



Multinational Enterprise Acquisitions in Emerging Markets: Linkage Effects on Local Firms

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THE PROJECT

MNE acquisitions in emerging markets: The impact on local firms

- ESRC funded project 2005 - 2009, UK service firms in five emerging markets (Argentina, Brazil, China, Korea & Malaysia)
- Interviewed HQs, subsidiaries, local suppliers and policy makers in emerging markets (74 interviews)
- Output: Three papers in the review process, Special issue of JWB, 1 PhD dissertation and a couple of papers in the writing up stage
- Used N*VIVO to analyse qualitative data
- A new application for funding to test the model.

Definitions and Previous Literature

What are linkages?

'Direct relationships established by firms in complementary activities which are external to 'pure' market transactions' (Lall 1980:2)

Focus of literature so far has been on:

Determinants of linkages
FDI and linkages in manufacturing industries
Linkages in LDCs – technology transfer
Linkages in Developed countries
Technology and Linkages

Research Calls

- Linkages – are considered positive for host economies and firms but it is not confirmed. Also, the problem is to capture how they really work (UNCTAD 2001, 2007), (Lall 1980)
- The Service Sector – Is growing in size and importance and is increasingly internationalizing and there may be potential for linkages. There is a need to discover more about trends in this area (Dunning 1989), (UNCTAD 2004)
- FDI & Acquisitions – There has been a wave of acquisitions of Asian firms (since Asian crisis) and there is a need to discover the impact of this on local firms (UNCTAD 2000 & 2004)
- Emerging Countries – have different institutional and environmental conditions and should not be bundled up with LDCs (UNCTAD 2007).

Research Questions

1. What is the distinct nature of linkages between UK service multinationals and host country firms?
2. How do linkages in the service sector change following FDI over time? Are they deepened, widened or abandoned?
3. What is the impact of forming service sector linkages on host country suppliers?

Previous Studies and Methodologies used

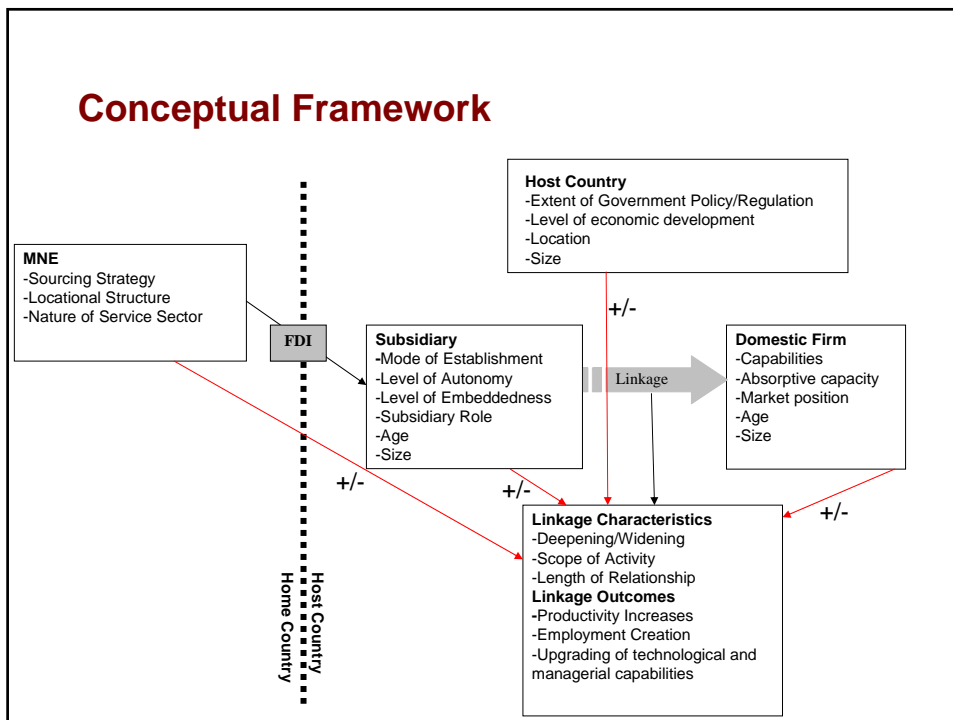
Methodology	Main authors
Case Study	Lim & Pang 1982; Awuah 1997; Aya 2004; Ivarsson & Alvastam 2005, Li & Yeung 1999, Miozzo & Grimshaw 2006, Nachum & Keeble 2003, Okada 2004, Giroud 2007
Industry Level	Kelegama & Foley 1999; Dries & Swinnen 2004
Survey	O'Farrell & O'loughlin;; Belderbos et al 2001; Scott-Kennel 2007; Giroud 2003; Lorentzen et al 2003, Angel 1994, Barkley & McNamara 1994, Chen & Chen 1998, Chen at al 2004, Driffield & Noor 1999, Scott-Kennel 2007
Panel Data/Input-Output Tables	Ahuja 2000, Castellani & Zanfei 2002, Gorg & Ruane 2001, Ditzenbacher 1991, Midmore et al 2006, Blalock & Gertler 2003, Javorcik 2004, Gorg & Ruane 1997

Types of Linkages Explained

Form	Backward Linkages and other relationships between foreign affiliates and local enterprises and organisations			Relationship of foreign affiliate to non-business institution
	Relationship of foreign affiliate to local enterprise			
	Backward (Sourcing)	Forward (Distribution)	Horizontal (co-operation in production)	
"pure" market transaction	- "off-the-shelf" purchases	- "off-the-shelf" sales		
Short-term linkage	- Once-for-all or intermittent purchases (on contract)	- Once-for-all or intermittent sales (on contract)		
Longer-term linkage	- Longer-term (contractual) arrangement for the procurement of inputs for further processing - Subcontracting of the production of final or intermediate products	- Longer-term (contractual) relationship with local distributor or end-customer - Outsourcing from domestic firms to foreign affiliates	- Joint projects with competing domestic firm	- R&D contracts with local institutions such as universities and research centres - Training programmes for firms by universities - Traineeships for students to firms
Equity Relationship	- Joint venture with supplier - Establishment of new supplier-affiliate (by existing foreign affiliate)	- Joint venture with distributor or end customer - Establishment of new distribution affiliate (by existing foreign affiliate)	- Horizontal joint venture - Establishment of new affiliate (by existing foreign affiliate) for the production of same goods and services as it produces	- Joint public-private R&D centres/training centres/universities

Table 1: Adapted from UNCTAD 2001:131 1

Conceptual Framework

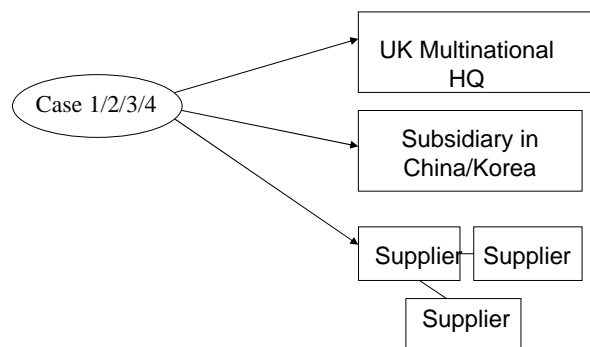


Cases

UK/China	UK/ Korea
Tesco/Hymall (Retail) Kingfisher/B&Q (Retail) Reed Elsevier (Publisher) HSBC (Bank)	Tesco/Tesco-Samsung (Retail) Kingfisher/B&Q (Retail) WPP (Advertising) HSBC (Bank)

Scope of Case Studies in this paper

More than 25 in-depth interviews at different levels



List of Respondents

Case Type	Companies and Respondents			
Chinese Cases	1	HSBC UK (Head of Strategic Finance)	HSBC China (Chief Executive Officer China)	-Bank of Communications (Executive Vice President) -PCCC Card Centre (CEO)
	2	Kingfisher UK (Head of Corporate Development)	B&Q China (Senior Director Buying Support)	-Nippon Paint (Director, Supply Chain management) -Kohler (National Sales Manager – Retail)
	3	Reed Elsevier UK (Senior Associate, Corporate Strategy)	Reed Elsevier (Account Manager) Reed Elsevier S&T China (Chairman)	-CB Richard Ellis (President and CEO Greater China)
	4	Tesco UK (Int'l Operations & IT Director)	Tesco Hymall (President)	-Jahwa (Key Account Department Managers)
Korean Cases	1	HSBC UK (Head of Strategic Finance)	HSBC Korea (President and CEO)	-JWT advertising (Client Service Director and VP)
	2	Kingfisher UK (Head of Corporate Development)	B&Q (President)	-Phillips (Business Lamp Unit Manager) -Bosch (Key Account Manager & Section Manager) -Local supplier (CEO)
	3	Tesco UK (Int'l Operations & IT Director)	Tesco-Samsung x2 (VP Business Planning team)	-Phillips (Business Lamp Unit Manager) -Bosch (Key Account & Section Manager)
	4	WPP UK (Director of Strategy)	LG Ad (Investor Relations Manager)	No

Data Analysis

- Interviews transcribed and coded using N*VIVO
- N*VIVO helped us to reduce the data in terms of our model - and to do the analysis in a systematic manner
- Makes our conclusions more trustworthy

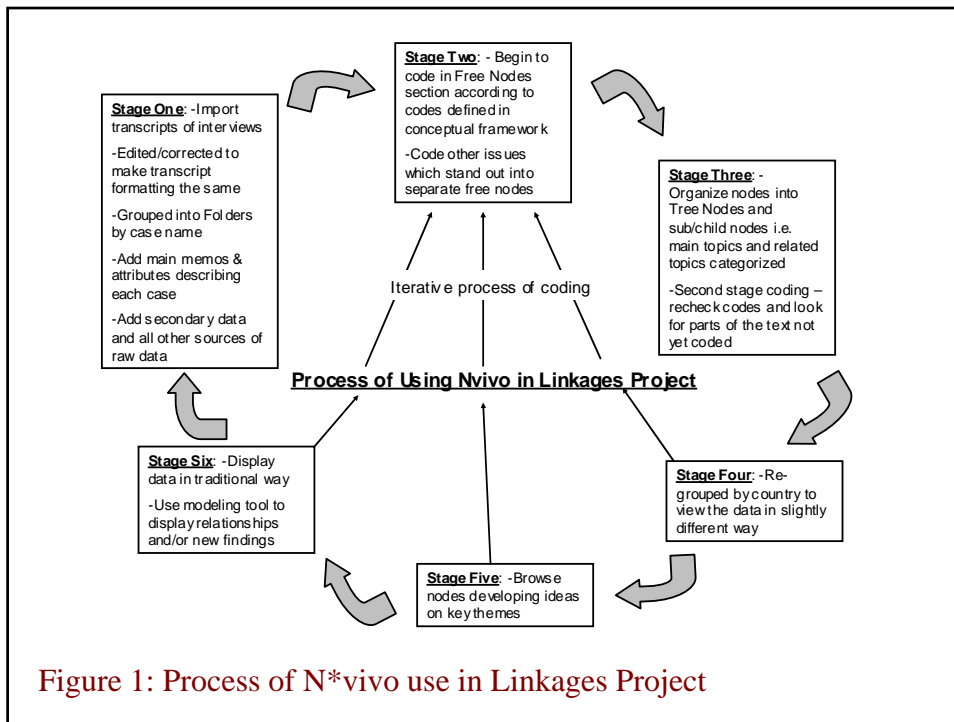


Figure 1: Process of N*vivo use in Linkages Project

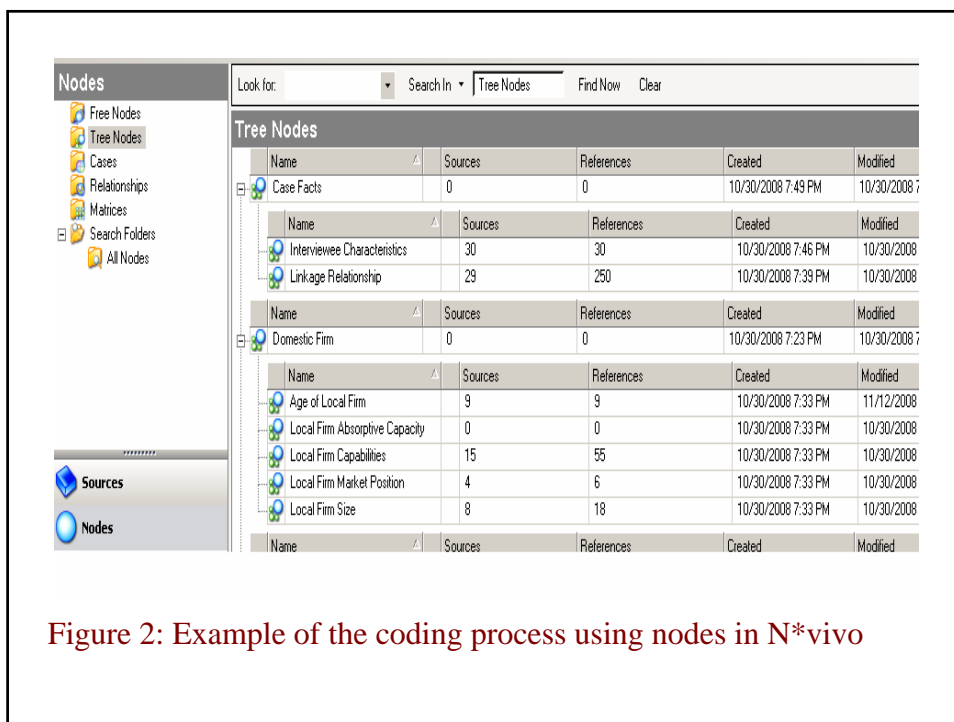


Figure 2: Example of the coding process using nodes in N*vivo

Findings: B&Q



- Growth in both China and Korea
- A large variety of linkages mainly with local suppliers in both Korea and China 70% of goods would be sourced locally and 30% would be imported
- Relationships developed over time and China has developed into a particularly important sourcing area due to their activity in Asia
- Korean Sourcing office may allow them to develop deeper linkages within Asia
- Global sourcing is done for high tech products i.e. power tools
- Asian suppliers also used to supply for Europe
- Largely local management in Asia
- Linkages have been deepened.

Findings: Tesco



- 50/50 JV with Hymall in China, with Samsung in Korea
- Food sourced locally, non food globally
- Highly standardized back office although logistics done locally
- Distribution has been radically altered by Tesco's standardized logistics processes – implications for local distributors as these are largely being bypassed
- No deep or significant commitment to suppliers indicated in the interview i.e. some training provision but competition more important.
- Personal finance linkages with Samsung

Findings: HSBC



- Started 141 years ago, in 1865 in Shanghai and Hong Kong
- Provide full range of banking services
- Grown both organically and made strategic investments
- Deep commitment to the local market in both China and Korea
- A range of both local and global linkages – local linkages with local banks in China supplying credit cards/ATM replenishment/insurance products
- Local suppliers of legal and property management services
- Global linkages are mainly with DHL and advertising agencies, the local offices however.

Findings: Reed Elsevier



- Investment in local market made because of market opportunity – suggested by other contacts in the market.
- Elsevier been in China since 2000
- Databases 'science direct' big part of the Beijing Business
- Have linkages with book agents and local publishers and prints of for instance medical journals
- Market highly regulated
- Low integration in the market as a whole perhaps due to the above

Table 1: Evidence of Linkage formation in HSBC & B&Q

Firm	Linkage	Sector	Type of Linkage		Nature of Relationship
HSBC China	WPP	Advertising	Global	Forward	\$800m global contract
	Household	Administrative Services	Global	Backward vertical	Acquired for \$14.2bn
	Bank of Communications (BOCOM)	Banking	Local	Horizontal	19.9% ownership
	Pacific Credit Card Centre	Banking	Local	Backward vertical	Owned by BOCOM
	Ping'an Insurance	Insurance	Local	Horizontal	19.9 % ownership
	Bank of Shanghai	Banking	Local	Horizontal	8% ownership
	Shanxi securities	Fund Management	Local	Horizontal	19.9 % ownership
	MOW	Risk management consultancy	Global	Backward vertical	Global contract
	IBM	IT Solutions	Global	Backward Vertical	Global Contract
HSBC Korea	WPP (JWT Adventure)	Advertising	Global	Forward?	\$800m global contract
	Household	Administrative services	Global	Backward vertical	Acquired for \$14.2bn
	DHL	Logistics	Global	Forward	Global contract

Continued.....

	Nippon Paint	Paint manufacturer	Global	Backward vertical	Asia contract
	Kohler China	Bathroom manufacturer	Global	Backward vertical	Standard Supply
	ICI	Paint manufacturer	Global	Backward vertical	Standard Supply
	American Standard	Bathroom Manufacturer	Global	Backward vertical	Standard Supply
	Haier	Electronics?	Local	Backward vertical	Standard Supply
	SCS	Quality control	Local	Backward	Standard Supply
B&Q Korea	Philips Korea	Lighting	Global	Backward vertical	Standard Supply
	Bosch Korea	Tools	Global	Backward vertical	Standard Supply
	DHL Korea	Logistics	Global	Forward	Global contract
	ENEX,	B&Q China	Local	Backward vertical	Standard Supply
	Shinwha	Window Decor	Local	Backward vertical	Standard Supply
	Staami	Storage/Shelving manufacturer	Local	Backward vertical	Standard Supply
	BIF	Furniture manufacturer	Local	Backward vertical	Standard Supply

Table 2: Changes in linkage characteristics over time for HSBC China

Firm	HSBC in China			Summary of Evidence
	MNE HQ Interview +/-	Subsidiary Interview +/-	Supplier Interviews +/-	
Deepening*	++	+++	+++	High levels of upgrading plus equity investment in suppliers
Scope of Activity	-	+++	+++	Keen interest in expanding collaboration in many areas with suppliers
Length of Relationship	-	+++	+++	Relationships are generally long lasting and are not changed due to JVs

* Deepening is defined as the efforts by firms to upgrade existing linkages by helping to improve supplier capabilities (UNCTAD 2001:XXV)

Table 3: Changes in linkage characteristics over time for HSBC Korea

Firm				Summary of Evidence
	MNE HQ Interview +/-	Subsidiary Interview +/-	Supplier Interviews +/-	
Deepening	++	-	+	Low levels of evidence of upgrading or investment into local suppliers
Scope of Activity	-	+	+	Linkages in very few specific areas which are tightly controlled
Length of Relationship	-	++	++	Linkages are relatively long lasting but would be curtailed on the basis that better, more competitive offers were made.

Conclusions

- We conclude that there are a number of inter firm linkages to be seen in the service sector although to varying degrees
- Local suppliers are preferred in general or at least promoted but cannot always be used due to competitive pressures and HQ strategies
- Acquisitions and length of time since acquisition seems to have a significant impact on the nature of linkages which is the case in most cases (deepening)

Contribution

- Comparative work across Asian emerging markets not yet examined in terms of linkages
- 'Research should not only study MNE HQ and the subsidiaries but should collect microeconomic data from all the linked enterprises' (UNCTAD 2004) - which this study does
- Study confirms that services MNEs can also contribute towards local linkages (positive impact on local firms)
- We demonstrate that N*VIVO is a good tool to analyze textual qualitative data (see for example: Ghauri & Firth, Der Markt, 2009 and Sinkovics, Ghauri & Penz, MIR 2008).
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