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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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## Emerging Market Multinationals

Emerging market multinationals are becoming leaders in their industries, able to compete on equal terms with firms from advanced economies, but their paths toward global leadership are not always smooth. This book examines the specific challenges faced by emerging market multinationals as they seek to develop their international operations and proposes actionable solutions for them. The authors seamlessly combine academic analyses with a rich selection of real-world cases to provide a clear framework for understanding some of the barriers that prevent firms from emerging economies from succeeding abroad and show readers what actions can be taken to achieve sustained international growth. With clear, concise arguments and examples that bring the discussion to life, this insightful book will appeal to managers and students alike.

ALVARO CUERVO-CAZURRA is Professor of International Business and Strategy at Northeastern University, Boston. He is an expert on global strategy, with a special interest in emerging market multinationals. He co-edited *Understanding Multinationals from Emerging Markets* (Cambridge University Press, 2014). For more information, please visit [www.cuervo-cazurra.com](http://www.cuervo-cazurra.com).

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# Emerging Market Multinationals

Managing Operational Challenges  
for Sustained International Growth

ALVARO CUERVO-CAZURRA, WILLIAM  
NEWBURRY, AND SEUNG HO PARK



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*To the memory of*

*Carmen Cazurra*

*Lily & Lee Cavanagh and Donald & Elaine Hoffman*

*Chun Sik Park*

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## Foreword

By now, companies from emerging markets have come to account for 25 percent of the Fortune Global 500, up from 2 percent in 1995. And it has been forecast – by academics as well as consultants – that their share will approach 50 percent by 2025. But whether that happens or not, companies from emerging markets have clearly already developed a significant presence on the list of the world’s largest companies. This is presumably not unrelated to the recent surge of interest in them.

What tends to be underemphasized in such discussions, though, is that companies from emerging economies are still significantly less internationalized, in general, than their counterparts from advanced economies. Stick to the Fortune Global 500 list for concreteness. To an (even) greater extent than companies from advanced economies, companies from emerging ones have done well by doing well at home; that is, they are not quite as internationalized in terms of sales. They also tend to report lower levels of R&D-to-sales and advertising-to-sales ratios, although this is due in part to differences in sectoral mix (energy and natural resource companies loom particularly large in the emerging economy list). And companies from emerging economies also tend to be (even) more ethnocentric in terms of their top management and governance.

These patterns in the data do not seem to have weighed much on writings celebrating the arrival of emerging economy multinationals, although the dearth of data often constrains them to overrelying on the same handful of success stories. This book is different. It engages seriously with the operational challenges that underpin the data presented earlier – and that continue to confront emerging economy companies as they multinationalize. Despite its brevity, it draws on a broader range of company examples, considers a broader range of

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countries of origin, and is significantly less skewed toward depicting just success stories than other recent moves on the same topic. Conceptually, it dovetails with my calculations that there is significantly less distance (defined broadly to include cultural, administrative, and economic differences), on average, between emerging economies than between them and advanced economies, as well as the strategic implications of attempts to model the interactions between competitors from emerging economies and advanced ones. And it manages to assemble a wealth of insights in a compact, easy-to-follow way with its life-cycle view of the challenges encountered in the process of international expansion: country and entry mode selection, establishment, operation and integration, and further expansion.

For all these reasons, I recommend this book as a serious attempt to grapple with the challenges that companies from emerging economies face in their multinationalization journey – and to scout some of the ways forward.

*Pankaj Ghemawat*

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Center for the Globalization of Education and Management, Stern  
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## Preface

We have been fascinated by emerging market multinationals, and interested in understanding them better, for a long time. In our travels in emerging markets, we observed that emerging market firms were dramatically increasing in size and scope and in some cases expanding beyond their countries at a rapid rate. At the same time, existing recommendations about how to successfully invest in foreign markets did not seem applicable; established theories and models of international expansion were developed by analyzing firms headquartered in advanced economies and did not seem to fit the operating conditions of emerging markets. We thought we needed to go deeper into understanding how such conditions affected the internationalization of emerging market multinationals because we had experienced and observed such differences. All three of us had spent decades analyzing firms in emerging markets.

Sam had direct experience in Asia and Eastern Europe, Alvaro had focused his interests on Latin America, and Bill straddled two continents, having first gained experience in Asia before adding a Latin American focus. We had published extensively on the internationalization of firms, especially emerging market multinationals, but most of these publications were academic. We thought it was time for a managerial book that would sum up our experiences and thoughts and reach a wider audience.

This book started its life as a research project for the Skolkovo-Ernst & Young Institute for Emerging Market Studies (IEMS). In 2012, Sam was the managing director of the Institute and Alvaro and Bill were nonresident senior research fellows. At the 2012 annual meeting, we had animated discussions about the rise of emerging markets and their multinationals and marveled at how some

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were not only catching up with established competitors from advanced economies but, in some cases, also becoming global leaders. At the time, Sam had just completed his book *Rough Diamonds: The Four Traits of Successful Breakout Firms in BRIC Countries* (Jossey-Bass, 2013), in which he described the rise of these new global competitors and provided some fascinating stories from his conversations with managers. Later, Alvaro co-edited the book *Understanding Multinationals from Emerging Markets* (Cambridge University Press, 2014), in which he analyzed theoretical explanations for the emergence and expansion of emerging country multinationals, while Bill co-edited *Internationalization, Innovation and Sustainability of MNCs in Latin America* (2013) on the internationalization of Latin American firms, which provided additional insights. In our discussions, we realized that most analyses of emerging market multinationals focused on the process of internationalization and how these firms were catching up with advanced country competitors. However, from our exchanges with managers, we noticed that many of these firms faced challenges in their international expansion that had rarely been analyzed.

So, in 2013, we decided to join forces and write a book that would focus exclusively on the internationalization challenges faced by emerging market multinationals. In our consulting experience, we had several interactions with managers of emerging market multinationals and learned how they dealt with these challenges. A well-thought-out framework could add additional value beyond our consulting work and reach a wider audience. This book is the result. We hope that it will be both interesting and useful to managers and help them make better decisions that will enable their firms to take full advantage of the opportunities available in foreign countries.

The book benefited from the help of Paula Parish at Cambridge University Press, who generously allowed us flexibility with the message of the book and the schedule. We are also indebted to many managers of emerging market firms who participated in the project. They candidly shared their experiences of the challenges they faced

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and provided us with the insights that form the basis of our arguments. Some of the background information was collected by a set of excellent research assistants, which include Caroline Paige, Caitlyn McBride, and Vittorio Ligresti at Northeastern University, Ying Liu and Jose Mauricio Geleilate at Florida International University, and Ji Hong at China Europe International Business School. We also thank Dong Chen at Loyola Marymount University and Armando Borda at Esan University for earlier inputs into the project. Finally, we benefited from the financial support of various sources, which include the Skolkovo-Ernst & Young IEMS; the Center for Emerging Markets, the Robert Morrison Fellowship, and the Patrick F. and Helen C. Walsh Research Professorship at Northeastern University; the SunTrust Bank Professorship at Florida International University; and the CEIBS Research Grant, the Parkland Professorship, and the Research Center for Emerging Market Studies at China Europe International Business School. And, of course, the support of our families and friends, Annique, Sebastian, Tristan, Ja Young, Alexandra, and Amelia, was invaluable for getting this project done, in many cases at the expense of time with them. Thank you to all.

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## Abbreviations

ARCOR	Grupo Arcor
BCG	Boston Consulting Group
BRF	Brasil Foods
BRIC	Brazil, Russia, India, and China
BSNL	Bharat Sanchar Nigam Limited
CEO	chief executive officer
CFIUS	Committee on Foreign Investment in the United States
CFO	chief financial officer
CIA	Central Intelligence Agency
CIFA	Compagnia Italiana Forme Acciaio (Italian Steel Formation Company)
CIS	Commonwealth of Independent States
CITGO	Citgo Petroleum Corporation
CIVETS	Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa
CMMI	capability maturity model integration
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
COFCO	China National Cereals, Oils and Foodstuffs Corporation
CRT	cathode ray tubes
CSR	corporate social responsibility
CTP	Concern Tractor Plants
DOT	Department of Transportation
DP	Dubai Port World
E&P	exploration and production
EMNCs	emerging market multinational corporations



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ENPT	Entreprise Nationale de Travaux aux Puits (National Enterprise to Work Well)
EU	European Union
EY	Ernst & Young
FA	Football Association
FAW	First Automobile Works
FDI	foreign direct investment
FIFA	Fédération Internationale de Football Association (International Federation of Association Football)
GAZ	Gorkovsky Avtomobilny Zavod (Gorky Automobile Plant)
GCP	Global Customer Portal
HAI	Haier Asia International
HPEC	Hong Kong Prosperous Clean Energy Company
HQ	headquarters
HSE	health, safety, and environment
IBM	International Business Machines
IMF	International Monetary Fund
IP	intellectual property
ISAN	Impuesto sobre Automóviles Nuevos (Tax on New Automobiles)
ISO	International Organization for Standardization
IT	information technology
LDV	LDV Group (formerly Leyland DAF Vans)
MINT	Mexico, Indonesia, Nigeria, and Turkey
MIT	Massachusetts Institute of Technology
MNCs	multinational corporations
MTS	Мобильные ТелеСистемы (Mobile TeleSystems)
NBA	National Basketball Association
NTD	New Technology Developer
OFCs	offshore financial centers
OFDI	outward foreign direct investment
PC	personal computer
PDVSA	Petróleos de Venezuela S.A. (Petroleum of Venezuela)

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PMI	postmerger integration process
P&O	Peninsular and Oriental Steam Navigation Company
PRC	People's Republic of China
R&D	research and development
SAIC	Shanghai Automotive Industry Corporation
SOE	state-owned enterprise
TCL	TCL Corporation
TTE	TCL-Thomson Electronics
TV	television
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
UNGC	United Nations Global Compact
USWA	United Steelworkers of America
VAT	value-added tax
ZTE	ZTE Corporation