Strategizing in Emerging Countries: Three Theoretical Approaches Validated by the Field

AUTORES
SERGIO JANCZAK
The University of Western Ontario
sjanczak@uwo.ca

CLAUDE MARCOTTE
Centro Universitário 9 de Julho UNINOVE
sjanczak@uwo.ca

RICK MOLZ
Centro Universitário 9 de Julho UNINOVE
sjanczak@uwo.ca

MEHDI FARASHAHI
Centro Universitário 9 de Julho UNINOVE
sjanczak@uwo.ca

ABSTRACT

This paper aims at generating research propositions regarding the strategies implemented by Western firms in emerging countries. We examine three approaches to the relationships between Western firms and the environments of emerging countries. First we analyze the institutionalist approach, centered on local constraints and the need for adaptation on the part of Western firms. Then we examine the global strategy approach, together with the Schumpeterian tradition, as the two approaches share significant similarities. Finally, we examine the interactionist model (i.e., local and global), as illustrated in Giddens' structurationist theory and in the emergent paradigm of international entrepreneurship. These approaches differ on key and interrelated dimensions of dynamic capability building. First, they are characterized by specific interpretations of what is rational in an international context. Then these various forms of rationality correspond with particular conceptualizations of knowledge and learning. Illustrative cases of Canadian companies involved in emerging countries are provided to exemplify each approach.

Keywords:
Global strategy; internationalization process; emerging economies

Strategizing in Emerging Countries: Three Theoretical Approaches Validated by the Field

Emerging countries are attracting a growing number of Western firms. This is particularly noticeable in the case of emerging Asian markets such as China, India, Indonesia and Malaysia. For example, China is now Canada's third most important trade partner. Data published recently by the Canadian Ministry for Foreign Affairs and International Trade indicated that more than 400 Canadian companies currently operate in China, and that, as a result of their physical presence and investments, these companies have established commercial and technological bonds with Chinese partners (MAECI, 2003). The amount of direct investment carried out in China by Canadian firms increased from 6 million dollars in 1990 to 542 million in 2003 (Statistics Canada, 2004). The increase in foreign direct investments is also remarkable in the three other countries mentioned above. These direct investments can be made in wholly-owned subsidiaries or in joint ventures.

This paper aims at generating research propositions regarding the strategies implemented by Western firms in emerging countries. These are firms that are involved in foreign direct investment activities, whether through wholly-owned subsidiaries or joint ventures. We are not focusing here on entry modes, but on the strategic process once an emerging market has been entered.

In the first section of the paper we address the issue of institutional change and uncertainty in emerging countries, and its implications for management research. We suggest that researchers look beyond the conventional typologies based on product-market positioning and make use of organizational theory in order to have a broader perspective on strategy implementation in emerging countries. In the second section, we introduce three theoretical positions on the issue of uncertainty at the international level: the institutionalist theory, the global approach, and the interactive model. Each one of these approaches is analyzed in the subsequent sections of the paper, and research propositions on strategies of Western firms in emerging countries are elaborated. Illustrative cases of Canadian companies involved in emerging countries are provided to illustrate each approach

INSTITUTIONAL CHANGE AND UNCERTAINTY IN EMERGING COUNTRIES

Emerging markets are characterized by relatively rapid institutional change, as well as by higher rates of economic growth than that observed in developing countries. Economic growth in these countries is generally accompanied by trade liberalization measures. However their legal, political and financial institutions are not as mature as those prevailing in the industrialized regions of the world, and this creates an ambiguous and uncertain climate for foreign investors. Institutional change frequently occurs in a non-linear, unpredictable way in many of these emerging countries (Hoskisson and Al, 2000; Peng, 2001; 2003). We find it premature to assert that emerging countries evolve quickly and unrelentingly toward a business environment similar to that of the West, and that Western firms need only make certain strategic efforts for a period of a few years in order to protect themselves from the legal gaps in these countries. We cannot assume a priori that this phenomenon of westernization of emerging countries is as fast and inevitable as certain researchers seem to think.

The organizational literature provides fragmented theoretical explanations as to the strategic process by which Western firms cope with these institutional differences. To what extent do these companies adapt their strategies to the local context? Are they capable of innovation and entrepreneurship, and if so, how do these entrepreneurial abilities develop in a context that is institutionally and culturally very different? Questions such as these, dealing with the strategic process, received less attention from researchers than the issue of choice of entry modes. This concern for content rather than process can be explained partly by the prevalence of an economically derived and functionalist approach to the internationalization of the firm (Hench, 1997). Such an approach has so far given rise to textbook typologies and continua of potential strategies for internationalizing firms, but it failed to provide linkages between the strategies and the underlying theoretical foundations. The result has been the accumulation of descriptive or normative descriptions of potential product-process-market positioning for internationalizing firms, rather than on the evolutionary learning of new core competencies or combinative capabilities that may make such positioning possible, as it was suggested by Prahalad and Hamel (1990) and Doz (1997). The understanding of the dynamic process by which such capabilities are learnt requires the integration of theories emanating from different areas of organizational science.

STRATEGY IMPLEMENTATION IN EMERGING COUNTRIES: THREE APPROACHES

We examine three approaches to the relationships between Western firms and the environments of emerging countries. First we analyze the institutionalist approach, centered on local constraints and the need for adaptation on the part of Western firms. Then we examine the global strategy approach, together with the Schumpeterian tradition, as the two approaches share significant similarities. Finally, we examine the interactionist model (i.e., local and global), as illustrated in Giddens' structurationist theory and in the emergent paradigm of international entrepreneurship. Table one presents these three approaches. We propose a comparison of these approaches from the perspectives of economics, strategy and sociology.

TABLE 1

Strategies of Western firms in emerging countries: three approaches

Strategies	Approaches / authors	Rationality	Knowledge and learning
Adaptation of Western companies to local constraints	Institutionalist (Scott, 2001; Westney, 1993)	Multiple logics determined by the institutional and cultural context	Little knowledge sharing. Learning is done by Western firms (mimetic isomorphism)
Global strategy	Levitt (1983) Ohmae (1990); Reich (1992) Baumol (1993)	Rational actors: Western economic logic.	Teacher-learner model (superiority of Western management and technology)
Local/global interaction. Relations and construction of joint interpretations	. Interactionist and structurationist approach in sociology (Giddens, 1990) . International entrepreneurship (Etemad, 2003)	Emergent forms. No dominant form a priori.	Mutual knowledge. Co-learning: learn-learn model. Creation of new standards, structures and strategies

These approaches differ on key and interrelated dimensions of dynamic capability building. First, they are characterized by specific interpretations of what is rational in an international context. Then these various forms of rationality correspond with particular conceptualizations of knowledge and learning. Knowledge is a key concept in recent theories of the firm, particularly the resource-based view and the knowledge-based approach (Barney, 1991; Spender, 1996). In the former, it is considered as an intangible resource that gives rise to unique, firm-specific competencies and competitive advantages. The emphasis is on the content of resources and competencies. In the knowledge-based approach, the emphasis is on the processes of knowledge acquisition, use and diffusion or transfer. The research question within this approach is how knowledge is processed and learnt, not what the firm knows.

The interplay between these three dimensions of capabilities gives rise to specific types of strategy implementation. The first type is the adaptive one, the second one is global, and the third type is interactive. These strategies evolve and are reconfigured through time and space, although little is known as to the sequence of this evolution.

INSTITUTIONAL CHANGES AS SOURCES OF CONSTRAINT AND ADAPTATION: THE INSTITUTIONALIST APPROACH

Until recently, the institutionalist view was conceptualized by international management researchers as a theory of adaptation of the firm (Doz and Prahalad, 1993; Dacin, Goodstein and Scott, 2002; Ray, 2003). According to this conception, the analysis of the strategic process requires that one take into consideration the complexity inherent in the relations between organizations that have different ways of seeing the world, or that operate according to different rationalities. These rationalities are mainly determined by the institutional and cultural contexts in which the companies evolve. The cognitive and cultural elements, as well as the normative and regulating aspects of institutions determine the rules, standards and cultural values which, in turn, shape the ways of thinking and the behavior. Institutional environments thus shape multiple legitimate rationalities. The institutional processes set the parameters of what is agreed upon as being rational or logical within a given social framework. In contrast with this unidirectional view of the link between the organizations and their environment, the studies that look at the capacity of the organizations to act in a proactive way and to change the institutional standards are very few (Oliver, 1991; Kondra and Hinings, 1998).

The changing economic, cultural, political and social conditions in emerging countries constitute significant constraints for Western firms. Such conditions determine a certain way of thinking and a logic that is very different from those of the domestic market. When they interact, actors from Western countries and those from emergent markets find themselves in a conflict of logic and rationality.

The first logic is that of Western firms. They act on the basis of economic rationality and their managers are mentally motivated and guided by the identity referents and the cultural environment specific to the Western companies where these organizations evolve. This rationality is founded on a double legitimacy: technical and economic. It is based on a strategic process of mobilization of specialized resources guided by an orientation toward efficiency. Until the end of the 1990s, the dominant strategic design of Western companies was economic and was based on a rational and analytical approach. This economic design is well described in management, through the work of Porter (1979) on competition, of Williamson(1979) on transaction costs (1979), and Barney (1997) on resources. Managers of Western companies generally adopt strategies strongly determined by this rationality.

The other logic relates to the behavior and strategies developed by firms from emerging countries. Such behavior and strategies reflect, above all, the institutional logic implemented in each emerging country. This is due not only to the cultural referents (Adler, 1997) specific to the companies in these countries, but also to the institutional frameworks and the organizational operating modes in which these strategies are developed. This also appears to be founded on a traditional legitimacy in which the dominant rationality rests more on the community-based and clan-like social bonds than on the performance of the individual and the repercussions of his actions on the group. This institutional logic, implemented in various forms in emerging countries, and its consequences on the adaptive capacities of Western firms constitute a particularly favorable field for verifying the institutionalist model.

Western companies learn to adapt their management models by imitating their predecessors. This process of mimetic isomorphism makes it likely that organizations coming from the same region will tend to behave in a similar way in foreign markets. Central to the adaptive strategic approach is the transfer of adapted knowledge, whose level of advancement is close to that existing in the host country.

Applying these elements of the institutionalist approach, we put forth these research propositions:

Western companies which invest in emerging markets will display the following characteristics:

. *Their strategies will be more reactive and adaptive.*

. *Rather than innovate in the host country, they will seek to transfer their managerial and technological knowledge that is closest to that existing in local organizations*

. *Their main concern will be to minimize risks and transaction costs.*

Illustrative case: EnCana Brazil

An interview with the CEO of the Brazilian subsidiary, EnCana Brazil, illustrates this type of adaptive strategy.

EnCana was formed by the merger of Alberta Energy Company Petroleum and Pan Canadian. The company became the largest independent oil operator in North America and the leading natural gas producer in this region. Encana has subsidiaries in Africa, South America and Middle East, in addition to the United States and Canada. Focusing on the development of huge unconventional reservoirs of oil and gas, in September 2005, EnCana became the Toronto Stock Exchange's No.1Company.

Since the Brazilian oil monopoly ended in 1996, EnCana's strategy has been to develop a partnership with Petrobras (the state-owned Brazilian oil company) which had expertise on interpreting geological data from Brazil, as well as political influence in the country. In addition, EnCana focused on exploring its heavy oil expertise, which would put them one step ahead of the other players. In doing so, EnCana had become very accustomed to the way the industry functions in Brazil. EnCana decided to maintain its core competencies in heavy oil. At the same time it selected a Brazilian CEO with several years of experience with Canadian firms in both Brazil and Canada. These decisions helped EnCana to become responsive to the Brazilian particularities as well as ensure that their managerial and technological knowledge would be transferred to the Brazilian subsidiary. EnCana transferred highly specialized and world class knowledge to Petrobras, its Brazilian partner, which had sufficient expertise to progressively assimilate that knowledge. The following quote summarizes EnCana's view on the transfer of knowledge, and also illustrates the company's focus on the application of technology already developed by the Western firm:

> "We brought to Brazil what is considered world class, heavy oil production technology. Here, with a partnership with Petrobras, with a technology trade agreement, or through our projects we will eventually get involved in Brazil with or without Petrobras. I think that it is a gift to Brazil because Canada has developed over the years what is considered world class technology for heavy oil. There is more and more heavy oil being found everyday. I think it is a great relationship, it is good to see this company making this

> possible because it benefits the people of Brazil and Petrobras as a company. The employees have more pride in the company, and they stick to their agreement with us".

Decisions made in Brazil are essentially operational ones. Although local issues give context for the strategic decisions, important decisions are made by the Canadian headquarters. The Brazilian endeavor is very small in comparison to the EnCana's global operation. However, EnCana has been very conservative in trying to minimize transaction costs and risks in Brazil. Although strategic decisions are made at headquarters, the implementation is adapted by the Brazilian company after considering the local context in which the risks and implications of such actions are better understood. For instance, when describing his responsibilities in Brazil, the CEO emphasized Encana's low level of autonomy:

> "We don't have a lot of autonomy I should say. All the technical work is done in Calgary (Canada) and there is a good reason for that. You don't want to deploy all the technical skills down into regions when you don't know if oil will be there after you drill a well. So you try to minimize our mobilization costs as well as we try to reduce the economic, political, technical and safety risk we could face…Our investments here in Brazil are not very important to the Headquarters. […..] Meeting the right people here and presenting what you thought was the best thing to do and getting support from our headquarters."

The adaptation of EnCana's strategy to the local constraints was also indicated by a strong commitment to local communities potentially impacted by the environmental risks of drilling oil. EnCana Brazil has created not only awareness and training programs for the poor fishing communities, but has also supported governmental programs on security and risk analysis. Such actions have helped EnCana to develop a positive image for social and environment responsibility, which had been demanded by the local community. Another indication of this adaptive strategy to local constraints can be illustrated with the approach used by EnCana in dealing with the regulatory oil agency in Brazil:

> "We have tried to educate the Brazilian Agency and tried to adjust our experience to the Brazilian reality. In fact, the Brazilian agency, for a while, has already expressed some interest in learn from our previous experience. I think that in the next few years you will see Brazil adopting some guidelines for taxation based on either a new completely new system, or alternatively based on our Canadian experience. Canada is helping Brazil specifically in that area of tax regulation and Brazil may modify the current taxation system to a new structure based on Canadian experience with taxing oil production".

In summary, the EnCana case exemplifies the characteristics of a Western company that has adapted its strategy to the local constraints. EnCana has transferred its heavy oil expertise to Brazil, has used Brazilian geological knowledge, has minimized its transaction costs and risks, and has limited innovation to an incremental level as described by its CEO: "We don't pretend to know everything, but EnCana Canada did invent the 'wheel'. If we can add value to the wheel here in Brazil, let's do it!"

INSTITUTIONAL CHANGE AS A SOURCE OF OPPORTUNITY AND ENTREPRENEURSHIP: THE GLOBAL APPROACH

An alternative way of understanding institutions is under development. As Dacin, Goodstein and Scott (2002) noticed, it is important to examine the extent to which organizations can influence their institutional environment. Can they do it, for instance, through political lobbying in the host country, or simply by acting as models of innovation and entrepreneurship? Peng (2001; 2003) stressed that the companies from emerging countries are not all that reactive; the more entrepreneurial among them can accelerate the process of institutional change, often with the collaboration of Western partners. In India, economic liberalization measures implemented by the government since 1991 seem to be mainly due to the influence of powerful groups of entrepreneurs (Pedersen, 2000). These observations seem to confirm the hypotheses put forth by Oliver (1991) and Kondra and Hinings (1998) regarding the strategic choices of organizations and their impact on the institutional environment.

This research path has been used rather infrequently. It goes back, in fact, to the concept of entrepreneurship and its role in the transformation of the economic system (Schumpeter, 1961), and to its possible impact in emerging countries (Pedersen, 2000; Peng, 2001; 2003). Entrepreneurship, in the Schumpeterian sense, is defined as a new combination of resources on the part of individuals or organizations (Schumpeter, 1961; Baumol, 1993). These new combinations, which constitute the essence of innovation, can be observed when new products are launched, when new processes, new sources of raw materials, and new management methods are introduced, or even when new markets are developed. The process is the same, whatever the area of the world where the entrepreneur and the enterprise are located. By dissociating the economic system from the culture—which allows us to avoid the question of cultural differences in entrepreneurship—, and by showing that innovations are easily imitated and transferred, the Schumpeterian theory already contained elements of a global approach to strategy. By being the first to invest in a sector of an emerging country, Western companies innovate, become more competitive and contribute to the economic development of the host country. In return, this development benefits Western investors. Economic development can be accelerated when local partners join Western companies to form strategic alliances (Baumol, 1993). These local partners are then regarded by Western firms as invaluable means for the attainment of their commercial objectives. The role of local firms is then strictly instrumental: they provide their partners with unique information regarding the local environment.

The form of rationality which underlies this approach stems from economics. An economic, analytical and rational type of logic is characteristic of the work of Porter (1979), Williamson (1979) and Barney (1997). When extended to the international field, that logic has given rise to a universalistic conception of strategy, in the sense that it does not take into account the social and cultural characteristics of the areas of the world where it is established. This economic rationality, as defined in economics textbooks, seems to have given less consideration to the social relations that occur during trade. A global strategy, which does not require a significant degree of adaptation of the methods of management nor the technologies or products of Western firms (Levitt, 1983; Ohmae, 1990, Reich, 1991), allows them to be more efficient and competitive. Within this framework, Western companies are perceived as teaching entities, whose objective is to transmit new knowledge and skills to partners, employees or learning parties of the host country.

Taking into consideration the entrepreneurial behavior of Western firms, it makes it possible to exceed the framework of the institutionalist theory and its one-way conception of the relation between organizations and their environment. Building on this approach, we put forth the following research propositions:

. *Western firms investing in emerging markets will prefer to adopt proactive and global strategies;*

. *They will innovate in the host country, in the managerial and technological fields;*

. Their main concern will be to assume calculated risks rather than to minimize the risks and transaction costs.

Illustrative case: Alcan

ALCAN was created in 1928 as an international company with assets and management in 8 countries. It was the international division of ALCOA, the leading US aluminum company. ALCAN was separated from ALCOA to become the first international company in the aluminum industry and to take the advantage of international opportunities. ALCAN today is the world's second largest producer of primary aluminum and has over 470 facilities in 56 countries and regions with the 2004 pro-forma revenue of approximately USD19.5 billion.

As a globally integrated aluminum company ALCAN has been involved in both the upstream and downstream businesses of aluminum industry throughout its history. The upstream businesses are mining, refinery, and smelting to produce primary aluminum. These are very capital-intensive businesses (one to two billion USD for each unit) and need to be close to the main sources of electrical energy, a primary resource for the production of primary aluminum. For that reason political stability plays a major role in making investments for these kinds of operations. Downstream businesses are fabrication and transformation of primary aluminum to sheets, rolls, extrusions, and other products used in various industries. These operations are much less capital-intensive, have lower barriers of entry, and need to be close to major markets such as the United States, Europe, and Asia. Client responsiveness has always been the main concern of in downstream businesses compared to lowering costs in upstream businesses.

From 1928 to 1993, just like other major players such as ALCOA, ALCAN was considered as a "Metal Long" company (i.e. producing more primary aluminum than it transforms). This means it had to be involved in an ongoing process of product development as well as market creation for 65 years. During these years ALCAN developed many new markets and continually innovated by launching new products, processes and several new operations all around the world, including important emerging markets: 'We were first in China, India, and Brazil. You may call Alcan the missionary of aluminum on the international scene'. It assumed moderate levels of risks and searched for extensive two-way learning processes in developing local and/or regional markets. Local organizations were given enough autonomy to make strategic decisions and operate separately as reflected in ALCAN's corporate structure. The interviewee explained:

> "Historically ALCAN had four functional departments (i.e. finance, personnel, R&D, and legal), and about 30 country organizations that were operating separately and reporting directly to the CEO. This was the structure of ALCAN's organization for more than 45 years….. There was only a technical coordinating function on raw materials during these years."

However, certain macro level factors did not let ALCAN to keep its locally oriented strategy and structure. The first oil shock in the mid 1970s was followed by the establishment of economic blocks such as NAFTA in 1980s. These created serious pressures for ALCAN to reduce its costs and regionalize its operations. By the mid 1980s ALCAN had three business-coordinating functions (raw material, smelting, and fabrication) as well as three regional coordinating functions (i.e. America, Europe, and Asia/Australia) to centralize decision-making processes around these coordinating mechanisms. By early 1990s this expensive corporate structure was further rationalized to three global sectors: raw material, primary aluminum, and fabrication. ALCAN evolved toward a global sector type of structure, as the interviewee described by the evolution:

> "When the merger took place with Alui Swiss and Pechiney a fourth sector was added to those three global sectors; the new sector was packaging. These sectors are responsible for activities all around the world. So ALCAN literarily evolved from a very local type of organizations to a global coordination that eventually ended up to a global P&L responsibility by sector."

Another change was the fact that Aluminum became a traded metal on the London Metal Exchange by late 1980s and early 1990s. This caused a terminal market to be established between upstream and downstream businesses of the aluminum industry. This means ALCAN should now sell its products to terminal markets after more than 60 years of selling directly to customers. This made the company more global as explained by the interviewee:

> "You don't become a global company because you decided to become a global company. You need to have global customers to do that, if you don't have global customers you still have to be a mutidomestic company. It was only by early 1990s that the fabrication or downstream businesses had global customers. This was not the case during 60s, 70s and 80s."

Thus, by early 1990s ALCAN's main concerns were to be able to stay globally competitive. The focus of ALCAN on global concerns can be observed in different ways. For example, ALCAN has historically focused on transferring its technology and way of doing things to countries all around the world. This includes not only technological knowledge but also management practices. The following quote clearly explains it:

> "In many countries, the ALCAN way of doing things after 10, 15 years became the local way of doing things. We had demonstrated we could be successful without reverting to the local practices…… So we were very instrumental on convincing many multidomestic companies to follow our lead and basically do the same and not literarily get trapped into the local way of doing things."

Another example is the fact that ALCAN set up a Global Issues Management System early 1990s to watch, analyze, and coordinate ALCAN's management issues at global level. It was assembled at corporate level and managed at each global sector. But even the global sectors are not independent in this management system and important decisions are basically made in Canada. The interviewee explained it as follows:

> "We set up multi-disciplinary and multi-geographic task forces to manage global issues. The fact that we had four different sectors does not mean that they act independently. If there was an issue that affected more than one sector or more than one geographic area it was managed on multi-geography and multi-sector bases."

ALCAN, as a global company, has made significant contributions in changing the business norms of various countries in the last fifteen years. However, as cost reduction as well as economies of scale became the company's major concerns they have narrowed the scope of these contributions to those countries that they have location advantages.. ALCAN has in fact exited from about 25 countries in the last 15 years.

In summary, this case shows how a Canadian multinational corporation has developed products and markets all around the world with a global approach for 65 years, while at the same time demonstrating some capability for local responsiveness. In the recent decades economic shocks, globalization, and the maturity of the industry has required ALCAN to focus more on global concerns. It explains how a western transnational corporation successfully created global competitive advantage by focusing on the transfer of knowledge to different countries, assuming costs and risks, and centralizing decision makings and controls at corporate level.

INTERACTION AND SYNERGY BETWEEN THE LOCAL AND THE GLOBAL

Some researchers have argued that global strategies are seldom used by Western firms. Douglas and Wind (1987) offered arguments that portray globalization as a myth, and showed why global strategies are not feasible. The conditions under which global strategies may work are rather limited, and pertain mainly to countries where an economic logic is prevalent. An alternative perspective within the global framework has been offered by the work of Rugman (2001) who contends that globalization, as it is generally viewed, does not exist. His work provides extensive empirical research that suggests that most business activity is carried out in regional blocks, and that global markets are not becoming homogenous. Moreover, it is claimed that global integration strategy is not viable in most industries, with evidence that most multinationals which dominate the global business carry out operations at the regional level, rather than the global level.

The interactionist model in sociology (Mead, 1938; Blumer, 1969) proposes a micro perspective on this global-local dilemma. It also brings an interpretative dimension which does not exist in either of the two preceding approaches. This model stresses the interpretation of the various actors involved in making a decision, rather than on the objective dimensions of the strategies. Based on the progression of their interactions, the actors build joint strategies which result from the meaning that each one places on the behavior of the other. For example, Western organizations will try to better understand the business model of their local partners or the role of the local institutions, not only in order to adapt to them, but also to better cooperate with and learn from the various local actors. The implementation of their strategies rests more on progressive and mutual comprehension, that on the adaptation to the local context or the establishment of their Western business model.

The structurationist approach in sociology illustrates this interpretative approach. The theory of the structuring rests on the principle of the non-exteriority of structures. This leads our research to exclude the idea that the nature and quality of the business connections are independent of the cultural interventions that structure the interactions between the organizations and their environment. This approach, developed in the 1980s, is found mainly in the work of Giddens (1987; 1990). In our work, it helps to shape the interactions between two forms of institutional logic. The purpose of this inquiry is to supplement the institutionalist and globalist perspectives, in particular when considering the structuring dimensions of the organizational contexts and the cultural referents of action that characterize the institutional logic of the host countries.

This approach is applied to the case of the interaction between the institutional logic of the host countries and the corporative economic logic of Western organizations. This interaction mobilizes two actor-partners whose actions fall under different mental configurations and strategic behavior, because they are conditioned by distinct cultural referents (Western rationalist economic logic and the institutional and cultural logic specific to emerging countries).

The structurationist theory enables us to have a convenient and efficient methodology for understanding the strategies of the actors, such as the managers of Western corporative organizations and their partners from emerging countries. By separating the analysis of the structures from the analysis of the action, it becomes possible to evaluate the impact on the behavior and strategies implemented locally by these actors. Herein lies another fundamental goal which justifies the recourse to this prospect: the relationship between the local actions of the actors and the consequences which they produce on a global level. Indeed, the recurrence of these actions, through the various experiments undertaken by Western organizations in various emerging countries, can create dynamics that the principal actors tend to reproduce, especially when the results obtained are in accordance with long term goals. In this context, it would not be too hazardous to establish a relationship between the first local actions and the range of their consequences on a broader global scale. As such, local transformation may occur as a result of the global influences, but there may also be global repercussions, arising from local institutional differences. The local and the global are thus constantly in interaction.

The synergy occurring between the companies and the Western context on the one hand, and the companies and the context of the emerging countries on the other hand, is also detectable in the emergent paradigm of international entrepreneurship. Etemad (2003) shows examples of local subsidiaries which at certain times exceeded the level of managerial or technological knowledge and capacities of the Western company. Firms can profit from the knowledge and capacities developed in emerging countries. Such effects of co-learning and synergy are possible only if Western companies develop close and long-term connections with companies from the host country. Moreover their strategies must be centered on being open to the needs of the subsidiaries or partners and on planning for the latter's progressive autonomy.

The research propositions resulting from this approach are:

. *Western firms will implement strategies centered on the autonomy of the subsidiaries or partners.*

. *Their strategies will aim at developing learning capacities in the subsidiaries or partners, in order to benefit from new joint managerial and technological capacities.*

Illustrative case: Novelis

Novelis was formed as a spin-off from Alcan in late 2004 and become the new world leader in aluminum rolled products. It happened after ALCAN acquired Pichinet (i.e. late 2003) and was under pressure from anti trust legislators both in the US and Europe to divest some of the Pichinet plants. Therefore, ALCAN decided to spin-off most of its rolling business and establish Novelis as a completely separate and independent corporation. Novelis as a Canadian chartered multinational corporation, although its operational headquarters is headquartered in Atlanta. It has 36 operating facilities with 30,000 employees in 11 countries on four continents (i.e. North America, South America, Europe, and Asia). Its total revenue for 2004 was USD 7.8 billion.

Novelis is a global company with unique operation, standards, and safety policies throughout the world. All the global operating units are expected to meet the ISO 9000, ISO 14000, and OSHA 18000 standards. Novelis headquarters office closely and systematically controls global technological and safety standards of all its global business units. However, each of the four regional operations can focus on its own specific market needs and has the autonomy and responsibilities for responding to the local issues. One of the main contributing factors in this regionalized decision-making process at Novelis is the culturally diversified combination of its board of directors. Members of its board are from Brazil, Asia, Germany, US and Canada. This has helped the company to develop a multicultural perspective and management practice among its executives. Novelis has a geographic multidivisional organizational structure with considerable coordination and management controls at the regional level. This means that Novelis has developed a specific business model for its operation in each region by integrating global and local aspects of its business activities. For example, Novelis generally has a strategy of concentrating on rolled aluminum business globally, except for the South American operation, where it follows an integrated strategy, keeping its two traditional upstream business units (smelters) in Brazil. The lack of any other supplier for the ingot sheets (the main raw material for rolling business), as well as high level of financial and operational risks, are the main reasons for the different business model in Brazil. In other words, the special situation of South American market has led them to develop a regionalized business model in Brazil.

Another clear indication of this global/local interaction at Novelis in Brazil is their dominant export strategy. Exporting is not considered as an important strategy for Novelis operations in other continents because each regional operation normally feeds its own market. However, low South American market demand, currency fluctuation and opportunities to cooperate and feed markets on other continents have all made exporting an exceptionally important strategy for Novelis in South America. In addition, having global standards in their South American aluminum rolling products creates excellent opportunity for them to feed other markets. As the interviewee put it:

> “ Our rolling plant in Brazil is among the best plants that Novelis has in the world, so we have world class products coming out of this plant that can easily integrate with the North American, Asian and even European operations, helping them in feeding their markets.”

As a result of this, Novelis Brazil is now exporting to the Asian, Middle Eastern and North American markets, and has been able to demonstrate how a combination of local factors with global competitiveness can makes exporting an exceptionally successful strategy for South American operation.

Novelis has more than 60 years of operational experience in Brazil, which gives them a good understanding of cultural and economic aspects of doing business in South America. It has a great amount of experience with many situational factors and uncertainties in Brazil. Daily cash flow management, the power of informal economy, unstable rules and regulations, currency devaluation, and security issues are some of these situational factors that have direct effect on doing business in South America. These have led Navelis to assume a moderate level of risk in its strategies. This has convinced the headquarter executives to accept the fact that regional managers are knowledgeable and experienced, and deserve to have the autonomy to make their strategic decisions. The following quotes explain some of the local concerns addressed by South American managers:

> “We have a very high interest rate [here in Brazil]. Because of this we developed a special system to manage our cash flow daily. Any manager in Brazil understands the importance of keeping this system updated. Some of our managers in US or Europe cannot even imagine a need for managing their cash flow day by day.”
>
> “Brazil is getting more and more famous for its informal economy. Informal economy is hiring people without paying them, it is selling products without proper invoices and without paying taxes……what happens is that so called “regular” companies like Novelis (and many others) carry a higher and higher burden in meeting the revenue demands of the taxation system”

Novelis as a global corporation has transferred the most updated aluminum rolling technology to countries such as Brazil, but more interestingly, it has also learned from its new operations and management practices in Brazil, using this knowledge for its operation in other continents. It has transferred a global knowledge from North America to South America and in return it has transferred back local experiences for improving its operation to North America. One of the best examples explained by the interviewee is how the North American operation has learned from the marketing experience in Brazil, particularly that Novelis should change its relationship with customers from a product supplier to a solution provider. In addition, Novelis Brazil is transferring its knowledge in how to promote the recycling aluminum cans to other regions of the world, particularly, to the North American operations. The Brazilian can return rate is 95%, while in North America it is only 50%.

> "We learned from our North American operation and transferred the most updated technology to Brazil…. But then we made the commitment at the Brazilian plant we would be the new teacher in the whole system……There is a lot of learning from our operation and the way we approach customers to promote aluminum recycling, as well as the corporation."

In summary, the Novelis case demonstrates how a western corporation combines its global competitiveness with its local responsiveness to craft and implement a successful interactive strategy. Novelis Brazil has taken moderate level of risk by localization of its business models, however it has followed a risk control policy by centralization and globalization of the technical and quality aspects of its business activities.. The Novelis case clearly demonstrates how a western corporation can successfully take the advantage of the interaction between global and local aspects of its business.

Conclusion and opportunities for further research

The objective of this paper was to look beyond the conventional typologies based on product-market positioning and make use of organizational theory in order to have a broader perspective on strategy implementation in emerging countries. We have proposed a comparison between three approaches to the issue of relationship between Western firms and the environments of these countries. First we analyzed the institutionalist approach, centered on local constraints and the need for adaptation on the part of Western firms. Then we examine the global strategy approach, together with the Schumpeterian tradition, as the two approaches share significant similarities. Finally, we examine the interactionist model (i.e., local and global), as illustrated in Giddens' structurationist theory and in the emergent paradigm of international entrepreneurship.

These approaches differ on key and interrelated dimensions of dynamic capability building. First, they are characterized by specific interpretations of what is rational in an international context. Then these various forms of rationality correspond with particular conceptualizations of knowledge and learning.

Each one of the three types of strategy that were analyzed in this paper can theoretically be effective, depending upon factors related to time and space. When, where in the emerging regions of the world and why are these different strategies implemented?

Further studies should use methodologies that make it possible to study the evolution of these strategies over time. Do companies that invest in emerging countries go through phases which enable them to veer from one type of strategy to another, or do they rely primarily on one approach? It is also important to know if there are differences in strategies, depending upon the host country. It is indeed possible that the strategies differ according to the managerial and technological level of the host country. In the case of more advanced countries, the global strategies and those centered on co-learning could be used more effectively. Finally what is the impact of strategic choice on longevity and on the outcomes of direct investment? These questions were not yet been tackled in a clear way in the literature. As Beamish (1993) noted, the factors that can explain the success and stability as well as longevity of investments in emerging countries are still poorly known. Future research based on thorough conceptual work could make it possible to advance knowledge in this field.

REFERENCES

Adler, N. 1997. ***International dimensions of organizational behavior***. Ohio: South-Western College Publishing.

Barney, J. 1991. Firm resources and sustained competitive advantage. ***Journal of Management***, 17: 99-120.

Baumol, W. 1993. ***Entrepreneurship, Management and the Structure of Payoffs***. Cambridge: The MIT Press.

Beamish, P. 1993. The characteristics of joint ventures in the People's Republic of China. ***Journal of International Marketing***, 1: 29-49.

Beckert, J. 2003. Economic Sociology and Embeddedness: How Shall We Conceptualize Economic Action? ***Journal of Economic Issues***, 37: 769-787.

Blumer, H. 1969. ***Symbolic Interactionism***. Englewood Cliff, N.J: Prentice Hall.

Dacin, M.T., Goodstein, J. & Scott, W.R. 2002. Institutional theory and institutional change: Introduction to the special issue. ***Academy of Management Journal***, 43: 45-57.

Dicken, P. 1998. ***Global shift: transforming the world economy***. New-York: Guilford Press.

Doz, Y. 1997. Strategic Management and International Business Research: An Empirical Convergence? In: B. Toyne and N. Douglas (Eds.) ***International Business: An Emerging Vision***: 488-497. Columbia: University of South Carolina Press.

Doz, Y. & Prahalad, C. 1993. Managing DMNCs: A Search for a New Paradigm. In: Ghoshal, S. & Westney, D. (Eds.), ***Organization Theory and the Multinational Corporation***: 24-50. New-York: St.Martin's Press.

Etemad, H. 2003. Managing relations: the essence of international entrepreneurship. In Etemad, H. and Wright, R. (Eds.), ***Globalization and Entrepreneurship***: 223-242. Cheltenham, UK: Edward Elgar.

Giddens, A. 1987. ***Social Theory and Modern Sociology***, Stanford: Stanford University Press,

Giddens, A. 1990. ***The Consequences of Modernity***. Stanford: Stanford University Press.

Govindarajan, V. & Gupta, A. 2001. **The Quest for Global Dominance: Transforming Global Presence into Global Competitive Advantage**. San Francisco: Jossey-Bass.

Hench, T. 1997. The Domain of International Business: Paradigms in Collision. In: B. Toyne and N. Douglas (Eds.) ***International Business: An Emerging Vision***. Columbia: University of South Carolina Press.

Hofstede, G. 1980. ***Culture's Consequences***. Beverly Hills: Sage.

Hoskisson, R., Eden, L., Lau, C. & Wright, M. 2000. Strategy in emerging economies. ***Academy of Management Journal****, 43: 249-267.*

Kondra, A. and C.R. Hinings 1998. Organizational Diversity and Change in Institutional Theory. ***Organization Studies***, 19 (5): 743-767.

Levitt, T. 1983. The globalization of markets. ***Harvard Business Review***, May-June: 92-102.

London, T. & Hart, S. 2004. Reinventing strategies for emerging markets: beyond the transnational model. ***Journal of International Business Studies***, 35: 350-370.

Mahoney, J. 1992. Organizational economics within the conversation of strategic management. ***Advances in Strategic Management***, 8: 103-155.

Marcotte, C. & Julien, P.A. 1995. Partage d'information et performance de coentreprises implantées par les PME québécoises dans les pays en développement. ***Revue Internationale PME***, 8: 175-201.

Marcotte, C. & Niosi, J. 2000. Technology Transfer to China: The Issues of Knowledge and Learning. ***Journal of Technology Transfer***, 25: 43-57.

McDougall, P., Shane, S., & Oviatt, B. 1994. Explaining the Formation of International New Ventures: The Limits of Theories from International Business Research. ***Journal of Business Venturing***, 9: 469-487.

Mead, G, H. 1938. ***The Philosophy of the Act***. Chicago: University of Chicago Press.

Ministère des Affaires étrangères et du Commerce international. 2003. Gouvernement du Canada, site Web: www.dfait-maeci.gc.ca.

Ohmae, K. 1990. ***The Borderless World: Power and Strategy in the Interlinked Economy***. New-York: Free Press.

Oliver, C. 1991. Strategic responses to institutional processes. ***Academy of Management Review***, 16 (1): 145-179.

Pedersen, J.D. 2000. Explaining Economic Liberalization in India: State and Society Perspectives. ***World Development***, 28 (2): 265-282.

Peng, M. 2001. How do entrepreneurs create wealth in transition economies. ***Academy of Management Executive***, 15: 95-112.

Peng, M. 2003. Institutional Transitions and Strategic Choices. ***Academy of Management Review,*** 28, 275-296.

Porter, M. 1979. How competitive forces shape strategy. ***Harvard Business Review***, March – April: 137-145.

Prahalad, C. & Hamel, G. 1990. The Core Competence of the Corporation. **Harvard Business Review,** May-June.

Ray, S. 2003. Strategic adaptation of firms during economic liberalization: Emerging issues and a research agenda. ***International Journal of Management***, 20: 271-286.

Reich, R.B. 1991. ***The Work of Nations***. New-York: Alfred Knopf.

Schumpeter, J. 1961. ***The Theory of Economic Development***. New-York: Oxford University Press.

Scott, R.S. 2001. ***Institutions and Organizations (second edition)***. Thousand Oaks: Sage Publications.

Spender, J. 1996. Making knowledge the basis of a dynamic theory of the firm. **Strategic Management Journal,** 17, 45-62.

Statistiques Canada. 2004: CANSIM Table 376-0051

Townley, B. 2002. The role of competing rationalities in institutional change. ***Academy of Management Journal***, 45: 163-179.

Westney, D. 1993. Institutionalization Theory and the Multinational Corporation. In: Ghoshal, S. & Westney, D. (Eds.), ***Organization Theory and the Multinational Corporation***: 53-76. New-York: St.Martin's Press.

Williamson, O. 1979. Transaction cost economics: The governance of contractual relations. ***Journal of Law and Economics***, October: 233-261.