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SWP 14/93 GROWING COMPETITIVENESS OF CORPORATIONS FROM THE DEVELOPING WORLD: EVIDENCE FROM THE SOUTH

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GROWING COMPETITIVENESS OF CORPORATIONS FROM THE DEVELOPING WORLD: EVIDENCE FROM THE SOUTH

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Corporations owned and based in the emerging nations of the non-OECD developing world are a growing competitive force in the contemporary global economy. Over the last twenty years, these firms have begun to expand internationally into a variety of markets in both the developed and developing world. In the past research into the performance, and characteristics of multinationals has concentrated almost exclusively on those corporations owned and based in the developed world, and relatively little has been written about the character and performance of locally-owned corporations based in the non-OECD developing world. In order to help develop our understanding of such firms this paper provides an introductory analysis of the South 600.

The SOUTH 600 was a ranked list of the major companies based in the developing world published by SOUTH magazine between 1985 and 1991. It was modelled on the Fortune 500, and provides evidence of the changing pattern of corporate performance of companies owned and based in the developing world. This paper examines the composition of the SOUTH 600, reviews the underlying trends and research issues raised by such a listing of corporate performance, and assesses the comparative position of companies on the list owned and based in the countries of the ASEAN region.

Most of the existing research into companies from the developing world has focused on those that compete internationally, and have established markets and subsidiaries in the developed world. Researchers have referred to these firms as either "Third World Multinationals" (Lall, 1983; Wells, 1983; Heenan & Keegan, 1984), "Multinationals from the South" (Khan, 1986), or "Multinational Enterprises from Developing Countries (MEDECS)" (Vernon-Wortzel & Wortzel, 1988). Such firms include the Korean-owned Lucky Goldstar, Samsung or Hyundai, Sime Darby of Malaysia, San Miguel of the Philippines, Oberoi from India, and Singapore Airlines.

However surprisingly little has been written about those locally-owned corporations based in the non-OECD developing world that have grown by concentrating on their local markets. Such firms can be referred to as developing nation-based corporations (DNCs) in order to distinguish them from those "Third World multinationals" or "MEDECS" which operate internationally. It is estimated that two-thirds of the companies listed on the SOUTH 600 could be classified as DNCs.

THIRD WORLD MULTINATIONALS AND DNCs

Researchers have attempted to identify the distinctive characteristics of locally-owned corporations based in the developing world. Lall in a study of multinational companies from four developing countries identified a number of characteristics that distinguished them from multinationals based in the developed world. First, his research suggested that their organization structures and marketing systems were not sufficiently sophisticated to allow them to compete successfully in key European or American markets; and second, that they did not have access to suitable "frontier technology" to give them the necessary competitive edge internationally.

However Lall's research does suggest that many of these firms successfully overcame these constraints by: first, assimilating a diverse range of imported technology which they adapted to suit their own particular market niche; second, developing specialist knowledge on how best to market a range of relatively undifferentiated products in the Third World; and third, by developing the necessary management skills and experience needed to operate successfully in the rapidly changing business environment of the developing world (Lall, 1983).

Vernon-Wortzel and Wortzel in their review of the characteristics of what they call Multinational Enterprises from Developing Countries (MEDECS) suggested that such firms could be clearly differentiated from there first world counterparts. First, because they only had a tiny share of the international market, while maintaining a dominant share of their domestic markets; second, because they invested less in capital technology and were clearly more labour intensive; and third, because they were geared to producing a range of products concentrated at the lower end of the market from smaller production runs. (Vernon-Wortzel & Wortzel, 1988. See Appendix 1 for a more detailed review of the modal characteristics of MEDECS as compared to those of multinationals based in the developed world).

This study suggests that many of these corporations grew because they have ready access to a range of resources, cheap labour, and protected domestic markets. Vernon-Wortzel & Wortzel argue that "MEDECS" enjoy economies of scale and low costs that give them a price advantage when they compete internationally. Their comparative advantage is therefore not activity-, nor firm-specific, but as a result of their location in the non-OECD developing world.

However, a key question must be whether these companies can sustained this international advantage over time. By the end of the decade all projections suggest they will face increasing competition from low cost competitors based in China, India or Vietnam. This has major strategic implications for companies based in, for example, Mexico or Malaysia, and implies that only those who develop the skills, adapt to new technologies, and adjust to changing global markets will survive profitably. Taiwanese, Korean, and Singaporean companies seem to have successfully addressed this strategic dilemma by emphasising quality, investing heavily in research and development, and gearing themselves to produce higher value products for international markets.

THE GROWTH OF THIRD WORLD MULTINATIONALS AND DNCs

All the evidence points to the rapid increase in the number of large successful corporations based in the non-OECD developing world. Khan, for example, estimated that there were a thousand of what he calls "Multinationals of the South" in 1985, in comparison to only a handful ten years earlier in 1975 (Khan, 1986). An analysis of the SOUTH 600 companies reflects a similar trend. The 1985 SOUTH listing identified 81 companies with an annual turnover in excess of US$1 billion, whilst in 1989 there were 123 companies with a similar annual turnover on the list (an increase of over 50% in four years).

The growing influence of these DNCs and Third World multinationals is all the more remarkable in light of the economic conditions prevalent in much of the developing world during the 1980s. It has been referred to as the "the lost decade" by many development economists because of the impact of the debt crisis, the threat of rising protectionism, and the disastrous affects of inflation, falling commodity prices, and currency fluctuations. Yet it should be noted that during this period that growth rates in many developing countries far exceeded those in the developed world, and that gross inflows of foreign direct investment into the developing world grew from US$7 billion in 1975 to US$43 billion in 1991 (The Economist, June 20, 1992). It is against this contradictory pattern of high growth rates in some developing countries and economic dislocation in others that the performance of the DNCs over the last twenty years should be judged.

A number of commentators have highlighted the growing influence of corporations based in the developing world. In the early 1980s Heenan and Keegan warned chief executives of major multinationals based in the developed world to take the threat posed by "Third World multinationals" seriously. They suggested that such companies were an increasingly competitive force that might in time either be the source of a possible take-over bids, or become potential partners for strategic alliances (Heenan & Keegan, 1984).

Recent evidence suggests that many companies based in the non-OECD developing world have formed joint-ventures or made strategic alliances with major multinationals in order to adopt new technologies, develop new product lines, and enhance market share. For example in the motor industry, Suzuki has signed agreement with the Indian company Maruti that allows them to use Japanese technology and designs to manufacture cars for the domestic Indian market; and similarly Mitsubishi has long-standing agreements with Proton in Malaysia and Hyundai in South Korea. These firms have obviously benefited from having access to state of the art technology, specialist components, and designs which otherwise they would not have been able to exploit.

It should also be recognized that some of the more dynamic of these companies are now strong enough, both managerially and financially to take over established brand names. For example in 1989 the Singer Sewing Machine Corporation of the US (the world's largest maker of sewing machines) was taken over by Semi-Tech Microelectronics of Hong Kong, while Yeo Hiap Seng of Singapore joined forces with the Singapore government's investment arm Temasek to take over the US canned food producer Chun King. Research by Peng Eng Fong & Komaran suggests that Singaporean companies have in the past adopted relatively low risk strategies in their efforts to expand internationally. They often worked through family contacts and made full use of government support. Most investments were made locally in South-East Asia, and were commonly geared to joint ventures in which they held only a minority interest (Peng Eng Fong & Komaran, 1985). Recent international expansion has been similarly circumspect, and has benefited from the support of government agencies that have been mandated to help implement Singapore's globalization policy, such as the Economic Development Board, Singapore Technologies, or Temasek Holdings.

The pattern of government support for well-connected locally-owned companies is well established in most developing countries. It is characterised by subsidised finance, tariff support, protectionism, preferential foreign exchange regulations and investment in local infrastructure. There is also evidence to suggest that politicians have helped some companies to win major overseas contracts because of their desire to promote Third World solidarity; and there are examples of where the government of one developing country has given preferential treatment to a firm from another developing country to enable them to win major contracts (Wells, 1983). It has also been suggested that international agencies like the Asian Development Bank, UNCTAD and UNIDO have aided the expansion of local corporations into the international arena through preferential support, subsidised finance and targeted investments (Heenan & Keegan, 1984). In light of this close relationship between government and business in the non-OECD developing world any analysis of the companies on the SOUTH listing should recognize the susceptibility of many of these companies and their managers to political change and government patronage.

THE SOUTH 600

Between 1984 and 1991 SOUTH magazine produced a list of the largest companies in the Third World. The ranking was based on sales turnover in US dollars, and is obviously modelled on the Fortune 500, an annual ranking of the world's major corporations published by Fortune magazine. SOUTH magazine was established to review and analyse issues of direct relevance to businesses operating in the developing economies of the Third World. One issue commonly featured in the magazine was the way that corporations owned and based in Third World have adapted and grown to capitalize on market opportunities in the increasingly competitive markets of the developing world. An analysis of the SOUTH 600 highlights the growing competitiveness of these corporations from the emerging nations of the developing world, and provides empirical evidence of the changing patterns of business activities in which they are involved. The SOUTH listing should therefore be seen as a valuable tool to help measure these trends and predict future competitiveness.

The SOUTH list is made up of only those companies owned, controlled or managed by Third World nationals or governments. Subsidiaries of western multinationals were not included, nor were corporations whose major management decisions are taken by senior management located in the North. Consequently, some substantial enterprises were excluded even though a majority of their shares were owned locally. Thus, for example, UAC Nigeria or Guinness Nigeria were not on the list because they were seen as an integral part of Unilever's corporate decision making structure. Another group of companies which were not included were those owned by Third World nationals and which were effectively based in the developed world, such as Caparo Holdings or Polly Peck. Similarly excluded were companies registered in a developing country for economic convenience or tax purposes, such as Schlumberger in the Netherlands Antilles or Syntex in Panama.

It should also be noted that because of the complex organizational and share holding structures of some of the companies listed allowance should be made for the fact that in some instances both holding companies and their major subsidiaries were included on the listings . For example, all the Zambian companies in the 1985 SOUTH 600 were an integral part of the same corporation, Zimco. For the same reason, and because of the dominant role of diversified business groups or chaebols in the South Korean economy, the number of South Korean companies in all the annual listings is perhaps artificially inflated. Also by the nature of the close relationship between government and the corporate sector in many developing countries a disproportionate number of the companies on the list were government owned parastatals or had government as a major shareholder (for example, 45% of the top 200 companies in the 1989 list were such parastatals).

The ranking in the list is based on sales turnover figures converted into US dollars at the prevailing rates of exchange with 1983 as the base year. The list compilers recognized that in some cases conversion into US dollars might have skewed a companies total sales figures in a way that might not have occurred if national currencies had been used. But they justify the use of the US dollars as the base currency by arguing that conversion into dollars at the prevailing rates of exchange was the only reliable, internationally accepted, indicator of a company's performance.

The compilers also recognize that there would be concern at the accuracy of some of the data used. They accept that the sales turnover data could be subject to a certain margin of error because of the lack of standardized international accounting practices, differing measures of total sales, and suspect reporting procedures. Certainly a number of country anomalies appear in any longitudinal analysis of the data. These problems do raise questions as to the overall reliability of the data, and therefore the validity of the SOUTH listings. However the compilers argue that despite these problems the list provides a reasonably accurate overview of corporate performance in the developing world, and that many of the inherent distortions have been weeded out over the eight years that the records were kept. Wherever possible SOUTH staff used data supplied by the companies themselves, supplemented by press and business reports, to update their records of the principal companies included on the list.

A number of research questions about the value of the SOUTH 600 still need to be resolved. These include: how appropriate is the SOUTH listing in assessing the growing competitiveness of corporations from the emerging nations of the South ? What methodological problems do researchers face in using the SOUTH list, and to what extent do these impact on their validity in assessing corporate trends ? How much does the SOUTH listing accurately reflect the corporate structure in the developing world ? To what extent does the SOUTH listing reflect patterns of corporate decline, growth, consolidation or expansion ? And, finally, what lessons can policy makers, development planners, and business strategists working in the developing world learn from the pattern of corporate growth and sectoral change reflected in these SOUTH listings ? More detailed research is obviously needed to address many of these issues, and assess the overall value of the SOUTH 600 as a research tool.

SOUTH 600 AND CORPORATE TRENDS

The SOUTH 600 between 1985 and 1989 was dominated by corporations from four countries: Brazil, South Korea, Taiwan and India. In 1989 companies from these countries accounted for two thirds of the companies represented on the list (see Tables 6 & 7). A longitudinal study of the data points to the increase in the number of Indian and Taiwanese firms, and a gradual reduction in the number of companies from South American countries. In fact the majority of South American firms were increasingly concentrated at the lower end of the SOUTH listing during this period, while an increasing number of firms from South-East Asia could be found in the list's top quartile. This is partly the consequence of economic growth in the region and the increasing competitiveness of these companies, but also the result of a process of corporate restructuring and consolidation.

The number of Asian-based corporations on the SOUTH listing rose from 41% in 1985 to 53% in 1989, while the number of companies registered in South American countries dropped from 47% in 1985 to 33% in 1989. There was also a striking lack of African-based companies on the list - less than 5% in 1989. In general this trends points to a dramatic shift in the centre of corporate gravity towards Asia. A trend also reflected in the redistribution of direct foreign investment (FDI) from South American to Asian countries. Latin America's share of FDI dropped from 51.4% in 1975 to 28.1% in 1991, while Asia's share rose from 27.1% in 1975 to 60.2% in 1991 (The Economist, June 20, 1992).

Furthermore, there were some dramatic sectoral changes reflected in the listings. For example, in 1985 nine out of the top ten corporations on the SOUTH list were government-owned oil companies, while by 1989 four of the top ten companies were South Korean manufacturing and trading corporations (Samsung, Lucky-Goldstar, Daewoo, and Sunkyong). This not only points to Korea's rapid industrialisation, but also reflects the threat posed by such companies to multinationals based in the supposed "industrialised" nations of the developed world which traditionally dominated the manufacturing sector. Moreover, the make-up of the companies on the SOUTH list reflects a general move away from primary production to manufacturing. This can be seen in the growing number of companies on the list involved in chemical production, food-processing and manufacturing generally, and the dramatic decline between 1985 and 1989 of firms based in the agriculture or mining sectors.

But it is in the service sector where the greatest growth is expected in the next twenty five years. It is estimated that two-thirds of the companies listed on the SOUTH 600 were locally-based utilities or service providing DNCs. In 1989, nearly 70% of the companies in the top 200 companies could be classified as such DNCs, a high proportion of which were parastatals dependent on government support and protected domestic markets. All projections for the service sector predict rapid growth with demand being fuelled partly by economic development and associated structural changes, but also by continued population growth (the population of the developing world is expected to double by 2020). It is also predicted that this growth in the service sector will result in more service providing DNCs competing internationally. However, it should also be noted that the growing demand for utilities and services will be a lucrative market for those global multinationals who can provide the technology, management services and operating skills needed to support this burgeoning service sector.

Such macro-predictions can be deduced from the general trends underlying the SOUTH listings, but it should be recognized that political or economic factors may also have a negative impact on corporate activity in the developing world. Thus, for instance, in South-East Asia what will be the long-term repercussions of the current dispute between six regional countries over the oil-rich Spratley Islands in the South China Sea ? or the consequences for ASEAN companies of an expansionist, economically powerful China ? or the implications of current Chinese policies on Hong Kong's obviously successful corporate sector?

In contrast new political initiatives may well benefit the corporate sector in some countries. For example, one might hypothesize whether the decline of the Mexican corporate sector (whose listings on the SOUTH 600 dropped by nearly a third between 1985 and 1989: see Tables 6 & 7) will be halted by the ratification of the proposed North American Free Trade Agreement. This agreement will allow Mexican firms access to potentially lucrative US markets, but could also make them more susceptible to competition from American and Canadian multinationals. Efforts to predict the impact of such policy initiatives maybe foolhardy, but they are a necessary requisite in our understanding of the long-term prospects of many corporations based in the non-OECD developing world.

ASEAN CORPORATIONS

The background of firms represented on the SOUTH 600 is varied. Some, like many of the parastatal oil companies, come from resource rich mono-economies, others are based in developing countries with large domestic markets such as Brazil or India. However some of the most dynamic companies are based in the rapidly industrializing countries of the ASEAN region - Indonesia, Malaysia, The Philippines, Brunei, Singapore and Thailand. This is a region which is characterised by consistently high growth rates, a growing market of over three hundred and twenty million people, well established infrastructure, and access to relatively cheap labour and resources. Yet a detailed review of the ASEAN-based corporations listed in the SOUTH 600 suggests a more complex picture of changing corporate dynamics and corporate decline which needs to be addressed in more detail by both policy makers and researchers alike.

In analysing the ASEAN-based corporations in the SOUTH listing between 1985 and 1989 a number of salient features emerge. First, that there is a relative decline in the number of

ASEAN-based corporations on the list; second, that there has been an increase in the size of those that remained; and third, that there has been a marked shift away from the primary sector industries to service sector industries and utilities.

Although the total number of ASEAN corporations has fallen from sixty to forty-seven (a decline of 21%), the total turnover of the remaining companies on the SOUTH listing has increased from $35.362 million to $38.787 million, and the average turnover per company has risen from $589.4 million per company in 1985 to $825.3 million per company in 1989 (an increase of nearly 30%: see Tables 1, 2 and 3). This trend may reflect the maturing of the ASEAN corporate sector as a few dominant corporations secure and consolidate their position at the expense of weaker players.

During the same period there was also a marked change in the sectoral structure within the ASEAN region with a shift from the primary sector production to the tertiary service sector. In general there has been a marked increase in the number of companies on the SOUTH listing operating in the service sector. In particular utility companies, such as electricity generators and telecommunication companies, have shown considerable growth in turnover. This is partly the result of increased demand and partly because of government privatisation policies. On average these ASEAN-based utilities trebled their turnover between 1985 and 1989; with rapid growth most apparent in Thailand where utility companies expanded on the back of the economic boom of the late-1980s (such rapid economic development accounts for overall increase in the number of Thai companies listed from four in 1985 to eight in 1989). Other sectors which reflected a significant growth in sales included: the airline industry (Singapore Airlines, MAS, and Thai Airways); agro- and food processing (San Miguel, Sime Darby, Fraser & Neave); and the heavily protected Indonesian tobacco industry.

In contrast there has been a decline in the number of companies directly involved in agriculture, mining and the construction industry, and, as the data in Table 4 suggests, the number of companies in these sectors declined by 75% between 1985 and 1989. This trend reflects the impact of falling commodity prices and government policies, but also a general decline in the importance of the primary sector throughout the region. But more surprising has been the decline in the number of ASEAN-owned engineering and electronic corporations. It would be expected judging from the example of other newly industrializing nations in South East Asia that this would be an area in which ASEAN corporations would excel. The decline in numbers may be partly explained by the increasing globalization of these sectors which has resulted in the growing dominance of major multinationals, increased competition from South Korean and Taiwanese companies, and the peripheralisation of indigenous engineering and electronic companies to being merely sub-contracted component suppliers.

Furthermore, if one assesses the number of ASEAN corporations listed on the SOUTH 600 on a country by country basis other surprising trends appear (see Tables 4 and 5). For example, the number of Singaporean entries fell from thirteen to eight, and the number of Malaysian entries nearly halved from seventeen entries to nine. This decline in the number of companies is all the more surprising in light of the overall growth of the ASEAN economies during this period. This downturn can be partly explained by the declining importance of the primary sector, as reflected in the reduction in the number of Malaysian agro-businesses from seven entries in 1985 to only two in 1989. It might also have been a consequence of the sharp recession that both Malaysia and Singapore experienced in the mid-1980s. In comparison the decline in the number of Philippine-based corporations (from eighteen to twelve listings) can be more easily explained by the level of political and economic instability in the Philippines throughout the 1980s.

In an attempt to assess the political and economic influence of these corporations on their respective economies the total turnover of the five largest corporations in each country was measured as a proportion of local GNP (see Table 5). It was clear that although the five largest corporation in each ASEAN country played a very significant role in the economy, they did not have the near-monopoly influence that, for example, the five major South Korean chaebols could exert. However, it should be noted that part of their success can be explained by the support they received from their respective governments. Yet experience suggests that such preferential treatment can lead to a over-dependence on protected, relatively uncompetitive, domestic markets. This obviously have advantages for local companies in terms of ensuring consistent cash flow and economies of scale, but over-reliance on such protected markets may jeopardize a companies ability to compete internationally. This raises questions about both the long-term competitiveness and political vulnerability of those ASEAN corporations which rely on protected home markets as part of their strategy to expand internationally.

CONCLUSIONS

The major trends arising from this analysis of the SOUTH 600 include:

a). the increasing influence of locally-owned DNCs in both South-East Asia and South Asia, the declining competitiveness of Latin American corporations, and the static performance of African companies.

b). the declining importance in the developing world of firms that are rooted in traditional agro-businesses and the primary sector generally.

c). the growth in the number of firms in service sector businesses operating in the developing world, particularly local service providers, utilities, distribution and transport companies.

d). the growing number of manufacturing companies producing consumer durables, or processing local raw materials (e.g fertilizer, construction material, food and tobacco).

The long-term outlook suggests that companies based in the non-OECD developing world, whether they be Third World multinationals or locally-based DNCs face a buoyant future, and could well develop into a considerable competitive force in the world economy. This optimism is based on the on-going integration of the developing world into the global economy, growing market opportunities, relatively positive economic projections, and a more conducive policy climate.

The domestic market in many developing countries is expected to expand as a result of continued population growth and economic development resulting in increased demand for basic services, utilities and basic infrastructural needs. This increased prosperity is expected to be reflected in the growing spending power of a small, but increasingly wealthy, brand name conscious group of consumers. For example, it is estimated that 15% of the Indian population fits this description, or in other words a potential market of 150 million consumers by the turn of the Century. At the same time the markets of the poorest countries are being fuelled by aid provided by both bilateral and multilateral agencies. Aid provision is becoming an industry sector in its own right, with an estimated turnover of $US65 billions in 1992.

The future competitiveness of companies based in the non-OECD developing world may well depend on the attitudes of local politicians, and the policies they adopt to promote investment and create a suitably competitive domestic environment. Many Third World governments have learnt from the lessons of the past, and introduced legislation and incentives to attract new investment and free-up local markets. This process has been facilitated by the World Bank's restructuring policies, and aided by recent geo-political shifts which have led to a growing disenchantment with dirigiste ideologies.

In conclusion, this paper has attempted to highlight the role and importance of companies from the countries of non-OECD developing world by analysing the composition of the SOUTH 600. Further research is obviously needed to assess the reliability and validity of the SOUTH listing, and to develop the analysis of the underlying trends and their implications for firms competing internationally in the next century.

Many of the firms on the SOUTH 600, particularly those DNCs based in the local service sector, offer a major challenge to established multinationals. They have access to markets which major multinationals cannot afford to ignore, if only because they are expected to grow dramatically with the addition of an estimated two billion new consumers within the next twenty years. Companies owned and based in the developing world are a growing competitive force that the multinationals of the developed world overlook at their peril. Rather than being ignored these companies should be courted as possible joint venture partners or strategic allies who can provide a relatively risk free entree to the growing markets of the developing world.

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