Emerging Multinationals in Emerging Markets.

The rapidly growing emerging economies are producing business giants of their own at a staggering rate. In 2008, emerging economies boasted 70 companies in the Fortune Global 500 list of the world’s biggest companies, up from 20 a decade ago. Alongside the increasing economic power of emerging markets, emerging market multinational enterprises (EM MNEs)—companies based in emerging markets with investments and operations in more than one country—are expanding at a speed and scale that make even the largest Western MNEs take notice. Although these businesses share the scale and ambition of their Western counterparts, their processes and patterns of growth, as well as dominant motivations, evolutionary trajectory, and strategic behaviors, are often dissimilar to those of their competitors in the developed world. International expansion is driven not only by their desire to leverage their competitive advantages (e.g., cost effective mass-production, suitable innovation for low- and medium-end markets, quick response to market changes, and experience in operating in institutionally difficult environments) but also by their motive to offset competitive disadvantages through acquiring strategic assets they lack (e.g., technology, brands, customer base, and distribution channels). And for some state-owned EM MNEs, outward investment may be a political mandate by which to acquire the scarce natural resources needed for economic and social development of their home countries.

Still, unlike the early path of internationalization of MNEs from the developed world and newly industrialized countries (e.g., South Korea, Singapore, Hong Kong, and Taiwan), EM MNEs have benefited tremendously from inward internationalization at home by cooperating with global players who have transferred technological and organizational skills, allowing them to undertake outward internationalization later in some unconventional ways. To be sure, there are mounting challenges for them to overcome if they seek sustained growth and long-term success in the complex and competitive global marketplace.

This book is an important and extremely welcome addition to the literature on EM MNEs. It will be essential reading for students, academics, and consultants interested in the development of these new players in global competition. The book consists of three parts, including four chapters that offer several important theoretical perspectives on EM MNEs, followed by eight country studies delineating in detail EM MNEs from China, India, Russia, Brazil, South Africa, Mexico, Thailand, and Israel, and concluding with a chapter synthesizing EM MNEs’ competitive advantages, generic internationalization strategies, and impact on global competition, as well as theoretical repercussions to international business research. What I particularly liked about the book is that it is both theory- and practice-driven, documenting both convergent (similarity) and divergent (distinctions) insights into EM MNEs.

I echo the central premise of the book, that existing international business theories can explain much about EM MNEs...
but not necessarily every research issue or everything of interest to executives and policy makers. Studying EM MNEs is therefore seen as a way to enrich existing theory, particularly about the process by which firms internationalize and become MNEs. In chapter 2, Wells insightfully highlights areas in which previous perspectives on third-world MNEs are still valid, as well as new issues raised by EM MNEs. In chapter 3, Rugman argues that existing theories should apply to EM MNEs to the extent that these organizations are neither truly novel nor particularly important players in the global economy as compared with long-established Western MNEs. In chapter 4, Amsden argues, contrary to Rugman, that the developmental implications of indigenous, privately owned enterprises in emerging economies are structurally and organizationally different from those of foreign-owned enterprises competing in emerging economies. Although these three chapters contain abundant theoretical insights, the book might have been stronger on theoretical contributions and conceptual illuminations in general had it provided more coherent theoretic paradigms and/or novel theoretical development about different types of EM MNEs and those from different home countries.

The primary goal of the book is to understand how firms originating in emerging markets and operating in different industries build global presence in the contemporary economic environment. More specifically, it aims to answer several questions, such as what competitive advantages and capabilities they can leverage in international markets, which internationalization strategies they follow, and why. The eight country studies in the book abundantly answer these questions. Although these country studies are descriptive, rather than normative, they help scholars account for more nuances and complications of the phenomenon of outward internationalization by emerging market enterprises.

In chapter 5, Williamson and Zeng introduce a new concept, “cost innovation,” a bridge that helps transform China’s country-specific advantages into firm-specific advantages. Cost innovation entails some combination of three dimensions: (1) Chinese firms have developed strategies and organizational routines that have allowed them to offer customers high technology at low cost; (2) Chinese firms find processes that enable them to offer customers a wide choice of product varieties or customization at competitive mass-market prices; and (3) Chinese firms are developing strategies that use their low costs to reduce the break-even point of producing specialty products, enabling them to transform their niche markets into volume businesses by dramatically lowering prices. The cost innovation approach helps promote the success of Chinese firms in both home and foreign markets. The authors thoughtfully submit that individual Chinese companies employ different strategies to leverage cost innovation. Some are local optimizers, focusing on delivering products and processes optimized for other emerging and developing countries. Some exploit cost innovation advantages by green-field expansion of downstream acquisitions overseas to enable Chinese MNEs to move up the value curve. The authors caution, though, that Chinese MNEs do have significant weaknesses, such as a limited capability to
run complex, diversified businesses and a lack of strong brands and advanced technologies.

In chapter 6, Ramamurti and Singh give a combination of depth and breadth on how Indian MNEs strategize and grow internationally. India’s technical capabilities, supporting institutions, and entrepreneurial tradition, together with a low cost base and a high-quality managerial class, all helped to launch a new breed of Indian MNEs in recent years. I found this chapter particularly enlightening in unveiling the four generic strategies or paths of internationalization, each based on a different set of competitive advantages and resulting in a different choice of target markets and modes of entry. The four generic strategies, which apply to EM MNEs in other countries as well, are local optimizer, low-cost partner, global consolidator, and global first-mover. Local optimizers seek market expansion in other emerging and developing countries by using mergers and acquisitions or joint ventures as preferred modes for well-integrated downstream operations and offering products and processes optimized for a sheer size of low- and middle-income consumers in these countries.

Low-cost partners intend to penetrate in developed countries and invest in narrow and specialized value-chain activities while leveraging these firms’ factor-cost arbitrage and process excellence. Global consolidators pursue global mass production and marketing by exploiting their competitive advantages in operational excellence, manufacturing capacity, and cost innovation in mature industries and for relatively standardized products and processes, all performed within an international horizontal and vertical integration system. Lastly, global first-movers are global innovators, leveraging their low-cost home base, global sourcing capacity, and large home demand in their quest to acquire a global market share through their geographically dispersed yet functionally integrated value chain system, which encompasses both strategic asset-seeking mergers and acquisitions in developed countries and green-field capacity addition in other low-cost countries. The authors highlight that pursuing multiple generic strategies sequentially is both feasible and desirable.

McCarthy, Puffer, and Vihanski provide an informative illustration about Russian MNEs in chapter 7. A strong contribution of this chapter is the discussion and analysis of the governmental role and industrial distribution of Russian MNEs as well as growth strategies for building international presence and maintaining global competitive advantages. The vast majority of Russian MNEs are natural resource-based firms, particularly energy companies. They are primarily government-owned, but some are privately owned by oligarchs and their partners. The increasing role of the Russian government, both in ownership of firms and in placing government officials in top executive and board positions, has tightened government control. Large MNEs from Russia have recently expanded globally, acquiring companies in Eastern and Western Europe, North America, and other regions, often after consolidating the domestic industry. The authors document that many Russian MNEs appear to seek enhanced market power and control (especially in the natural resource industries) and sustained growth through occupying higher value-added activities.
The authors of chapters 8–12 should be commended for their informative presentation of the history, evolution, and strategies of EM MNEs in Brazil, South Africa, Mexico, Thailand, and Israel. Chapter 8 sheds light on how the national context has affected the evolution of Brazilian MNEs, which have benefited tremendously from human resources and brainpower in technological and managerial spheres, thanks to the public education system. But they have also had to deal with some country-specific disadvantages, including instability, lack of continuity, and the unpredictable nature of government actions. MNEs from South Africa, as illustrated in chapter 9, have a clear pattern focusing on regional expansion—the country has emerged as the largest single foreign investor in Africa over the past decade—albeit the bulk of investment has gone to OECD countries as well. South African MNEs that have primarily expanded regionally also tend to rely on country-specific advantages and on the direct political support of the government. Their advantages are locally bred and hence only transferable to countries that have a low “psychic” distance from South Africa.

As detailed in the CEMEX case in chapter 10, Lessard and Lucea insightfully reveal the co-evolutionary process by which Mexican MNEs renew and upgrade their distinctive capabilities. Initially, they gain access to international markets by exploiting their domestically generated but internationally relevant capabilities. As they respond to increasing and new challenges or gain access to new resources available in new foreign markets, their original capabilities are enhanced through global competition. The authors conclude that it is only through this co-evolutionary process of capability exploitation-enhancement-exploitation, in which the sources of capability enhancement are both foreign and domestic, that it is possible to explain the persistent competitiveness of EM MNEs in global competition. Thai MNEs (chap. 11) recognize their weaknesses in renewing and upgrading their capabilities and thus tend to seek market opportunities in other developing countries in the region, especially the Association of Southeast Asian Nations and China, that are experiencing rapid economic development. They also compensate for their weak technological expertise by networking with a large array of partners and institutions, including financial agencies, governments, and Western MNEs. In contrast to Thai MNEs’ more regional operations, Israeli MNEs (chap. 12) are more global in their geographic expansion. For instance, reduced demand in Israel, combined with the opening of Eastern Europe, encouraged many Israeli companies to invest in Eastern Europe. Technology entrepreneurs are also lured to the vast U.S. market or establish global MNEs.

Despite the diversity of perspectives and country analysis, there is surprising agreement among the authors of numerous chapters that formidable challenges remain for EM MNEs in their future growth. Among the most critical is the need to develop distinctive capabilities to compete at the regional and global levels. Consensus also abounds concerning the applicability of existing MNE theories to EM MNEs: current theories still provide a plausible explanation of why EM MNEs initiate their international journey, what challenges they face in host countries, and when they prefer hierarchies over markets.
Yet the theories are of less help in understanding how they are able to sustain or even improve their international performance, which is particularly troublesome when their competitive advantage is not based on privileged control of internationally valuable resources.

Despite their rising international prominence, EM MNEs remain enigmatic to many Western academics, practitioners, and observers. In this regard, this book is an important and timely piece meriting our appreciation. It provides a superb guide for understanding why and how EM MNEs emerge, what they share, and how they differ from Western MNEs. Though far from complete, this book provides sufficient insights into the competitive strengths and weaknesses of EM MNEs as well as generic strategies of internationalization. Last but not least, the book provides a starting point for future research, theoretically and empirically, on a number of important issues, among which are how EM MNEs successfully enter into the desired markets and compete against powerful counterparts from developed countries and what unique strategies and practices they adopt to leverage their strengths, mitigate their weaknesses, and foster their evolution in the increasingly integrated yet significantly differentiated world.

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