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Multinational corporations from emerging economies: Growth or decline?

This paper has been devoted to the presentation of the current situation of multinational corporations from emerging economies (EMNCs). The research methods applied include the statistical analysis of data describing the operations of EMNCs and multiple case study of selected enterprises. The main conclusion drawn from the study concerns the worsening performance of the analysed firms. The main reason of the faltering financial results are the characteristics of industries in which EMNCs operate. Many large firms from emerging countries are strongly dependent on natural resources. Recent decline of demand from China caused strong global overcapacity of commodities. Moreover, the EMNCs are still influenced by the economic situation in their home economies. It is associated with the fact that their operations are not truly global yet. An additional reason is the lack of sustainable growth strategies which hinders the growth of the firms.

Keywords: emerging economies, multinational corporations

JEL classification: F21, F23

Korporacje transnarodowe z gospodarek wschodzących. Wzrost czy schyłek?

Artykuł poświęcony został prezentacji aktualnej sytuacji korporacji transnarodowych z gospodarek wschodzących (WKTN). Głównym celem opracowania jest przedstawienie wyników analizy działalności wybranych WKTN w odniesieniu do zmian w gospodarkach ich pochodzenia. Metody badawcze stosowane w niniejszej pracy to: analiza statystyczna danych opisujących WKTN oraz studium wielu przypadków. Główny wniosek płynący z badań dotyczy pogorszenia wyników analizowanych firm. Powodem tego osłabienia jest charakterystyka branż, w których działają WKTN. Wiele dużych przedsiębiorstw z krajów rozwijających się jest silnie uzależnionych od sytuacji na rynku zasobów naturalnych. Spadek popytu ze strony Chin spowodował silną globalną nadwyżkę na rynku surowców. Ponadto WKTN nadal znajdują się pod wpływem sytuacji gospodarczej w ich gospodarkach goszczących. Jest to związane z faktem, że ich działania nie są jeszcze prawdziwie globalne. Dodatkowym powodem jest brak strategii zrównoważonego rozwoju, co utrudnia długofalowy rozwój analizowanych przedsiębiorstw.

Słowa kluczowe: gospodarki wschodzące, korporacje transnarodowe

Klasyfikacja JEL: F21, F23

Introduction

The growth of the emerging economies[1] advanced in the beginning of the 21st century and was symbolically confirmed by coining the BRIC acronym[2]. The rapid growth of the economies attracted attention of investors and fuelled hopes for rebalancing the global economy. Indeed, newly industrialized countries were expected to add to the global growth – especially when the advanced economies were in crisis. This was the case in 2009, when most of the global economic growth was contributed solely by the emerging economies. They were also praised for their young populations, vast investment opportunities and rising market capacities.

The economic growth of the emerging countries was accompanied by the rise of new type of international firms – multinational corporations from emerging economies, or emerging multinational corporations (EMCs). They were perceived, similarly to the economies of their origin, as dynamic and possessing unique business models. Their valuations on the stock exchanges rose and their international presence became a fact. They were also seen as opposition to the stagnant corporations from advanced economies.

The economic situation of emerging economies has changed dramatically in 2014 and was continued in 2015 (Figure 1). The Russian Federation fell into deep recession because of low oil prices and economic sanctions. Brazil reported negative growth due to political and economic problems. Similar conclusion was also suitable for South Africa. Chinese economy still developed fast, however at the slower pace than expected by the country's authorities and foreign investors. Moreover, the Chinese capital market is in the dire straits. Only India reported better than expected economic results.

Large international firms originating in the BRIC and other emerging countries (e.g. Turkey, Indonesia, Mexico) gained large advantages due to the improving situation in their economies in the first decade of the 21st century. A significant element of the rise of the EMNCs was public support. For example, Russian MNCs developed due to the abundance of natural recourses in the country, and government policy of supporting Russian firms in their internationalization. Similarly, Chinese firms were supported by the dynamic growth of the home market and the 'go global' policy introduced by the Chinese government. Public support for the largest firms was easily financed when the economic growth was robust. However, in the times of the constrained financial resources, the support capacity is limited.

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[1] Emerging countries or emerging economies are understood as economies possessing capacity of dynamic economic growth which already achieved a certain level of economic development and significant international position [Klimek, 2014].

[2] BRIC – Brazil, Russia, India, China. Later expanded to BRICS by adding South Africa.

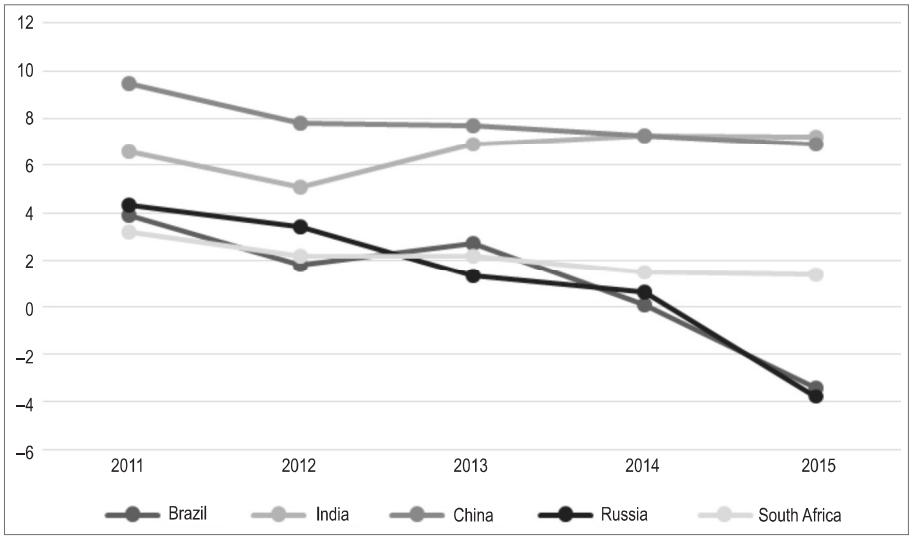


Figure 1. Changes in gross domestic product, %
Source: Own elaboration based on: [TWB; EIU].

This paper is aimed at assessing the recent developments of EMNCs with respect to the situation in their home economies. The research method applied here is a multiple case study. The method allows for conducting a thorough analysis of selected cases and drawing conclusions based on detailed information. It uses both qualitative and quantitative data. An additional feature of the approach is that is allows for obtaining a certain level of generalization of the results. We will test five corporations from four emerging economies (Brazil, Indonesia, Mexico, and South Africa). The cases were selected as the most mature corporations from the group of emerging market firms. The companies under examination were listed in 2011 BCG Global Challengers by the Boston Consulting Group. This is an annual report on multinational corporations from newly industrialized countries.

The rest of the paper is organized as follows. In the first section we discuss the theoretical background of the multinationals from emerging countries. In the second section we present the results of the multiple case study analysis.

1. New multinational corporations

In the second half of the 20th century, the general trend was that less developed countries were merely recipients of capital from advanced economies. Such flows were justified by the abundance of capital in the latter group of economies

and vast business opportunities in the former one. This was according to the classical theory of international movement of production factors.

However, in the end of the previous century, emerging economies entered the global stage and became sources of foreign direct investment. In the outset of the process, the number of source countries, the number of companies, and variety of industries were very limited. Actually, only companies from India were very active in the process [Lall, 1983].

The dynamic and vast rise of EMNCs started after the year 2000. Firms from less developed countries started building their international presence. It was the time of the first wave of multibillion acquisitions by multinational firms from emerging countries. For example, Chinese Lenovo bought a computer production unit from American IBM. Indian Mittal Steel acquired Western European firm Arcelor. Many more transactions took place. The time before the outbreak of the financial crises in 2008 was the period of development of many emerging market firms. The EMNCs became especially important in the time of crises in industrialized countries. The economic situation in the emerging economies remained robust and firms originating there took advantage of the financial constrains faced by firms from developed countries.

EMNCs became important study objects as they won high positions in global rankings and possessed distinctive competitive advantages [Goldstein, 2009]. EMNCs have been praised for their rapid internationalization, different forms of entry, or their distinctive managerial approach [Dunning, 2008]. They execute unique strategies when it comes to innovation, marketing, human resources, production or finance [Klimek, 2014]. For example, they are frequently described as 'latecomers' with regard to their innovation model. Such an attitude gives more flexibility and limits the risk of failed attempts.

There are also advantages specific to firms from particular emerging economies. For example, large Chinese firms are supported by the 'go global' policy and the fact that they are frequently government-owned [Li, 2009]. Global expansion of Brazilian firms was not only supported by the abundance of resources, but also by various forms of subsidies from the public sector [Fluery, Fluery, 2008].

Previous analyses of the performance of multinational corporations were conducted on the population of 500 largest corporations in the world [Klimek, 2012]. The analysis period encompasses the years between 2002 and 2011. The main conclusion of the research was that multinational corporations from emerging countries have been systematically different from their established competitors. However, the new multinationals have been very dynamic business entities and fast pace of convergence with the established peers has been noticeable. The question that emerges in the time of economic slowdown of emerging economies is what remained from the rapid development of EMNCs.

The previous research was conducted using advanced econometric strategy. This paper takes a different approach to the problem. First, we will analyse a limited number of firms in order to provide more in-depth conclusions. Moreover, besides numerical analysis of the financial performance of the firms, a qualitative method will also be applied to extract events influencing the performance of the firms.

2. Performance of multinational corporations from emerging countries

Emerging multinational firms were perceived as very dynamic and offering good investment opportunities in difficult times. Therefore, their rise during the economic crises in 2008 was especially noticeable. Those firms were also supposed to offer positive growth even if multinational firms headquartered in developed world were stagnant (so-called decoupling). The dynamism of EMNCs meant that they are growing fast and possess unique competitive advantages. The hope was that they both originate in dynamic markets and have superior access to other developing countries.

We will verify here if the expected performance of EMNCs is strong in spite of the economic slowdown in countries of origin. The research method applied in the paper is a multiple case study. This is a qualitative method aimed at providing conclusions based on several cases. It is postulated that between 4 and 10 cases should be analysed [Eisenhardt, 1989]. A smaller number may not allow for a certain level of generalization of the conclusions, while a larger number may lead to data overload. The basic requirement for utilizing the method correctly is systematic approach [Mintzberg, 1979]. The first step in the study is selecting the cases.

The companies under examination were listed in 2011 BCG Global Challengers by the Boston Consulting Group [BCG, 2011]. Among 100 companies presented in the report, the subgroup of Challenger Emeriti was introduced. Five companies were granted this status because of the resemblance of their operations to the established multinational corporations. In other words, the five selected companies were described as the best companies in the group of 100 EMNCs. Thus, these corporations were the most promising and it could be expected that they would continue their operations in an excellent form. To verify these assumptions we will compare the performance of the firms in the period of 2011–2015.

The method of multiple case study is not designed for generalization of the results for the entire population. However, the selected cases are assessed to be superior in the group of EMNCs. Therefore, their performance may be a good proxy for multinational firms from developing countries in general.

The five cases represent four countries and four industries (Table 1). The industries can be named basic and are frequently associated with natural resources. Such characteristics also fit the operations of most EMNCs [Klimek, 2012]. This is an additional advantage of selecting the firms for in-depth analysis.

Table 1. Basic information on the selected companies

Name of corporation	Country of origin	Headquarters	Main area of activity	Employment (2014)	Number of key markets
Vale	Brazil	Brazil	mining	76,531	30
Wilmar International	Indonesia	Singapore	palm and lauric oil	92,000	50
Cemex	Mexico	Mexico	cement	44,000	50
AngloAmerican	South Africa	United Kingdom	mining	94,800	9
SABMiller	South Africa	United Kingdom	beverages	70,000	54

Source: Own elaboration based on the companies' data.

The fact that should be also underlined is the location of head offices of Wilmar International, AngloAmerican and SABMiller. These firms are described as EMNCs, however, their headquarters are located in advanced economies. Other elements, such as their main operations, confirm their status as EMNCs. For example, the number of employees of AngloAmerican in South Africa constitutes around 75% of total headcount. This is also associated with the so-called relocation of head offices. Firms from emerging economies sometimes move their offices to advanced countries in order to have better access to financial markets, avoid home country government interference or improve efficiency.

We took into consideration several indicators describing different areas of performance of the EMNCs (Table 2). First, to investigate if the analysed cases expanded their operations, we measure changes in employment, revenues and international engagement. Only one firm (Wilmar International) increased its number of employees. Two companies (SABMiller and Cemex) did not report significant changes in employment. In the cases of Vale and AngloAmerican, we observe a decrease. A similar situation is observed in the case of revenues. Only one company (Cemex) reported higher sales. The most important reason for the negative results were the falling prices of natural resources in the global market.

In the case of international expansion, only one firm reported bigger engagement in foreign operations. Over the period of five years, Wilmar International significantly increased its international presence. In February 2014, the company acquired a minority stake in a leading Indian producer of sugar (Shree Renuka Sugars Limited). Thanks to this investment the company also accessed Brazilian sugar market. Its presence in the Chinese market was boosted by the joint-venture

project with American Kellogg Company. The same year Wilmar International bought a company with operations in Italy and France. A strong entry was also reported into the African market. Taking it all into consideration, we can describe the foreign operations of Wilmar International as fast developing. An opposite situation was observed in the case of Brazilian Vale. We introduce an additional measure – value of acquisitions and divestures. Vale spent US$ 38,916 million on buying other firms in the period of 2000–2013, but in the period of 2014–2015 – null. The annual average value of acquisitions was US$ 2,779 million in the first period. The company divested US$ 14,272 million in the period 2000–2013, while in the period 2014–2015 – US$ 3,098 million. The average value of divestment was US$ 1,019 million in the first period and US$ 1,549 million in the second one. It is important to underline that most of the transactions concerned foreign operations.

In the case of foreign expansion of Cemex in the period of 2011–2015, we notice very slight changes in particular geographic divisions. They are indicated by two measures: sales by region and assets by region. Sales by region remained almost unchanged, whilst assets by region were significantly lower only in the Mediterranean region. The remaining regions were stable; thus, the general picture of the expansion may be described as steady. Therefore, we put 'null' in Table 2.

Table 2. Summary of multiple case study

Name of corporation	Number of employees	Revenues	Profit	Share prices	International expansion
Vale	–	–	–	–	–
Wilmar International	+	–	–	–	+
Cemex	null	+	+	+	null
AngloAmerican	–	null	–		null
SABMiller	null	–	–	+	null

Source: Own elaboration based on the companies' data.

Very negative results are observed in the case of profits. Four companies reported lower profitability of their operations. This directly translated into the value of their shares. The prices of shares of three out of five analysed firms were significantly lower in 2015 than five years earlier, causing a real loss for the investors. The shares of the mining company Vale were worth only around 20% of their 2011 value. In the case of Cemex, the price was close to the 2011 level. Only the share prices of SABMiller were growing over the entire period under analysis. The company is operating in the consumer industry; therefore, its results were less volatile than those of the firms operating in natural resources. An additional reason for the rising prices of SABMiller was the acquisition bid by InBev. The results

of the last company do not change the general conclusion that the analysed EMNCs do not offer good return for investors looking for stable growth of their assets.

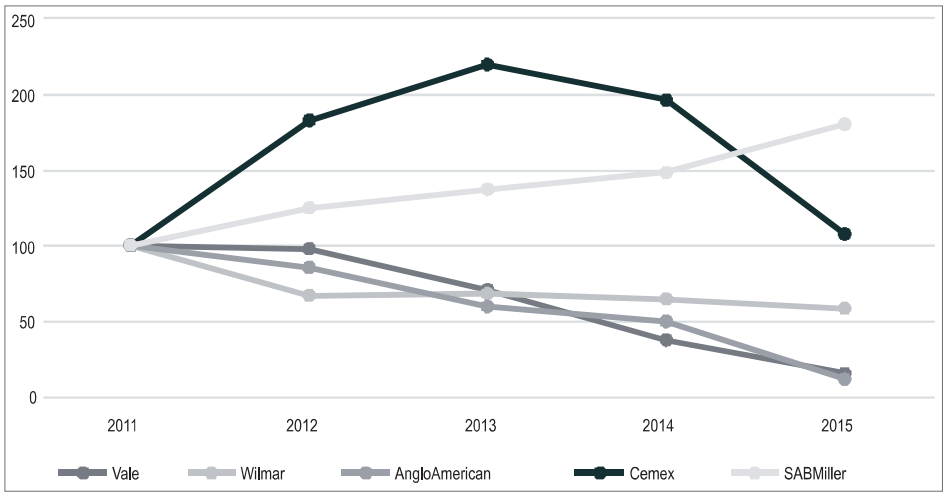


Figure 2. Share prices of the selected companies at the end of year (2011 = 100)
Source: Own elaboration based on the companies' data.

To provide a wider perspective on the stock performance of emerging multinational firms we can refer to the analysis results provided by the Boston Consulting Group [BCG, 2014]. According to their results, the group of 100 Global Challengers performed much better than 500 largest American public firms listed in the S&P 500 stock market index or firms operating in similar industries in the global markets. Moreover, the Global Challengers were also better than the largest public firms from emerging countries listed in the MSCI Emerging Market Index. The performance was measured over the period of 2000–2014. In the period from May 2013 till May 2014, the Global Challengers offered better total shareholder return than companies in the MSCI Emerging Market Index, but much weaker than those in S&P 500 or their global peers. Firms from emerging countries started to have the biggest problems in the middle of 2015. Their performance in the stock exchange was very weak, mostly on concerns of Chinese growth. Moreover, their weak performance also spread to developed markets. This is another proof of the lack of decoupling in the global economy.

The basic reason for their weaker financial performance was their strong dependence on natural resources. Their financial results were positive when the demand from Chinese economy was strong and prices of natural resources were very high. However, because of the economic slowdown in China and the attempts to rebalance its development model – from exports and investments into

domestic consumption of goods and services – the prices of many commodities were at a record low level in the beginning of 2016.

Another characteristic of the emerging multinational firms is their sustainable growth, which we understand as long-term successful operations. The only firm that reported positive performance on the stock exchange (SABMiller) was acquired by its largest competitor in 2015. It is important to note that even though SABMiller is no longer an independent entity, it was acquired by another firm having roots in an emerging economy. InBev, which was the successful bidder for SABMiller, is in large part a Brazilian company. This may be interpreted as competition between emerging multinational corporations.

The overall decrease in the growth of emerging economies does not always translate into the decline of EMNCs. In the beginning of 2016, some of the largest Chinese firms made bids for foreign targets. For example, Haier agreed to buy American General Electric's unit that produces home appliances. The value of the deal was also sizable – US$ 5.4 billion. Even larger transaction is being prepared by the state-owned chemical firm China National Chemical (or ChemChina), who proposed to buy their Swiss rival Syngenta for US$ 43 billion. This may be the largest foreign acquisition by a Chinese firm ever and also one of the largest in the history of cross-border mergers and acquisitions. In spite of the relative weakening of the Chinese economy, the transaction is aimed at meeting the national goal, which means that the Chinese government should back it. We can say that ChemChina is in the process of foreign acquisitions. Last year they bought Italian tyre producer Pirelli for US$ 7.3 billion and German machinery manufacturer KrausMaffei for around US$ 1 billion. This is in line with the fact that in 2015 Chinese firms spent a record US$ 116 billion on mergers and acquisitions [Reuters, 2016].

Conclusions

The paper has been devoted to the presentation of the recent development of multinational corporations from emerging countries. The general conclusion after analysing the five cases is that EMNCs do not have unique strategies to cope with the global slowdown and are not safe havens for investors. The share prices of three out of five firms were much lower in 2015 than in 2011. In order to provide a broader perspective, several more indicators of the firms' performance were analysed. Out of five firms only one (Mexican Cemex) reported better results in the period of 2011–2015. The rest of them significantly worsened not only with regard to their financial performance but also the scope of their international operations. Thus, these findings do not support the expectations that multinational

corporations from emerging economies can provide an extraordinary return in comparison to multinational firms originating in advanced economies.

The main goal of the paper was to study the performance of the selected firms with respect to the economic situation of their home countries. The analysed firms, due to their vast international operations, are not directly affected by the economic situation of their countries of origin. The worsening performance of the firms is rather a result of the global slowdown. This influences both the situation of the country and of EMNCs. The worsening situation in the public finance, for example, in Brazil or Russia may affect the EMNCs by limiting the support they receive in their internationalization process. It is important to note that official assistance was not the sole advantage of the analysed firms. However, the firms need to prepare smart strategies to make up for the lack of government support.

The second issue revealed in the analysis is the companies' limited possibility to diversify activities and introduce strategies of sustainable development. They are frequently rooted in the natural resources and easy access to them was their biggest competitive advantage. The only company operating in the consumer industry (SABMiller) lost its independence and became a part of the largest brewery company in the world.

The analysis also provided some counterintuitive findings. Firms from China did not decrease the number of their foreign projects even though the internal economic situation falters. This may be interpreted as the necessity of increasing geographic diversification and decreasing the influence of the home market. However, many Chinese transactions are conducted by state-controlled firms and were approved by the government. It means that Chinese authorities did not change their long-term policy of going global and treat the economic problems as temporary.

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