

**ACCELERATED INTERNATIONALIZATION BY  
EMERGING MULTINATIONALS:  
THE CASE OF WHITE GOODS**

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## Abstract

The emergence of a “second wave” of developing-country multinational enterprises (MNEs) in a variety of industries is one of the characterizing features of globalization in the most recent years. These new MNEs did not delay their internationalization until they were large, as did most of their predecessors, and often become global as a result of direct firm-to-firm contracting. Many *grow large as they internationalize*; conversely, *they internationalize in order to grow large*. This is a striking pattern which, if confirmed, indicates that enterprises from developing countries have pursued *distinctive approaches to internationalization*. It is a further interesting hypothesis to investigate to what extent such firms, born as suppliers of established incumbents, have leveraged on their “latecomer” status to accelerate their internationalization.

This paper documents how emerging MNEs may follow quite different patterns to reach, or at least approach, global competitiveness. In particular, it investigates how three latecomer MNEs pursued global growth through accelerated internationalization combined with strategic and organizational innovation. Haier (China), Mabe (Mexico) and Arçelik (Turkey) emerged as Dragon Multinationals in the large home appliances (so-called “white goods”) industry. This is a producer-driven global value chain, characterized by mature technology and rapid delocalization to developing countries, where not only input costs are lower, but demand growth rates are higher – giving a decided latecomer advantage to these MNEs.

Haier, Mabe and Arçelik leveraged their strategic partnership with established MNEs to upgrade their operations, evolving from the production of simple goods, into new product lines developed through their own design, branding and marketing capabilities. The recipe of their success has been the ability to treat global competition as an opportunity to build capabilities, move into more profitable industry segments, and adopt strategies that turn latecomer status into a source of competitive advantage. At the same time, their experiences show that many are the strategies and trajectories for going global.

## 1. Introduction

Outward foreign direct investment (OFDI) enables both small and large MNEs to potentially enhance their competitiveness through securing access to new markets, technologies, brand names, resources and strategic assets abroad. In their constant search for better exploiting, consolidating and expanding their capabilities (or resource base), firms pursue a variety of strategies, which include product and technological diversification across fields and geographical sites (Cantwell and Piscitello 1999). These potential enhancers of competitiveness would not be available to firms that elected to stay focused on their own domestic economy. Moreover firms that stay focused on the domestic market increasingly miss out on opportunities that are available only to firms that are prepared to internationalize – opportunities such as becoming integrated in global value chains or attracting global customers (Lee 2001).

Recent years have seen the emergence of a growing number of multinational enterprises (MNEs) in a variety of industries from developing economies as diverse as Brazil, China, Korea, India, Malaysia, Mexico, Russia, Singapore, Taiwan, and Turkey. These firms are part of a “second wave” of developing-country MNEs, after the “first wave” documented by such scholars as Kumar and McLeod (1981), Wells (1983) and Lall (1983). Second-wave MNEs appear to be driven directly by firm-to-firm contracting in a global setting – frequently involving SMEs initially being drawn into the global business domain through contractual linkages with larger MNEs. Their contemporary internationalization may be said to be one of the notable outcomes of globalization: just how the multiple connections of the globalized economy may be utilized by emerging MNEs to provide themselves with a distinctive advantage vis-à-vis incumbents, remains a topic to be explored in depth.

Nonetheless, no matter how good the conceptual and theoretical framework developed in the international business literature to seek to account for OFDI and MNEs, the question remains of its ability to cope with, or shed light on, the phenomenon of such MNEs from non-traditional source countries (Bartlett and Ghoshal 2000). The ownership/location/internalization theory is squarely based on the experiences of large, successful international firms that can easily find the resources and the capabilities to expand internationally if they wish to do so. What are the factors explaining their success? To what extent is their experience useful (replicable) for other firms struggling to move up the value-added and technology ladder? As important as these questions undoubtedly are, “development economics has given relatively short shrift to the firm as the agent of economic development” (Teece 2000, p. 105). Our study is designed to provide some corrective to this tendency. In development economics, the firm development economics is given relatively short shrift as the agent of economic development” (Teece 2000, p. 105). On the other hand, when they decide to invest overseas the new breed of MNEs rarely have at hand resources such as proprietary technology, financial capital, brands, and experienced management. In the case of the so-called Uppsala school, the path of expansion is slow and incremental, with frequent loops of experimental learning. For emerging MNEs the luxury of waiting does not seem to exist anymore as protection at home is eroded by market liberalization, time-to-market is reduced, and production runs must increase continuously to control costs.

This paper focuses on the production of large home appliances such as washing machines, fridges, dishwashers, ovens, and cookers (so-called “white

goods”).<sup>1</sup> We document the rise of Haier, Mabe and Arçelik (from China, Mexico, and Turkey, respectively), as successful examples of latecomer firms that managed to upgrade their operations, evolving from the production of simple goods, generally as Original Equipment Manufacturer (OEM) subcontractors, into new product lines developed through their own design, branding and marketing capabilities. One hypothesis to be explored is that these firms did not delay their internationalization until they were large, as did most of their predecessor MNEs from North America, Europe or Japan. Instead, many of the enterprises from developing countries *grow large as they internationalize*; conversely, *they internationalize in order to grow large*. This is a striking pattern which, if confirmed, indicates that enterprises from developing countries, both those that are still small and those that are growing large, have pursued *distinctive approaches to internationalization*. It is a further interesting hypothesis to investigate to what extent such firms have made use of the interconnected character of the globalizing economy in order to accelerate their internationalization. In particular, and to the extent that most current internationalizing firms from developing countries were born as suppliers of established incumbents, they may have used their arrival as “latecomers” on the global stage to capture advantages associated with being late, such as the new possibilities for linkage and leverage of knowledge and market access available through globalization.<sup>2</sup>

We first present the main thrust of a theory of the internationalization process of emergent MNEs. We then sketch the main characteristics of the global industry, to

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<sup>1</sup> Major household appliances used outside the kitchen, such as video and audio systems, are known as “brown goods”.

<sup>2</sup> The “latecomer firm” is a resource-poor firm (both in terms of technology and market access) seeking some connections with the technological and business mainstream (Mathews 2002). The concept has been introduced and popularised by historians and technology experts such as Hobday (1995).

highlight how market, technology, and regulation dynamics may be opening up new opportunities for incumbents. A case study approach is used to shed light on the factors explaining the success of Arçelik, Mabe and Haier and link such features to the theoretical framework.<sup>3</sup> We conclude with some digressions on the extent to which their experience is useful (replicable) for other firms struggling to move up the value-added and technology ladder.

## 2. Internationalization by emergent MNEs

Virtually all consumer products sold by developed country retailers today are made entirely or to a significant extent in offshore factories located in developing countries (Feenstra 1998; Gereffi and Sturgeon 2004). Yet, the development of global value chains assigned firms from developing countries a largely supporting-actor role. Lead firms in the modular production network concentrate on the creation, penetration, and defense of markets for end products—and increasingly the provision of services to go with them — while manufacturing capacity is shifted out-of-house to globally-operating turn-key suppliers (Sturgeon 2002). As Brazil, China, India, Mexico or Turkey are emerging as industrial powers in their own right, the best of their consumer-goods producers are making the transition from “original equipment manufacturers” (OEMs) selling their own standardized commodities with a foreign firm’s brand affixed, to original design manufacturers (ODMs), and a much smaller number have further progressed into original brand manufacturers (OBMs). Some Asian (and far fewer) Latin American firms have entered the ranks of first-tier

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<sup>3</sup> The case study is “a research strategy which focuses on understanding the dynamics present within single settings” (Eisenhardt 1989, p. 534). The process of building theory from case studies is strikingly iterative. One strength is its likelihood of generating novel theory, but this can also lead to weaknesses. The result can be theory which is very rich in detail, but lacks the simplicity of overall perspective and is narrow and idiosyncratic.

clothing, electronics, and auto suppliers with ODM capacity. A select few, such as Samsung, have emerged as OBMs.

What can be said in general terms concerning the characteristics of “Dragon Multinationals” that are coming to populate the global economy? Two such characteristics present a starting point for analysis (Mathews 2002; 2006). Firstly, they all internationalize very rapidly – so accelerated internationalization is a distinctive feature that calls for analysis. Secondly, they have been able to achieve this accelerated internationalization not through technological innovation, but through organizational innovations that are well adapted to the circumstances of the emergent global economy, providing linkages with incumbents in innovative ways. They have been able to implement these approaches through strategic innovations that enable them to exploit their latecomer and peripheral statuses to advantage.

### *Accelerated internationalization*

Accelerated internationalization is a novel feature of the global business economy, in both advanced and emerging economies (Schrader, Oviatt and McDougall 2001). Latecomers in particular internationalize very rapidly, by making use of prior international connections, leveraging their own expansion through making use of these – as in the case of expanding abroad as contractor to an existing multinational, or being carried by a global customer into new markets (Andersen, Blenker and Christensen 1997). It was as if these firms had executed a “gestalt switch” from domestic to global player – even if their actual pattern of internationalization was incremental. Thus they benefited from surprise in creating their global presence. A firm without this gestalt switch sees the international economy in terms of adding one

foreign country to its domestic market, then another, and another in incremental expansion. In such a process, a “global perspective” emerges only slowly, if at all. Trade-offs between country operations, and the rotation of product strategies through the most relevant countries, are barely discernible as potential strategies.

A firm that makes the “gestalt switch” by contrast makes its first foreign foray as an initial step not into one foreign market, but into the world. It starts out with a view that it will pursue customers wherever they are to be found, and preferably global customers, since they give maximum internationalizing leverage. Each move is seen as adding another piece in an expanding pattern that was global in scope from the beginning. Rather than emulate incumbent MNEs by entering markets through large investments in wholly owned subsidiaries, a crucial characteristic of this strategy is to forge partnerships so as to reduce risk, acquire knowledge, and gradually increase commitment to overseas markets.

### ***Organizational and strategic innovation***

Latecomers and newcomers adopted a variety of global organizational forms, such as weblike integrated global operations. In most cases they dispense with conventional “international division”-style organization, which demonstrates that they begin their internationalization already equipped with a global outlook. The effect is that such firms do not tend to suffer from well-known “subsidiary-headquarter” problems of morale and initiative (Andersson and Forsgren 1996). The counterpart to this local responsiveness is the issue of maintaining global coherence and integration. Mathews (2006) documents one of many possible trajectories in building new organizational structures.

As newcomers and latecomers, these firms had to find innovative ways to make space for themselves in markets that were already crowded with very capable firms. Viewed in their own terms, the firms found new ways to complement the strategies of the incumbents, such as through offering contract services, through licensing new technologies, to forming joint ventures and strategic alliances. It is plausible that it was through the implementation of these complementary strategies that newcomers and latecomers were able to win a place in the emergent global economy, not on the basis of their existing strengths, but on the basis of their capacity to leverage resources from the strengths of others, through making international connections.<sup>4</sup> These internationalization strategies, designed to enhance firms’ resource base rather than to exploit existing assets, represent a fundamental departure in thinking by firms about what “globalizing” means and how it can be accomplished. It takes the firms beyond earlier stages of multinational expansion, characterized by what Perlmutter (1969) described as ethnocentric and polycentric management attitudes, straight to a geocentric strategic perspective. This turns out to be an advantage of being a latecomer or newcomer.

### **3. The global white goods sector**

The white goods sector (SIC 363) shows common characteristics with other producer-driven global value chains, although relatively few scholars have analyzed it (e.g., Nichols and Cam 2005, Paba 1986, Perona *et al.* 2001). Products are relatively similar and simple to produce, although assembling different parts and subsystems requires

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<sup>4</sup> This strategy parallels a similar approach to leveraging technological capabilities by latecomers from incumbents, as described in Mathews and Cho (2000).

the combination of knowledge domains ranging from mechanics to electronics and plastic moulding (Sobrero and Roberts 2002); the industry is mature and is seen as a likely candidate for delocalization to developing countries, where not only input costs are lower, but demand growth rates are higher as ownership of major home appliances is strongly correlated to economic development. This gives a decided latecomer advantage to MNEs developing countries. On the other hand, since household appliances are experience goods and reputation matters, brand loyalty is a very important competitive factor in this market (Paba 1986). It acts as an information-based barrier to entry, reduces the amplitude of short-run demand shifts and allows firms to experiment (brand reputation cannot be brushed away by a single product innovation failure).

Outsourcing, once limited to neighbouring firms in the industrial cluster, has expanded geographically. Maytag dishwashers use Chinese motors and Mexican wiring and are assembled in the US. OEMs in developing countries are also producing on behalf of Western OBMs (e.g. Daewoo produces refrigerators with freezers on top sold under the Maytag brand). The processing is now moving further as the world's white goods – and not simply their components – are indeed increasingly being made in emerging markets. Electrolux, which at February 2005 had 27 of its 44 white goods factories in high-cost countries, said that 13 or 14 of them could be switched to low-cost countries over the next four years. Premium brand Miele opened a Czech factory for horizontal-axis top loader washers for the French market. Whirlpool closed its Quebec plant, retrenched 1,000 Italian staff, and is moving much of its production from Arkansas to Mexico.<sup>5</sup> Indesit is adding new capacity in Poland and Russia.<sup>6</sup> The

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<sup>5</sup> In January 2004, Whirlpool announced it was moving its production line for refrigerator ice makers from Fort Smith, Arizona to China. The company reversed its decision in December, citing it had decided to work with suppliers to reduce component costs in lieu of moving.

biggest Asian players, such as Korea's LG and Japan's Matsushita, are also busy building new plants in countries such as Russia. For some products, however, consumers are still willing to pay higher prices for goods produced in a specific country. The choice of off-shoring location is driven not only by demand and costs considerations, but also, and even more importantly, by the presence of suppliers of specialised components. A lesson emerging from leading white goods manufacturers is indeed that success depends on firms' internal resources as much as it does on the collective efficiency of the cluster in which they operate and are embedded (Sori 2005).

A major recent change in the industry has been the simplification and standardization of production platforms that allow using standard engineering frameworks to which parts can be added or subtracted (Nichols and Cam 2005).<sup>7</sup> The development of common platforms also allows to speed up product renewal and time to market, which are necessary to avoid price erosion. The introduction of computer aided manufacturing (CAM) and flexible techniques, including just-in-time, have allowed to reduce production costs. These again are technological and organizational innovations of which latecomers, without the prior routines that drag down incumbents, can take advantage. The search for greater efficiency, rather than pure price competition, had a dramatic impact on the plant organization of labor.

Flexibility means that a production line can process different models without any

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<sup>6</sup> According to Merloni's managing director, Central Europe, "This shift in production capacity meets the need for a more even balance between output levels in Eastern and Western Europe. About 86 per cent of the company's total production is provided by its plants in Western Europe, a region that only delivers 67 per cent of the company's sales" ("Merloni Expanding in Central and Eastern Europe", *Appliance*, February 2004).

<sup>7</sup> For example, if robotic assembly is to be introduced, production processes must be simplified as much as possible because machines will always be several degrees less flexible than their human counterparts. This usually requires a reduction in overall component count, the use of as many common components across a product range as possible, and the design of simple work station approaches to manufacture.

special tooling up time or pauses in the production flow. It also implies the minimization of on-process and finished products stocks. Producers and buyers order more frequently in smaller lots and expect to track their shipments so that they can synchronize deliveries with their own production schedules and with a minimum of warehousing. Again we would expect to see latecomers taking full advantage of such tendencies.

The world home appliances industry is still rather fragmented with no single manufacturer commanding more than 10 per cent of the world market (Table 1). Fragmentation reflects the high incidence of transport costs, persistent differences in consumers' preferences and brand loyalty. The world's top ten manufacturers, ranked by sales, include three US companies, four Japanese ones, and one each from Sweden, Germany, and China (Table 1). Only a few offer the whole product range and are present in all key markets. In fact, only Whirlpool, General Electric (GE), and AB Electrolux have a global orientation.<sup>8</sup> Others have a strong regional position or are leaders in specific product niches (often of high quality). While they may not be present on all geographical markets, most manufacturers offer complete or nearly complete lines of major household appliances.

**Table 1 Competitive orientation of major home appliance manufacturers**

Global Players	Whirlpool (U.S.), AB Electrolux (Sweden), General Electric (U.S.)
Global Aspirants	Bosch-Siemens (Germany), Haier (China), LG Electronics (Korea)

<sup>8</sup> Whirlpool adopted a marketing strategy to making its name a global brand. The company manufactures appliances in 44 locations, 34 of which are outside the United States in 12 countries. In cooperation with its affiliates in Brazil and joint venture partners in India and Mexico, the company built facilities in those countries to produce its "world washer". Whirlpool's top management believed that the firm's global position provided a competitive advantage "by reason of its ability to leverage engineering capabilities across regions, transfer best practices, and economically purchase raw materials and component parts in large volumes (Hunger 2003).

Strong Regional Players	Matsushita, Sharp, Toshiba, Hitachi (Japan), Samsung and Daewoo (Korea) in Asia
	Maytag (U.S.) in North America
	Miele (Germany), Candy and Merloni (Italy) in Western Europe
Strong Local Players with Some Regional Presence	Arçelik (Turkey), Mabe (Mexico), Multibras (Brazil), Fisher & Paykel (New Zealand)
Domestic and Niche Players	Sub Zero/Wolf (U.S.), Guangdong Midea Group (China)

*Sources:* Hunger (2003) and ANIE (2003).

#### 4. Three cases: Arçelik, Mabe, Haier

##### *Arçelik*

Arçelik was founded in 1955 to produce metal office furniture, and moved quickly into home appliances, manufacturing Turkey's first washing machine in 1959 and first refrigerator in 1960. By the early 2000s it had seven production plants in Turkey to produce a complete range of home appliances.<sup>9</sup> The company, producing 7.5 million units in 2004, is the leading firm in Turkey's consumer durables, accounting for more than 53% of domestic sales and 54% of exports (UNCTAD 2005b).

Arcelik is a member firm in the Koç Holdings (KH) conglomerate, which is Turkey's principal multinational enterprise. KH owns 57% of Arcelik shares; another conglomerate, the Burla Group, controls 20%, and the remaining 23% are publicly traded on the Istanbul Stock Exchange. KH is controlled by the Koç family; it is an industrial and financial conglomerate consisting of 106 companies, with total assets of \$14.2 billion, consolidated sales of \$16.2 billion, exports of \$5.7 billion, and 62 thousand employees in 2004 (UNCTAD 2005b).

KH, and Arcelik in particular, have long viewed the domestic market as too small for the company's ambitions. KH is Turkey's largest multinational, with its internationalization led by its Migros and Ramstore brands of supermarkets and retail outlets. Export activity at Arcelik started on an opportunistic basis to neighbouring countries, eventually becoming a core element of the growth strategy. As Turkey agreed a schedule of phased tariff reductions with the European Community in 1988,

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<sup>9</sup> In line with Arçelik's one-product / one-factory manufacturing structure, the entire washer and dryer production is located in the 37,500 square meters Çayırova plant, near the Bosphorus Bridge, employing 1,477 workers, of which 133 are white-collar. Following acquisition, Blomberg and Elektra Bregenz production lines were transferred to this plant.

exporting gain in importance to counter the increase in imports and make the most of heavy sunk investments in new machinery and equipment. A OEM contract in the United States was secured with Sears Roebuck in 1988 to supply refrigerators under the Kenmore name, followed a nine years later by a similar, but much larger, European deal with Whirlpool for dishwaters (Root and Quelch 1997). As a condition of these deals, Arcelik committed not to sell similar products in Europe under own brands.

To get around these contractual restrictions, and to continue its internationalization, Arcelik then looked to acquire foreign brands. The first big success for Arcelik was the purchase of the Beko brand of white goods and TV sets in the UK, now extended to France, Germany, and Spain. By the late 1990s, the company had set up sales offices in France, Germany and the UK and identified specific strategies to enter each market.<sup>10</sup> In 1996, 50 per cent of washing machines exports and 30 per cent of refrigerators were OEM. In 2004, foreign sales represented 44 per cent of total turnover (up from 16 per cent in 1997), and approximately two thirds of sales corresponded to own-brand products (Arcelik 2004).

The 2000s saw the flowering of Arçelik's internationalization strategy, aimed to expand its brand portfolio, market penetration and product mix in Europe. Building on the experience acquired while bidding unsuccessfully for Brandt, Arcelik made major purchases of brands in 2002 – Blomberg (a subsidiary of Brandt) in Germany, Elektra Bregenz and Tirolia in Austria, and Leisure (cookers) and Flavel (appliances and TV sets) in Britain. In 2004 Arçelik acquired the brand name Grundig, after the German firm went bankrupt. (Arcelik had been an OEM supplier to it previously.) In

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<sup>10</sup> In light of the different market structure, Arcelik decided to develop as an OBM in the UK and in France, leveraging on the Beko name, while initially focussing on OEM in Germany (Root and Quelch 1997).



Romania, Arcelik acquired Arctic; it immediately invested to modernize the company's operations and doubled its productive capacity. Arctic makes washing machines and ranges as well as TV sets; it now has 50 per cent domestic market share in refrigerators and exports close to 40 per cent of its output, and is reportedly very profitable. In June 2005 Arçelik launched the construction of a refrigerator and washing machine greenfield plant in Russia, located 110 kilometres from Moscow. The corporate investment program is partly supported by the International Finance Corporation (IFC), the private sector arm of the World Bank Group, which signed a €160 million loan in April 2005.<sup>11</sup> KH generally and Arcelik in particular is reported to be considering a major expansion in the Chinese market for white goods, TVs, construction materials, and even in the Chinese automotive sector – using Chinese operations not as an export base but as a production platform for the China market itself.

Over the last four years the company has doubled its turnover. Management has set for 2005 the ambitious goal to become the fifth-largest European producers of white goods and pass the bar of US\$3 billion turnover. The strategy is paying off in terms of larger market shares, especially in European countries, which make up 86 per cent of overall international sales. According to company data, Arcelik/Beko holds a 7 per cent share of the European free-standing appliances market and 5 per cent of the OBM market. Beko products account for approximately ⅓ of Arçelik international sales and are among the top brands in many markets – including the UK (14 per cent share in refrigerators and 7 per cent share in washing machines) and Poland (5 per cent share).

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<sup>11</sup> IFC has invested in projects of the Koç Group across a wide range of sectors in Turkey, Russia, Romania, Kazakhstan, and Azerbaijan.

## ***Mabe***

Mabe was founded by Basque immigrants in 1947 to make metal kitchen cabinets. Today it is one of the leading home appliances manufacturers in Central and Latin America, producing more 12 million appliances per year, employing about 18 000 employees in 12 factories (ten of which are in Mexico, one in Colombia and one in Ecuador) and selling products worth about US\$2 billion in 70 countries. The company ranks 146<sup>th</sup> in 2004 in terms of revenue amongst the top 500 Latin American companies (it ranked 151<sup>st</sup> in 1998 and managed to reach 141<sup>st</sup> in 1999) and is ranked 66<sup>th</sup> in Mexico.<sup>12</sup>

In 1987, Mabe signed a joint venture agreement with General Electric (GE) (Vitorisz 1996). In exchange for a 48 per cent equity share, GE became Mabe's main business partner and largest customer: it contributed the refrigerator component separated out from its joint venture with Grupo Industrial Saltillo, plus \$25 million in cash, and a commitment to provide management training and technological support. Pursuant to this joint venture agreement, GE licensed trademarks and patents, provided technology and technical advice and distributes Mabe's OEM products in the US, while Mabe retained entire management responsibility. In 1987-88 Mabe rounded out its own major appliance lines (refrigerators and washing machines) by purchasing IEM (Industrias Electricas de Mexico) Westinghouse from government and the entire capacity of the GE-Grupo Industrial Saltillo.

Through the 1990s Mabe pursued an internationalization strategy in Central and South America. Through a series of targeted acquisitions, it gradually established a production base to serve the Andean region. In 1993 Mabe acquired a Venezuelan

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<sup>12</sup> Data come from *AmericaEconomia* and *Expansión*, respectively

manufacturer of washing machines and gas ranges (Menaca, subsidiary of Dutch CETECO) and a manufacturer of refrigerators in Colombia (Polarix). The deals were made on behalf of the investors on the Mexican side of the Mabe-GE joint venture, but with a Mabe management contract. In 1995 the expansion into Central and South America continued with the purchase of a ⅓ stake in Durex in Ecuador, of rights to the “Centrales” brand in Colombia, and with the establishment of distribution organizations in Guatemala and Costa Rica. With the aim of better integrating operations in Colombia, Ecuador, Peru and Venezuela, Mabe regrouped its activities into Corporación Mabe Andina, which accounts for about 70 per cent of the regional market..

NAFTA has driven the growth of Mabe, and of the Mexican home appliances sector, over the past decade. Following the collapse of the Mexican peso in December 1994, Mabe, with strategic advice from GE, quickly accomplished a major substitution of imported components by Mexican-supplied components. Mexican exports of refrigerators jumped from less than \$100 million in 1994 to about \$230 million in 1999. By the early 2000s, more than one-third of all gas ranges and mini-refrigerators sold in the United States were being manufactured in Mabe plants (Hunger 2003). Mabe and GE claim that their side-by-side refrigerators can be found in one every four American homes.<sup>13</sup>

In 2003 Mabe bought CCE refrigerator business in Brazil for \$40 million and gained control over GE-DAKO, the joint-venture that GE set up in 1996 with a local stove manufacturer. Mabe has made a further acquisition in Canada, of Camco, which is intended to increase Mabe’s production capacity in North American and to enlarge

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<sup>13</sup> GE transferred production of low-margin minibar fridges to China in 2000. Mabe also closed its washing machines plant in Monterrey in 2003 where 550 people worked and moved production to San Luis Potosi.

its product and brand range. With annual sales of \$643 million in 2004, Camco manufactures clothes dryers and dishwashers under OEM arrangements with various companies including GE. The business strategy is to consolidate the position in countries where Mabe is the market leader and leverage its brands through existing and new products.

### ***Haier***

Founded (in its present form) in 1984 as the Qingdao Refrigerator Factory (the former name of the company) in Qingdao, a port city south of Beijing, Haier first business was the manufacture of refrigerators based on technology transferred from the Germany company Liebherr. Haier’s sales have grown by 70 per cent a year on average over the past two decades to reach \$1.84 billion in 2004 (up from US\$583 million in 2000).<sup>14</sup>

Haier’s internationalization process, **an example of a carefully planned market and asset seeking strategy through FDI**, initially focused on Southeast Asia, with investments in Indonesia, Philippines and Malaysia to produce refrigerators and air conditioners (Liu and Li 2002). In 1999 Haier announced its intentions to locate in Steeplechase in Camden, South Carolina, thus becoming the first Chinese company to operate a US manufacturing facility.<sup>15</sup> The \$40 million, 300,000-sq-ft plant opened in 2000. Haier now has 22 overseas plants, sales outlets in over 160 countries, and a \$15

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<sup>14</sup> Sales data from *Fortune*. According to the company website, overall revenues amounted to \$10 billion and overseas sales to \$1.2 billion in 2003. These figures are often mentioned in the press.

<sup>15</sup> Since 1995, five more companies, including APT, Howden-Buffalo, Kawashima USA, SC Yutaka, and Target, have located operations in Kershaw County, and nine companies have undergone expansions. The companies have invested some \$576 million and created 2,554 jobs. See “Alliance aids drive for county economic development”, *Camden Chronicle Independent*, 10 January 2005.

million American headquarters in mid-town Manhattan – the 1924 landmark Greenwich Savings Bank Building.

Haier also invested €80 million in Europe in 2001-04. It purchased the 250,000 units per year refrigerator plant belonging to Meneghetti Equipment in Padua, also buying Meneghetti-produced built-in ovens and hobs to market them in China under the Haier brand name. Haier saw this acquisition as providing the opportunity to develop new products from a European manufacturing base.

Haier is also present in many emerging markets. After a disappointing experience in a 30/70 per cent joint venture with tube maker Hotline, Haier now operates two leased factories in India and is planning to open a new \$3-5 million factory with a capacity for one million TV units. In October 2004, Haier announced the opening of a R&D centre and factory in India, where it also has five Plant Haier showrooms. It has launched a detergent-free washing machine that works on the principle of membranous chemistry and uses electrolysis and activated water treatment technology. In Africa, where Haier billboards are conspicuous in many cities, Haier operates SODINCO (Société de Développement Industriel & Commerciale) in Algeria. In 2005 a factory was opened in Amman, Jordan, to produce both for the regional market and the EU.

In June 2005 Haier launched an ambitious offer for the third largest US producer of home appliances, Maytag – but after some setbacks, it abandoned this battle. Maytag was eventually acquired by the leading US home appliance producer, Whirlpool, in what most observers agreed was a defensive US consolidation in the face of global competition from the like of Haier, Mabe and Arçelik.

## 5. General features of the cases

How well do Arçelik, Mabe, and Haier fit into the Dragon Multinational framework? Pretty well indeed. Since the mid-1990s, they have internationalized through exports, built their own resource capabilities, and rapidly expanded internationally through acquisitions of both brands and production operations, as well as greenfield investments. They have also benefited from the great dynamism of the domestic market, although in a context of trade liberalization and decreasing margins.

The critical starting point for the latecomer is that it is focused on the advantages that can be acquired externally. To varying degrees, the three firms under study have used participation to global value chains and OEM arrangements to overcome problems of market intelligence and uncertainty regarding the quality of knowledge potentially available. They have also leveraged resources acquired throughout links established with incumbents or partners. Mabe has leveraged its knowledge of GE corporate culture to behave like a turnaround specialist at its South American subsidiaries, which in most cases it bought either from GE or from the founding family. Sanyo is Mabe's other strategic partner in the area of compressors. The joint company, where Mabe has a 65 per cent stake, produces about 1.8 million compressors per year, and exports half of its production to the United States. Another strategic joint venture was launched with Spanish FAGOR in 1998 to enter the Argentinean market. Arçelik has license agreements with Bosch, Sanyo, GE, LG and compressor supplier Tecumesch. Arçelik has also forged a strategic partnership with Uicom, a Californian company, to develop 'digital living' smart appliances and use Internet processors and networking software that enable device-to-device communication. In order to secure maximum leverage from advanced technologies,

Haier is entering into numerous parallel alliances. Haier is working with Helicomm to integrate IEEE 802.15.4 and ZigBee wireless communications into products and has an ongoing co-operation with Ericsson to develop home electrical appliances using bluetooth technology. In January 2005 Haier and ON Semiconductor (one of the world's largest suppliers of power management devices) inaugurated a joint power laboratory at Haier's R&D centre which will focus on providing a single, standardized AC mains input voltage platform that can equip all Haier's next-generation products. Haier is currently in talks with Sanyo and Samsung over the co-development of network-enabled digital appliance operations.

The second characterizing feature is the ability to experiment with innovative organizational forms, sometimes as a response to the business environment in developing countries. Arçelik, because of the small size and limited capabilities of many local suppliers, displays a higher degree of vertical integration than might be typical in the appliance industry, manufacturing more of its components in-house. The Çayırova plant houses a dedicated tool shop, staffed with 17 CAD/CAM design specialists and 33 operators, serving all other plants, which also contributes to appliance designs (Appliance 2005). The product development department employs 70 engineers and technicians, some of whom came from Bloomberg.

The experience of the three companies also demonstrates what a global perspective can achieve. Arçelik has made the commitment to product quality and innovation a cornerstone of its expansion strategy. It has introduced a series of quality improvement programs, tripling production with relatively low investment and the same factory floor layout and achieving good ratings from independent test institutes. In 1992 Arçelik management decided to approach Total Quality Management globally and systematically and do its first self-evaluation according to the Malcolm Baldrige

model. Systematic total quality operations (6 Sigma) and three-year product guarantees were introduced in 1998, when Arçelik first qualified as a finalist in the National Quality Award. Modern quality and human resource management practices are also been rapidly introduced at Arçelik in Romania. Workers at Arçelik facilities appreciate the changes that exposure to modern Western management techniques and shop-floor practices have brought about (Nichols and Cam 2005). Management claims that these impressive results stem from the fact that Arçelik has a less hierarchical culture than, for instance, its Italian competitors – “a marketing manager has more power here and will solve his own problems instead of relaying everything to the boss.”<sup>16</sup> Although slightly outdated, available evidence paints a fairly different picture – the expression “*Kaizen* from above” seems better suited to define the situation (Nichols *et al.* 2002).

Mabe too is utilizing the most advanced management techniques to boost its latecomer advantages. It characterizes itself as a “low profile, but pragmatic firm”, which implemented a “learning by doing” (“aprendizaje en acción”) strategy in searching and chasing opportunities for growth, through rapid organizational changes to better adapt to evolving market conditions.<sup>17</sup> Instead of following an incremental pattern, moving from pure trading to distribution and finally to direct investment, Mabe decided to form a group of managers capable of identifying appropriate targets and then managing them. Adoption of modern ICT and training of personnel is considered a priority and, according to company sources, each worker is entitled to at least three weeks of training per year. Mabe also contracted one of the leading US providers of dynamic value chain management solutions (i2 Technologies) to develop

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<sup>16</sup> “AMDEA 2005 Reveals UK Market Trends”, *Appliance*, June 2005.

<sup>17</sup> We thank UN-ECLAC for providing us transcripts of company interviews conducted in August 2005.

and implement its eBusiness strategy. The new system aims at establish through the Internet a closer relationship with its distribution channel and to optimize its supply chain management from manufacturing to distribution, marketing, sales and delivery.<sup>18</sup> Serviplus, the product service division, is expanding to provide after-sales support service to customers in all countries where Mabe products are sold (in the US after-sales support to customers is provided by GE).

In the case of Haier, the personal imprinting of CEO Zhang on Haier was a distinctive feature of the company's early trajectory. His "militaristic" style of management is legendary: he once ordered the smashing of 76 faulty refrigerators with a sledgehammer – now preserved for its symbolism in the company's museum.<sup>19</sup> From that day, 'quality supreme and sincerity forever' became the company slogan and has become a core value on which the company's new routines are formed. In the mid-1990s Zhang Ruimin introduced the vision to turn Haier into one of the world's top three home appliance manufacturers. To unleash the entrepreneurial energies of the workforce and compete on the basis of knowledge, he constructed so-called "accountability chains" from the market directly into those corporate services that typically never see the customer or feel the market forces. Career advancement and top management salaries are linked to performance.<sup>20</sup> Haier had been a heavy and early user of ICT. An Enterprise Informatization Development Plan was formulated in

<sup>18</sup> The Entrega Directa ("Direct Delivery") enables customers to order appliances at Palacio de Hierro, one of Mabe's most important retail channels, using an interactive catalog. Once an order is placed, Mabe delivers the order directly to the customer, eliminating on-site inventory.

<sup>19</sup> "China's Haier Power", *Fortune*, 15 February 1999.

<sup>20</sup> Outside the staff canteen at Haier headquarters is a "hit chart" with the names of all Haier's 80 divisional chiefs. Beside each name is a percentage figure, which is their latest monthly performance rating, and an arrow pointing up or down. Under Zhang's so-called 10/10 policy, the top 10 per cent are singled out for rapid advancement while those consistently in the bottom 10 per cent are marked for demotion or the sack. See "Making a name for themselves", *The Sydney Morning Herald*, 18 October 2003.

1992, which emphasized the use of CAD systems.<sup>21</sup> The website was launched in 1996, the enterprise Intranet and Extranet in 1997, and by 2000 all raw materials purchases were on the Internet. Haier Moulds, which specializes in the design and manufacture of high-precision and complex plastic injection moulds, purchased the first of seven Cimatron seats in 1994.<sup>22</sup> In August 2000, the Ministry of Science and Technology granted Haier Moulds an honorary title of "National Model Enterprise in CAD/CIMS Application".

All three firms have invested heavily in R&D and innovation. These moves triggered continuous and substantial process and product upgrading, as witnessed by numerous awards received over the last years and the number of patents registered in Europe and the United States (Table 2). R&D investments are also being made abroad. Haier has set up local product-development teams in Tokyo and the United States to differentiate its line and move up-market. Arçelik has opened a research centre in Italy to strengthen its relationships with Italian specialized suppliers.

Table 2 Patents granted to Arcelik, Haier and Mabe in developed countries

	Arcelik			Mabe	Haier
	Arcelik	Beko	total Arcelik		
USA	8	16	24	189	40
Europe	28	1	29	3	2

Note: total number of patents as of end 2005.

Source: USPTO, and INPI (<http://www.plutarque.com/plutarque>).

One of the key observations from the case studies is that building a brand and a distinctive image is a key challenge for companies from emerging economies. This

<sup>21</sup> [www.ecdc.net.cn/newindex/chinese/page/sitemap/reports/IT\\_report/english/08/02.htm](http://www.ecdc.net.cn/newindex/chinese/page/sitemap/reports/IT_report/english/08/02.htm).

<sup>22</sup> A sister subsidiary, Haier Equipment, has two additional seats.

aspect receives preciously little emphasis in the literature on emerging MNEs. Manufacturing companies demand designers with strong creative skills who are capable of both identifying new ways in which people can interact with technology and strategies to design a creative identity. Although Arçelik has consistently been ranked Turkey's most widely known brand by AC Nielsen surveys, it suffered from an association to the poor quality prevailing in the old days of import substitution industrialisation. In January 2001 Arçelik took over from Beko Ticaret, a trading affiliate of the Koç group, the marketing and sales activities of Beko branded products, including brown goods. In 2002 it adopted a new logo, designed by the same American corporate graphic studio which had created the Koç Holding logo in 1987, and introduced the popular Çelik character, a technology spokesperson (Enberker and Ergin 2003). The objective was to signal the transformation of the company into a serious player in a global industry hitherto dominated by Western firms and in which Arçelik wished to compete on the basis of high technology and innovation, as opposed to low labor costs. In its quest to become Latin America's predominant white goods company, Mabe turned to the Madrid office of Wolff Olins, now the independent Saffron (in which Wally Olins is a partner, along with Jacob Benbunan) in 1995. The goal was to express a fresher, stronger brand presence, both in the category and as a corporation. Saffron replaced Mabe's muted red swoosh-mark, reminiscent of Samsung's oval (but not as strong), with a confident, simpler logo it calls "congenial". Beyond the logo, Saffron provided a visual system of bright Mexican colors, patterns and icons to create an appealing corporate personality "imbued with a bright sense of humour". MABE is now aggressively targeting the premium segment with new, more appealing products.

If the three companies have followed similar approaches – long-term relationships with OECD-based specialists – in this endeavor and the pairings seem to depend on the degree of psychic distance, differences are even more interesting. According to GK Design, its partner, Haier chose a Japanese firm over, for instance, an American one because of cultural affinity, and yet interviews with the former suggests that the latter's ambition to grow rapidly put strains on the relationship, as the haste may imperil attention to factors that GK Design considers important.<sup>23</sup>

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<sup>23</sup> Interview in Tokyo, 15 July 2005.

## 6. Conclusions

The white goods sector is a mature industry. Although OECD-based MNEs retain the lead in production and innovation activities, countries and firms from the periphery are increasingly involved in production of appliances, and not merely of their components. Moreover, demand growth is much higher in emerging markets than in industrialized countries. This paper has presented the experience of three latecomer firms which have established themselves as key regional players, in one case with global ambitions. As in the successful cases documented by Bartlett and Ghoshal (2000), the recipe of their success has been the ability to treat global competition as an opportunity to build capabilities, move into more profitable industry segments, and adopt strategies that turn latecomer status into a source of competitive advantage.

This does not mean that there is one way only to reach, or at least approach, global competitiveness.

- Arçelik has remained relatively focused on white goods, despite leveraging the membership in Turkey's largest diversified conglomerate. Its internationalization strategy has been two pronged – buying established brands in “old” Europe and adding manufacturing capacity in “new” Europe. It has also invested heavily in manufacturing, organizational excellence, R&D, innovation and quality.
- Haier has built up an impressive variety of product lines and varieties, a choice that can be explained by the fact that China, despite very high growth rates over the past two decades, remains a poor country with weak infrastructures and institutions. Vertical integration is therefore an apt strategy to offset the lack of some key markets and associated sunk costs can be better recovered by expanding product

range. Haier has also started investing overseas (especially in Africa and the Middle East) at an early corporate age. The major risks are related to overstretching, both geographically and functionally, especially in view of the well-documented difficulties that Japanese and Korean investors have had in the past in operating multi-country production operations (e.g., Encarnation 1999 and Sachwald 2002). The company still relies heavily on foreign components and technology. Although listed, it shares with other Chinese champions a close relationship with public sector institutions (Wu and Chen 2001; Deng 2004).

- Mabe has made the most of geographical and “psychic” contiguity with the United States, partnering with one of its most celebrated enterprises, General Electric, and building in the process the necessary skills to expand at a later stage beyond the Mexico market and into South America. The key issue here is scale and capacity to rapidly develop new products as demand starts to grow and become more differentiated. Mabe has been able to interpret the Latin American *gusto*, while at the same time producing stoves to US taste.

Firms that are internationalizing from developing countries are pursuing strategies that enable them to catch-up with established players, through leveraging off their latecomer advantages and strategic partnerships with market leaders. The more the world economy becomes global, the greater the pressures on firms to globalize. This is a very different pattern of internationalization from the one which drove earlier experiences, which involved export expansion and the promotion of trade. Today firms internationalize in order to enhance their competitiveness, such as through attracting global customers. This is ultimately why the process of internationalization is of such importance, and why a perspective on latecomer MNEs from developing countries promises to generate important insights into what drives the process and accounts for the patterns observed.

The insights generated are suggestive of trends that make it more plausible to argue that globalization is being driven not just by the giant incumbent firms (Nolan, Sutherland and Zhang 2002) but also by emerging firms internationalizing from the periphery which capture competitive space from incumbents because of their ability to exploit the linkages available through globalization and developing a culture of continual cross-border learning and value-addition (Bartlett and Ghoshal 2000). The giants are still very much tied to a "home base" and to date have demonstrated little appetite for engaging in truly "global" competition. By contrast, newcomers and latecomers – the MNEs from the developing world – are more likely to be global in their outlook and their strategy and organization. This is giving them rapidly acquired advantages over slower-moving and less-focused incumbents – even in markets that have traditionally been viewed as “global”. In markets that have traditionally been domestic-oriented, like steel and cement, the peripheral firms are demonstrating how advantages can be secured through globalized operations and service.

What are the implications for other OEM firms which aim to upgrade to OBM status? What lessons can be learned? If firms from emerging, transition, and developing economies are to grow and enhance their profitability, they will need to vie for the role of first-tier suppliers for lead firms, to operate on a global scale, and, in certain instances, to co-locate plants near the facilities of lead assemblers. Developing research and original design capability can further strengthen competitiveness, enable firms to take responsibility for entire modules, and eventually make a transition to OBM on a regional or global scale.

As emerging MNEs now start to invest in other developing countries, the impact of their behaviours on the host economies becomes by itself worth of additional research. What upwards and downwards linkages do they establish? How effective are they proving as instigators of changes? Is there any notable difference in

their behaviours compared to those of traditional OECD MNEs that can back the claim that South-South investment is “development-friendly”? What are the implications for domestic firms in the home country, in terms of adoption of best practice technology and organisation structure? These are interesting, though under researched questions, which will be explored in related future research.



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