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Contextualizing international strategy by emerging market firms: A composition-based approach

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ABSTRACT

We present a composition-based logic toward international expansion by emerging market firms (EMFs) – firms that use *compositional investment, compositional competition,* and *compositional collaboration* to create a unique competitive advantage in global competition. This view explains how EMFs creatively adopt a composition-based international strategy, enabling them to compensate for their weaknesses while capitalizing on their strengths during global competition where they offer a competitive price-value ratio suited to mass global customers who are cost sensitive. We also explicated the working conditions (i.e., strategic resource-seeking motivation, subsidiary autonomy delegation, and cross-border sharing system) that fortify the outcome of composition. Using survey data from 201 EMFs, our analysis supports these key arguments. A composition-based lens provides a new understanding of why and how emerging market businesses can survive in international competition for some period of time without possessing traditionally defined monopolistic advantages.

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1. Introduction

Emerging market firms (EMFs) are undertaking an accelerated internationalization than ever before in increasingly interconnected global marketplace. As documented by the World Investment Report (2014), FDI outflows from developing countries have reached a record level in 2013, accounting for 39% of global FDI outflows, compared with 12% at the beginning of the 2000s. Considerable research has been devoted to understanding unique motives, behaviors and strategies of EMFs' internationalization. Extant literature reveals that EMFs proactively invest overseas to acquire strategic assets that offset their competence deficiencies and latecomer disadvantages (Child & Rodrigues, 2005; Luo & Tung, 2007; Mathews, 2006; Rui & Yip, 2008). These firms seek "institutional escapism", in part, to distance themselves from the weak institutional environments at home (Witt & Lewin, 2007) and leverage "institutional arbitrage" to exploit efficient institutions outside their countries (Boisot & Meyer, 2008). EMFs are equipped with a number of unique advantages, such as a greater propensity to ambidexterity (Luo & Rui, 2009), relational capabilities developed from home-country networks and inward internationalization (Yiu, Lau, & Bruton, 2007), and superior survivability and adaptability in countries with stringent conditions (Cuervo-Cazurra & Genc, 2008). Moreover, EMFs tend to maintain stronger connections between home country and host country operations (Luo & Tung, 2007), delegate more decision-making autonomy to overseas managers (Wang, Luo, Lu, Sun & Maksimov, 2014), and prefer alliances and networks when investing and competing in advanced markets (Guillén & García-Canal, 2009; Mathews, 2006).

While these perspectives shed substantial light on EMFs' distinctive conduct and paths, contextualizing international business (IB) research for EMFs is still inadequate. One important question remains unanswered in this context is: After radical international expansion, how do EMFs survive in global competition with powerful global rivals, given the fact that many of these EMFs do not necessarily possess typical strategic assets or monopolistic advantages that are needed in international competition?

In this study, we tackle this question by applying a composition-based view, which was recently developed by Luo and Child (2015), to internationalization of EMFs. Luo and Child's composition-based view explicates how firms with ordinary resources, especially those in emerging economies and small and medium-sized firms in advanced economies, may generate some extraordinary results for some period of time through the creative use of open resources and

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unique integrating capabilities. Luo and Child (2015), nevertheless, did not address how this view works in the internationalization process of EMFs, and we believe that this view has great potential to explain why and how some EMFs without possessing traditionally defined monopolistic advantages such as global market power, brand images, organizational reputation, customer loyalty, and proprietary technologies can survive in intensified global competition for some period of time. Many EMFs that are relatively new in international competition are significantly weaker in terms of these monopolistic advantages compared with their global rivals. Thus, they compete not based emphatically on the above areas in which they may be disadvantageous, but on the creative utilization and combination of internal and external resources that are available to them and compositional use of a multitude of investment modes, competitive measures, and collaborative networks. This endows EMFs with a unique competitive edge that is typically manifested in superior price-value ratio and impressive speed, albeit such edge is less sustainable than traditional monopolistic advantages possessed by Western rivals.

We intend to extend and develop a composition-based view in the IB context by illustrating how some successful EMFs use a composition approach to build their firm-specific advantages or alleviate their competitive disadvantages in global competition. We theoretically delineate the distinctive process of composition-based international strategy that can be observed through the lens of three key elements or constructs – *compositional investment, compositional competition* and *compositional collaboration*. Compositional investment denotes the level of simultaneous international expansion activities at a given point of time by the focal EMF in different investment categories such as export, inward internationalization, and multiple modes of outward foreign direct investment (e.g., wholly owned greenfield, acquisition, and joint venture). Compositional competition exists when an EMF uses a set of combined and integrated means or measures to compete against rivals (e.g., cost, price, product functions and features, speed, and design-based customization). Compositional collaboration refers to the extent to which an EMF's foreign subsidiaries simultaneously collaborate or partner with a multitude of different types of overseas organizations (e.g., foreign suppliers, distributors, competitors, local communities, businesses established by ethnic immigrants, and home country peer MNEs in the same host country). A dominant logic behind such compositions is to capture most values by simultaneously and synergistically improvising all available resources from inward and outward FDI, implementing multiple yet integrated means of international competition, and harnessing global partnerships with diverse business stakeholders.

In addition to introducing the composition-based international strategy, we attempt to address two key questions. First, given the expected benefits and risks, can composition-based international strategy really generate returns for EMFs? In particular, we ask whether the three constructs of this strategy can help EMFs achieve better international market performance such as the breadth of international customers and customer responsiveness in international market.[1] Second, we suggest that there exist several conditions that foster the effectiveness of composition-based international strategy, and due to variance of such conditions across firms, EMFs themselves benefit differently from this strategy. We emphasize three such conditions: strategic resource-seeking motivation, foreign subsidiary autonomy delegation, and a cross-border sharing system. This study presents the logic that EMFs with a stronger motivation to strategically seek resources, with greater autonomy delegated to frontline overseas subsidiaries, or with a stronger cross-border sharing system will benefit more from composition-based international strategy.

We address these questions by emphasizing EMFs that are generally latecomers in global competition, and our survey data of 201 EMFs from China provide empirical verification for the above questions. By presenting a composition-based international strategy to the community of international business research, we also acknowledged how this view is linked to, and reinforces with, existing IB theories such as monopolistic and internalization paradigms. The composition-based international strategy is not limited to EMFs, though they are the focus of this study, but applicable to firms in other types of economies (including advanced) that are relatively weak in ownership of industrial and intellectual property rights and global market power or in a status of global latecomer. Moreover, this strategy is not a panacea for these firms to achieve sustainable success in global competition. Composition-based advantages may not be sustained (Luo & Child, 2015). We are hopeful that future research will continue this line of research, providing a more thorough understanding of composition-based advantages and disadvantages as well as processes and practices in generating these advantages and overcoming these disadvantages.

2. A composition-based international strategy

2.1. Conceptual background

Luo and Child (2015) recently introduced a composition-based view (CBV) that applies to emerging economy enterprises or small- and medium-sized firms more generally (including those in advanced economies) in a setting of domestic competition. The CBV argues that "firms with ordinary resources can establish a strong position among their competition by creatively assembling and integrating the open and generic resources they possess or purchase; that is, they are astute in distinctively identifying, leveraging, and combining ordinary resources, external and internal, to create a competitive advantage" (Luo & Child, 2015, pp. 381). We believe that this view applies to international competition of EMFs as well for several reasons:

Internally, EMFs suffer from limited strategic capabilities and critical resources, such as proprietary technologies, international market power, global brands, organizational reputation, and managerial competence needed for organizing geographically dispersed operations, which impede them from obtaining ownership-specific advantages in international markets (Elango & Pattnaik, 2007). That being said, EMFs do exhibit some unique advantages that cannot be ignored. Many EMFs are capable of offering "cost innovation" (Zeng & Williamson, 2007), delivering low-cost but suitable technologies, quick market response, customized design, and cost-effective mass manufacturing. EMFs tend to have a greater propensity for ambidexterity – pursuing simultaneous fulfillment of two disparate and sometimes conflicting objectives (Luo & Rui, 2009). Their superior organizational resilience and adaptability enable them to achieve a speed advantage and to accelerate their internationalization pace (Guillén & García-Canal, 2009). Indeed, they are newcomers on a global stage, distressed by disadvantages imposed on them as late-comers to the field (Wang et al., 2014). At the same time, as fast learners they benefit from the learning advantage of newness (LAN) in global competition (Zhou, Barnes, & Lu, 2010). It is also true that EMFs lack international experience, especially concerning

[1] There are some other indicators to quantify the achievement of global market competition, ranging from global market share and sales growth rate to global consumer size and customer loyalty. While only using international customer breadth and customer responsiveness is certainly not sufficient to reflect all outcomes of international competition, these two measures at least capture the fulfillment of most EMFs' leading objectives – targeting mass consumers overseas and respond quickly to market needs (Luo & Tung, 2007).

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