PART IV

A path for the future
Conclusion: an agenda for EMNC research

ALVARO CUERVO-CAZURRA AND RAVI RAMAMURTI

Introduction

The preceding chapters of the book provided a range of perspectives on how to understand the international behavior of EMNCs. We summarized the main ideas of each chapter in the Introduction. The goal of this concluding chapter is to pull together insights from the previous chapters and to add our own analysis of what is theoretically new or interesting about EMNCs when compared to MNCs from the advanced economies. In addition, we propose an agenda for future research on EMNCs that reflects the collective wisdom of our contributors.

One issue that ties together several of the chapters in this volume and the work of many scholars interested in EMNCs is the question of how their home country affects their competitive advantages and the dynamics of their internationalization. In other words, how does the fact that EMNCs are from emerging economies make a difference in whether and how they internationalize? In what follows, we break that discussion into two parts, consistent with how the chapters have been clustered in this volume. First, we explore how the home country influences the competitive advantage – or firm-specific advantage – of EMNCs, including what that concept means. Then we explore how the home country influences the dynamics of internationalization. The first question comes up in several of the chapters in Parts I and II of this volume, and the second question comes up in several chapters in Part III. As the reader will have gleaned by now, some of the points raised by authors are not limited to EMNCs but apply to MNCs in general. This is a valuable by-product of their work because, as we asserted in the Introduction, research on EMNCs is ultimately a way to learn more about MNCs in general.

We begin with a review of the growth of literature on EMNCs in the last few decades.
The evolving literature on EMNCs

Our understanding of EMNCs has evolved along with their evolution and transformation. Although some developing country firms had invested abroad and become multinationals as far back as the late nineteenth century, scholars did not pay attention to them until much later.

As Aharoni notes in his chapter, the first attempt to systematically study EMNCs came in the 1970s, fueled by puzzlement at how such multinationals came into being at all, because extant theory argued that FDI flowed from countries with low interest rates into countries with high interest rates, i.e., from rich to poor countries (Aliber, 1970), or that only firms with a technological edge and innovative products would have the wherewithal to invest abroad (Buckley and Casson, 1976; Dunning, 1977; Vernon, 1966).

In the 1970s, many of the largest EMNCs operated in natural resources, and many were state-owned enterprises (Heenan and Keegan, 1979) that received government support for internationalization (Aggarwal and Agmon, 1990). Many other EMNCs based their exporting advantage on access to low-cost labor, and their multinationalization advantage rested on managerial practices and technologies that were well adapted to the needs of developing countries (e.g., Kumar and McLeod, 1981; Lall, 1983; Lecraw, 1977; Vernon-Wortzel and Wortzel, 1988; Wells, 1983).

In the 1980s, as Asian firms expanded abroad, the attention of scholars shifted to the question of why manufacturing EMNCs were competitive abroad. Many of these companies came from countries pursuing export-led industrialization, where government support was conditional on the firms’ ability to compete internationally. These EMNCs operated in other developing countries as well as in some developed countries (Ghymn, 1980).

In the 1990s and 2000s, scholars turned their attention to how EMNCs played catch-up with advanced country firms (e.g., Aulakh, Kotabe, and Teegen, 2000; Kotabe, Jiang, and Murray, 2011; Lecraw,

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1 For example, the Argentinean shoe maker Alpargatas, which commenced operations in 1885 and established operations in Uruguay in 1890 and in Brazil in 1907, or the Thailand-based trading conglomerate GP (Gangjee Premjee) group, which started operations in India in the nineteenth century, established an office in Burma in 1868, and moved operations to Thailand in 1918.
1993; Ulgado, Yu, and Negandhi, 1994; Yeung, 1994, 1999; Young, Huang, and McDermott, 1996). And there was an explosion of special issues in journals devoted to EMNCs (e.g., articles reported in Aulakh, 2007; Cuervo-Cazurra, 2012; Luo and Tung, 2007) and conference volumes devoted to EMNCs, including two resulting from conferences co-organized by Northeastern University’s Center for Emerging Markets (Ramamurti and Singh, 2009; Williamson et al., 2013).

Studies on the internationalization process of EMNCs revealed deviations from traditional models, as EMNCs not only invested in other developing countries with conditions similar to their home countries but also in advanced countries to gain access to markets and sophisticated resources, a possibility not considered by prevailing theoretical models (Cuervo-Cazurra, 2008). Additionally, the quest to better understand the sources of advantage to compete globally raised the possibility that these firms had different kinds of firm-specific advantage than the traditional ones of cutting-edge technology and marketing (Luo and Tung, 2007; Mathews, 2006; Ramamurti, 2009).

At present, scholars are starting to take stock of what we really know about EMNCs and what is mere speculation. Some have argued that EMNCs are just like MNCs that came before (Rugman, 2009, 2010), while others have argued that EMNCs are novel and existing theories are inadequate to explain their behavior (Guillén and Garcia Canal, 2009; Luo and Tung, 2007; Mathews, 2006).

In an attempt to reconcile these opposing views, Ramamurti (2009) argued that contextual variables unrelated to a firm’s country of origin explain some of the apparent differences between EMNCs and advanced country MNCs, but that country of origin also matters. In other words, the internationalization strategy of a firm, whether from an emerging economy or not, may be shaped by its country of origin and by other contextual variables, such as its industry, its stage of evolution as an MNC, and the global context in which it is internationalizing, as shown in Figure 13.1 (Ramamurti, 2012).

Cuervo-Cazurra (2012) argues that models and theories explaining the behavior of MNCs can be extended and modified to the study of EMNCs. He terms this the “Goldilocks debate” on the value of studying EMNCs, with some arguing that the study of EMNCs does not add novelty to theory, others arguing that it is completely new, and yet others arguing that some behaviors may require new theoretical understanding. To do the latter, researchers could look at the
underlying assumptions of existing models and theories and analyze how these may not fully hold in emerging markets and thus lead to new arguments, even if they do not lead to completely new theories, as shown in Table 13.1.

**EMNCs’ country of origin and firm-specific advantages**

With regard to the firm-specific advantages (FSAs) of EMNCs, it is recognized that while these are often not the same as those of advanced country MNCs, they are nonetheless valuable in their own way. Williamson’s chapter argues that the home-country conditions encourage EMNCs to develop FSAs that are valuable not only in other emerging economies but also in developed countries where customers seek “everyday low prices.” Aharoni’s chapter calls for more research into the nature of FSAs of EMNCs. Rugman (2009) argued that EMNCs lack significant FSAs and merely take advantage of their home country’s location advantages or CSAs, but in his chapter with Nguyen in this volume he concedes that some EMNCs may have developed valuable FSAs at home. However, the authors go on to add that these FSAs are not as sophisticated or as valuable as those of advanced country MNCs. They distinguish between FSAs that are stand-alone, routines, and recombination capabilities, with the last being the most valuable.
Table 13.1 *Key theories of the MNC and their extension from the analysis of EMNCs.*

<table>
<thead>
<tr>
<th>Theory</th>
<th>Product life cycle</th>
<th>Incremental internationalization</th>
<th>OLI framework</th>
<th>Internalization theory</th>
<th>Integration/differentiation and legitimation models</th>
<th>Resource-based view and knowledge-based view</th>
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<tr>
<td>Assumption on individuals’ behavior</td>
<td>Full rationality</td>
<td>Bounded rationality</td>
<td>Imperfect information</td>
<td>Imperfect information</td>
<td>Imperfect information</td>
<td>Bounded rationality</td>
</tr>
<tr>
<td>Assumption on objective of foreign expansion</td>
<td>Increase sales by using innovations developed at home and benefit from lower production cost abroad</td>
<td>Increase sales by using knowledge developed at home</td>
<td>Increase sales by building on home-based ownership advantage and obtain location advantage abroad</td>
<td>Increase sales by using technology developed at home</td>
<td>Increase sales by gaining and using knowledge from multiple operations, achieving legitimation</td>
<td>Grow and increase sales by using already-developed firm-specific resources, especially knowledge</td>
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</table>
Table 13.1 (cont.)

<table>
<thead>
<tr>
<th>Assumption on impact of host country conditions</th>
<th>Assumption on impact of home country conditions</th>
<th>Key question on MNC behavior</th>
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</thead>
<tbody>
<tr>
<td>High-income consumers abroad induce export of innovation</td>
<td>Firms innovate to satisfy demanding high-income consumers</td>
<td>Where does the MNC move sales and production around the world?</td>
</tr>
<tr>
<td>Lowering costs induce production abroad</td>
<td>Firms create home-based ownership advantages</td>
<td>How does an MNC internationalize?</td>
</tr>
<tr>
<td>Differences in conditions between home and host country</td>
<td>Host country pressures to standardize and achieve legitimacy</td>
<td>Why does an MNC set production facilities abroad?</td>
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<tr>
<td>Host country location advantages induce entry</td>
<td>Host country pressures firm to adapt to local conditions</td>
<td>How does an MNC internalize cross-border transactions?</td>
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<tr>
<td>Transaction protection in host country determines use of firm or market</td>
<td>Host country inputs and competitive conditions determine applicability of home-based resources</td>
<td>How does an MNC solve the tension between global integration and local differentiation?</td>
</tr>
<tr>
<td>Home-based headquarters provides inputs that determine resources and knowledge created by the firm</td>
<td>Resource-based view and knowledge-based view</td>
<td>How does an MNC expand and compete across countries?</td>
</tr>
</tbody>
</table>

Theory | Product life cycle | Incremental internationalization | OLI framework | Internalization theory | Integration/differentiation and legitimation models | Resource-based view and knowledge-based view |
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<tbody>
<tr>
<td>Assumption on impact of home country conditions</td>
<td>Firms innovate to satisfy demanding high-income consumers</td>
<td>Managers develop knowledge specific to home country</td>
<td>Firm creates home-based ownership advantages</td>
<td>Firm develops technology to compete at home</td>
<td>Home-based headquarters pressures to standardize and achieve legitimacy</td>
<td>Host country inputs provide inputs that determine resources and knowledge created by the firm</td>
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<td>Home country inputs and competitive conditions determine applicability of home-based resources</td>
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</tr>
</tbody>
</table>

Table 13.1 (cont.) | Theory | Product life cycle | Incremental internationalization | OLI framework | Internalization theory | Integration/differentiation and legitimation models | Resource-based view and knowledge-based view |

Key question on MNC behavior: Where does the MNC move sales and production around the world? How does an MNC internationalize? Why does an MNC set production facilities abroad? How does an MNC internalize cross-border transactions? How does an MNC solve the tension between global integration and local differentiation? How does an MNC expand and compete across countries?
Key answer

MNC moves sales and production from developed to developing countries as an innovation and associated production process become standardized.

MNC internationalizes incrementally to minimize risks and obtain experiential knowledge from abroad.

MNC selects countries and entry modes that minimize risk and commitment.

MNC sets up production facilities abroad when it has ownership advantages (O) at home, location advantages (L) abroad, and internalization advantages (I) of keeping the foreign operation within the firm.

MNC uses a hierarchy in a cross-border transaction when the costs of using contracts exceed the costs of internalizing the transaction.

MNC organizes decision making to benefit from economies of scale and from adaptation to local conditions, achieving legitimation.

MNC creates firm-specific assets whose services are used to create products and services, with management being the key constraint to growth at some point in time.
**Table 13.1 (cont.)**

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<thead>
<tr>
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<th>Resource-based view and knowledge-based view</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differing EMNC behavior</td>
<td>EMNC sells innovations in advanced economies to benefit from higher income or in developing countries to benefit from similar consumer needs EMNC is already operating in low-cost countries and does not move production</td>
<td>EMNC chooses between a similar country but small market or dissimilar country but large market</td>
<td>EMNC is more likely to expand in search of O advantages</td>
<td>EMNC has higher tendency to internalize operations because of higher transaction costs at home</td>
<td>EMNC follows new strategies to take into account the pressures of the country of origin</td>
<td>EMNC internationalizes using resources/knowledge that cannot be protected via institutions EMNC internationalizes to access missing resources/knowledge</td>
</tr>
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</table>

The table continues with additional columns and rows not shown.
Potential theoretical extension from the analysis of EMNCs
Separate similarity in needs from level of income needed to pay for innovation
Production does not move abroad to ensure proximity
Separate psychic distance from market attractiveness in the selection of countries
Managers have levels of risk aversion influenced by home country that affect country selection and entry mode selection
Different types of O and L advantages depending on the country of origin determine internationalization
Managers from different countries have different attitudes toward transaction costs
Home country exerts pressures in addition to headquarters and host country pressures
Create advantages that do not rely on institutions to protect them
Build advantages using acquisitions

Source: Adapted from Cuervo-Cazurra (2012). The chapters in this volume reinforce these lines of thinking, as discussed below. They help us flesh out how the country of origin of EMNCs affects their firm-specific advantages and their internationalization patterns. We review these two areas in turn.
and the kind lacking in EMNCs. They use case studies of Lenovo, Suzlon, and Tata Motors to bolster their claim that EMNCs lack recombination capabilities or the ability to create new FSAs through foreign subsidiaries based on host country CSAs, and show that these firms have delivered poor financial results so far. Whether or not one agrees with their conclusions, Rugman and Nguyen provoke us to think harder and deeper about the nature of FSAs of EMNCs and raise fundamental questions about our understanding of FSAs. Narula’s chapter takes the analysis one step further, building on the notion that all firms in a country cannot automatically access a country’s CSAs (Hennart, 2012; Ramamurti, 2009), because some CSAs have a “members only” quality that restricts their access to a select few. He argues that many CSAs are not “public goods” but “club goods,” and uses this notion to explain why some FSAs are location bound. Note that Narula’s point is not limited to EMNCs but a general argument about how firms can (or cannot) turn CSAs into FSAs and whether those FSAs will be internationally mobile.

A different set of interesting issues is raised with respect to the home country of EMNCs. Aharoni wonders whether American companies, if and when they are acquired by a Chinese firm, should thereafter be considered Chinese companies. He asks: “And if indeed they are now Chinese, what does that mean or imply?” Aharoni thus anticipates questions about an MNC’s nationality that are explored in greater depth in Barnard’s chapter on mobile MNCs. However, for many EMNCs the home country is not ambiguous, because the different criteria by which nationality might be judged are consistent, i.e., the firm’s headquarters, owners, main customers, stock listings, and top management team all belong to the same country. In these cases, what can one say about the impact of the home country on a firm’s ability to internationalize or the dynamics of its internationalization? Before turning to this important question in the next section, we would like to reiterate the point that “we must not assume EMNEs behave the way they do only because of their roots in emerging markets” (Ramamurti, 2012: 45).

As shown in Figure 13.1, at least two other explanatory variables besides industry are often overlooked when comparing the behavior of EMNCs and advanced country MNCs. The first is the global context in which a firm internationalizes, because the costs, risks, and challenges a firm faces in the course of internationalization are not fixed
over time. Indeed, these barriers to internationalization have fallen significantly since World War II, especially in the 1990s and 2000s, making it easier for firms everywhere to internationalize more quickly and easily. Recognizing this is important when analyzing differences in the pace or mode of internationalization by EMNCs versus the way in which MNCs from Europe, the United States, or even Japan internationalized in an earlier period. In his chapter, Godley argues persuasively that historical analysis can yield valuable insights into which aspects of EMNCs’ behavior are truly novel and which are not. He notes that many British firms internationalized to acquire FSAs rather than to exploit FSAs developed at home – a feature that is sometimes regarded as novel to EMNCs. Similarly, he notes that German firms went through a period of catching up with British firms in the late nineteenth century, which has parallels with contemporary examples of catch-up by emerging market firms, a topic addressed by Brandl and Mudambi in their chapter. But in making such historical comparisons researchers must take into account the greater ease with which firms can internationalize today than they could fifty or a hundred years ago. We agree with Williamson’s suggestion in his chapter that “today’s global context” (and its differences with prior global contexts) is an important topic for research by scholars working on EMNCs.

In the same vein, in comparing EMNCs and Western MNEs, one must keep in mind that some of the observed differences may arise from differences in their stage of evolution rather than their country of origin (Ramamurti, 2009: 419). Although some EMNCs expanded beyond their home countries several decades ago, most have done so only recently and they operate in only a few countries. In contrast, large MNCs from advanced economies operate in several countries and have years of experience with global coordination, staffing, and brand building (Chattopadhyay, Batra, and Ozsomer, 2012). One must be careful not to explain an observed behavior of EMNCs by their country of origin when in fact it is properly explained by their stage of development as a multinational firm.

Government support is a feature that the study of EMNCs highlights and that requires additional attention, as Aharoni indicates, but it is not exclusive to them. Although many of the leading EMNCs are state-owned, it is not uncommon to find state-owned multinationals in advanced economies, like in France or Italy, or to find sovereign wealth funds from advanced economies, like Norway or Singapore,
investing abroad. Moreover, some large advanced economy MNCs are minority government-owned, such as Renault, which is 15 percent owned by the French state or Volkswagen, which is 20 percent owned by the German state of Lower Saxony.

Another feature incorrectly regarded as a novel feature of EMNCs is their tendency to use cross-border M&As more aggressively than did previous generations of MNCs from Europe or the US. But this again is a result of when EMNCs are internationalizing, i.e., in a period when global finance and capital markets were liberalized and firms everywhere found it easier to raise the capital to make bold cross-border acquisitions. In 2012, all but seven of the forty-seven cross-border deals valued at more than US$3 billion were done by acquirers from advanced economies (UNCTAD, 2013).

Additionally, there seems to be a general misunderstanding of the overall importance of the rapid rise of EMNCs, which rather than being unique is part of a general trend of rising OFDI. Table 13.2 and Figure 13.2 provide a summary of the evolution of OFDI flows and stocks. Between 1970 and 2012, outward FDI flows from emerging economies did indeed grow from US$0.05bn to US$339.3bn; as a share of world flows they grew from 0.35 percent to 24.4 percent in this period. However, they still represent only a quarter of OFDI flows from advanced economies, which grew in these years from US$14.1bn to US$1,051.6bn. In terms of OFDI stock, between 1980 and 2012, the amounts held by emerging economies grew from US$57.6bn to US$2,928.1bn, but as a percentage of the world total it grew only slightly in this period, from 10.50 percent to 12.41 percent. Moreover, if one subtracts OFDI flows from offshore financial centers, which are classified as emerging economies but that are often only conduits for

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2 We use the list of the International Monetary Fund to classify countries as advanced economies. The IMF (2000) list includes the following: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, United Kingdom, and United States. Emerging economies are those that are not classified as advanced.

3 We use the list of the International Monetary Fund to classify economies as being offshore finance centers. The IMF (2011) list includes the following: Andorra, Anguilla, Aruba, Bahamas, Belize, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Cyprus, Gibraltar, Guernsey, Isle of Man, Jersey, Liechtenstein, Macao, Malaysia, Monaco, Montserrat, Netherlands Antilles, Palau, Panama, Samoa, Seychelles, Turks and Caicos Islands, and Vanuatu.
Figure 13.2 Evolution of OFDI from advanced and emerging economies.

Table 13.2  OFDI flows and stocks from emerging and advanced economies, selected years.

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<tbody>
<tr>
<td>OFDI flows in US$m</td>
<td>50</td>
<td>494</td>
<td>2,952</td>
<td>2,124</td>
<td>1,107</td>
<td>7,847</td>
<td>62,692</td>
<td>109,902</td>
<td>322,785</td>
<td>339,307</td>
</tr>
<tr>
<td>OFDI stocks in US$m</td>
<td>n.a.</td>
<td>n.a.</td>
<td>57,672</td>
<td>68,306</td>
<td>93,291</td>
<td>168,727</td>
<td>352,351</td>
<td>779,372</td>
<td>2,280,076</td>
<td>2,928,130</td>
</tr>
<tr>
<td>OFDI flows as percentage of world total</td>
<td>0.35</td>
<td>1.73</td>
<td>5.72</td>
<td>3.42</td>
<td>0.46</td>
<td>4.91</td>
<td>5.05</td>
<td>12.16</td>
<td>21.45</td>
<td>24.39</td>
</tr>
<tr>
<td>OFDI stocks as percentage of world total</td>
<td>n.a.</td>
<td>n.a.</td>
<td>10.50</td>
<td>7.60</td>
<td>4.46</td>
<td>4.45</td>
<td>4.39</td>
<td>6.20</td>
<td>10.79</td>
<td>12.41</td>
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<tbody>
<tr>
<td>OFDI flows in US$m</td>
<td>40</td>
<td>389</td>
<td>2,286</td>
<td>1,619</td>
<td>2,118</td>
<td>11,085</td>
<td>18,954</td>
<td>80,246</td>
<td>235,416</td>
<td>269,108</td>
</tr>
<tr>
<td>OFDI stocks in US$m</td>
<td>n.a.</td>
<td>n.a.</td>
<td>56,545</td>
<td>65,768</td>
<td>87,313</td>
<td>143,305</td>
<td>233,595</td>
<td>559,107</td>
<td>1,701,631</td>
<td>2,211,730</td>
</tr>
<tr>
<td>OFDI flows as percentage of world total</td>
<td>0.28</td>
<td>1.36</td>
<td>4.43</td>
<td>2.61</td>
<td>0.88</td>
<td>3.05</td>
<td>1.53</td>
<td>8.88</td>
<td>15.64</td>
<td>19.35</td>
</tr>
<tr>
<td>OFDI stocks as percentage of world total</td>
<td>n.a.</td>
<td>n.a.</td>
<td>10.30</td>
<td>7.32</td>
<td>4.17</td>
<td>3.78</td>
<td>2.91</td>
<td>4.44</td>
<td>8.05</td>
<td>9.37</td>
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<tr>
<td>OFDI flows in US$m</td>
<td>14,101</td>
<td>28,099</td>
<td>48,624</td>
<td>59,920</td>
<td>240,315</td>
<td>345,675</td>
<td>1,177,624</td>
<td>793,862</td>
<td>1,182,143</td>
<td>1,051,649</td>
</tr>
<tr>
<td>OFDI stocks in US$m</td>
<td>n.a.</td>
<td>n.a.</td>
<td>491,393</td>
<td>830,466</td>
<td>1,998,205</td>
<td>3,623,970</td>
<td>7,674,210</td>
<td>11,799,437</td>
<td>18,849,974</td>
<td>20,664,620</td>
</tr>
<tr>
<td>OFDI flows as percentage of world total</td>
<td>99.65</td>
<td>98.27</td>
<td>94.28</td>
<td>96.58</td>
<td>99.54</td>
<td>95.09</td>
<td>94.95</td>
<td>87.84</td>
<td>78.55</td>
<td>75.61</td>
</tr>
<tr>
<td>OFDI stocks as percentage of world total</td>
<td>n.a.</td>
<td>n.a.</td>
<td>89.50</td>
<td>92.40</td>
<td>95.54</td>
<td>95.55</td>
<td>95.61</td>
<td>93.80</td>
<td>89.21</td>
<td>87.59</td>
</tr>
</tbody>
</table>

investment by advanced economy firms, the share of emerging economies in global OFDI stocks drops from 10.30 percent in 1980 to 9.37 percent in 2012.

EMNCs’ country of origin and internationalization dynamics

EMNCs and advanced economy MNCs share many common features as multinationals, but the country of origin of EMNCs results in some particular internationalization patterns. This is the argument made in Lessard’s chapter and the RAT-CAT framework, whereby the particular resources and capabilities developed at home result in distinct internationalization needs and patterns.

We suggest two main drivers of unique EMNC internationalization. The first one is the underdeveloped economy that characterizes emerging countries, with a majority of consumers having low levels of income and an economic structure with limited providers of sophisticated technology and services. The second distinct driver is the underdeveloped institutions that bedevil many emerging countries, with unclear rules and regulations that are not predictably applied. These two drivers induce domestic firms in emerging countries to develop particular resources and capabilities that can help them internationalize; we term these positive influences. However, the underdevelopment of the country of origin in some occasions force firms to internationalize and escape to foreign countries; we call these negative influences. Table 13.3 summarizes the resulting two-by-two classification and the ideas we discuss now. This discussion of positive and negative influences is similar to the pull and push approach adopted by Fleury and Fleury in their explanation of the particular patterns of internationalization followed by Brazilian MNCs in response to the particular conditions of the country of origin, as well as by Pedersen and Stucchi in their analysis of the dual influence of business group affiliation on the internationalization member firms.

Undeveloped economic systems and the internationalization of EMNCs

The underdevelopment of the economy takes the form of not only a large number of relatively poor consumers, but also a lower
Table 13.3 **Impact of the economic and institutional underdevelopment of emerging countries on the EMNCs’ internationalization.**

<table>
<thead>
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<th>Distinct characteristic of emerging countries</th>
<th>Impact of characteristics of the home country on the firms’ international competitiveness and internationalization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underdeveloped economy:</strong></td>
<td><strong>Positive:</strong> Home country characteristics induce firm to develop resources and capabilities that support its advantage and internationalization</td>
</tr>
<tr>
<td>Prevalence of low income consumers and underdeveloped providers of services</td>
<td><strong>Negative:</strong> Home country characteristics force firm to internationalize to solve disadvantages</td>
</tr>
<tr>
<td><strong>Trickle-up innovation:</strong> Manages innovate products or business models to better serve the needs of a large segment of low-income people in the emerging country and then internationalize to (1) serve low-income consumers in emerging countries, (2) serve low-income consumers in advanced countries, or (2) serve high-income consumers in advanced countries who do not want to pay a premium for products</td>
<td></td>
</tr>
<tr>
<td><strong>Self-reliant innovation:</strong> Manages innovate products, manufacturing process, or business models to reduce the dependence on unreliable infrastructure in the emerging country and then internationalize to (1) serve consumers with underdeveloped infrastructure in emerging economies, (2) serve consumers in advanced economies with underdeveloped infrastructure in remote areas, or (3) serve consumers in advanced economies with reliable infrastructure with a more efficient production system</td>
<td></td>
</tr>
<tr>
<td><strong>Technological escape:</strong> Managers internationalize their firms to compensate for the underdeveloped infrastructure and obtain sophisticated technology from firms in advanced economies by (1) reverse engineering and copying products from advanced economy firms, (2) getting technological licenses from advanced economy firms, (3) establishing alliances with advanced economy firms, or (4) acquiring firms in advanced economies to improve home operations</td>
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<td><strong>Marketing escape:</strong> Managers internationalize their firms to compensate for the discrimination of the country of origin by customers and modify the country of origin by (1) adopting an advanced economy name, (2) claiming an advanced country of design or manufacturing, (3) obtain an advanced economy brand that compensates for the perception of the country of origin of production</td>
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</tbody>
</table>
Underdeveloped institutions:
Prevalence of unclear pro-market rules and regulations

Improvisation management: Managers learn to improvise to deal with unclear rules and regulations and use this ability to internationalize the firm by (1) entering more diverse countries and (2) being more willing to take risks abroad.

Self-reliance management: Managers learn to control operations to deal with the uncertainty in the application of rules and regulations and use this ability to internationalize the firm by seeking higher levels of control of foreign operations.

Institutional escape: Managers internationalize their firms to compensate for the deficiencies in institutions of the country of origin and enter countries with higher corporate governance standards to signal their commitment to protecting investor rights.

Discriminatory escape: Managers internationalize their firms to compensate for the discrimination of the country of origin by host country governments and move legal incorporation to an advanced economy.
sophistication of supporting infrastructure, both hard infrastructure, such as telecommunications or transportation, and soft infrastructure, such as suppliers and distributors (Khanna and Palepu, 2010). This relatively low level of economic development of emerging countries has both positive and negative influences on the firm’s internationalization. Positive influences are the ones whereby companies create innovations to address the economic underdevelopment that can help them not only compete at home but also abroad. Negative influences are the ones whereby firms are forced to internationalize to address the economic underdevelopment of the home country.

**Positive.** A large proportion of the population with low levels of income can be seen as a competitive disadvantage, but it can also force companies to create new products that are ultra-affordable (Prahalad, 2004). Such innovation goes beyond producing a product that has a low price because the production costs in the emerging country are lower. The innovation requires the redesign of the product so that essential features are maintained and the overall price of the product is reduced (e.g., simple cell phones with multiple addresses for multiple users in developing countries), or the rethinking of the payment system so that the effective cash paid by consumers is reduced, even if the price is not (e.g., offering low-income customers the option to make biweekly payments to purchase durable goods over extended periods of time). This idea of the firm using the conditions of the location to create innovations builds on Narula’s argument that the location advantages are limited to certain firms rather than being available to all firms, as many studies tend to assume. A large population with low income levels can help firms create innovations, but it is not automatic that all firms will be able to create such innovations just by being exposed to low-income customers.

These innovations not only help some firms compete and serve customers at home, but also help them become multinationals. One way is to use these innovations in other emerging economies with similar large numbers of low-income consumers. This follow a similar logic as the explanation of internationalization discussed by Vernon (1966); he argued that advanced economy firms created innovations for wealthy consumers and then sold them to wealthy consumers in other advanced economies. A more creative internationalization is via trickle-up innovation (Govindarajan and Ramamurti, 2011), when the company uses innovations generated to serve low-income consumers
at home to enter advanced countries to serve wealthy customers there. Wealthy consumers purchase the innovation not because they do not have the income to buy a higher priced product, but because they prefer to pay less for a good enough product or value features such as simplicity of design and ease of use that were developed to serve low-income consumers.

In addition to innovating to serve poor consumers, a company in an emerging economy can innovate to deal with underdeveloped infrastructure. The firm may have to redesign products to be self-reliant (e.g., high alcohol content beer to ensure quality during transportation in countries with no reliable cold chains), or the firm may engage in organizational innovations in its operations and value chain, internalizing the infrastructure that in advanced countries is externalized (e.g., having back-up generators to produce electricity when the electric grid is down). These innovations addressing the constraints of the environment have been termed *jugaad* innovation (Radjou, Prabhu, and Ahuja, 2012).

Such innovations can be used to help the firm become a multinational and enter countries with similar conditions, as well as more advanced countries to serve customers that have limited access to infrastructure, for example in rural or remote areas, or to serve consumers that temporarily lack access to infrastructure, such as recreational campers or in the aftermath of natural disasters. Additionally, organizational innovations can be the basis for the advantage in other countries, not only similar developing countries with unreliable infrastructure, but also advanced countries, where local rivals may not have mastered techniques of low-cost production.

**Negative.** However, the economic underdevelopment of the country may alternatively detract from the firm’s ability to build a competitive advantage, inducing managers to internationalize their firms and escape the underdevelopment of the home country.

The emerging market firm may engage in technological escape, entering more advanced countries to obtain technologies unavailable at home. The educational and innovation system in emerging countries is likely to not be up to par with advanced economies, limiting the ability of the firm to developed advanced technologies. Universities and technical colleges may not produce enough graduates in advanced fields; primary education may not be good, limiting the ability of employees not only to generate technology but also to use advanced imported
technology; and the government may not support innovation or provide the necessary protection of intellectual property rights.

Technological escape can take several forms as the firm accesses foreign technology using alternative methods. First, it can be done by importing foreign technology, either as part of a technology transfer agreement with a provider from an advanced country or by merely reverse engineering foreign products and copying how the products are designed (Chittoor et al., 2009; Luo, Sun, and Wang, 2011). Second, the firm may establish alliances with firms from advanced economies, helping these access the local market or factors of production in exchange for learning how to produce more sophisticated products or how to organize production more efficiently (Kumaraswamy et al., 2012). Third, the firm in the developing country may choose to acquire a firm in an advanced economy to obtain sophisticated technology; by achieving control it can transfer the sophisticated technology to the home operation by training its employees in the advanced country on how to use the technology (Madhok and Keyhani, 2012).

The firm may want to engage in marketing escape to avoid the negative perception of underdevelopment of the country of origin on its products. Consumers rely on the country of origin of a product as a cue to assess its quality (Bilkey and Nes, 1982) and products from emerging markets tend to be perceived as inferior because they are associated with the lower level of development. To avoid this association, the emerging market firm may internationalize. The company can change the brandname to facilitate its association with a different country (e.g., the Chinese white goods firm Haier was originally called Qingdao Refrigerator but changed its name to the German-sounding Haier). Alternatively, the company can purchase brands in advanced countries to which consumers have a positive association to reduce the association with the emerging country. This differs from acquiring local brands to enter a country quickly, which is done not only by developing country firms but also by many advanced economy firms.

Undeveloped institutions and the internationalization of EMNCs

The underdevelopment of institutions in emerging markets has both positive and negative impacts on the internationalization of firms. Many emerging countries have underdeveloped institutions, but this
does not mean that emerging countries lack institutions. Institutions are the norms and regulations that facilitate economic and social relationships, and all countries have them. However, emerging economies have less developed pro-market institutions, or norms and regulations that facilitate market transactions. In many emerging economies, rules and regulations are unclear, partly because many emerging countries have been moving from high levels of government intervention in the economy toward a more open and pro-market system, and in many cases the old rules and regulations have not been fully repealed. As a result, the application of the rules and regulations is unclear.

Positive. Underdeveloped institutions in emerging countries induce firms to improvise. To accommodate the uncertainty in rules and regulations and their application, managers develop a more flexible view of rules and regulations, being willing to bend and bypass them with some creativity. This flexibility regarding rules and regulations is captured in the Brazilian concept of *jeitinho*, with managers finding creative ways to get around rules, and asking for forgiveness later rather than for permission before.

This ability to improvise in the face of uncertain rules and regulations can then be used in the internationalization of EMNCs. Improvisation management can be used not only to enter countries in which rules are also unpredictable, like other emerging countries, which would be the natural advantage of these firms (Cuervo-Cazurra and Genc, 2008), but also to internationalize more widely and into countries that are very different from the country of origin (Luo and Tung, 2007). The manager can use this improvisation ability to deal with the differences across countries. This ability is reinforced in business groups, as the chapter by Pedersen and Stucchi highlights, because affiliated firms can draw not only on their own abilities to improvise but also those of sister firms in the group.

Alternatively, managers may develop a self-reliant management style that influences the internationalization of their firms. The application of the rules in emerging countries may not be as predictable as in advanced economies because the agencies that implement the rules and the judicial system that solves disputes are not as efficient and do not always follow the rule of law. Thus, managers in developing countries develop a self-reliant management, relying more on interpersonal relationships, the establishment of personal
trust on the counterparty, and social mechanisms to enforce contracts, because they cannot rely on the legal and judicial system to enforce contracts consistently. This is reflected in developing country firms having a higher degree of vertical integration and wider diversification (Khanna and Yafeh, 2007). This experience of internalizing many of the economic relationships to reduce the potential for expropriation is carried over to foreign operations, with managers of EMNCs having a higher initial tendency to control foreign operations than managers in advanced countries.

**Negative.** The underdevelopment of institutions can also have a negative consequence on the firm and induce it to follow institutional escape, internationalizing into countries that have more developed institutions to deal with the limitations of the home country (Witt and Lewin, 2007). Operating in a country with underdeveloped institutions may mean that corporate governance mechanisms are not well functioning. As a result, the firm faces challenges in its ability to obtain capital because potential investors are deterred by the lack of protection for investors (Djankov et al., 2002). Managers of the best run companies in emerging markets may be forced to internationalize and seek finance in advanced economies with better corporate governance, signaling that their firms are better and willing to implement stricter corporate governance controls (Coffee, 2002).

Additionally, managers of emerging country firms may follow a discriminatory escape and invest in advanced countries to reduce the negative perception that some host governments have against investments by firms from emerging countries. This is one of the points made in Barnard’s chapter about migrating MNCs and their search for legitimacy abroad. The weak institutions in the developing country may create misconceptions regarding the objective and ability of the firm in protecting rights and fulfilling contracts. Governments in advanced countries may discriminate against firms from emerging countries because they perceive that they are not able to uphold good governance standards, ensure the safety and rights of their workers, or have tight links with governments they find unsavory. To avoid the link with the home country and the discrimination by the host country the company may be forced to move headquarters to a more advanced country. This movement can also help get around politically motivated trade embargoes against particular countries, with the firm uprooting to countries not subject to the embargo.
Conclusion: an agenda for EMNC research

A research agenda for the future

The preceding chapters and the ideas presented before outline several themes in which the analysis of EMNCs can help add new insights to our understanding of MNCs. Future studies can build on these ideas in several ways: uniqueness of EMNC behavior, capability development in EMNCs, internationalization of EMNCs, and the evolution of the relationship between EMNCs and their countries of origin.

First, future studies need to be more careful in making claims that EMNCs are unique. Researchers need to take a step back and reflect not only on what we already know about MNCs in general but also whether or not MNCs from advanced economies will show similar patterns of behavior. Studies of EMNCs need comparison with a control group, whether directly in the empirical analysis or indirectly in the theoretical analysis, to be able to differentiate what is truly unique about EMNCs from what advanced economy MNCs may do as well, as Aharoni and Godley caution. These comparisons have already resulted in the identification of some influences on EMNC behavior that are not the result of the country of origin but rather are driven by other influences that can affect advanced economy MNCs as well, such as industry, stage of evolution as a multinational, or the context of globalization, as Ramamurti (2012) indicates. Other influences that may be interesting to analyze and that may not be exclusive to emerging countries are the impact of belonging to a business group or being owned by the state, as Aharoni as well as Pedersen and Stucci indicate.

Second, when analyzing the development of resources and capabilities in an emerging market context, future studies can analyze the positive and negative influences of the lower level of development of the home country. On the one hand, by being in a less developed country EMNCs can benefit from the advances made by firms in developed countries and imitate what those firms have done, using them as benchmarks, as Brandl and Mudambi indicate. Additionally, operating in countries in which intellectual property rights are weakly protected can be beneficial for the firms as they can copy technology and innovations with impunity. Moreover, the company may be able to make use of large numbers of trained and relatively inexpensive engineers and scientists to reverse engineer and improve existing technologies, although the access to such location advantages may not be
automatic as Narula indicates. On the other hand, the lower level of development of the country does create limitation in the firm’s ability to generate sophisticated resources and capabilities and may force it to seek external support, forcing it to move abroad in search of the technology, intellectual property protection, or skilled engineers and scientists that are lacking at home, as Williamson notes. Additionally, the lack of protection of intellectual property can force firms to develop capabilities that are organizationally complex and difficult to copy by competitors because other kinds of advantage may be easily copied. These capabilities, which may be appropriate for operating at home and tied to particular conditions there, may be more difficult to move to other countries and thus limit the firm’s ability to compete globally, as Rugman and Nguyen as well as Narula indicate.

Third, the internationalization process of EMNCs can shed new light on the home country’s influence on the international behavior of firms, and on how the lack of development of the country has a positive and negative influence on its internationalization. The lack of development in the economy and institutions can lead EMNCs to develop product, process, organizational, and managerial innovations that support their internationalization not only in other emerging countries but also in more advanced countries, as Lessard indicates. Alternatively, this same lack of development induces firms to seek the technological, marketing, institutional, and discriminatory escape from the home country, as Williamson and Barnard note. Beyond these influences, additional topics that future research can analyze are the management of the international operations of EMNCs, and how the lower level of development of the home country affects not just the international expansion but also the management of foreign operations. Thus, in addition to limited low-cost capital that is typical of emerging countries, and that can constrain the ability of EMNCs to invest abroad, EMNCs may face limitations due to a limited supply of skilled and experienced managers in the home country who know how to manage foreign operations. This plays a large role when the firm is accessing a more advanced country for technology and needs to manage the transfer of such technology to the home country; the EMNC may lack the experience and ability to transfer much of the technology, as this is embedded within the larger innovation and educational system in the advanced country. Additionally, expatriate managers who come from emerging countries may not receive the same respect as managers who
come from advanced countries, even within the foreign subsidiary of the EMNC, further complicating their international expansion. Other challenges that EMNCs are likely to experience, such as limited internationalization experience within the firm or the need to readjust the organizational structure of the company as foreign operations grow in importance, are common to advanced economy MNCs in the early stages of multinationalization, as Narula and Meyer caution in their respective chapters.

Fourth, a final area in which to analyze EMNCs is the evolution of these firms and the relationships with their countries of origin. The influence of the home country, both as the main source of resources and advantages and also a source of disadvantages, will gradually decrease over time as the EMNC operates in multiple countries and is able to draw from sources of advantages in other countries. However, it may be the case that the country of origin starts losing some of its influence on some dimensions of the firm, such as being the primary source of competitive advantage and funds, but not on others, such as having most top managers from the emerging country and influencing how the firm is run. Another interesting evolution to study is how the development of the home country alters its influence on the advantage and internationalization of the EMNC. As emerging countries achieve advanced economy status, the advantages and disadvantages of firms change and subsequently affect their internationalization process, but managers may maintain a historical memory of coming from an emerging country that results in different attitudes and decisions. The analysis of firms from, for example, Taiwan, South Korea, Hong Kong, or Singapore that have internationalized in the 2000s can offer interesting insights in this process.

Conclusion

EMNCs have received much attention in recent times but not all studies distinguish carefully between behaviors that are applicable to all MNCs and those that are truly peculiar to EMNCs. In this volume we have tried not to lose sight of that important distinction. We propose that the unique features of EMNCs result from two home country features – economic underdevelopment and institutional underdevelopment. Existing theories are appropriate for explaining much of their behavior as MNCs, but in the early stages of internationalization, when
the country of origin exerts a large influence on firms, the lower level of economic and institutional development of emerging economies seems to lead to material differences between EMNCs and AMNCs.

This chapter distills many of the arguments presented in the previous chapters and tries to improve our understanding of EMNCs in particular and MNCs in general. First, it identifies distinct drivers that result in particular behaviors of EMNCs, providing not just a description of EMNC behavior but also an explanation of why these firms behave as they do. Second, it explains how the lower level of development of the home country of EMNCs results in particular sources of competitive advantage and particular patterns of evolution, as well as in positive and negative motivations for internationalization. Finally, we summarized four themes for future research to improve our theories of EMNCs and MNCs.

We hope that international business and strategy scholars will pursue these questions – and others proposed in the individual chapters of this volume – to improve our understanding of EMNCs and our theories of MNCs.

References
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