

1 *Introduction*

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The aim of this book is to improve our understanding of emerging-market multinational companies (EMNCs) in particular, and how their study contributes to a better understanding of multinational companies (MNCs) in general. Most of the foundational models and theories explaining MNCs were based initially on firms from the advanced economies of North America and Europe, and later Japan. These explanations implicitly assumed that for a domestic firm to invest abroad and become an MNC, it had to be from a country with strong technological and institutional infrastructures and a relatively affluent home market. These conditions were believed to improve its technological and marketing capabilities to the point where it could compete abroad effectively, despite the challenges of operating across borders. Thus, a lot of the initial research on MNCs was focused on understanding how such firms transferred their competitive advantages across borders and leveraged their worldwide presence.

EMNCs were rarely the object of researchers' attention, and their behavior was not considered when the foundational models of the MNC were developed. EMNCs were actually relatively rare firms on the world stage until the 2000s. Except for some state-owned firms in natural resources, many of which had emerged from nationalization processes in the middle of the twentieth century and expanded abroad to ensure access to resources or markets, developing country firms engaged mostly in international trade rather than international investment, importing advanced technologies and exporting raw materials and low-tech manufactures. Many governments in developing countries followed a program of import-substituting industrialization, discouraging inbound foreign direct investment (FDI) and sheltering local firms from international competition, which limited their international competitiveness. Similar conditions prevailed to an even greater extent in Communist bloc countries. The Asian Tigers

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(Hong Kong, Singapore, South Korea, and Taiwan) were exceptions to this rule and followed export promotion models of economic development even in the 1960s and 1970s, but even they engaged in relatively little FDI. As a result, in 1970, EMNCs represented only 0.35 percent of the world's flows of outward foreign direct investment (OFDI).

Nevertheless, the pro-market reforms that swept through much of the world in the 1980s and 1990s induced, and in some cases led, many governments to open their markets to foreign competition and reduce constraints on local firms. The exposure to foreign competition, and the domestic economic crises that some countries suffered, led the best-managed firms to upgrade their international competitiveness, ramp up exports, and invest in foreign facilities. As a result, the share of EMNCs in the world's OFDI flows rose from 5.05 percent in 2000 to 24.39 percent in 2012. Some EMNCs even became leaders in high-tech industries, such as Huawei of China in telecommunications equipment or Embraer of Brazil in regional jets. Others made bold acquisitions in advanced economies, such as the purchase of the US brewer Miller by the South African firm SAB or the acquisition of the British tea company Tetley by the Indian firm Tata Tea.

This proliferation of EMNCs in the 2000s perplexed managers, consultants, and international business scholars alike, with two questions often arising. Why have relatively poor and underdeveloped countries been able to spawn so many global firms in the last two decades? And second, in what ways are EMNCs different from earlier MNCs that came from Europe, North America, or even Japan?

Before going further, we should clarify what we mean by emerging economies, a popular term coined in 1980 that has taken on a life of its own, displacing old labels such as developing countries, transition economies, and Third World nations. Today, the term often refers to relatively poor countries with high levels of growth that have undertaken pro-market reforms (Wright et al., 2005). However, the term is sometimes used to include countries that are in fact backsliding on reforms, such as Argentina or Venezuela, or countries that are already quite developed, such as Singapore, Taiwan, South Korea, and Hong Kong, whose firms are technologically sophisticated and in many cases indistinguishable from advanced-country MNCs. For the purposes of our discussion, we will use "emerging markets" to mean all countries

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except the 28 that the International Monetary Fund classified in 2000 as “developed countries.”¹

Given the novelty of the EMNC phenomenon, the first step in answering these questions was to gather basic facts about their origin and evolution. By 2013, that task had been largely accomplished, thanks to several descriptive studies of EMNCs in the business press (e.g., BCG, 2006, 2008, 2009, 2011, 2013; Economist, 2008) and by multilateral organizations (e.g., ECLAC, 2006; UNCTAD, 2006). Several books also discussed how EMNCs were turning into serious competitors of MNCs from advanced economies, based on case studies of leading EMNCs and analyses of their business models for internationalization (e.g., Casanova, 2009; Chattopadhyay et al., 2012; Fleury and Fleury, 2011; Goldstein, 2007; Guillén and Garcia-Canal, 2012; Larçon, 2009; Panibratov, 2012; Ramamurti and Singh, 2009; Santiso, 2013; Sauvart, 2008; Sauvart et al., 2010; van Agtmael, 2007; Yeung et al., 2011; Williamson et al., 2013; Zeng and Williamson, 2007).

This volume was motivated by a very specific goal. While prior work on EMNCs, including our own, often concludes with a discussion of implications for theory, the *raison d’être* of this book is to improve our theoretical understanding of EMNCs. We believe the time is ripe to take stock of how the field is developing, so that future research by scholars and consultants can be directed at under-studied topics and lead eventually to a deeper understanding of the internationalization process and the behavior of multinational enterprises (Cuervo-Cazurra, 2012; Ramamurti, 2012).

We aim to do this in three ways. The first is by comparing and contrasting EMNCs with advanced-economy MNCs, whose experiences were the basis for extant theory of the MNC. Specifically, we ask how existing arguments and theories need to be modified to account for differences between advanced-country MNCs and EMNCs. Second, we strive to compare and contrast EMNCs from different countries with one another, looking for explanations for observed variations, including country-of-origin effects. And, finally, we identify a research agenda that identifies topics deserving more attention from

¹ These are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, United Kingdom, and the United States.

scholars and consultants than they have received so far, in the hope that these topics will be picked for research in the future. Each of these approaches in order is illustrated by a research question below:

- How are EMNCs able to compete globally when, unlike advanced-country MNCs, they lack sophisticated technology? It is often the case that advanced-country MNCs were technological pioneers and leaders in their industries and used that advantage to internationalize. In contrast, most EMNCs are technological laggards, and yet several of them have been able to compete globally. Why has this been possible, and what does it imply for the nature of competitive advantages firms must possess in order to internationalize?
- How does a firm's home country affect its internationalization? Many studies look at how characteristics of the host country affect a firm's choice of target markets and modes of entry, but relatively few look at how an MNC's home country affects its competitive advantages and internationalization strategy. The diversity of emerging economies covered by contributors to this volume provides an excellent opportunity to understand how a firm's country of origin affects its internationalization.
- Why do some EMNCs relocate their headquarters from an emerging economy to an advanced economy, and what does that mean for an MNC's "nationality"? Some EMNCs have moved their headquarters to advanced economies to escape the limitations of their home countries, or to overcome the negative connotations of their emerging-market roots in the mind of customers. This is an example of an under-explored topic, because advanced-country MNCs seldom shifted their headquarters to another country as part of their evolution, whereas several EMNCs have done so.

Overview of the book

This volume consists of 12 chapters clustered into three sections on different facets of EMNCs. The first section consists of chapters that take a historical view of EMNCs or argue for more research that extracts the lessons of history. Going back into the past with a critical view helps evaluate the newness of EMNCs in a more objective manner.

Yair Aharoni reviews the literature on the MNC in general and on the EMNC in particular, identifying several distinct features of EMNCs

that warrant additional study. First, it is intriguing how quickly some EMNCs have become dominant players in their industries, and what the sources of their competitive advantage are. EMNCs do not appear to have the same sources of advantage as advanced economy MNCs, which were mostly based on innovative products, and instead appear to have developed new innovations in organization and management. Second, there is a need to better understand the influence of the government as owner of some EMNCs. State ownership raises new questions about some of the reasons behind the foreign expansion of these firms and about their ability to compete with advanced economy MNCs and with private EMNCs. Third, the notion of the home country of the firm is crucial in the study of EMNCs, since it is not fully clear how the home country affects the behavior and internationalization of firms. Fourth, EMNCs bring to the fore the ability of a firm to buy rather than build international management teams, and the role of these managers in the internationalization and performance of the firm. Finally, there are several factors that warrant more detailed analysis as they modify not only existing theories of the MNCs but also conclusions driven from analyzing EMNCs: the industry of operation, the level of technology required to compete, the size of the firm, differences in market structures, and differences in institutions across countries.

Andrew Godley complements this analysis from a historical vantage point by cautioning that some of the distinctive features of EMNCs are not so new after all, because they have occurred in the past in different guises. First, the rapid catch up of these firms to global leaders is not a particularly unique feature, as the catching up of the then-backward German firms to the more advanced British ones in the nineteenth century illustrates. Second, developing sources of competitive advantage despite operating in countries with limited supporting infrastructure does not appear to be a unique feature of EMNCs, but it is nevertheless important to analyze them in more detail. Third, coordinating operations across borders via networks that some EMNCs appear to be using is also a feature that was present in the nineteenth and early twentieth century among MNCs from advanced countries, although many of these firms later adopted hierarchical structures.

The second section analyzes the mechanisms that facilitate or hinder EMNCs' efforts to upgrade their capabilities to international levels in order to compete in global markets. Among other things,

the underdeveloped nature of innovation systems and institutions in developing countries creates special challenges for these latecomers to upgrade their capabilities to international levels.

Alan Rugman and Quyen Nguyen kick off this section with a skeptical view of the competitive advantages of EMNCs. They argue that, despite the increasing attention paid to the internationalization of emerging market firms, most EMNCs are still quite heavily focused on their domestic markets, and many EMNCs are underperforming financially, even when they have grown and internationalized rapidly. They argue that a better understanding of the capabilities for international expansion of EMNCs requires an understanding of how firms' specific capabilities are built on a country's comparative advantage, and that EMNCs are mostly building their international expansion on their home country's comparative advantages.

Rajneesh Narula dwells deeper into the concept of location advantage. He questions whether all firms have access to a home-country's location advantage, and what causes some firm-specific advantages to be location bound. He argues that access to the comparative advantage of the home country, which in many cases is the foundation of EMNCs' firm-specific advantages, is not as straightforward as assumed by many authors. The advantage of a location needs to be thought of as being a club good, with limited access, rather than a public good, with open access to all. He argues that firms are locally embedded and encounter significant barriers to change as the environment changes, which also limits their ability to enter new locations abroad. This reconceptualization adds a useful twist to the challenges EMNCs face in upgrading their capabilities.

Donald Lessard challenges the notion that EMNCs lack capabilities to compete in global markets. He argues that changes in the operational environment have resulted in new phenomena, such as EMNCs, and new ways of organizing cross-border economic relationships, such as Global Value Chain Enterprises (GVCEs) that use relational arrangements instead of ownership to compete globally. He introduces the Relevant-Appropriable-Transferable and Complementary-Appropriable-Transferable framework for the identification and accumulation of advantages through a continuous self-reinforcing process of exploitation and enhancement of capabilities by EMNCs and GVCEs. Thus, the study of EMNCs offers the basis for understanding different bases of competitive advantage.

Kristin Brandl and Ram Mudambi identify how catch-up processes followed by EMNCs vary across industries. To successfully internationalize, firms need to start catching up with the capabilities of their advanced-country rivals. As latecomers, EMNCs have the advantage of being able to follow in the footsteps of advanced-economy firms, but the specifics of the catch-up process seem to vary across industries. Brandl and Mudambi's comparison of catch-up processes by Indian firms in the auto component, pharmaceutical, filmed entertainment, and wind turbine industries following the country's pro-market reforms reveals interesting differences driven by the level of technological sophistication of the industries and the interaction between local firms and advanced-economy MNCs.

The third section focuses on distinctive aspects of the internationalization processes of EMNCs. Advances in communication and transportation technologies and the economic liberalization that has accompanied pro-market reforms have created a more hospitable global environment for internationalization by EMNCs. However, many of their actions are driven not just by these environmental conditions, but also by unique aspects of EMNCs.

Peter Williamson identifies three areas in which research on EMNCs can yield new insights by challenging the assumptions of existing theoretical arguments. The first is exploring the differing sources of competitive advantage that support EMNCs' internationalization, based partly on the distinctive kinds of comparative advantage enjoyed by their home countries. Some of these advantages are especially relevant in a world where developing countries are becoming increasingly important markets and consumers even in advanced countries are looking for value for money. The second area is to understand how the easier movement of goods and information across countries helps firms internationalize, establish global value chains to help create new sources of advantage, organize production across borders differently, and achieve leadership in mature industries. The third line of inquiry is to understand how EMNCs rely on learning as a leading driver of internationalization, in contrast to the traditional approach of advanced-country MNCs, which is to exploit existing capabilities in new markets abroad. In other words, EMNCs often internationalize to overcome deficiencies at home rather than to exploit pre-existing advantages abroad. This has implications for how they enter new markets, transfer advantages across borders, and integrate resources and capabilities.

Klaus Meyer goes deeper into the internationalization of EMNCs by arguing that EMNCs follow a logic in their internationalization process that differs from the traditional model of expanding abroad in incremental steps to minimize risk. He proposes that the crucial role of learning in such an incremental process can also be applied fruitfully to understand the international expansion of EMNCs, albeit with modifications to reflect the changed global conditions under which EMNCs are globalizing.

Helena Barnard introduces the concept of the migrating multinational as a novel explanation of the internationalization of EMNCs. She argues that EMNCs may encounter some negative discrimination by foreign consumers and governments because they hail from emerging economies. To overcome this disadvantage, some EMNCs have moved their headquarters to advanced countries, to disguise their country of origin. In turn, this challenges our understanding of what is meant by the “nationality” of MNCs, because, as Barnard points out, multiple criteria can be used to determine the nationality of firms: their place of incorporation, stock market listing, principal market for products and services, historical roots, nationality of senior management, and so on. Not only does this make it difficult to identify the nationality of EMNCs, it also creates difficulties in establishing legitimacy in various markets.

Torben Pedersen and Tamara Stucchi argue that business groups and pro-market reforms have led to particular patterns of global expansion of EMNCs. Business groups, or collections of legally independent firms that coordinate operations in diverse industries, are a notable feature of emerging markets and some advanced economies. As emerging economies have engaged in pro-market reforms, business groups have helped member firms internationalize by leveraging the group’s experience, resources, and connections, but in other ways they have hindered the internationalization of member firms, because they are so deeply embedded in the home country.

Afonso Fleury and Maria Tereza Fleury explain how the home country institutions and macroeconomic policies have affected the capabilities, internationalization trajectories, and global value chains of EMNCs, drawing on the experience of Brazilian MNCs. They argue that the historical development and conditions of the country have resulted in firms that compete abroad using process and business model

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innovations; that seek other countries with weak institutions and prefer to achieve a high degree of control over the operations; and that configure global value chains differently depending on the location of the subsidiaries, with those in developing countries exploiting existing advantages and those in advanced economies learning, although they still face coordination challenges.

In the concluding chapter, we abstract from these themes and provide an overview of our understanding of the EMNC phenomenon, literature, and unique drivers of the internationalization of EMNCs. We provide a critical review of the relative importance of EMNCs in the context of increased OFDI in the twenty-first century, showing that the large increase in OFDI from emerging economies is part of a general trend of OFDI growth. We review the literature on EMNCs, identify factors that have been argued to be unique to EMNCs, and caution that in reality many of these factors affect EMNCs and advanced economy MNCs alike. We then provide a framework to help identify unique aspects of EMNC internationalization, focusing particularly on the role of a firm's country of origin on its international behavior. We propose that the economic and institutional under-development that characterizes developing countries leads to distinctive internationalization behavior by EMNCs. Both contextual factors have positive implications for how these firms innovate at home and use those innovations to expand abroad, but they also have negative implications, inasmuch as they force EMNCs to internationalize to overcome the limitations of the home country.

We hope this book not only addresses an important phenomenon in international business but also paves the way for high-quality research of value to academics, consultants, and managers. Towards that end, in the concluding chapter we offer a research agenda on EMNCs that could only have been developed through the collective effort of a distinguished group of scholars such as our contributors. Pursuing such a research agenda should improve our collective understanding of not just EMNCs, but the multinational enterprise in general.

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