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978-1-107-07314-2 - Emerging Market Multinationals: Managing Operational Challenges for Sustained International Growth
Alvaro Cuervo-Cazurra, William Newburry, and Seung Ho Park
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1 Introduction

The rise of EMNCS

1.1 INTRODUCTION

Emerging market multinational corporations (EMNCs) can become successful global players across a wide spectrum of industries, as demonstrated by companies such as the Brazilian airplane manufacturer Embraer, the Mexican bakery Bimbo, the Russian information technology (IT) firm Kaspersky Labs, the Indian conglomerate Tata Group, the South African brewer SABMiller, and the Chinese computer manufacturer Lenovo. This has resulted in a plethora of publications that discuss how such companies can challenge established multinationals from advanced economies and the distinct sources of competitive advantage they develop to achieve this.[1]

However, the paths EMNCs take toward global leadership have not always been smooth. Although many have benefited from the lessons learned from the mistakes made by their predecessors in advanced economies and the advice of academics and consultants on how to select and operate across countries, many also face new challenges that have been largely ignored in previous studies. These new challenges emerge from the conditions of EMNCs' countries of origin, for example, lack of supporting institutions or weak innovation systems,[2] and from firm characteristics that are more prevalent among multinationals from emerging countries, such as family or state ownership.[3]

A large number of authors have analyzed topics that reflect on different aspects of EMNC behaviors. A first set has focused on providing managers of advanced economy multinational corporations (MNCs) with guidance on how to operate more profitably in the challenging conditions of emerging markets. This line of research tends to concentrate on how managers can use and modify capabilities developed in advanced economies in the differing contexts of emerging markets.[4] A second set has focused on understanding how EMNCs represent new competition to MNCs from advanced economies. This line of inquiry tends to present case studies of leading EMNCs and discuss the different business models they have developed.[5] A third set analyzes how the actual behavior of EMNCs differs from current theoretical expectations.[6]

Rather than focusing on how EMNCs emerge as new competitors, and praising their advantages, in this book we take a contrasting and more critical stance, analyzing the challenges that these firms face and drawing lessons from past mistakes. We do, of course, marvel at many of these firms' accomplishments in the last few decades; however, these achievements present a skewed picture of the reality of these firms. Everybody praises the success stories without realizing that, in many cases, firms have struggled in countless unacknowledged ways.

We have written this book to address a void in our understanding of the internationalization of EMNCs by identifying the specific challenges they face and providing solutions to them. We analyze case studies of EMNCs that are expanding abroad, identifying the issues they face in the process of internationalization and providing analytical frameworks and solutions managers can use to address and overcome these difficulties.

1.2 Emerging market multinationals

Before we analyze these challenges, we need to establish what these companies are and how they differ from the well-known multinationals from advanced economies that have been the focus of most existing literature. EMNCs are firms from emerging markets that have value-added activities outside their country of origin. For the purpose of this study, we consider emerging markets as those countries not classified as advanced economies by the International Monetary Fund (IMF).[7] As for value-added activities, we consider not only production facilities but also sales offices, research laboratories, design centers, purchasing offices, or any other activity controlled by the firm abroad that can help it create value. Although some EMNCs operate in many countries, we do not specify a minimum number of countries to qualify an EMNC as a multinational; investment in just one foreign country is sufficient.

EMNCs have increased their presence significantly over the last few decades, which has resulted in a large number of studies analyzing their advantages. However, many of these studies may have overplayed the importance of the rise of EMNCs. In fact, the rapid rise of EMNCs is not that unique. It is part of a general trend of rising outward foreign direct investment (OFDI) that has accompanied the increasing economic integration following the end of the Cold War and the implementation of pro-market reforms throughout the world.[8] Table 1.1 and Figure 1.1 provide a summary of the evolution of OFDI flows and stocks in the last few decades using data available from the United Nations Conference on Trade and Development (UNCTAD). It is noticeable that between 1970 and 2014, OFDI flows from emerging economies grew significantly (from US$0.04 billion to US$388.2 billion) and as a share of world flows grew from 0.28 to 27.3 percent in the same period. However, by 2014 emerging economies still only represented one-third of the OFDI flows from advanced economies, as the latter grew from US$14.1 billion in 1970 to US$1,034.6 billion in that year.

The conclusions from the analysis of OFDI change when we look at stocks rather than flows of OFDI. Between 1980 and 2014, OFDI stocks from emerging countries grew from US$56.8 billion to US$3,735.0 billion. However, as a percentage of the world total, they increased only from 10.16 to 14.74 percent. And the share of emerging country OFDI stock increased only slightly from 10.09 percent in 1980 to 11.13 percent in 2014 when we subtract OFDI from offshore financial centers, which, in many cases, are conduits for investment by firms from advanced economies even though they are classified as investments from emerging economies.

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Table 1.1 *OFDI flows and stocks from emerging and advanced economies, selected years*

Emerging economies	**1970**	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2010**	**2014**
OFDI flows (US$ million)	40	416	2,605	1,918	560	17,161	63,308	108,005	323,321	388,198
OFDI stocks (US$ million)	n.a.	n.a.	56,809	66,293	89,648	162,789	333,166	735,133	2,268,097	3,734,964
OFDI flows as percentage of world total	0.28	1.46	4.99	3.08	0.23	4.76	5.24	13.17	22.55	27.28
OFDI stocks as percentage of world total	n.a.	n.a.	10.16	7.35	3.97	4.06	4.51	6.19	10.88	14.74
Emerging economies minus OFCs	**1970**	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2010**	**2014**
OFDI flows (US$ million)	40	389	2,280	1,620	2,173	11,067	18,840	79,879	241,252	300,360
OFDI stocks (US$ million)	n.a.	n.a.	56,406	65,661	87,258	143,199	227,391	538,599	1,726,155	2,818,963

OFDI flows as percentage of world total	0.28	1.37	4.37	2.61	0.90	3.07	1.56	9.74	16.83	21.11
OFDI stocks as percentage of world total	n.a.	n.a.	10.09	7.28	3.87	3.57	3.08	4.54	8.28	11.13
Advanced economies	**1970**	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2010**	**2015**
OFDI flows (US$ million)	14,101	28,099	49,601	60,262	241,580	343,059	1,145,125	712,040	1,110,393	1,034,554
OFDI stocks (US$ million)	n.a.	n.a.	502,397	835,707	2,165,880	3,844,308	7,054,178	11,139,886	18,575,589	21,597,706
OFDI flows as percentage of world total	99.72	98.54	95.01	96.92	99.77	95.24	94.76	86.83	77.45	72.72
OFDI stocks as percentage of world total	n.a.	n.a.	89.84	92.65	96.03	95.94	95.49	93.81	89.12	85.26

Source: Computed using data from UNCTAD (2015) using the IMF (2013) classification of advanced economies and the IMF (2011) classification of offshore finance centers (OFCs). n.a.: not available.

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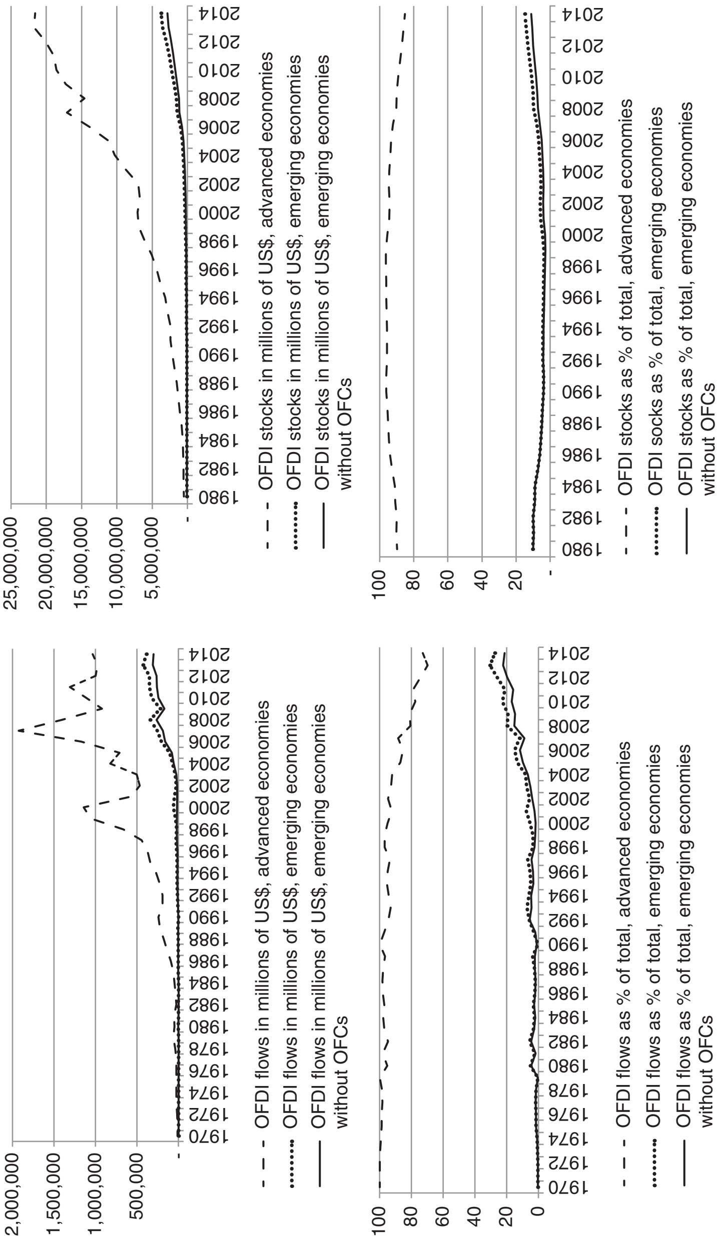

FIGURE I.1 Evolution of OFDI from advanced and emerging economies

Although the OFDI figures are representative of the increase in the multinationalization of these firms, they provide a macro picture. We want to focus on the actual firms that have undertaken OFDI and concentrate on lists that identify EMNCs, the object of our study. Unfortunately, there is no one single list of EMNCs; classification varies by source as different criteria are used for inclusion. We have to review several lists.

The first is firms from emerging markets that appear in the Forbes Global 2000 list of the largest publicly traded companies. Although not all EMNCs are large publicly traded firms and not all large publicly traded firms from emerging markets are EMNCs, many leading EMNCs are large publicly traded firms. With these caveats in mind, Table 1.2 presents the largest 50 companies from emerging markets, included based on a mix of sales, profits, assets, and market value in 2015. The list presents some interesting surprises, as it has at the head many banks and insurance firms with limited international operations. Nevertheless, with these exceptions, many of the nonfinancial firms are true multinationals with operations in multiple countries, while some of the financial firms are also present in multiple countries. The distribution of the 475 firms from emerging markets among the 2,000 largest publicly traded firms (by country, 2015) reflects the size of the underlying economies: China (180), India (56), Russia (27), Brazil (24), Saudi Arabia (20), Malaysia (16), Thailand (16), Mexico (13), South Africa (13), United Arab Emirates (UAE) (13), Turkey (12), Qatar (9), Bermuda (8), Chile (8), Philippines (8), Indonesia (7), Poland (6), Colombia (5), Kuwait (5), Nigeria (4), Venezuela (4), Morocco (3), Vietnam (3), Bahrain, Lebanon, and Peru (2 each), and Argentina, Cyprus, Czech Republic, Egypt, Jordan, Kazakhstan, Oman, Pakistan, and Puerto Rico (1 each).

In 2006, the consulting company Boston Consulting Group (BCG) began compiling a list of firms from emerging markets that were viewed as challengers to established multinationals from advanced economies, based on a combination of size and subjective measures. Table 1.3 provides this list for 2014, which shows 100 global challengers dominated by firms from China (29) and India (19), followed by Brazil (13),

Table 1.2 *List of the 50 largest publicly traded firms from emerging markets among the global 2000 largest, 2015 (US$ billion)*

Global rank	Company	Country	Sales	Profits	Assets	Market value
1	ICBC	China	166.8	44.8	3,322.0	278.3
2	China Construction Bank	China	130.5	37.0	2,698.9	212.9
3	Agricultural Bank of China	China	129.2	29.1	2,574.8	189.9
4	Bank of China	China	120.3	27.5	2,458.3	199.1
8	PetroChina	China	333.4	17.4	387.7	334.6
20	China Mobile	China	104.1	17.7	209.0	271.5
24	Sinopec	China	427.6	7.7	233.9	121.0
28	Gazprom	Russia	158.0	24.1	356.0	62.5
32	Ping An Insurance Group	China	75.3	6.4	645.7	113.8
37	China Life Insurance	China	71.4	5.2	362.1	160.5
38	Bank of Communications	China	53.6	10.7	1,010.4	71.2
43	Itaú Unibanco Holding	Brazil	76.6	9.2	424.0	63.7
55	China Merchants Bank	China	45.5	9.1	762.7	64.0
59	Rosneft	Russia	129.0	9.0	150.0	51.1
61	Banco Bradesco	Brazil	66.7	6.5	403.1	51.4
73	Industrial Bank	China	39.4	7.6	650.8	57.9

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79	China Minsheng Banking	China	40.0	7.2	647.2	51.7
84	Shanghai Pudong Development	China	38.2	7.6	676.3	49.2
94	China Citic Bank	China	38.3	6.6	667.1	49.7
103	CNOOC	China	44.6	9.8	106.8	64.4
109	LukOil	Russia	121.4	4.7	111.8	43.5
112	China State Construction Engineering	China	120.3	3.9	150.6	36.8
116	Saudi Basic Industries	Saudi Arabia	50.4	6.2	90.9	64.0
124	Sberbank	Russia	58.1	7.6	420.0	26.9
125	América Móvil	Mexico	63.7	3.5	85.2	74.5
127	China Shenhua Energy	China	39.6	6.0	85.8	63.8
130	SAIC Motor	China	99.5	4.4	62.1	47.1
133	Banco do Brasil	Brazil	68.8	5.0	482.9	23.6
143	Reliance Industries	India	71.7	3.7	76.6	42.9
144	China Telecom	China	52.7	2.9	90.5	53.9
145	China Everbright Bank	China	25.2	4.7	441.2	35.1
152	State Bank of India	India	40.8	2.3	400.6	33.0
155	China Communications Construction	China	58.5	2.3	101.6	41.2
160	China Railway Group	China	96.8	1.7	110.1	39.7
169	China Railway Construction	China	94.1	1.8	99.5	33.7

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Table 1.2 (*cont.*)

Global rank	Company	Country	Sales	Profits	Assets	Market value
173	China Pacific Insurance	China	35.5	1.8	133.0	48.4
183	Oil & Natural Gas	India	28.7	4.4	59.3	43.7
185	China Unicom	China	46.2	2.0	88.0	39.8
198	Ecopetrol	Colombia	34.4	3.8	59.8	33.6
208	People's Insurance Company	China	55.7	2.1	126.0	21.8
209	Surgutneftegas	Russia	26.6	8.8	74.6	24.2
225	PTT PCL	Thailand	87.3	1.7	54.7	29.1
234	Dalian Wanda Commercial Properties	China	17.7	4.0	91.0	28.1
251	China Vanke	China	24.1	2.6	81.9	24.3
263	Tata Motors	India	42.3	2.7	37.4	28.8
269	Alibaba	China	11.5	4.4	43.6	201.7
273	Huaxia Bank	China	16.2	2.9	290.6	19.2
284	ICICI Bank	India	14.2	1.9	124.8	30.0
304	Tencent Holdings	China	12.8	3.9	27.6	181.1

Source: Forbes (2015).