



Emerging market multinational companies' evolutionary paths to building a competitive advantage from emerging markets to developed countries



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ABSTRACT

One significant emerging phenomenon of global competition is the increasing number of Emerging Market Multinational Companies (EMNCs) that have survived and succeeded in the constraining institutional environments in their home turfs and are now participating in the global marketplace. However, despite the growing literature, our understanding of the factors that influence EMNCs' competitive advantage is limited. We conduct a historical longitudinal analysis of sixteen companies originating from key emerging markets viz. India and China. Our findings suggest that EMNCs' evolutionary paths to building competitive advantage from their home market to the developed countries is, on one-hand, based on the EMNCs' ability to acquire resources and absorb them to build their own advantage. On the other hand, it is also based on EMNCs' ability to find new market niches and to enhance their innovation capabilities to overcome the liability of emergingness.

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1. Introduction

One of the intensifying phenomena of global competition is the increasing participation of firms from emerging economies in various industries and across various value chain activities. These Emerging Market Multinational Companies (EMNCs) have recently shown an unprecedented increase in numbers. Of the Fortune Global 500 ranking, firms based in emerging markets accounted for 26% in 2013 and the percentage is predicted to grow up to 45 percent by 2025 (CNBC News, 2013). According to the United Nations' Statistics (2015), the share of emerging countries in total world exports was just 42% in 1995, but increased to over 60% in 2013. EMNCs' outward foreign direct investment (FDI) had increased tremendously from 6% (totaling US\$52 billion) of global FDI outflow in the early 1980s to 15% (totaling US\$2 trillion) of global FDI outflow in 2007 (UNCTAD, 2008). In the past, the

principal recipients of this international expansion had been mostly other emerging economies—a trend in line with the international product cycle model (Vernon, 1966, 1974). However, since 2000, substantial FDI from EMNCs has been targeted toward developed markets (OECD, 2006) in both resource industries and higher-value adding activities (Aulakh, 2007; Bartlett & Goshal, 2000; Cuervo-Cazurra & Genc, 2008; Ramamurti & Singh, 2009). While these EMNCs are gaining a strong foothold in the global economy and in the international business literature (e.g., Chittoor, Sarkar, Ray, & Aulakh, 2009; Contractor, Kumar, & Kundu, 2007; Douma, George, & Kabir, 2006; Guillen & Garcia-Canal, 2009; Khanna & Palepu, 2007; Lahiri, Kedia, & Mukherjee, 2012; Peng, Wang, & Jiang, 2008), our understanding of what happens when those companies make the leap into more developed markets can be further enhanced.

These companies located in emerging markets are currently serving billions of local consumers with innovative and inexpensive products. On the face of it, the disadvantages of being late entrants seem overwhelming, and based on the stage model of internationalization, the EMNCs may not be able to compete

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against global giants whose dominance is rooted in their first-mover status (Bartlett & Ghosal, 2000). However, the success of EMNCs like Tata Motors, Lenovo, and Natura in developed-country markets raise some important research questions. What factors influence the competitive advantage of these EMNCs? How do EMNCs learn and manage knowledge as they compete in and out of the emerging markets? What enables these EMNCs to transfer their competitive advantage from home markets to developed countries?

The prominence of EMNCs suggests that the incumbent MNCs (studied earlier) constantly face threats from the emerging giants. The established global strategy theories have been founded in environments where executives have discretion in decision making, resource allocations, and choosing markets and strategies (Sethi & Elango, 1999; Yip, 1989). Observations about EMNCs suggest that they may expand overseas to access resources (Mathews, 2006), to acquire knowledge (Bartlett & Ghoshal, 1998) or to enhance their capabilities (Luo, 1998). This more aggressive push abroad is motivated by a desire to tap resources, skills, markets, and brand names and increase global competitiveness (Luo & Tung, 2007). However, it is also observed that EMNCs' bargaining power does not derive just from their sophisticated technology, strong brand name, or their overall size (Kothari, Kotabe, & Murphy, 2013; Luo, Xue, & Han, 2010). The current body of research is fruitful in understanding the impact of different knowledge types on organization performance and the process of knowledge management in different contexts (i.e., partnership, innovation and internationalization). However, there are still a number of underexplored issues in understanding the strategies that facilitate the paths of building competitive advantage from emerging markets to developed countries, especially by EMNCs. How EMNCs learn and manage knowledge over time as they compete in and out of emerging markets has gained little scrutiny in the contemporary international business research (Lahiri, 2011; Peng et al., 2008). We specifically contribute to this gap, both theoretically and in an applied sense.

Our study is designed to assist practitioners and theorists in understanding the challenges being faced by EMNCs as they expand their operations into developed countries. We also provide examples of strategies implemented by these EMNCs to seek out new or extend existing competitive advantage. We focus specifically on the question of how the EMNCs build their competitive advantage from home markets to developed-country markets over time. To enable this process, we conduct a historical longitudinal analysis of sixteen successful EMNCs that originated from emerging markets like India and China. In this longitudinal study encompassing a 59-year time period, we use content analysis tools to analyze the evolution of the EMNCs through their life span. We identify the various factors that influence the EMNCs' competitive advantage in their home and host markets and how these EMNCs have been successful in transitioning from their developing-market home nations to developed-country host markets. The narrative not only explores the drivers for competitive advantage, but also uses the multiple-case historical analysis to explore the paths that EMNCs use when expanding operations from the difficult institutional environments of the home market to the developed-country markets. The results of this inductive approach suggest that EMNCs' paths to building competitive advantage in the developed countries is, on one hand, based on their ability to acquire resources (through cash rich positions and acquisitions) and absorb them (through learning and knowledge sharing) to build their own advantage. On the other hand, it is also based on their ability to find some market niches, i.e., entering into markets untapped by traditional MNCs and enhancing their innovation capabilities to overcome the liability of emergingness (Madhok & Keyhani, 2012). We conclude that the EMNCs' paths to building

competitive advantage from emerging markets to developed countries manifests a number of features that are distinct from those of the MNCs from developed countries.

The paper is structured as follows. Given the inductive nature of this paper, we provide a brief literature review section but draw various propositions from both relevant literature and case analysis in the findings section. The 'Research Methods' section highlights our rationale to conduct the historical analysis of multiple cases, our research setting and our data collection process. Data collected using this methodology provide justifications for our proposition development in the 'Factors that Affect the EMNCs' Competitive Advantage' section of this paper. We then introduce 'A Framework to Explain the Paths of Building EMNCs' Competitive Advantage from Home Markets to Developed Countries'. Finally, we summarize the contributions of this study and outline some future directions for this research.

2. Literature review

Increasing integration in the global economy has meant changed competitive landscapes for firms from emerging countries as well as multinationals operating in these economies, thus necessitating organizational transformations to deal with new competitive dynamics. Competitive advantage is a superiority that gives an organization an edge over its rivals and an ability to generate greater value for the firm and its shareholders (Barney, 1991; Lavie, 2006; Porter, 1985). Buckley et al. (2007) suggest that EMNCs may have competitive advantages that allow them to operate certain activities more effectively in some foreign countries than local firms can and even than developed-country MNCs can. Prior research claims that EMNCs' competitive advantages are likely to be different from those of the developed-country MNCs (Day, 2004; Madhok & Keyhani, 2012; Miller, 2003; Weerawardena, 2003). However, the understating of how EMNCs' growth in their home markets and how they transition and adapt to developed-country markets is less well placed in the traditional management and economic literature.

Competitive advantage is an important concept in strategic practice and various factors influence an organization's competitive advantage. Scholars have identified some of the following factors that influence the competitive advantage of organization. These include Dynamic Capability (Li & Liu, 2014; Malik & Kotabe, 2009), Knowledge (Huang, Fan, Chern, & Yen, 2013; Javalgi, Dixit, & Scherer, 2009), Knowledge Management (Kotabe, Jiang, & Murray, 2011; Zheng, Yang, & McLean, 2010), Knowledge Sharing (Montazemi, Pittaway, Saremi, & Wei, 2012; Powell & Ambrosini, 2012), Innovation Capability (Tan, Shao, & Li, 2013), Human Resource Management (Buller & McEvoy, 2012), New Product and/or Service Development (Capar & Kotabe, 2003; Pant & Ramachandran, 2012), Intellectual Capital (IC) (Lee & Mansfield, 1996; Nahapiet & Ghoshal, 1998), Supply Chain (Nyaga, Whipple, & Lynch, 2010), Information Technology (Madnick, 1987; Masli, Richardson, Sanchez, & Smith, 2011), etc. This study is set out to address many factors that influence the competitive advantage of EMNCs. It considers what factors affect competitive advantage of EMNCs in their home and host markets and constructs a framework of the relationship between their competitive advantages at home and in the distant developed markets. In this paper, we propose whether key conditions affecting the EMNC will lead (or not) to firm-level competitive advantage. Assuming that the organization that has competitive advantage can use it to change the environment (Appelbaum & Gallagher, 2000), we provide various examples of the EMNCs that have overcome the challenges posed by their institutional environment and at times, even reformed their institutional

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