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Unpacking the ambidexterity implementation process in the internationalization of emerging market multinationals

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ABSTRACT

Existing literature addresses the concomitant internationalization path of emerging market multinationals (EMNEs) in both advanced and emerging countries. This strategy requires that ambidextrous EMNEs simultaneously explore new capabilities and exploit their home-based capabilities. However, little is known about how this process actually happens. The ambidexterity implementation in emerging multinationals was unbundled by focusing on how three key process variables unfold: operation mode, organizational structure, and resource competition. A single, in-depth, process-based case study in a Brazilian multinational in the information technology sector that has operations in the United States, China, Taiwan, Latin America, Africa and Europe was analyzed. This firm is an outstanding example that adds value to current knowledge about ambidexterity in practice. By way of extensive data collection of interviews, field notes, and more than 120 pieces of secondary data, showed that exploration–exploitation tensions relating to resource competition are considerably reduced by combining different entry modes and insulated organizational structures.

1. Introduction

The debate about the internationalization of multinationals from emerging markets (EMNEs) has long attracted scholarly attention (Dunning, 1988; Ramamurti, 2012; Cuervo-Cazurra, 2008). Whether EMNEs are an entirely new phenomenon or a specific case of existing theories, they are usually conceived of as multinationals that possess weak proprietary technology, being late entrants to the global market (Johnson & Amsden, 2001). Successful EMNEs enjoy privileged relationships with their home country governments (Guillén & García-Canal, 2009; Oliver, 1997; Vanden Bergh & Holburn, 2007). They have superior access to important country-specific assets, which are necessary to acquire the firm-specific assets that will help them reduce the gap between themselves and multinationals from advanced economies (Hennart, 2012). This is why most EMNEs decide to internationalize by moving into other emerging, or less developed countries, where they can apply their home-based relationship capability (Guillén & García-Canal, 2009).

Despite the fact that the accepted knowledge about EMNEs predicts that these firms would be better off in similar, underdeveloped foreign markets, an interesting phenomenon of the internationalization of EMNEs is the entry into both types of market at the same time: emerging and advanced markets, for example, Chinese companies Sinohydro, Huawei, HPEC, and CNPC (Yadong Luo & Rui, 2009). This has become a frequent strategy among EMNEs (Guillén & García-Canal, 2009; Yadong Luo & Rui, 2009; March, 1991; Stettner & Lavie, 2013). Two related paths have been well documented in the literature, but separately: capability transfer to similar emerging markets, or superior capability acquisition in advanced markets after having developed a strong foothold at home (Guillén & García-Canal, 2009). But little is known about what actually happens to EMNEs that perform both strategies at the same time.

Most Latin American firms can be considered a special case of EMNE, where home country institutional conditions are fairly similar. Virtually all Latin American countries moved from import substitution to economic liberalization, basically at the same time, and this was the trigger for the internationalization of '*multilatinas*', multinationals from Latin America. This is important when carrying out research into the similarities and differences in the internationalization process of Latin American firms and how they differ from their counterparts from developed countries. Some internationalization aspects of *multilatinas*, however, are understudied (Brenes, Montoya, & Ciravegna, 2014; Ciravegna, Lopez, & Kundu, 2014), particularly how they simultaneously cope with both very similar and very dissimilar countries, in terms of culture and development (Cuervo-Cazurra, 2008).

This study fills this empirical gap by focusing on the tension faced by successful Latin American firms between exploiting existing capabilities and exploring new knowledge to innovate when performing both strategies at the same time (Guillén & García-Canal, 2009; March, 1991; Stettner & Lavie, 2013). The exploration process is considered riskier

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and more prone to failure than the exploitation process (Hsu, Lien, & Chen, 2013). Exploration in a new field is unreliable and requires significant investments with uncertain payoffs (Gupta, Smith, & Shalley, 2006), while in the exploitation process the firm has less risk once the technology or innovation is ready to sell. Exploitation creates value through already developed competences, following successful exploration. This is why international ambidexterity enables a firm to maximize benefits from globalization-induced opportunities, while minimizing the risks and liabilities associated with international expansion (Luo & Rui, 2009).

Strategy literature suggests that an ambidextrous organization is able to solve the tension between exploitation–exploration (He & Wong, 2004). While the prescription for ambidexterity has been documented elsewhere, little is known in international business literature about how ambidexterity is actually implemented (Lavie & Rosenkopf, 2006). This paper uses the case of a successful ambidextrous *multilatina* to understand how the ambidexterity implementation process actually happens. The internationalization process of a major Brazilian multinational in the IT sector was analyzed. The selected firm has operations in several emerging and advanced economies. In 20 years, the company has become one of the most internationalized firms in Latin America, even though this firm is a late entrant to an innovation-based sector. The exploration and exploitation at different periods in firm's internationalization process was analyzed, using an analytical framework that summarizes extant literature on ambidexterity in internationalization (Bantel & Jackson, 1989; Chatman & Flynn, 2001; Gupta et al., 2006; Stettner & Lavie, 2013; Voss & Voss, 2013). This study is based on three categories: operation mode, organizational structure, and resource competition.

The phenomenon of the internationalization of ambidextrous EMNEs may shed new light on exploration–exploitation processes in multinationals. Our case presents a vivid story of an EMNE from Latin America that is successfully coping with the exploration–exploitation tension. This paper brings three contributions. First, existing theories on exploration and exploitation ignore the inward flow of information since internationalization is viewed as the exploitation of a firm-specific advantage (Madhok, 1997). By analyzing the case of a *multilatina*, the acquisition of new knowledge and how this understanding interacts with existing knowledge to create innovation are highlighted in this paper. Second, on the implementation process of exploration–exploitation, this paper provides an understanding of how the process unfolds during the different phases, which, to our knowledge, is a unique empirical contribution to the related literature. Third, accounts of the internationalization of a Latin American firm competing in an innovation-based sector were provided, which is an increasingly important phenomenon for both theory and practice.

Following this Introduction section, this paper is organized as follows. The next section presents the analytical framework underlying the investigation. Section three includes the method applied to the single case study research design. Section four brings a description of the case. Section five brings an analysis based on data collected and discussion of findings. Section six concludes with implication for Latin American firms and the role of the combination of different entry modes and insulated organizational structures in reducing tensions relating to resource competition.

2. Analytical framework

Emerging market multinational enterprises (EMNEs), such as those from Latin America, usually lack ownership advantages (Dunning, 1988; Ramamurti, 2012) as they are late entrants into international markets and use poorly developed proprietary technologies (Johnson & Amsden, 2001). The obvious consequence is that the resources and capabilities of EMNEs are less developed than those possessed by well-established and developed multinationals from advanced economies (Guillén & García-Canal, 2009). On the other hand, EMNEs enjoy preferential access to a subset of country specific assets (CSAs), which are important for reducing this capability-lag through the acquisition of complementary firm-specific assets (FSAs) abroad (Hennart, 2012). Therefore, the domestic institutional context plays an important role by conferring unique features on the internationalization processes of EMNEs (Gammeltoft, Barnard, & Madhok, 2010; Y Luo & Wang, 2012). Internationalization for EMNEs is as much about accessing new resources and knowledge to enable them to extend their competitive advantage as is a route for exploiting existing advantages over a larger group of markets (Williamson, Ramamurti, Fleury, & Fleury, 2013).

By analyzing two locational dimensions, cultural and development distances, Cuervo-Cazurra (2008) observed two dominant strategies for the internationalization of Latin America firms: they start by going international in countries that are proximate in both culture and development, but they also internationalize in countries that are distant in both culture and development. He also detected two secondary strategies: some firms become multinationals in countries that are close in culture, but distant in development, and in countries that are distant in culture, but close in development. This research focuses on the two dominant strategies.

EMNEs face an interesting dilemma: they need to catch up and develop a superior capability in order to compete abroad while having to rely on existing superior capabilities in order to have privileged access to CSAs (Guillén & García-Canal, 2009). One option for coping with this dilemma is just not to face up to this dilemma and take a decision not to catch up but to transfer their existing capabilities to other institutionally similar countries. This is easily explained by institutional, distance-based explanations and empirically observed by EMNEs going to other emerging countries (Ramamurti, 2012). However, some EMNEs face up to the dilemma by entering advanced and emerging countries simultaneously (Guillén & García-Canal, 2009; Ramamurti, 2012). This strategy requires firms to solve the exploitation–exploration problem: how to develop new capabilities and knowledge while gaining size and operational experience and generating profits using transferable, superior home-country competitive advantages (Guillén & García-Canal, 2009; March, 1991; Stettner & Lavie, 2013).

Exploitation–exploration is a problem because organizations need to find a balance between these two processes (Benner & Tushman, 2003; Eisenhardt & Brown, 1997; March, 1991). Exploration and exploitation may occur in different periods, but firms need to manage the transition between the two processes (Eisenhardt & Brown, 1997). When firms are able to cope efficiently with these processes simultaneously, they need to develop consistent tasks within separate organizational units dedicated to both exploration and exploitation (Guillén & García-Canal, 2009; O'Reilly & Tushman, 2008).

2.1. Ambidexterity

Ambidexterity is the way to successfully manage the exploitation–exploration problem (March, 1991). Ambidexterity is the simultaneous fulfillment of two disparate and sometimes competing ends (Yadong Luo & Rui, 2009). The company needs to be aligned, efficient and simultaneously adaptive to changes of environment (Benner & Tushman, 2003; Birkinshaw & Gibson, 2004; Duncan, 1976). The essence of exploration is the experimentation of new activities, while exploitation is the extension of existing competences (March, 1991); through ambidexterity, it is possible to balance both of these somewhat different approaches (Gupta et al., 2006; March, 1991). But the learning behavior patterns are very different and have made ambidexterity difficult to implement. The learning behavior requires different structures, organizational routines and processes and competes for scarce organizational resources, leading to tensions and trade-offs (March, 1991; Voss & Voss, 2013). But there is consensus that ambidexterity is both difficult to achieve and critical to long-term success through balancing the exploration–exploitation processes (March, 1991; Voss & Voss, 2013).