

The Multinational Enterprises Strategies in Emerging Economies

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Abstract: The purpose of this paper is to review international business articles, particularly what strategies in emerging economies and multinational enterprises subsidiaries strategies. There are two main papers utilized, the first one is Hoskisson, Eden, Lau and Wright's 2000 article, entitled Strategy in Emerging Economies. Strategy formulation and implementation by private and public enterprises in a variety of regional contexts and from three major theoretical perspectives: institutional theory, transaction cost economics, and the resource-based view of the firm. The second paper is Amy J Hillman and William P Wan's 2005 article, The Determinants of MNE Subsidiary Political Strategies: Evidence of Institutional Duality. Using recent theoretical advances in institutional theory that acknowledge that MNE subsidiaries face pressures for isomorphism both within the corporation (internal legitimacy) and within the host country (external legitimacy). A common thread can be drawn between these two articles, namely the use of institutional theory in determining the strategy for multinational enterprises.

Keywords: International business, strategy, multinational enterprise

Introduction

One of the substantial papers regarding the international business theory is Hoskisson, Eden, Lau and Wright 2000 article, entitled strategy in emerging economies. Reading this paper to get understanding an international business aspect theoretically and empirically. Through this article, the authors examined strategy formulation and implementation by private and public enterprise in several different regional setting and from three primary theoretical

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perspectives: institutional theory, transaction cost economics, and the resource-based view of the firm. Specifically, the purpose of this article was to add new theoretical and empirical insight on enterprise strategies in emerging economies (Hoskisson, et al., 2000). In introducing this purpose, the authors examined the three leading theoretical perspectives in strategic management research to frame the issues. Each perspective was explored below in an emerging economy context. They also examined whether western theories were generally applicable in emerging economy environments and whether these contexts permitted development of new concept or modification of old ones. Then they outlined some of data and methodological issues, and ended with summarization of main theoretical and empirical contribution and suggested areas for further research. The second article on discussion regarding the international business theory is multinational enterprises (MNE) subsidiaries strategies politically. This article is important to understand international business theories since the authors tried to integrate two literatures: international business and institutional theory. The primary research question is whether MNE subsidiaries' political strategy evidence conformity with institutional duality. Thus, to examine the dual institutional factors that influence MNE subsidiaries' political strategies (Hillman & Wan, 2005).

The contributions of this study are follows: theoretically, fills an important gap in international business literature on how post-entry political strategies are formulated; extending the theory of political strategies of MNE subsidiaries on institutional theory literature and political strategy literature; empirically: validate political strategy taxonomy proposed by Hillman & Hitt (1999); utilize multilevel modelling to ascertain the effect of factors at different levels of analysis. Regarding these contributions, as the result of the study, the authors integrated international business, institutional theory and political strategy literatures. To international business, they contributed a better understanding of the formulation of subsidiaries' political strategies post-entry. To MNE-subsidiary extended focuses primarily on market competition factors affecting global integration and local responsiveness. To corporate political strategy extended previous thought to the often-ignored level of analysis, and provided a more holistic model of subsidiaries, host country and parent factors. To existing institutional theory applied the concept of institutional duality to the realm of corporate political strategies (Hillman & Wan, 2005). At the moment, a rising number of MNEs are conducting business in many regions of the world by diversifying their operations and incorporating rapidly evolving technology. Environmental concerns are an essential consideration that MNE-subsidiaries that do business in emerging markets consider. (Attah-Boakye, Adams, Yu, & Koukpaki, 2022).

Literature Review

The three perspectives of the strategies in emerging economies are Institutional Theory, Transaction Cost Economics and Resource-Based Perspective. The following paragraph describe briefly regarding these perspectives as theoretical fundament to understand the strategies. Scott (1995) stated that institutional theory emphasizes the influence of the system surrounding organizations that shape social and organizational behaviour. Institutional force affects organizations' processes and decision making. New institutional economics focuses on the interaction of institutional and firms resulting from market imperfections (Harris, et al., 1995). The role of institutions in an economy is to reduce both transaction and information costs through reducing uncertainty and establishing a stable structure that facilitates interactions (Hoskisson, et al., 2000). Institutions can also facilitate strategy, allowing enterprise to react to and play a more active role in an institutional environment if firm have an adaptive ability that allows them to move beyond institutional constrains (Lepak & Snell, 1989).

According to Williamson (1975), this perspective studies the firm-environment interface through a contractual or exchange-based approach. Where the transaction costs of market are high, hierarchical governance modes will enhance efficiency. Organizations will dominate markets as a governance structure in the presence of high uncertainty, large asset-specific investment, and infrequent transaction among small number of agents (Hillman & Wan, 2005). Transaction cost economics may also explain the higher incidence of unrelated diversification and countertrade in emerging economies. Agency theory in emerging economies, suggest that a firm is a nexus of contracts, that managers are expected to comply with the interests of external owners of private enterprises, but it difficult for those owners to ensure that managers do comply (Hillman & Wan, 2005).

Resource-Based Perspective concerns with why firms differ and how they achieve and sustain competitive advantage. Barney (1991) suggested that firm resources and capabilities could be differentiated on the basis of value, rareness, inimitability, and substitutability. Focus on the resources could create strategic inflexibility and core rigidities for a firm that would lead to negative returns. Firms therefore have to manage the social context of their resources and capabilities in order to generate rents (p.256). Reviewing the three perspectives, it is clear that the strategy literature was just beginning to come to grip with the implication for private and state-owned enterprises of the economic and political changes.

Some theoretical frameworks in the study of strategies for multinational enterprises are three political strategies, institutional theory and institutional duality. The three conceptually distinct political strategies are: (1) informational strategy based on the provision of

information to political decision-makers, (2) financial incentive strategy targeting political decision-makers with financial incentive, and (3) constituency-building strategy targeting political decision-makers indirectly through constituent support (Hillman & Wan, 2005).

Institutional theory defined as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, belief and definitions (Suchman, 1995). This theory become rich basis, appropriate, and relevant for the study. Institutional duality is in terms of external and internal legitimacy. External legitimacy includes the liability of newness or liability of foreignness/subsidiary's tenure, role of organizational size, the degree of corporatism/pluralism, and the level of international diversification. While the internal legitimacy includes: isomorphism with the parent's political strategy and level of global integration. It is also important to consider a political coalition perspective in mitigating MNE strategies in terms of risk in emerging market especially in emerging economies (Zhu & Sardana, 2020).

With these two categories of institutional duality (external and internal legitimacy), the author facilitated specific application of institutional theory of MNS subsidiary political strategy by identifying subsidiary, host country and parent factors that link to the duality of the three strategies (information, financial incentive and constituency building). It was developed totally 18 hypotheses, three for each six main categories. In a broader sense, ambidexterity refers to a multidimensional idea of co-evolution, co-competence, co-opetition, and co-orientation. While all businesses require and maintain some level of ambidexterity, MNE EMs have more incentives and capacities to develop and profit on such ambidexterity in order to overcome the disadvantages of their late moves. (Luo & Rui, 2017).

Methodology Issues

A well-defined methodology is often used in a literature review report to guarantee a systematic and thorough investigation of the body of literature on a particular research topic. The approach entails a number of crucial elements that enhance the review's overall rigor and reliability. First, the researcher establishes the scope and limitations of the review by defining the study topic or purpose. To find relevant materials, a thorough search strategy is created after which academic databases, journals, books, conference proceedings, and other reliable repositories may be used. To guarantee the retrieval of relevant material, the researcher uses a mix of keywords, Boolean operators, and filters.

The eligibility of each source is then assessed systematically in accordance with specified inclusion and exclusion criteria. This facilitates choosing credible papers that answer the

research topic. The chosen literature is carefully examined and analyzed when the final collection of articles is decided. In order to achieve this, it is necessary to extract important data from each source, including the goals, methods, conclusions, and restrictions of the study.

To present a cogent and critical assessment of the body of knowledge, themes, trends, and gaps in the literature are found and summarized. Finally, the information is arranged and presented in a logical and ordered way, sometimes using chronological or thematic frameworks. The transparent, repeatable, and rigorous technique used in a literature review study enables readers to have faith in the accuracy and dependability of the synthesized knowledge. In reviewing international business articles, particularly what strategies in emerging economies and multinational enterprises subsidiaries strategies as the purpose of this article. The first of the two key studies used is the 2000 essay *Strategy in Emerging Economies* by Hoskisson, Eden, Lau, and Wright. Institutional theory, transaction cost economics, and the resource-based view of the business are the three main theoretical axes from which private and public firms develop and implement their strategies in various geographical settings.

The second piece is an essay from 2005 titled *The Determinants of MNE Subsidiary Political Strategies: Evidence of Institutional Duality* by Amy J. Hillman and William P. Wan. Utilizing current theoretical developments in institutional theory that realize that MNE subsidiaries confront demands for isomorphism from both the corporation's internal and external legitimacy. These two papers have something in common: they both employ institutional theory to decide on the strategy for multinational corporations.

In the research of strategy in emerging economies, indeed there are some data and methodological issues occurred in terms of theory development, sampling and data collection, performance measurement, timing issues, and heterogeneity of emerging market economies (Hoskisson, et al., 2000). Enterprise strategy in emerging economies was clearly an area of considerable interest to strategy scholars. There were so many researches in that area. Those researches can be viewed from work employing multiple perspective, work with a primarily institutional perspective, work with primarily resource-based perspective.

On the other hand, the research on multinational subsidiaries studies, methodologically, it was sampled 169 US MNEs operating in 14 Western Europe countries. Dependent variables were the three political strategies, while independent variables were external legitimacy in subsidiary, host country and parent level; and internal legitimacy in parent level, and the control variable were firm's proportion of foreign sales to total sales, the percentage of the subsidiaries, and industry effects (Hillman & Wan, 2005). The researcher used multilevel modelling or hierarchical linear modelling to test the hypotheses.

Discussion

Key issues to be addressed involve consideration of whether lack of progress is due to poor implementation or to obstacles blocking managers' ability to implement market-related strategies. So that, there are implications for development of managerial skills and behavior. The issues that raised concerning economic environment, institutional infrastructure, the extent to which a convergence of economic system is occurring in terms of legal infrastructure, institutions, and corporate governance mechanism. The term emerging economies suggested a process that takes place over a considerable period of time. Enterprise in different markets and countries may be expected to adopt market-based strategies at different times and rates because institutional factors are also changing at different time and rates.

This research also suggests for longitudinal studies, need for further analysis of enterprises processes of search, experimentation and learning, and need for further research at functional level of strategic analysis. Also, a need for considerable broadening of the research agenda to embrace developments in emerging economies countries in Latin America, Asia, Africa, Middle East, and Central and Eastern Europe, rather need to develop theoretical and empirical understanding of factors promoting and restricting the emergence of new market economies, additional comparative studies of these factors in different emerging economies are warranted.

Finally, the challenge ahead for strategy researchers is to identify how enterprise in differing emerging economies can overcome external and internal impediments to the design and implementation of successful market-based strategies. This hope can deepen our understanding to the strategies in emerging economies.

Now, it is a time for us to address the challenges by continuing the study in such regional area. Especially in Asia which was affected with 1998 financial crisis, and in North America and Europe which were affected by 2008 financial crisis that spread out to some countries. Such conditions should influence the strategies in new emerging economies.

As the result, the authors found evidence supportive of the external legitimacy forces on subsidiary political strategy includes relationship between the subsidiary's tenure in a host country, subsidiary size, host country degree of pluralism/corporatism, and parent's level of international diversification at least one of the three types of subsidiary political strategy of information, financial incentive and constituency building. Their findings were also suggestive of subsidiaries' attempt to conform to internal legitimacy (Hillman & Wan, 2005).

The opportunities for future research remain. It could extend the specific forms of external and internal legitimacy examined to provide for a more comprehensive understanding of the

phenomenon; further testing outside US for generalizability of the results into other host country differences relevant to political strategies, the reason why the logic of financial incentive strategy not supported the easiness to transfer within the corporation and create more isomorphism among subsidiaries, the excluding of measure of subsidiary strategy, the unawareness of archival measure that capture subsidiary market strategies, different or larger samples, additional variables or more complex relationship such as cross-level interactions, more directly firms' intangible characteristics, and focus on country effects and their impact on parent and subsidiaries (Hillman & Wan, 2005). The authors have listed some opportunities for future study, it is our task to continue the study.

Aside from that, numerous MNEs in various emerging economies are dealing with environmental issues. Companies that use environmentally friendly technology will boost their firm value and overall environmental spending (Attah-Boakye, Adams, Yu, & Koukpaki, 2022). Several of these important firms' research has lowered the environmental impact in emerging countries. This method may be applied both at the corporate and national levels. Choosing the correct environmental approach may eventually gain business and create demand for goods or services, increasing profitability and company value in the long run.

Environmental concerns are essential since one of the metrics used to evaluate firm performance is the ESG (environmental, social, and governance) level. This also applies to multinational enterprises in multinational developing markets (Linnenluecke, 2022). ESG frameworks have been established to measure company sustainability in comparison to corporations in their "host country" which is emerging economies, with limited application and transfer to developing markets. International business operations are frequently not fully captured and mapped into the company's subsidiaries and supply chains where ESG issues are likely to arise, and ESG scores do not fully integrate the views and voices of the various local stakeholders affected by activities, particularly indigenous peoples.

Reading through the papers, it is realized that international business study is one of the important aspects in management theory besides the function of management traditionally. Through international business study, it can be understood that the link among the function, institutional theory, and political strategy. It is an interdisciplinary study that fruitful to examine further. We can add some study area to consider such as culture, or even history to enrich our understanding about international business.

Widening the region of study could be a challenging work for students or researchers. I mean, especially in Asia region including China, India, or Singapore which have a significant economic growth rate, as well as other Asian countries such as Malaysia, Indonesia, Vietnam

or others which have “still” positive rate, compared to North America or Europe countries which have zero, even negative rate.

It is time to prove that Western theories is not “always” appropriate to such countries. So far Western seemed like to force their theories to apply in the whole countries/regions. Nevertheless, each country or region has its own characteristics which could be valuable values to develop to new approach in management theories. Hopefully, it could be new theories with Eastern “taste”. Such exploratory research may have a big contribution to literature of management theories in the future. The next study may be first small step to the contribution.

Conclusion

As conclusion, this article contributed to knowledge of enterprise strategies in emerging economies both from theoretical perspective and in terms of empirical analysis. One of the main criteria for acceptance for this forum was demonstration of theory development. The research in this area demonstrated the crucial importance of understanding the institutional context in researching emerging economies.

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