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Rules of the Game for Emerging Market Multinational Companies from China and India

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A B S T R A C T

The prominence of Emerging Market Multinational Companies (EMNCs) in the global marketplace has challenged our assumptions about the nature of global competition and corresponding strategy. We use an inductive approach to conduct historical analysis of eight companies that originated from key emerging markets viz China and India. We examine the various strategies that EMNCs devise to circumvent the resource challenges faced in their home markets and develop routines and key capabilities that lead to their competitive advantage in developed nations. Our results suggest that EMNCs' foreign expansion is, on the one hand, based on their capability to acquire resources and absorb them to build their own advantage (supply-side-argument). On the other hand, it is also based on EMNCs' capability to find some market niches, i.e., entering into markets untapped by traditional MNCs (demand-side-argument). Finally, based on our analysis we propose a dynamic stages model suggesting that EMNCs' foreign expansion can be explained in three stages — licking the dirt to carve out the way; taking off with speed and strength; and around the world with excellence.

1. Introduction

Emerging economies as a whole have continued to gain in prominence both, in terms of their contributions to global GDP as well as to foreign direct investment (FDI). By 2009, Japan and the United States' share of the world's FDI stock was falling while that of emerging economies was rising (Ramamurti, 2012). Some evidence also suggests that FDI flows from emerging economies are being targeted towards advanced economies in both resource industries and higher-value adding activities (Aulakh, 2007; Bartlett and Ghoshal, 2000; Cuervo-Cazurra and Genc, 2008; Ramamurti and Singh, 2009). These insights posit an interesting question, such as 'What factors are leading to this shift from the triad world dominance to the emerging markets?'

International business scholars have conducted substantial research[2] on internationalization process (Anderson, 1993; Cavusgil, 1980; Dunning, 2001; Johanson and Vahlne, 1990), multinational companies' (MNCs) strategy (Kogut, 1985; Ohmae, 1999; Rugman, 2003), and foreign direct investment (FDI) (Kuemmerle, 1999; Wells, 1998). We read conversations that identify the various challenges and opportunities faced by traditional MNCs as they enter and operate in the emerging markets (Govindarajan and Ramamurti, 2011). Some others have discussed '*Reverse Innovation* — developing products in countries like China and India and then distributing them globally' (Immelt et al., 2009, p. 58; Govindarajan and Ramamurti, 2011). However, the focus of these discussions has mainly been MNCs originating from the developed world and the ones whose competitive advantage is based on technological superiority.

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[2] The authors provide references for few selective articles. As these are established topics in the international business research a detailing listing of literature is not including here.

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With the emerging markets growth rising and that in the developed nations declining the rules of the game seem to be changing (Aulakh, 2007; Aulakh et al., 2000; Tsai and Eisingerich, 2010). The key players in today's global markets are both, MNCs from developed nations and the Emerging Nation Multinational Companies (EMNCs) that are starting to carve out their place in the global market place. Recent studies (Kothari, 2009; Kothari and Kotabe, 2010a, 2010b) provide evidence that the consumption patterns of developed nation consumers is shifting as they: a) use high speed computers with the Chinese EMNC, Lenovo logo on it; b) consume generic drugs manufactured and sold by Indian companies like, Ranbaxy Labs or Dr. Reddy Labs, that have significant shelf space in the local pharmacies; c) deal with financial institutions, airlines, and hospitals that are backed by technology services designed by Indian technology companies like, Wipro Technologies or Infosys Systems; and d) buy cell phone equipment made by Huawei Technologies and use networks supported by ZTE equipment both, from China. This highlights that times have changed and the incumbent MNCs (studied earlier) constantly face threats from the emerging giants.

While these EMNCs are gaining a strong foothold in the global economy we know very little about what contributes to their ability to initiate innovations in the global marketplace. There is some speculation that uniqueness of EMNCs lies in their country of origin (Cuervo-Cazurra and Genc, 2011; Ramamurti, 2012) and institutional environments (Meyer et al., 2011), which shape firms' market as well as non-market advantages (Cuervo-Cazurra and Genc, 2011). However, this is contrary to the conventional wisdom that suggests emerging nations have a plethora of institutional voids. So how do these firms innovate without the resource and ownership advantages? Is it that the conditions in their home market induce EMNCs to create particular resources to compete at home? Under the current location pattern, high value-added activities are largely performed in advanced market economies, with low value-added activities performed in emerging market economies (Mudambi, 2008). So, it is essential to develop some understanding of how EMNCs skill-up these innovations to internationalize and meet the needs of their global customers? And how do EMNCs move up the value chain?

In order to understand how EMNCs alter their strategies and business models to fit the changing environment and participate in the global market we conduct in-depth historical analysis of eight EMNCs that originated from two key emerging markets China and India. While China is the “workshop of the world” and it is competitive in manufacturing, India excels in skill-intensive services with a ratio of trade in services to GDP of 15%, versus 7% for China (Luo et al., 2011). Both these countries bring a different set of players to global marketplace. Since this study aims to understand the rules of the game, we choose to study a variety of EMNCs as they represent different industries and nations and originate from both manufacturing and service sectors. In this longitudinal study we use content analysis tools to analyze the evolution of the EMNCs through their life span and to understand how these EMNCs have expanded into foreign nations. Through a computerized content analysis, we attempt to examine how EMNCs devise strategies to circumvent the institutional uncertainties in their home markets and develop routines and key capabilities that lead to their competitive advantage when they transition to developed nations. Based on our historical analysis of these EMNCs, we outline the factors that contribute EMNCs' capability of surviving in their institutional environments in their home (emerging) countries and to simultaneously scale-up and adapt their innovations to the developed nations with significantly different institutional environments. The results of this inductive approach suggest that EMNCs' foreign expansion is, on one hand, based on their ability to acquire resources and absorb them to build their own advantage (supply-side-argument). On the other hand, it is based on EMNCs' ability to find some market niches, i.e., entering into markets untapped by traditional MNCs (demand-side-argument). Finally, an in-depth analysis of our sources suggested that there was a similar pattern in the histories and behavior of all eight firms over time even though the timing (actual years) did not correspond for the firms. So, we propose a dynamic stages model suggesting that EMNCs foreign expansion can be explained in three stages viz, licking the dirt to carve out the way; taking off with speed and strength; and around the world with excellence.

The paper is structured as follows. The first section provides a summary discussion on existing literature and its ability to explain the innovation by EMNCs. We then briefly describe the method used to conduct the historical-analysis of multiple companies. Finally, based on our in-depth analysis we identify a dynamic stages model followed by a brief discussion of the potential contributions of this study.

2. Literature review

Prior studies suggest that firms are not encouraged to innovate in weak institutional environments, as inadequate intellectual property protection does not ensure appropriability of rents generated from innovative skills (Teece, 1986) and this hampers FDI outflow from these nations (Murtha and Lenway, 1994). Further, it is claimed that EMNCs are unlikely to be as strong in technology-based ownership advantages compared to MNCs, since the institutional environment in emerging markets is not conducive for them to indulge in innovative activities (Luo and Tung, 2007). However, the rising growth of emerging markets and the prominence of EMNCs have challenged our assumptions about the nature of global competition. The current trends suggest that in countries such as China and India, consumers seek products with different features and price points than do consumers in rich countries. Consequently, products already invented for consumers in rich countries are not always optimal for the mass markets in emerging economies. The size and purchasing power of the middle class is making it worthwhile for firms operating in emerging markets (local and foreign) to innovate to meet the distinctive needs of these emerging market customers. This presents a formidable organizational challenge for both, the incumbent multinationals headquartered in the rich world and latecomer EMNCs (focus of this study) that are surging in the global marketplace (Govindarajan and Ramamurti, 2010).

So, in this section we provide a brief discussion of research that helps understand the trajectories of innovation from developed and developing nations. We then discuss the external and internal factors that can potentially influence the innovation