“Punching above their weight”

The sources of competitive advantage for emerging market multinationals

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Abstract

Purpose – The purpose of this paper is to comprehensively review the sources of competitive strength of emerging market multinationals (EMMs). Since most lack firm-specific assets such as internalized knowledge or globally recognized brands, especially in their early international growth, and emanate from less-developed nations, the success of EMMs has to be explained by identifying factors in their home nations and international scope which make these firms internationally competitive.

Design/methodology/approach – A comprehensive review of the extant literature and company cases identified several sources of competitive advantage for emerging market firms. Since conclusive evidence is still unavailable, many of these factors are proposed as hypotheses for future empirical research. Where needed, contrary viewpoints are also discussed and cited.

Findings – This paper identifies several possible location-specific assets of emerging market companies including the mindset of top management of EMMs (such as long term orientation, global or cosmopolitan perspectives, a degree of humility that recognizes the need to catch-up by learning from foreign allies and customers, tolerance for ambiguity, and frugality) and home country cultural traits such as emphasis on relationships, family control, and private equity capital. Other sources of competitiveness may lie in the home country pool of technical talent and cheap labor, the extensive diasporas of persons of Chinese, Indian and Brazilian origin, and the role of common language as determinants for the geographical pattern of FDI from emerging nations.

Originality/value – This paper serves the dual purpose of providing a comprehensive literature review of this topic for doctoral or Masters students, and specifying hypotheses (as well as opposing views) for further investigation.

Keywords Emerging markets, Emerging market multinationals, Foreign direct investment (FDI), Global capabilities, Global strategy, Competitive advantage

Paper type Conceptual paper

Introduction

Boxing categorizes contestants into different weight classes because the force of a punch is typically proportional to the boxer’s weight. 20 years ago, in 1993, with the exception of S. Korea, only 18 other companies based in emerging markets appeared on the Fortune Global 500 list, and almost all of these were lumbering state-supported firms such as Pemex or Indian Oil in extractive industries with few competitive advantages or distinctiveness beyond their government conferred oligopoly and size. Their degree of internationalization was negligible and they survived behind protectionist barriers. Their international “punch” was puny compared with their domestic size or weight.

Today emerging market champions are present in a wide range of industry sectors. Many were born only in the last two or three decades having none of the institutional advantages enjoyed by their advanced country competitors. Founded only in 1988, Huawei’s sales by 2012 exceeded $32 billion, and with a R&D/sales ratio of 13 percent it invests over $4 billion annually in research centers in eight nations selling products...
and services to 45 of the 50 biggest telecommunications companies, Huawei’s international reach encompasses 140 nations. The Indian software industry provides classic illustrations of born-global companies (Knight and Cavusgil, 2005) with a tiny domestic market and exports only around $85 million in 1990, zooming to $69 billion by 2012 (NASSCOM, 2012). Starting with basic data entry and low-end software construction, the sector has broadened to include sophisticated systems and management consultants such as Infosys and Tata Consultancy Services which are among the biggest and most competitive such providers in the world.

Emerging market companies accounted for over 40 percent of world exports and around a quarter of outward foreign direct investment (FDI) investment flows (UNCTAD, 2012b). While the average size per firm may be smaller than the average for developed nations, the “100 largest TNCs (Transnational Companies) from developing and transition economies” already account for 32 percent of the sales and assets, and 55 percent of employees of all of the “100 largest TNCs worldwide” (UNCTAD, 2012b, calculated from Table 1.8). The Boston Consulting Group’s (BCG) annual compilation of “Global Challengers”, using a methodology that includes qualitative as well as quantitative (e.g. growth rates and performance) measures, identifies the most dynamic and globally competitive emerging market firms with revenues over $1 billion and overseas sales above 10 percent (Bhattacharyya et al., 2013). The list encompasses a range of sectors from telecommunications (e.g. Huawei), to bio-pharmaceuticals (e.g. Dr Reddy’s), to airlines (e.g. Turkish Airlines) and commercial aircraft (e.g. Embraer), to white goods (e.g. Haier), to automobiles (e.g. Mahindra & Mahindra). Among this list of Challenger-100 emerging nation firms are diversified groups like Koç family holdings, as well as natural resource state-owned giants like Petrobras, Sinopec or Petronas. Even the formerly lumbering extractive industry behemoths, beholden to imported technology, now compete on an equal footing with other global giants in their industry in other nations, and participate in international ventures.

What makes these sectorally diverse companies, from a variety of emerging nations, competitive? What enables them to “punch above their weight”? After all, emerging market multinationals (EMMs) suffer from the double disadvantages of ordinary “liabilities of foreignness” (LOF) (Eden and Miller, 2004), and also, in addition, the liabilities of a developing country home base. Despite this, many, if not all, conspicuously outperform their industry averages. For instance, the BCG Global 100 Challengers, over the period 2000-2012, exhibited a total shareholder return seven times that of the S&P 500, and around five times as high as their industry counterparts in developed nations (Bhattacharyya et al., 2013, Exhibit 4).

The literature on EMMs has sporadically tried to identify some of the sources of EMM competitiveness (Khanna and Palepu, 2010; Guillen and Garcia-Canal, 2009). However, there is no overall consensus (Ramamurti, 2012). This paper will attempt a comprehensive review of the wellsprings of EMM advantages, including a relatively neglected area – namely the cultural and leadership styles of emerging market managers that have a role in boosting the performance of their companies.

The paper is organized thus: I begin with a review of the changes in the world economy between 1990 and 2013 that have facilitated the emergence and growth of developing nations in general, and their companies as international competitors in particular – despite their LOF. This is followed by generic strategies of EMMs and their growth patterns. An important focus of this paper is on firm, micro or behavioral
factors, such as long-term orientation; a degree of humility (what I may describe as the “view from below” as opposed to the partial blindness of assumed strategic superiority); post-merger acquisition skills; traits such as culturally-rooted negotiating skills; an ability to persistently seek paths which circumvent bureaucratic obstacles; a frugality that translates into not only lower corporate headquarters overheads, but also a more rigorous and cautious analysis of expenditures in foreign subsidiaries; the home country pool of scientists and engineers and diaspora of expatriate managers; and in a few cases a common language – factors that provide a competitive advantage to the EMM.

What propelled the internationalization of EMMs after 1990?

Classic international business theory arguments for why companies internationalize do not seem to uniformly apply to EMMs (Ramamurti, 2012). For much of economic history until the early 1990s, the cross-border expansion of firms was predicated either on comparative advantage (of a country which impelled international trade) or accumulated, internalized, firm-specific assets (FSAs) within the firm (that impelled FDI) (Dunning, 1988). It was the strong that extended their home-base prowess across borders to the weak. However, many EMMs do not necessarily possess FSAs in the early stage of their international growth (Rugman and Verbeke, 2003). Nor in their early stage growth do they possess many of the configurational benefits of multinationality enumerated in Contractor (2012b) who identified how companies can gain an advantage by the sheer fact of having a multinational scope, even if they do not necessarily have accumulated FSAs initially. Moreover, the traditional paths of international expansion seen in advanced country based MNEs – in terms of incremental growth first into culturally similar or neighboring nations, and only then farther afield (Vahlne and Wiedersheim-Paul, 1973) – do not seem to apply to EMMs. What changed in the 1990s?

In 1990, this author did a semester sabbatical with UNCTAD’s think tank on FDI, the United Nations Centre on Transnational Corporations (UNCTC), and conducted a study which scrutinized the legislation and regulations passed by nations around the world controlling FDI inflows. The changes in national regulations, each year, were classified and then labeled (akin to a dummy variable) as to whether the change in a country’s policy amounted to investment liberalization, promotion and facilitation, or whether the change by the nation introduced new restrictions or regulations on inward FDI (UNCTC, 1991). It quickly became clear that as far back as the mid-1970s, long before the collapse of socialist or protectionist ideologies, that the number of liberalizing changes around the world (and particularly in inward-looking or protectionist emerging nations) far outnumbered instances where new restrictions on FDI were introduced – first by factors of four to one in the 1990s and rising to ten to one by the turn of the millennium (UNCTAD, 2012a). Restrictions on international business, whether on FDI flows or trade were being rapidly dismantled in favor of promotion and attraction. Annual growth of FDI and trade which were already growing faster than domestic economies, accelerated as doors and windows were opening around the world to international firms and products.

According to traditional theory and the fears of some pundits, the almost universal worldwide adoption of an open-door policy and the lifting of (FDI and trade) protections could further set back emerging nation firms. In the direst scenarios, emerging nation domestic companies were supposed to be swamped by developed
country MNEs with their superior internalized FSAs such as technology, skills and access to rich capital markets. And emerging nations were supposed to suffer “immiserizing growth” as low-end commodity exporters[1] (Bhagwati, 1958).

On the contrary, the same expansion of global FDI and trade also strengthened local firms who learned quickly about world-class standards, methods and technology, and learned how to compete. The open-door policies increased the “absorptive capacity” of many local firms, which later became globally competitive EMMs. Meyer (2004) reviews the beneficial impact of inward FDI on recipient nations’ general competitiveness. Local firms learn by imitation. Foreign MNEs train local employees, engineers and alliance partners who take their learning over to other local firms. Spillovers of technology also occur as an industry cluster of local suppliers develops. Labor skills and management competence improve, and the industry as a whole gets connected to its global peers, global industry associations and standards. The absorptive capacity and competitiveness of emerging nations came to further fruition by the 1990s with a substantial increase in the numbers and quality of their engineers and technical graduates (Lynn and Salzman, 2006; Arora and Gambardella, 2004).

Two information technology (IT) related developments starting in the 1990s further reinforced EMM competitiveness, giving EMMs unprecedented access to advanced nation technology. First, the penetration of IT-enabled methods began to spur an unprecedented codification of corporate knowledge. Technology and management processes that were tacit and resident only in the minds of senior engineers and staff, were rendered explicit and written down in manuals, software, expert systems and protocols (Steinmueller, 2000; Contractor and Ra, 2002). Admittedly, the prime motivation was to improve the codifying firm’s own productivity in their home base in advanced nations. But being codified, the information could then be more easily discoverable, intelligible and absorbable by alliance partners, licensees, supply chain members and foreign subsidiary employees. Second, the spread of the internet and industry platforms, by the late 1990s, saw an unprecedented expansion of outsourcing, offshoring and outsourcing (Contractor et al., 2010), as well as international licensing which was the fastest growing mode of international business between 1982 and 2011[2].

This spread of technology to constellations of licensees and partners in an internet-aware world makes EMMs more cognizant of opportunities, facilitates the transfer of knowledge, and is manifest in:

- the finer slicing of the value chain; and
- the consequent global disaggregation of pieces or slices of these value chains over a larger set of collaborators worldwide (Mudambi and Swift, 2011).

Many, if not all, of the collaborators of the global value chain can then learn and improve their own competitiveness.

We can identify two additional changes in emerging market economies that increased the competitiveness of their companies. With growth rates consistently higher than developed nations, many of the larger ones such as the BRICS[3] nations, Mexico or Turkey achieved sufficiently large domestic market size that conferred a scale advantage on their firms they previously did not enjoy. Ramamurti (2012) speculates as to whether this, in itself, may be considered a weak “ownership advantage.” Finally, the enormous growth of capital markets worldwide and particularly in emerging nations meant that EMMs were, for the first time, able to raise capital on an equal footing with their
developed nation counterparts (ACCA, 2012) – an access which is a significant explanation for the spurt of FDI acquisitions done by EMM companies ranging from CEMEX to Tata Steel.

**EMMs’ strategy types**

Some insightful classifications of the generic strategies of EMMs already exist (Ramamurti and Singh, 2009; Williamson and Yin, 2013). My objective in this section of the paper is to identify the sources of competitive strength for each.

1. **Global competitors**

These are firms that have achieved a research, production and global marketing scale that rivals the leading companies in their business. Classic examples include Samsung, Huawei or CEMEX. Global scale can provide production cost and supply chain savings, depending on the sector. Achieving a global scope, as such, confers competitive advantages. The very diversity and multiplicity of country locations in which a multinational is embedded provides access to new ideas, and the ability to arbitrage differences in input costs and prices (Meyer et al., 2011). This was one of the factors in CEMEX’s success. International scope enabled CEMEX to arbitrage price differences for cement across nations, and raise needed financing from sources like Spain for foreign acquisitions.

Contractor (2012b) advances an innovation or R&D budget example:

If Firm A has spent $20 million on R&D and the product is sold to 50,000 customers, the technology burden per unit sold is $400. For a competing Firm B, with the same R&D budget and 150,000 customers worldwide, the technology overhead is only $133 per unit. It can undercut Firm A and enjoy vastly greater profits.

More importantly, Firm B enjoys and can expend a much larger R&D budget for the next generation of technology than Firm A. For this simple economic truth there are no diminishing returns to scale[4] and illustrates how Samsung has been able to catch up with its more established rival Apple in mobile telephony and computers.

2. **Outsource producers aspiring to climb the “smiling curve”**

Producing on a large-scale for other foreign brands has been a traditional path towards internationalization for several companies. However, it has not proven easy to build the EMM’s own brand name. It took the Korean conglomerates such as LG or Samsung decades of steady advertising to achieve global recognition. Galanz Enterprise Group Co. of Guangdong is the world biggest producer of microwave ovens in 2013, but lacks any brand or company name recognition amongst the bulk of their foreign customers. ZTE (Shenzhen) is one of the leading manufacturers of mobile handsets that nobody has heard of in Europe or North America.

Many of these outsource manufacturers have established brand names in their home markets and aspire to break out of the constraints of being stuck with the low-profit production/assembly middle of the value chain, to reach the higher profit elements of the beginning (innovation) and end (brand value) portions of the value chain – the “smiling curve” strategy popularized by Stan Shih[5] and elaborated on in Mudambi (2008).

However, it is difficult to simultaneously climb both ends of the smiling curve. Acer has global brand recognition but is weak or undistinguished at the R&D end of the
value chain. GoodBaby, by contrast, is strong in incremental innovation (5,174 minor patents as of 2012) but its brand is unknown outside China. Started in 1983 by Mr Zhenghuan Song, a Chinese school principal and later engineer in charge of his township enterprise, GoodBaby became the largest seller of baby strollers in China. By 1999 it was the largest supplier of strollers and infant equipment to North America, supplying brands such as Safety 1st, Cosco and Silver Cross through outlets such as Target, Walmart and ToysRUs. Their four innovation centers in Boston, Utrecht, Tokyo and Hong Kong besides mainland China are intended for continuous incremental innovation — tweaking strollers and car seat designs to suit local regulations, vehicle sizes and cultural preferences across the many nations they sell in. Haier (white goods and appliances) is one manufacturer that has gained some international brand recognition as well as some internalized research capabilities and may be on its way to emulating the Korean example of climbing both ends of the “smiling curve”.

3. Global knowledge and process consultants
Companies such as Infosys base their competitive strength not merely on efficient or low-cost value added in their home countries, but also their ability to interface with and understand the complex organizational needs of their clients. They occupy a business space at the intersection of IT, management consulting, industrial engineering and productivity studies. Founded in 1981 by seven Indian software engineers, the company soon went beyond basic software writing to encompass the organization-wide efficiency needs of client companies in the USA, Europe and Japan. In the words of Govindarajan and Trimble (2011) they “blend the science of software with the art of consulting”.

Companies like Infosys and Tata Consultancy Services provide classic examples of learning by experience, recruiting the cream of first Indian and then worldwide talent. In the case of these Indian EMMs, there are three sources of competitiveness, ethnic ties or the diaspora of overseas Indians (Zaheer et al., 2008), strategic acquisitions (Buckley et al., 2012) as well as considerable investment in research.

4. (Home base) capability augmentation
Since 2000, FDI through foreign acquisitions by EMMs has been an important strategy. For the year 2011, UNCTAD (2012b) reports that $117 billion in FDI capital was used by developing and transitional economies to purchase foreign company assets. The strategic intent — in many cases where the target company is in a developed nation — is to gain the acquisition target’s knowledge, brands and other proprietary assets for use back home and in other nations served by the EMM.

This is part of a general trend towards “competence-creating subsidiary mandates” (Cantwell and Mudambi, 2005). In this new view of the MNE, competence no longer resides mainly at headquarters but is dispersed across the MNE — affiliates network (Asmussen et al., 2009). Verbeke (2009) describes “recombination capability” or the ability to synergistically assemble knowledge from several national affiliates as the highest level of FSA of the MNE.

CEMEX is a classic example of tapping into and leveraging foreign knowledge. Lessard and Lucea (2009) indicate that some 70 percent of CEMEX’s technology and business methods were learnt from acquisitions. For example, from their acquisition of Spanish companies they learned the efficient use of petroleum coke as the main fuel, and the majority of CEMEX’s plants worldwide then switched over to that technique.
Other examples include Indian pharmaceutical companies making acquisitions in Europe (such as Dr Reddy’s acquisition of the molecular business of DowPharma), Tata Steel’s acquisition in 2006 of European Corus Steel, Geely’s acquisition of Volvo, and Tata Consultancy Services’ takeover of TeknoSoft in Switzerland to gain a specific IT capability. Oliveira et al. (2013) describe the strategic takeover of a German company, Kaco, by Sabo which is a Brazilian auto component supplier. Kaco had significant patents and proprietary technology in automobile sealants and sealing systems, and has research links with German universities which Sabo wished to tap into. This acquisition led to the Brazilian company’s status as a supplier being augmented, not only in the Brazilian auto industry but also in Europe.

Auxiliary benefits from EMM acquisitions of developed nation firms include suddenly achieving globally competitive scale (e.g. Tata Steel is now amongst the five biggest steel producers; Hindalco’s taking over Novelis made it the biggest aluminum rolling firm in the world) and acquiring a global brand (Bonaglia et al., 2007) (e.g. Lenovo obtaining IBM’s “Think Pad” brand, and Arçelik getting the well-known Grundig brand from the bankrupt European consumer electronics firm).

Contrarian views. But we also see Contrarian views held by scholars like Karnani (2012) who argue that some foreign acquisitions by EMMs are wasteful, do not improve profitability and have loaded these EMMs with very high debt/equity ratios. Relatively uncritical and lavish credit was extended to them by banks (especially if the bank was allied, or was in the same business group), by government institutions, and by conglomerate sister firms who were dazzled by the early international growth of EMMs in the 1995-2007 period. Six years after the Corus acquisition, Tata Steel with minimal fanfare, quietly recorded a write-off of $1.6 billion (The Economist, 2013). Karnani and others assert that, on average, cross-border expansions of EMMs through acquisitions do not create value, but destroy shareholder value in more than half of the transactions analyzed.

5. Replication in other emerging markets
A competitive strength of EMMs is their familiarity with the pitfalls and advantages of doing business in an emerging nation context, which they can then replicate in other emerging markets. Brazilian, Chinese and Indian EMM investment has occurred in other less-developed nations in Africa, Vietnam or the Philippines, in the early stages of their internationalization. Duysters et al.’s (2009) description of the international growth of Haier relates how its early strategy was based on joint ventures (JVs) in the Philippines, Dubai, Iran, Algeria, Jordan, Pakistan and Bangladesh, before they tackled FDI in the USA. CEMEX’s early growth was also in other emerging nations. This is an accepted strategy for the initial forays outside of the home nation (Khanna and Palepu, 2006).

6. Natural resource seekers
More than other emerging nations, it is China that has embarked on “resource security” investments by its state-owned companies in Africa. Led by organizations like China National Petroleum Corporation and China National Offshore Oil Company, more than 1,000 such Chinese investments exist on the African continent (Alden and Davies, 2006; Athreye and Kapur, 2009). Such extractive sector projects are sometimes accompanied by infrastructure construction projects built by large cohorts of imported Chinese labor.
The above six strategies used by EMMs are by no means unique to developing countries, or unprecedented. However, compared with MNEs from advanced nations, EMMs are more likely to be born-global; expand early to a more heterogeneous set of countries; are more likely to depend on conglomerate or ethnic group, family and state support; more likely to rely on acquisitions in order to rapidly gain needed capabilities; and exhibit a higher propensity to form alliance relationships.

This overall pattern of international expansion by EMMs is in striking contrast to the market-seeking or home FSA exploiting strategies that have historically been practiced by advanced nation multinationals. Very few EMMs operate from a position of global strength or from an assumption of dominance. Rather it is the stance of a canny boxer facing a heavier opponent, an attitude that requires being astute about how to overcome weakness, a dose of humility, and a “view from below” – behavioral and cultural traits that may have helped EMMs to “punch above their weight” in international competition. In the next sections I propose hypotheses that link the performance or success of EMMs with the behavioral attributes of their leaders and managers, as well as contextual or structural factors that may promote their international success.

Behavioral and cultural traits of EMM leadership
As it is, academia provides few generalizable conclusions or recommendations about the link between leadership attributes, culture and firm performance. Moreover, emerging markets themselves exhibit a diversity of traits, levels of economic development and administrative heritages. With few general conclusions this far, management of emerging market firms therefore is a relatively unexplored and fertile field for research (Kiss et al., 2012). The discussion below, about how the background of EMM managers influences their internationalization, is necessarily couched as a set of propositions or hypotheses.

Drawing on the work of North (1991) about the meaning of “institutions” as a mental construct, Dhanaraj and Khanna (2011) include customs, traditions, habits and other culturally-rooted behavior as part of the institutional framework of a society that in turn shapes corporate behavior and success. I connect this with the literature on leadership or top management characteristics. Gibson and Birkinshaw (2004) show that “ambidexterity” skills or predisposition, in middle and senior managers, is strongly correlated with business unit success. Luo and Rui (2009) extend this to emerging country managers. “Ambidexterity” is not a concept amenable to uni-dimensional definition or measurement. It incorporates several behavioral traits such as alertness to opportunity, cooperation and network building, inter-temporal tradeoff judgment skills, multitasking, greater tolerance of ambiguity, a willingness to be adaptable and flexible, and finally a dose of compassion and humanity. If one rubric can be used to describe these behavioral or cultural attributes, it may be called “the view from below” a view of business competition that does not assume strategic superiority but recognizes that humility, flexibility, nimbleness and a clear-eyed willingness to seize opportunities when presented, enable the EMM to punch above its weight.

I present below a set of propositions as a fertile research agenda (but with the obvious caution that variation in both home and host nations needs to be controlled for):

P1. Patience and long-term orientation correlate with EMM success.
Hofstede *et al.* (2010) added a fifth cultural dimension to Hofstede’s (1984) study that was originally labeled “Confucian Dynamism” but later renamed “Long-term Orientation”. Noland (2003) linked long-term orientation to religious roots such as Hinduism and Buddhism and proposed a positive correlation with business success. Li *et al.* (2001) show that cultural traits, including long term orientation, influence investment preferences and performance of JVs in China. However, systematic assessment of this variable across emerging markets as a group is lacking:

**P2.** Greater tolerance or acceptance of ambiguity correlate with EMM success.

In an environment of weak laws or poor government, greater tolerance of ambiguity can be an asset if it leads to seizing opportunities that a more rules-driven manager would ignore. Cuervo-Cazurra and Genc (2008) suggest that EMMs can develop capabilities in operating in poor regulatory contexts that MNEs from advanced nations do not handle well, or are averse to – giving the EMM a relative advantage. They cite the World Bank’s (2005), *Global Development Finance Report*, to give the example of South Africa’s MTN which displaced Vodaphone’s near monopoly in Uganda because of greater willingness to take risks and understand another African company’s business environment. According to Hoskisson *et al.* (2000), tolerating the notion that contracts may not be enforceable in emerging nations can be a competitive advantage to an EMM manager who is willing to accept the uncertainty – as opposed to a manager from advanced nations that may shirk from making an investment without the greater assurance of enforceable contracts.

However, empirical verification is needed as to whether this advantage is also applicable when EMMs operate in developed nations:

**P3.** A relationship-based home culture confers an advantage on the EMM.

A cultural milieu that is rich in relationships encourages firm learning and membership in networks (Buckley *et al.*, 2007; Mathews, 2006). Social networks can act as a replacement for institutional voids (Ahlstrom *et al.*, 2007). Peng (2012) relates how the Chinese term *guanxi* is a valued and integral part of Chinese culture. Networking between Chinese firms is routine in search for learning new technological ideas, and gaining market insights. Indian and Brazilian culture may also be described as more relationship-intensive compared with Europe or the USA.

But how does greater social capital and relationship intensity translate into greater EMM success in other nations, outside the firm’s home base? One can hypothesize two ways this occurs. First, the richness of home nation interactions and networks may create a “mentality” that is hungry for knowledge through avenues and links with companies in foreign locations as well. Peng (2012, p. 100) states that “[…] many emerging MNEs openly profess that they go abroad to learn.” Second, EMMs are “street smart” from operating in countries where the social network substitutes for institutions. Hungary may be classified as an advanced nation and member of the European Union. Even in that setting, Dhanaraj *et al.* (2004) indicate how alliances and JVs provide an avenue for learning and capability building:

**P4.** EMMs exhibit a greater propensity to learn from alliance/supply chain/outsourcing partners.

First, let us start with a word of caution. While the literature on EMMs abounds with examples of alliances as an important means of EMMs’ international growth,
comprehensive data are lacking that would show an across the board greater propensity to form alliances and cooperative relationships, compared to advanced nation MNEs. Second, we know that alliances are formed for a multiplicity of reasons ranging from simple sharing of project risk, to dividing up markets, to learning (Contractor and Lorange, 1988). But we lack evidence to prove the specific research question in $P4$ – that EMMs have a greater propensity to learn from partners – other than the obvious fact that companies from emerging nations have a generally greater need for technology acquisition.

Anecdotal evidence is widespread, however. For example, Bonaglia et al. (2007) describe how a Mexican company, Mabe, leveraged learning from a JV with General Electric for refrigerators that enabled it to not only expand in Mexico but have operations as a preferred supplier in the USA. Today, Embraer of Brazil is not only a dominant manufacturer in the under-100 passenger region jet, but has its own design and R&D capabilities. But in its early days, in the 1990s, Embraer relied on several alliance partners ranging from Kawasaki of Japan and Latécoère of France, to develop its aircraft. Partners were also useful to share commercial risks (Oliveira et al., 2013). Similarly, learning technology as a licensee of Liebherr of Germany in 1984, Haier of China is today one of the largest producers of refrigeration equipment. It is on its way to becoming a global brand.

Of course, the strategic value of international alliances goes beyond learning from partners. Alliances also act as a means of learning about foreign markets, segments, channels, influencers, cultural cues or pitfalls, foreign regulatory requirements, as well as business behavior and etiquette. The Indian Bollywood company, Reliance Entertainment’s alliance and investment in Steven Spielberg’s DreamWorks is based on the increasing globalization of audiences, the pooling of production facilities and directorial talent between Hollywood and Bollywood, learning from each other about cultural “hot buttons” and opportunities, sharing each other’s distribution channels, and simple risk-sharing of the high up-front costs of producing movies.

The race does not always belong to the strong. It may be won by the firm that can better learn from its partner and then is willing to exhibit “dynamic capabilities” in reconfiguring its resources with flexibility and humility (Zahra et al., 2006):

$P5$. EMM top management exhibits greater humility or a servant-leadership style which results in improved performance.

A small but growing literature on the role of humility in corporate leadership (Owens and Hekman, 2012; de Waal and Sivro, 2012) shows preliminary results that such leadership styles are beneficial to organizational performance. Here we are not referring to an outward show of meekness, versus a strong façade as seen in high power-distance cultures (Hofstede et al., 2010). Rather, I refer to a recognition on the part of the EMM manager that value may be gained from an open-minded approach that assumes a strategic “view from below” – a recognition of the need to learn and play catch-up (Peng, 2012).

An example of clearheaded willingness to cater to and adapt products for different customer types explains the unlikely international success of GoodBaby. Started in the small town of Lujia in Jiangsu Province by a former school teacher Mr Zheng-Huang Song had a tinkerer’s approach and invented the “push and rock” stroller for the Chinese market. He later inculcating to his top management the need to study and understand each customer’s preferences. Willingness to learn foreign customer habits,
and cater to every cultural nuance, the company launches over 400 new products and models every year[6] and is known to its purchasers in Europe and the USA as a firm eager to please. (Their US designs for baby strollers are large and have cup holders. Designs for Scandinavia stress elegance, while designs for the Japanese market are lean and fold into compact storage shapes).

The founder and CEO of CEMEX, Mr Lorenzo Zambrano promulgates a management philosophy to his leadership team, dubbed “The CEMEX Way”, which emphasizes shedding any hubris or not invented here (NIH) syndrome. Instead, with any new venture or acquisition, they look for ways to transfer best practices, or arbitrage cheaper inputs across global operations. Frugal and lean production methods learned in emerging nations (including Mexico) were transferred to Spain, resulting in annual savings of $120 million, just as the Spanish operation taught the use of petroleum coke as fuel (which resulted in substantial savings in worldwide operations). Spanish sources of financing were much cheaper than interest rates available to CEMEX anywhere else (Lessard and Lucea, 2009). Altogether, CEMEX appears to have enjoyed billions in savings and benefits from this management philosophy or approach.

In international operations, cross-border learning and arbitrage opportunities frequently exist. However, it takes a clearheaded, humble and frugal top-management style to use this advantage of multinationality to its fullest extent:

P6. A frugal mindset is an “ownership advantage” for EMM firms.

A multi-billionaire who until recently drove himself in a five year old Lincoln automobile and has lived for decades in a house he purchased for $31,500 in a middle-class section of Omaha, Warren Buffet is a logical admirer of, and large investor in, BYD, a Chinese electric car and lithium-ion battery producer. Williamson and Yin (2013) describe how BYD is arguably the world’s leader in reducing the cost of lithium-ion battery production from $40 to $12 by innovating a new production process that uses cheaper materials and can be performed at room temperature. This substantial saving has resulted in lithium-ion batteries gradually replacing nickel-cadmium batteries worldwide, not only in vehicles, but in a range of applications from tools to appliances.

Like Warren Buffet who began his career delivering newspapers, EMM managers remember their roots. A frugal mindset inculcated through the company, can be an ownership or FSA for EMMs. It is manifested in three areas:

1) “Frugal process or engineering innovation” like CEMEX’s or BYD’s organized search for production process savings.

2) “Frugal design innovation” that responds to customer needs in emerging nations by creatively lean and inexpensive – yet thoroughly functional – designs. GE’s electrocardiogram machine that can perform a test on a patient for $1 (Immelt et al., 2009) or the Tata Nano car for $2,500 are two among many such examples of minimalist designs. But more importantly, these platforms can then be scaled up the income ladder to work in advanced and affluent markets. GE’s research center in India (incidentally one of GE’s largest R&D operations in the world) is developing concepts that will reduce health care costs in the USA and Europe. Mango, a mobile communication software startup in Bangalore partnered with the American firm Qualcomm which then bought over the software rights for use in other nations. Grameen Bank’s microfinance models are adapted and used for “crowd-funding” in the USA. GE “[…] expects
20% to 25% of [...] X-ray products to be developed in China during the next three to five years (will be) *for sale around the world*” (emphasis added) (Burkitt, 2011). Somewhat gauchely labeled “reverse innovation” by Govindarajan and Trimble (2012), a corporate mindset that continuously searches for cost reduction and efficiencies, actually can be traced back to Japanese firms in the 1960s and 1970s (who adopted statistical process methods from W. Edwards Deming), or even further back to early twentieth century pioneers such as Frank Gilbreth, Frederick Taylor and Henry Ford, whose relentless drive for cost reduction resulted in the era of mass-production that we live in.

(3) “Frugal overheads” in both service and manufacturing operations can lead to a considerable competitive advantage (World Bank, 2005). Garanti Bank in Turkey is cited by Khanna and Palepu (2010) as having one of the lowest cost structures in the world. In a most unlikely tale of an American founding a large Chinese auto component company in 1994, Perkowski (2008) attributes his success, in part, to adopting Chinese methods. For example, executives, when traveling, stay two to a room in three-star hotels. This was only one of several examples of frugality. In a talk Jack Perkowski gave to the author’s MBA class in Beijing, he indicated that relentless questioning of all significant costs are a necessary ingredient in Chinese companies’ international business success[7].

Competitiveness does not always depend on a rich resource base, but in dynamic capabilities that can work with and reconfigure limited resources to greater advantage (Zahra et al., 2006):

P7. A “global mindset” is an ownership advantage for some EMM firms.

Levy et al. (2007) describe a “global mindset” as the awareness by top managers of a company, of cultural and national diversity, and the ability to identify best foreign practices, and incorporate these into their company’s operation, leading to superior performance. A cosmopolitan world view also promotes human resource policies conducive to inducting talent from other nations. It also leads to better functioning of multi-cultural or dispersed teamwork. An excellent example is Lorenzo Zambrano of CEMEX who came from a cosmopolitan Mexican family and was educated in the USA.

However, a positive relationship between a “global mindset” and firm performance remains an unresolved question for further research. For one thing, there is considerable variation in the degree of international exposure across emerging nations. Second, what empirical support there exists for this positive hypothesis is conditioned by mediating variables such as the foreign assignment experience of managers, the degree of cross-border supply chain fragmentation of the firm and “industry dynamism” (Bouquet et al., 2008). This study also found the relationship between “global mindset” and performance to be curvilinear. Tan and Meyer (2010) are agnostic about the value of diversified business groups but offer the idea that the international work experience of group managers can have a positive effect on the success of new international ventures undertaken by one of the group’s companies. Clearly, more research is needed before generalizations can be made for all EMMs.

Thus, far we have offered seven hypotheses or propositions on the competitive advantages that may accrue to EMMs because of the behavioral or cultural proclivities of their top management teams. In addition, at the national level, we can
identify structural, economic or societal characteristics that can constitute a home-base locational advantage for the EMM.

**Home-based locational advantages of EMMs**

Can a home base in an emerging country, in itself, confer a competitive advantage to its companies? A considerable literature labeled “LOF” exists about the initial barriers to any company’s international expansion, because of institutional distance between the nations in terms of different regulations, discrimination against foreign firms, cultural norms, and patterns (Zaheer, 1995; Eden and Miller, 2004). The institutional and cultural distance between an emerging nation home base and a foreign market can be even greater than traditional patterns of FDI flows which mainly saw FDI from one advanced economy to another. Add to that the fact that institutions are less-developed in emerging nations, so that their firms face an environment of “institutional voids” (Khanna and Palepu, 2006). Hence successful ventures by EMMs abroad – and particularly EMM expansion into advanced nations – would seem to be fraught with obstacles.

But can the same relatively underdeveloped home country environment actually be an advantage to the EMM in many cases? This and similar research questions are explored below.

*Can an underdeveloped institutional home environment be an advantage?*

The hypothesis put forward by Khanna and Palepu (2010), Guillen and Garcia-Canal (2009) and others is that coming from a background of constrained resources, poor enforcement of legal rights, underdeveloped financial and resource markets, unpredictable regulations, and capricious bureaucrats, teaches the EMM manager how to be pliable, shrewd and persistent in overcoming obstacles. It inculcates an attitude of being unwilling to “take ‘no’ for an answer”. A propensity to search for alternate paths and creative solutions around problems, according to this hypothesis, pays off when the EMM operates in richer, more institutionally developed nations – and it also helps the EMM to outperform other multinational competitors in less-developed nations. Cuervo-Cazurra and Genc (2008) found empirical evidence that, in least-developed nations, EMMs were more prevalent in the lists of the largest foreign firms, especially if the least-developed nation ranked low in regulatory effectiveness and high in corruption. More research needs to be done to investigate this hypothesis at both the macro-economic and organizational psychology level. (I could find no study that systematically compares, across a large set of nations, innate psychological or cultural traits related to persistence in the face of obstacles).

*Does the greater incidence of family control or private equity ownership in EMMs confer an advantage?*

Carlock and Ward’s (2010) comprehensive analysis of the characteristics of family businesses suggest several advantages over professionally run organizations. These include patient capital or a longer term strategy, quicker financial decisions and seizing of opportunities (Serrasqueiro et al., 2012), and an extended social network that can provide both ideas and capital (Ahlstrom et al., 2007; Luo, 2003). Of course, closely held companies also suffer from disadvantages compared to those that are publicly listed. EMMs appear to have a higher than average incidence of closely held companies. If so, in an international setting do the advantages of private equity and family control...
outweigh the disadvantages and result in superior performance? Certainly there exist several examples of family controlled EMMs that are very successful such as the Koç family group of companies based in Turkey or the Tata Group[8] from India that are successful multinationals.

Does the greater incidence of diversified conglomerate structure in EMMs confer an advantage?

Two conclusions are broadly accepted as received wisdom. First, that product diversification in a developed economy setting is not necessarily optimal. Second, that many EMMs nevertheless are product diversified groups (Khanna and Yafeh, 2007). The hypothesis is that in emerging nations, characterized by poorly developed institutional settings, the benefits of group affiliation outweigh their disadvantages. Benefits include pooling of ideas, talent and capital across group firms (thereby garnering for the group faster and superior human and financial capital); the value of the group’s brand or reputation in both consumer and equity markets (Fombrun, 2005); and more arguably, that some conglomerates like GE or CEMEX that have grown mainly through acquisitions, develop an internal expertise in identifying acquisition targets and managing post-merger integration. That is to say, acquisition targeting and management skills is an internalized “ownership” advantage that gives them superior international growth. For example, in CEMEX, under the leadership of Lorenzo Zambrano, with multiple acquisitions, the group codified their acquisitions expertise by writing a manual or creating an acquisition “template”.

We cannot, however, ignore the counter view, espoused by Karnani (2012) who studied Indian MNEs’ foreign acquisitions and found that they destroyed shareholder value, especially after the onset of the global recession. For instance, Suzlon was in considerable financial distress in 2011-2012, having become over-leveraged. In 2013 Tata Steel wiped $1.6 billion off the books of their Corus Steel acquisition, having paid, in retrospect, far too a high a price for the acquisition (The Economist, 2013). What the field needs is a deep look at the sources of EMM’s acquisitions expertise, if any, and how and whether that translates into an ownership or firm-specific advantage.

The home country pool of scientists and engineers (and cheap labor)

While no econometric measurement exists quantifying the benefit of relatively low-salary technical and scientific talent accruing to EMMs, this cheaper input is undoubtedly a competitive advantage – especially in recent decades as the capabilities of technologists in emerging nations has begun to rival those of their peers in advanced nations. We have the “dirty secret” of IBM employing more persons in India[9] than in the USA (many of them skilled workers). American companies like GE and Dow Chemical similarly are shifting some of their R&D to China. Kumar et al. (2013) report that the Chinese operation’s patent intensity[10] is higher than in other Dow Chemical operations. BYD, Suzlon, Reliance, and Infosys have appeared on several lists of the most innovative companies (Kumar et al., 2013).

The home country pool of scientists and engineers constitutes a competitive advantage for EMMs in three ways. First, good and sometimes world-class talent can be hired for considerable savings over their OECD counterparts. Many emerging nation engineers have been educated in advanced nations’ universities. Internet communications, the worldwide spread of technical journals, the explosion in
international conference travel, and the sheer fact that companies are codifying and sharing their knowledge (Steinmueller, 2000; Contractor and Ra, 2002) mean that emerging nation scientists can keep abreast of their fields while working for EMMs at lower salaries. Second, EMMs increasingly participate in, and learn from, their role as global supply chain partners. The “fine-slicing” of global value chains, including the slicing and offshoring of even R&D functions, means that EMMs can learn and eventually leverage their own capabilities and extend them to other portions of the value chain that are more profitable (Contractor et al., 2010). For example, by 2015 approximately half of all clinical trials of incipient drugs (a portion of pharmaceutical R&D) will be performed in developing and transitional economies. Third, contract research (not just for duplicate research for tests like clinical trials – but for new product development) is a fast growth area for EMMs. High-end software development in services is already well known in firms like IBM (India), Tata Consultancy Service or Infosys. The computer animation capabilities in India are one driver for alliances between Bollywood, Hollywood and firms like Reliance Entertainment. Now, even in manufacturing we are beginning to see R&D projects specifically commissioned to develop new products for advanced nation markets, as in Suzlon (for wind turbines installed in Europe or the USA), GoodBaby and the Dow Chemicals Company.

Finally, we cannot neglect the considerable advantage to EMMs not only from talented and low-cost scientists and engineers, but also from cheap labor (Aulakh et al., 2000). While this is undoubtedly a factor explaining the international success of companies like Haier, Galanz or export-intensive garment producers in Bangladesh, the strategic value of cheap labor in the home country does not universally apply. First of all, this factor applies best in labor-intensive production. The fact is that not all production has a high labor content in overall costs. Second, as the “smiling curve” argument suggests (Mudambi, 2008), other portions of the value chain – if occupied by the EMM – yield much higher profitability, so that even with costly labor at home a firm can be globally competitive overall. Excellent examples of this are companies like Samsung or Hyundai that produce at a relatively high labor cost in Korea, but more than offset that higher cost because of the value of their global brand and R&D. Third, automation can substitute for labor. Contractor (2012a) compares productivity measures across several nations. Despite very high manufacturing wages (e.g. $34 an hour for the American worker, versus an average of $1.60 in China), some manufacturing jobs have been returning to the USA for reasons Contractor (2012a) details. After all, despite average manufacturing wages of $34 in the USA and $47 in Germany, these two nations rank just behind China as top exporters of goods because of high labor productivity. By contrast, India despite wage rates about the same as China’s exports less than one-fifth the volume of China. Manufacturing competitiveness is not merely a matter of hourly wages, but is also substantially affected by company investments in automated equipment, and labor productivity.

How a diaspora of emerging nation managers and ethnic ties can constitute a competitive advantage?

Several of the large emerging nations enjoy the advantage of having large diasporas. The Indian diaspora is estimated to be between 20.7 to 22 million worldwide, with around 4 million in North America and over 2 million in Europe (The Economist, 2011; Wikipedia[11]). The Chinese diaspora is estimated at about 40 million in all, but this is
considered “almost certainly a considerable underestimate” (Jacques, 2008). The Brazilian diaspora is said to be 1.5-2 million strong of which as many as 450,000 reside in the USA[12]. The salient fact about diasporas is that in terms of tertiary education, income, technical skills, wealth, global consciousness and network connectivity, diaspora members are vastly superior to the averages in their countries of origin (and in the case of persons of Asian origin in North America and Europe, also above their adopted nations’ averages). Hence diasporas can be a highly valuable resource for EMMs.

There are surprisingly few definitive empirical studies that specify the types of advantages diasporas contribute to multinationals based in their countries of origin, let alone any quantification of the benefits. A few scattered studies show that diasporas facilitate trade between their adopted and origin nations (Tung and Chung, 2010) or that the patterns of outward FDI from China (between 1984 and 2001) reflected the geography of Chinese diasporas (Buckley et al., 2007).

Exactly how do diasporas constitute an advantage for the EMM? We can suggest four mechanisms as hypotheses:

1. “Diasporas acting as bridging or network agents” that enable the EMM to connect with overseas knowledge clusters and tap into technical spillovers in those clusters. Lorenzen and Mudambi (2012) describe how “Bangalore” (by which they mean the Indian IT sector as a whole) and Bollywood (a term for the Indian film industry based in Bombay) make heavy use of ethnic ties with persons of Indian origin in North America, to tap into knowledge and investment opportunities in Silicon Valley and Hollywood. There is anecdotal evidence of similar benefits accruing to Chinese multinationals by connecting with ethnic Chinese in Singapore and North America.

2. “Diasporas providing talented employees” to EMMs in their home countries as well as to staff foreign subsidiaries. Oettl and Agrawal (2008) use patent citations to trace the transfer of knowledge by innovators and diaspora employees across companies, as well as their spillover externalities.

3. “Diasporas as sources and conduits for investment capital”. Leblang (2010) shows that “[...] even after (statistically) controlling for a multitude of factors, diaspora networks have both a substantively significant effect and a statistically significant effect on cross-border investment”.

4. “Diasporas as markets”. Ethnic marketing, as such, is unlikely to be of significant size because of the dispersal of the diasporas over several nations. However, ethnic concentrations in advanced nations can provide an initial entrée and insights into an advanced nation market for some EMMs and an opportunity to test foreign markets at relatively low risk through initial exporting targeted at a limited audience (Wang et al., 2013).

Does home state support constitute a competitive advantage for EMMs?

We should note, at the outset, that state support for EMMs is widespread in China and Russia, but does not significantly influence firms from other emerging nations. In fact, the role of government in fostering Indian EMMs has been viewed as somewhere between neutral and malign.
That firms in China are state-supported and are guided by state dominated institutions, and that they exhibit conformist and isomorphic behavior, hardly needed empirical verification, but was demonstrated by Cui and Jiang (2012) who tracked the investment behavior of 132 FDI entries made by Chinese firms during 2000-2006. A far more critical review of the depth and extent of Chinese government support is found in Haley and Haley (2013), who allege massive subsidies, active support for technology acquisitions, and protectionism.

In general, in several emerging countries, state support may be manifested in diverse ways. Obviously, state financing means that the investment risk is not borne by private shareholders or groups. Additionally, special incentives are sometimes offered for outbound FDI projects, in the form of lower interest loans, or tax reduction (Luo et al., 2010; Duysters et al., 2009). Various ministries can front the costs of foreign market research, identify acquisition targets and negotiate FDI facilitating investment treaties and double-tax avoidance treaties. In rare cases, heads of state have been known to lobby their counterparts in the foreign nation, to allow the entry of a particular investment on favorable terms. The knowledge that a firm is related/owned by a state (as opposed to privately-owned), *ipso facto*, reduces political risk in the foreign location, for example in Chinese investments in Africa (Alden and Davies, 2006). (The hypothesis is that a host government will be less likely to pressure a foreign firm if it is state owned because of fears of diplomatic repercussions or retaliation.)

State support can be even more important, in the long run, when government policies serve as an incubator of incipient multinationals. Embraer, today a highly successful Brazilian commercial aircraft manufacturer, began as a state-owned enterprise (SOE). In 2008, in a barely disguised move to muscle into the commercial aircraft global oligopoly, China created Commercial Aircraft Corporation of China (COMAC) with the stated strategic objective of rivaling Boeing and Airbus (Kumar et al., 2013). Aided by the huge domestic aviation market (Itself dominated by government-aided airlines who would buy aircraft from COMAC[13]), aided by government financing, and aided by inward FDI policies that mandate that foreign firms must ally with local partners and share technology, COMAC is on its way by 2015 to delivering its C919 aircraft (a 168 passenger jet which will compete with the Boeing 737 and Airbus A320), to six Chinese airlines and Ryan Air. The Chinese automobile sector is another example of deliberate policies, mandating JVs and technology transfer, which have positioned Chinese auto companies like Shanghai Automotive Industry Corporation (SAIC) or Geely to become global players. Similar examples abound in the natural resources sector across many emerging countries.

The competitive advantage of a common language or English skills

A number of studies in international business and economic geography have used a common language as a dummy variable. A common language was found to explain cross-border shareholding patterns (Grinblatt and Keloharju, 2001); knowledge diffusion (using patent citations as a measure in MacGarvie, 2005); trade patterns (Fratianni, 2007); and determinants of FDI flows between countries (Globerman and Shapiro, 2002 or di Giovanni, 2005). However, a common language has not been the main focus of a study explaining FDI flows.

A common language can be a proxy for cultural similarity or low “cultural distance” and sometimes works better as an explanatory variable than the multi-dimensional
cultural distance construct (whose use as an explanatory variable has come under serious criticism by authors like (Shenkar, 2012).

The importance of language in facilitating international business FDI is more direct and self-evident (than more subtle psychological factors such as “power-distance” or “masculinity” (Hofstede et al., 2010)). We see as examples Chinese investments in Mandarin and Wu-speaking nations. We see it in Brazilian investments in Angola (Oliveira et al., 2013) and by cases such as CEMEX’s acquiring two Spanish companies – which was an important step on the company’s path towards full internationalization. At first blush, Indian EMMs may appear to be different. But they too have tended to follow their country’s unofficial but common language of business – namely English – with substantial investments in the USA, the UK and Canada. FDI related to outsourcing of service functions in particular is driven in part by a common language skills as witnessed by service work offshored from North America and the UK to the Philippines and India (Doh et al., 2009).

Conclusion

Like a boxer facing a heavier opponent, emerging nation multinationals (EMMs) have had to learn how to “punch above their weight” in order to compete with advanced nation firms with larger resources, richer home economies, a longer history of internationalization, and knowledge, capital and brand reputation accumulated over many decades. By contrast, EMMs are much younger (many did not exist 25 years ago), more nimble, shrewd, and aggressive in M&A. They suffer not only from the LOF (Eden and Miller, 2004; Zaheer, 1995) that all internationally expanding firms face, but do so to a greater degree. This is because EMMs have only recently internationalized, and because EMMs operating in advanced nation markets face a larger institutional and cultural distance, than in the traditional patterns of FDI flows when a multinational from one developed nation invested in another developed country.

The objective of this paper was to comprehensively review the field and identify the sources of global competitiveness for EMMs. Many of the factors in this paper are proposed as hypotheses because empirical evidence is scantly. This also makes for a promising future research agenda. EMMs appear to fall into six strategy archetypes, ones that are near a global competitiveness scale; outsource producers or mass assemblers seeking to climb one or both ends of the “smiling curve” (Mudambi, 2008); global knowledge and process consultants; EMMs replicating their home country experience in other emerging nations; and natural resource seekers.

The paper next ventured in relatively unexplored territory – the link between the behavioral traits of top management and cultural setting of EMM companies, and firm performance or success. As a set of seven hypothesis it was proposed that the competitive success of EMMs is dependent on its leadership’s:

1. long term orientation;
2. tolerance of ambiguity;
3. humility or servant-leadership style;
4. global mindset;
5. frugal mindset, as well as;
6. a relationships-oriented home culture that results in; and
7. a greater propensity to learn from cooperative relationships and alliances.
For the most part, we only have anecdotal and case evidence for these propositions, but they provide a fruitful line of further research.

Besides the fact that the home nations of many EMMs are relationship-rich cultures, what other characteristics of the home base may constitute an advantage? Does the greater incidence of private equity or family control, and product conglomerate structure provide strength? (In each case, contrary views and caveats are indicated.) The advantages of a home nation pool of lower cost scientists, engineers and labor, as well as the sizeable Chinese, Indian and Brazilian diasporas are explored. Opinion is far more equivocal about the importance of state support in explaining EMM success (except in the case of China). Finally, the paper examines the role of a common language in the international growth of EMMs.

In the broadest sense the issue this review tackles is this: since most EMMs are initially weak in, or lack significant internalized, “ownership”, or FSAs in the beginning of their internationalization path, we have to look to two other sources for their performance or competitive strengths. Accordingly, this analysis disaggregates and identifies each of the strands of:

1. the home country location advantages of EMMs; and
2. advantages of a multinational scope – that make up for their relative lack of FSAs.

**Notes**

1. Later, Prof. Jagdish Bhagwati became apostate to his own views and is today a champion of FDI and free markets.

2. At an annual rate of 11.75 percent compared with 9.46 percent annual growth for FDI worldwide and 7.86 percent for international trade (estimates by the author, are in nominal US dollars, from various sources including UNCTAD and WTO).

3. BRICS is an acronym for Brazil, Russia, India, China and South Africa (O'Neill, 2001).

4. R&D budget size is not always a guarantee of success. We find a counter example in the pharmaceutical industry where the giants, despite enormous budgets, have shown a poor rate of innovation. Consequently, the sector as a whole is veering towards alliances with more nimble bio-tech startups which seem to do better in the discovery and molecular analysis phases of pharmaceutical R&D than their Big-Pharma partners.

5. Former CEO of Acer.


7. Conspicuous displays of wealth, in a high power-distance culture, interact uneasily with Confucian values. The same executive that rides to work in a luxury automobile will then demand frugality and cost-consciousness from employees.

8. The Tata companies are actually almost all publicly listed, and the last family scion, Ratan Tata stepped down as Chairman in 2012, handing control over to an outsider. However, the structure of the conglomerate is such that two holding companies (Tata Sons and Tata Industries) wield effective control over each group company through two mechanisms: (i) the holding companies have minority shareholding but control the biggest single bloc of shares, the rest being widely dispersed over the public and financial institutions, and (ii) respect for tradition whereby succession is passed from each chairman to his choice as successor. So far, the ties of finance, ethnicity and tradition have held the group together.

9. Since this is politically sensitive, after 2009 IBM has stopped disclosing the size of its Indian subsidiaries’ employment.
Comparisons of patents across nations are to be viewed with caution, however, since scientists from different nations have a different predilection to file patents. (In China this is a matter of great national pride and several of the patents filed there are of doubtful commercial value.) Moreover, each nation’s Patent Office rules still vary significantly. Nevertheless, there is little doubt about the innovation potential of Chinese scientists, their relatively low cost, and their better grasp of the feedback loop from market or consumer preferences to R&D.

13. Boeing and Airbus wish they were so lucky as to have a guaranteed-in-advance market base. However, we should not forget that Boeing itself is state-supported (through its defense business) and Airbus is a consortium supported by European Governments. Both Boeing and Airbus enjoy, albeit to a lesser degree, the advantages of government support discussed in this section of the paper.

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Further reading


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