



# Internationalization of emerging Indian multinationals: Linkage, leverage and learning (LLL) perspective



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## ABSTRACT

The multi-polar world in which we now live and work demands re-examination and refinement of the traditional understanding of the internationalization strategies and competitive advantages of multinational firms by incorporating the characteristics of firms from emerging economies. Based on interviews in four Indian multinationals in different industry segments, we present the “voices” of Indian corporate leaders to provide preliminary evidence on the primary motives behind the internationalization process of emerging multinationals from the perspective of linkage, leverage and learning (LLL). We show how the case study organizations have evolved themselves to become credible global players by leveraging on their learning through targeted acquisitions in developed markets to acquire intangible assets and/or following global clients in search of new markets and competitive advantages.

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## 1. Introduction

“For Asia and around the world, India is not simply emerging. India has emerged” (US President, Barack Obama addressing the Indian parliament on 8th November, 2010).

Multinationals from emerging economies are not a new phenomenon and have existed for over 50 years but the current focus on them is beginning to open up new thinking in terms of the motives, opportunities and constraints behind their internationalization (Aulakh, 2007; Wilkinson, Wood, & Demirbag, 2015). The spread, speed and intensity of the growth of emerging market multinational enterprises (EMMNEs) and their impact on international business have caught researchers by surprise (Sirkin, Hemerling, & Bhattacharya, 2008). Equally, “[...] (the) complementarity between the characteristics of the emergent global economy and latecomer and newcomer strategic and organizational innovations is what drives the remarkable success of these

Asia Pacific firms in establishing themselves as serious international players” (Mathews, 2006a: 5).

The EMMNEs are defined as “international companies that originated from emerging markets and are engaged in outward foreign direct investment (FDI), where they exercise control and undertake value-adding activities in one or more foreign countries” (Luo & Tung, 2007: 4). Given the increasing number of EMMNEs entering Western developed economies, one can no longer classify them as unusual cases from obscure countries (Ramamurti, 2009; Ramamurti & Singh, 2009; Yeung, 1999). Furthermore, by no means can EMMNEs be considered as homogeneous as they come from different countries and industries and target different markets with different entry strategies and firm-specific advantages. They also operate in a different economic landscape, which is much more globalized and opening new “global gateways”. This makes it difficult to generalize their features and compare them with traditional MNEs (Ramamurti, 2009). We believe that EMMNEs present the greatest challenges for scholarship – given the difficulties they face in breaking into fresh markets, acquiring advanced technologies, and integrating themselves in global value chains. So their study is even more rewarding than in the case of advanced MNEs, especially in the absence of reliable information in the case of the former.

A key issue for researchers and practitioners is to understand the ways in which EMMNEs are distinctive from MNEs from

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developed countries. But despite the significant growth of EMMNEs in the last decade or so, our understanding of how they differ from traditional, Western MNEs remains limited and is often based on anecdotal evidence (OECD, 2006; Wright, Filatotchev, Hoskisson, & Peng, 2005). The EMMNEs have to overcome the double hurdle of liability of foreignness (Hymer, 1976) and liability of country of origin. While liability of foreignness is unavoidable for any MNE, the liability of country of origin and specifically the disadvantages because of perceived weakness and lack of global dominance of the home country's economy is more of an issue for EMMNEs than for MNEs from developed economies (Chang, Mellahi, & Wilkinson, 2009: 76).

We observe that research on the internationalization strategies and competitive advantages of the EMMNEs is based on a wide variety of countries, including Turkey, Mexico, Taiwan (e.g. Bonaglia, Goldstein, & Mathews 2007; Mathews, 2002) as well as Chinese case studies (Gulli n & Garcia-Canal, 2009; Luo, Sun, & Wang, 2011; Luo & Rui, 2009; Luo & Tung, 2007; Tsai & Eisingerich, 2010). Indeed, Jormanainen and Koveshnikov (2012: 691) conclude that the geographic focus of most of the studies on EMMNEs is currently “clearly biased towards China, while other emerging markets remain under-researched”. In response to this, our paper focuses on Indian MNEs and traces their internationalization process in both the developed and developing markets, drawing out the parallels and similarities with other cases of EMMNEs' internationalization.

Indian MNEs have grown considerably in the last 10 years. Between 2004 and 2007, India's outward flow of FDI rose sharply from \$2 billion to \$14 billion (UNCTAD, 2008) but has come down since then. According to various studies, in 2014, eight Indian multinationals featured in Global Fortune 500 (Ghosh, 2014), five in the world's most valuable global brands (Forbes, 2014), and nineteen in Boston Consulting Group's BCG 100 new Global Challengers (BCG, 2014). While these figures dwarf in comparison with China but unlike China, Indian outward FDI is mostly driven by private firms and is more distributed across a variety of sectors (Athreya & Kapur, 2009). The Indian firms are showing a preference for overseas acquisition as an entry strategy, largely in North America and Europe, and over 70% of them prefer complete control over their overseas ventures, mainly to protect their firm specific advantages and also due to the relaxation of government policy restriction on Indian equity participation (Pradhan, 2007). According to a study that classified Indian MNEs according to a Transnationality Index developed by UNCTAD, “The top 15 Indian transnationals with assets of \$500 million or more earned 75% of their total revenues from international operations, held 57% of their total assets overseas, and employed 20% of their total workforce abroad” (Celly, Subramaniyan, & Kathuria, 2015).

The motives for Indian multinationals' entry into the developed markets included access to the latest technologies, to gain a foothold in the advanced markets, and as a strategic lever of value creation (Gubbi et al., 2010; Pradhan, 2007; Ray & Gubbi, 2009). According to UNCTAD (2006: 25), the key driver of internationalization for Indian multinationals is market related factors, i.e. “the need to pursue customers for niche products – for example, in IT services – and the lack of international linkages”. Along with the rapid international expansion by Indian firms since the early 2000s, researchers also note their ability to learn quickly to scale up the value chain. For example, many Indian firms in the pharmaceutical industry have transformed themselves from being “duplicative imitators” in producing generic drugs to become “creative imitators” and are well on their way to replace imitation with innovation by heavily investing in R&D capabilities (Chittoor et al., 2009; Kale & Little, 2007).

There is relatively little understanding of the internationalization process and strategies of EMMNEs in general (Mathews,

2006a) and India in particular (Bangara et al., 2012). This research aims to address this gap with its empirical findings. We begin this paper by summarizing the existing rather limited but growing body of literature on the EMMNEs, including key theoretical perspectives. Next, we describe the methodology adopted for our investigation and then present the findings of our research on four Indian multinationals in different industry segments, namely, Aditya Birla Group, Tata Motors, Wipro and Biocon, mainly in terms of linkage, leverage and learning perspectives. We conclude our analysis by discussing our findings and their implications for international business (IB) research and practice.

## 2. Understanding the internationalization of EMMNEs

The EMMNEs are seen as exhibiting certain distinctive characteristics. The government, particularly in the resources sector, owns a significant proportion of them whereas others are private or family-owned and they tend to be more conglomerates, operating in a broad range of industries (Accenture, 2008). While the heterogeneity of the EMMNEs in terms of their country of origin, the industries they operate and the strategies they adopt makes it difficult to generalize, it has been noted that compared to traditional MNEs, they operate in institutional voids in home countries, rely more on social networks and government support and operate more in mature technologies (Gammeltoft, Barnard, & Madhok, 2010). However, what all EMMNEs have in common is that they are latecomers to the global business – and they have to find ways to break into this advanced world (Gerschenkron, 1962; Mathews, 2006a, 2006b). They also need to link up with existing players (or acquire smaller players) and leverage as many resources as possible (technologies, market positions) from these linkages. Since they do this process over and over again, they learn to do it more efficiently, and get closer to competition.

According to Luo, Sun, and Wang (2011) the EMMNEs tend to exhibit balanced market orientation (between the demands of current domestic customers and potential international customers) but high entrepreneurial orientation (in terms of CEO ownership) in their successful pursuit of internationalization as they help to build their intangible resources. Equally, Gulli n and Garcia-Canal (2009) argue that unlike traditional MNEs that enter foreign markets to “exploit” their existing competitive advantages, the EMMNEs primarily internationalize to “explore” critical assets, such as R&D capabilities, managerial know how and global brands in advanced economies to upgrade their capabilities. In this context, March (1991: 71) contends that exploitation as a process of organizational learning is likely to be effective in the short run but can be self-destructive in the long run.

At the same time, EMMNEs use their homegrown competitive advantages to enter other emerging markets. For the above reasons, they pursue simultaneous entry into developed and developing country markets rather than from less to more distant countries. They typically pursue a rapid rather than gradual pace of internationalization in order to overcome the latecomer disadvantage. This is what Luo and Tung (2007) refer to as a “springboard perspective” aiming to bypass trade barriers in order to compete more effectively with global rivals at home, in other emerging markets and advanced markets. This “spring boarding strategy” has a dual motive of asset seeking and opportunity-seeking. Their entry mode is mainly via global alliances and acquisitions in contrast to green-field ventures to overcome the liability of foreignness and country of origin (Ghobadian, Rugman and Tung, 2014; Sun, Peng, Ren, & Yan, 2012).

One of the dominating Anglo-American theories on MNEs is the ‘eclectic theory’ of ownership, location and internalization (OLI), which emphasizes three aspects: ownership-related firm-specific advantages (why), location related country-specific advantages

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