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Growth strategies for emerging markets:
Flexible strategy mix in Central Europe

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Abstract

This study examines the formulation of different types of growth strategy for emerging markets and the alteration of those strategies over time. Drawing on the concept of strategic flexibility, the paper specifically explores how a global supplier can devise its strategy for different but closely interrelated business contexts. Deriving from process data analysis based on a case study of a Japanese auto parts supplier's business activities in Central Europe, the paper investigates change mechanisms of strategy in emerging markets, and proposes a strategy mix corresponding to different market features.

Keywords: Growth strategy; Flexibility; Global suppliers; Automotive industry; Central Europe

1. Introduction

International business research on strategies of multinational enterprises (MNEs) has increasingly focused on institutions of emerging economies[1]. The studies cover a range of topics; for example, equity ownership (Delios & Henisz, 2000; Chung & Beamish, 2005), location choice (Bevan, Estrin, & Meyer, 2004; Dunning, 2005), and partner selection (Uhlenbruck & De Castro, 2000; Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004). This rapidly developing body of literature has contributed to deepening our understanding of factors that foreign investors need to consider in order to penetrate the growing markets and advance their market positions.

However, most previous studies are based on North (1990)'s two-dimensional classification of institutions, i.e. formal institutions (laws, regulations, policies) and informal institutions (social conventions and cultural norms). Evans (1995) argues that North's institutional framework largely focuses on property rights and there is little analysis of how other institutions shape each other. Chang (2002) points out that the market is one of institutions, regarding the market as an institution of exchange, firms as institutions of production, and the state as the political institution which at the same time governs relationships among those institutional variables, and they together constitute complex capitalist systems. In the light of this view, it can be said that the most dynamically changing institution in emerging economies is their markets. Yet, previous studies have paid scant attention to the changeovers of MNEs' strategies in response to changes in industry-specific markets in emerging economies, although they are an important institutional variable for strategy design.

[1] Emerging economies can be broadly defined as fast-growing middle-income developing countries (Kaminsky et al., 2001). According to the World Bank, middle-income economies are classified as countries with gross national income (GNI) per capita of US$ 756-9,265, including lower middle-income countries (LMC); US$ 756-2,995, such as China and India, and upper middle-income countries (UMC); US$ 2,996-9,265, such as the Czech Republic, Hungary, and Poland.

Drawing on the concept of 'strategic flexibility' and based on a case study of the auto parts supplying industry, this study examines the formation of different types of growth strategy and the alteration of those strategies over time. To examine the breadth of strategic flexibility, this study focuses on one a multinational supplier in the automotive industry, based on the case study in Central Europe, where the automobile sector is rapidly growing. It also analyses differences in industry-specific market features in the region, albeit the convergence of formal institutions as a result of the EU enlargement. Comparative analysis specifically focusing on the behaviour of a multinational supplier is relatively rare, despite the fact that FDI and business activities by global suppliers have significant impact on market structure in emerging economies. Findings highlight the importance of a global supplier's strategic flexibility to take a lead in emerging markets.

The paper proceeds as follows: Section 2 firstly describes the characteristics of emerging markets, and secondly revisits the concept of strategic flexibility to apply it to the emerging market context. Section 3 outlines the methodology used in this study. Section 4 illustrates a case study in the auto parts supply market in the Czech Republic, Hungary, and Poland. The case firm's concurrent strategies are shown in a process flow-chart. Drawing on these results, sections 5 and 6 respectively propose a process model of growth strategy and implications. Section 7 provides future research directions and concludes.

2. Theoretical background

2.1. The market context of emerging economies

As many authors have observed, the speed and degree of changes in institutions are characteristics of emerging economies (Newman, 2000; Svejnar, 2002). Although the adjustment of regulatory systems may be a short run, market conditions and market interactions change continually (Newman & Nollen, 1998) and can become even more complex over time.

Moreover, in emerging economies, in particular formerly socialist economies, the growth and expansion of product markets tend to be FDI-driven, because market variation was limited by strict planning. Once those economies have begun to attract FDI of multinational assemblers, new supply markets are created for their suppliers, especially global suppliers, which are operating internationally. Particularly, suppliers in hierarchical industries are quick to respond to their customer firms' movements, as closeness to lead clients and the availability of markets are important determinants for their FDI (Dunning, 1993). Meanwhile, growing numbers of global suppliers in emerging markets contribute to improving the supply base in the host country. This in turn stimulates multinational customers' business expansion locally, while also triggering rival MNEs' entries. Consequently, the growth of multinational assembler firms and their suppliers likely to induce cyclical changes in emerging markets.

Given this self-inducing nature of emerging markets, static strategies will not work. A firm's strategy must change in accordance with new opportunities and threats as well as changes in its own capability and strategic intent (Chakravarthy & Doz, 1992). Although North (1990) regards organisations as passive agents vis-à-vis institutions, organisations can enhance their ability to survive not only by changing themselves but also by determining the course of their actions and changing their environment for their articulated purpose (Miles & Snow, 1978; Chang, 1996; Fligstein, 1996), and the surrounding institutional processes also facilitate their strategic behaviours (Oliver, 1991).

2.2. Strategic flexibility as the key to growth

Miles and Snow (1978) argue that an organisation's responses to its institutional environment are influenced by the strategies that the organisation pursues. Strategy can be defined as 'intended, a priori guidelines' as well as 'evolved, a posteriori consistencies in decisional behavior' (Mintzberg, 1978, p. 935), to create the match 'between its internal resources and skills (sometimes collectively called competences) and the opportunities and risks created by its external environment' (Hofer & Schendel, 1978, p. 12).

One of the fundamentals of a successful growth strategy is to identify one's market and capture the potentiality. Growth strategy in this paper refers to strategic focus and directions on target setting, approaches to customer firms, and synergy creation to advance the firm's market position. One supposition about the strategy of MNEs is that they need to respond to institutional variables and their processes, including increasing competition and collaboration between firms, with a wider scope than ever (Buckley & Young, 1993). The issue is how this can be done. This question requires us to revisit the recurring concept of 'strategic flexibility'.

Strategic flexibility is defined as the ability of the firm to modify strategies (Harrigan, 1985; Evans, 1991), as well as the capability to 'proact or respond quickly to changing competitive conditions and thereby develop and/or maintain competitive advantage' (Hitt et al., 1998, p. 26). Evans (1991) argues that strategic flexibility is invaluable when the rules of the game and the nature of the game itself change. While flexible change is important for strategy design, however, Zajac, Kraatz, & Bresser (2000) point out that choosing the wrong timing and degree of strategic change would result in 'dynamic misfit'. Thus, the firm needs to examine institutional settings related to its business to make appropriate change.

To do business in emerging markets, previous studies have suggested that MNEs have to adapt to local institutions (e.g., Dawar & Chattopadhyay, 2002; White & Linden, 2002). Although the firm's 'adaptation' or 'adaptability' are often referred to, coupled with 'flexibility' (e.g., Aaker & Mascarenhas, 1984; March & Olsen, 1989), adaptability and flexibility are different concepts, as several scholars have pointed out (e.g., Stigler, 1939; Evans, 1991; Volberda, 1996). Evans (1991) provides a clarification of the difference between adaptability and flexibility: adaptability is a singular adjustment to a new environment, whereas flexibility involves successive but temporary approximations.

To cope with unstable environment, strategies have to flexible (Buckley & Casson, 1998). By using the term 'innovative' strategy instead of 'flexibility', Lazonick (1991) calls for more proactive response than 'adaptive' strategy. He characterises the adaptive strategy as a passive attitude that makes only marginal adaptations based on past success, avoiding uncertainty, and argues that the firm must confront uncertainty by coordinating its strategies and all resources available, and challenge international competitors. Oliver (1991) also argues that firms can change institutional processes by employing strategic responses rather than passive adaptation. To do so, the firm must have both resources for flexible use and flexible behaviour to apply those resources to pursue alternative courses of action (Sanchez, 1995).

Strategic flexibility is particularly important for global suppliers operating in emerging markets, because those markets are not only continually changing but also rapidly extending their linkages with global markets. In particular, multinational customer firms' procurement is based on centralised or coordinated purchasing policy for decentralised use (Yip, 1989). Thus, single-country competitors will lose competitiveness compared to internationally operating firms (Meyer, 2006).

To penetrate emerging markets and grow internationally, global suppliers are faced with complex tasks of strategy coordination. Volberda (1996) suggests that flexibility is based on the firm's repertoire of managerial capabilities and responsiveness. According to him, dynamic capabilities – which are the firm's processes 'to integrate, reconfigure, gain and release resources' to address and even create market change (Eisenhardt & Martin, 2000) – are demonstrated in the 'flexible mix' of different degrees of speed and variety of forms. The case studies described below explore a global supplier's strategy mix and its alteration alongside market change.

3. Methodology

Process data analysis: To explore the breadth of strategic flexibility, this research focuses on a single global supplier's activities in different but closely interrelated emerging markets. Case studies which track firms and industries over time make a significant contribution to international business (Buckley & Young, 1993), and qualitative data are useful to depict a sequence of causations (Eisenhardt, 1989). This study is therefore based on an exploratory process approach, which takes into account the context and different levels of analysis that are often closely related (Pettigrew, 1992; Langley, 1999).

In strategic management literature, the meaning of the term 'process' generally falls into three categories: (1) process as a logic to explain causal relationships between variables, (2) process as a category of concepts or variables, and (3) process as a sequence of events or activities that describes how things change over time (Van de Ven, 1992). This study invokes the third meaning of the term 'process' to unfold the flexible strategy mix of a firm. Following Langley and Truax (1994), I use a visual mapping method to illustrate changes in the case firm's concurrent strategies in three countries. This method allows the chronological incorporation of a large amount of related information (Langley, 1999), in order to present relationships between events, actors and their activities and to formulate patterns.

Selection of country and industry: The phenomena occurring alongside the radical change from a planned economy to a capitalist system in Central and Eastern Europe (CEE) provide a unique context for theoretical development in International Business (Meyer & Peng, 2005). As a result of the sequential FDI of many MNEs, which were 'waiting for the market' (Schuh, 2000) during the early transition period, the automotive industry in CEE has experienced massive changes not only in formal institutions but also in market features and structures over the past decade. Since 1995, automakers and suppliers have invested more than US$ 24 billion into their production units in CEE, mainly in Visegrad countries (i.e., the Czech Republic, Hungary, Poland and Slovakia) (Edmondson, 2005).

The expansion of the EU to include countries in Central Europe has increased access to the vast European car market, which is seen as a key battleground for all global players (Gray & Cook, 1994). Against this background, Japanese FDI in CEE has surged since around 2000, particularly into three Central European countries, the Czech Republic, Hungary, and Poland. Despite its low profile in CEE until recently, Japan became the third biggest investor in Hungary next to Germany and Austria in the period between 2001 and 2003 (Ministry of Economy and Transport, Hungary, 2005), and the eighth biggest in the Czech Republic during the same period of time (Czech National Bank, 2001, 2002, 2003), while Japanese FDI also rose in Poland[2]. According to JETRO (2005), 43.8 % of Japanese manufacturing firms in CEE are automotive-related manufacturers.

[2] In 2004, Japanese FDI in Poland increased by 23% over the end of 2002 (JETRO, 2004).

Case firm: Denso Corp. is Japan's biggest auto parts supplier, and is ranked in second position in global original equipment manufacturer (OEM) automotive parts sales. The company is operating in 31 countries with more than 112,200 employees. As of the end of 2006, Denso has 188 consolidated subsidiaries across the world and 33 units among them are in Europe. Denso was chosen as the case firm for this study because the company has operated in Central Europe since the mid 1990s, during which time the automotive industry in the region began the momentum of rapid growth.

As it is a Toyota group company, about 50% of Denso's net sales are earned from business with the Toyota Group[3], while the company also supplies other major carmakers such as those in the GM Group, Honda, and the DaimlerChrysler Group, for example. Denso's top three product segments are thermal systems (e.g. air conditioning systems and radiators), powertrain control systems (e.g. engine management systems), and electronic systems (e.g. instrument clusters, integrated climate control panels). Denso controls the top positions of 20 automotive product categories in terms of global market share. However, in the European market (including Western Europe and CEE), Denso's rank is lowered to 18th (as of 2003). Advancement of its market share in 'Fortress Europe' has long been the company's earnest objective. Utilising its production bases in the Czech Republic, Hungary, and Poland, Denso is aiming to move into the top five in Europe by 2010. For the past three years, the company's sales in Europe have been increasing by 12% every year. This case study looks at Denso's strategies and growth processes in the three countries between 1997 and 2005.

[3] The Group includes two carmakers besides Toyota itself, namely Daihatsu Motor and Hino Motors.

Research setting: The initial contact with Denso can be traced back to a meeting at the company's Japan head office in 2003 between the author and the General Manager, who was responsible for corporate planning for the European Continent between the mid 1990s and the early 2000s. The first contact on the European side was made in the beginning of 2005 with Denso's regional headquarters for Europe in the Netherlands. Further contacts were made by asking each interviewee to introduce the author to key persons in charge of business in Central Europe. Because of Central Europe's strategic position in the company's European business as well as cross-border interactions between their local units, 15 people were interviewed at Denso's eight operation units (two presidents, an executive vice president, a director, and eleven managers) in six countries in Europe, i.e. the Czech Republic, Germany, Hungary, the Netherlands, Poland, and the UK.

Since strategic flexibility involves multiple units of an organisation, the interviewees' functional affiliates vary, ranging from business planning and sales marketing to procurement and logistics departments. The interviews were basically open-ended, while major parts of conversations addressed three aspects: motivations for entry, strategic roles of the local unit, and market changes that they had observed. Relationships between key events were verified with persons in charge at different operation units concerned. Each interview lasted at least 2 hours. The interviews were transcribed and also recorded when permission was granted to do so. To support the information, internal documents provided by interviewees, the company's annual reports and press releases were also used.

4. Case studies

4.1. Hungary

Denso established a wholly-owned plant in an industrial park located about 60 km from Budapest in 1997. The Greenfield investment was regarded as a 'springboard' to advance the company's market share in Europe. This also reflects a characteristic of Japanese FDI in Europe, which has focused not on any particular national markets but on European markets as a whole (Dunning & Cantwell, 1991). Denso selected Hungary as its first FDI location because of the country's most favourable government incentives among CEE at that time, and because of Japanese carmakers' movement into CEE. Suzuki, which entered Hungary in 1991, steadily increased production at the Hungarian unit and gained the top share in Hungary in the mid 1990s; Isuzu, another Japanese carmaker, later established a diesel engine plant, Isuzu Poland (ISPOL), in Poland in 1997 to supply to its parent company, GM's Opel division, to which Denso's Hungarian unit (indicated as D-HU in Figure 1)[4] can supply from Hungary.

[Figure 1 about here]

The initial business of D-HU was to produce diesel injection pumps. Immediate after the start of production, Denso expanded its plant facility to produce the common rail system (CRS). The CRS is the world's first electronically controlled diesel CRS, which Denso commercialized in 1995. This expansion was made in relation to gaining business from Ford. Since the late 1990s, Ford has been trying to increase its share in Europe. Having targeted Ford's business, Denso conducted major sales activities in the UK, where Ford's regional headquarters were located[5]. In 2002, D-HU also began manufacturing variable camshaft timing (VCT) components, which reduce fuel consumption and emissions. The products are delivered to Toyota's engine plant in Poland, Toyota Motor Industry Poland (TMIP). The

[4] This short form, as well as other short forms of Denso's local units in Central Europe (i.e. D-CZ and D-PL) are used only in this paper for simpler indication of their locations (the company has different acronyms for official use).
[5] Ford later relocated its regional headquarters to Germany.

second expansion at D-HU was conducted between 2002 and 2004 to increase production of diesel engine management systems. Although D-HU started with a few hundred employees, it has expanded to more than 2,700 employees as of 2005 to meet growing production demands.

With technological competitiveness, Denso views tighter exhaust emissions regulations in EU member countries as a positive factor to increase its market share. For this aim, D-HU has been making significant efforts to establish itself as a model case of an eco-friendly plant, while upgrading the product segments by introducing state-of-the-art technology. For its environmental activities, the plant received total four awards from local bodies and the European Commission. By enhancing its recognition in the region, Denso is attempting to benchmark the market of environmentally-friendly technology components in Europe.

4.2. The Czech Republic

In 2001, Denso's second investment in Central Europe was made in a northern city of the Czech Republic, Liberec, which is located near the borders with Germany and Poland, in order to "target 'All Volkswagen (VW)' in Europe." Since VW acquired a local carmaker, Škoda, in 1991, more than 100 of VW's suppliers clustered in the Czech Republic (Werner, 2003). Entry into the Czech automotive market was a big challenge for Denso, because the local supply network consists of not only VW's global suppliers but also Škoda's local suppliers, assuming the features of the 'epitome of Fortress Europe'. Although Denso's prime customer, Toyota, revealed a joint venture project with PSA Peugeot Citroen at the end of 2001, the location of this assembly plant was not known when Denso decided to invest in the Czech Republic. Initially, Toyota's first choice for joint business in CEE was VW. However, the German carmaker eventually turned down Toyota's proposal in the mid 1990s. This required Denso to compete with rival suppliers for VW business on a market basis.

To establish a foothold, Denso's Czech plant (D-CZ) is specialised in manufacturing car air-conditioning systems and components, which is the company's core business. Denso's sales and R&D unit in Germany has backed up its operation through close support for purchasing management. Thanks to the growing demand for car air conditioners in Europe, Denso succeeded in making a deal with VW to supply air-conditioning systems in 2001. Meanwhile, there was an unexpected windfall. After rejecting Toyota's idea of joint business, ironically VW has had persistent poor sales in the small car segment. VW's desperate need to improve its performance drove it to promote a sales campaign in 2004 that offered buyers a free air conditioner, which contributed to production at D-CZ.

Since its establishment, Denso has aggressively invested in the Czech Republic to build up its own second-tier supply cluster to support D-CZ. Denso's two subsidiaries established wholly owned plants in the country to manufacture air-conditioner related parts and small motors. Shortly after Toyota's joint venture with PSA, Toyota Peugeot Citroen Automobile (TPCA), was launched, moreover, Denso subsidised its own affiliate, which had established a plant for car air-conditioner components in Liberec city, by increasing the ownership from 26% to 51%. This series of Denso's investments resulted from the fact that at TPCA, Toyota had entrusted PSA with responsibility for purchasing. This means that there is no guarantee that even suppliers in the Toyota Group would be able to gain business from TPCA. Cluster-building by itself has been necessary for Denso to reinforce its production capacity and quality, because there are global suppliers that are targeting TPCA business all around the region.

4.3. Poland

Denso's entry mode in Poland differs from that in Hungary and the Czech Republic. The company entered the Polish market by partial acquisition of Magneti Marelli, Italy's biggest auto parts supplier. The main aim of this acquisition was to gain access to Fiat, which is Magneti Marelli's parent company. Fiat entered Poland by acquiring a local maker in 1992, and enjoyed a virtual monopoly for a few years because it was the only large-scale investment in the Polish automotive sector (Werner, 2003). However, the market became opportunistic fairly quickly, since VW, Ford and GM's Opel, which led to the establishment of ISPOL, as mentioned above, entered the market in the mid 1990s.

Denso acquired Magneti Marelli's Rotating Machine Division in 1999, and its Thermal Systems Division in 2001. As a result, Magneti Marelli's two factories in Poland became wholly owned by Denso. However, production capacity of the acquired factories was rather small. Thus, having observed Fiat's slowdown in the Polish market, Denso closed one of the Polish units and moved the operational function to Denso's Italian unit. Meanwhile, Denso formed a new joint venture with one of Toyota group suppliers and a Monaco-based entrepreneur who had considerable experience in doing business on the European continent. Since then, the joint venture has been supplying engine filters to Toyota's engine plants, Toyota Motor Manufacturing Poland (TMMP) and TMIP.

5. Flexible strategy mix for emerging markets

Deriving from the case studies, this section develops a process model of flexible strategy mix for emerging markets. Typical strategies for emerging markets can be network-based strategy founded on tie-ups with other firms, or market-based strategy founded on the firm's competitive resources and capabilities, or hybrids of both (Peng, 2003). Due to different inducements that market actors may make, global suppliers often may need more variations.

In a hierarchical industry, moreover, strategy formulation based on ties with another MNE outside an existing network should be distinguished from *intra*-network-based strategy, since the stability of interfirm relationships in the two strategies are likely to differ. Here the former is termed as mediator-based strategy, and the latter network-based strategy.

If a supplier's response to an emerging market is based on a traditional 'follower' FDI after the prime customer firm's entry, its strategy design is straightforward; gradually increase FDI following customer firm's steps. However, the behaviour of a global supplier with strategic flexibility will be more proactive. It may make the initial entry with strategic intention to expand its market, based on a regional-scope strategy targeting potential customer firms in a wide geographical area. The initial market feature that it enters can be regarded as a springboard market. The supplier should develop or already business channels with 'early-mover' customers in such a type of emerging market.

Another type of initial market feature will be more challenging: the supplier establishes a production base in a very competitive environment to target a potential customer firm that is already in a monopolistic or oligopolistic position with a substantial supply network. If a supplier is a latecomer in a given emerging market with such features, a possible entry and growth strategy could be the mediator-based strategy, forming a joint venture with another global firm. Although if the host country imposes limits on foreign ownership, the partner is inevitably a local firm, if the potential buyer firm is already guarded by rival global suppliers, forming a tie with a local firm outside the established supply network may be little help to participate in the potential firm's business. If wholly-ownership is possible in the given context, a global supplier may choose market-based strategy from the outset for emerging market with monopolistic or oligopolistic feature.

As Porter (1980) suggests, however, markets evolve over time, and each market stage will affect the strategic position of a firm (Eisenhardt & Schoonhoven, 1996). Because building a market is an erratic process, a range of outcomes is possible (White, 1981). It is particularly so in emerging markets because of their self-inducing nature.

Depending on inducements, there is a possibility that a springboard market becomes a focal market, while a monopolistic/ oligopolistic market could become a peripheral market, and even reversals in the nature of markets may occur. Accordingly, a global supplier with strategic flexibility will change its strategic focuses responding market features. Figure 2 summarises growth strategies corresponding to different market features of emerging markets. Observed market features of suppliers can vary even in the same sector in a given market, since observation of a market is subject to which customer and product segment the supplier targets. In addition, the model may be most suited to foreign suppliers in hierarchical industries, as is the case in this study.

[Figure 2 about here]

Pattern 1: The first pattern is the shift from a springboard market to a peripheral market. This corresponds to the case of Hungary. In fact, Hungary has gradually lost its advantage as a host of automotive FDI as the other countries established reputations as hosts that provided better incentives (Werner, 2003). As a result, the number of customer firms did not increase in Hungary as D-HU had expected[6]. Other possible 'negative' inducements are changes in a customer firm's FDI project or relocation, which often happen in emerging markets. For

[6] For instance, Toyota had initially considered Hungary as well as Czech Republic and Poland for the location of its assembly plant, but eventually dropped Hungary.

example, Ford’s shutting down of its Polish assembly unit in 2000 can be seen as the shift from a focal market to peripheral for some suppliers if they were heavily dependent on the business with Ford Poland.

If negative inducements have occurred, a supplier’s local unit might be also relocated elsewhere. However, relocation is difficult if its local unit is value-added FDI, and if the region still has high market potential. To enhance the raison d’être of the local unit if it becomes somewhat sidelined, one possible and proactive strategy is technological upgrade. Rather than trying to attract other customers by simply price cutting of ongoing products, a firm can undertake additional investment in more value-added business (Lazonick, 1991). As the case of D-HU show, this shift towards technology-centered strategy enables the supplier to attract potential customers from a broader geographical area.

> Observation 1: A global supplier with strategic flexibility can cope with the shift of a market feature to a peripheral characteristic by technology upgrading, and expand its geographical coverage.

Pattern 2: Denso’s strategy mix in the Czech Republic reflects the change from a monopolistic market to a bifocal market, while for VW suppliers, Toyota’s entry may imply a change from a focal market to a bifocal market.

Even though the supplier has a disadvantage in a monopolistic market because it is dominated by potential customers and suppliers in its network, if the supplier’s prime customer firm comes to the said market, the situation will change dramatically. If the market feature is focal or bifocal, it is worth concentrating the supplier’s resources in the market, although it would be risky to do so only for uncertain business with a potential buyer. A speedy method of capacity building can be to increase the supplier's own subunits. A global supplier with strategic flexibility may invoke a cluster-building strategy through intra-firm outsourcing, since a group of subunits with similar advantages over their rivals will be best managed in a cluster (Zaheer, 1995). Cluster-building strategy by a global supplier in emerging markets is common where its prime customer is present. Another example besides Denso is a German supplier, Robert Bosch, which has established three production units and a number of subsidiaries in the Czech Republic with 8,150 employees (CzechInvest, 2005).

> Observation 2: With strategic flexibility, a global supplier will intensively concentrate its resources in the proximity of its prime customer, even though it can serve the customer from neighboring areas, in order to reinforce the existing business channel.

Pattern 3: The third pattern is a strategy mix of mediator-based strategy and network-based strategy to cope with market change from an oligopolistic to an opportunistic scenario. This may be a representative pattern of self-inducing process, and can be commonly seen in emerging markets that are keen to invite FDI. In the early stage, there can be a limited number of customer MNEs. As a result of the increase of MNEs, however, oligopolistic market feature may be changed to a more opportunistic form, and the market relations often become too complex to understand 'who is helping whom to defeat whom?' (Dore, 2000).

Williamson (1975) argues that market players strengthen long-term relationships with important transaction partners in order to mitigate volatility caused by opportunistic others. Suppliers may establish ties with more stable partners to secure business with certain customer firms. Nevertheless, the purpose of resorting to a network strategy is not the 'hostage trading' that Williamson (1985) assumed, but to share the gains of one's strategic actions to secure further cooperation (Lazonick, 1991). This trend can be seen in other emerging markets at regional level in a large country, such as Shanghai, the most advanced but opportunistic market in China. A number of global suppliers still use a mediator-based or network-based strategy although 100% ownership is now granted for foreign suppliers.

> Observation 3: The higher strategic flexibility a global supplier has, the more likelihood that it enhances external ties more selectively if opportunism increased as a result of self-inducing nature of an emerging market.

6. Implications for growth strategy in emerging markets

The requirement for a strategy mix for emerging markets will lead to questions such as ‘what is the key constituent of strategic flexibility to formulate such strategy mix?’ As White and Linden (2002) suggest, developing and selecting a strategy depends on the firm’s ability to foresee the outcomes resulting from different choices.

As case studies showed, practising strategic flexibility in emerging markets calls for cross-border coordination. Hitt et al. (1998) argue that MNEs must identify and exploit cross-border synergies and balance local demands with their global vision. In changing institutional contexts, global suppliers need to take a lead in changes with a broad view by linking and coordinating their international activities.

Another attribute of strategic flexibility will be institutional sensibility, which can be understood as an organisational capability of recognising differences and similarities between multiple institutions that inhere in the firm and those in host countries, to find connectability between them. Global suppliers need to have institutional sensibility to capture various institutional influences on its customer firms and anticipate possible repercussions on a given market. Global suppliers with high institutional sensibility are likely to be more adept at overcoming institutional differences and adjusting to changes. When such a global supplier makes a decision on FDI, the existing cultural distance from host countries matters less. Instead, it will be more critical to be aware of ongoing changes as well as possible changes in the near future while dealing with complex customer-supplier relationships in both the emerging market context and the global context, because inducements in emerging markets often reflect changes in the global market.

However, the importance of flexibility does not mean that a global supplier should try to please everyone or be a rootless multinational. To grow in a changeable business environment, close relationships with the most important actors such as prime customers and other firms in the same network are essential. To which network the firm belongs and its strategic placement in the network will determine the firm's global position (Yip, 1989; Gomes-Casseres, 1994). Thus, a global supplier should decide whom it gives priority and shares its most valuable resources with.

Close ties with particular actors is likely to result in embeddedness in a certain network. Although Leblebici et al. (1991) argue that less-embedded firms can introduce changes more easily, functionally there is no such thing as flexibility without the fixed point. Without solid relationships that the supplier can rely on, its strategies could drift apart in volatile emerging market contexts. The point here is that strategic flexibility is the firm's 'ability', which is to maximise its potential, not merely to allocate limited resources. It is therefore possible for a supplier embedded in a certain network to achieve a high degree of strategic flexibility.

7. Conclusion and suggestions for future research

This paper has examined how global suppliers could design strategy coping with changing market features in emerging economies. A firm's strategic action could trigger another change at industry level. The self-inducing nature of emerging markets intensifies competition and promotes rapid change in the nature of competition. The case study points to the importance of strategic flexibility to adjust growth strategies over time.

One of the limitations of this study, however, reflects a common shortcoming of process analysis. A model derived from a small number of cases tends to be of moderate generality and rather mechanical quality (Langley, 1999). Thus, future research could combine process methods with other methods to investigate strategy patterns in order to achieve deeper generalisations. Another missing point in this paper is analysis of the internal decision process and organisational structure, which enact strategic flexibility. As Chandler (1962) argued, a new strategy requires a refashioned organisational structure for the efficient operation of the enlarged enterprise. The organisational structure and administrative processes of MNEs will change alongside their geometric increase. Future research could deepen a long-standing issue of strategy-structure interactions in different institutional settings.

Finally, the possible impacts of MNEs' chain reactions resulted from different types of institutions and their positive and negative effects for sustainable development of emerging economies should receive more attention in International Business. As Boyer (1997) argues, the market per se cannot warrant long-term efficiency. Evans (1995) rightly points out that the search for markets leads to the state. A well-functioning market economy requires many institutions backed by a well-functioning state (Chang & Nolan, 1995; Stiglitz, 2000; Chang, 2002). Hence, the host governments need to know the varying intentions of MNEs and their evolving strategies (Dunning, 2005). Future investigations should contribute to this challenging research agenda.

Due to the heterogeneity of emerging markets, different responses from MNEs, and diversity among institutions, the analysis of this study is far from comprehensive. Despite the limitations, however, the research demonstrates the importance of a supplier's ability to devise different strategies in a proactive manner, and to develop strategies flexibly in rapid changes in the emerging market context.

The case studies highlight the fact that strategic flexibility is crucial if global suppliers are to survive and grow in conditions where the rules of the game are constantly changing. Even though formal institutions develop, the strategy for emerging markets may not necessarily converge towards market-based strategy, as long as market features and the density of global players change. A model of flexible strategy mix may be a guide to suggest strategy options,. Even though the extensive inclusion of almost anything into institutional analysis may, in itself, be less useful, the identification of imperative characteristics of multiple institutions and their impacts on business strategies should continue to have an important place in strategy research.

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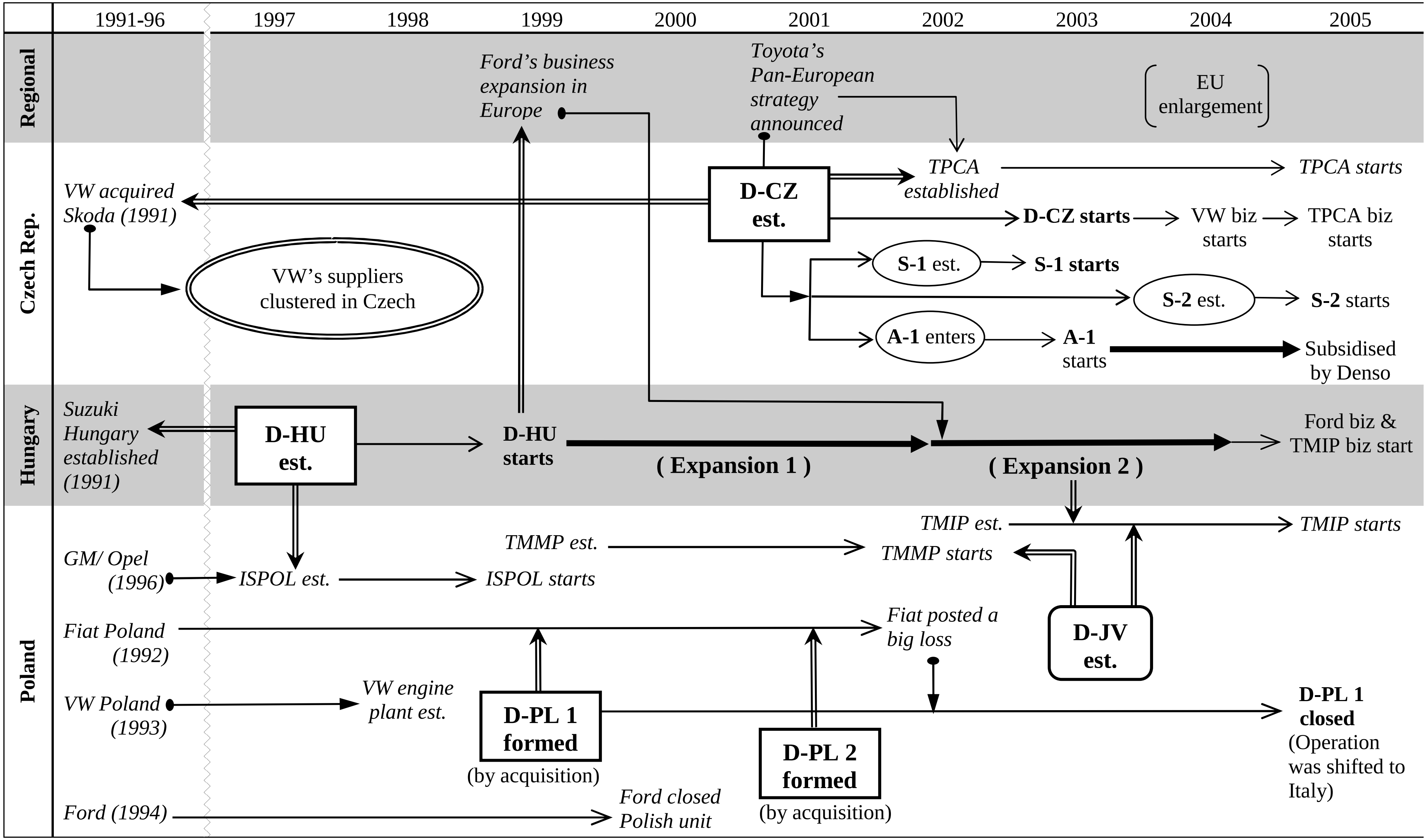
Figure 1. *Denso*'s growth processes in Central Europe



Note: ⟶: flow of activities, ⟹ : main target firm, ➡ : production expansion, ●⟶ : major influence. Assemblers' activities are shown in Italics.
D-CZ/ D-HU/ D-PL1 and 2: Denso's wholly-owned plants in Czech, Hungary, and Poland, D-JV: Denso's joint venture, S-1 and 2: subsidiaries, A-1: affiliate.
TPCA: Toyota Peugeot Citroen Automobile, ISPOL:Isuzu Poland, TMMP: Toyota Motor Manufacturing Poland, TMIP: Toyota Motor Industry Poland (TMIP).

Figure 2. Possible strategy mix for emerging markets