**STRATEGIC ENTRY AND OPERATIONAL INTEGRATION OF EMERGING MARKET FIRMS: THE CASE OF CEMEX, BEKO AND TATA STEEL IN THE UK**

Gul Berna Ozcan, Adrian E. Coronado Mondragon and G. Harindranath

School of Management, Royal Holloway,

Egham Hill, Surrey TW20 OEX, UK

E-mail: g.ozcan@rhul.ac.uk

**ABSTRACT**

This paper explores strategic entry and operational integration of emerging market multinational enterprises (EMNEs) in mature markets through an analysis of Mexico’s Cemex, Turkey’s Beko and India’s Tata Steel in the UK. The research points out that the UK entry decision is strategically associated with gaining reputation and prestige to become globally recognised brands for respective firms. Another advantage lies in their will to access high quality product and customer markets. By examining the supply chains and the use of information technology for management and control of operations, we are able to trace both radical adjustments as well as incremental changes in the post entry trajectories of the selected firms. However, the findings show that slow-down in mature economies, sluggish global growth and competition from China put new pressures on EMNEs’ operational ability and internationalisation ambitions.

*Keywords:* Emerging market multinationals, strategic entry, operational integration, UK

1. **Introduction**

The share of developing economies in global foreign direct investment (FDI) has been growing over the past two decades, despite sluggish economic growth in mature economies since the 2008 financial crisis. This trend reached a historic milestone in 2014 when, for the first time in modern history, developing countries led more than half of the total global FDI (55%) (UNCTAD, 2015). The number of the world’s largest firms headquartered in emerging economies has also risen from mere 21 in 2000 to 132 in 2014 (Carroll, Bloomfield and Maher, 2014). However, there are diverse processes in the way in which firms from emerging economies internationalise while the industry composition and geographical spread of investments show considerable variation. The total revenue base of these emerging market multi-national enterprises (here after EMNE) also remains modest. According to the FG 2015 data (Carroll et al., 2014), China dominates the ranks of the new comers with 98 firms following the USA (128 firms).

International Business scholars have examined various aspects of EMNEs’ growing role in global trade and FDI (such as Ciravegna, Lopez, and Kundu, 2016; Liu and Giroud, 2016; Contractor, Kumar and Dhanaraj, 2015; Khanna and Palepu, 2010). However, theoretical advances have been hampered by the shortage of cross-country and -industry analyses, limited understating of post-entry consolidation processes and the diversity of EMNE positions in developing versus mature economies (Marchand, 2017). While the number of publications on Chinese MNEs is growing rapidly, such analyses lead to a bias towards specific characteristics of large-scale, state-driven, and asset-hungry going out processes. Hence, whilst IB scholars are revisiting their analysis of EMNEs’ participation to global economy and trade, furthering the scholarship on comparative perspectives will help to provide new critical standpoints.

This paper aims to understand how EMNEs strategically justify their entry to mature markets and how they adjust their operational settings to accommodate starkly different conditions than their home or regional markets. The empirical study provides an in-depth analysis of three emerging market firms operating in the UK: Mexico’s Cemex, Turkey’s Beko (a subsidiary of Koç), and India’s Tata Steel (a subsidiary of Tata Group). We develop a new conceptual approach that combines the strategic entry analysis with post-entry operational integration for a dynamic and firm-based understanding within industry contexts. Our investigation of post-entry supply chain integration and coordination of information technology operations show how post-entry business consolidation takes place in a mature market where firms acquire new and superior strategic assets.

The evidence for the paper rests on field interviews with the UK managers of Cemex, Beko and Tata Steel, company annual reports, business reporting and scholarly articles. Originating from broadly comparable capitalist development trajectories and multiparty regimes, Cemex, Koç and Tata exemplify similar conditions of family-run business groups. The first context is the gradual growth of these business groups under domestic conditions of import substitution policies and internationalisation with economic liberalisation. This sets them apart from post-command economy firms that emerged under rapid privatisation and de-regulation. The second context is the way in which their internationalisation process takes place in a mature market. This is a rarely studied phenomenon and our research shows that it is about both building new strengths but also a compensating strategy for home and global market positions. Finally, we see post entry integration as a critical stage through which EMNEs build their business prowess, confront local challenges and make long-term adjustments within their industry parameters.

Our research analysis coincides with an increasingly shaky global outlook. The prospect of a multi-polar economic and political order remains uncertain. Emerging markets still have considerable institutional weaknesses, financial limitations and political uncertainties. Recent studies suggest that market liberalisation under authoritarian single party rules or semi-authoritarian parliamentary regimes have limited capacity to provide a new model of economic growth and a post-liberal transformation. Ban and Blyth (2013) identify widespread policy weaknesses and opacities[[1]](#footnote-1). Poor governance and political interventions impinge upon corporate activity in post-command economies as well as in multi-party regimes (Özcan and Gündüz, 2015; Fan, Wong, and Zhang, 2007; Guriev and Rachinsky, 2005). There are significant intra- and inter-regional variations in economic performance of these economies as well. For example, Latin American countries showed diverging paths in their market liberalisation since 1980s and there are vulnerabilities and shaky prospects of its leading economies, such as Brazil and Argentina (Ciravegna et al. 2016). These findings bring into question the economic resilience and global influence of emerging economies and their multinational firms in south-to-south trade. Deteriorating geo-political climate brings additional constraints. The on-going Eurozone crisis, backlash against migrants in Europe, global terror alerts and military conflicts (such as the ones in Ukraine, Syria and brewing tension in the Korean Peninsula and the South China Sea) threaten to disrupt business expansion, increase political risks and give rise to new protectionist policies and xenophobia.

We anticipate that these constraints are likely to shape strategies of internationalisation in new directions. EMNEs’ move from developing country circumstances may also indicate a stronger desire to avoid uncertainties of home markets (Madhok and Keyhani, 2012). Operating in mature markets, however, signify a bigger challenge as EMNEs come into contact with advanced institutional settings and new resources along with a more pronounced liability of foreignness.

The implications of the findings are three fold. First, predictions made by the OLI framework and institutional theories in the extant literature should be conditional on changing dynamics of ownership advantages, operational heterogeneity and industry conditions. Second, EMNEs’ global expansion leads to variable geographies. Mature markets offer unique advantages but also new risks. While the effect of their home country advantages diminish with a global presence, external shocks (such as the 2008 financial crisis and free trade tensions) make EMNEs extra vulnerable in mature economies. Thirdly, we propose an original conceptual approach to theorise beyond the static OLI framework and strategic entry mode choice by taking into account the process of operational integration through an analysis of supply chain networks and IT. This method is better suited not only to analyse the post-entry evolution but is also able to capture heterogeneity of changing organisational practices and locational advantages.

The paper proceeds with a theoretical overview and research questions followed by background information on the three selected firms. We then present our findings on strategic entry and operational integration through supply chain and IT-based coordination. We conclude with a discussion of the implications of the analysis.

**2. Theoretical review and analytical questions**

The firm-based advantages of internationalisation, commonly known as the OLI framework or Eclectic Paradigm, and the institutional theory have been employed widely to understand the multi-national firm’s expansion. The OLI framework addresses how firms rationalise their outward expansion and helps us to understand organisational and firm specific attributes of internationalisation (Rugman, 2010; Dunning et al., 2008; Dunning, 1977). However, the framework does not provide tools to study post-entry consolidation strategies. While some evidence shows the limits of OLI framework for emerging market firms (Li, Miller and Eden, 2012; Mathews, 2006), multi-dimensionality and heterogeneity of institutional domains hinder the scope of generalisations. According to its critics, the institutional theory (divided into old and new-institutional theories) provides a simple and powerful tool but it is at the same time overused and applied to everything (Suddaby, 2010). There is also a tension between the firm- versus environment-centric analyses. The firm operates in an organisational field and is embedded in multiple and constantly evolving institutional environments. Kostova and Roth (2008) argue that it is primarily the choices firms make that shape the process of internationalisation rather than external isomorphic pressures (Davis, Desai and Francis, 2000).

We propose a new conceptual approach that combines the strategic entry and post-entry operational integration for a dynamic and firm-based understanding of EMNEs within industry contexts; this also helps overcome the static view of the OLI framework. The scholarship on entry modes has grown over the years, yet the operational aspects of post-entry integration remain far less understood. Although supply chain management has been acknowledged as influencing competitive advantage of EMNEs (Kotabe and Kothari, 2016), the supply chain integration is seldom mentioned in internationalisation studies. However, its significance has been noted in the operations and supply chain management literatures. Similarly, while IT is central to the increasingly globally integrated operations and standardised processes that characterise MNEs (Buckley and Ghauri, 2004), EMNE studies have not yet appreciated this critical technological tool either.

*2.1 Strategic entry*

Entry mode choice represents a major strategic decision for firms in arriving a developed market (Li et al., 2012; Pehrsson, 2008; Ahmed, Mohamad, Tan and Johnson, 2002). As Li et al. argue (2012) the existing theories (e.g. transaction cost economics and the resource-based view of the firm) may not fully capture issues relevant to strategies of latecomer firms’ penetration to developed markets. Institutional scholars suggest that under high uncertainty, organisations tend to place more emphasis on social considerations than technical ones when making decisions (Lieberman and Asaba, 2006; Festinger, 1954). Liability of foreignness and reputational risks hinder business scope (for example see Chen, 2006). One form of response is imitation of successful MNEs while the other is to acquire reputation through acquisition. Xu and Hitt (2012) point out the complexity and polycentric nature of organisational learning and adaptation through the integration of multiple institutions. For example, Klein and Wöcke (2007) observe that successful South African MNEs start to build their global positions on the back of asset exploitation, but soon follow with asset seeking behaviour.

In a special issue on Chinese and Indian multinationals Athreye and Kapur (2009) argue that Dunning’s influential OLI theory does not fully address internationalisation efforts by EMNEs that lack many technology and ownership advantages. Emerging market firms internationalise to gain access to a variety of strategic assets, including brands, technology, new distribution networks and raw materials and resources (Yaprak and Karademir, 2010). Others challenge the view that EMNEs internationalise to acquire capabilities and advantages and that instead they exploit pre-existing capabilities, and use their initial advantages as a ‘springboard’ for internationalisation (Luo and Tung, 2007). They benefit from numerous firm specific advantages such as: i) products more suited to emerging markets such as India’s Tata Motors exporting trucks made for rugged roads to developing countries and Brazil’s Marcopolo exporting high quality buses suited to emerging markets; ii) production and operation excellence through the use of more labour and less capital; iii) privileged access to resources and markets through preferential treatment; iv) advantages stemming from working within a context of challenging conditions such as poor infrastructure, stifling bureaucracy and corruption (Ramamurti, 2004). Their legacy of working under informal institutional environments and the lack of operational experience in environments with stronger formal institutions bring agility and flexibility for their internationalisation efforts.

A study by Bonaglia, Goldstein, and Mathews (2007) examining three successful EMNEs in home appliances, Haier (China), Mabe (Mexico) and Arçelik (Turkey), point out that there are many strategies and trajectories for emerging market firms going global rather than simple templates. Haier, Mabe and Arçelik leveraged their strategic partnerships with established MNEs to upgrade their operations, evolving from the production of simple goods into new product lines developed with their own design, branding and marketing capabilities (Bonaglia, Colpan, and Goldstein, 2008). More importantly their success was linked to a long-term build up in organisational capabilities. Similar findings are noted for Brazilian MNEs along with their opportunistic expansion and learning strategies as they seek rapid access to global reach beyond the Americas (Arbix and Caseiro, 2011). Further studies on Latin America showed how EMNEs may have benefitted from monopolistic conditions in their home markets and then deployed these resources to new markets, mainly expanding regionally (Ciravegna et al. 2016). These findings inform our research questions:

1. Did Cemex, Koç’s Beko and Tata Steel internationalise to gain access to a variety of strategic assets or instead they primarily exploit pre-existing capabilities, and use their initial advantages as a ‘springboard’ for internationalisation?
2. What kind of entry strategies were followed by Cemex, Koç’s Beko, and Tata Steel (joint venture, acquisition, greenfield, franchise) in the UK? Do these follow common trends within their industry and their group affiliates or show idiosyncrasies?
	1. *Operational integration: supply chain and information technology*

*2.2.1 Supply chain integration*

In a highly competitive business world, it has become widely recognised that supply chains play a pivotal role in shaping competitive performance; hence, contemporary supply arrangements are more appropriately defined and represented as supply webs or networks with multiple linkages between production and service entities (Lyons, Coronado Mondragon, Piller and Poler, 2012). As EMNEs expand abroad and enter new markets, they face challenges concerning the spread of their supply chains. EMNEs may opt to develop new supply chains out of scratch (that means scrapping the current ones), keep current supply chains as they are, or choose to carry major enhancements to them.

Networks are conducive to innovation as they are location bound (consisting of suppliers, customers, competitors, universities) and cannot be easily replicated in other locations (such as innovation clusters). The creation of networks for the purpose of exchanging information between partners is a fundamental aspect of supply chains. Chen, Li and Shapiro (2012) argued that investing in developed markets is critical for EMNEs as a route to obtain advanced technological knowledge. The subsidiaries can acquire knowledge by participating in local supply chains in a developed market.

Flynn, Huo, and Zhao (2010) defined that supply chain integration is the degree to which a manufacturer strategically collaborates with its supply chain partners and collaboratively manages intra- and inter-organisational processes, in order to achieve effective and efficient flows of products and services, information, money and decisions, to provide maximum value to the customer. The authors suggested that the diverse dimensions of supply chain integration can ultimately be encapsulated in three dimensions comprising customer, supplier and internal integration. External integration covers both customer and supplier integration, which is the degree to which a manufacturer cooperates with its external partners to structure inter-organisational strategies, practices and processes into collaborative, synchronised processes (Stank, Keller and Daugherty, 2001). Internal integration is the degree to which a manufacturer structures its own organisational strategies, practices and processes into collaborative, synchronised processes, in order to fulfill its customers’ requirements (Flynn et al., 2010; Cespedes, 1996). Bowersox, Closs and Stank, (1999) defined customer integration as the core competencies derived from coordination with critical customers, whereas supplier integration involves core competencies related to coordination with critical suppliers.

The study by Bonaglia et al. (2007), we referred earlier, addressed the fact that some EMNEs did not delay their internationalisation until they were large, as did most of their predecessors, and these EMNEs became global as a result of direct firm-to-firm contracting. The authors highlight that supply chain fragmentation along with technology maturity and domestic market growth rate sustain the internationalisation of EMNEs. Their study shows that at some point these EMNEs were born originally as suppliers of well-established multinational firms.

In their work about investigating why EMNEs acquire companies in developed countries and the implications for firm performance, Buckley, Elia, and Kafouros (2014) stated that for instance, an acquisition might help a firm to pursue a supply chain integration strategy through vertical investment with each subsidiary of the EMNE fulfilling a specific role. Here the authors highlighted that EMNEs might not want to prioritise profitability and sales growth in all their subsidiaries. Furthermore, it is important to investigate whether the positive effects on firm performance are limited to target firms only or if these extend to their supply chain. The authors recognised the importance of supply chains and, in particular, supply chain integration in EMNEs when acquiring companies in developed countries.

The literature on the internationalisation of entry modes of EMNEs identifies the acquisition of resources, asset-seeking, intangible assets such as technology and brands, external know-how, technological knowledge that will allow them to develop key capabilities that can provide them with competitive advantage in developed market economies. Supply chain integration both internal and external plays a fundamental role in supporting the development of post-entry operations. This discussion informs our third research question:

1. How do Cemex, Koç’s Beko, and Tata Steel manage their supply chain integration in the UK to support post-entry operations?

*2.2.2 Coordination and integration through IT*

The role of IT in the context of MNEs has been seen as both enabling and constraining in the International Business literature. IT has been shown to play a central role in enhancing firm performance (Zhang and Tansuhaj, 2007; Andersen and Foss, 2005; Wade and Hulland, 2004; Bharadwaj, 2000). IT is key to the global expansion, co-ordination and control activities of MNEs (Verbeke, Bachor and Nguyen, 2013; Yamin and Sinkovics, 2007, 2010; Andersen and Foss, 2005). For example, corporate wide IT such as enterprise resource planning (ERP) can help integrate all the key business functions creating information visibility across the company. They do so through standardising key business processes across the organisation. Despite the inevitable tensions these systems create between the need for global control, and therefore global standards, and local flexibility, ERP systems have become the de facto standard for MNEs to integrate their global operations (Laudon and Laudon, 2016). Such enterprise IT applications are at the forefront of balancing the conflicting demands of global integration and local responsiveness as suggested by integration-responsiveness framework (see Prahalad and Doz, 1987). The efficient coordination of geographically distributed resources through IT is the very foundation on which the ‘multiple embeddedness’ of MNEs depends, whereby they must balance the requirements of external and internal embeddedness across host locations and within the MNE network respectively (Meyer, Mudambi and Narula, 2011).

However, the discussion of the impact of IT on the strategy and structure of MNEs has several dimensions. While IT is central to the globally integrated operations and standardised processes that characterise MNEs (Buckley and Ghauri, 2004), IT can also serve as a conduit for stronger control capability centred at the MNE headquarters. Indeed, Yamin and Sinkovics (2007, 2010) go so far as to argue that advanced IT systems such as ERP systems may reduce the inherent benefits of multinationality by diminishing the power, local embeddedness and adaptive capability of subsidiaries and even reduce the capability for development within subsidiaries under pressure from MNE power.

Competing views suggest that using IT to mitigate transaction costs and production costs has allowed MNEs to focus less on the internalisation and control of foreign operations (Rangan and Sengul, 2009). The pervasive use of IT, with its capacity for local customisation as well as centralised control, has also increasingly reduced the distinctions between the various strategic orientations suggested by Bartlett and Ghoshal’s (1989) typology of MNE strategies (international, multi-domestic, global and transnational). Consequently, MNE structures have increasingly become more organic in nature (Sambharya, Kumaraswamy and Banerjee, 2005).

Thus, the increasingly significant role of IT in MNEs has led to calls for further work that examines the IT capabilities and processes that underpin firm development and international expansion (Borghoff, 2011; Del Aguila, Bruque and Padilla, 2002; De la Torre and Moxon, 2001). This is particularly needed in the case of EMNEs where such examinations are entirely missing. In the context of the above discussion, we seek to link perspectives from the information systems and IB literature to answer the following question:

1. How do Cemex, Koç’s Beko, Tata Steel in the UK use IT in their coordination and integration of operations between their headquarters and international markets?

**3. Methodology**

We utilise a qualitative approach to address the above mentioned questions. Overall, the qualitative case study approach with active collection of primary data and business statistics is more appropriate when: i) A newly occurring/under researched phenomenon is explored; ii) Priority is given to understanding processes and structures rather than testing postulates; iii) The number of case based observations are small and the prior knowledge of available data is ambiguous.

International Business and management scholars have used different methodologies in studying internationalisation of developing country firms. Some studies combined primary data with business statistics. Others developed quantitative models (Xu and Hitt, 2012). Most entry mode related analyses are based on the case study approach. Research that includes supply chains within the context of EMNEs rely on various methods covering from anecdotal evidence (Bonaglia et al., 2007), company cases (Contractor, 2013) and analysis of data collected from business/commercial databases (Buckley et al., 2014) to mention just a few. In relation to IT capability, there have been studies using both quantitative (e.g., Rangan and Sengul, 2009; Andersen and Foss, 2005) and qualitative approaches (e.g., Yamin and Sinkovics, 2010; Zhang and Tansuhaj, 2007) in exploring the impacts of IT within MNEs. We also found several conceptual papers exploring the implications of the pervasive use of IT and standardisation on MNE strategies (e.g., Yamin and Sinkovics, 2007; Sambharya *et al*, 2005).

We selected our case study companies through a review of EMNEs operating in the UK. We decided first to concentrate on capitalist market firms as opposed to those from post-command economies (such as Russian and Chinese acquisitions). Our second selection criterion was to find firms who had been operating in the UK for at least five - six years in order to be able to observe post entry integration processes. Finally, we were interested in diverse industry conditions and wished to study firms who were in leading positions. The study identified a number of companies and collected information about their UK operations. The fieldwork aimed to gather primary data through interviews with UK managers. Collecting evidence through the vantage point of such individuals with hands-on experience would have provided up-to-date, context-specific and live data. We contacted managers of identified companies and requested to meet with a cover letter and a list of interview questions. Then, we followed up with telephone calls. A number of firms declined or never responded. One manager agreed to meet but later did not give us the permission to use the material we gathered during our interview. In the end, Cemex, Beko and Tata Steel emerged as suitable and accessible firms.

A set of semi-structured questions was used to initiate discussion related to our research questions. Cemex was the first company, which granted us an interview and the Director of Strategic Planning provided extremely insightful and detailed information during our an hour and half meeting. This appointment added credibility to our study and helped us to approach other companies. We also obtained additional introductions from industry experts for Beko and Tata Steel. About two months after our visit to Cemex HQ in Surrey, we were invited to Beko’s HQ in Watford for a similarly lengthy and detailed interview with their Managing Director who has been with the company since the early 1990s. These two meetings provided much useful material and showed a sincere will to share company experiences with academics. However, it proved to be difficult to schedule an appointment with Tata Steel due to major changes facing the company. Nevertheless, we were eventually granted a one-hour conference call with the Director of Supply Chain Transformation who had been with the firm for many years and presided over the integration of Corus with Tata Steel. The interviews and other data collection were completed in the autumn of 2014. We examined company annual reports, academic case studies and business publications prior to interviews and after to assess the firm data.

1. **Background: Cemex, Beko and Tata Steel in the UK**

**Cemex**

Founded in Mexico in 1906, Cemex had grown from a regional cement producer to a diversified group of companies with interests in tourism, petroleum and mining projects, and it is listed on the Mexican and NY stock exchanges. In 2010, the top 20 Mexican MNE’s had 123 billion USD foreign assets. Cemex and America Movil were the top two firms, together controlling 85 billion USD in foreign assets (Cemex’s share was 36.5 billion USD), accounting 70% of all assets had by the 20 Mexican MNEs (Basave-Kunhardt and Gutierrez-Haces, 2011).

International expansion took place when Mexican economy began liberalising and the company consolidated its home market position. Cemex’s first direct investment was in Europe with the acquisition of Valenciana and Sanson in Spain in 1992. This followed the Spanish speaking cultural proximity. At the time, Spain was one of Europe’s most attractive markets and through this acquisition Cemex instantly became the market leader in Spain and the world’s fifth cement producer. It was also the first major encounter with its global competitors the French Lafarge and the Swiss Holcim -at the time Holderbank- (Lasserre and Picoto, 2007).

Cemex entered UK in 2005 by acquiring the RMC group, which increased its capacity by around 20%, strengthened its positions across the cement value chain, reinforced its presence in Europe and made Cemex the largest world producer of ready-mix. The company was able to achieve great synergy that allowed the centralisation of administrative functions, optimisation of network marketing, logistics and process standardisation (Vargas and Noruzi, 2011). Subsequently, Cemex has become the number three cement producer in the world, behind Lafarge/Blue Circle and Holcim. In 2015 the company had sales worth 14.127 billion USD, operating earnings of 1.674 billion USD and total assets of 31.472 billion USD (Cemex, 2015).

**Koç’s Beko**

Koç is Turkey’s largest diversified business group with almost 100 companies. It originated from a commercial enterprise by the founder, Vehbi Koç, in 1926 (registered as limited company in 1938 in Istanbul)[[2]](#footnote-2). As the 381st largest firm in the world according to FG500 in 2015,the group is the only Fortune listed company from Turkey. Among many other assets, Koç has stakes in the country’s sole oil refiner and joint ventures with Ford and Fiat (Daniel Dombey, Financial Times, December 6, 2012). However, the group’s revenue base is modest (31,376 billion USD).

Koç built Turkey’s home appliances brand, Arçelik. The company developed original equipment manufacturing contracts in the 1980s and 1990s to American and European manufacturers. By 1996, 50% of washing machine exports and 30 % refrigerators were under such contracts (see Gülsoy, Özkanli, and Lynch, 2013 and 2010). Following the economic liberalisation of the Turkish economy, Koç pursued an export oriented growth strategy. Arçelik entered first Middle Eastern markets and later in Europe. It developed its own R&D and patents in the 1990s. Beko was established in 2001 as an international brand of Arçelik which is 57.2 per cent owned by the [Koç](http://markets.ft.com/tearsheets/performance.asp?s=tr:KCHOL) group (17.6% owned by Burla Group and 25.3% is stock market traded).[[3]](#footnote-3) Arçelik made its first European attempt by acquiring France’s Brandt in 2001. However, this bid was unsuccessful. The following year, with lessons learned in France, the company acquired several European firms: Blomberg (a subsidiary of Brandt) in Germany, Elektra Bregenz in Austria and Arctic in Romania as well as Leisure and Flavel in the UK. In 2004 Beko Elektronik purchased German Grundig[[4]](#footnote-4). Beko has become an established brand in the UK reaching 17% market share in 2014. With 15 production plants in Turkey, Romania, [China](http://topics.bloomberg.com/china/) and [Russia](http://topics.bloomberg.com/russia/), and most recently in South Africa, and 10 brands (Arçelik, Beko, Grundig, Blomberg, Elektrabregenz, Arctic, Leisure, Flavel, Defy and Altus), the company sells its products in 130 countries.

**Tata Steel**

Founded by Jamsetji Tata in 1868, the Tata Group pioneered several industries of national importance in India, including steel, power and airlines. In 2014-15, the total revenue of all Tata companies, which operate in over 80 countries, was 108.78 billion USD with just over half of this coming from business outside India. These companies collectively employ over 600,000 people. Each Tata company or enterprise operates independently under the guidance and supervision of its own board of directors and shareholders. There are 30 publicly-listed Tata enterprises with a combined market capitalisation of about 134 billion USD (as on 31st March 2015). Although the UK served as Tata’s first European base back in 1907, Tata’s early history was characterised by organic growth as Indian industrial policy did not particularly favour international alliances. This period was shaped through product development, innovation and gradual technology upgrading.

Tata’s global expansion was also driven by increased competition at home as a result of gradual liberalisation in the 1990s and extensive globalisation of the Indian economy in 2000s. Economic downturn in India led the group to consider global expansion as a way to mitigate risk (Faheem and Muralidhara, 2012). Tata made significant UK acquisitions including Tetley Tea in 2000, Corus Steel in 2007, and Jaguar and Land Rover in 2008 (Faheem and Muralidhara, 2012), and others such as Daewoo’s truck assets in Korea (Khanna 2007). The 11 billion USD acquisition of Corus made Tata Steel a top global steel producer

Tata Steel is the world’s second most geographically diversified steel producer and a Fortune 500 Company with an existing annual crude steel production capacity of 30 million tonnes. It is geographically spread over 5 continents with manufacturing units in 26 countries. Their products and services are used in construction, automotive, packaging, rail, lifting and excavating, energy and power and aerospace sectors.[[5]](#footnote-5)

In summary, the UK entry of Cemex, Beko and Tata Steel emerges out of a set of firm-specific advantages and resilience. All originate from family-run business groups, which provided stability and diverse organisational resources for firm growth. Secondly, the entrepreneurialism of founding families helped turn weaknesses into opportunities and fend off periodic turmoil in their domestic markets. Thirdly, all followed a gradualist and accumulative strategy to build their capabilities with an arms length relationship to their home market governments. Finally, they all developed technological capabilities initially through regional expansion and later internationally. Table 1 illustrates the time line of acquisitions and expansion of the three companies. Trade and economic liberalisation contributed to their expansion strategies. However, these institutional commonalities do not necessarily lead to same entry strategies and post-entry integration as we explore in the next section.

**[Insert here Table 1. The time line of key acquisitions of Cemex, Beko and Tata Steel]**

**5. Findings and discussion**

*5.1 Strategic entry*

**Cemex**

Cemex grew through a highly centralised integrated management model, called the Cemex Way. Cement cannot be delivered over long distances due to its characteristics and logistic costs and it is dependent on mineral supplies and energy. Thus, companies restrict the plant activities to the region where they are located due to the impossibility of long distance exports. As a result, internationalisation in this industry is achieved through partnerships and plant acquisition around the world (Lessard and Reavis, 2009).

Cemex had a strong leadership model. Mr Lorenzo Zambrano, a Stanford University graduate, who became the CEO and Chairman in 1985, shaped this model along with a strong, well-educated high quality management team. The key players have been Mexican and they presided over the expansion of the company. This hierarchical and integrated model was regarded as very successful and exemplary until recently (Ghemawat and Matthews, 2004).

Cemex was able to digest all acquisitions through its strong centralised model that led to fast post-merger integration. The financial model of entry mode was leveraging itself for debt, without issuing equity. Cemex identified capabilities in the acquired firms and learned from them. In the words of the UK strategy manager this meant: “*When we acquired a firm, we had a strong team that managed the new acquisition for 6 months or more and before they leave they will put in a new management structure in place.*”

The acquisition of RMC in 2005 was hugely important and transformational. The UK Manager for strategic planning identified it “*as the most significant acquisition ever for the company*”. The acquisition made Cemex a truly global player and taking control of a leading British firm boosted its confidence and image, transforming the company from a cement organisation to a ready-mix firm. The attractions for the UK entry mode choice were associated with the following considerations: i) Size: brought global visibility; ii) Prestige: a major UK brand; iii) A new product market: a strong foothold in Europe in ready-made cement. In 2007, with this confidence, Cemex acquired Australian Rinker (with 80 percent presence in the US market) but perhaps this was too bullish. In the words of the UK Manager, Cemex “*paid above-the- odds to acquire it*.”

Cemex followed its post-merger integration model successfully on RMC and delivered more than 200 million USD in synergy savings and 380 million savings in 2007 (Lessard and Reavis, 2009). However, RMC was hugely inefficient, the deal was very expensive and, before Cemex reaped the benefits, the cement business was hit by low demand and the financial crisis. While Cemex ruthlessly took control of three cement plants of RMC, it was also forced to accept its weaknesses vis-à-vis Rinker. There was a strong cultural clash. “*Rinker was a healthy company in its own right and was very well organised. This resulted in a failure to impose the Cemex business model. So, we decided to use some of the business models of this company.*” admitted the UK Manager.

The company had taken on huge debts as a result through its cash acquisitions in the pre-2008 period. Demand dramatically shrunk in its key markets, Europe and the USA. Rinker had a major presence in the USA where the collapse of the housing market pushed Cemex to the brink of default before it refinanced 15 billion USD of debt it used to finance its acquisitions in 2014.[[6]](#footnote-6) Ten families that control Cemex, all based in Monterrey, did not want to access equity markets. Mr Zambrano put his weight behind the new “Transformation Model”, [also guided by Boston Consulting Group]: i) Destroy central model; ii) Bring major changes in executive committee, Mr Zambrano increased his powers with executive board; iii) Reduce the regions; iv) Flatten the structure, get closer to customers and distribute responsibility.

In sum, the UK acquisition and its timing posed transformational challenges to the Cemex Way as the company moved into the ready-mix business model with RMC, faced superior organisational structures of Rinker, and was exposed to a massive financial debt when market demand had shrunk dramatically in the post-2008 climate (see Table 2). The UK manager puts it as “*We were trying to swim with a big weight on our neck.*” The new Transformation Model became fully operational in 2010 with a key emphasis on a stronger financial control over all units and activities. The financial systems began to use the Enterprise-Value-Added and also the Cash-Value-Added measures. Cemex halved its UK workforce to 3,500 by 2013. The company also sold some of its businesses and began considering joint ventures rather than full ownership.

**Beko**

Beko grew in the UK gradually from a sales office in the 1990s to its joint venture with Alba in 2004 and finally its full acquisition of Alba and Flavel (see Table 1). From producing Turkey’s first home made washing machine in 1959 and fridge in 1960 and the establishment of its award winning Eskisehir plant in 1975, the opportunistic gradualism and the founder’s entrepreneurial zeal (Colpan and Jones, 2016) made the company Europe’s third largest and world’s 7th largest home appliance manufacturer. Turkey’s customs union with the EU changed the position on licenced technology (with GE and Bosch-Siemens) and opened the home market to European competitors. This facilitated further the outward orientation of the Koç Group.

UK was an important launching pad for brand building internationally. By 2015, Beko has become the second leading brand in Europe with strong positions in Poland and France, doubled its market share in Germany in the past five years, and took leading positions in Spain, France and Belgium in deep freezers[[7]](#footnote-7). However, the UK market, the third largest in Europe, was a learning process due to distinct demand features: Sizes and imperial measures, high spin washing machine, and the use of double oven. Beko took this challenge. The managing director says: “*We are a lean organisation…when we promise, we deliver*”, “*Although we were not known. We created trust*”, “*If we have not invested in the product specialisations to UK market, we would have not been able to retain the market share*.”

Beko’s market share in the UK for white goods reached 17 per cent in 2014. As consumers have shied away from more expensive established names for fridges and washing machines, Beko has seen its market share in the country double over the past four years (2010-14). This fits well with their global ambitions. Some of Arçelik’s fastest growing sales come from the Middle East. While the 327 million USD acquisition of Defy is likely to increase African revenues substantially, there is also speculation about a possible entry into India following on a new deal in Thailand[[8]](#footnote-8). But, the UK remains a principal focus of activity, with Beko accounting for about a fifth of all Arçelik’s exports. Beko has now set itself a new target: to increase revenues by as much as 50 per cent in the next half decade and to move upmarket[[9]](#footnote-9). “*Our general vision is to have at least one of our products in every home in the UK*” says the UK Manager.

In sum, Beko’s strategic expansion in the UK is linked to its ambitions to build global recognition and confidence. Strategic entry choices are identified as: i) Positive cultural distance perceptions and preferences of the Koç family towards the UK; ii) Market openness in the UK with FDI support, a favourable retail and franchise structure, and no strong British competitor; and iii) Open-minded consumer profile. All these indicate liability of foreignness being low for Beko, at least in terms of the company’s own perceptions: “*Koç family are Anglophiles, they travel to the UK frequently…UK is the most competitive market but British consumer is more liberal and open-minded. Brands are very upmarket (in the UK) but the brand of retailers override the brand of the good… this overcomes brand barrier”* and *“liberal consumers, they are not brand snobbish. In Germany it is very different, huge brand preference, they do not buy anything that is not German*. *We were selling at entry level prices to try unknown brands, this enabled us a kick start*…*The combination of Quality+Low Price+Good Value works*.”

Since 2008, financial constraints have become important. Turkey has ‘location’, ‘technology’ and ‘management’ advantages compared to China. According to the UK managing director: “*These days trade with Turkey is much more attractive. Turkey became a major product hub and we benefitted from that*.” The company aims to follow a multi-brand strategy. This is recognised in making “*Beko one of the best top 10 brands in the world*.” The Koç group made Arçelik as one of their four core businesses.

**Tata Steel**

An important transformation is taking place in the steel industry: global demand is declining while China is producing 50 percent of the global steel. Steel is expensive to ship around. Profit margins are under pressure while global steel purchases are low. Thus, harnessing technology is critical.

On 31 January 2007, Tata Steel won their bid for Corus, the Anglo-Dutch steel company created from the merger of British Steel and Koninklijke Hoogovens in 1999, after offering 608 pence per share. This offer valued Corus at 12 billion USD (£6.7 billion) and initially competed with a Brazilian firm for the bid. The competition with the Brazilian bidder meant that Tata Steel paid a 70% premium for acquiring Corus (Ghosh, 2016). At the time of acquisition, Corus was four times larger than Tata Steel, in terms of annual steel production. Corus was the world's 9th largest producer, whereas Tata Steel was at 56th position. The acquisition made Tata Steel world's 5th largest producer of steel.[[10]](#footnote-10)

The rapid internationalisation of Tata Steel in the 2000s was a strategic move to access new technologies, a varied product profile, and better management practices (Witze, 2010; Dobbs and Gupta, 2009). The company positioned itself in a win-win case, which would differentiate it from Chinese competitors. When interviewed by us a senior Executive Director at Tata Steel UK presented a positive outlook: “*We have 50% market share in the UK, UK is still big enough, it is much more niche and high tech market. Domestic market alone can support a company like us. Esoteric and refined products sell here. Our focus is on esoteric products (especially aerospace).*”

The UK was attractive for Tata Steel because of several reasons: “ - *its geography (being an island), its strong legacy steel footprint, high levels of manufacturing and talent.*…*As incumbent domestic producer we have high entry barriers to other competitors.*” The strategic entry to UK is also associated with Tata Steel’s aspiration to move up in technology ladder. UK Manager describes this in the following way: “*Steel is in a global play, is expensive to ship around. Harnessing best technology is still important. Some significant transformation is going on with China: it has now a huge production in the world…* *UK has enormous capability, strong supply chain, high quality engineering along with high level of manufacturing capability, good talent base, engineers and steel makers. If Tata Steel did not have a footprint in the UK it would have not benefitted from these advantages.”* The acquisition was presented as a win-win for Corus and Tata Steel: Corus would access cheap raw materials and high growth emerging markets through Tata while the combination of low cost upstream production in India with the high-end downstream processing facilities of Corus would help improve the competitiveness of European operations.

However, the post-recession slump in global steel sales combined with a glut in production has meant that Tata Steel’s UK assets have been under pressure in recent years to the extent that Tata Steel has had to sell off some of its steel business in the UK due to mounting losses on account of cheap Chinese imports of steel and pension liabilities related to previous acquisitions. Negotiations continue in relation to the latter with the aim of allowing Tata Steel to merge its European operations but by all accounts the British operations still depend heavily on the Indian parent and the focus continues to be on valuable rather than commodity steel (FT, 2017). Like Cemex’s acquisition of RMC, the massively leveraged purchase of Corus led Tata Steel to take on huge debts that made the loss-making UK steel operations difficult to sustain in a context of global steel excess. Based on the discussion regarding strategic entry, Table 2 presents a comparative analysis of entry mode choices and the effects of the 2008 crisis on the three companies.

**[Insert here Table 2. A comparative analysis of entry mode choices and the effects of the 2008 crisis]**

**5.2 Operational integration: supply chain and information technology**

*5.2.1 Supply chain integration in the UK*

**Cemex**

Acquiring RMC significantly changed Cemex’s business landscape. The deal gave the company a much wider geographic presence in developed and developing countries alike, most notably France, Germany, and a number of Eastern European countries (Lessard and Reavis, 2009). Cemex became one of the UK’s top 20 logistics operators, making more than four million deliveries a year by road, rail, sea and inland waterways (Cemex Logistics UK, 2012). It employs over 1,100 staff including its own fleet of drivers and manages almost 2,000 subcontract haulage companies. Its scope of logistics operations include inbound and outbound cement, dry silo mortar, admixtures, aggregates, asphalt and building products. Supply chain operations include terminals, depots and ash processing plants. All these operations are managed on a national basis through a centralised specialist logistics and supply network function (Cemex Logistics UK, 2012).

The Cemex Way was a prescriptive structure which has now disappeared. The new structure of the organisation promotes visibility – this means same reports are available to all the people within the company- as this enables employees to speak the same language. Cemex procurement is done at the country level. This is a centralised function that makes use of a forum and it is seen as an opportunity to learn from others. Furthermore, supply networks at Cemex UK rely on logistics operations. The logistics operation is centralised with haulage done through independent companies involving lease agreements. The haulage companies own the trucks, not Cemex. Outsourcing the operation means no fixed costs for Cemex while the hauliers face variable costs. The logistics department had to be downsized from 40 to 10 people. If Cemex would have owned everything during an economic downturn like in 2008, trucks would have remained idle.

Cemex UK Operations use a single fleet of trucks for the transportation of materials which is facilitated by combined production and reprocessing facilities and the use of specialist equipment in order to ensure cleanliness of truck bodies. Rather than being a remote function, logistics is fully integrated within the delivery team enabling driving efficiencies for this vital element of each operation. Cemex’s experience shows that through the adoption of this integrated approach, truck movements required to service highway maintenance operations were reduced by up to 65%. The logistics team manages both the transportation of raw materials to cement and concrete plants and, the delivery of aggregates, cement and ready-mix concrete to Cemex customers and partners.

**Beko**

Beko has developed trusting relationships with UK retailers and distributors over the years. The company collects forecasts from retailers and distributors and informs Arçelik in Turkey to generate a production schedule. The estimates of production capacity are done and delivery plans executed accordingly. Invoicing is the last step of the process.

To transport its products Beko uses containers (though sea containers take longer) which are a more environmental friendly option. The Managing Director added: *“Our lead times are usually higher as we use the sea instead of trucks (i.e. road transport), from Turkey to the UK transport by ship takes 2 weeks, by truck is only 5 days”.* Shipping is controlled from Turkey based on bookings from UK retailers and distributors as well as capacity constraints and shipping schedules. Container bookings are based on customer orders and Felixstowe is the port of entry for Beko products. A strategy for Beko is to supply European customers from warehouses as these are responsible for 70% of shipments sent to customers, as explained by the Managing Director: *“We distribute 30% of our deliveries directly to customers, in addition we have 3 warehouses with a capacity of 400,000 sq ft.”* There is a cost advantage to it but it is less flexible. The supply chain of customers is changing constantly and forecasts and bookings affect costs, at the same time Beko aims to keep thin stock levels.

Managing the supply chain is at times problematic as some retailers and distributors cannot place their orders on time. This means that at each stage Beko has to re-evaluate its customer’s orders or its priorities. The challenges faced include increasing costs as container rental costs always go up. As well, some customers have no warehouses and will ask Beko to store the goods for them, according to the UK Managing Director: *“Problems may arise when an order is cancelled, or all of a sudden the customer asks Beko to keep the stock”.* There are stock reduction targets as the company favours centralised operations but the customer needs flexibility. The global crisis of 2008 led customers to keep very ‘thin’ stocks or quantities and this has been causing delivery and storage problems.

**Tata Steel**

Tata Steel has a large distribution organisation in the UK, with over 25 sites, each having their own stock positions. The company launched a strong drive to reduce stock levels throughout the organisation (Tata Steel, 2011). The UK manufacturing sites in Newport, Scunthorpe, Port Talbot and Hartlepool among others were part of one integrated supply chain with the old business unit boundaries removed. However, recently the configuration of Tata Steel UK manufacturing operations has completely changed with Scunthorpe steelworks sold to private investors in April 2016 (Bloomberg, 2016). The aim of these transformational projects was to change the way the company interacts with its customers and improve the company's offering in terms of lead times and delivery on time while increasing the efficiency of the process (Albitson and Cross, 2012). About 20 raw materials are used to produce one product – iron. Then, iron, is used to produce 100,000 Stock Keeping Units (SKUs) and the related cycle time it takes to produce the finished products SKUs is 6 months.

In 2011 Tata Steel started the implementation of a new operating model. The company was reorganised to operate a single sales and marketing team, a supply chain organisation, three steelmaking operational hubs, speciality businesses and pan-European support functions (Tata Steel, 2011). In order to improve customer service, Tata Steel implemented a major ‘supply chain transformation’ project aimed at reducing inventory levels whilst at the same time improving customer service levels (Interview; Tata Steel, 2011).

Integration is an important element of the supply chain which requires a capable workforce in order to retain knowledge at Tata Steel. Also important is to have common procurement practices which are technologically advanced and intertwined. With the proliferation of products there is an increase in costs but at the same time that gives the opportunity for differentiation. Tata Steel looks for harmonisation rather than optimisation of plants, hence the company has adopted a hybrid approach. In terms of logistics there is only one method used for Europe and the UK where a single team runs the shipping of product across the continent and the resulting integration means having a single logistics organisation and a common approach to shipping.

Managing the supply chain involves large global level negotiations with suppliers. According to the Director of Supply Chain Transformation at Tata Steel over the past 10 years they tried to make raw material sourcing homogenous across Europe. About 70% to 80% of deliveries to customers take place using rail and the remaining is transported by road. To manage deliveries a logistics provider is used to control the flow of units and synergies. Lead time is key for Tata Steel customers, hence it is important to have a common process for dealing with customer orders.

The case of Cemex illustrates radical changes introduced once the company entered the UK through a major acquisition. After years of effective central control of its internationalisation by its founding families, Cemex decided to decentralise and give more flexibility/responsibility to its local operations. Our research shows that Beko continues to expand into markets where it sees potential for growth but at the same time streamlines and centralises its control over operations to manage its global spread. For both Cemex and Beko UK’s liberal market policies emerge to be a key attraction. Tata Steel uses a multi-varied approach between standard templates and best local practices. India’s historical/cultural ties with the UK continue to play a defining feature for the company. At the time our research was conducted Tata Steel saw the UK playing a leading role in the development of technically specialised products like speciality steels.

In spite of many advantages in their entry strategies, companies still face challenges in the integration of their supply chains. Cemex has emphasised the importance of having a local footprint, being close to local customers by having production sites close to them as well as an extensive supply network supported by a complex logistics operation. Our analysis shows that Cemex is delegating and looking for more flexible solutions to its vast operations away from vertical integration while Beko wants to establish larger warehouses and decrease its dependence on the delivery system. Yet, this raises the issues of sunk costs and unsold large stocks. Tata Steel has mostly outsourced its complex supply chain, which is sensitive to local business conditions in diverse regions around the world. Table 3 summarises the findings regarding supply chain integration for acquisition strategies of the three companies.

**[Insert here Table 3. The summary of supply chain integration analysis for acquisition strategies of Cemex, Koç and Tata Steel]**

*5.2.2 Coordination and integration through IT*

All three companies have different strengths and trajectories in their use of IT as they have internationalised. Rapid growth and aggressive international expansion through acquisitions led Cemex to develop expertise in quickly integrating new acquisitions into the global Cemex operations. This was made possible through the development of IT skills and standardised processes underpinned by highly centralised IT using enterprise applications that provided information visibility across Cemex’s operations. New acquisitions, including that of UK-based RMC were rapidly integrated through the post-merger integration (PMI) model the company termed ‘The Cemex Way’. The Cemex Way comprised of a set of principles that were strictly adhered to after the purchase of any other company anywhere in the world (Lessard and Reavis, 2009), and standardised IT infrastructure in the form of enterprise applications and uniform processes for all key functions were at its heart.

This hierarchically integrated approach was hailed as a way to quickly accomplish post-merger integration of new companies. However, the 2008 financial crisis led to a dramatic scaling back of the Cemex Way as economic slowdown meant increasing demand for flexibility from customers in mature markets such as the UK. The Cemex Way has since been replaced by more pragmatic arrangements that allow for local flexibility alongside core enterprise systems that provide global visibility. In 2010 Cemex began a new programme called ‘Transformation’, which aimed to allow for more local innovations.

According to the Director of Strategic Planning, “*Transformation aimed to “flatten structure, get closer to customer, distribute accountability, destroy centralised model and replace it with a more localised model*”. Flexibility became crucial for local operations. “*The market crisis led to change in strategy. When you grow fast, global standardisation is great. When you need to survive, you need flexibility, local accountability. Decision making has to be closer to the person who has to live by it!*”

The Cemex 2011 Annual Report (Cemex, 2011) stated this change in no uncertain terms: “...key market-oriented functions such as technology, energy, trading and procurement, were transferred from our corporate headquarters to … business units – decentralising authority and increasing accountability at regional levels” (p5). The company also loosened its requirement to work with Cemex’s group company, Neoris, for its software needs signalling a more flexible and market-led approach to sourcing. Despite these significant changes to the way technology has been used to integrate global processes, Cemex continues to view IT as a source of competitive advantage, which results in high levels of senior management involvement in IT decisions.

Beko, on the other hand, has moved in the opposite direction. Having quickly grown its UK and mainland Europe operations, Beko felt the need to better integrate rapidly expanding global operations. Senior management are demanding systems to better support planning cycles. For example, according to the Managing Director of Beko UK, “*We are collecting orders 8-12 weeks ahead from customers but our systems don’t show production [data] 8-12 weeks ahead. So we may need to change our systems.*” The dependence on simple IT tools such as Excel was seen as problematic as the company grew in scale and scope across the UK and Europe. Hence, Beko seeks new ways of standardisation, “*IT investments are now targeting standardisation. I can’t see the impact and value immediately but at a group level such systems are essential to leverage our global scale…So, we are moving from Excel and email based communications to SAP.*”

Thus, a more standardised approach to IT based on enterprise systems is increasingly being seen as the way to consolidate operations that have been hitherto locally oriented and based on modest IT infrastructure. However, there was clear recognition that the transition was going to be painful for both Beko and its main customers. IT is becoming ever more critical to global business consolidation at Beko.

Tata Steel has taken a more flexible approach to integrating its new business acquisitions. Whereas the global recession has forced Cemex to more or less abandon the Cemex Way, Tata Steel had chosen to follow a less aggressive integration process. According to a Tata Steel Director[[11]](#footnote-11), “*We haven’t been doing [integration] with the conventional rigidity of an acquirer…we quite genuinely tend to look at an acquisition as a partnership rather than an acquisition…We don’t send planeloads of people into a new company. Instead, we only send in a few integrators... For example, after we closed the transaction for Corus on April 2, 2007, we worked together for the next six months on co-creating a vision for the enlarged enterprise.*”

This also meant that, unlike both Cemex and Beko, Tata Steel took a more pragmatic approach that recognises the need for a balance between standardisation and flexibility. While recognising the need to generally align globally with its systems Tata Steel has been able to offer some flexibility to business process owners. However, the recession in the UK and cost pressures have led to increasing recognition of the role of IT in process integration and a restructured IT function to support more synchronised operations across Europe and better linkages with the parent company. This is primarily being implemented through Tata Steel’s Supply Chain Transformation programme, which aims at implementing best practices especially focusing on a more robust order fulfilment and costing system along with significant changes to the IT infrastructure and organisation (see Tata Steel, 2015). Previously weak links between Indian and European operations are also now changing through the offices of a Global Technology Officer for Tata Steel that seeks to “*align Indian and European strategies…Performance Improvements Groups enable sharing [of best practices] between different country locations*” says the UK Senior Executive and the Director of Supply Chain.

Tata Steel’s parent company in India had previously embarked on a major standardisation exercise using enterprise resource planning systems in the late 1990s in response to fragmented processes, IT systems and resulting cost increases as well as the then global context of steel overcapacity and a subsequent crash in steel prices (Kumar and Keshan, 2009). This history meant that IT decisions are routinely discussed with business process owners. For instance, a Design Authority Board determines IT decisions affecting particular processes with the business process owners. According to the Senior Executive, “*Nice to have versus essential requirements are decided pragmatically at the organisational level…Business owners seek common processes for their key areas. We then communicate and share these processes*”. This pragmatic approach also covers sourcing decisions where there is no mandate to use Tata group companies for IT services. The tension between standardisation and flexibility is often resolved through what the company calls ‘Reporting Factory’, which presents information from all Tata Steel systems (new enterprise systems and legacy systems) in one front end system on the Tata Steel Intranet.

While Cemex, Beko and Tata Steel have all internationalised their operations significantly in recent years, their global coordination of operations requires effective integration of new acquisitions, and this has been made possible through both strong supply networks and logistics as well as global coordination of strategy and processes through IT use. The IT infrastructure of all three companies reflect their broader approaches to organisational integration. Cemex’s aggressive early global expansion was on the basis of strict adherence to the Cemex Way model which encompassed standardised processes and IT. This rigid approach has softened since the 2008 financial crisis with Cemex having to respond more flexibly to customer demands. Beko, on the other hand, is on an opposite trajectory. It had much more autonomy in its UK operations, reflecting perhaps the lack of manufacturing operations in the country, and did not use complex enterprise systems. However, the increasing market share in the UK and rapid growth across Europe brought about a gradual move towards more sophisticated IT infrastructure including enterprise systems for information visibility across Beko’s operations. Tata Steel seems to be following a middle path with limited autonomy while also gradually introducing standardised systems for key processes. Table 4 shows the different pathways adopted by the three companies in their use of IT for international coordination and integration of their UK operations.

**[Insert here Table 4: Pathways to international coordination and integration of new acquisitions]**

**6. Discussion and conclusion**

Our findings on the strategic entry analysis (Questions 1 and 2) point out that EMNEs follow geographically variable, multi-speed internationalisation and there are asymmetric industry effects. Full ownership acquisitions in mature markets are distinct from other purchases and bring unique firm specific advantages. The UK entry motivation of our case study EMNEs aimed: i) To take advantage of being in a leading mature market which also brought broader worldwide recognition and competitive advantage; ii) To have access to a sophisticated business environment with a global financial market; iii) To benefit from less competitive pressures from host country brands at the time when the acquired businesses were in decline or financial difficulty in the UK; iv) To position closely to their global competitors in Europe. Despite high cultural and institutional distance between the UK versus Turkey and Mexico, as opposed to imperial ties with India, the UK emerged as an attractive location for all three companies.

Beko shows that EMNEs in home appliances follow structurally and geographically variable entry strategies (such as exports, brand acquisitions, green field investments and purchasing production sites). Compared to its brand acquisitions in Germany and Austria, where it has no significant market base, Beko built extensive ownership advantages in the UK by developing long-term relationships with retailers and invested in meeting consumer preferences for product development.

In the case of Cemex and Tata Steel, there is very little spatial heterogeneity in entry mode strategies due to industry conditions. Steel is expensive to transport. Cement has to be produced close to its market and almost all acquisitions of these companies have followed market access. The Cemex Way also levelled the location specific variations in management. However, its UK entry added a new strategic dimension; it made Cemex the largest producer of readymade Cement in the world. Similarly, Tata Steel’s acquisitions of Corus brought the firm to the high end of the market where it gained a new competitive advantage and skill pool in production and design of highly technical steel with significant knowledge effects (Nair, Demirbag and Mellahi, 2015).

Competitive pressures within industries affect entry strategies and local business integration differently (see Brouthers and Brouthers, 2003). Both Tata Steel and Cemex are ‘global consolidators’ (Ramamurti, 2012). However, combining their low cost-home market advantages with high-end users and sophisticated technology and supply networks in the UK proved to be fatal under the effects of the 2008 financial crisis. The aftershocks of the crisis meant that highly leveraged acquisitions not only failed to deliver financially robust returns but also could not be compensated by other global operations. Industry consolidation and competition confronted their business models. The ‘springboard’ approach seems to be an unrealistic aspiration for Cemex and Tata Steel (Li et al. 2012; Luo and Tung, 2007).

Implications of these key findings on strategic entry for theory building are that: i) Ownership and locational advantages are not separate considerations but interconnected fundamentals of internationalisation strategies; ii) Entry mode considerations show geographical variations, but mature markets are distinct due to unique advantages they offer in high end of product specifications and business infrastructure; iii) Ownership returns in mature markets, however, are dependent on industry conditions and competitive pressures; iv) EMNEs’ firm specific advantages are conjectural. For global consolidators, such as Cemex and Tata Steel, strategic ownership benefits are in a state of turmoil due to slow growth in mature markets, limited financial resources and competition from state-sponsored Chinese firms.

Our analysis of post-entry operational integration overcomes the static view of the OLI framework. While Cemex, Beko and Tata Steel successfully integrated their UK acquisitions through supply chain networks and IT operations, the nature of that integration has varied among the firms (Questions 3 and 4). We demonstrate how EMNEs manage their supply chain integration to support post entry consolidation (Kotabe and Kothari, 2016). The analysis showed that Cemex relied on full ownership of local quarries and manufacturing locations while Beko remained dependent on its production sites outside the UK with full ownership of UK warehouses for fulfilling customer orders. Tata Steel maintained a high level of integration between manufacturing and distribution sites as well as its business units. Concerning external supply chain integration, Cemex relied on a high level of integration with customers and outsourcing of logistics for cost reduction. Beko pursued a full integration with shipping companies for full visibility of container delivery schedules. Tata Steel followed a similar pattern of high level integration with external logistics providers for distribution of its products, reduction of lead times and improved on-time deliveries. These findings support the view that EMNEs with experience of previous acquisitions in diverse contexts are better suited to handle post-entry integration challenges in the supply chain as pointed out by Buckley et al. (2014). However, we explored further how the internal and external components of post-entry operations reduced inefficiencies, costs and delays, albeit through diverse approaches.

With regard to information technology, our analysis highlights the differential role of IT in the three firms as they seek to manoeuver against the context of increasing competition and difficult trading conditions. While Beko and Tata Steel have moved towards process integration and data visibility through standardised IT applications, Cemex is going against the tide seeking local flexibility and innovation. Cemex was initially characterised by a stringent approach to rapid integration of UK operations through standardised IT platforms mandated from its headquarters. On the other hand, Beko and Tata Steel were more flexible preferring a gradual integration at least in the early stages. However, the global industry context for cement and steel and challenging economic environment (particularly since the 2008 financial crisis) led Cemex to weaken its operational integration through more localised IT applications. Tata Steel moved towards further integration with its Indian operations. Beko’s rapid European expansion and increasing market share led it to promote global integration through standardised IT platforms.

Thus, while the multiple embeddedness of MNEs requires co-ordination through IT (Meyer et al, 2011), our study highlights varying trajectories of the three firms as they attempt to balance global control with adaptive capability at the local level (Yamin and Sinkovics, 2007). Indeed, standardised enterprise IT applications seen as necessary for balancing the conflicting demands of ‘global integration and local responsiveness’ (Prahalad and Doz, 1987), are no longer sufficient to meet the requirements for local flexibility and adaptability as EMNEs grapple with new global economic pressures. In the case of Cemex, the straitjacket of the Cemex Way and associated standardised applications constrained choice and local responsiveness as predicted by Yamin & Sinkovic (2010; 2007). But both Beko and Tata Steel are moving towards more internalisation and control, albeit for different reasons, despite suggestions that IT’s role in reducing both transaction and production costs have led firms to focus less on control and internalisation of subsidiary operations (Rangan and Sengul, 2009).

While prior literature has focused on entry into new markets but not so much on the challenges of operational integration that follows entry, our study shows the critical role of supply chains and IT in allowing EMNEs to integrate and consolidate their operations. Whatever the motivation for entry into new markets, the post-entry phase requires effective supply chains and flexible IT infrastructures for both operational integration and the strategic adaptation. The post-entry integration is increasingly critical to address the challenges brought by changing industry, market and global economic conditions.

Broader implications and limitations:

EMNEs have built considerable presence globally and invested heavily in their new acquisitions. However, there are risks associated with their over exposure to diverse political systems. Protectionist tendencies around the world pose new business conditions. FDI outflows may also further damage development prospects if emerging economies fail to generate stable macro-economic conditions to attract investment.

We would like to acknowledge some limitations of the analysis. The interviews were conducted with UK company directors and did not include middle-rank managers at operational level. It is highly likely that the recent popular support for Britain leaving the European Union and the terms of its negotiations will affect the strategic position of the selected firms and their business risk perceptions of the UK in coming years. This study provides a benchmark for the pre-Brexit entry conditions.

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1. See the special issue on “Dreaming with the BRICS? The Washington Consensus and the New Political Economy of Development” edited by Ban and Blyth (2013) in the *Review of International Political Economy*, Volume 20 (2). [↑](#footnote-ref-1)
2. <http://www.arcelikas.com> [↑](#footnote-ref-2)
3. [http://www.arcelikas.com/UserFiles/file/Ortaklık%20Yapısı.pdf](http://www.arcelikas.com/UserFiles/file/Ortakl%C4%B1k%20Yap%C4%B1s%C4%B1.pdf) (accessed on 9/8/15) [↑](#footnote-ref-3)
4. Beko acquired Grundig with British low-cost TV manufacturer Alba. Alba sold its shares to Beko in 2007. <http://www.appliancemagazine.com/news.php?article=114267&zone=0&first=1> [↑](#footnote-ref-4)
5. <http://www.tatasteeleurope.com> [↑](#footnote-ref-5)
6. <http://www.reuters.com/article/2010/10/13/cemex-readymix-idUSN1327460520101013> [↑](#footnote-ref-6)
7. See the company site: <http://www.arcelikas.com/sayfa/72/Arcelik_Kurumsal_Tanitim> (accessed on 9/8/15) [↑](#footnote-ref-7)
8. The price includes 229 million USD of equity value and about 98 million USD of a shareholder loan provided by Franke Holding AG, a Swiss home appliance maker that owns Defy. See, “Arçelik Agrees to Acquire Appliance Maker Defy For 327 million USD, CEO Says” By Ercan Ersoy - Jul 21, 2011, Bloomberg [↑](#footnote-ref-8)
9. See the reporting by Daniel Dombey, Financial Times, December 6, 2012. [↑](#footnote-ref-9)
10. See http://www.tatasteeleurope.com [↑](#footnote-ref-10)
11. See Dobbs and Gupta (2009), pp.3-4. [↑](#footnote-ref-11)