



*Translating Potential into Profits: Foreign Multinationals in Emerging Markets since the Nineteenth Century.* Matthias Kipping, Schulich School of Business, York University, Toronto; Christina Lubinski, German Historical Institute, Washington DC, 02.11.2012-03.11.2012.

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## **Translating Potential into Profits: Foreign Multinationals in Emerging Markets since the Nineteenth Century**

Multinational enterprises have long identified markets as “emerging” and have tried to take advantage of their growth potential. Emerging markets are important sites for conducting business often due to low costs and growing consumer spending, but also present a number of obstacles to foreign investors that must be overcome to achieve profits. As emerging economies are hardly a contemporary phenomenon, this conference aimed at providing historical perspectives on the activities of multinational companies in these markets. The conference participants included scholars from various disciplines, among them history, economics, and sociology; and the papers dealt with a broad range of countries, companies, and national contexts utilizing a variety of methodologies to examine how multinational companies have operated in emerging markets, how they have addressed different market conditions, and finally what impact they have had on host and home countries.

After introductory remarks by the conveners, Christina Lubinski and Matthias Kipping, the first session set out to deal with conceptual frameworks and periodization schemes. In his talk, “Multinational Strategies and Developing Countries in Historical Perspective,” GEOFFREY JONES (Cambridge, MA) stressed that corporate strategies in developing economies were shaped by trade-offs between opportunity and risk. This was determined by three broad environmental factors: first, the political economy and the legal framework; sec-

ond, the market and the resources of the host economy; and third, the competition from local firms. Based on these three factors, Jones delineated three different eras: the “First Global Economy” (1850-1929), the era of “De-globalization” (1929-1978), and finally the “Second Global Economy” since the late 1970s. In the second paper, “The Changing Nature of Multinationals: Operations in the Emerging World and Their Impacts on Host and Home Countries: The ‘Leading Sector’ Stages Model À la Schumpeter,” TERUTOMO OZAWA (Ft. Collins, CO) focused on technological, financial, and institutional innovations that led to rapid changes in the world economy. He argued that these processes initially evolved under British and later American hegemony and that, over time, markets became less industry- and more consumption-oriented. In the discussion of Jones’s and Ozawa’s periodization schemes participants raised the issue of Euro- or Western-centrism as well as the question whether the period after 1929 can be characterized as “De-globalization,” since multinationals continued their activities despite the Great Depression, World War II, and the Cold War. The question of how to define an emerging market was also discussed. The contemporary concept of “emerging markets” is certainly not a new phenomenon. It generally refers to a market that is underdeveloped but expected to grow quickly. These markets share a potential for growth but also many problems, such as weak institutions and infrastructures. The

following were identified as fruitful topics for further research: political dependency and political risk, consumption patterns of the host economy, and the localization of multinational corporations.

The second session was dedicated to organizational choices and foreign direct investments. SIERK HORNÅS (Leeds) paper (co-authored with PETER BUCKLEY and ADAM CROSS), "Japanese Production Networks in India: Spatial Distribution, Agglomeration, and Industry Effects," dealt with the often neglected Japanese multinationals in emerging markets, namely India, and analyzed different factors on which they based their investment decisions. Japanese companies adapted quickly to changing market conditions in India and investment followed agglomeration logic, prior investments attracting further investments. Therefore the paper stressed the importance of business networks in promoting foreign investment, which was a recurring topic at the conference. The question of corruption led to a debate on how to integrate this topic into historical research and which sources to use. ANDREA LLUCHÅS (Buenos Aires) paper, "Foreign Multinationals in Emerging Markets: the Argentinian Case (c. 1913-1960)," (with NORMA LANCIOTTI) addressed corporate strategies pursued by foreign multinationals in Argentina and related them to domestic political change. Based on a database of foreign multinational companies in Argentina, Lluich showed how Argentina provided inducements to foreign investors, leading to high foreign direct investment even during nationalist governments after 1945. Finally, BRAM BOUWENSÅ (Utrecht) joint paper with KEETIE SLUYTERMAN, "From Colonial Empires to Developing Countries and on to Emerging Economies: The International Expansion of the Dutch Brewery Heineken, 1930-2010," contributed to the discussion of what constitutes an emerging economy by showing that Heineken saw these markets first as "colonial," then as "developing," and finally as "emerging" without significantly changing its strategy. As a consumer-goods producer Heineken had to deal with the establishment of local brands, taste, and differences in beer consumption. These points were further developed in the discussion. Moreover, ethical questions were raised regarding the introduction of foreign products as harmful as opium, alcohol, and cigarettes.

In the third session, panelists examined how multinationals have operated in the context of changing and weak institutions. MARCELO BUCHELI (Champaign, IL) and ERICA SILVAJ (Santiago, Chile) presented their paper on "Multinational Corporations, Public Utilities,

and Globalization: A Comparison of the Operations of US and Spanish Multinationals in the Chilean Telecommunications Sector, 1958-2005." Looking at the companies' boards of directors, the authors developed a network analysis that showed that interlocks, i.e. directors serving on multiple boards at the same time, depended on ownership. During times of state ownership, public utilities do not need many linkages with other sectors of the economy. During democratic regimes they build more networks with the rest of the economy than during military regimes. In the hand of foreign multinationals, public utility companies build links with domestic corporations, which are useful for coordination purposes, and with the domestic government, which are useful for coordination or legitimization purposes. Adaptation to local circumstances was also the topic of PAO T. KAOÅS (Uppsala) contribution. With his co-authors MARTIN JOHANSON and WILLIAM REDEKOP (Uppsala), he raised the question of "How do Market-Leading Foreign Subsidiaries in China Overcome Changes in Laws and Regulations and Sustain Their Success? Cases of Swedish Manufacturing Firms." The paper showed how the three companies HÅ¶gnÅ¶s, Elekta, and LeDaval have dealt with the ever-changing regulatory institutions in China. It argued that three strategic responses arose as these firms encountered market transition and turbulence: learning, responding, and integrating. The authors analyzed these three strategic responses to shed light on how multinational corporations sustain their competitiveness in China. Finally, in his paper, "The Canadians in the Tropics: Imperial Oil in Latin America 1914-1948," GRAHAM D. TAYLOR (Trent) examined how Standard Oil of New Jersey used Imperial Oil of Canada to cloak its efforts to obtain oil for its North American refineries from Latin and South America. Imperial Oil operations in Peru and Colombia were poorly capitalized, as profits from the venture went to Standard Oil instead of Imperial Oil. Ultimately, Imperial Oil exited both markets and refocused its operations within Canada.

On the second day of the conference, the fourth session examined the challenge of nationalism for multinationals in emerging markets. In a paper co-authored with PIERRE-YVES DONZÅ (Osaka), TAKAFUMI KUROSAWA (Kyoto) discussed the case of "NestlÅ© Coping with Japanese Nationalism: Political Risk and the Strategy of a Foreign Multinational Enterprise in Japan, 1913-1945." NestlÅ© not only faced nationalism in Japan, but also had difficulties establishing its main product, condensed milk, on the Asian market due to consump-

tion habits. Kurosawa showed the long-term strategy Nestlé pursued and the sophisticated organizational strategies the firm developed to counter political risks. CHRISTINA LUBINSKI (Washington, DC) paper, "The Global Business with Local Music: Western Gramophone Companies in India before World War I," illustrated that India has been perceived as an emerging market for more than a century. She showed how Western gramophone and record companies adapted rather successfully to local consumer preferences by sending out agents to record local music. They were, however, challenged by the nationalist anticolonial Swadeshi movement in India, which led to a boycott of British firms since 1905 but opened the door to other Western as well as domestic competitors in this market. The companies' experience of heavily localizing their product in foreign markets later shaped segmentation strategies in the respective home markets.

The fifth panel discussed the challenges of decolonization. ADRIAN E. TSCHOEGL (Philadelphia, PA) presented his study on "Belgolaise: The life-cycle of a colonial bank," which told the story of a Belgian bank that was active in the Congo for almost 100 years before it ceased to operate in 2004. Although the relatively small bank ultimately failed, it weathered remarkable political and economic changes for more than a century, including Congolese independence, and reinvented itself to serve a postcolonial banking market. In the next presentation, "Doing Business in a Wave of Nationalizations: Philipp Brothers and the Bolivian Tin Experience," ESPEN STORLI (Trondheim) raised the question of how the Bolivian expropriation and nationalization of foreign companies beginning in the 1950s influenced global value chains. He focused on the commodity trading firm Philipp Brothers and how it coped with radical domestic political transitions in Bolivia. The experience traders acquired in this emerging market later helped the company manage political risks in other markets. Another example of how to manage political risk in times of decolonization was examined by STEPHANIE DECKER (Birmingham) in her paper, "British Multinationals in West Africa: Re-gaining Organizational Legitimacy after the End of Empire." Decker looked at the aspect of sense-making and public perceptions of British companies in West Africa in the second half of the twentieth century and explored questions of corporate communication and reputation. To legitimize their ongoing business activities in the former colonies, British companies pursued recurring narratives that were connected to concepts of corporate citizenship and corporate social responsibility.

Concluding the conference, the sixth session dealt

with technology transfers in international business. In her paper, "Selling Industrialization and Technological Progress: Foreign Multinationals in China's post-1895 Emerging Market," ELISABETH KÄLL (Cambridge, MA) discussed the role that foreign companies played in developing China's transportation infrastructure, railroads in particular. Foreign investors competed for prominence until the early 1910s when Chinese authorities began implementing standardization to centralize the railroad system. However, the presence of private foreign investors in China continued to shape the construction of industrial infrastructure and led to transfers of knowledge and the founding of engineering schools. An interesting side aspect of these competing "spheres of knowledge" was the conflict over which language should become the universal technical standard for industry. German engineers vied with British and French engineers, but English ultimately prevailed as the international engineering language. Next, NADIA FERNÁNDEZ DE PINEDO (Madrid) and DAVID PRETEL (Florence) presented their paper, "Trading Innovation in Nineteenth-Century Cuba: Patent Rights, Foreign Firms and Technology Transfer," in which they discussed the importance of the sugar industry in promoting vigorous patenting activity in Cuba while the country was part of the Spanish Empire. The authors noted, however, that patenting activity did not directly correlate to industrialization.

The final discussion concluded that markets have been perceived as "emerging" ever since companies have been active on a global scale. In some cases, it may be justified to see particular regions or nation states as "emerging," in others expectations may be based on the experience of a single industry. Several contributors argued that emerging markets are characterized by rapid growth or the expectation thereof and often by a higher political risk for foreign investments. Despite this risk, the potential of high profits attracted, and still attracts, multinational corporations to emerging markets. The papers presented at this conference showed how multinationals "successfully and unsuccessfully" aimed at managing political risks, interacted in networks, developed global strategies, and at times localized strategies. Many of the historical studies showed "path dependency" over time. Moreover, the experiences in emerging markets triggered learning processes that shaped future foreign investments but also influenced strategies in the home market. Although global conditions seem to have changed in the most recent era, there are numerous similarities between the historical case studies and current debates on multinationals in emerging markets. The con-

ference thus contributed to the ongoing discussion by adding historical depth and perspective to a current topic.

### Conference Overview

*Part I: Multinationals in Emerging Economies in Historical Perspective*

*Session 1: Overview and Periodization*

Chair: Jessica Csoma (GHI)

Geoffrey Jones (Harvard Business School): Multinational Strategies and Developing Countries in Historical Perspective

Terutomo Ozawa (Colorado State University/Columbia Business School): The Changing Nature of Multinationals' Operations in the Emerging World and their Impacts on Host and Home Countries

*Session 2: Organizational Choices and Foreign Direct Investments*

Chair: Jan Logemann (GHI)

Sierk Horn, Peter Buckley, and Adam Cross (University of Leeds, UK): Japanese Production Networks in India: Spatial Distribution, Agglomeration and Industry Effects

Andrea Lluch and Norma Lanciotti (CONICET and CEHDE-UdeSA, Argentina): Foreign Multinationals in Emerging Markets: The Argentinean Case, 1914-1960

Bram Bouwens and Keetie Sluyterman (Utrecht University, Netherlands): From Colonial Empires to Developing Countries and on to Emerging Economies: The International Expansion of the Dutch Brewery Heineken, 1930-2010

*Part II: Challenges for Multinationals in Emerging Economies*

*Session 3: The Challenge of Weak Institutions*

Chair: Ben Schwantes (GHI)

Marcelo Bucheli (University of Illinois at Urbana-Champaign) and Erica Salvaj (Universidad del Desarrollo, Chile): Multinational Corporations, Public Utilities, and Globalization: A Comparison of the Operations of US and Spanish Multinationals in the Chilean Telecommunications Sector, 1958-2005

Pao T. Kao, Martin Johanson, and William Redekop

(Uppsala University, Sweden): How Do Market-Leading Foreign Subsidiaries in China Overcome Changes in Laws and Regulations and Sustain Their Success? Cases of Swedish Manufacturing Firms

Graham D. Taylor (Trent University, Canada): Canadians in the Tropics: Imperial Oil in Latin America, 1914 à 1948

*Session 4: The Challenge of Nationalism*

Chair: Matthias Kipping (Schulich School of Business, York University, Toronto)

Takafumi Kurosawa (Kyoto University, Japan) and Pierre-Yves Donz   (Osaka University, Japan): Nestl   Coping with Japanese Nationalism: The Establishment and Maintenance Strategy of a Foreign Multinational Enterprise in Japan, 1913 à 1945

Christina Lubinski (GHI Washington DC): Don't Send Your Money Beyond the Seas: Western Gramophone Companies in Bengal and the Challenge of Indian Nationalism, 1900 à 1939

*Session 5: The Challenge of Decolonization*

Chair: Atiba Pertilla (GHI)

Stephanie Decker (Aston Business School, UK): British Multinationals in West Africa: Re-gaining Organizational Legitimacy after the End of Empire

Espen Storli (NTNU Trondheim, Norway): Commodity Trading and Decolonization

Adrian E. Tschoegl (Wharton School, PA): Belgolaise: The Life-Cycle of a Colonial Bank

*Part III: Consequences for Host Countries*

*Session 6: Multinationals and Technology Transfer*

Chair: Uwe Spiekermann (GHI)

Elisabeth K  ll (Harvard Business School): Selling Industrialization and Technological Progress: Foreign Multinationals in China's Post-1895 Emerging Market

David Pretel (European University Institute Florence, Italy) and Nadia Fern  ndez de Pinedo (Universidad Aut  noma de Madrid, Spain): Trading Innovation in Cuba: A Study of Derosne & Cail, 1812 à 1898

*Concluding discussion*

If there is additional discussion of this review, you may access it through the network, at:

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