(New) home-country perspectives on Emerging Multinationals: the case of Chinese and Indian carmakers

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Aim of the paper

- describe emergence of Chinese and Indian producers as key players in the global car industry, with focus on country- and firms-specific advantages and disadvantages
- relate international expansion strategies to the corporate strategies for technological catch-up
- two case-studies – Geely-Volvo in Sweden and Mahindra & Mahindra-Ssangyong in South Korea – exemplify major similarities and differences
- argue that differences in corporate governance, organisation and management help explaining corporate strategies, internationalization trajectories, and diverging outcomes

International expansion as a strategy for technological catch-up by EMNEs

Huge literature about:

- Which knowledge do they have (firm-specific, country-specific)?
- Which knowledge do they lack (not just technology, but also organisational, managerial skills)?
- Where and how do they get it from?
- How (well?) do they absorb it?

Similarities and differences between Chinese and Indian OEMs

similarities mostly related to CSAs: industrial and trade policy reforms specifically targeted at the car sector

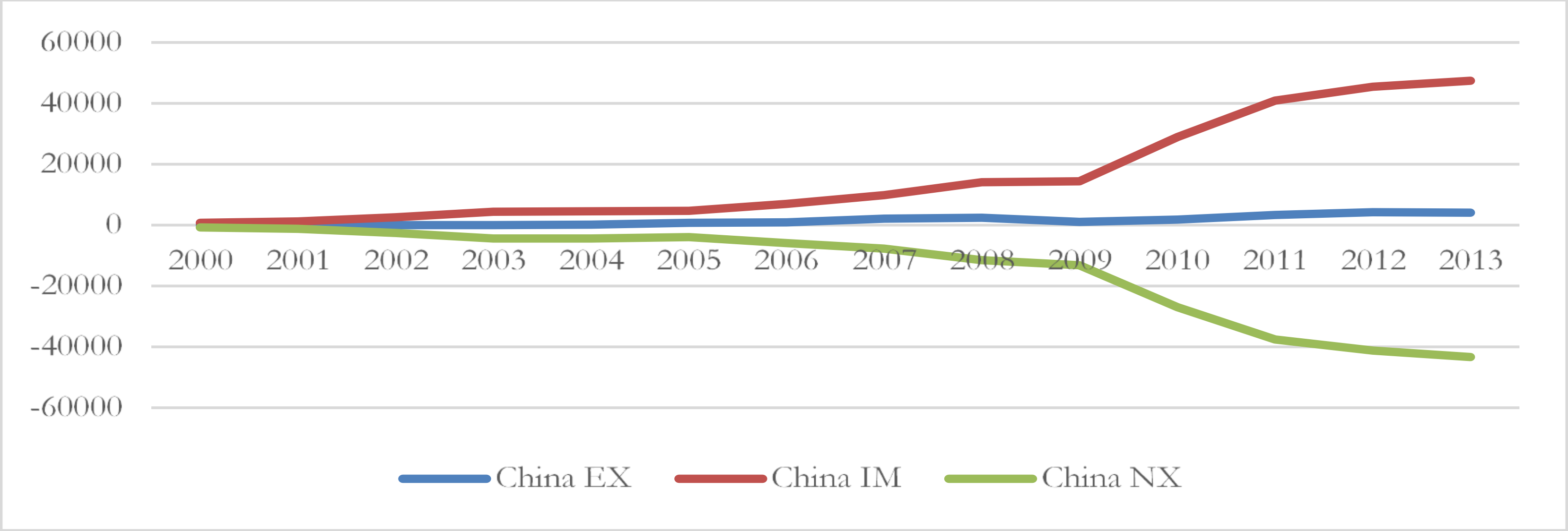
fundamental differences due to diverging FSAs:

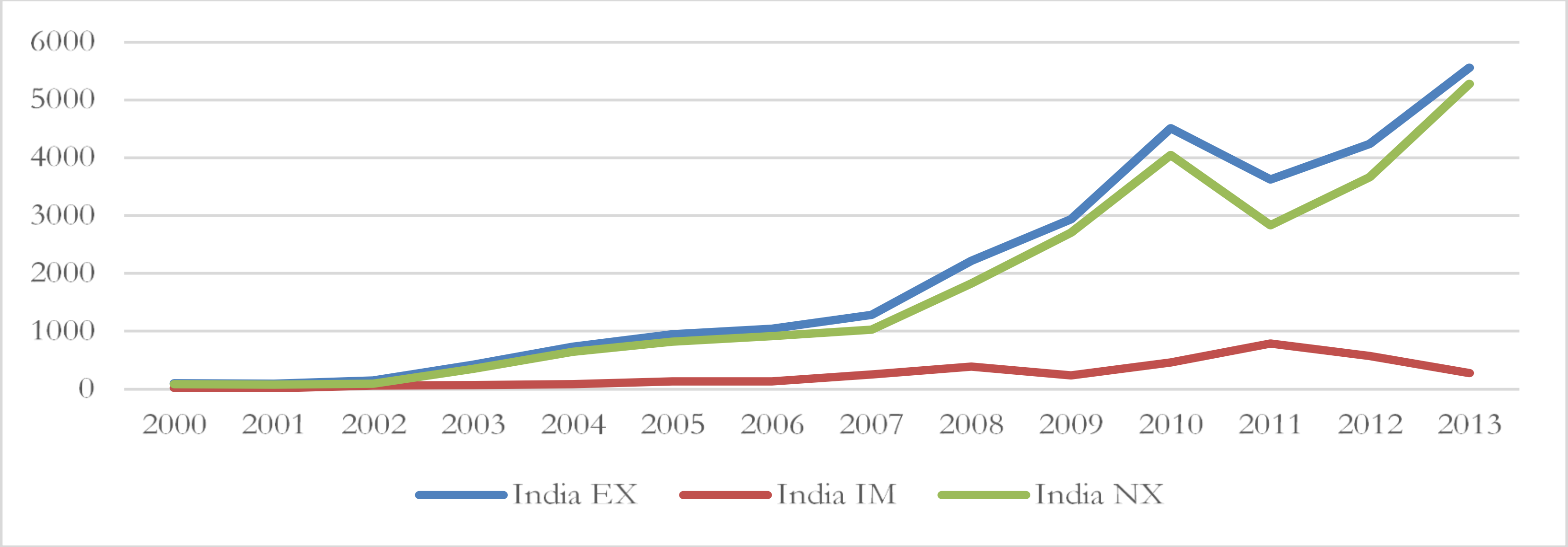
crucial difference related to inward FDI

Chinese restricted global OEMs to joint-ventures with large SOEs aiming at improving technological capabilities but little consolidation of state-owned producers, so still mainly rely on foreign designs and technology

Indians have seen FDI as a tool to enhance production, technological and manufacturing skills so India is now a global source for automotive P&Cs

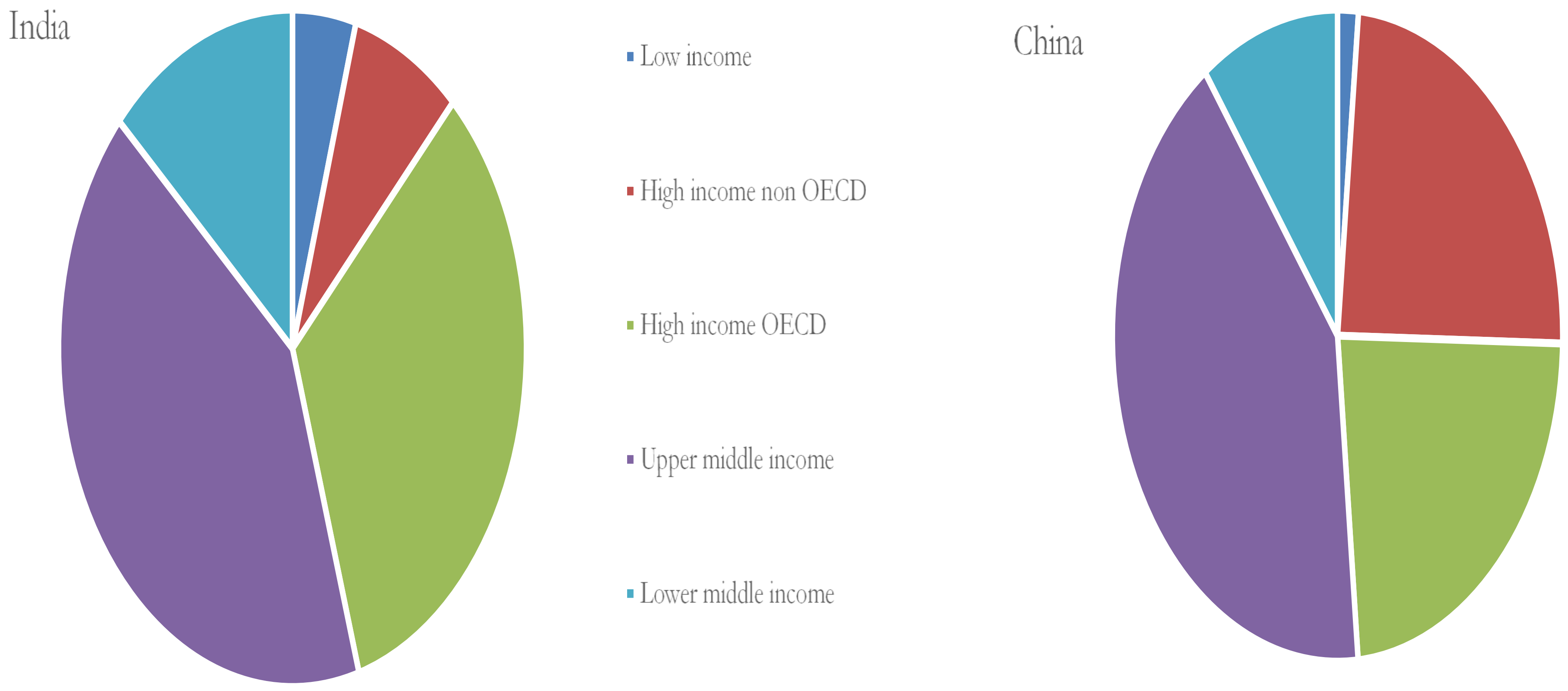
Figure 4 Net trade balance for passenger car trade since 2000 (million USD)





Source: authors' elaboration on UNComtrade

Figure 3 Major destinations of Indian and Chinese passenger car exports in 2013



Source: authors' elaborations on UNComtrade

Table 6 *Overseas production by Chinese and Indian carmakers, 2012*

Overseas production	**thousand vehicles**	**Share of overseas in total production**
FDI by CHINA of which	423	2.7
EU	420	
Other Asia	2	
FDI by INDIA of which	492	15
EU	368	
Other Asia	124	

Source: authors' elaborations on OICA

OFDI: switch from passive to active mode of technology acquisition

The experiences of Geely and Mahindra & Mahindra help explaining how acquisitions of established brands and foreign investments were expected to provide innovation, branding and technology

They have ventured into outward FDI to reduce the passivity embedded in the technological learning model based on “inward” globalisation (Nam and Li, 2012) and upgrade in strategic areas such as engine production and model design

Two cases compared

Ssangyong is roughly one third as large as Volvo

M&M is a long established business group with a number of successful foreign acquisitions and subsidiaries, while Geely is a corporation with much less international experience

Korea has a very different business environment compared to Sweden and the institutional and technological distances between the home and the host markets are also significantly different

Nonetheless, the two case studies also hint at some broad similarities, far beyond the financial strength derived from favourable corporate financials and supportive home market environments.

Gaps in the literature

The literature is largely neglecting a number of factors:

- Organizational aspects
- Managerial practices
- Corporate governance issues

Organisational space matters

- In China, automotive sector's major constituents were once only SOEs with single manufacturing plants, but have become business groups as a result of their catch-up strategy, involving various knowledge and efficiency-seeking activities (Keister, 2000; Nam, 2011). The most successful – SAIC, Chery and Geely – adopted a compact organizational space, while e.g. Dongfeng and FAW did not
- In India, despite more sector diversification within BGs, affiliated firms maintain close proximity through active interactions, collaboration, and resource-sharing, encouraging mobilization and integration of internal resources and promoting group-wide synergy for an effective internalization of acquired assets

Post Merger Integration also matters

PMI is a critical factor when comparing Chinese and Indian overseas investment performance

To the extent that acquisitions in Europe are mainly aimed at getting access to technology, and that technology development is a creative process, different management cultures are a hindrance to success – Chinese highly hierarchical management style is a limitation for European standards

the Chinese do not know how to manage multiculturally, and not just because of a language barrier. Remember the acquisition of German Schneider, by TCL in 2002, based in Shenzhen. It was a disaster, followed by a bigger disaster in 2004, with Thomson (TMS) in France, which they also destroyed

Corporate governance aspects

- Indian companies aspiring to become world-spanning multinationals demonstrate better corporate governance than their Chinese rivals
- Much as their societies and political systems are different, are Indian and Chinese companies complete opposites when it comes to corporate governance
- Indian firms have to be accountable to shareholders and all the other stakeholders, although in a much softer way compared to the U.S.
- In China information acquisition is rather difficult, because you often get a clean story but the story isn't always right

(In)dependent boards?

- more independent boards of directors in India, where some companies are better governed than companies in the West in terms of how quickly they disclose things and how quickly they comply with Nasdaq norms
- the financial markets still don't work in China in the sense that we think, the market is not putting pressure on managers to behave in ways that approximate corporate governance in the West; most of the boards are still answering to the Communist Party

Back to the two cases

Both Geely and M&M enjoy specific FSAs that can successfully compensate for firm and country disadvantages of emerging multinationals:

Business models that allowed activating the specific skills of the acquired firms - be them organisational, technological, managerial or marketing skills

No transferring its management style to the acquired firm and to have it become an executive branch of the parent firm, but both shared the local management identity and style (crucial difference between Geely and SAIC)

Post-merger integration to create synergies with the acquired firms, with the ultimate aim to extend the product range and target markets and not (simply) a vehicle for improving growth and profitability of the parent company

No conventional post-merger management models – such as complete integration, or separation or assimilation of the two firms – instead cross-fertilisation of business models and management styles that allowed benefitting from each other's strengths while preserving differences in corporate cultures

Better understanding of Indian and Chinese EMNEs

The analysis of the car industry contributes to our understanding of the corporate, markets and institutional dynamics of the emergence of Indian multinationals.

Ssangyong's acquisition in 2011 was rather risky in terms of post-merger integration due to the previous SAIC experience. The corporate turnaround owes a lot to M&M business model and strong emphasis on creating synergies and leveraging competences without engulfing the acquired firm.

traditional Indian CSAs (resource endowment, cheap labour force and institutional depth, at least compared to China) were insufficient to achieve technological upgrading and were aggravated by some CSDs (unfavourable national image). Also some FSDs (absence of economies of scale) prevented further cost reduction.