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Knowledge and innovation in emerging market multinationals: The expansion paradox[☆]

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ABSTRACT

This article examines the innovation and knowledge strategies that allow emerging-market companies to become major international players. By adopting a qualitative approach, this study identifies a significant paradox between the desire of some leading Chinese car companies to expand internationally and the current relationship of such companies with leading global car companies, which significantly inhibits Chinese international expansion. This study unpacks that paradox using innovation theory and the resource-based view, and develops a matrix of strategic options that can assist emerging market multinational companies to expand internationally.

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1. Introduction

The internationalization strategies of companies from developing countries attracts increasing attention from researchers (Gammeltoft, Filatotchev, & Hobdari, 2012; Tsai, 2014). Most of the research, however, focuses on two aspects of global expansion for companies from such countries: The motivation and the internationalization processes (Cuervo-Cazurra, 2008). Research seldom addresses how innovation content and processes in potential multinational companies from emerging markets (EM MNEs) enable these companies to compete with their international rivals (usually from developed markets), the DM MNEs. Buckley and Hashai (2014) identify a significant gap in research regarding the extent to which EM MNEs are able to compete effectively with DM MNEs.

To address this research gap, this study explores the effective strategic options for EM MNEs aiming to expand in mature world markets against the backdrop of the positions of the existing DM MNEs, which presents a particular challenge for new entrants (Banerjee, Prabhu, & Chandy, 2015). This research explores the role of technical and non-technical innovation at EM MNEs as part of this process. Specifically, this study seeks to develop an approach to solve a significant strategic puzzle: Why do some EM MNEs with global ambitions have little success so far? How can these

companies solve this problem? This research adopts a qualitative approach focusing on the car industry and the strategies of car companies from China that seek internationalization.

This article contributes to the literature by presenting new insights into the contribution and processes of innovation at EM MNEs as they develop their international strategies, especially in the areas of knowledge and learning in the context of mature world markets. Second, the article provides a potential pathway to internationalization. Third, by looking at the international process of EM MNEs from both ambidextrous innovation and resource-based perspectives, this study provides further insights into the processes necessary for the effective internationalization strategies of EM MNEs.

2. Literature review

This study draws on innovation theory and the resource-based view. In addition, the study also employs the concept of strategic fit to explore the options available to EM MNEs to reduce the gap with their DM MNE rivals.

The importance of research into innovation hardly needs any justification (Damanpour, Walker, & Avellaneda, 2009). Globalization makes innovation even more important (Berry, 2014). Two issues regarding the importance of innovation for EM MNEs deserve special attention. First, EM MNEs may not have the innovative capability to exploit disruptive new technologies in comparison to their DM MNE rivals (Fleury, Fleury, & Borini, 2013). Second, a significant gap in innovation capability exists between EM MNEs and their established rivals, especially in high-tech

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industries. DM MNEs have far more experience in and orient more toward innovation (Christensen, Chang-Chieh, Kah-Hin, & Subramanian, 2010).

From a resource-based perspective, EM MNEs may also be at a disadvantage in comparison with their developed-country competitors in management, finance, and technical knowledge (Fagerberg & Godinho, 2006; Kumar, Mudambi, & Gray, 2013). Therefore, to investigate process differentiation in terms of the resources, learning, knowledge development, and the acquisition of new knowledge between the EM MNEs and the DM MNEs is important (Zhong, Peng, & Liu, 2013). Zhu, Lynch, and Jin (2011) argue that the catch-up process requires EM MNEs to develop innovative strategies by focusing on overcoming their weaknesses and improving their competitiveness. This process involves the acquisition of new knowledge and the further development of existing knowledge within the firm. Such knowledge may come from outside the company as well as inside (Leonard-Barton, 1999). This research therefore proposes that:

P1. In a mature industry, innovation is an essential strategy component for EM MNEs that wish to close the gap with their global rivals through the strategic processes of learning, knowledge development, and the acquisition of new knowledge.

This research focuses on two large categories of innovation: technical (technological) innovation and non-technical innovation (see Damanpour, Szabat, & Evan, 1989 for definitions).

In a mature industry, EM MNEs are initially at a competitive disadvantage with their established rivals. Li (2010) argues that MNE late-comers may employ an accelerated trajectory of cross-border learning in which co-exploitation and co-exploration take place during the internationalization process. These changes come from non-technical innovations such as cross-border alliances and joint ventures, rather than from technical innovations (Li, 2010) and from organizational transformation (Dixon, Meyer, & Day, 2010). However, the changes apply if, and only if, the implementation process runs smoothly and the EM MNE is capable of learning (Zhu et al., 2011). Hence, EM MNEs maintain clear resource-based benefits in non-technical innovations if these companies are capable of implementing such a learning process.

P2. In a mature industry, EM MNEs are more likely to close the gap with their established rivals through the development and exploitation of non-technical innovative resources and capabilities rather than through the development and exploitation of technical innovations. This process involves learning, new knowledge, and investment in new resources that relate to innovation.

Turning to technical innovation, the acquisition of a firm from a developed country by an EM MNE to produce new technical innovations may take longer and even yield negative output (Ahuja & Katila, 2001). In addition, in a mature industry, the established players rather than new EM MNEs are most likely to possess technological knowledge such as pools of patents. Due to the nature of technology diffusion in a mature industry, EM MNEs can build their technical innovative resources and capabilities by learning from their established rivals through approaches such as licensing, OEM, and joint ventures (Choung & Hwang, 2000). However, the implementation of these approaches takes time and may require the building of intangible assets drawing on the technology transfer of intellectual capital, which is particularly difficult for the aspiring EM MNE (Tsai, 2014; Zhu et al., 2011).

P3. In a mature industry, EM MNEs are more likely to close the gap with their established rivals through incremental technology advances rather than a major technology breakthrough.

3. Research method

This research adopts a qualitative approach (Rouse & Daellenbach, 2002) following a replication logic with multi-source data collection,

as Eisenhardt (1989) and Woodside and Baxter (2013) suggest. The study focuses on the global passenger car industry rather than the broader markets for automotive parts, buses, trucks, and other commercial vehicles. The target population of this research is the passenger car companies operating in China over the last 30 years. The unit of analysis includes both the DM MNEs that have set up joint ventures with Chinese companies and the Chinese EM MNE car companies that either expand internationally or plan to undertake this route over time. The study employs both secondary data and primary data. For the secondary data stage, the data analysis method is content analysis in three steps. First, the study uses global car industry statistics to identify the leading world companies and Chinese car companies. Second, this study analyzes the innovation input and output of these companies in terms of patent applications, R&D investment, and the development of new products and services (Muller, Välikangas, & Merlyn, 2005; Tseng & Wu, 2007). Third, the study analyzes the strategic intent regarding international and global expansion of the major Chinese companies from their published statements, independent stockbrokers', and consultants' reports.

For the primary data collection stage, this study adopts a two-stage process using in-depth interviews with a predetermined protocol. The protocol design process draws on Yin (1994) and follows the OECD Oslo Manual on the collection and interpretation of innovation data (OECD, 2005) and Fagerberg and Godinho (2006) on the innovation activities of MNEs. The selection of interviewees employs the following criteria: extensive work experience in the Chinese car industry, employment either directly for a major Chinese car company or for a supplier, and sufficient managerial seniority to provide informed judgments.

Four Chinese middle managers participated in the first stage's in-depth interviews in 2012 via personal contact. The second stage interview followed a year later with a similar protocol: one group interview and five in-depth interviews. Table 1 lists the profile of the study sample and major points the interviews covered.

4. Research results

4.1. Strategic context: EM MNEs vs. DM MNEs on technical innovation

Table 2 lists the leading world companies in the car industry in order of turnover. The list also offers their expenditure on research and development in the years 2007–2010, and data from the leading Chinese companies. In general, the R&D expenditure among international leading car companies (all of which are DM MNEs) remains remarkably steady over the four years that this study observes.

Table 2 shows that ten of the DM MNE car companies together spent over US\$50.2 billion in the year 2007 alone on research and development. The average expenditure in relation to turnover is 4.5%. Following the downturn in the world car industry, this ratio decreased to 4.2% in 2009. Few, if any, of the Chinese car EM MNEs invest at such levels. The high level of technical R&D innovation at the EM MNEs results from two external causes: High fuel prices and governmental pressure to find alternative fuels because of environmental issues.

4.2. Strategic context: The development of the Chinese car industry since 1978

In 1978, the Chinese Government began its “open door” policy regarding the entry of foreign companies into the Chinese domestic market. The four largest Chinese domestic car companies, FAW, Dongfeng, Guangzhou, and SAIC, then set up joint ventures with various European, Japanese, and U.S. car companies in which the local Chinese companies were the majority shareholders. The result was that the foreign joint ventures now dominate the Chinese market (see Table 3).

The prime focus of the four leading Chinese joint ventures is on the rapidly expanding Chinese domestic market. These leading companies have not attempted, so far, to expand internationally. However, some

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