Business Horizons (2012) **55**, 241—249

Available online at www.sciencedirect.com

SciVerse ScienceDirect

KELLEY SCHOOL OF BUSINESS
INDIANA UNIVERSITY

www.elsevier.com/locate/bushor

Competing with emerging market multinationals

Ravi Ramamurti

College of Business Administration, Northeastern University, Hayden Hall 309, 360 Huntington Avenue, Boston, MA 02115, U.S.A.

KEYWORDS
Emerging market multinationals;
Multinationals;
Emerging markets;
Competitive threat;
Competitive advantage;
Internationalization

Abstract A new breed of multinationals from emerging markets is appearing in many industries. Western firms are wrong to underestimate, as they often do, the competitive threat from these firms. The discussion herein highlights the non-traditional competitive advantages these firms use to win at home and abroad and shows how these firms use internationalization not only to exploit competitive advantage but to bolster it. The article concludes with suggestions for how Western managers should respond to the competitive threat from emerging market multinationals.

1. New kids on the block

Up-and-coming multinational enterprises (MNEs) from emerging markets are shaking up many industries and ruffling the feathers of Western MNEs. Familiar names include Tata of India, Lenovo of China, Embraer of Brazil, and Lukoil of Russia. Following closely behind are dozens of lesser known firms with similar aspirations, and more than a few of them are likely to succeed (Ramamurti & Singh, 2009). In this article, I consider three questions:

1. How serious is the competitive threat from emerging market multinational enterprises (EMNEs)?
2. What kinds of competitive advantage do they enjoy and why?
3. How should Western firms respond?

Many American and European firms underestimate the competitive threat from EMNEs. Take the example of Huawei, a Chinese telecom equipment firm that was founded in 1988 by an officer of the People's Liberation Army at a time when companies like Ericsson and Siemens already had a foothold in that market (Ramamurti, 2011a). Huawei began by selling public telephone exchanges (PBXs) to small and medium enterprises in rural China, a segment neglected by Western firms. In the early 1990s, Huawei introduced its first digital switch for telephone operators and used its state connections to gain a piece of the Chinese market, which was dominated by two state-owned telephone companies. It poured money into research, hired the best and brightest Chinese engineers, deployed nearly half its headcount in research and development (R&D), entered into multiple technology alliances with Western firms, and gradually expanded into other emerging markets. Its key competitive advantages were low cost

E-mail address: r.ramamurti@neu.edu

0007-6813/$ — see front matter
doi:10.1016/j.bushor.2012.01.001

(30%—40% lower than Western rivals), a willingness to customize hardware and software, and quick turnaround for customer requests. Its technology was reportedly inferior to that of Western firms but of 'good enough' quality for price-sensitive buyers. Huawei's product appealed to telecom firms in emerging markets and, as quality improved, to operators in Western Europe.

By 2010, the company offered its own 4G products and was expanding into smartphones, routers, storage, and other high-end products. The only market beyond its reach was the United States, where rumors that it was controlled by the Communist Party prevented it from winning big orders despite Huawei's protestations that it was fully owned by employees. Meanwhile, following the dot-com collapse, Nortel of Canada went bankrupt, a weakened Lucent merged with Alcatel, and each of the other firms (i.e., Siemens, Nokia, Motorola, and Ericsson) faced challenges of their own. Huawei, in contrast, was on its way to becoming the #1 telecom equipment company in the world. The point of the story is that as late as 2000, few Westerners were aware of Huawei's existence or its global ambitions. The competitive threat from EMNEs is still routinely overlooked by many Western firms.

2. How serious is the competitive threat?

In some ways, the rise of EMNEs is like a replay of the 1960s and 1970s when new global players appeared out of Japan, Taiwan, and Korea. The good news is that Western firms are less complacent this time around, but the bad news is that not all firms remember the historical lessons. The current challenge is broader and deeper since it involves a larger number of developing countries and encompasses both manufacturing and services.

It is understandable that Western firms might underestimate the competitive threat from EMNEs. After all, the stereotypical EMNE is technologically backward, has unsophisticated products, runs inefficient plants, knows little about marketing, and lacks international experience. It is generally only assumed to be good at making cheap products, which is attributed to cheap labor in its home country.

Another reason to be dismissive of the EMNE threat is that emerging markets are fraught with so many risks, such as weak political institutions, corruption, social tensions, overreliance on natural resources, and degrading natural environments—any of which could derail growth and competitiveness. Despite having stable political parties and strong institutions, however, Japanese firms that were expected to take over the world never did. Instead, Japan has been stagnant for two decades, and its firms seem to be retreating in many industries. So, is the threat from EMNEs being similarly exaggerated?

There is no question emerging economies face macro risks that could derail their growth, but today's developed countries are also beset by serious macro risks. They face severe fiscal imbalances, out-of-control entitlement programs, aging infrastructure, rising income inequalities, and adverse demographic trends. The growth rate of the Japanese, European, and U.S. economies has been in secular decline for four decades. The financial crisis of 2008 drove home the point that the industrialized country's power in the global economy is at an inflection point. As such, emerging economies will almost certainly grow faster than developed economies in the next two to three decades. Even if China's growth rate falls from the 10% rate it averaged over the past 30 years to a mere 6%—7% per year, it would still be two to three times the rate of industrialized countries. Therefore, emerging economies will account for *two-thirds or more* of the world's future gross domestic product (GDP) growth, which will make them strategically important for Western firms and will enhance EMNEs' competitiveness.

In the 1960s, firms in the United States were challenged by firms from Japan and the four small Asian tigers of Hong Kong, Korea, Singapore, and Taiwan. This time around, the challenge comes simultaneously from all over Asia, Latin America, Eastern Europe, and even parts of Africa, and is an order of magnitude greater in scope. Besides, China and India have populations that are 10 times the population of Japan, which means history is not a useful guide for how things might unfold this time around.

When emerging economies like Brazil and India opened up in the 1990s, local firms in these countries feared that Western multinational firms would quickly put them out of business in their home markets because of their superior products, technology, and brands (Dawar & Frost, 1999). This happened in some cases, but many EMNEs discovered they had a significant home-field advantage because their strategies were ideally suited to the local environment. This is one reason why Western firms must take their budding rivals from emerging markets seriously: they are formidable competitors in their home markets, which are also some of the largest and fastest growing in the world.

Having survived economic liberalization in their home markets, many emerging market firms have expanded into other emerging markets, especially