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ARAB EMERGING MULTINATIONALS: EMIRATIS MNC's AS A RETROSPECTIVE CASE STUDY

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Abstract:

This study aims at clarifying the development path chosen by emerging Arab multinational corporations (MNC's) via studying the case of Emiratis MNC's. This study's findings demonstrate that these Emiratis new multinationals operating across borders and time zones and integrating diverse management teams and governance practices have significantly benefited from their home economies' market conditions and leadership, which not only encouraged local monopolies, but also sheltered them from foreign competition, and hence allowed them to gain scale and experience. In this study, we relied on the qualitative methodology that depends on analyzing data generated through focus groups and interviews of UAE emerging MNC's senior executives. The importance of this study is to provide a historical contextual evaluation of the development path these emerging multinationals' have particularly opted for in order to become over the last decades a new player in the internationalization arena.

Key words: *UAE Emerging Multinationals; Gulf Corporations; Globalization.*
JEL Classification Codes: *M1- M16- O53.*

الملخص:

يهدف هذا البحث لتوضيح المسار التنموي للشركات الجديدة المتعددة الجنسيات من دولة الامارات العربية المتحدة. نتائج البحث تبرز أن نشاط هده الشركات عبر الحدود والمناطق الزمنية و الإدارية والممارسات الحكومية قد استفاد بشكل كبير من ظروف السوق و القيادة التي شجعت احتكارات محلية ، وحمت هده الشركات من المنافسة مع الشركات المتعددة الجنسيات العالمية و السماح لها باكتساب الحجم والخبرة محليا قبل قرار التدويل . في هذه الدراسة ، اخترنا المنهجية النوعية التي تعتمد على تحليل البيانات الناتجة عن مجموعات التركيز والمقابلات مع كبار المديرين التنفيذيين للشركات متعددة الجنسيات الناشئة في دولة الامارات. تكمن أهمية هذه الدراسة في توفير تقييم ظرفي تاريخي لمسار تنموي اختارته هذه الشركات المتعددة الجنسيات الناشئة لتصبح لاعبًا جديدًا في ساحة التدويل عبر العشرية الاخيرة.

الكلمات المفتاح: *الشركات الاماراتية المتعددة الجنسيات الناشئة ؛ الشركات الخليجية ؛ العولمة.*

تصنيف JEL: M1- M16- O53

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1. INTRODUCTION

During the last decades, we have witnessed the emergence of a growing number of third world MNC's characterized by an outward FDI flow from emerging economies reaching in 2008 of more than 350 billion USD (Wells, 2009, p.23). As a matter of fact, it has been widely acknowledged that, this new breed of ambitious MNC's was rising on the world scene, presenting both challenges and opportunities for established international players. These new contenders hailed from seemingly unlikely places, like developing nations, such as Brazil, China, Russia, and even Egypt and South Africa. They shook up entire industries, from farm equipment and refrigerators to aircraft and telecom services, and have changed global competition rules (Tolentino, 2003, p.13).Though multinational corporations from the most prosperous emerging Asian economies have led the trend (Chittoor & al., 2009, p.187), the phenomenon has been comparatively extensive, firms from the Arab Gulf became also more dynamic abroad. For illustrative purposes, during a decade search for bigger markets, and greater economic diversification, Emiratis MNC's were slowly becoming part of this new business landscape. These new MNC's are particularly remaining an under-studied subject in the specific functional and area field of international business (Sethi, 2003, p. 315).

2. MNC's MOVING FROM THE CENTER TO THE PERIPHERY

On the whole, it is much admitted, by both academic specialists (Weinbaum & al., 2008) and professional experts (Van Agtmael, 2007, p. 22) that a major move of MNC's activity from the global commerce center to its periphery has restructured the configuration of international business (Sirkin & al., 2008, p.15). These IB latecomer firms (Mathews, 2006, p. 5), detain ever since a growing stake of the world's technology, as well as the marketing and productive resources. However, each multinational had its own particular motives and agenda for investing outside its national boundaries. These unconventional MNC's (Sethi, 2003, p. 315) were new economic actors in search - just like mainstream MNCs - for larger markets, greater diversification, cheaper raw materials, newer technologies, more efficient production, and reduced labor costs.

3. RIDING THE GLOBALIZATION WAVE: THE CASE OF THE UAE

Emerging multinationals were effectively adopting multiple pathways in their quest for globalization. In this process multinational enterprises from emerging markets have shaped the new foreign direct investment' geography and its ever changing competitive structure (Sauvant & al., 2010, p.3). A not as much stated but then rising tendency, has been the outward FDI progress from Arab emergent economies. Up till then, these emerging market economies were merely seen as massive oil and cash reserves. Since the 1970's these economies were indeed drawing considerable FDI, as global industries and giant MNC's were attracted by these emergent economies. However, this situation largely evolved ever since, and large MNC's from Gulf markets have then been the new regional and global investment landscape, reflecting hence a new and fundamental shift in Arab leadership mindset. UNCTAD had then moved its interest to this novel nature of Gulf global business where Gulf Arab investment increasingly flowed north and south, and Gulf economies investing in both developed and developing countries (UNCTAD, 2007, p.1). The world has therefore awakened to these new Gulf Arab countries MNC's due to their vast cross-border deals. But, besides companies making such big deals, well-known new MNC's from the UAE were growing organically through smaller deals. Attributing this MNC's growth to their confidence and scale in emerging markets, the same UNCTAD report showed that the ten major emerging market companies during that period had in 2008 a 1 trillion USD joint revenue - more than Australia or the Netherlands GDPs. As a matter of fact, Gulf countries MNC's - due to past surge in oil prices - ranked as the third world economy tiger, behind China and India and hence gained considerable weight in world economy (Pham, 2016, p.10).

5. GULF MULTINATIONALS GLOBAL BUSINESS ACQUISITIONS

Over the last decade a threat to Western MNC's from emerging market companies was the expansion of foreign direct investment in the form of M & A. This trend fitted well with Gulf companies' strong financial profiles who were then able to acquire companies fairly rapidly. Gulf influence was no longer limited to massive oil wealth; but its power increased due to substantial foreign investments, large-scale acquisitions and global alliances (United States, Europe and Asia). As their profuse liquidity could not be absorbed locally, Gulf multinationals have extended their reach beyond their borders with 10 billion USD worth of acquisitions. Dubai, Qatar and Saudi Arabia have made impressive acquisitions. DP World - owned by Dubai - became a top global port operator when it acquired the UK's Peninsular and Oriental Steam Navigation Co., in a 6.9 billion USD deal in 2006. Dubai bought a 3.12% stake in European aerospace giant, owner of Airbus. Borse Dubai, the Emirate's financial holding, agreed in September 2007 with Nasdaq to acquire 19.99% of the shares of the US-based firm and 28% of London Stock Exchange. Saudi petrochemicals acquired US Plastics for 11.6 billion USD, while Qatar acquired about 20% of London Stock Exchange. These were just a few examples of Gulf holdings whereas much larger investments existed, especially in real estate, and stock markets. The IMF and the International Institute of Finance estimated them to $1 trillion USD with returns on investment of around $100 billion USD in 2006. Gulf multinationals were moving up the engagement spectrum, from shallow engagement or simple distribution agreements, to joint ventures and partnerships, to a higher level of engagement and direct market entry, organic or acquisition-based. Such acquisitions often had a positive effect on market stability and lead to an increase in job opportunities. Many multinationals were partnering with Gulf multinationals in an effort to capitalize on the growth of these respective emerging markets and diminishing hence the effect of softening of their home markets. While business partnerships were often a necessary first step to understanding markets, however they did not always start at the halfway point and Gulf multinationals have often capitalized on the knowledge exposure gained to rise to positions of global competitors.

6. RESEARCH QUESTIONS AND HYPOTHESIS

Focusing on the case of UAE largest conglomerates, it was interesting to identify the various reasons for why these new multinationals were effectively growing? Which strengths, weaknesses, opportunities and threats paved their growth path? Which organizational leadership model adaptation served their growth path? We hypothesize that concentrated ownership in the UAE played then an economically, socially and politically useful role, it served to prolong the domination of few business entities and stifle competition. Partly due to the weak development of local markets in these emerging economies, local governments played an important role in nurturing successful domestic enterprises, which took the form of globally growing diversified conglomerates.

7. METHODOLOGY

The paradigm of Gulf emerging multinationals in general and in the UAE in particular was relatively new phenomenon; hence, we deemed it was necessary to retrospectively study the development of these new multinationals, and particularly the shaping role emanating from their particular environment. Through a qualitative research methodology we sought to fully understand this problematique from the perspectives of the senior UAE executive population involved then. Our qualitative research methods were very effective in obtaining specific information from senior UAE executives about the multifaceted contexts which accompanied the development of UAE new multinationals. The strength of our qualitative research methodology based on a grounded theory approach was its ability to provide complex descriptions of how UAE senior executives were experiencing internationalization. It provided us with valuable information about various aspects of corporate offshoring.

7.1. Research Design

The two qualitative methods we used were in-depth interviews, and focus groups. Each method was well suited for obtaining a certain type of data. In-depth interviews were excellent for collecting data on senior executives' personal opinions on past offshoring experiences. Focus groups were effective in eliciting data and in generating broad overviews of these past offshoring issues. The types of data these two methods generated were field notes, audio recordings, transcripts, brought together and analyzed using latest NVivo 12 software. The qualitative methods used were very flexible, which allowed for greater spontaneity and adaptation of the interaction between us and the study participants. These qualitative methods allowed us asking mostly open-ended questions, knowing that with open-ended questions, participants responses tended to be more complex, than is typically the case when using quantitative methods. We also had the opportunity to respond to what participants said by wording subsequent questions to the information the participant provided us.

7.2. Purposive Sampling

As far as our sampling is concerned, we did not see indispensable to collect data from every senior executive in UAE emerging multinationals in order to get valid findings. Our sample was the group of individuals who participated in our study, and our population was the broader group of people to whom our results will apply. Only a sample of the senior executive population was selected for the purpose of the study. The study's research objectives and the characteristics of the study population guided us to which and how many executives to select. Our purposive sampling grouped participants according to preselected criteria relevant to our particular research questions.

7.3. Sample Size

Our sample size was not fixed preceding data collection, but was based on our resources and time, as well as our study's objectives. In choosing purposive sampling, our sample sizes was determined on the basis of theoretical saturation, and our data review and analysis were done in conjunction with data collection. As far as the number of respondents acceptable in qualitative research, it has been suggested in the case of the grounded theory between 30 to 50 interviews (Morse, 1994, p.220), while others (Creswell, 1998, p. 10) suggested only 20 to 30. Given the scope and nature of our study, the quality of data and study design, as well as the use of shadowed data provided by participants, our research using a cross-sectional panel design (DP World, Etisalat, EMAAR) deliberately overestimated the sample size to 100 in order to insure reaching necessary data saturation. A series of 10 pretest interviews were a priori conducted with same level senior executives 'outsiders' in order to assess credibility, reliability, and rigor and address any limitations or bias before starting our research.

7.4. Open, Substantive, Axial, Selective Coding and Theorizing

During this procedure, *first*, we had to perform data analysis so as to identify emerging concepts, and, *second*, we had theorized to comparatively draw concepts within more inclusive ones. Theoretical coding (Glaser, 2003, p.12) or axial coding (Strauss & Corbin, p.30) are known to be "a set of procedures whereby data are put back together in new ways after open coding, by making connections between categories". After core variable, or tentative core was identified with study participants selective coding was then piloted, and we had to selectively samples new data linked to the core variable, in a process is called theoretical sampling (Glaser, 2003, p.14). "Grounded theory is a matter of fact multivariate, it happens sequentially, subsequently, simultaneously, serendipitously, and scheduled" (Glaser, 2003, p.10).

7.5. Theoretical Memoing and Theorizing

During this procedure, we wrote notes for each concept, these memos when sorted become our field notes on observed emerging concepts, contributing hence to theory building. "Memos are the theorizing write-up of ideas about substantive codes and their theoretically coded relationships as they emerge during coding, collecting and analyzing data, and during memoing" (Glaser, 1998, p.11).

7.6. Integrating, Refining and Writing up Theories

During this procedure, and after our coding categories have emerged, we did the writing and re-writing connecting hence emerging categories within a theoretical model we built around a major category enabling concepts to hold together.

8. RESULTS AND DISCUSSION

8.1. Results

The qualitative methods used (in-depth interviews & focus groups) with our sample study participants, allowed us to conclude that indeed UAE emerging MNC's were during the decade under study expanding sales and production internationally, for their home markets offered several advantages. *First*, rapid growth gave companies scale and spare cash to invest abroad as costs were low. *Second*, gradual liberalization in their home markets exposed them to competition from multinationals. *Third*, the threat to their domestic dominance encouraged managers to hone their skills, exposed them to best international practices which spurred them to seek growth abroad to compensate for lost market share at home. UAE multinationals were undeniably moving from dependence on resource-based industries to knowledge-based industries. UAE based telecom operator "Etisalat" had, for instance, diversified and invested by 1996 in the consortium that created "Thuraya Telecommunications Company" which currently provides coverage to more than 110 countries in all continents. "Etisalat" created the "Emirates Internet Exchange"; a hub that links to major cable routes to Asia and Europe, and formed a subsidiary called "E-Marine" that maintains submarine cable off the east coast of Africa. Following its steady expansion, "Etisalat" also launched a joint-venture in 1999 with Tanzania's Zanzibar Telecom. In 2004, Etisalat – was already present in fourteen markets and has started operating a mobile network in KSA competing with Saudi Telecom.

8.1.1. Why new UAE multinationals were effectively growing?

From the study findings, and as it pertains to challengers from formerly peripheral areas that internationalized in order to access resources, multiple factors have been at play, including the need to access new markets, the opportunity to integrate the value chain and increase vertical integration and the quest for brand control and resource leverage strategies. UAE emerging multinationals shared many similarities in their growth strategy. *First*, growth in a protected environment with a substantial domestic market. All have benefited significantly from market conditions in their home economy that encouraged local monopolies which sheltered them from competition with western multinational corporations, while allowing them to gain scale and experience. *Second*, partnerships with Western firms, whereby early collaborations with Western multinationals who were trying to penetrate these emerging market economies further allowed UAE companies to develop key competencies. Shallow engagement has been the norm, but more and more we were witnessing world-class joint ventures, such as Al Futtaim and IKEA, Abdul Latif Jamil and Toyota, Dubai International Capital and Sony.

Third, strategic leadership, whereby, most UAE companies started as privately and family owned distributorship enterprises with a dominant equity holder, allowing them the freedom to take a long-term view of their strategy regardless of market conditions and without being subjected to any shareholder concern. The new UAE brigades were fanning out around the world using a selection of Boston Consulting Group five strategies. The *first* strategy was taking brands from local to global. The *second strategy* was to turn local engineering excellence into innovation on a global scale. The *third strategy* was going for global leadership in a narrow product category. The *fourth strategy* was taking advantage of natural resources at home, and boosting them with first-class marketing and distribution. The *fifth strategy* was to have a new or better business model to roll out to many different markets.

8.1.2. Which strengths, weaknesses, opportunities and threats paved their growth path?

A SWOT analysis of these new UAE multinationals done with the study participants revealed they had some distinct advantages in their sprint to the fore of global business. *First*, they were often family-owned or family - controlled - even when they were public or semi-public companies - which helped them to make decisions somewhat quickly. *Second*, they often enjoyed cheap finance from state banks. *Third*, they also faced particular problems, because they were trying to break into a world economy in which globalization was already well advanced. *Fourth*, tariffs and anti-dumping actions were also preventing developing country companies from getting into the west. *Fifth*, firms were sometimes somehow ignorant of the markets they were entering, and their brands, though well established at home, were unknown overseas. *Sixth*, they somewhat as well lacked the necessary management talent and leadership. *Seven*, because the international experience of UAE companies began, in most cases, with the economic success of their home economies, and although the methods and motives varied between companies and industries, most made their early international investments by first going into seemingly "unattractive" international markets that had close cultural or political ties to their home economies. *Eight*, UAE companies were largely able to do so because of their cost advantage over established multinationals. *Ninth*, with access to lower cost Asian subcontinent resources, a large labor pool-both of highly educated and shopfloor workers, cheaper access to raw materials and less sunken capital in legacy products, plants and infrastructure, UAE companies were able to become strong national players at a very low risk. *Tenth*, today's UAE companies have somewhat internalized the Western business model and are now beginning to put their own stamp on today's marketplace in response to economic conditions and consumer preferences.

8.1.3. Which organizational leadership model adaptation served their growth path?

We learned during the study from the participants that in the UAE as in most Arab Gulf region, management together with organizational leadership were per the past heavily influenced by family customs and were mainly rooted in the local business culture. However, business complexities have led to the crucial awareness that such management and leadership style would certainly in the long run hamper organizational change and development. UAE leadership - while still influenced by local cultural traditions - was continuously striving to face the challenges of balance between global and local requirements. Along this transitional process, UAE leadership was rapidly developing global qualities of farsighted vision, of pragmatic openness, and of continuous presence.

8.1.4. Which UAE organizational leadership adaptation?

From the study findings, it was clear that UAE corporations were characterized by a high component of expatriate workforce at all levels, and leader's cultural messages were addressing ambiguities that were beyond the scope of any organizational subculture so as to relate to a diverse workforce. Leaders recognized that their cultural messages should specifically address cultural ambiguities associated with subculture practices within their organizations, and limit their attempts to eliminate distinctions important to subculture's identities. Leaders were choosing from a variety of sophisticated cultural communication techniques at their disposal so as to link subcultures to overarching cultural objectives in their organizations.

8.2. Discussion

8.2.1. Internationalization: opportunity for managerial technology transfer?

During this research, we discussed with study participants whether management knowhow is universal or culturally bound. Adaptation and application being the most important stages in the transfer of management knowhow, factors which influenced UAE new multinationals adaptation and application were mainly located within the environmental factors, which included the country's political stability, the economic certainty, as well as the openness of the UAE society and its modern managerial infrastructure.

8.2.2. Internationalization: opportunity for Islamic finance growth?

During the research, it was clear from the study participants that there was a local consensual interest in internationalizing major UAE Islamic Banks, while uncertainties resided in whether the local Islamic branding of these banks would give a certain competitive advantage in non-Arab western and eastern Muslim niche markets and communities or would it rather carry some disadvantages even if the particular branding is removed in these banks' overseas branches. Few Islamic banks have already ventured in this internationalization experience with arguable results. Islamic financial institutions operating in many western countries are sometimes facing a myriad of legislation and business practices impacting strategic projected prospects as well as their brand identity and values.

8.2.3. Internationalization: opportunity for global leadership?

From the research findings, it was clear that study participants fully appreciated that UAE multinationals' senior executives must learn to dispense their acquired cultural barriers to the three tenets of global thinking; i.e., systemic, complexity, and multicultural, they understood hence that global leadership entailed being culturally sensitive, knowing that managerial and business practices were deeply rooted in the specific cultures of origin.

9. CONCLUSION

This research will hopefully contribute to the existing literature by a better understanding of how various factors and contexts have positively impacted the development and growth of new Arab Gulf multinationals in general and UAE new multinationals in particular. Focusing on the case of UAE largest conglomerates, it was interesting to answer questions such as: why these new multinationals were effectively growing? Which strengths and weaknesses, opportunities and threats paved their growth path? Which organizational leadership model adaptation served their growth path? Indeed, concentrated ownership in the UAE played a socially and politically useful role, it has served to perpetuate the domination of few business entities, stifled competition, and initiated the process of internationalization. Partly because of the weak development of markets in these emerging economies, local governments have played an important role in nurturing successful domestic enterprises, which have often taken the form of conglomerates diversifying widely into unrelated activities. In our case study, most UAE multinationals have cautiously done their first international business experiences in closely related eastern or middle-eastern cultural laboratories, the societal and cultural influences on organizational culture were therefore reduced to the minimum level. The challenges were much greater in “western” environments, where the cultural divide was more pronounced. This research has offered a modest contribution in analyzing the past environmental dimensions of UAE emerging multinationals. The questions addressed in this research were of more than just academic interest. The globalization of Arab Gulf countries emerging multinationals has provided new scope, size and opportunities to expanding and exploiting advantages on one hand; and addressing various challenges on the other hand. This new research field must be further explored in detail for making serious advancements in the field of Arab businesses globalization. Arab business corporations eager to pursue international opportunities have to take a hard look at the short and long-term impact of their presence in a wider world where stakeholders are diverse, globally distributed, and no agreed-upon rules exist. For validation purposes and generalizing results, new empirical research need to further analyze in detail the specificities of this research multifaceted driver.

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