



# 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

environment, to build their competitive advantage. Given the complexity of the topic at hand, we do not intend to offer an exhaustive explanation of all the factors influencing the EMNCs' competitive advantage; several issues invite further in-depth investigation. In this sense, in the last section, we present the implications of the framework and suggestions for a research agenda.

### 3. Research methods

Although historical analysis is commonly used by historians to gain insights into social phenomena, the longitudinal historical approach has also been recommended for international business “areas of study that require an ecological view of reality and are characterized by complexity and nonlinear causation” (Birkinshaw, Brannen, & Tung, 2011; Burgelman, 2011, p. 599). Unlike the developed economy companies, the EMNCs are characterized by an absence of systematic data sets and consistent data sources through which one can study the EMNCs' performance systematically. The study of EMNCs' competitive advantage requires a complete (historical) understanding of complex and distant institutional environments posed in their home and host markets.

We chose a multiple-case historical analysis because a study involving multiple cases gives a better feel for variety and for what is general and what is not (Marschan-Piekkari & Welch, 2004; Piekkari, Welch, & Paavilainen, 2009). Using this type of multiple-case historical analysis design allows us to explore the phenomena under study through the use of a replication strategy, which is often compared to conducting a number of separate experiments on related topics (Eisenhardt & Graebner, 2007; Yin, 2009). In order to empirically evaluate the EMNCs' competitive advantage, we conducted an in-depth historical analysis of sixteen EMNCs equally representing seven industries from the two largest emerging markets: India and China. It is suggested that the optimal number of cases must be above four and below ten (Eisenhardt, 1989). Since we are looking at two different countries, we chose eight companies from each country and at least two cases belonging to the same industry in the particular country. A list of names of these companies, their country of origin, and the industry they represent is provided in Table 1.

Our case selection followed the qualitative principle of purposeful sampling, which allows the content analyst to select

the units of investigation relevant to the study (Krippendorff, 2004). We used the following criteria to select the EMNCs in our sample: 1) The companies are publicly traded on either the Indian or Chinese stock markets; 2) The EMNC is at least 15 years old; 3) In order to facilitate industry comparison in our sample, there are at least two companies in each industry that originated from the same nation; 4) Each EMNC has significant popular trade press coverage that describes them as successful companies in their industry and nation; and 5) Each EMNC has at least entered one major foreign market, namely the U.S., which is representative of other developed countries in the global marketplace. As Patton (2002) points out, the power of purposeful sampling lies in selecting information-rich cases for in-depth study. Since the EMNCs studied here are the leaders in their respective domestic markets and are also the forerunners of internationalization in the manufacturing and service industries, analyzing the strategies and competitive advantage of these sixteen firms enables us to identify factors that influence EMNCs' competitive advantage in the global market.

In our historical analysis, we used copious documents (comprising a rich historical record) to identify themes embedded in the evolving phenomenon of EMNCs' paths to building competitive advantage as they transition from home (emerging) markets to developed-country markets. We followed a pre-determined set of rules that were pilot-tested for two companies, with 200 articles each. After resolving differences and altering the rules, the inter-rater reliability was good, with Cohen's kappa of 0.67–0.95 between the raters (Fleiss, 1981). In order to obtain a full historical view, we selected documents for analysis from 1950 to 2008, thus encompassing 59 years of data totaling 28,626 articles.

While case studies cannot provide nomothetic, law-like generalizations, the case study's inductive strengths facilitate the development of testable hypotheses and theory that are generalizable across settings (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Welch, Piekkari, Plakoyinnaki, & Paavilainen-Mantymaki, 2011). Consequently, based on the results of our multiple-case historical analysis, we highlight the various factors that contribute EMNCs' competitive advantage. We elaborate on the EMNCs' capability of surviving in their institutional environments in their home (emerging) countries and to simultaneously transition and adapt to the developed countries like the U.S., where the institutional environment is significantly different compared to their home nations. The framework proposed here is based on

**Table 1**  
List of EMNCs studied.

Name of EMNC	Country of Origin	Industry	Number of Text Files
Wipro Technologies	India	IT services/business process outsourcing	2272
Satyam Computer Services	India	IT services/business process outsourcing	435
Infosys Technologies	India	IT services/business process outsourcing	4944
TATA Consultancy Services Ltd.	India	IT services/business process outsourcing	1103
Dr. Reddys Laboratory	India	Pharmaceuticals	1236
Ranbaxy Pharmaceuticals	India	Pharmaceuticals	3315
Mahindra & Mahindra Limited	India	Automotive Equipment	587
Tata Motors	India	Automotive Equipment	4470
Lenovo Group Limited	China	Computers and IT Components	2343
Founder Technology	China	Computers and IT Components	735
Hisense	China	Consumer Electronics	1258
Konka Group Company Limited	China	Consumer Electronics	512
Haier Group	China	Home Appliances	1015
Gree Electric Appliances	China	Home Appliances	151
Huawei Technologies Company	China	Telecommunication Equipment	3253
ZTE Corporation	China	Telecommunication Equipment	997
N = 16	N = 2	N = 7	N = 28,626

**Table 2**  
Summary of the factors affecting the EMNCs over time.

	Factors Leading to EMNC's Competitive Advantage in Home Markets	Factors Leading to EMNC's Competitive Advantage in Developed Nations	EMCs from India	EMCs from China
Innovation Capabilities	New Product Development to Overcome Lack of Infrastructure and Regulatory Barriers	Innovate to enhance their design competency and provide quality products	Wipro Technologies TATA Consultancy Services Infosys Technologies Satyam Computer Services	ZTE Corporation Konka Group Ltd.
Knowledge Sharing & Organizational Learning	Learn and implement knowledge shared by trade associations and institutions of higher education	Simultaneously use the exploration and exploitation approach to <i>learn</i> and enhance their capabilities	Wipro Technologies	Lenovo Group Ltd. Konka Group Ltd. Huawei Technologies Company Founder Technology Hisense
Marketing Capabilities	Capability to market their products to demanding price-conscious consumers	Ability to find niche markets in developed nations and overcoming the liability of emergingness	Mahindra & Mahindra Ltd. Wipro Technologies TATA Consultancy Services	Haier Group Konka Group Ltd. Founder Technology Lenovo Group Ltd.
Cash Rich Positions	Facilitates the path to building competitive advantage from home markets to developed nations		TATA Consultancy Services Infosys Technologies Dr. Reddys Laboratory Wipro Technologies Ranbaxy Pharmaceuticals Tata Motors	Lenovo Group Ltd. Founder Huawei Technologies Company ZTE Corporation
Strategic Partnerships with MNCs	Business ties with MNCs in the home market	EMNC's strategic partnership with or acquisition of developed nations firms to develop its technological or distribution capabilities	Wipro Technologies Mahindra & Mahindra Ltd. Ranbaxy Pharmaceuticals Infosys Technologies Satyam Computer Services	ZTE Corporation Founder Technology Konka Group Ltd. Lenovo Group

the results of our historical analysis and explains the EMNCs' evolutionary paths to building their competitive advantage from home markets to developed-country markets.

### 3.1. Data analysis

Quantitative text-analysis, often referred to as content analysis, is an empirically grounded exploratory method that may be predictive or inferential in intent (e.g., Doz, 2011; Krippendorff, 2004). Although manual coding has traditionally been the method of choice for content analysis, our 59-year timeline and the sheer quantity of documents (28,626 articles) warranted the use of computer-assisted text analysis that provided us a systematic and efficient means to back out patterns from the case histories. We also utilized a method of computer-assisted, network-based text analysis called Centering Resonance Analysis (CRA) (Corman,

Kuhn, McPhee, & Dooley, 2002). Of the available quantitative text analysis tools, computations based on CRA are particularly useful for the purpose of this study as CRA is a bundle of techniques, which transforms the structure of natural occurring text into a semantic network (Corman et al., 2002). We use 'Crawdadd Desktop', a computer software program based on the grounded theory techniques of Strauss and Corbin (1990).<sup>1</sup> Although CRA's holistic approach differs from the reductionist approach of traditional content analysis, measures of its validity and reliability are sound. Studies reported in Corman et al. (2002) and McPhee et al. (2002) demonstrated the technique's face validity and representational validity, affirming the capacity of the generated

<sup>1</sup> An explanation on the CRAWDDAD DESKTOP and CRA networks will be made available by the authors upon request.



networks to represent concepts in the same way human readers do. Further, in this study, to interpret the patterns identified by the CRA network, the authors looked back at the original documents, and read each one of them. Thus, the explanations in the paper are an outcome of the manual content analysis (facilitated by a novel software like CRAWDDAD) conducted by the authors. In addition, the notion of context is built into the research method itself. Since semantic networks are rooted in relationships between all the words in a text, frames are never reduced to “simple researcher-designated labels” (Kosiki, 1993, p. 112), which has been one drawback of traditional category-based content analysis. Thus, this paper introduces a novel combination of multiple in-depth case studies, analyzed using a computerized content analysis tool and facilitated by the CRA—all used to explain a longitudinal phenomenon ‘EMNCs’ paths to building competitive advantage from home markets to developed-country markets’.

#### 4. Factors that affect the EMNCs’ competitive advantage

Conventional knowledge suggests that when establishing operations in developed countries, EMNCs often do not possess proprietary advantages such as technology and brand when they venture abroad, and tend to be latecomers entering a crowded arena (Ramamurti & Singh, 2009). The EMNCs investigated in this study depict an outstanding trait of having survived in the difficult institutional environments of their home countries and have ventured into the U.S. and other developed markets, where the institutional environment is significantly different than that of their home countries. Hence, based on our quantitative text analysis, we have identified the various factors that influence the competitive advantage of EMNCs in their home markets and the developed-country host markets in a dynamic evolutionary process. A summary of the various factors and the EMNCs affected by them over time is presented in Table 2. The narrative focuses on various factors that influence the building process for EMNCs’ competitive advantage in different stages, viz. Stage I characterized by ‘Innovation Capabilities’; Stage II characterized by Internal Maturation with ‘Knowledge Sharing & Organizational Learning’, ‘Marketing Capabilities’, and ‘Cash Rich Positions’, and Stage III characterized by global networking involving ‘Strategic Partnerships with Developed-Country Firms’.

We discuss the crucial factors that affect the EMNCs’ competitive advantage in their home nations and as they internationalize to developed countries like the U.S. The following paragraphs provide a summary of the various factors that facilitate the home and host market competitive advantage as demonstrated over time in our historical analysis of the sixteen EMNCs. We explain these factors based on the various themes identified through the rich qualitative analysis afforded by historical analysis. Finally, we present a dynamic evolutionary framework in stages, explaining the paths to building EMNCs’ competitive advantage from their home market to the distant developed markets.

##### 4.1. Stage I: innovation capabilities

Most important and most fundamental mechanisms of creating sustainable competitive advantage in today’s dynamic environment, is to apply innovation in products and services. Innovative products, processes or new business models provide strong competitive edge. Phene, Fladmoe-Lindquist, and Marsh (2006) argue that radical innovations are valuable for developing competitive advantages, for reinvigorating firms caught in competency traps, and for staying alive in fast-evolving industries. Such innovations depend on (re)combinations of existing resources, often from disparate and external sources. An essential factor for EMNCs’ transition from cost-based to differentiation-based

competitive advantage as they transition into developed countries is their *innovation capabilities*, which enable them to create and generate new competitive advantage. The evidence from the sixteen cases suggests that EMNC innovation can be characterized as incremental in nature, process-based, shop floor-situated, and design and development dominated, in contrast to incumbent MNC innovation that is more radical in nature, product-based, laboratory located, and R&D driven. The following examples illustrate how EMNCs’ innovation capabilities lead to their competitive advantage in their home markets and then in the host nations.

##### 4.1.1. Innovation capabilities leading to competitive advantage in home countries

It is claimed that EMNCs are unlikely to be as strong in technology-based ownership advantages as firms from developed countries, since the institutional environment in emerging markets is not conducive for a firm to indulge in innovative activities (Liu, Li, & Xue, 2011; Luo & Tung, 2007). However, the observation from EMNCs in this study suggests that it is the constraining institutional environments in the home country that have forced EMNCs to innovate to satisfy the demands of various market niches, overcome institutional voids like the lack of infrastructure or to overcome regulatory barriers (Khanna & Palepu, 2007; Kothari, Kotabe, & Murphy, 2013; Ramamurti & Singh, 2009). In other words, EMNCs’ innovation is driven by their ability to succeed despite the various constraints posed by their institutional environments in the form of billions of price-conscious demanding customers, crowded factor markets, lack of essential resources, infrastructure, corrupt governments, etc.

On the one hand, both China and India opened up their nations to foreign firms, with India having done so almost a decade before China. This move resulted in fierce competition in the domestic market that forced EMNCs to innovate for their survival. Further, some of the centralization aspects of the government policies, such as controlling FDI, controlling EMNCs’ ability to raise foreign capital or acquire foreign firms, lack of intellectual property protection tend to hamper the growth of EMNCs and in turn restrict their ability to innovate as they attempt to grow and expand. Thus, actors such as governments and other regulatory agencies can influence the rules of the game applicable to the environments of EMNCs. Some of the firms observed in this study have built their innovation capabilities enabling them to develop new products to overcome these regulatory barriers.

For instance, in 1945, Western India Products Limited (Wipro) was set up in the small town of Amalner in Maharashtra, with a modest presence in two Indian states. Primarily as a vegetable oil factory, the chief products were Sunflower Vanaspati and 787-laundry soap (a by-product of the vegetable oil operations). In the 1970s, Wipro embarked on an ambitious phase of expansion and diversification and made its foray into the Infotech arena in the early 1980s. In the initial stages Wipro conducted R&D efforts in the design of computer hardware products for the Indian market because the government of India did not allow these products to be imported. Thus, the Wipro Infotech innovation began in a small lab at the Indian Institute of Science (IISc) where the team developed the first Indian 8086 chip to overcome a regulatory barrier that disabled them from purchasing the products from outside the country.

Similarly, the lack of some of the basic infrastructure in emerging markets has forced some of the EMNCs to innovate and develop new products in order to provide the basic services to the consumers in the local market. For instance, in February 1985, Zhongxing Semiconductor Co., Ltd. (the former ZTE Corporation) was established in Shenzhen, South China with a starting capital of

2.8 million RMB (or approximately US\$0.4 million). In June 1987, with a R&D team with eight members, the company independently developed its first certified product, ZX-60 Stored Program Controlled (SPC) space division exchange. By the year 1992, the company's product, the ZX500A, a small-capacity digital carrier-class exchange, which was tailor-made for the countryside end-office reconstruction to adapt to a digital network, was hailed by the customers and directly led to a booming “countryside telephony reform” in China. With the abundant trunk interfaces that were compatible with different systems and had better cost performance than imported counterparts, this product enabled the company to pioneer into the countryside telephony market and the homegrown ZX500A paved the way for further development of the company. Just a couple of years later, based on its past operation experience, the company established a “state-owned and private-run” operation system, which was totally new in China at that time. Thus, by carving out a way with hardship (serving rural China to a significant competitor in the U.S. telecommunication market), in 20 years the company has become China's largest listed telecommunication equipment manufacturer and the fastest-growing telecommunication manufacturer in the world. Thus, our observations suggest that an EMNC's capability to innovate to overcome institutional voids like the lack of infrastructure or to overcome regulatory barriers has a positive relationship with its competitive advantage in the home market.

#### 4.1.2. Innovation capabilities leading to competitive advantage in host countries

Although historically a significant part of the competitive advantage of the EMNCs has been a wage cost advantage relative to companies in developed countries, our study observed that these EMNCs are able to internationalize based on much more than just low cost. Some EMNCs have remarkable innovation capabilities, identifying changing global consumer trends and also technologies and processes that enable them to introduce and market new products to developed market faster than their rivals. For instance, the Indian IT service providers are now acquiring or developing consulting skills to effectively compete as integrated service providers, against leading global IT services companies like Accenture, EDS, and IBM. These companies diversify their vendor base, realize cost savings by off-shoring certain components, and retain flexibility to ramp up or scale down operations lockstep with changing business requirements.

In order to be competitive in both domestic and global markets, the *design competency* of the EMNCs has become an important factor for its creativity. To support China's increasing determination to reduce reliance on foreign vendors, government-backed Konka started its journey of independent innovation and foreign expansion. Commonly known as the heart of color TV sets, micro control unit (MCU) is a chip that controls all functions of a color TV set. In order to facilitate this new product development, the company set up a *lab in the Silicon Valley in the United States*, which helped greatly improve the company's technological innovation capacity. The MCU developed by Konka has powerful functions and great memory, is easily updated by software, and is also 20% lower in cost than foreign ones. The company has also taken a proactive position in the digital TV industrial chain by inviting software development and planning talents from across the world in order to develop software for digital TVs. By focusing on maximizing its production scale under the prerequisite of profitability, Konka has preceded its Chinese counterparts to launch a 3G mobile phone strategy. With its acute insight into the market backed by constant innovation, the company has transitioned from the traditional black home appliances maker in China into a multinational company dealing in white home electrical appliances market. Hence we propose:

**Proposition 1.** An EMNC's capability to innovate to enhance their design competency and provide quality products forms an initial competitive advantage in the developed-country markets.

As identified in the literature, it is evident that EMNC's innovation capabilities are the foundation to build firms competitive advantage. However, our historical analysis further suggests that the type of innovation capabilities that EMNCs build evolve significantly as they internationalize to developed countries. With this premise, we further explore how firms build their competitive advantage as they transition from their home markets to developed countries.

#### 4.2. Stage II: internal maturation

Stage II is characterized by EMNCs' having developed their organizational and marketing capabilities, further buttressed by their dominant market positions in their home markets with strong cash positions. 'Knowledge Sharing & Organizational Learning', 'Marketing Capabilities', and 'Cash Rich Positions' represent the second stage of EMNC's competitive advantage development.

##### 4.2.1. Organizational learning and knowledge sharing

Knowledge, which includes 'knowing what' and 'knowing how' (Gupta & Govindarajan, 2000) is the most important resource for an organization's competitive advantage (Nonaka, 1994; Spender & Grant, 1996). Knowledge is created and remembered by individuals, and a company uses that knowledge in the production process of goods and services (Dai & Liu, 2009). A firm's ability to learn, use, and exploit valuable knowledge and the state-of-art technologies enables it to sustain superior performance. In studies of organizational learning, the problem of balancing technology capability exploration and exploitation is exhibited in distinctions made between refinement of an existing technology and invention of a new one (Levinthal & March, 1981; Winter, 1971). On one hand, exploration of new alternatives reduces the speed with which skills at existing ones are improved, whereas on the other hand that improvement in competence at existing procedures makes experimentation with new innovations a less attractive venture (Levitt & March, 1988; March, 1991). The main benefit of exploitation-oriented learning is time compression (Cho, Kim, & Rhee, 1998).

In this study we observe that some firms have an *architectural competence* when it comes to finding, incorporating and using external knowledge. This competence has to do with the ability to span firm and professional boundaries in search of new but related technologies. In the developing countries where pirating is rampant, exploration into new areas, particularly into the technological risk-taking ones, cannot be taken for granted due to the market failure. Further, in this study, we observe that the EMNCs in the high technology industries highlight the importance of exploration-oriented learning wherein the EMNCs move from the stage of technology users to that of technology generators (Choung et al., 2000). The overall pattern of successfully entering developed economies involves putting emphasis on learning and knowledge sharing that leads to the innovation of the product and process. The following examples illustrate how EMNCs' ability to learn, absorb and share knowledge leads to their competitive advantage in their home markets and then in the host nations.

4.2.1.a. *Organizational learning and knowledge sharing in home countries.* The firms 'absorptive capacity' refers to its ability to absorb and put to use new knowledge, and involving 'an ability to recognize the value of new, external knowledge, assimilate it, and apply it to commercial ends' (Cohen & Levinthal, 1990; p. 128).

Social knowledge, a cognitive dimension, consists of the knowledge and skills possessed by the people in a country. Within countries, particular issues and knowledge sets become institutionalized, and certain information becomes a part of shared social knowledge (Busenitz & Barney, 1997). The social sector covers a variety of organizations, including trade associations, churches, public research institutes, cultural institutions, advocacy groups, political movements, charities, and foundations (Mintzberg, 1994). Since private small and medium-sized enterprises in developing countries cannot afford research and development, public research institutes are crucial to the building of their technological capabilities. Hence, we observe the impact of knowledge contributed by social institutions on the EMNCs competitive advantage.

Since China established the degree system in 1981, postgraduate programs have developed and produced scientific talent with experiences in both teaching programs and research projects. New research directions are emerging consistently, new theoretical systems created, new technologies and skills bred, and even new subject areas formed. For instance, Konka Group set up an R&D center in cooperation with Beijing University of Posts and Telecommunications. The joint R&D center is responsible for the research of China's 3G technical framework. The Chinese Academy of Science has also played a major role in innovation in the information technology industry after the economic reform. Its contribution was in transferring its previously accumulated technology to the industry by way of spin-offs.

Another example of impact of knowledge contributed by social institutions on the EMNCs competitive advantage is EMNCs' interaction with the members of industry alliances. For instance, NASSCOM, India's National Association of Software and Service Companies, the premier trade body and the chamber of commerce of the IT software and services industry in India, has enabled significant policy changes in the favoring software businesses in India. NASSCOM is a global trade body with over 1100 members, of which over 250 are global companies from the U.S., the European Union, Japan and China. NASSCOM's member companies are in the business of software development, software services, software products, IT-enabled/BPO services and e-commerce. NASSCOM has enabled some significant policy changes in India. Similarly, more than twenty Chinese firms, including EMNCs such as the Founder Group, Lenovo, Hisense, Haier, and Huawei founded WAPI, an industrial alliance to jointly promote WAPI, a home-grown encryption standard for wireless local area network (WLAN) equipment. This alliance is determined to reduce China's reliance on foreign vendors (mainly U.S.) at a time when and promote independent innovation by Chinese EMNCs. The Chinese government has backed this initiative to better support homegrown technology standards.

As these results suggest the EMNCs have partnered with institutes of higher education either to enhance their R&D skills or to overcome the institutional voids (weak educational system) to enhance their human capital. Also, their membership in industry alliances and associations facilitates lobbying efforts with the government and enables creating an institutional environment that incubates innovation. Thus, a firms' informal embeddedness or interconnectedness with dominant institutions in the social sector not only enables national policy changes that enhance the growth of certain industries but also, increases its legitimacy and contributes towards its competitive advantage. Building on the organizational learning literature, we argue that indirect learning (i.e., learning from the experience of others) plays a crucial role in enhancing EMNCs' competitive advantage. Thus, an EMNC's capability to learn and implement knowledge shared by trade associations and

institutions of higher education has a positive relationship with its competitive advantage in the home market.

*4.2.1.b. Organizational learning and knowledge sharing in host countries.* The model of original design manufacturer (ODM) was introduced to describe the new role of the latecomer firms. In this newer model, a global buyer first provides a local company a set of product ideas and/or concepts. The local company, in turn, designs the system, sources the components, and builds a product prototype according to these concepts from its buyers. Thus, as ODM suppliers, EMNCs are able to execute their own designs and technological capabilities (Mathews & Cho, 2000). Our historical analysis suggests that Lenovo Group, the Chinese computer maker, which used the ODM model after having served as an original-equipment-manufacturing (OEM) supplier for IBM for a number of years. While following the OEM model, manufacturing activities were not only the driving force for Lenovo but also the economic precondition for technological investment and learning such that these manufacturing activities could generate and support the development of technological capacity. This phase of the manufacturing process was characterized by 'learning-by-doing' organizational learning process for Lenovo. It played a significant role especially when Lenovo lacked the needed technologies or skills, which were an essential requirement to develop/produce the product. In the newer ODM model, IBM first provided Lenovo a set of product ideas/concepts. Lenovo, in turn, designed the system, sourced the components, and build a product prototype according to these concepts. Finally, in 2007, Lenovo Group made waves by buying IBM's \$11 billion PC business. At this stage, learning is not only a by-product of manufacturing, but also an activity that is deliberately embedded in the R&D function of the EMNCs. Thus, the EMNC's competitive advantage is based not only its own internal capabilities, but increasing effectiveness with which it could gain access and utilize different sources of technological knowledge and capabilities beyond its firm-specific boundaries. This phenomenon is particularly true in technology-intensive industries where rapid technological change, growing technological complexity and shortening product life cycles prevail. The organizations ability to learn and implement the knowledge allows for a shift from a process innovation to a product innovation strategy in the long run.

EMNCs need to create an encouraging climate to efficiently share knowledge between headquarters and subsidiaries as well as between subsidiaries themselves in order to institutionalize innovation, learning and information transfer to support continuous improvement and thus enhance the overall operational capability of the firm. In particular, a stimulating, cooperative organizational environment propels the probability that a given amount of capability exploitation will generate higher operation capability and in turn higher financial and competitive gains. Thus, they simultaneously use the exploration and exploitation approach to enhance their capabilities in various nations. Hence we propose:

#### **Proposition 2.**

*An EMNC's capability to simultaneously use the exploration and exploitation approach to learn and enhance its knowledge has a positive relationship with its competitive advantage in the developed-country markets.*

#### *4.2.2. Marketing capabilities*

Marketing Capabilities is defined as the process of applying knowledge, skills and organizational resources to create value added to goods and services, meet competitive demand and respond to the needs associated with market (Day, 2004).



Marketing capabilities include processes such as servicing to customer-specific gauge; marketing research in order to recognize the obvious and hidden needs of customers and also creating a distinctive product in terms of quality, price, reputation, and service. Each of these variables is positively associated with firm performance; and especially in the field of innovation, entrepreneurship, increased sales and market share and creating overall competitive advantage (Weerawardena, 2003). The following examples illustrate how EMNCs' marketing capabilities lead to their competitive advantage in their home markets and then in the developed host nations.

*4.2.2.a. Marketing capabilities leading to competitive advantage in home markets.* China is home to 1.3 billion people; India has a population of 1.1 billion. In the next decade, they are expected to become the largest and the third-largest economies, respectively. Thus, EMNCs have access to some of the world's most dynamic growth markets with demanding price-conscious consumers. EMNCs are often faced by a relentless price war in the home-market, where overcapacity and bloated inventories drive prices down and force dozens of once-promising EMNCs into the red. To survive this intense competition the EMNCs are forced to adopt a strategy that provides attractive products at competitive prices.

In this study, we observe that the leading firms like Haier, founded in 1984 as the Qingdao Refrigerator Factory (the former name), in Qingdao, a port city south of Beijing, realized that customers in rural China were using the company's washing machines to clean vegetables like sweet potatoes. The company modified its product designs to accommodate those needs of the customers. In a country like China, where reliable after-sales service and national distribution were not common, Haier invested in those areas, and has yielded formidable sources of competitive advantage. Furthermore, it has also channelized its efforts to meet customer demands for products through overcoming the challenges of specialized infrastructures, distribution channels, or delivery systems in a nation where the institutional voids are significant. Another observation suggests that Haier became a leader in China's white goods market, in the teeth of competition from GE, Electrolux, and Whirlpool, mainly because it was able to develop products tailored to the needs of the demanding and idiosyncratic Chinese consumers.

A few companies in the study have emerged to be global leaders after having survived the price wars in their crowded domestic markets. For instance, China's mobile phone market, such that newly entering domestic companies were forced to achieve the economies of scale within two years to survive in the market. Therefore, in order to maximize their brand interests, these firms had to first survive by expanding domestic market shares and production scales before they could chase any profits. Similarly, China's PC manufacturers like Legend and Founder faced significant competition from western giants like IBM and Dell. While struggling during that era and competing on the basis of low costs, these companies had the insight to anticipate that laptops could challenge the traditional desktops to become the mainstream computer. Hence, both these EMNCs have led in the introduction of laptops on the market to meet the changing consumer demand and to compete with foreign brands. In addition, Fonder Technology also moved into the chip design and manufacturing business as part of a larger plan to reduce reliance on the low-margin PC sector. Due to the relatively unrewarding PC business the company pursued new market niches and changed its focus to more upstream IT sectors. In 2002, the company launched the first digital camera in China and later set up China's first digital camera production line in Dongguan, Guangdong Province. At the end of this study period, Founder is one of the biggest IT vendors in China. Thus, an EMNC's capability to market

its products to demanding price-conscious consumers has a positive relationship with its competitive advantage in the home market.

*4.2.2.b. Marketing capabilities leading to competitive advantage in host nations.* Our historical analysis suggests that when the EMNCs enter developed-country markets, they tend to avoid head-on competition with incumbents; instead, they focus on niche opportunities that allow them to capitalize on their existing strengths. One prominent feature in this sample of successful EMNCs is their capacity to envision a global market for their products well before they achieve the scale needed and their ability to move their business relentlessly up the value chain. For instance, Mahindra & Mahindra (M&M) realized that it could enter some niche markets in the United States. Many baby boomers have retired from stressful urban lives and become hobby farmers. These farmers needed only small tractors to till the soil. From 2000–2005, M&M captured a 20% market share of the U.S. market by competing in the under-70 hp tractor market crowded by companies such as John Deere, New Holland, Agco, and Kubota Tractor. Thus, M&M's competitive advantages come from its ability to manufacture these tractors at relatively low cost in both China and India and sell them to this market niche in the U.S.

Another crucial factor in the success of EMNCs in developed countries has been their commitment to pursue the highest quality standards in all aspects of their business. In January 1999, Wipro was assessed at SEI-CMM Level 5, the highest level of quality certification, making it the first IT services provider in the world to achieve this standard. The company was also the pioneer of the application of LEAN thinking in software services and support transactions. Due to its continuous attempts to enhance and maintain high quality standards, Wipro has been acknowledged as a leading offshore provider of technology services by Gartner, Forrester and other leading research firms. It is the only Indian company to be ranked among the 'Top 10 Global Outsourcing Providers' in the International Association of Outsourcing Professionals—Fortune Global 100 listings and is also the winner of NASSCOM's Technology Innovation Award 2005. These international recognitions have provided Wipro a designation of an international brand that is a market leader committed to high quality standards.

As identified in this example, EMNCs face an additional burden in advanced economies, simply because they originate from emerging economies. In order to overcome this 'liability of emergingness' (Madhok & Keyhani, 2012), handicap incurred because of where they are from (Ramachandran & Pant, 2010), EMNCs like Wipro focus on establishing world class quality for their products to enhance their brand recognition. This is imperative for them to be looked at favorably by market niches especially in developed countries. This focus on quality to overcome their liability of emergingness helps EMNCs gradually build their capabilities even as they learn how to operate in developed markets. Furthermore, these companies move up the value chain, selling branded products or offering solutions to these niche segments. The EMNCs seem to be performing the delicate act of balancing the push and pull factors exerted by both their home and host nations, respectively. Hence we propose:

### **Proposition 3.**

*An EMNC's capability to find niche markets in developed-country markets enhances its competitive advantage in those markets.*

### *4.2.3. Cash rich positions*

Our study observed that differences in the institutional environment of emerging markets have also led to dramatic differences in the ownership structures of Chinese and Indian



EMNCs. A majority of Chinese companies are state-owned or state-controlled, whereas the shares of Indian companies are usually divided among private owners, strategic investors and the general public. This difference in the ownership structure and the financial resources available to the firms also leads to different strategies used to amass wealth. The following examples illustrate how EMNCs' cash rich positions influence their competitive advantage in their home and host nations.

Because of the lack of legal frameworks and underdeveloped financial and capital market, EMNCs often turn to networking as a substitute for external markets. Networking between firms and the external bodies (e.g., other firms and government bodies) can affect the resource and asset positions of these firms. Networking is no doubt present in all societies and can take different forms. As in the case of China, involvement from government, mainly through ownership capital and regulation, is argued to play an important role in the competitive advantage of the state-owned EMNCs. They tend to have resource and policy advantage over other firms in the nation. For instance, WTO membership made China far more accessible to large non-Chinese companies. Formidable state-owned enterprises compete in the Chinese oil and telecommunications services markets. These companies may lack world-class infrastructure, but they have strong legacy positions, high aspirations, and lots of knowledge of local markets. In addition, the two- to six-year phase-in period for reducing barriers to competition and investment gives state-owned companies like Konka Group in consumer electronics plenty of time to prepare.

Another form of networks that have a formal structure and have a significant effect on the EMNCs' resources are family groups and other forms of business groups. Business groups not only often evolve as a result of institutional voids present in emerging economies (Khanna & Palepu, 2000; Khanna & Rivkin, 2001) but they also provide invaluable resources to the member firms. In line with some of the prior studies, in this research we observe that the 'clout effect' of the business groups or the state provides the EMNCs good jump-start and helps enhance EMNCs competitive advantage in the initial stages. On top of this, the conglomerate as well as the state/family-owned setup allows for more patient capital, in contrast to the more unbridled shareholder capitalism that governs, and sometimes limits, MNCs. All put together, this enables resource availability for acquisitions.

Additionally, in this study we observe that in order to expand to foreign nations, the EMNCs saunter different paths to enrich their cash positions. As a response to imperfect or missing markets, the EMNCs have not only used their networking abilities with group membership or state ownership but have also resorted to such innovative techniques as diversifying in related and unrelated domestic markets and listing on domestic and foreign (often developed market) stock exchanges to generate cash that further enables their foreign expansion to developed countries like the U.S.

For instance, based on its search for new profit-growth points, Founder Group decided to adopt a diversified development strategy by venturing beyond its traditional internet business. Some of its attempts in this direction include its acquisition of the state-owned Suzhou Iron and Steel Group prior to the Beijing Olympic Games and Shanghai World Expo, with expectation that demands for iron and steel would rise. The company also expanded in the pharmaceuticals and healthcare industries by joining hands with some leaders in the pharmaceutical industry, opening hospitals. Another noteworthy diversification was the company's attempt to enter the financial industry. Founder bought stakes in three domestic financial institution, Wuhan City Commercial Bank, Wuhan Securities Co. Ltd, and Wuhan International Trust & Investment Co. Ltd, thus achieving the majority stakeholder status in some of them. It also signed contracts with major investment

banks, China EURO Securities and Taiwan International Securities, to offer financial support to Founder in its domestic and international investment and fundraising activities. These moves were in line with Founder's development strategy: to take a large leap by making IT as a pillar, utilizing financial capital and entering selected traditional industries. Similarly, Wipro Limited was initially engaged in the manufacture of hydrogenated vegetable oil. Over the years, the company has diversified into the areas of Information Technology, or IT, services, IT products and Consumer Care and Lighting Products. Headquartered in Bangalore, India however, has operations in North America, Europe and Asia such that IT Services and Products now represent almost 84% of their operating income.

Another noteworthy EMNC is Infosys Technologies Limited, which was incorporated in 1981 in India as Infosys Consultants Private Limited. In 1987, Infosys entered into a joint venture with Kurt Salmon Associates (KSA), a leading global management consultancy firm based in the U.S. KSA-Infosys was the Indo-American joint venture in the U.S. In 1988-89, Infosys set up its first office in the U.S. In 1989, Infosys obtained another major contract from Digital Equipment. The company completed its initial public offering of equity shares in India in 1993. In 1995, the founder of the company, Narayan Murthy, created Yantra Corp. in Acton, Massachusetts. In 1998, to support its global ambitions, the company listed the shares of Infosys on NASDAQ through American Depository Receipts (ADR) issue worth US \$75 million. In December 2006, Infosys became the first Indian company to be added to the NASDAQ-100 index, and with this, Infosys Technologies became the only Indian company to be part of any of the major global stock indices. Likewise, other EMNCs that are listed on the U.S. stock exchange are: Dr. Reddy's Lab, Wipro Limited, Ranbaxy Labs (almost zero debt in 2008) are listed on the New York Stock Exchange (NYSE) and Lenovo is listed on NADAQ. These listings on foreign stock exchanges, beyond being listed on their national stock exchanges, enable EMNCs to generate financial capital that not only strengthens their position in the domestic market but also helps their foreign expansion strategy in developed countries.

In summary, this study observes that in order to expand to foreign nations, the EMNCs saunter different paths to enrich their cash positions. As a response to imperfect or missing markets the EMNCs have not only used their networking abilities with group membership or state ownership but have also resorted to such innovative techniques as diversifying in related and unrelated domestic markets and listing on domestic and foreign stock exchanges to generate cash that further enables their foreign expansion to developed countries like the U.S. Hence, we propose:

**Proposition 4.** *An EMNC's cash rich position facilitates its paths to build competitive advantage from home markets to developed-country markets.*

#### 4.3. Stage III: strategic partnerships with developed-country firms

MNCs are increasingly viewed by strategy scholars as part of a global network (Gupta & Govindarajan, 2000). As a part of this global network, MNCs can draw on significant resources of their affiliates to overcome the resource constraints and institutional deficiencies local firms face in developing countries. Further, MNCs' financial muscle may make it easier for them to influence policy makers as well as the bureaucracy. EMNCs' interactions with technologically advanced MNCs in their home market benefit them by allowing them to gain access to advanced technology, management skills, and intellectual property as well as physical and human capital (Adler & Kwon, 2002). Moreover, business ties with MNCs facilitate resource transfer, knowledge transfer and

learning (Uzzi, 1997). Hence, we observe the effect of the 'Relationship with MNCs in the Home Market' on EMNCs' strategy.

One of the distinctive features for the EMNCs analyzed here is that they all expanded to foreign markets at an accelerated pace. They have been able to achieve this accelerated foreign expansion not only through product innovations, but also through organizational innovations that are well adapted to the circumstances of the changing global economy. Most of these EMNCs have been enhancing their competitive advantage by linking with incumbents in the developed countries. They have been able to implement these approaches through various strategic partnerships that enable them to overcome their liability of foreignness in the developed-country markets. Further, the "acquisition of an advanced economy firm allows the EMNC the possibility to take the 'less than world class' image resulting from the LOE" (Madhok & Keyhani, 2012). The following examples illustrate how EMNCs' strategic partnerships and relationships with MNCs lead to their competitive advantage in their home markets and strategic acquisitions of MNCs lead to their competitive advantage then in the host nations.

#### 4.3.1. Strategic partnerships and relationships with developed-country firms leading to competitive advantage in home markets

The localization and concentration of industries by MNCs and domestic firms creates the possibility of spillovers by pooling specialized labor within those regions. For instance, MNCs like IBM inadvertently gave the Indian software industry a big boost when the corporation closed its subsidiaries there in 1977–78, leaving many ex-workers looking for new jobs. Following that, the IT and information technology-enabled service sector have been experiencing growth in India, with multinational companies building a global presence through cross-border acquisitions and organic growth in other low cost locations. Also, EMNCs do benefit from hiring many of India's leading software professionals who have left top positions overseas and returned home.

Similarly partnerships between EMNCs and MNCs contribute to significant learning for EMNCs. Since intellectual property rights protection is critical to the healthy development of China's IT industry, Founder Technology (a Chinese EMNC) and Microsoft collaborated on joint marketing, sales and training programs to promote the use of genuine versions of Microsoft software on Founder-branded personal computer products for the Chinese market. Founder also committed to purchase licenses of Simplified Chinese versions of Windows. In another effort, Founder also signed a deal with Apple to preinstall Apple's iTunes digital jukebox software on every Founder PC. Thus, Founder was one of the leading EMNCs to kick off a nationwide war against piracy and illegal use of its products. These agreements between EMNCs and MNCs demonstrate a strong commitment and significant progress the EMNCs have made toward protecting intellectual property rights (IPR) and delivering a more secure, stable computing environment for their customers.

A few other examples in our study suggest that the EMNCs enhance their capabilities by strategically partnering with MNCs. For instance, ZTE Corporation partnered with Intel (China) to develop 3G wireless and wireless LAN integration communications technologies and equipment for CDMA2000 and UMTS. The company launched the first Chinese dual-frequency handset (ZTE189) with Chinese-owned intellectual property. Today, ZTE has become China's largest wireless equipment provider with a global wireless capacity exceeding 100 million lines. Similarly, China's Founder Technology and Intel Corp signed a memorandum of understanding to strengthen cooperation in research and development of PC products. This cooperation was based on a shared vision of a digital world built upon converged computing and communications technology and delivering innovative

products to consumers. For Founder this cooperation with Intel was a strategic move to reach its goal of becoming a market leader in digital home and office products through world-class innovation with Intel's technology and training on system design and validation to speed up market delivery of its products. To take this a step further with the support provided by Intel, Founder Technology integrated its business computers with UFSoft's software to offer integral informationization solutions to small and medium companies. This cooperation agreement clinched by the three companies helped Founder Technology take a different marketing method compared with the way the company resorted to in the past.

Similarly, Ranbaxy a leading Indian pharmaceutical company was able to seize opportunities during the rigid Federal Emergency Relief Administration (FERA) era of the 1970s in the U.S. market. By establishing multiple joint ventures with the U.S.-based Eli Lilly, it created a large portfolio of Eli Lilly products to be marketed in India and an opportunity to conduct R&D in India and later used the same relationship to market its products in the U.S. Thus, beginning in the mid-1990s, the company has been busy establishing joint ventures, strategic alliances, acquisitions in other countries to gain access to potential global markets.

These results suggest that the mere existence of MNCs creates spillovers in emerging markets such that it enhances the local firms' knowledge base and paves the paths of their innovativeness. However, it is important to note that the benefit of this indirect relationship between EMNCs and MNCs tends to deplete after a certain point, as the MNCs will try to protect their knowledge from leaking out to local firms. In order to be able to internalize this knowledge the EMNCs often enter into contractual agreements or form strategic alliances with MNCs. Nevertheless, as the levels of ties get stronger as in the case of various forms of intense partnerships like joint ventures or original-design-manufacture (ODM) or original-brand-manufacturer (OBM) contracts, MNCs would be willing to work closely with EMNCs and transfer the tacit knowledge. In such instances MNCs are not worried about the opportunistic behavior by the EMNCs and have a long-run orientation in their problem solving approach (Burt, 1992; Yiu, Lau, & Bruton, 2007). Further, as suggested by the example of Chinese EMNCs, the local government also strongly and positively supports partnerships that enhance the nation's interest. These strong ties between the MNCs and EMNCs allow for sharing of diverse and high quality knowledge that then spurs competitive advantage of these EMNCs.

In summary, in an emerging market the MNCs contribute well beyond the immediate provision of goods and services, at least through the knowledge spillover created through their existence in these nations. The EMNCs' innovation capability is affected by their non-contractual relationship with MNCs but these benefits start to decline as the knowledge shared by the MNCs starts to decline. However, this trend can be reversed by formalizing these relationships, a managerial intention (Hutzschenreuter, Pedersen, & Volberda, 2007) to internalize the knowledge gained from MNCs, leading to an increasing amount of knowledge provided by MNCs either through the competitive environment they create or strategic alliances they get involved in. In other words, EMNCs' competitive advantage tends to decline over time when their relationship with MNCs is informal (i.e., in the case of absence of any contractual relationships), while the competitive advantage tends to improve if their relationship is formalized by the EMNCs (i.e., in the case of strategic alliance, joint ventures, ODM, or OBM or OEM contracts). Thus, we observe that an EMNC's business ties with MNCs in the home market may have a U-shaped relationship with an EMNC's competitive advantage in the home market.

#### 4.3.2. Strategic partnerships and relationships with developed-country firms leading to competitive advantage in host markets

Although EMNCs resources and capabilities enable them to attain a low-cost position and be competitive at home, these often do not suffice in advanced economies because greater differentiation is needed to satisfy the needs of the demanding and higher value-seeking customers of the developed nation markets (Aulakh, Kotabe, & Teegen, 2000). So EMNCs resort to capability development through acquisition, in combination with some of their own capabilities stemming from their competitive advantages in the home nations. The observations from the sixteen EMNCs suggest that a significant number of the partnerships between the EMNCs and developed-country firms are technology driven. For instance, ZTE, one of the first Chinese telecom equipment providers to pursue business in overseas markets, established a U.S. presence in 1998 by locating its U.S. headquarters in Dallas, Texas. The company joined the league of global telecoms giants by teaming up with Alcatel, Ericsson, France Telecom and Portugal Telecom. This nomination of ZTE as a strategic partner by its developed-country counterparts exhibited its strength to be a global player. With its strategic emphasis on international business, the company opened its first R&D institute in the U.S. for developing software, switching, and CDMA2000 1x technologies. It also increased the number of international marketing staff by over 100%. With its creative R&D capability and customer-oriented and market-driven strategy, ZTE is capable of developing and producing market-leading, first-class technologies in wireless, switching, access, optical transmission, data, handsets and telecommunications software.

Other similar attempts of strategic partnerships to enhance technological capabilities were made by companies like Wipro Technologies, Mahindra Satyam and Infosys Technologies. Rapid technological change, growing technological complexity, and shortening product life cycles prevail in these technology intensive companies. So, Indian software firms are increasingly tapping segments such as manufacturing, retail, and aviation as they diversify their revenue base away from banks and financial services firms, which have been battered by the U.S. subprime crisis. Based on the knowledge and technology gained through these partnerships, enhanced by their modular suite, the EMNCs continue to build specialized industry expertise in the IT service industry. They combine deep industry knowledge with an understanding of their clients' needs and technologies to provide high value, quality services.

Some other EMNCs have ventured into marketing partnerships and strategic partnerships for R&D activities with developed-country firms, to gain access to the U.S. market. Ranbaxy, a leading Indian pharmaceutical company, has adopted a very interesting trajectory of partnerships to enter the U.S. market. In 1995, the EMNC signed a Global Alliance Agreement with Eli Lilly to market pharmaceutical products in the U.S. and other countries. In 1997, a company under the name "Lilly Ranbaxy Pharmaceuticals LLC" was incorporated in Indiana, the U.S. to market products from their Indian joint venture and along with select Lilly and Ranbaxy products. In 2000, Ranbaxy Pharmaceuticals Incorporated (RPI), a wholly owned subsidiary of Ranbaxy Laboratories Ltd., entered into a co-marketing alliance with Purepac to market its generic cardiac drug Enalapril Maleate in the U.S. market. Through this alliance the company also entered the U.S. ethical prescriptions market with the introduction of Cefaclor capsules and suspensions. Recently, Ranbaxy Laboratories has been awarded the U.S. Food and Drugs Administration approval for four key anti-infective products, representing nine formulations. Thus, Ranbaxy has resorted to a strategy of combining R&D with marketing to introduce drugs through a reengineering route. These partnerships simultaneously helped the company enhance its products base and its market share in the U.S. Another such attempt was Founder's

partnership with NSDAQ-listed Phoenix Technologies Ltd., a global leader in BIOS technology. This partnership expanded Founder's use of the FirstWare Rescue (TM) suite of products, for use in Founder PCs. FirstWare Connect is an internet browser that does not require an operating system that is built into a secure, tamper-resistant "safe zone" in the foundation of the PC.

We observe that EMNCs continue to pursue selective strategic partnerships with (including acquisitions of) developed-country companies that will allow them to expand their product and service portfolio, and procure additional skills that are valued by both their price-conscious domestic clients and quality-conscious developed-country clients. In pursuing strategic partnerships, EMNCs tend to focus on developed-country companies where they can leverage domain expertise and specific skill sets, and where a significant portion of the work can be moved offshore to their respective home nations to leverage the home nation low cost offshore delivery model and realize higher margins. Hence we propose:

**Proposition 5.** *An EMNC's strategic partnership with, or acquisition of, developed-country firms to develop its technological or distribution capabilities further help enhance its previously developed capabilities and thus its competitive advantage in developed-country markets.*

#### 4.4. Observing a dynamic evolutionary process for the EMNCs' development of competitive advantage

When expanding in developed-country markets, EMNCs may generate market abilities by putting their national resources to optimum use. Such national resources may be broadly categorized as natural resources, human capital and infrastructure (Wan & Hoskisson, 2005). The fact that most international contenders from emerging markets are in commodity industries where they combine home-country natural endowments or labor to generate low-cost advantage, testifies the above assertion (Dawar & Frost, 1999). Likewise, some service-oriented EMNCs have benefited from a large and regular supply of talented low-cost skilled human capital in their home countries. Thus, the key advantages that these EMNCs have are twofold. First, it is their access to some of the world's most dynamic growth markets with global consumers, and second, it is an immense pool of low-cost resources, be the production workers, engineers, land, petroleum, or iron ore. The following examples illustrate how EMNCs' supply chain management influences their competitive advantage in their home and host nations.

The influence of the home nation supply-side institutional environment on EMNCs' competitive advantage is evident in the Indian IT industry, which has excelled in recent years in catering to the global demand for software and services. This growth is partly because India's education system produces many engineers and technical graduates who are hired by local companies at salaries much lower than those in developed markets. However, it is very difficult for foreign companies to capitalize on the same human resources. In India, EMNCs spend significant amounts to train this unpolished, rich human capital to perform the outsourced western jobs. For instance, Infosys Technologies Ltd. has built a new (US \$120-million) Global Education Center in the southern Indian city of Mysore to be able to train its workforce. Thus, the EMNCs' ability to access, attract, and retain skilled IT professionals has enhanced their ability to compete against the incumbent MNCs. Similarly, Chinese companies long known for their ability to access cheap labor in the nation are also using similar efforts to tap into the nations skilled labor force. For instance, Konka Group set up an R&D center in cooperation with Beijing University of Posts and Telecommunications. The joint R&D center is responsible for the



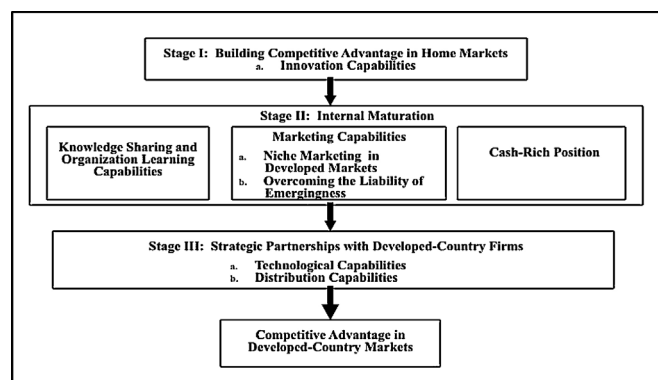
research of China's 3G technical framework. Thus firms' ability to partner with learning centers like universities enables them capitalize on the emerging skills in the nation and thus capitalize on these low cost resources.

On the demand side, the notion that EMNCs can act as institutional entrepreneurs suggests that rather than simply reacting to the institutional distance they encounter, some EMNCs have the capacity to overcome or reduce institutional distance. Thus, while some MNCs may choose not to enter a particular market because of the institutional distance between the home and host countries (as suggested in the existing literature), these EMNCs actually opt to develop strategies to overcome institutional distance. The observations in this study suggest that when the EMNCs enter developed nation markets, they tend to avoid head-on competition with incumbents. Instead, they focus on niche opportunities that allow them to capitalize on their existing strengths. EMNCs firms like Huawei are spending heavily on research and development to surpass industry leader Cisco Systems (CSCO) in the global market for routers and other telecom gear. Besides undercutting Western rivals' prices by 20% to 50%, Huawei is adept at designing equipment appropriate for developing nations.

It is evident that EMNCs move up the value chain, selling branded products or offering solutions to niche market segments. For example, the Indian information technology service providers studied here are doing something similar. By setting up operations in developing countries such as China and Russia, they have started exploiting the large pools of talent in those countries. On the other hand, by acquiring small consulting firms in the United States and Europe, they have enhanced their ability to develop high-end solutions for customers. Our results suggest that by operating on a model emphasized on producing where it is most cost effective to produce and selling where it is most profitable to sell, these EMNCs have rationalized their value chain, to maximize their competitive advantage in both their home markets and developed countries. Therefore, it can be concluded that an EMNC's ability to simultaneously sell branded products or offer solutions to niche segments in developed countries (demand side) and capabilities to optimize low-cost resources in home markets (supply side) facilitates its paths to build competitive advantage from emerging markets to developed countries.

#### 4.5. Framework to explain the paths of building EMNCs' competitive advantage from home markets to developed countries

As observed from the results of this historical analysis of these sixteen EMNCs, it is evident that the foreign expansion of EMNCs



**Fig. 1.** EMNCs' evolutionary paths to building competitive advantage from home markets to developed-country markets.

has been characterized by accelerated entry into developed-country markets. Thus confirming that the foreign expansion of EMNCs to developed countries is very rapid and different from that of the conventional MNCs, and also from that of the foreign MNCs in the 1970s (Japanese) and 1980s (Korean). Hence, in this section we formalize a dynamic evolutionary framework to explain the foreign expansion of EMNCs. The theoretical framework, as shown in Fig. 1, summarizes the EMNCs' evolutionary paths to building competitive advantage from home markets to developed-country markets.

In spite of the challenges faced in their home markets, several EMNCs have come up with organizational and strategic innovations that more than compensate for their (perceived) lack of assets and capabilities required to succeed in the developed-country environments. As observed in this study, the same harsh environmental conditions at home – such as a weak institutional context, demanding yet price-sensitive consumers, and challenging distribution networks – instead of acting as impediments, have helped EMNCs that to develop unique competencies, to be later used to compete successfully in foreign markets. A firm's competitive advantage is not derived only by the products and services per se that the firm sells, but the organization's capacity to constantly innovate, cleverly market and continuously learn and implement knowledge to improve their offerings that ultimately determine their achievements. In line with some prior studies (Aulakh, 2007), we observe that the EMNCs have been focusing on growth, even if this means lower profitability. A possible explanation is because the government (in the case of China) and owners (in the case of India) are not necessarily short-term focused investors. These EMNCs have pursued a set of innovative strategies—in new product development and marketing, acquired and shared knowledge, optimized their supply chain and enhanced their cash positions that has led to compelling competitive advantages that they are leveraging in various ways to pursue global growth. By focusing on growth, they attempt to add new customers (demand side dynamics) and continuously seek for new growth engines by adding new product and service lines and by investing in new technology and intellectual property (supply side dynamics).

We observe that the EMNCs have to expand quickly, to consolidate gains that are fleetingly won. Thus providing a rationale as to why EMNCs tend to rely on partnerships and joint ventures, or take advantage of geographical proximity and use R&D labs as listening posts to monitor new developments in their major product lines. EMNCs seem to strengthen their positions as leading global firms in developed countries by successfully differentiating their product and service offerings and increasing the scale of their operations. To achieve these goals, they have been increasing business from existing and new clients, expanding geographically, continuing to invest in infrastructure and employees, continuing to enhance their product mix and continuing to develop deep industry knowledge. They combine their cash-rich positions and knowledge gained through various relationships (informal to strategic partnerships with developed-country firms) to understand their clients' needs and to develop technologies to provide high value, and quality products and services. By managing their business model that focuses on producing at home (where it is most cost effective to produce), and selling in developed nation markets (where it is most profitable to sell), these EMNCs have rationalized their value chain, to maximize their competitive advantage in both their home markets and developed countries.

It is clear from these case studies that the sole existence of just distinct resources in the EMNC does not determine its success. Instead, these firms have to first forge distinctive capabilities in the difficult circumstances of their home market and then master the art of transferring their core skills and supporting organizational



culture that help them to make money, reliably, in diverse markets. In order to survive in home countries, EMNCs must meet the challenge of serving the hard-to-reach, price-sensitive consumers who typically have more stringent requirements than their counterparts in the developed world. Furthermore, when these firms expand to developed countries, they need transferable, distinctive capabilities such as an efficient back-office operation to drive down the cost of transaction so that local competitors cannot replicate their strategies. In order to sell their products to the developed-country customers they need to tap into markets that have been ignored by local MNCs, provide products that are superior in quality and build brands that overcome their liability of emergingness. Thus, seeking new markets brings the burden of duplicating and extending existing core competencies. This can stretch existing knowledge and learning resources within an organization, forcing the need for knowledge sharing and learning functions to adapt to new cultural and process stimuli emerging from the new market.

Thus, as shown in Fig. 1, EMNCs' paths of building competitive advantage from home markets to developed countries, is very dynamic. The core strength of these EMNCs comes from their ability to survive and succeed in the home market, despite the harsh institutional environment. The constant threat of the institutional uncertainties in the home environment and their long-term orientation has enabled these EMNCs to enhance their financial standing over the years. The knowledge and experience gained through their relationships with the trade associations, institutions of higher education and MNCs in the home nations, combined with their cash-rich positions, enables them to enter into partnerships and sometimes even acquire firms from developed countries. These new relationships with the developed-country firms enable the EMNCs to either acquire new resources or enhance their existing resources to match their needs (technological or distribution) in the developed countries. The various technologies that encompass product, process, and market knowledge combined with their organization's ability to learn, enables these EMNCs to cater to their niches in the developed-country markets. Thus, the relationships between the key factors—innovation capabilities, organizational learning and knowledge, marketing capabilities, strategic partnerships with or acquisition of developed-country firms, supply chain management, and cash rich positions—explains the EMNCs' paths to building their competitive advantage from home markets to developed countries.

## 5. Conclusion and future research directions

In line with the focus of this special issue, the results of this study show that knowledge is one of the most important factors influencing EMNCs' competitive advantage. Organizational learning and knowledge, a key source of competitive advantage among companies is the critical factor for sustained competitive advantage and superior corporate performance. The findings advocate that EMNCs' progress is based on transferable distinctive capabilities such as an efficient back-office operation to drive down cost of transaction so that the local competitors cannot replicate their strategies. We observe that in order to achieve this, the EMNCs have pursued a set of innovative strategies, which has led to compelling competitive advantages that they are leveraging in various ways to pursue global growth. The key finding from this study suggests that the EMNCs' paths to leading competitive advantage entail at least two stages. The first is developing breakthrough innovations for an individual emerging market, such as China or India. The second step is transferring these innovations selectively to developed-country markets. Innovation capabilities of the EMNCs manifest a number of features that are distinctive from those of the leaders in advanced industrialized countries.

Finally, this study strongly propagates that research in the field of international business needs to go beyond mere verification and extension of extant theory and instead use novel research methods to immerse ourselves more deeply in the emerging economy context for theory building.

Finally, a number of future research directions are suggested. First, as our study is based on a small purposive sample of sixteen firms from China and India, future research might focus on a larger number of EMNCs from those and other emerging countries to empirically test the research propositions outlined through the inductive analysis in this paper. Second, multiple levels of factors essentially influence, strategically important decisions, such as participation of EMNCs from either China or India in the global marketplace, some are macro, while others are micro. Future research can obtain the micro level information by methods, such as field studies, participant observations, structured or semi-structured interviews, and process models. Third, factors like human capital, intellectual capital, human resource management and knowledge management are often attributed to affect firms' competitive advantage and can be the focus of investigation in future studies (Buller & McEvoy, 2012; Kotabe et al., 2011; Zheng et al., 2010). Finally, future research can also look into EMNCs' entry into other emerging economies and if that has an impact on EMNCs' strategies in developed economies?

## 6. Managerial relevance

This research provides an elaborate discussion of the various factors that guide EMNCs' competitive advantage as they transition from their home markets to developed countries. The results of the study highlight that managers need to understand what their firm's market and non-market competencies are, whether they are players in an industry with low or high government intervention, and what the institutional environment is. In order to excel managers need to identify the various institutional agents and build on their relationships with these agents to survive the constraining institutional environment of their home nations. If they fail to enhance their innovation abilities through endogenous resources, they should evaluate the possibilities of entering into strategic partnerships. These partnerships can also help them surmount the liability of emergingness and help overcome potential hurdles due to lack of international experiences. Finally, the results suggest that EMNCs must use a diversification strategy to not only enhance their cash rich positions but also to breed innovations and reduce risks arising out of reliance on one single industry.

The study also provides insights to the question, 'How can Western multinationals respond to the EMNCs expanding into their markets?' First, in order to maintain their competitive advantage, among other things, boosting R&D in higher-end products for customers in the U.S. and other developed-country markets is the key. Further, these MNCs can also initiate strategic partnerships with the EMNCs not only to hold their stance in developed markets but also to avail themselves of resources in the emerging nations. By pooling resources, both EMNCs and MNCs can optimize their value chain and benefit both in the developed and emerging nations. Western MNCs that are facing the current economic crisis in the U.S. market have an important lesson to learn from the various strategies used by EMNCs. Finally, lessons learnt from this study can assist both MNC and EMNC managers in their strategic decision making processes and to utilize their scarce global resources to optimize their overall firm performance.

In conclusion, the main message of our article is that EMNCs' paths to building competitive advantage from home market to developed countries is fueled by their capability to find a global market for their products on the demand side, coupled by their

capability to innovate and implement the knowledge on the supply side. EMNCs catch-up to the resource rich MNCs is a dynamic process of building their competitive advantage from emerging markets to developed countries. This path is influenced by—innovation capabilities; the supporting learning and knowledge functions within an organization; marketing capabilities, supply chain management, cash rich positions and EMNCs strategic partnerships and acquisitions of MNCs. We provide evidence that in order to compete successfully in foreign markets, EMNCs need a clear strategy and organizational confidence as well as a passion for learning to become a global player.

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