



# Research on emerging-market multinational enterprises: Extending Alan Rugman's critical contributions



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## ABSTRACT

We summarize Rugman's contributions to the literature on emerging-market multinational enterprises (EMNEs) and propose directions to extend his work. We first review his work, where he extended his early research on international business theories to understand the nature, positioning, and activities of EMNEs. EMNEs typically exhibit home-based firm-specific advantages (FSAs) yet lack host-based and non-location-bound FSAs. Most of their sales or assets are focused on the domestic market. Given that the goals of EMNEs may conflict with or complement those of their home or host governments, EMNEs either receive government support or face regulatory barriers. We propose several directions for further research: investigating the mechanisms (e.g., international acquisitions) through which EMNEs develop strong FSAs, exploring the strategy and performance of state-owned EMNEs (vs. private EMNEs), and constructing comprehensive datasets to test the strategy and performance of EMNEs.

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## 1. Introduction

Emerging-market multinational enterprises (EMNEs) comprise an integral part of Alan Rugman's research in the past decade. In more than 15 research articles, Rugman et al. discussed the nature, positioning, and activities of EMNEs by referring to their early work on internalization theory, the country- and firm-specific advantages (CSA–FSA) framework, the regional strategies of MNEs, and the interactions between MNEs and governments (Rugman, 1981, 2006; Rugman & Verbeke, 1998, 2004). These articles shed light on the competitive advantages and disadvantages of EMNEs, their internationalization strategies, and the public policies toward EMNEs, thereby laying out foundations for EMNE research. We summarize Rugman's critical contributions in the literature and propose several directions to extend his work.

We examine Rugman's application of the classic CSA–FSA framework to the EMNE context. Rugman and Li (2007) and Rugman (2010) observed that EMNEs depended on their CSAs to develop their FSAs, which allowed them to exploit their home or regional market. Given that these firms have yet to develop host-based FSAs by recombining their FSAs with host CSAs (Rugman & Nguyen, 2014), they have low national responsiveness in a host country. Moreover, they have yet to develop non-location-bound

(NLB) FSAs, which are necessary to achieve the scale, scope, and exploitation of national differences (Rugman & Nguyen, 2014). Consequently, EMNEs also have a low level of economic integration across the globe.

We also examine Rugman's research on the regional strategies of EMNEs. By analyzing the geographic distribution of EMNEs' sales and assets, Rugman and Li (2007), Rugman and Nguyen (2014), Rugman and Oh (2008b) and Rugman, Oh and Lim (2012) found that EMNEs tended to concentrate their sales activities or place their assets in their home regions. This finding is consistent with Rugman's early work on MNEs from developed markets (Rugman & Verbeke, 2004).

We then review Rugman's investigation of the interactions between EMNEs and their home/host governments. When EMNEs have conflicting goals with their host governments, they might face regulatory barriers in the host countries (Rugman, Nguyen, & Wei, 2014). Such conflicts may result from the weak FSAs of EMNEs, which subsequently engender weak contributions to local economic development (Rugman, 2010). The fact that some EMNEs, particularly those from China, are owned by the state further increases their potential conflicts with the host governments because they may pursue political objectives, which will trigger national security concerns in the host countries (Rugman et al., 2014).

We also propose potential research opportunities to extend Rugman's work. How EMNEs improve their FSAs (e.g., host-based and NLB FSAs) through international investments is worthy of an

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in-depth investigation. The strategy and performance of state-owned versus private EMNEs can also be a fruitful research area. These two groups of firms differ in terms of the consistency of their goals with those of their home and host governments, thereby inducing their differential international investment behavior. Finally, given that additional rigorous empirical tests are necessary to advance the EMNE literature, we also propose various methods for constructing the datasets.

**2. Rugman's critical contributions to EMNE research**

Rugman argued that “existing international business theory fully explains the nature and positioning of emerging market MNEs;” therefore, no new theory is needed (Rugman, 2010: 82). Rugman et al. applied existing international business theories to understand the nature of foreign direct investments (FDI) by EMNEs. Three theoretical frameworks or perspectives developed and advocated by Rugman et al. were used to study such investments.

**2.1. CSA/FSA matrix of EMNEs**

The CSA–FSA framework has been used traditionally in the international business field to analyze the competitive advantages of a multinational enterprise (MNE) (Rugman, 1981, 2006). This model suggests that successful MNEs are often built on the

interaction between strong CSAs (e.g., natural resource endowments, labor force, and cultural factors) and strong FSAs (e.g., unique resources, capabilities, and strengths) specific to an MNE (Rugman, 1981). When investing overseas, MNEs tend to face strong liability of foreignness (Zaheer, 1995), particularly in countries whose cultural, political, economic, and geographic conditions differ from those of the home country (Ghematwat, 2001). To address such liability, MNEs must transfer their FSAs from their home country to the host country. However, the large distance in the conditions of these countries may hinder the transfer and necessitate the development of host-based FSAs or subsidiary-specific advantages (SSAs) (Rugman & Verbeke, 1992, 2001).

Fig. 1 summarizes four scenarios with respect to the sources of competitive advantages for EMNEs depending on whether the home CSAs and FSAs are weak or strong. Following Rugman and Oh (2008b) and our calculations, we include 55 EMNEs with available FSA data in Fig. 1. A firm whose R&D or advertising intensity (i.e., R&D or advertising expenditure divided by sales) is higher than the average of the emerging market firms in the Fortune Global 500 list is considered to have strong FSAs.

Previous studies have placed the majority of the EMNEs into quadrant 1 (weak FSAs and strong CSAs) of the CSA/FSA matrix (Rugman & Li, 2007; Rugman, 2010). Our calculations also suggest that 73% of the 55 EMNEs are placed in quadrant 1. These firms are often engaged in natural resource and other commodity-type

		Firm-Specific Advantage (FSA)	
		Weak	Strong
Country-Specific Advantage (CSA)	Strong	<b>1.</b> <u>Brazil (3/4)</u> <u>China (9/11)</u> <u>India (7/7)</u> <u>Korea (7/13)</u> <u>Mexico (4/4)</u> <u>Russia (7/8)</u> <u>Singapore (0/2)</u> <u>South Africa (1/1)</u> <u>Taiwan (2/4)</u> <u>Turkey (0/1)</u>	<b>3.</b> <u>Brazil (1/4)</u> Vale (CVRD)* <u>China (2/11)</u> Jardine Matheson*, Lenovo <u>India (0/7)</u> <u>Korea (6/13)</u> POSCO, Hyundai Motor*, LG Elec.*, Samsung Elec.*, Shinhan Financial Group, Woori Financial Group <u>Mexico (0/4)</u> <u>Russia (1/8)</u> Gazprom <u>Singapore (2/2)</u> Flextronics, Wilmar International <u>South Africa (0/1)</u> <u>Taiwan (2/4)</u> ASUSTek Computer*, Hon Hai Precision Industry <u>Turkey (1/1)</u> Koc Holding
	Weak	N/A	N/A

**Fig. 1.** CSA–FSA matrix of EMNEs.

Notes: a firm with strong FSAs has higher R&D or advertising intensity than the average R&D or advertising intensity of emerging market firms on the Fortune Global 500 list. \* indicates those firms that have higher R&D or advertising intensity than the corresponding average values of all firms on the list. Our sample includes 55 EMNEs from 1999 to 2008. The data sources include Rugman and Oh (2008b), annual reports of companies, Compustat Global, and Bureau van Dijk.

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