Emerging Market Multinationals: the New Model of Internationalization of Firms

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ABSTRACT: The conventional global competitive landscape started to change since the 1990s with the emergence of emerging market multinationals (EMNEs). Most of EMNEs were marginal competitors just a decade ago, but, today, they are challenging the world’s most accomplished and established multinational enterprises (MNEs) from advanced markets in a wide variety of industries and markets. EMNEs have adopted different global expansion strategies from advanced market MNEs in the process of internationalization. Therefore, it is timely and critical to question whether the existing theories on internationalization of MNEs that have been developed mainly studying MNEs from advanced markets are relevant to explain the behaviors and strategies of EMNEs. Through this paper, I try to elaborate the behaviors and strategies that have been adopted by EMNEs in their internationalization process to support the theory building efforts to explain the internationalization of EMNEs. Although we need to elaborate new theories to explain internationalization process specifically appropriate to EMNEs, we also need to identify which aspects of the existing theories on internationalization of MNEs are universally valid.

Keywords: Emerging Market Multinationals (EMNEs), Internationalization of multinational enterprises (MNEs), Motivations, Entry Modes, Strategies.

I. INTRODUCTION: EMERGING MARKETS AND EMERGING MARKET MULTINATIONALS (EMNEs)

Since the 1990s, an increasing number of scholars and practitioners have focused on emerging markets as their economies are becoming more resilient and, also, as they are becoming more influential in today’s global trade and investment. Although numerous studies have been conducted on emerging markets, there is no consensus on the definition of emerging markets. Several scholars, practitioners, research institutions, and international organizations have defined emerging markets in different ways and have offered various groupings of emerging market countries/economies, such as BRIC (Brazil, Russia, India, and China), the BRICS/BRIC plus South Africa, the Next Eleven (Bangladesh, Egypt, Indonesia, Iran, Mexico, Vietnam, Turkey, Korea, the Philippines, Pakistan, and Nigeria), and the E20 (China, India, Brazil, Korea, Russia, Mexico, Indonesia, Turkey, Saudi Arabia, Nigeria, Poland, Iran, Argentina, Thailand, Egypt, South Africa, Malaysia, Colombia, the Philippines, and Chile.). Among the diverse definitions on emerging markets, Casanova and Miroux (2016) define emerging markets, through their recent report on emerging market multinationals (EMNEs), as “countries or economies that are in a transitional phase with the potential to become significant players in the global landscape (p.2).” In particular, the authors (2016) identified the top 20 emerging markets (i.e. the E20 countries listed above) based on the countries’ GDP, population, and significant influence in global and regional trade and investment. Emerging markets, such as China, India, Russia, Brazil, and Mexico, have traditionally been considered as the recipients of foreign direct investment (FDI), not been considered as the sources of FDI, in the global economy. The Western (North American and European) multinational enterprises (MNEs) have expanded around the world since the late 19th century. The Japanese MNEs have also expanded around the world particularly during the 1970s and 1980s. In contrast, until recently, firms from emerging markets have not developed quality products/services that can be successful in the overseas markets. In other words, emerging market firms have failed to create well-recognized global brands and, also, have failed to become global players.
Managers at firms from emerging markets, as Fey et al (2016) comment, lacked the competences to develop well-known global brands.

However, this traditional global competitive landscape started to change rapidly in recent years. Since the 1990s, we have witnessed the proliferation of EMNEs in the global economy and they have become significant players in the global trade and investment. Many of EMNEs were marginal competitors just a decade ago, but, today, they are challenging some of the world’s most accomplished and established Western MNEs in a wide variety of industries and markets (Guillén & García-Canal, 2009). As Casanova and Miroux (2016) point out, China has clearly been commanding the rising number of EMNEs, followed by Korea, India, Brazil, Russia, Mexico, and Indonesia (in terms of the number of companies in the fortune Global 500). Although EMNEs have become significant global players (Tsai & Eisingerich, 2012) in today’s international trade and investment, it is still unclear whether the existing theories on MNEs that have been developed based upon North American and European multinationals are relevant to explain this new type of multinationals’ behaviors and strategies. In essence, EMNEs have adopted different types of entry modes and global expansion strategies from advanced market multinationals in the process of internationalization. Therefore, through this paper, I try to elaborate the behaviors and strategies that have been adopted by EMNEs in the course of internationalization to support the theory building efforts among international business scholars particularly in connection with EMNEs. In sum, the traditional theories on MNEs based on the Western MNEs need to be amended to fully explain the phenomenon of today’s MNEs from emerging markets.

II. EMERGING MARKET MULTINATIONALS (EMNEs): CREATING NEW GLOBAL COMPETITIVE LANDSCAPE

Traditionally and until recently, MNEs from advanced markets have led international trade and investment. However, a number of multinationals from emerging markets today, such as Samsung and LG from South Korea, Huawei and the State Grid Corporation from China, and Cemex from Mexico, are important players in their respective industries and are setting a new competitive landscape in the global economy. Casanova and Miroux (2016) define EMNEs as “multinationals headquartered in an emerging market (p.40).” More specifically, Guillén and García-Canal (2009) define EMNEs as follows:

Since the 1990s, the global competitive landscape is becoming increasingly populated by MNEs originating in countries that are not among the most advanced in the world. These “new” MNEs come from (a) upper-middle income countries such as Spain, Portugal, South Korea, and Taiwan; (b) emerging economies such as Brazil, Chile, Mexico, China, India, and Turkey; (c) developing countries such as Egypt, Indonesia, and Thailand; and (d) oil-rich countries such as the United Arab Emirates, Nigeria, and Venezuela. (p.23)

Today, EMNEs are not only major players in their home country markets but also significant global players (in advanced markets as well as in other emerging markets). These firms have pursued multiple entry modes to penetrate other country markets, ranging from strategic alliances and joint ventures to wholly owned subsidiaries and acquisitions. The role of EMNEs in today’s global economy is increasing dramatically. Emerging markets, today, are not only the recipients of FDI (i.e. inward FDI) but also the sources of FDI (i.e. outward FDI) especially through their new multinationals. Based upon the report presented by Casanova and Miroux (2016) that analyzes the Fortune Global 500 firms, 473 out of 500 firms (94%) in the list are concentrated in seventeen (17) countries and five (5) countries (among these 17 countries) are considered as emerging markets (i.e. China, South Korea, Brazil, India, and Russia). In specific, the respective number of firms in the Fortune Global 500 from these five emerging markets is: China (98 firms), South Korea (17 firms), India (7 firms), Brazil (7 firms), and Russia (5 firms). In addition to EMNEs from these five emerging markets, the Fortune Global 500 includes more EMNEs from nine (9) other emerging markets, including Mexico (3 firms) and Indonesia (2 firms). The analysis of the Fortune Global 500 firms reveals that MNEs from advanced markets still represent the majority of the list. But, the rapid increase in the number of EMNEs in the list in recent years is notable. Casanova and Miroux (2016) indicate that the increase in the number of EMNEs in the Fortune Global 500 began in 2004 and started to accelerate after the global financial crisis of 2008.

Especially, Chinese multinational firms have played an important role in creating this new global competitive landscape. China has clearly been commanding the rising number of EMNEs with 98 firms in the Fortune Global 500 in 2015, far ahead of any other emerging markets (Casanova & Miroux, 2016). While the U.S. is still the world leader in the Fortune Global 500 with 128 firms (in 2015), China is ranked number two (ahead of Japan, number three, with 54 firms). Casanova and Miroux (2016) further explain the following:

Since 2004, the number of Chinese companies classified as emerging multinationals has increased more than five times. At this current growth rate (from less than 20 in 2005 to almost 100 in 2015), it would not take China much time to surpass the United States as the country with the greatest number of companies by revenue. In addition, if we consider the ten largest companies, China leads with three firms (the oil corporations
Sinopec and China National Petroleum, and the electrical State Grid), followed by the United States (2) with the retail behemoth Wal-Mart and the oil giant Exxon Mobil… (p. 42)

In addition, twelve (12) out of top twenty (20) EMNEs (in terms of revenue) are Chinese firms, followed by 3 firms from Russia, 2 firms from South Korea, and one firm each from Brazil, Mexico and Malaysia (Casanova & Miroux, 2016). However, the surge of Chinese multinationals in recent years doesn’t mean that scholars in the field of international business can focus solely on firms from China. Although Chinese multinationals have played an important role in creating today’s new global competitive landscape, the analysis of Fortune Global 500 firms shows that EMNEs, today, are represented by a wide variety of countries (there are several emerging markets represented only by one firm in the list). While studying the differences in behaviors and strategies in the process of internationalization between MNEs from advanced markets and MNEs from emerging markets is important, comparing the differences among EMNEs from diverse countries is also critical in analyzing today’s global business environment.

III. INTERNATIONALIZATION OF EMERGING MARKET MULTINATIONALS (EMNEs): THE NEW MODEL OF INTERNATIONALIZATION OF FIRMS

As discussed above, the number and presence of EMNEs in the global markets (both in advanced markets and in emerging markets) have been increasing. But, many scholars argue that the internationalization efforts of EMNEs have been successful when they adopted different strategies than MNEs from advanced markets (e.g. Guillén & García-Canal, 2009; Luo & Tung, 2007; Fey et al., 2016). In other words, EMNEs have pursued distinctive strategies and behaviors for the global expansion. In this regard, we can raise a critical question concerning theories on MNEs: Are the traditional theories on internationalization of MNEs applicable to multinationals from emerging markets?

The traditional theories on internationalization of MNEs have primarily been developed based upon multinationals from advanced markets. Tsai and Eisingerich (2010) describe the following:

Existing theories on firms’ internationalization processes mainly base on large Western multinational enterprises (MNEs) and suggest that internationalization motives and behaviors can be largely explained by the eclectic paradigm of Dunning, which states that firms enter foreign markets to exploit their existing competitive advantages. Moreover, much of the early literature on firms’ internationalization processes adopts an incremental view, suggesting that firms gradually deepen their commitment and investment as they gain more market experience in the process of internationalization. (p.114) Fey et al. (2016) also argue that the previous dominant theories on internationalization of MNEs reflect the experiences of MNEs from advanced markets, such as the U.S. and Europe, during the past few decades. Without doubt, EMNEs have different advantages and disadvantages than MNEs from advanced markets in terms of internationalization, and, thus, face their own unique challenges in the process of internationalization. From this perspective, it is important, and also timely, to examine both whether the conventional theories can explain the internationalization efforts of EMNEs and whether new theories specifically applicable to the behaviors and strategies of EMNEs are available.

3.1 Entry Modes

Concerning the entry modes adopted by firms to penetrate foreign markets, the traditional theories on internationalization of MNEs suggest that firms internationalize ‘gradually’ and ‘incrementally’. For instance, the so-called ‘Uppsala Model’ (i.e. Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) suggests that “firms expand abroad on a country-by-country basis, starting with those more similar in terms of socio-cultural distance... in each foreign country firms typically followed a sequence of steps: on-and-off exports, exporting through local agents, sales subsidiary, and production marketing subsidiary (Guillén & García-Canal, 2009, p.26)”. In other words, the conventional theories on internationalization of MNEs contend that “firms normally internationalize incrementally in a step-wise fashion increasing their commitments to foreign markets as they gradually acquire, integrate, and are able to use knowledge about foreign markets (Fey et al., 2016, p.134)”. An important proposition that follows from the conventional theories is that a firm tries to expand abroad only when it is allowed by experience and knowledge.

In contrast, the literatures on EMNEs suggest that these new multinationals have tried to bypass some of the steps (that have been pursued by MNEs from advanced markets) described above in their internationalization efforts. Guillén and García-Canal (2009) assert that the entry modes of EMNEs depend not on internal growth but on external growth. In specific, EMNEs use global alliances, joint ventures, and acquisitions to “simultaneously overcome the liability of foreignness in the country of the partner/target and to gain access to their competitive advantages with the aim of upgrading their own resources and capabilities (Guillén & García-Canal, 2009, p.28). EMNEs have used global alliances to access to the partners’ home markets (and/or technologies), facilitating the reciprocal access of the partners to their home markets. That is,
global alliances (including joint ventures) have been widely adopted by EMNEs as one of the major entry modes both in advanced and in emerging markets.

In addition, many scholars have discussed acquisitions as the preferred mode of entry by EMNEs (e.g. Buckley et al., 2007; Peng, 2012). Some scholars have focused on the acquisitions particularly pursued by Chinese MNEs to study the entry modes adopted by EMNEs in the process of internationalization. Guillén and García-Canal (2009) assert that: “capability upgrading processes based on acquisitions have been possible in some cases due to the new MNEs’ privileged access to financial resources, because of government subsidies or capital market imperfections, as illustrated by Chinese MNEs (p.28)”. Although acquisitions are not the only mode of entry adopted by Chinese MNEs, they have been clearly a primary mode of entry for Chinese MNEs (Sun et al., 2012). Peng (2012) explains why Chinese MNEs fond of acquisitions: first, the urgency for fast market entry, especially in the areas of natural resources; second, the need to acquire existing world-class brands in order to overcome a major weakness in Chinese MNEs’ capabilities (i.e. weak branding prowess of Chinese MNEs) and; third, managerial hubris and empire building. But, the success rate of global mergers and acquisitions (M&A) by MNEs has not been so significant. Peng (2011, 2012) indicates that globally as many as 70% of the M&As fail and “the performance of Chinese overseas acquisitions is unlikely to be better than the global average (Peng, 2012, p.101)”. Moreover, although this is not necessarily a problem of Chinese MNEs, ‘integration’ is a critical challenge in terms of a successful acquisition. Peng (2012) contends that “the lack of internationally savvy managerial talents at Chinese MNEs gives us little confidence that these firms will do a better job integrating acquired targets and generating value (p.101)”. Therefore, although Chinese MNEs have aggressively adopted acquisitions as the preferred mode of entry, we need more empirical evidences to confirm the success rate of Chinese firms’ acquisitions in the global markets.

In sum, many EMNEs (especially Chinese MNEs) have adopted acquisitions as the preferred mode of entry in their internationalization efforts and they could gain access to intangible assets through acquisitions. But, the international expansion of EMNEs has also been pursued by global alliances (including joint ventures). These global alliances have helped EMNEs gain access to critical resources and skills to compete against MNCs from advanced markets. In other words, both acquisitions and global alliances have been critical for EMNEs to build their own competitiveness to cope with MNEs from advanced markets. From this perspective, Guillén and García-Canal (2009) comment that the international expansion of EMNEs runs in parallel with the process of upgrading their capabilities.

3.2 Motivations

Why firms want to expand internationally (i.e. motivations) have been documented in the literature. The most classic theory of motivation might be Dunning’s eclectic (OLI) paradigm (1981). Dunning (1981) suggests three important rationales explaining MNEs’ internationalization: ownership, location, and internationalization. Other motives of internationalization have also been examined extensively in the literature. Dunning (1988) and Rugman (2009) introduced the motivation of ‘knowledge seeking’, considering the issues such as learning best practices, efforts to gain market knowledge, actions to develop social and business networks, and the applicability of unique home country capabilities (Fey et al., 2016). Vernon (1966) and Park and Lee (2003) suggested the motivation of ‘new market seeking’, analyzing the issues such as market size, following clients, and entering adjacent markets (Fey et al., 2016). In addition, Vernon (1966) and Walkenhorst (2004) proposed the motivation of ‘efficiency seeking’, covering the issues such as cheaper resources (like labor and raw materials), lower tariffs, tax incentives from the home government, and worldwide production synergies (Fey et al., 2016).

But, some scholars have argued that the traditional literature on motivations of MNEs’ internationalization is insufficient to fully explain the motivations of EMNEs’ internationalization, because the conventional literature has been developed reflecting mainly the perspectives of MNEs from advanced markets. Guillén and García-Canal (2009) summarize specifically the major motivations of EMNEs’ internationalization in the extant literature. Among these motivations, the authors (2009) focus more on the motivations of the ‘backward linkage into raw materials’ and the ‘forward linkage into foreign markets’ and describe these motivations as follows: “scholars documented and readily explained the desire of some of the new MNEs to create backward linkages into sources of raw materials or forward linkages into foreign markets in order to reduce uncertainty and opportunism in the relationship between the firm and the supplier of the raw material, or between the firm and the distributor or agent in the foreign market (pp.28-29)”. The World Investment Report presented by the UNCTAD (2006) also points out that many of emerging market firms became MNEs (especially in the extractive and manufacturing sectors) when they internalized backward or forward linkages. In addition, scholars found that the home country government curbs (i.e. the growth restrictions imposed by the government in its domestic market) motivate emerging market firms to internationalize (Lall, 1983; Wells, 1983; UNCTAD, 2006). In other words, “in many developing and newly industrialized countries, limitations such as licensing systems, quota allocations, and export restrictions kept...
firms from having enough growth opportunities at their disposal, hence the desire to expand abroad (Guillén & García-Canal, 2009, p.29). This type of motivation is in connection not only with economic aspiration of emerging market firms but also with political instability in many emerging markets.

Fey et al. (2016) summarize five key reasons driving emerging market firms’ internationalization. First, obtaining technology, and, second, obtaining brands are important motivations for emerging market firms’ internationalization efforts. Third, many EMNEs decide to internationalize to diversify risks. As Dau (2012) comments, emerging markets are rather risky places for business because of their rapidly changing environments (such as unexpected political/legal, economic, social, and technological events). Thus, diversifying risks in their domestic markets, through internationalization, has motivated emerging market firms to go abroad. Fourth, emerging market firms are motivated to go abroad to become larger. In general, it is important for emerging market firms to go abroad to grow further. But, Fey at al. (2016) contend that “not all industries are the same, and thus firms need to consider how important economies of scale and other benefits of internationalization are for a particular industry (p.133)”. Lastly, emerging market firms pursue international expansion to obtain raw materials. Luo and Tung (2007) argue that the state-owned enterprises from China and India often pursue international expansion to obtain raw materials for their own operational needs and, also, for the growing demand for the same materials at home.

3.3 Markets

The markets that have been pursued by EMNEs are often different from those that have been pursued by MNEs from advanced markets. Although the international product life cycle theory (Vernon, 1966) can explain the markets that have been chosen by MNEs from advanced markets, this theory cannot fully explain the markets that have been chosen by EMNEs. In general, EMNEs expand into new markets that have smaller cultural, institutional, and geographic distance, considering simultaneously the factors such as lower tariff rates, cheaper resources, larger market size, easier acquisition possibilities, and less competition (Fey et al., 2016). However, it is also important to note that EMNEs, as discussed below, have sometimes expanded into physically or economically distant countries before entering more proximate and similar countries (Ramamurti, 2009, p.44) Emerging markets have been studied in terms of the institutional voids that represent underdeveloped, weak institutions and frequent (sometimes, unexpected) environmental shift. In other words, firms doing business in emerging markets should respond to unpredictable, frequent shocks such as political instability, violence, macroeconomic fluctuations, and even war (Gao et al., 2017). Moreover, it is hard for firms operating in emerging markets to get benefits (e.g. market information) from specialized local intermediaries. Because of these institutional voids, MNEs from advanced markets find it difficult to do business in emerging markets. Fey et al. (2016) argue the following:

Many of the operating practices Western MNCs (from here on referred to as MNCs) use are built around the existence of well-developed market institutions and a more stable environment. For example, MNCs from developed countries frequently use market research firms to provide detailed insights into consumer preferences to help them design products... Those MNCs are also used to a well-functioning banking sector to provide suppliers, distributors, and customers with loans. Having logistics companies for product distribution is also built into many MNCs’ strategies. Those noted above and other institutions are often poorly developed in transforming economies causing problems for MNCs. (p.135) In contrast, EMNEs have been doing business under the environments with the institutional voids and, thus, they have adopted strategies to cope with these institutional voids. In essence, EMNEs can be considered as having a competitive advantage against MNCs from advanced markets in terms of dealing with the institutional voids. In this regard, Puffer et al. (2013) contend that it is often beneficial for emerging market firms to initially expand into other emerging markets, since these markets are less competitive, similar to the emerging market firms’ home markets, and MNCs from advanced markets are vulnerable in terms of dealing with the institutional voids. EMNEs can develop international business skills and elaborate competitive advantages in other emerging markets and, then, can expand into highly competitive advanced markets that are very different from their domestic markets. The study conducted by Fey at al. (2016) shows that many EMNEs (e.g. Huawei, Skyworth) have been successful by following the strategy of initial international expansion into other emerging markets and, then, into advanced markets. However, again, we should note that there have been exceptions. That is, some EMNEs have expanded into physically or economically distant countries (like advanced markets) before entering other emerging markets.

3.4 Patterns of Expansion

The World Investment Report (2006) indicates that, depending on home country, EMNEs (particularly in terms of outward FDI) have tended to emerge from certain industries and not others. For instance, firms from South Korea have concentrated in automobile, consumer electronics, and IT (e.g. semi-conductor, smart phone, etc.) industries and firms from Brazil have concentrated in automotive and aerospace industries. This
phenomenon (a pattern of expansion) has upgraded EMNEs to compete successfully even in the most competitive markets in the world. Guillén and García-Canal (2009) argue that this pattern of expansion has made EMNEs accumulate “intangible assets that have enabled them to successfully compete through internalized exports and horizontal investments even in the most advanced countries in the world (p.32)”. The traditional theories on internationalization (e.g. product life cycle) can explain some of the patterns of EMNEs’ international expansion. That is, EMNEs have tended to initially internationalize targeting overseas markets located within the same region (Wells, 1983; Lall, 1983; Goldstein, 2007; Guillén & García-Canal, 2009). Then, when EMNEs try to expand beyond their home regions, they have tended to focus on overseas markets similar to their domestic markets in terms of socio-cultural, political, and/or economic environment. One good example of this pattern is Spanish firms’ expansion into Latin American markets. However, there are exceptions to this pattern. Guillén and García-Canal (2009) point out that “notable exceptions to this pattern have to do with investment in search of strategic assets (Goldstein, 2007, pp. 85-87) and the rapid pace at which they have expanded their global reach (Mathews, 2006) (p.33)”.

3.5 Strategies

The extant research reveals the strategies that have been adopted by EMNEs in the process of internationalization. Since expanding into overseas markets is very challenging for firms (particularly for firms from emerging markets), choosing the right strategies is critical to be successful in the internationalization process. Some of the important EMNEs’ strategies identified by the extant literature are introduced.

3.5.1 Overcoming Negative Country of Origin Perception (or Image)

First, one of the major challenges faced by EMNEs when they initially start to expand into overseas markets might be overcoming negative perception (or image) associated with their country of origin, such as ‘made in China’ or ‘made in India’. Scholars have contended that EMNEs “usually face a ‘double hurdle’ of the liability of foreignness and the liability of country of origin due to the perceived poor image of their home countries in most cases (Chang & Taylor, 1999; Chang, Mellahi & Wilkinson, 2009; Ferner, Almond & Colling, 2005). Although the country of origin label can, eventually, become the sign of quality product/service (e.g. when we compare American consumers’ perception on ‘made in Japan’ in the 60s and 70s with that perception today) and, also, although many EMNEs deserve a better perception (or image) in terms of the quality of product/service, EMNEs have found that it is extremely difficult to build a significantly better perception of their products or services than their country of origin image on the part of foreign consumers. Fey et al. (2016) identify the strategies that have been used by EMNEs to overcome this negative country of origin perception. Among diverse strategies, the most effective strategy was “to show that a firm was very quality focused and, “have acquired foreign brands and technology itself was also useful, especially in facilitating DMTG’s successful expansion into the quality/technology-focused automobile industry (p.136)”.  

3.5.2 Acquiring Foreign Brands and Technology

As discussed above in the Motivations section, obtaining brands and technology has been an important motivation for EMNEs’ internationalization efforts. In other words, many EMNEs have benefited from using foreign firms’ brand names (brand names from advanced market firms) through either branding products in collaboration with foreign firms or purchasing foreign firms. EMNEs’ acquisition of foreign brands could promote the positive image of emerging market firms’ products both domestically and internationally. Fey et al. (2016) support this EMNEs’ strategy as follows: “Foreign companies had a perception that any Chinese company that could purchase a U.S. firm must have much to offer and be serious about quality. The acquired technology itself was also useful, especially in facilitating DMTG’s successful expansion into the quality/technology-focused automobile industry (p.136)”.

3.5.3 Investing in Research and Development (R&D)

Many EMNEs have shown that investing in R&D is strategically important to compete with firms from advanced markets. Although most EMNEs have suffered from technological disadvantages compared to firms from advanced markets, it has been hard for EMNEs to change the situation for many years. However, EMNEs are increasingly realizing that they should acquire more R&D capabilities to compete with advanced market multinationals in international markets.

Fey et al. (2016) introduce the strategies that have been adopted by EMNEs for this R&D investment. First, EMNEs have found that they can compete with MNEs from advanced markets in terms of technology
since their R&D investment is not so costly compared to that of MNEs from advanced markets. Specifically, Fey et al. (2016) describe that EMNEs “have found that they can hire key technical personnel much cheaper than in West, sometimes for as little as 20% of the cost, and that these employees are normally prepared to work more than their Western counterparts (p. 137).” In addition, Fey et al. (2016) further argue that “while in some cases it is hard to find enough experienced management, there is an abundance of highly skilled technical personnel in Russia, China, and India who are eager to find an organizational culture that will allow them to fully unleash their creativity and potential (p. 137)”. Therefore, it has been possible for EMNEs to invest in R&D to catch up MNEs from advanced markets. For instance, some EMNEs, such as Ranbaxy (from India), ZTE (from Chinese), and Huawei (from Chinese), have shown that although they have done most of their R&D investments at home saving the cost, they have still benefited from the latest technologies by having small R&D labs in advanced markets around the world.

3.5.4 Growing Quickly in International Markets
Most EMNEs’ internationalization efforts have revealed that the first steps of their internationalization process were the most difficult (Xing et al., 2014; Zhou & Guillén, 2015) and, after acquiring some international experience, the process became much easier. In essence, the difficulty experienced by EMNEs during the first steps of internationalization process is associated with the ‘employee attention’. Fey et al. (2016) explain how the ‘employee attention’ can affect EMNCs’ internationalization as follows:

Employee attention is one of the items that is in shortest supply in such circumstances, and keeping attention is difficult since employees like to see quick results or they may lose interest. Thus, when international sales of a company account for only 2% of sales and much effort is needed to grow them, it is hard to attract employee attention. Several companies mentioned the importance of quickly growing to the point where approximately 15% of sales are international, and that employees realize this is an important part of company activity and worth their attention. For example, a senior manager at Huawei recalled how when the firm started its international activity, many employees doubted if it could be successful abroad...Once those sales got to be about 15%, most employees were convinced that international sales were important and worth focusing energy on since they served to fuel company growth. (p.137)

IV. CONCLUSION: NEW THEORIES ON THE INTERNATIONALIZATION OF EMERGING MARKET MULTINATIONALS (EMNEs)
The modern MNEs originated from the Western world during the second industrial revolution of the late 19th century (Guillén & García-Canal, 2009). Firms from the U.K., North America, and Europe have expanded into global markets based on superior intangible assets such as technology and well-known brands. Later, during the 1970s and 1980s, Japanese MNEs started to rise in the global markets. These conventional MNEs originated from advanced markets, that is, rich and technologically advanced countries. These MNEs used to share some core features of competitive advantages. In specific, Guillén and García-Canal (2009) point out that these MNEs’ core set of features were “their technological marketing, and managerial strengths, which enabled them to overcome the so-called the liability of foreignness in a variety of markets, investing for the most part in wholly or majority-owned subsidiaries, transferring technology, products, and knowledge from headquarters to far-flung operations around the globe, and relying on elaborate bureaucratic and financial controls (p.23)”.

The conventional global competitive landscape started to change since the 1990s with the emergence of MNEs from emerging markets. As discussed above, emerging market multinationals have adopted multiple entry modes for internationalization such as joint ventures, acquisitions (wholly owned subsidiaries). While some of these MNEs are small and focus on single industry, others are large and pursue product diversification across multiple industries. As Guillén and García-Canal (2009) comment, “while they may not possess the most sophisticated technological or marketing skills in their respective industries, they have expanded around the world in innovative ways (p.24)”. In essence, an increasing number of scholars and practitioners are focusing on emerging market multinationals since these firms have become key players in the global markets today, both in advanced and emerging markets, in terms of outward FDI, global alliances and joint ventures, and cross-border acquisitions.

In this regard, it is very timely and critical to question whether the extant theories on internationalization of MNEs that have been developed mainly observing MNEs from advanced markets are relevant to explain the behavior and strategies of EMNEs. There is no consensus among scholars concerning this question. Some scholars argue that EMNEs are new and different MNEs from traditional advanced market MNEs and, thus, can be explained by new theories (Mathews, 2002). Others argue that the extant theories like Dunning’s eclectic paradigm (OLI model) is pertinent to explain the behaviors and strategies of EMNEs (Narula, 2006). In addition, there are scholars who argue that neither perspective is right: that is, “the truth is...
Emerging Market Multinationals: the New Model of Internationalization of Firms

somewhere in between and that the real challenge is to discover which aspects of existing theory are universally valid, which aspects are not, and what to do about the latter (Ramamurti, 2012, p.41)”. I agree with Ramamurti (2012)’s perspective. As discussed above (EMNEs’ internationalization efforts including motivations, entry modes, and strategies), some of EMNEs’ internationalization efforts can be explained through the existing theories on internationalization of MNEs. Therefore, although we need to develop new theories to explain internationalization efforts specifically appropriate to EMNEs, we also need to identify which aspects of the extant theories on internationalization of MNEs are universally valid.

For instance, we need to confirm whether the existing theories on how firms are internationalizing are appropriate to explaining EMNEs’ internationalization process. According to the stages model of internationalization proposed by Johanson and Vahlne (1977), “firms internationalize gradually, with learning between stages of expansion and increasing commitment to host countries if things go well (p.44).” The authors (1977) also argue that firms are assumed “to expand first to countries similar to the home country before going to dissimilar countries (p.44)”. In addition, Vernon’s product cycle theory (1966, 1979) hypothesize that FDI flows from developed to less developed economies. In other words, FDI flows from less developed to developed economies are not assumed. Are these traditional theories relevant to explain the behaviors and strategies of EMNEs’ internationalization efforts?

The literature on the internationalization of EMNEs reveal that they have internationalized in different ways from the conventional theories articulate. Scholars have argued that EMNEs have internationalized at a much faster pace than the conventional theory (e.g. the stages model of internationalization) describes (Mathews, 2002; Guillén and García-Canal, 2009). The different global business environment in which EMNEs have internationalized can explain this phenomenon. Williamson and Zeng (2009) contend that the rapid internationalization of EMNEs is the result of the changes in the global business environment in which the world has become flatter, making it easier for firms to obtain resources they need to internationalize. In addition, EMNEs have targeted different foreign markets during their internationalization process from the traditional theories elaborate. That is, “they have expanded into physically or economically distant countries before entering more proximate and similar countries (Ramamurti, 2009, p.44)”. Ghemawat (2007) argues that EMNEs invest in physically or economically distant countries because their strategies are based upon exploiting differences rather than similarities. Moreover, EMNEs have invested more in advanced markets than in other emerging markets (Ramamurti, 2009). This phenomenon contradicts the conventional theory (e.g. the product cycle theory) because the internationalization of EMNEs has shown that FDI flows not only from developed to less developed economies but also from less developed to developed economies.

I argue that scholars should focus more on the different nature of EMNEs from advanced market MNEs in terms of internationalization. In other words, while EMNEs have tried to follow some aspects of internationalization efforts pursued by MNEs from advanced markets, they have been forced to be innovative to meet the different needs that stem from the emerging market-specific environments. Above all, the context from which EMNEs are originated is characterized by the so-called ‘institutional voids’. Guillén and Garcia-Canal (2009) point out that “the new MNEs have emerged from countries with weak institutional environments, property rights regimes, legal systems, and so on (p.33)” and, thus, “experience in the home country was especially valuable for the new MNEs because many countries with weak institutions are growing fast, and these MNEs developed the capabilities to compete in such challenging environments (p.33)”.

Interestingly, MNEs from advanced markets have adopted some of the behaviors and strategies pursued by EMNEs. For example, some industries, such as steel, consumer electronics, IT (e.g. smartphone, tablet PC), banking, and infrastructure, are becoming more and more competitive because of the participation of EMNEs. Thus, MNEs from advanced markets are becoming much less dependent on conventional internationalization strategies such as product differentiation and vertical integration. In addition, as Guillén and García-Canal (2009), comment, the rise of networked organizations and the extensive shift toward outsourcing show how MNEs from advanced markets respond to the challenges posed by EMNEs.

When we consider all these developments associated with EMNEs in today’s global business environment, the conventional theories on internationalization of MNEs has limited validity. Guillén and Garcia-Canal (2009) contend that:

In effect, globalization, technological change, and the coming of emerging countries have facilitated the rise of a new type of MNE in which foreign direct investment is driven not only by the exploitation of firm-specific competencies but also by the exploitation of new patterns of innovation and ways of accessing markets. In addition, the new MNEs have expanded rapidly, without following the gradual staged model of internationalization. (p.33-34) However, this doesn’t mean that all the conventional theories on MNEs’ internationalization are irrelevant to explain the behaviors and strategies of EMNEs. As discussed above, some aspects of the existing theories are universally valid both for MNEs from advanced markets and for MNEs form emerging markets. Therefore, we should elaborate new theories to explain the behaviors and strategies peculiar to EMNEs’ internationalization process. Namely, the lack of the conventional theories should be amended.

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30 | Page
Lastly, although studying the differences in behaviors and strategies in the process of internationalization between MNEs from advanced markets and MNEs from emerging markets is important, comparing the differences among EMNEs from diverse countries is also critical in analyzing today’s global business environment. Future research should reveal the different internationalization efforts among EMNEs from various countries.

REFERENCE


