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Emerging multinational companies and strategic fit: A contingency framework and future research agenda

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Summary There is an increasing awareness in international business that institutional factors need to be better incorporated into the understanding of international investments decisions of multinational companies. This applies equally to outward foreign direct investment by emerging economy firms. The intense renewal of interest in these 'emerging multinationals' over the last half decade or so has stimulated an increasing volume of contributions offering alternative theoretical perspectives, macro-level surveys of aggregate trends and case studies of firms and their strategies and operations. Not much has been suggested in terms of integrating various theoretical frameworks however and developing a more holistic understanding of these new investment flows. In this Editorial we propose that outward FDI from emerging economies can be better understood by analyzing them within a broad institutional framework of strategic fit. This theoretical approach may provide important insights concerning both the original impetus to the contemporary acceleration of these flows and their specific features. By building on the early literature on fit in strategic management we outline an institutional framework which considers flows of outward investment from emerging economies as framed by institutional pressures at the firm level towards achieving fit between the environment, strategies, structures, resources and practices of the firm. For the multinational firm this fit must be attained along multiple dimensions, domestically, abroad and in the global environment. We then proceed to interpret recent evidence on 'emerging multinationals', including the contributions in this special issue, in the context of this framework. We conclude with proposing promising areas of future research.

Introduction

In the context of the globalization of markets, interest is increasingly focusing upon the strategies of multinational corporations (MNCs). Recent studies from developed

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economy MNCs recognize that both firm-specific and environmental factors help explain international diversification. Lesser attention has been given to the drivers of inter- nationalization strategies of firms from emerging economies (Child & Rodrigues, 2005; Luo & Tung, 2007; Witt & Lewin, 2007; Gammeltoft, 2008), and evidence on the relationship between emerging economy MNC (EMNC) competitive advantages and the nature of their internationalization strategies is lacking (Mathews, 2006). There is therefore a significant gap in the International Business (IB) and strategic management literatures on the drivers of international diversification of EMNCs. Addressing this gap is important, partly because of the substantial increase in outward foreign direct investment (OFDI) from countries such as China, India and Russia, but principally because the lessons for developed economies may not be directly applicable to an EMNC context.

The current wave of OFDI from emerging economies can in itself be interpreted as a firm-driven process of reestablishing 'fit': contingency theory emphasizes that a shift in the economic environment will trigger efforts in firms to maintain 'fit' between environment, strategy and structure. By realigning their strategies and structures with the changed circumstances firms can maintain their performance or take advantage of new opportunities. The global economy is shifting in ways that offer new opportunities and new challenges for firms in emerging economies. The consequent process of realignment of firms' strategies and international structures involves substantial outflows of FDI, supported by enabling government policies.

Achieving, and maintaining, through strategy a fit between the resources of a multinational firm and the environments in which it operates is central determinant of firm performance. For EMNCs achieving fit is a particular challenge, especially when investing in advanced economies. EMNCs often originate from institutional environments which are heterogenic and segmented, have co-evolved their structures and practices within idiosyncratic institutional environments, and need to overcome differences between diverse institutional settings in their foreign direct investments (Gammeltoft, Barnard, & Madhok, 2010a, 2010b). These challenges are often compounded by limited organizational and managerial experience and capabilities to internationalize.

For MNCs fit is a multidimensional concept. Traditionally, the strategic management literature has distinguished between internal and external fit (Venkatraman & Camillus, 1984). Internally, firms must match their organizational resources, structure and practices with their strategy. Externally, resources, structure and practices need to be aligned with the environment and its opportunities and threats. However, for multinational companies achieving fit acquires additional complexity. In addition to the traditional aspects of fit they also need to align across units in different locations at multiple levels. Internal fit is extended to encompass the relationship between units in different locations, particularly the fit between parent and subsidiary. External fit is extended to several contexts rather than one, viz. the home, host and global environment. These different dimensions of fit are illustrated in Figure 1.

The contributions in this special issue touch upon the issue of strategic fit in various ways. How do EMNCs fit with and are influenced in their internationalization by features of their home institutional environment; how are subsidiaries aligned with host environments, e.g. to effectively absorb technology; and how does the match between subsidiary and parent facilitate technology transfer are examples of central concerns.

It would be hard to provide a parsimonious review of a rapidly developing sub-field of FDI research that is focused on the complex interaction between organizational and environmental contexts of EMNCs. In this Editorial, we selected some key themes that have been relatively advanced in previous research that may help to develop a framework for understanding the influence of organization-environment interdependencies on the internationalization strategies of EMNCs in terms of the strategic fits that they try to achieve when expanding abroad. We link these themes with papers in the special issue, and outline potential avenues for future research.

Strategic fit and the evolution of EMNCs

Most generic management issues have an international business equivalent. They usually retain their basic characteristics when they are projected into an international space but are bestowed with additional layers of complexity. This applies equally to the issue of strategic fit. As Figure 1 suggests superior performance requires alignment between multiple institutional settings; for the multinational company achieving fit becomes a multidimensional challenge. This is supported by the literature on embeddedness, which argues that the concurrent and coordinated embeddedness in multiple institutional settings is conducive to MNC performance, particularly the concurrent embeddedness in firm-internal and firm-external networks (Andersson, Forsgren, & Holm, 2002; Meyer, Mudambi, & Narula, 2011).

While achieving fit is an issue for all multinational companies regardless of their regional origin, a number of special challenges are associated with multinationals from emerging economies. These special challenges emanate both from the characteristics of the institutional systems out of which they evolve and from the institutional distance between their home and the host countries. Cast in other terms, Gaur, Kumar, and Sarathy (2011) argue that EMNCs tend to face higher liability-of-foreignness than developed-country MNCs. For example, most developing and emerging economies exhibit some extent of 'duality' or segmentation in their structure, i.e. the economy is divided into two or more segments which are distinct in terms of characteristics such as productivity, technology, capital intensity, export orientation, firm size etc. (Gammeltoft, 2001). Depending on membership of such segments EMNCs opportunities and modalities of internationalization can be vastly different. The extent and nature of such challenges are not uniform but will reflect the varied nature of the national institutional systems, bringing about a wide diversity in internationalization trends among emerging economy multinationals (Gammeltoft et al., 2010b).

Even though it is not the most widespread motive for OFDI in quantitative terms, strategic asset seeking investments are taking on increasing importance in the current wave of OFDI from emerging economies (Gammeltoft, 2008) and attract considerable attention for both academic