The impact of Home and Host Country Institutions in the Internationalization of an African Multinational Enterprise

By Johh M. Luiz, Dustin Stringfellow and Anthea Jefthas

We demonstrate that firms can exploit their knowledge of ‘weak’ institutional settings and turn it into a source of advantage as they internationalize into locations with similar institutional ‘weaknesses.’ Using the case of one Africa’s most successful multinational enterprises we illustrate the value gained from initially capitalizing upon institutional complementarity (utilizing the comparative advantage linked to institutional know-how) by exploiting the experience of the home country’s environment into similar settings. Over time and through learning-by-doing, pressure arose to diversify the risk linked with over-exposure to institutional uncertainty and country risk, and this was associated with the process of institutional substitution into more advanced countries. We see an emerging multinational learning and building its capabilities by leveraging off its understanding of its home country institutional environment.

Our work builds on that of Landau et al. (2016) and Martin (2014) who examine home country institutions as a source of comparative and competitive advantage in internationalization but question how and why some companies are able to leverage off local institutional benefits whilst others are unable to do so? Moreover, how do firms exploit domestic institutional advantages and when is this exploitation of particular relevance? We show how SAB was able to build on its initial firm specific advantages (FSAs) and combine them with their country specific advantages (CSAs), related to understanding how to do business in milieus of institutional uncertainty (due to their home country knowledge of such institutions), and thereby construct further distinctive resource advantages. This gave it both a comparative and competitive institutional advantage in its process of internationalization and it chose it locations in such a way as to capitalize upon these advantages at distinct phases. Landau et al. (2016: 52) term this ability as institutional leverage capability (ILC) which they state explains the heterogeneity amongst firms with respect to their ability to exploit these domestic institutional benefits and leverage them into firm-specific competitive advantages. They, however, rely on German cases to demonstrate favorable home country institutions (such as the dual education system) which are more noticeably and traditionally advantageous. Few would take issue with the argument that stable, well run institutions are a source of advantage. We, however, demonstrate that EMNEs can exploit their knowledge of, what would in institutional theory be perceived as, weak institutional settings and turn it into a source of advantage as they internationalize into locations with similar institutional ‘weakness’. Over time they are able to construct further resource advantages and move into countries with less familiar institutional environments. In this way we both complement and extend the work of Landau et al. (2016) into emerging markets.
In terms of implications for practice, we concur with Landau et al. (2016: 64) that when internationalizing firms should consider not only the host country’s institutional environment but also be aware of potential institutional benefits that its home country could offer. However, these benefits are not automatic and to capitalize upon this they need to develop their institutional leverage capability. We show that EMNE managers can turn a source of potential disadvantage, namely home country institutional uncertainty, into a source of advantage.

The work has implications for developed MNE (DMNEs) strategies too. It suggests that their FSAs do not necessarily translate equally well into emerging markets with high levels of institutional voids. These DMNEs may find themselves as proverbial ‘fish out of water’ as they struggle to capitalize upon these advantages in this environment. As growth continues to dominate in emerging countries it therefore implies that we are likely to continue seeing the disproportionate rise of MNEs from emerging markets as this growth plays to their strengths. Africa represents a particularly extreme institutional and business environment and thus DMNEs are likely to struggle to adapt. This may explain why when Walmart in 2011 decided to enter Africa it chose to do so by buying a 51% stake in Africa’s second largest retailer, Massmart from South Africa, rather than go it alone. Likewise, it may explain the offer by AB InBev to acquire SABMiller in late 2015. Africa is thus fertile territory for expansion of EMNEs. But DMNEs are rapidly building their capabilities in doing business in emerging markets in the context of institutional voids and this experience will be put to the severe test in Africa. Acquiring nascent MNEs arising out of Africa is likely to be a growing trend as DMNEs ‘purchase’ the expertise and footprint that these African companies possess.

References: