Rise of Offshoring:It's Not Wine for Cloth Anymore"*. Paper presented at Kansas Fed's Jackson Hole conference for Central Bankers.
- Margulescu Serghei, Margulescu Elena**,** *"Trecerea de la globalizarea pietelor la globalizarea productiei si serviciilor in contextul starii de semiglobalizare",* in The 33-rd Annual Congress of the American Romanian Academy of Arts and Sciences (ARA) Proceedings, Volume I, Polytechnic International Press, Montreal, Quebec, 2009.
- Rugman Alan, Verbeke Alain: *'A Perspective of Regional and Global Strategies of Multinational Enterprises"*, Journal of International Business Studies 35, no. 1 (January 2004).
- UNCTAD, World Investment Report 2007.
- Van Agtmael Antoine –*"The Emerging Maarkets Century",* Free Press, New York, 2007.