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What Drives MNEs to Pull Back from Emerging Economies? The Mosaic of Strategies in China

What makes multinationals pull back from emerging economies? Multinational enterprises (MNEs) that flocked to China have been cutting back their strategic commitments. Explanations usually focus on one or two drivers at host-country level. They normally take a binary exit/stay approach and assume that what drives MNEs away is a mirror image of what draws them in. New, more nuanced analysis** finds a veritable strategic mosaic: more than one pathway can lead to cutting commitments and each may feature various combinations of drivers – without, moreover, any such nice symmetry.

The researchers meticulously crafted a dataset on 70 foreign MNE subsidiaries in China from 19 industries over 2013–2019. They studied the interplay of multiple drivers spread across the classic "strategic tripod" of firm resources (financial and technological), industry conditions (industry munificence and dynamism), and institutional factors (both formal and informal institutional distance). Five causal combinations coalesced into three pathways of strategic commitment reduction, which the researchers propose as generalising to other emerging economies.

On the first pathway, MNEs generally slash commitments to an emerging economy if their subsidiaries lack a financial buffer or "slack", even when their industry is growing and the local institutions feel culturally familiar. Market opportunities then go unrealised. For instance, envirotech giant Kanfort, headquartered in culturally-similar Hong Kong, lacked the resources to see through an expansion spreading subsidiaries right across the mainland to seize on China's boom in electronic recycling.

On the second pathway, MNEs also pull back if their technological edge can no longer overcome high institutional differences between countries and high financial pressure. Three causal combinations came together on this pathway, and long-established British spirits distributor Diageo exemplified one of those. Diageo had leapt into China's promising whisky market by becoming the biggest shareholder of Sichuan Swellfun Co. But the Chinese have a food-based alcohol culture and regard whisky as "foreign wine". Whereas local entrepreneurs adapted to this, Diageo did not, and its competitive advantage could no longer compensate.

The third pathway comprises MNEs that are financially strong and free from unfamiliar regulations but lack the technological edge or cultural insights to thrive in the blood-filled "red ocean" of a savagely competitive, saturated local industry. For example, Supor, the Chinese subsidiary of a French-headquartered appliance manufacturer, had plenty of financial slack but spent it on marketing. In this threshing, limited-growth pool, only firms that innovated R&D instead prospered.

Conversely, the researchers generalise that an MNE will not decrease commitment in the emerging host country if management believe it can benefit from complementary advantages between resource-, industry- and institution-based factors. That belief is not always fully informed. But it underlines that MNEs revise their commitment strategies based on an interplay of asymmetric factors, which get lost if we only consider final increase/decrease outcomes.

This research encourages managers to anticipate and address the combined challenges of resources, industry dynamics, and institutional factors. And, to retain foreign investors, policymakers should create stable and supportive environments.

** The full study results are available in an article authored by Qiuling Gao, Lin Cui, Sihong Wu, Yoona Choi and Di Fan: "Strategic configurations: exploring MNEs' commitment reduction in an emerging economy". Asia Pacific Journal of Management, published online 02 October 2024 https://doi.org/10.1007/s10490-024-09983-z OPEN ACCESS

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