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SPECIAL ISSUE ARTICLE

Global strategy collections: Emerging market multinational enterprises

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Abstract

Research Summary: This first collection of articles for global strategy focuses on the relatively new phenomenon of Emerging Market Multinational Enterprises (EMNEs). The first topic to draw real attention to articles in *Global Strategy Journal*, the study of EMNEs challenges many assumptions about what characteristics make a firm a successful MNE and forces a reconsideration of fundamental questions in strategic management. The articles in the collection provide a good introduction to the topic, but there is much more research on the topic in a variety of journals for those scholars considering the EMNE as a topic for their own research.

Managerial summary: In the last couple of decades, we have seen the emergence of EMNEs that are competing globally. This primer on EMNEs points at the specificities of EMNEs including their ownership-specific advantages, their pattern of internationalization, their innovation strategies for catching-up, and not least how their ownership and the home conditions in less developed countries alter their behavior. These are important factors that serve to help scholars to understand the strategies and actions of EMNEs and how they gain their competitive strengths on the global scene.

KEYWORDS

catching-up, EMNEs, home institutions, ownership advantages, pattern of internationalization

1 | INTRODUCTION

For the first Global Strategy Collection, we are focusing on what was the first topic in *Global Strategy Journal* to have a major impact in the strategy and international business literatures—the advent of emerging market multinational enterprises (EMNEs). Historically, the great majority of multinational enterprises came from—and still do come from—advanced industrial countries. However, the growth of emerging market countries both attracted foreign firms and nurtured home-country firms to the point that an increasing number of them have become multinationals in turn. This is both a growing phenomenon and a challenge to the conventional view of the multinational as succeeding based on home-country derived technological and marketing capabilities that give superiority over host market firms. EMNEs do not appear on the surface to have the types of firm-specific assets needed to compete globally, in both developing and industrialized markets, and yet they are doing so with considerable success. The articles in this collection address both the emergent phenomenon and the challenges and changes it makes to the theory of the multinational.

This collection offers a "primer" on the topic of EMNEs. We propose that increasing familiarity with the topic is important to all strategic management scholars—and not just those with an interest in global strategy. On one hand, there is a tremendous need to understand the phenomenon of the EMNE. The rise of China, in particular, but also of the other "Big Emerging Market" countries, means that their flagship firms are of considerable importance to the global economy and to competition in their various industries. For example, we note that the emerging competitors to US-based firms in the hardware and software of the internet are EMNEs from China and India, not Europe. Consequently, American economic policy has been adjusted to stop the rise of Huawei in 5G networks, to resist the incursion of TikTok, WeChat, and other web services into the American market, and slow the effort by (Chinese) EMNEs to incorporate American (and European) technology into their own products—and then to overwhelm their erstwhile teachers with volume, innovation, and efficiency. Will EMNEs dominate the world economy in the near future? Likely not, as multinationals from advanced countries fight back, but they will be serious competitors and scholars of global strategy must understand them, not dismiss them.

From a conceptual perspective, strategic management has for too long imagined the world from the perspective of the advanced economies, driven by innovation, automation, and finance, and has done so largely without recognizing that this indeed is just one perspective, and not the only way of competing in the world economy. The very fact that we question how EMNEs can possibly be successful when they are not "true innovators" demonstrates a lack of imagination, an adherence to a narrow perspective that offers an unfortunate commentary on the scholarship of strategic management. We find the idea that EMNEs are somehow competing with no firm-specific resources to be somewhat unreasonable. What they are doing is competing based on a different set of firm-specific resources, tied to their own environments, tied often to the state, immersed in their cultures, based on unique perspectives that we have left behind or never considered. Strategy scholars must recognize that using theories, models, and evidence derived from the study of a small sample of similar Western national contexts has made us as scholars nearly incoherent when looking at other firms in or from other settings, seeking other goals, and with other visions and means. Rumelt, Schendel, and Teece (1991) say that the fundamental questions in strategy are: How do firms behave? Why do firms differ? What are the functions of the headquarters unit in a multibusiness firm? What determines the international success or failure of firms? These questions are fully relevant to the study of EMNEs, but the answers are likely to be quite different from what strategy scholars have observed in advanced industrial nations. The study of EMNEs offers, even demands, that we throw off the shackles of our own contextual prisons and envision a wider, more complex world. Read this collection and free your ideas.

2 | SELECTED WORKS

This section summarizes the main questions and findings of those articles selected for inclusion in this collection. For a summary, see Table 1.

In the article "What is Really Different about Emerging Market Multinationals," Ramamurti (2012) asks whether existing theories on MNE internationalization are universally valid. Specifically, the article questions whether theories on developed country MNEs (DMNEs) can explain the behavior of EMNEs. One finding is that ownership advantages are just as important for EMNEs as they are for DMNEs when diversifying abroad (Ramamurti, 2012), although these advantages may be considerably different in EMNEs.

Studies have found evidence that EMNE diversification is connected to firm ownership (Xia et al., 2014). Firms with lower levels of state ownership are more likely to respond to interdependence pressures from foreign firms abroad and therefore more likely to invest abroad (Xia et al., 2014). Furthermore, a higher level of interdependence through exchange between EMFs and foreign firms through different forms of relationships—symbiotic, competitive, and partnerships—increases the level of EMNE outward foreign direct investment. It's therefore important that EMNEs have ownership advantages before they engage in internationalization, and these ownership advantages often reflect the conditions of the home country.

Cuervo-Cazurra (2012) focuses on the importance of the country of origin in influencing developing country MNE behavior and internationalization. The country of origin is what sets EMNEs apart from each other. Low-income countries mean that developing country MNCs innovate to fit the needs of their low-income consumers, and these innovations can be later used for customers in advanced countries (Cuervo-Cazurra, 2012). Second, poorly developed institutions and political instability in developing countries means that EMNEs adapt to instability, and further encourage the firms to diversify (Cuervo-Cazurra, 2012). This instability means that developing country MNCs gain an advantage in knowing how to do business in unpredictable environments (Luiz et al., 2017).

Firms use tools such as effectuation and causation to reduce environmental uncertainty in emerging markets (Shirokova et al., 2020). Effectuation means that firms leverage existing resources to control environmental uncertainty, opening new market opportunities and creating new products. Causation refers to the tactic of forward-looking analysis, relying on pre-prepared plans, and pre-defined goals to increase firm performance. Findings show that effectuation is a more effective performance tool during volatile contexts than stable times, and that causation leads to performance improvements, yet these improvements are unreliable when firms are operating in adverse conditions (Shirokova et al., 2020). Yet, both effectuation

TABLE 1 Selected articles on emerging market multinationals

	Theoretical contribution			
Authors	Research question	Applied theory	Empirical context	Main findings
Ramamurti (2012)	Are existing theories on DMNES adequate to explain the behavior of EMNES?	OLI-framework	Theoretical	• Ownership advantages are just as important for EMNES as they are for DMNES. • Models of internationalization process need to be refined and extended to incorporate EMNES. Three additional variables must be considered: The global context for internationalization, the stage of evolution of the firm as an MNE, the industry in which it operates.
Xia, Ma, Lu, and Yui, (2014)	How do home-country dependence conditions influence the extent to which emerging market firms engage in outward foreign direct investment activities?	Resource dependence theory	China	• A higher level of interdependence through exchange between EMFs and foreign firms in the form of symbiotic, competitive, and partner relationships increases the level of EMF OFDI.
Cuervo-Cazurra (2012)	How can the study of EMNCs be used to extend theories on MNCs?	IB theories	Theoretical	• The conditions of the country of origin influence the behavior and internationalization of firms. • A theory that can explain the behavior MNCs should also explain the behavior of EMNCs.
Shirokova, Laskovaia, Osiyevskyy, and MahdaviMazdeh (2020)	How do effectuation and causation affect firm performance and performance variability in the context of an emerging market?	Effectuation theory	Russia	• For firms affected by adverse conditions, causation brings marginal performance improvements while also making it unreliable, whereas effectuation leads to performance improvements coupled with higher reliability.
Ang, Benishcke, and Doh (2015)	Examine the diffusion of ownership strategies in cross-border operations.	Neoinstitutional theory	China, India, Indonesia, Malaysia, the Philippines, and Thailand	• EMNEs mimic local firms when they make market entry choices. • As regulatory distance increases, it becomes more imperative to mimic.

TABLE 1 (Continued)

Authors	Theoretical contribution: Research question	Theoretical contribution: Applied theory	Empirical context	Main findings
Luiz, Stringfellow, and Jefthas (2017)	Have MNEs arising from Africa adopted different strategies and competencies, and how will these translate into a global context outside of Africa?	Internationalization theory	South Africa	• Processes of both institutional substitution and institutional complementarity in the case study (SAB). SAB first internationalized to countries that played to its strength, but then later pursued international diversification to minimize overexposure. As it became larger, its aspirations grew, and it engaged in institutional substitution into advanced economies.
Torres de Oliveira, Sahasranamam, Figueira, and Paul (2020)	How can an emerging market firm upgrade through an acquisition of a developed market firm without formal integration?	Global value chain theory/ social integration theory		• Find that through social integration mechanisms knowledge transfer is less likely to be opportunistic. Show that social integration, rather than formal integration, helped an EMNE acquire a DMNE.
Musteen, Datta, and Francis (2014)	Does existence and reliance on firm international networks facilitate early internationalization of Czech SMEs into developed countries?	Internationalization theory/linkage, leverage, learning-framework	Central and Eastern Europe	• Firms in transition economies that emphasized technological innovation were more motivated to use their international networks in early internationalization efforts. • High environmental hostility push firms to turn to internationalization networks for assistance in internationalization.
Awate, Larsen, and Mudambi (2012)	What are the innovation catch-up strategies of EMNEs?	Innovation theory	Denmark and India	• Catching-up innovation strategies can be distinguished between building output capabilities or innovation capabilities. • The rapid pattern of EMNE catching-up may be more based on output capabilities and not necessarily innovation capabilities.
Thakur-Wernz and Shantala (2019)	Does internationalization lead to more innovation?	Organizational learning theory	India	• The overall relationship between international experience and innovation is positive.

(Continues)

TABLE 1 (Continued)

Authors	Theoretical contribution: Research question	Theoretical contribution: Applied theory	Empirical context	Main findings
				• If the firms have a higher knowledge distance between home and host country, international experience will have a lower effect on innovation.
Bao, Wei, and Di Benedetto (2020)	What effects do experiential learning and vicarious learning have on the identification of latent customer needs and how do these effects vary under different environmental conditions of market and institutional uncertainty?	Entrepreneurial theory and organizational learning	China	• The effect of vicarious learning is higher than that of experiential learning because accessing equivocal interpretations (vicarious learning) is more important than gaining path-dependent market knowledge in experiential learning. • Weak legal institutions hamper the effect of vicarious learning, whereas experiential learning is immune to the effect of weak legal institutions.
Luo and Bu (2018)	When are emerging market multinationals more risk taking?	Risk theory	China	• Risk-taking propensity plays a mediating role in the relationship between endogenous forces and EMNE risk-taking activity.
Li, Yi, and Cui (2017)	Are emerging firms with higher inward gain more likely to engage in outward internationalization activities?	Organizational learning/ prospect theory	China	• Internationalization of emerging market firms reflects how these firms exploit and explore what they have learned from their interactions with foreign firms at home in foreign markets.

and causation are useful means for controlling firm performance in the uncertain contexts of emerging markets.

Other authors further highlight the importance of institutional environments to explain firm behavior. A study on 673 cross-border acquisitions conducted on multinational enterprises (MNEs) found that emerging economy MNEs mimic local firms as they seek to navigate the regulatory environment in new markets (Ang et al., 2015). Furthermore, the way the firms respond to the institutional pressures in new markets is dependent upon the differences in the regulatory environment between their home and new host country (Ang et al., 2015). As the regulatory difference increases, the emerging firms are more likely to mimic the behavior of other organizations in order to show that they are responsive to the regulatory environment (Ang et al., 2015). The conclusion is that regulatory distance has a moderating effect on firm mimetic behavior.

Institutional differences between home and host country are essential because they determine how the firm will internationalize. These differences determine whether EMNEs will pursue a strategy of institutional substitution or institutional complementarity (Luiz et al., 2017). EMNEs internationalize to foreign markets through institutional complementary as they seek to exploit institutional sameness between home and host country, and to leverage their advantage of operating under uncertainty (Luiz et al., 2017). Institutional substitution, on the other hand, pushes firms to internationalize as they seek to diversify away from the unpredictable home environment that is often faced by EMNEs (Luiz et al., 2017). In this way, the concepts of institutional substitution and complementarity progress the comprehension of institutions in the internationalization dynamics of EMNEs.

Other authors argue that rather than simply looking at home markets to explain EMNE behavior, three additional variables have to be considered: the global context for internationalization, the stage of evolution of the firm as an MNE, and finally, the industry in which the firm operates. These factors shape strategy and the speed at which EMNEs internationalize (Ramamurti, 2012).

The individual attributes of managers can also be used to explain how social integration enables knowledge transfer during the acquisition of a DMNE by an EMNE. A study on the acquisition of a German firm (DMNE) by a Chinese firm (EMNE) found that EMNE senior managers source knowledge from their acquired DMNE counterparts (Torres de Oliveira et al., 2020). Because senior managers are interested in seeking knowledge to improve their business units' efficiencies, they will attempt to reduce the number of potential complications during the integration process. An effective social integration process is accomplished through the social integration mechanisms of environmental, affective, cognitive, and behavioral (Torres de Oliveira et al., 2020). The mechanisms are used to overcome institutional voids between the acquired firm, manage cultural differences during the acquisition, and to overcome the knowledge gap between EMNEs and DMNEs (Torres de Oliveira et al., 2020).

Another conclusion is that EMNEs have different strategic options than those available to DMNEs. For example, EMNEs might internationalize to bring back technologies and new brands to their home market (Ramamurti, 2012). Technological innovation is a key factor motivating Czech manufacturing firms to internationalize (Musteen et al., 2014). Firms seek to network with foreign partners in order to learn from firms in foreign markets, and in particular, this was found to be the case for firms that sought technological innovation (Musteen et al., 2014).

The catch-up innovation strategies of EMNEs also are highlighted in the study by Awate et al. (2012) that is based on a comparative study of the innovation strategies of a Danish company (leading company in the world) and an Indian company (catching-up) in the wind turbine industry. They make a distinction between the catching-up of output capabilities (knowledge on the state-of-the art technology) and innovation capabilities (allowing firms to innovate beyond the existing state-of-the art technology), where the latter necessitates more profound and broader knowledge of technological and architectural innovations.

Organizational learning, in particular, causes internationalization to lead to innovation (Thakur-Wernz & Shantala, 2019). The faster a firm learns, the higher level of innovation output the firm will see (Thakur-Wernz & Shantala, 2019). Learning from market experience is particularly important for firms in emerging markets where unique market conditions must be experienced in order to understand their nuanced implications (Bao et al., 2020). This is particularly the case as firms seek to identify latent customer needs in emerging markets. Both direct learning from market experiences and virtual learning from other firms' market experiences increase the likelihood that firms will be able to identify latent customer needs (Bao et al., 2020). If the firm faces high demand uncertainty, virtual market leaning is better for identifying latent customer needs, but within an environment of institutional uncertainty experiential market learning is a better learning method. Identifying latent customer needs are essential for firms that wish to grow, capture entrepreneurial activities, and innovate. However, if there is a large distance between a firm's home country and their subsidiary's home country, it is found that international experience in emerging markets will have a lower impact on innovation (Thakur-Wernz & Shantala, 2019).

Further findings indicate that existing models of internationalization need to be refined to incorporate arbitrage-based internationalization - a strategy that is of huge advantage for companies operating in low-cost countries (Ramamurti, 2012). Analyzing 200 EMNEs from China, Luo and Bu (2018), find that EMNEs are more likely to be risk taking if they have greater levels of strategic asset-seeking intent, financial abundance, or inward internationalization. This relationship is moderated by risk-taking propensity, which means that firms with more risk-taking propensity are more likely to engage in risk-taking behavior in order to catch up. Therefore, EMNEs have higher risk-taking propensity with more strategic asset-seeking intent, financial abundance, and inward internationalization. These factors influence EMNEs' abilities to deal with uncertainties and willingness to engage in internationalization.

Li et al. (2017) found mixed results as to whether a firm's inward activities will increase firm outward activities and thereby increase the firm's interest in foreign markets. The relationship between inward activities and outward internationalization depends upon how the firm benefits from its inward gains. If the firm improves its resource fungibility from inward activities, it is more likely to pursue outward activities (Li et al., 2017). Yet, another finding was a negative relationship between inward gain and outward activities, especially for firms with low-risk propensity and high-risk outward activities (Li et al., 2017). This is because as the firm benefits from inward gain, top managers may be less likely to pursue risky activities. The dual findings of the effects of inward gains on outward activity highlights the complexity of the topic and further research is needed on this relationship.

3 | DISCUSSION AND CONCLUSIONS

We said at the beginning that we intend this collection to offer a solid primer in the emergence, governance, and advantage of EMNEs. We see that these studies offer innovative concepts for resource-based strategies, transaction cost models, knowledge and learning across borders, and the roles played by firms in countries with weaker or emerging institutions. We believe that the success of these firms in international markets does not reflect some anomaly where they somehow succeed despite having no firm-specific assets, no competent governance, no home-country competition. Rather, we feel that most theories in strategic management continue to apply to EMNEs, but are manifested differently, requiring a rethinking of models, measures, and data which can only improve our thinking about strategic management in general. Recognizing the role of context in strategic management generally separates global strategy as a field of study—the overwhelming importance of the emerging home market context to the study of EMNEs only emphasizes this perspective.

There are a number of differences in behavior between DMNEs and EMNEs that makes the study of EMNEs particularly fruitful. First of all, many EMNEs are at an earlier stage of internationalization, so it is possible to follow their process of internationalization in our times, while many DMNEs have already obtained a very high level of internationalization where the focus more is on consolidation than global expansion. Another striking difference is the ownership models. While DMNEs typically are widely held and run by professional managers, EMNEs have a higher prevalence of other models, from state-owned firms under the control of governments, parties, and politicians to the many that are owned and managed by families and their close associates. A third issue is that while EMNEs clearly do have unique firm-specific assets, these also are quite different from the technology and brand-based assets ascribed to DMNEs, which should expand the concepts of competitive advantage and performance.

That said, what is the future of the study of the strategic management of the EMNE? We can begin with goals, objectives, and purposes. It is not necessarily the case that these firms in these economies are seeking profit maximization for an army of financial investors. Many of them, large as they may be, are still run by their founders or the immediate family or are state-owned enterprises. Others are embedded in nations that see business as a part of the national story, but only a part, one in which the needs of the state and the people and the nation are much more important than those of individual firm—is this the stakeholder model, socialism, or authoritarianism? What is the role of the firm in the society and how does this limit, direct, or guide strategy? How does competition work in countries where the state has no compunction toward interfering with business and no courts to "protect" the company or the individual, but at the same time is willing to mass its resources behind its champions without concern for efficient markets, so long as the inefficiencies suit national policy? What new business models, with different assumptions, different concepts of the firm and its role in society, of the separation (or not) of the private and public sectors, even of the role of the individual firm in the broader sweep of history, are going to be forthcoming from these countries? What are the critical resources, the drivers of competitive advantage, for these firms in their own home markets and how do these translate into the global business environment? Which firm-specific resources translate into other markets - into developing markets or into the industrialized markets of the West? How can EMNEs overcome assumptions of lower levels of technology, quality, and brand image in advanced markets?

For strategic management scholars, the first question is whether we have the perspective to even recognize these differences or are we tied to the mast of our convictions even as they fail to give us guidance? Second, we must understand that our inputs, our data, will be different in studies of EMNEs. Does measuring profitability matter if the EMNE is not profit-maximizing? Are ties to state agencies or other parts of the corporate family really institutional voids, or just very different institutions, deserving of their own respect and study? Third, do our theories work in these environments - and if they do at the highest level, how much do the frameworks, the relationships, the variables, the measures work at operational levels? Answering these questions is necessary to understanding the success and failure of the EMNEs, but is also essential to expanding the field of strategic management beyond competition in the late 20th Century in the Western industrial world. The challenge is to develop the field, not just to expand the boundaries of competition. Study this collection as a challenge to your preconceptions, to your implied boundaries, to the limitations on the concept of strategic management that you have accepted but which are no longer adequate in a larger, more diverse, ever-changing global environment. We trust that this can happen and that new visions of strategy, as we see emerging from these articles, will drive our field forward.

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