What Have We Learned About Emerging-Market MNEs?
Insights from a Multi-Country Research Project

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The multi-country Northeastern U-Wharton School research project on Emerging-market MNEs (EMNEs) began with three research questions: What competitive advantages do EMNEs leverage as they internationalize, and how are those advantages shaped by the home-country context? How do EMNEs internationalize, and why? And, how is the rise of EMNEs affecting global industry dynamics? Underlying those questions was the theoretical question of whether existing international business (IB) frameworks are adequate to explain EMNE behavior, and if not, how they should be modified or extended.

An international team of IB scholars participated in the project, which covered eight countries: the BRICs, plus Mexico, South Africa, Israel, and Thailand. Their initial findings were presented at a conference held at Northeastern University in June 2007. Revised papers, along with introduction and conclusion chapters, were accepted for publication by Cambridge University Press. This paper presents some of the insights gained from that project, as summarized in the book’s final chapter.1

The conference showed clearly that EMNEs were not a homogeneous group by any means. The countries from which they hailed, the industries in which they operated, the competitive advantages they exploited, the markets they targeted, and the internationalization paths they followed, varied quite widely. The evidence did not permit sweeping generalizations about EMNEs nor about how they are different from MNEs that came before, because the latter is also a heterogeneous group.

Equally important, the studies show that EMNEs internationalized in a different international context than MNEs that came before, including even Japanese

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and Korean MNEs, and this makes inter-temporal comparisons even more difficult. Since the 1990s, the international policy environment and the technological environment have changed profoundly. Domestic and foreign markets were more open in this period than in earlier decades, following the collapse of Communism, the conclusion of the Uruguay Round trade deal, and the creation of the World Trade Organization. The deregulation and privatization of telecommunications in many countries, along with radical changes in computing technology and the rise of the Internet, dramatically altered the boundaries of the firm and the costs of doing business across borders. These developments fuelled the outsourcing and offshoring trends, resulting in the vertical disintegration of firms and the lowering of entry barriers for EMNEs (Evans and Wurster, 2000). At the same time, the digitization revolution allowed for trade in services that were previously non-tradable. As the transaction costs of coordination and internationalization fell, the value chain was “sliced and diced” and dispersed globally, including to emerging markets. Capital markets also became more open and integrated than ever before, making it easier for EMNEs to raise foreign equity capital and debt or to list their shares on foreign stock exchanges (Farrell, Folster, and Lund, 2008). Globalization of the investment banking, private equity, and venture capital industries, as well as accounting, law, and management consultancy firms, brought world-class services right to the doorstep of many EMNEs. The emergence of a global labor market for senior management also allowed EMNEs to staff their upper ranks with internationally-savvy executives if they wished (Michaels, Handfield-Jones, and Axelrod, 2001). A further temporary advantage was enjoyed by emerging economies such as Brazil and Russia, whose foreign exchange reserves swelled, thanks to booming exports, high commodity prices, and large trade surpluses. Developments of this sort created “global gateways”
(Williamson and Zeng, 2007) through which EMNEs could internationalize—gateways that were not available in the 1960s and 1970s. Ghemawat (2007a) may be right that the world was not as flat as Friedman (2005) claimed in his best-selling book, but it was certainly flatter in the 2000s than at any time before.

The heterogeneity of multinational firms and profound changes in the international macro context make it hazardous to generalize about how EMNEs are like, or unlike, MNEs that came before. Studies making such generalizations are often vague about their points of reference, i.e., about what is being compared with what, and therefore it is not clear how to interpret their findings (e.g., Luo and Tung, 2007; Mathew, 2002). In what follows, we try not to gloss over differences among EMNEs, or to attribute everything about them to their emerging-market roots when some aspects of their conduct might arguably be the result of internationalizing in a “flatter world.”

However, most EMNEs studied in this project shared one incontrovertible feature: compared to Western MNEs, they were late globalizers, because their countries were late to embrace globalization. This created a common set of challenges in fending off competition from foreign MNEs in the home market, catching up with them on technology and best practices, and expanding into foreign markets. Firms that overcame these challenges often did so by turning their late-mover status into a net advantage rather a disadvantage, not only in other emerging economies but sometimes even in developed economies—which explains the significant amounts of “up-market” FDI by EMNEs (Cell 4 in Figure 13.1). It may be no accident that many EMNEs belonged to mid-tech industries that were mature or declining in the West but booming in emerging economies—a setting in which late-movers arguably have an edge over first-movers.
The rest of this paper is organized as follows. The next section discusses the competitive advantages on which EMNEs based their internationalization, and how those advantages were shaped by the idiosyncratic conditions of emerging economies. After that, I turn to the internationalization process of these firms. I present our findings as a menu of alternative internationalization strategies pursued by EMNEs, each of which leveraged different location and firm-specific advantages and took them in different geographic directions. Some paths took the EMNE “up-market” to developed countries, others took it “down-market” to less-developed countries, and still others took it to both kinds of countries (see Figure 13.1). I turn then to the impact of EMNEs on global industries and incumbent Western MNEs, and conclude with implications for international business theory.

The Competitive Advantages of EMNEs

A widely accepted view in the IB literature is that a firm operating abroad faces disadvantages compared to local competitors in those countries, because of its liabilities as a foreigner, and the costs of operating in distant markets and cultures (Hymer, 1976; Zaheer, 1995). Therefore, to succeed abroad, such a firm must have compensating firm-specific advantages (FSAs) that are valuable and inimitable. A second important idea is that firms competing abroad can leverage not only their FSAs but also their home-country advantages, or country-specific advantages (CSAs). Rugman (2008) combines FSAs and CSAs into a two-by-two matrix that can be used to analyze and explain the competitive advantages of internationalizing firms. What
do the studies presented at the Northeastern University-Wharton School conference reveal about the CSAs and FSAs of EMNEs?

**Country-Specific Advantages**

The studies provide many examples of CSAs that EMNEs leverage internationally: in Russia, South Africa, and Brazil, EMNEs took advantage of the country’s vast natural resources; in China and India, EMNEs took advantage of the large home market and the availability of low-cost skilled and unskilled labor; in Thailand, Chinese entrepreneurs took advantage of their social network to expand into other countries with ethnic Chinese communities, including mainland China; in Israel, firms took advantage of the large pool of highly skilled engineers and scientists, many of whom migrated from Europe and brought with them advanced skills as well as foreign social networks.

These examples show that each country had idiosyncratic features that in turn created idiosyncratic CSAs. The Apartheid era created unanticipated advantages for South African firms in the post-Apartheid period. The English language skills of Indian workers, and the large numbers of overseas Indians, created unanticipated advantages for Indian firms looking to export knowledge-based services to high-cost countries. China benefited from an authoritarian political system in which decisions could be made expeditiously, and Mexico benefited from its proximity and privileged access to the US market.

One of the few features shared by all countries in the project’s sample, including Israel, is that they pursued protectionist or import-substituting-industrialization policies for many years before embracing globalization in the 1980s or 1990s. Policies during the closed era may not have promoted efficiency or
international competitiveness but they helped incubate indigenous firms in technology-based industries, some of which went on to become EMNEs in the 2000s. Even in China and Russia, most of the leading EMNEs had roots going back to the Communist days, long before they were partially or wholly privatized.

Two emerging economies, China and India, brought into the global economy CSAs that were particularly disruptive, because of the size of their home markets and the size of their unskilled and skilled labor pools. In addition, the low average income of their populations spurred innovations to serve people at the middle or bottom of the economic pyramid. In 2007, China was the third largest market in the world but its per-capita income was one-twentieth that of the US (at official exchange rates). India was the seventh or eighth largest economy and its per-capita income was one-fortieth or one-fiftieth that of the US. For the first time, two of the largest and fastest growing economies in the world were also among the world’s poorest countries. The weak institutions in these and other emerging economies also forced local companies to be innovative in circumventing institutional voids (Khanna and Palepu, 2006). For instance, in India, entrepreneurial firms used mobile banking and smart cards to serve small borrowers outside the reach of traditional banks. The capabilities that firms built to cope with these country-specific disadvantages became FSAs that could be exploited in other emerging markets.

Rugman (2008) argues that EMNEs expand abroad largely on the strength of home-country CSAs, such as access to natural resources and cheap labor, rather than knowledge-based FSAs of the kind exploited by the world’s largest MNEs.² Like Lessard and Lucea (2008), he questions the sustainability of competitive advantages

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² Rugman has countries like China, India, and Russia in mind when making this observation, rather than a country like Israel, which, as Aharoni (2008) points out, produced many MNEs in knowledge-intensive industries, given it was so poorly endowed with CSAs such as land or natural resources.
based on CSAs, which, unlike FSAs, are presumably copied more easily by rivals and therefore short-lived. While this may be true, it merits a few qualifications. First, a firm in the early stages of internationalization is likely to rely on home-country CSAs more than it would in later stages, when its operations span many countries and it has acquired more FSAs (Kogut, 1985). In other words, the importance of home-country CSAs may decline as an MNE evolves, regardless of nationality. Rugman’s observation may thus reflect the current evolutionary stage of EMNEs—as nascent globalizers—rather than a fundamental difference with Western MNEs. Second, it is not clear that CSAs are as ephemeral as they are sometimes made out to be. For instance, thinking of CSAs as advantages that “are common to all firms located in a country” (Lessard and Lucea, 2008) should not be taken to mean that all firms in a country, including foreign firms, can readily access every CSA at will.

For example, a country may be rich in natural resources, but only some of its firms may have access to those resources, witness the Russian experience in oil and gas (Puffer, McCarthy, Vihanksi, 2008). A country may have abundant capital, but the government or state-owned banks may allocate it only to some firms, as in China (Buckley et al, 2007). A country may have plenty of cheap labor, but tapping into that pool may pose insurmountable operational challenges to Western firms, as in India. The broader point here is that firms might need certain FSAs—such as good relations with the local government or deep local knowledge and embeddedness—before they can exploit a country’s CSAs. To be sure, the requisite FSAs can be learned over time, or obtained through alliances with local players, or acquired through M&A deals, but it is an oversimplification to assume that a country’s CSAs are simply there for all firms to exploit at will. It took IBM and Accenture the better part of 15 years to move large parts of their software development work to low-cost India, despite
unambiguous evidence that India had CSAs in performing such tasks. That relatively long window was sufficient for some Indian firms to build significant FSAs to complement the CSAs with which they began. And even when foreign firms learned the ropes to operate in India, their costs were reportedly 30 percent higher than those of local counterparts, forcing some firms to divest such operations when the Indian Rupee strengthened in 2007-08.

**Firm-Specific Advantages**

The notion of FSAs is a useful concept but hard to apply in practice, especially when the firm in question does not possess an obviously valuable and inimitable asset, such as a patented blockbuster drug. A close look at successful firms usually suggests many big and small advantages that come together in complex ways to give the firm an edge in the marketplace (Rivkin, 2000). It is often unclear how much each FSA contributes to the firm’s overall success, sometimes even to the firm’s owners and managers. Such analysis is also subject to post hoc ergo propter hoc type of reasoning. That said, the most common FSAs attributed to Western MNEs include proprietary technology, powerful brands, marketing prowess, and other managerial capabilities. Intangible assets, including the capacity to create, process, and apply knowledge, are widely considered to be among their core competencies.

But what about EMNEs? They do not usually possess cutting-edge technologies or strong global brands, but this does not mean they possess no FSAs. Mathews (2002), for instance, argues unpersuasively that EMNEs internationalize to acquire capabilities and advantages rather than to exploit pre-existing capabilities—which begs the question of how these firms offset their disadvantages and costs of competing in foreign markets. Luo and Tung (2007) take a similar view in their
“springboard model” of EMNE internationalization, where the argument is that EMNEs internationalize to obtain new advantages rather than use initial advantages as a springboard for internationalization.

It took many years of research to identify and empirically confirm the FSAs of Western MNEs, and an equally diligent effort is necessary to uncover the FSAs of EMNEs. A few FSAs suggested by the cases presented at the NU-Wharton conference are discussed below. These are illustrative, and should be viewed as hypotheses rather than definitive conclusions.

**Products suited to emerging markets:** One common FSA of many EMNEs is their ability to adapt imported technology to develop products suited to the special needs of local customers, for instance, by making products cheaper and more affordable. Another kind of adaptation was making products that were rugged and easy to maintain in the harsher conditions found in emerging markets, such as poor-quality infrastructure or the absence of after-sales service. Earlier studies of Third World MNEs also identified this as one of their key FSAs (Wells, 1983; Lecraw, 1973). Making such product adaptations requires technical skills as well as intimate customer knowledge. Local adaptations of this sort provided EMNEs defense against foreign competitors in the home market, but equally important, they provided a basis for internationalizing into other low-income emerging economies.³

Examples of EMNEs possessing this kind of FSA include Chinese MNEs, such as Haier, whose washing machines were not only smaller and better suited to small loads but could also be used to wash vegetables. India’s Mahindra &

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³ Foreign MNEs are certainly technically capable of making similar adaptations if they have acquired the same level of customer intimacy and embeddedness in the local environment. But as Lall (1983) argued, Western MNEs are less likely to make the necessary investment in learning and adaptation, especially to target lower-income consumers. However, when they do so, as in the case of Unilever in India or Nokia in China, they can match or beat local firms at making products suited to emerging markets.
Mahindra’s produced an indigenously-designed rugged SUV that was later exported to African and Latin American markets. India’s Tata Group made trucks that were famous for their ruggedness and ease of maintenance, and in January 2008 Tata launched the world’s lowest priced car, the $2,500 Nano. Brazil’s Marcopolo, which made high-quality buses suited to emerging markets, sold its products in 103 countries and enjoyed a global market share of 7-10 percent (see Fleury & Fleury, 2008).

Wells (2008) argues that some of the capabilities developed by firms in the 1960s and 1970s, when developing countries pursued import-substituting industrialization policies, may have become obsolete in the open economy of the 2000s, e.g., the ability to substitute imported raw materials with local raw materials. However, many other capabilities and skills built in the earlier era, such as the ability to design products without unnecessary bells and whistles were still relevant and could be exploited internationally through exports and FDI. As Amsden (2008) points out, the import-substitution period prevented foreign firms from “crowding out” local firms and gave the latter the opportunity to master technologies, learn how to set up and run manufacturing plants, and build distribution networks and brands at home. These investments came in handy when the economy was liberalized subsequently.

Production and operational excellence: A second kind of FSA exploited by firms studied was superior production efficiency and process excellence, particularly in the context of emerging markets. That superiority had a technical component, such as the ability to optimize production processes by using more labor and less capital, using inputs more efficiently, or having lower overheads than Western counterparts. It also arose from late-mover advantages, such as having plants with the newest technology or largest scale available, compared to Western incumbents. Along the
same lines, some firms benefited from starting with a clean slate, i.e. not having to reengineer old practices and systems but adopting best practices from the very start.

Williamson and Zeng (2008) provide many examples of Chinese manufacturers that, like Japanese and Korean firms in an earlier time, absorbed foreign production methods and improved upon them. Indian firms like Hindalco (aluminum) and Tata Steel improved production processes and upgraded capacity and technologies to become one of the world’s lowest-cost producers (Ramamurti & Singh, 2008). Similarly, Indian software firms fared remarkably well in ratings awarded by Carnegie Mellon University’s Software Engineering Institute, partly because they set up the right processes from the start. In mid-tech industries, Indian companies reportedly had as much as a 30-40 percent “capex” advantage relative to Western firms, because of engineering skills that enabled them to economize on capital investment, and a comparable ‘opex’ advantage, because of lower wages and overheads.4

Privileged access to resources and markets: Another FSA for some firms was the support from the home government in the form of preferred access to markets, preferential regulations, or preferred access to capital. In the post-WTO environment, it was difficult for governments to subsidize national champions overtly, but it was still possible to divert capital or other resources to preferred firms, such as state-owned enterprises. This was an important factor in China, where some of the largest EMNEs were at least partly state-owned and controlled (Huang, 2003).5

State support is usually regarded as an unfair advantage in international competition. As an FSA, it lacks the legitimacy of proprietary technology or brands.

4 Based on conversation with Ranjit Pandit, former chairman of McKinsey & Co. India, as part of Jitendra Singh’s Wharton course, Inside Indian Business, April 11, 2007.
5 State ownership also had its disadvantages, e.g., it slowed down or politicized decision-making, or invited extra scrutiny when the EMNE targeted Western firms for acquisition, e.g. CNOOC of China’s failed bid for Unocal in 2005 or Huawei’s failed bid for 3Com in partnership with Bain Capital in 2008.
But if state support is only extended to some national firms, such as state-owned firms (e.g. in China) or business groups with close ties to the government (e.g. Siam Cement, which was partly owned by the Thai royal family through the Crown Property Bureau), then—legitimate or not—it was an FSA for those firms. Thus, high savings rate was one of China’s CSAs, but it translated into an FSA, i.e. access to cheap capital, for only some firms.

Another category of firms that benefited from a history of state support were private firms that were previously state-owned. In Brazil, the largest MNE was state-owned Petrobras, but several of the other leading private firms were formerly state-owned firms, such as Embraer, Vale (mining), and CSN (steel). Their successful internationalization in the 1990s and 2000s rested on foundations laid during decades of state ownership (see Fleury & Fleury, 2008).

Finally, in the 2000s, several EMNEs in Brazil, Russia, and South Africa enjoyed large positive cash flows because of record-high prices for many raw materials. This gave them a large war chest for acquisitions, which companies like Lukoil of Russia, CVRD of Brazil, and South African Breweries used to acquire Western firms, such as Getty, Inco, Miller beer, respectively. In early 2008, CVRD was rumored to be in talks to acquire the Swiss company Xstrata for a staggering $90 billion. Acquisitions of this sort made Brazil one of the emerging economies with substantial up-market FDI in 2007, but such investments may not be sustainable if raw material prices decline.

*Adversity advantage:* EMNEs also enjoyed an advantage relative to foreign firms in their ability to function effectively in the difficult conditions of emerging markets, where both the ‘hard’ and ‘soft’ infrastructures were underdeveloped. Firms had to operate with unreliable power, congested ports and roads, corrupt
bureaucracies, political and regulatory uncertainties, weak educational institutions, and a range of other “institutional voids,” (Khanna and Palepu, 2005). As discussed earlier, Western firms were usually stymied by these challenges, but local firms evolved coping strategies, having dealt with these constraints from birth. Local firms were more likely to possess this FSA than foreign firms, and EMNEs were able to transfer this FSA in varying degrees to other emerging markets. However, this FSA was subject to erosion over time, as conditions improved in emerging markets and as foreign firms gained experience operating there. But for a decade or more after economic liberalization, this was an important FSA for many emerging-market firms.

**Traditional intangible assets:** The image of the typical EMNE is that of a late-globalizing firm possessing few intangible assets, such as cutting-edge technology or strong brands. While largely true, our studies found some interesting exceptions. For instance, a handful of EMNEs seemed to be close to their industry’s technology frontier, especially in the larger BRIC economies. Brazil’s Embraer, for instance, was the world’s third largest aircraft maker and the leader in regional jets. Starting in the 1960s as a state enterprise that made 19-passenger turboprops for Brazil, it evolved into a leading maker of 100-seater regional jets, with more than 50 percent of the world market. Another Brazilian firm, Petrobras, had a technical edge in deep-sea oil drilling. In China, Huawei seemed to have come close to the frontiers of telecommunications technology, as it strove for leadership in 3G technology. In 2005, the company spent 10 percent of its annual revenues on R&D, but given China’s cheap engineering talent, this reportedly allowed the firm to deploy 48 percent of its 24,000 employees in R&D (Farhoomand and Ho, 2006: 6). In India, Suzlon Energy emerged among the top-5 global players in wind energy, with access to some of the best technologies, through acquisitions in Germany and the Netherlands, along with
engineering and research support in India. In the large-population emerging markets, such as the BRICs, home demand in new industries can sometimes be as big as that in developed countries, despite their lower per-capita income, e.g. in telecommunications equipment or wind energy equipment, to cite two examples. In a flat world, one should not be surprised if emerging markets periodically spawn companies like Embraer, Huawei, and Suzlon.

Similarly, although few EMNEs had strong global brands to begin with, many of them owned strong local brands that they were developing into international brands. Lukoil of Russia was converting the Getty gas stations it acquired in the US to the Lukoil brand; Lenovo, which bought IBM’s PC business and had rights to use the IBM logo for five years lost no time in building its own brand worldwide; in 2006, Haier’s brand already ranked 86th in the top 500 most influential global brands (Williamson & Zeng, 2007). India’s Tata Group gained international visibility with its large acquisitions in the UK (Corus Steel, Jaguar, Land Rover, Tetley Tea) and the launching of the Nano. Over time, many EMNEs are likely to develop global brands, given that in a flat world they have the financial resources and access to the same world-class marketing expertise that Western MNEs employed to build their global brands.

In thinking about the FSAs of EMNEs it is important to keep in mind the possibility that at least some of them will operate at the global technology frontier, enter new industries as global first-movers rather than junior late-movers, and possess globally recognized brands. The “global gateways” discussed earlier make this more likely than in earlier times.

**Generic Internationalization Strategies**
Despite the variety of firms and strategies described in Part 2, EMNEs seemed to pursue one of five generic internationalization strategies. Each of these strategies leveraged different country-specific advantages (CSAs) and firm-specific advantages (FSAs), and resulted in distinct internationalization paths (see Table 13.1). I describe them briefly here, but more detailed illustrations are contained in the country studies in Ramamurti & Singh (2008).

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Table 13.1 about here
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The natural-resource vertical integrator hails either from a country richly endowed with natural resources or one with a large domestic appetite for natural resources. In the former case, the EMNE engages in cross-border forward integration to secure downstream markets, e.g. Gazprom, Lukoil, and Norilsk of Russia, or Vale of Brazil. In the latter case, the EMNE engages in cross-border backward integration to secure upstream natural resources for conversion into end products for the home market, e.g., Oil and Natural Gas Commission or Bharat Petroleum of India and CNOOC or Chinalco of China. Despite the trend of vertical disintegration in many industries, natural-resource firms continue to place value on being vertically integrated—from resource extraction all the way to processing, distribution, and marketing. Outright state ownership, or heavy state regulation by home and host governments, is still the norm in these industries for both Western MNEs and EMNEs. Although these firms were among the largest EMNEs and had made some of the largest overseas investments, not much was new or novel about how they internationalized, compared to Western or Japanese MNEs in these industries (Vernon, 1983).
The local optimizer, on the other hand, follows an internationalization strategy that is probably distinctive to emerging-market firms. Its FSAs are derived from optimizing products and production processes for the distinctive conditions of the home market, i.e. serving low-income consumers in countries with under-developed “hard” and “soft” infrastructures (Khanna and Palepu, 2005). As discussed earlier, the resulting products and processes may be well suited to other emerging markets as well, thereby providing a basis for internationalization. Thus, a rugged low-cost vehicle designed for India’s middle-class consumers and its bad roads may have a ready market in other emerging markets. Such firms are likely to find that products optimized for emerging markets are sub-optimal for high-income countries; therefore, they may be stymied in their efforts to break into developed-country markets.

The low-cost partner strategy is likely to be pursued by firms that arbitrage the low wages of emerging markets to become supplier-partners of companies in high-wage countries. In our sample, this strategy was particularly powerful in China and India, which have large pools of low-wage, skilled and unskilled workers. The arbitrage strategy works less powerfully for middle-income developing countries, such as Brazil, Mexico, and Thailand, and was non-existent in high-income Israel. The target market for the exports of these EMNEs is developed countries, and up-market FDI may follow as the firms attempt to move up the value curve by establishing a presence close to customers in developed countries. Chinese firms pursuing this strategy were more likely to be in manufacturing (e.g. Wanxiang, an auto parts supplier), and Indian firms pursuing this strategy were more likely to be in services (e.g. Infosys or Wipro in software services), but this distinction is likely to blur over time. The low-cost partner is likely to expand into other emerging markets to diversify the supply locations from which it serves customers in high-wage
countries. Thus, its competitive foundations and internationalization paths are quite different from those of the local optimizer.

The global consolidator strategy is likely to be pursued by firms that build global scale in mature mid-technology industries, such as cement, steel, aluminum, auto parts, personal computers, and beverages. Many (though not all) of these industries use globally standardized products and processes, which makes it easier for EMNEs to expand internationally. In all such cases in Part 2, the industries involved had matured in the developed world but were just taking off in the developing world. As a result, firms in emerging economies were adding new capacity, upgrading old capacity, hiring workers, and growing sales and profits. The more aggressive players from emerging markets consolidated their position in the home market through acquisitions and greenfield investments to become dominant suppliers with strong cash flows. In the 2000s, some of these firms then set their sights on counterparts in other emerging economies and/or in developed countries, launching a program of cross-border acquisitions. Examples from our studies include Lenovo’s takeover of IBM’s PC business, Tata Steel’s takeover of Anglo-Dutch Corus, Hindalco’s takeover of Canada’s Novelis, South African Breweries takeover of several beer makers in Africa, Europe, China, and the United States, Haier’s expansion into many emerging markets as well as the US, Cemex’s takeover of large cement companies in Australia, the UK, and the US, Wanxiang’s takeover of several Western auto parts suppliers, and so on. Although Western firms in these industries were usually larger than EMNEs and had greater technical expertise, their plants were often technologically outdated and under-sized compared to new-vintage plants in emerging economies, they were saddled with uncompetitive labor contracts, and their sales and profits were often in a downward spiral—making them targets for takeover by EMNEs. Some of the largest
up-market investments by EMNEs were undertaken by global consolidators. Not surprisingly, global consolidators typically originated in the larger emerging economies, such as the BRICs, Mexico, and South Africa.

The final strategy type is the **global first-mover**, which involves an emerging-market firm operating at the global technology frontier, or one that is a trailblazer in a new emerging industry, rather than a late-follower in a mature industry. We alluded earlier to examples such as Embraer of Brazil in regional aircraft, Huawei of China in 3G telecommunications equipment, and Suzlon Energy of India in wind power. Other examples include pharmaceutical firms, such as Ranbaxy and Dr. Reddy’s of India or Teva of Israel that had the capability to develop new drugs or new delivery methods for existing drugs. Aharoni (2008) provides numerous examples of Israeli companies that developed pioneering technologies, usually in high-technology niche businesses, some of which grew into Israeli MNEs, while others were gobbled up by Western MNEs. The target market of the global first-mover is both emerging economies and developed countries, and it is likely to grow through a combination of greenfield investments in emerging markets and mergers/acquisitions in developed countries.

With the exception of the global first-mover, the other strategies typically involve EMNEs in mid-tech and mature industries. This seems to be the strategic sweet-spot occupied by many EMNEs, a space in which they are differentiated from other emerging-market firms as well as developed-country MNEs (see Figure 13.2). The local optimizer and the global consolidator, as already discussed, are typically in industries that have matured in developed countries. The low-cost partner may work for customers in the full range of technologies, but its own activities are likely to be low- or mid-tech in nature.
Impact on Global Competition

The emergence of EMNEs added to the competitive intensity of many industries, because these firms hailed from a new group of countries and leveraged competitive advantages that Western firms had not seen before. EMNEs shook up many a stagnant, mature industry in developed countries. The only exception was the natural-resource vertical integrator, whose forward or backward integration across borders also heightened global competition, in this instance for natural resources, but whose strategy was otherwise traditional and familiar. On the other hand, the local optimizer created new business models aimed at making products ultra-affordable to low-income consumers. It was a tough competitor in its home market and a potentially strong competitor to Western MNEs in other emerging markets. EMNEs pursuing the other three strategies had the potential to be particularly disruptive. Although the low-cost partner helped some Western firms lower cost, improve quality, reduce time-to-market, and speed up innovation, it threatened the business models of other MNEs, as IBM’s CEO, Sam Palmisano, explained in a famous speech (Palmisano, 2006). The global consolidator attacked incumbent MNEs using low-cost locations and facilities, and leapfrogged Western rivals by investing in modern plants and technologies. The global first-mover often took Western rivals by surprise, because Western firms in emerging industries were not expecting to compete with firms from developing countries. Yet when such competitors did emerge, they combined global reach with a strong footprint in low-cost countries, which forced their Western rivals to rethink how their own value chains were configured globally.

Western firms sometimes allied with EMNEs, but at other times fought them head-on. They sometimes sought to neutralize the home-country CSAs of EMNEs by
creating their own production bases in those low-cost countries, even as EMNEs tried to match the FSAs of Western MNEs through acquisitions in developed countries. Western MNEs that took seriously the opportunities and threats posed by EMNEs found ways to retain global leadership in their industries, witness the experience of companies like Unilever in India or Nokia in China. But those that ignored EMNEs or were dismissive of them risked a serious loss of stature, as Ericsson, Lucent, and Motorola discovered in the telecommunications equipment industry.

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Table 13.2 about here
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**Implications for International Business Theory**

What does the evidence presented in this volume reveal about the adequacy or inadequacy of existing international business theory? Are EMNEs really a unique breed of MNEs that can only be understood with *de novo* theory, as Mathews (2002) seems to suggest, or was Raymond Vernon right in arguing many years ago that “the multinationalizing trend [is] widely recognized as similar in nature irrespective of the nationality of the parent company” (quoted in Wilkins, 1986: 202)? The answer depends on what questions one asks.

If one asks why EMNEs internationalize, or what challenges they face in host countries, or when they prefer hierarchies over markets, then existing IB theory is quite adequate. But if one asks what the competitive advantages of EMNEs are and where those advantages come from, or why some of them make substantial up-market investments (cell 4 in Figure 13.1), or why some of them successfully compete head-on against Western MNEs, then existing IB theory falls short. We have drawn on the case studies in this volume to advance answers to some of the not-so-well-understood issues. For instance, we have identified distinctive FSAs that EMNEs leverage when
they internationalize, and found them to be rooted in the distinctive CSAs of their home countries. We have argued that up-market FDI occurs because EMNEs, as late-movers, sometimes enjoy an edge over first-mover developed-country firms in mature mid-tech industries. We have also argued that some EMNEs are first-movers or technology pioneers in their industries, despite hailing from developing economies, and that this allows them to expand both up-market and down-market.

The larger point is that we can use EMNEs to buttress mainstream IB theory—or, if we prefer, to challenge and debunk it. But the right goal is to use them to enrich and extend mainstream IB theory. As Narula (2006: 145) rightly argues, “there are no theories to refute that offer to explain how and why firms internationalize in today’s global economy” (italics in original). Research on EMNEs provides an opportunity to develop such a theory.

First of all, studying EMNEs provides the opportunity to rethink and deepen our understanding of how firms internationalize. As I argued in Ramamurti (2008b), mainstream IB theory was developed by studying Western multinationals that were already quite internationalized when the IB field was born in the 1960s. Naturally, therefore, IB scholars focused much of their attention on the challenges of managing the mature MNE rather than the fledgling MNE that was still building its international presence. Only business historians paid close attention to how Western firms got to be multinational in the first place. To be sure, some important ideas were added to mainstream theory by studying the internationalization of Scandinavian firms in the 1970s, but on the whole our understanding of early-stage internationalization is limited, and IB scholars have had to turn repeatedly to a limited number of old ideas.

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6 The Academy of International Business was founded only in 1959, and its main organ, the Journal of International Business Studies, was first published only in 1970.
Table 13.3 shows MNEs at three stages of internationalization: the *infant MNE* is a firm taking the first steps towards internationalization, with a heavy reliance on exports, modest overseas production in a few countries, and unknown brands; it is sometimes referred to as the “international firm” to distinguish it from the multinational firm, which is assumed to have several foreign subsidiaries. The *adolescent MNE* has overseas investment and production in several countries, possibly concentrated in the home region, and owns up-and-coming brands. And the *mature MNE* operates in most major markets and regions, with extensive overseas production and research, and strong global brands. The EMNEs studied in this volume are typically in the infant stage; Korean MNEs like Samsung, LG, or Hyundai may be examples of adolescent MNEs; and well-known Western or Japanese MNEs, such as IBM, Siemens, Toyota, and Sony, illustrate the “adult” or mature MNE.

In comparing EMNEs with Western MNEs, one must keep in mind that some of the observed differences may arise from differences in their stage of evolution rather than their countries of origin. For instance, EMNEs generally do not possess strong brands, whereas Western MNEs do; but this difference simply reflects the fact that Western MNEs are at Stage 3 and have invested in brands for decades, whereas EMNEs are at Stage 1 and have only begun to do so. When Coca-Cola internationalized during World War II to serve overseas US servicemen, its brand was unknown outside the US, but within two decades it owned one of the world’s most precious brands. Likewise, few EMNEs own global brands today but many of them will do so in two or three decades. In other words, after correcting for differences in stage of evolution, EMNEs may be as reliant on brands as Western MNEs.
A second reason for studying EMNEs is to bring context more explicitly and comprehensively into IB theory, as recommended by Cheng (2007), Meyer (2006), Tsui (2007) and others. In addition to the firm’s own circumstances, there are at least three aspects of context that need to be brought into the analysis. These are home-country context, industry context, and the macro international context, each of which we have discussed earlier and which collectively shape the internationalization strategy of EMNEs (see Figure 13.3).

We have already noted how emerging economies, with their distinctive and idiosyncratic characteristics, shape the CSAs and FSAs of EMNEs. They bring new CSAs such as low-wage workers, low-income consumers, and under-developed institutions, while countries like China and India also bring very large labor pools and home markets. In addition, our studies suggest that human capital in the form of entrepreneurial skills and international social networks, such as links with the diaspora, were also important CSAs that shaped the emergence of EMNEs. Although no CSA is common to all emerging markets, and some of their CSAs are similar to those of developed countries (e.g. endowment of natural resources), as a group, emerging markets bring into the global economy many distinctive CSAs. IB scholars need to investigate these CSAs more deeply to understand how and why they translate into FSAs for some emerging-market firms. As discussed earlier, CSAs and FSAs seem to have a more complex relationship than is recognized in IB theory and digging deeper here should yield rich theoretical dividends.

We have also noted that many EMNEs are in mid-technology industries that are neither so simple that any emerging market firm could master them nor so
sophisticated that Western MNEs have a clear technological edge in them (see, for instance, Amsden and Chu, 2003). To the extent technology figures in mainstream IB research on MNEs, it is assumed to be frontier technology of the kind leveraged by Western MNEs, and is measured by indicators such as the R&D-to-sales ratio. On the other hand, EMNEs in mid-tech industries generally have low R&D-to-sales ratios and derive their FSAs from being late-movers rather than first-movers. Another important industry factor seems to be the degree to which products and processes are standardized across countries, which may be correlated with industry maturity. Many of the industries in which EMNEs have emerged as global consolidators use standardized processes to make relatively standardized products, such as cement, steel, paper, or even PCs. Clearly the ideas raised by our research need to be investigated more carefully to understand how technology and other industry characteristics affect internationalization. Vernon’s product cycle hypothesis predicted that in the final stages of an industry’s evolution, American MNEs would shift most of their production to developing countries, but it did not anticipate that local firms would be the ones to consolidate such industries globally.

A third contextual factor that needs to be brought into IB theory is the macro international environment, which, as have repeatedly noted, was quite different in the ‘flat world’ of the 1990s and early 2000s, compared to prior decades. Shifts in the macro international context have no clear place in IB theory even though they profoundly affect the ease with which firms can internationalize. Mathews (2002) views the rapid pace of internationalization by EMNEs as one of their distinctive features, but that feature may in fact be a consequence of internationalizing in a flat world. After all, many ‘born-global’ firms in developed economies also internationalized rapidly in the flat world (Cavusgil and Knight, 1996). In other words,
inter-temporal comparison of MNEs is potentially confounded by shifts in the macro international context.

A final reason for studying EMNEs is that they remind us of the value of studying internationalization in a more strategic and managerially relevant manner than is normally the case in IB research. Many IB theories look at internationalization in a piecemeal fashion: work on clusters and the competitive advantage of nations relates home-country characteristics to the CSAs of countries or the FSAs of firms; other works focus on the motivations for internationalization or the costs of internationalization, including the liabilities of foreignness; still others look at the sequence and modes of foreign market entry; and finally there is a vast literature that looks at operational issues, such as international staffing, or international sourcing. But what managers need—and therefore IB scholars should be studying—is how these different elements come together to shape the internationalization strategies of firms.

The OLI paradigm, which is perhaps the bedrock of IB theory, connects several islands of IB theory into coherent answers to the question of why MNEs exist, but it, too, is inadequate as a guide for developing internationalization strategies, because it is static, highly abstract, and context-free. Indeed, the latter features account partly for its wide-ranging applicability and longevity (Eden, 2003). The OLI paradigm answers the ‘why’, ‘where’, and ‘how’ questions of internationalization in vertical compartments, taking them one at a time. It does not connect the answers horizontally to propose internally-consistent why-where-and-how strategies for internationalization. Research on EMNEs provides the opportunity to make such horizontal connections between islands of IB theory.
There is a well developed literature on the strategy of single-country firms, as seen in the mainstream strategy literature. There is also a widely accepted taxonomy of strategies for mature MNEs, as seen in the works of Porter (1986) and Bartlett & Ghoshal (1989), which gave us categories such as the multi-domestic, global, and transnational firm. More recently, Ghemawat (2007b) has proposed the Adaptation-Aggregation-Arbitrage model for thinking about the strategic choices facing mature MNEs. But there is as yet no scheme or taxonomy for describing the strategy of ‘infant MNEs’ as they embark on internationalization. This case falls between the cracks—between mainstream strategy scholars who are hesitant or unable to incorporate international diversification into their models and IB scholars who are preoccupied with the mature MNE. We hope that the generic internationalization strategies identified in this volume might serve as a starting point for developing such a scheme for emerging-market firms.

References


Palmisano, Sam. 2006. Leading, trust, and the globally integrated enterprise. Speech delivered at INSEAD Business School, Fontainebleu, France (October).


## Table 13.1
Generic internationalization strategies of EMNEs

<table>
<thead>
<tr>
<th>Generic Strategy</th>
<th>CSAs</th>
<th>FSAs</th>
<th>Internationalization path</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Natural-resource vertical integrator</strong></td>
<td>• Natural resource endowment and/or • Large home demand for natural resources</td>
<td>• Privileged access to natural resources and/or • Privileged access to home markets</td>
<td>• Forward integration to downstream markets and/or • Backward integration upstream to secure natural resources</td>
<td>• Gazprom, Lukoil, Norilsk, Vale, Anglogold, PTT • Petrobras, ONGC, Indian Oil, CNOOC, Chinalco</td>
</tr>
<tr>
<td><strong>2. Local optimizer</strong></td>
<td>• Low-income consumers • Under-developed ‘hard’ and ‘soft’ infrastructures</td>
<td>• Ability to optimize imported products and processes to home market • Local-customer intimacy and local embeddedness</td>
<td>• Target market: Other emerging markets</td>
<td>• HiSense, Mahindra &amp; Mahindra, Tata Motors, Shoprite, Marcopolo</td>
</tr>
<tr>
<td><strong>3. Low-cost partner</strong></td>
<td>• Low-cost labor • Size of skilled labor pool, including engineers/scientists, etc.</td>
<td>• Process excellence • Project management • Ability to operate successfully in the adverse conditions of emerging markets</td>
<td>• Target market: Developed countries • Up-market FDI to move up value curve • Down-market FDI to diversify supply locations</td>
<td>• Wipro, Infosys, TCS, Dr. Reddy’s, WEG, Sabo</td>
</tr>
<tr>
<td><strong>4. Global consolidator</strong></td>
<td>• Large and rapidly growing home market • Price-sensitive customers</td>
<td>• Production and project execution excellence • Late-mover advantages in scale, organizational processes, technology • Strong position in home market, with strong cash flows</td>
<td>• Target market: Global • Up-market FDI to acquire poorly-performing companies</td>
<td>• Tata Steel, Hindalco, South African Breweries, Lenovo, Wanxiang, Cemex</td>
</tr>
<tr>
<td><strong>5. Global first-</strong></td>
<td>• Large and rapidly</td>
<td>• Close to global</td>
<td>• Target market: Global</td>
<td>• Embraer, Huawei,</td>
</tr>
</tbody>
</table>
| mover | growing demand in a new industry  
  • Low-cost country for design, engineering, and production | frontiers of technology  
  • Strong position in home market, including, possibly, state support | Up-market FDI to acquire key technologies or capabilities, and customer access  
  • Down-market FDI to gain market access and/or to diversify production bases | Suzlon Energy, Check Point, Teva |

Source: Author
Table 13.2  
How EMNEs affect global competition

<table>
<thead>
<tr>
<th>No.</th>
<th>Generic Strategy</th>
<th>Implications for Incumbent (Western) MNEs</th>
</tr>
</thead>
</table>
| 1   | Natural-resource vertical integrator | • Heightened competition for natural resources  
• Rising commodity prices                                    |
| 2   | Local optimizer                       | • Heightened competition in EMNEs’ home market and in third-country emerging markets  
• Disruptive competition from low-cost innovations               |
| 3   | Low-cost partner                      | • Strategic partner for lowering costs, improving quality, mobilizing talent, reducing time-to-market, and promoting innovation  
• Potential future rivals, if EMNE successfully moves up value curve and across value chain  
• Forces Western MNEs to neutralize EMNE’s CSAs before it catches up with Western firm’s FSAs through up-market M&A |
| 4   | Global consolidator                   | • May result in the globalization of previously fragmented industries  
• Forces incumbent Western MNEs to merge and consolidate to offset EMNE’s low-cost advantage |
| 5   | Global first-mover                    | • Surprise attack from EMNE with low-cost footprint and global reach  
• Forces Western MNEs to reconfigure value chain from high-cost to low-cost countries |

Source: Author
### Table 13.3

**Stages of MNE evolution**

<table>
<thead>
<tr>
<th></th>
<th><strong>Stage 1: Infant MNE</strong></th>
<th><strong>Stage 2: Adolescent MNE</strong></th>
<th><strong>Stage 3: Mature MNE</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance of home-country CSAs</td>
<td>High</td>
<td>High to Medium, and falling</td>
<td>Medium to Low, and falling</td>
</tr>
<tr>
<td>Ratio of exports to overseas production</td>
<td>Exports exceed overseas production</td>
<td>Exports and overseas production in balance</td>
<td>Overseas production exceeds exports</td>
</tr>
<tr>
<td>Geographic footprint</td>
<td>Few countries in home region, unless EMNE is pursuing the low-cost partner strategy</td>
<td>Several countries, with emphasis on home region</td>
<td>Dozens of countries, in all major regions</td>
</tr>
<tr>
<td>Brand</td>
<td>Strong at home, unknown abroad</td>
<td>Strong at home, up-and-coming abroad</td>
<td>Strong global brand</td>
</tr>
<tr>
<td>Examples</td>
<td>Most EMNEs</td>
<td>Korean MNEs, such as LG or Hyundai</td>
<td>Western and Japanese MNEs, such as IBM, Siemens, Sony, or Toyota</td>
</tr>
</tbody>
</table>

Source: Author
### Figure 13.1
Source and destination of FDI

#### Destination of FDI

<table>
<thead>
<tr>
<th>Source of FDI</th>
<th>Destination of FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed Country</td>
<td>Developed Country</td>
</tr>
<tr>
<td>Cell 1</td>
<td>North-to-North FDI</td>
</tr>
<tr>
<td>Cell 2</td>
<td>North-to-South FDI (Down-market FDI)</td>
</tr>
<tr>
<td>Cell 4</td>
<td>South-to-North FDI (Up-market FDI)</td>
</tr>
<tr>
<td>Cell 3</td>
<td>South-to-South FDI (Mostly down-market FDI)</td>
</tr>
</tbody>
</table>

**Note:** *Down-market FDI refers to investment from a more developed country to a less developed one, and up-market FDI refers to the opposite.*
Figure 13.2
Strategic space occupied by many EMNEs

<table>
<thead>
<tr>
<th>High-tech businesses:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Western MNEs</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Mid-tech businesses:</td>
</tr>
<tr>
<td><strong>EMNEs</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Low-tech businesses:</td>
</tr>
<tr>
<td><strong>Local firms</strong></td>
</tr>
</tbody>
</table>
Figure 13.3
The role of context in the internationalization process of EMNEs (Stage-1 MNEs)