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The competitive advantages of emerging market multinationals: a re-assessment

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Abstract

Purpose – The purpose of this paper is to re-assess both the nature and sources of the competitive advantages which multinationals expanding from home bases in emerging economies (EMNEs) may enjoy in the global market.

Design/methodology/approach – The paper analyses the results of 12 concurrent studies undertaken by a group of experts who were asked to examine how strategies for innovation, international value chain configuration and foreign mergers and acquisitions contributed to the competitive advantages of multinationals emerging from Brazil, Russia, India and China (the BRICs), respectively.

Findings – EMNEs do have competitive advantages that can underpin their expansion abroad, but these are mainly "non-traditional" advantages that have been built by finding innovative ways to leverage advantages of their home countries. EMNE's internationalisation is as much about accessing new resources and knowledge to enable them to extend their competitive advantage, as it is a route to exploiting existing advantages over a larger set of markets. As a result, the global value chain structure of EMNEs tends to be fundamentally different from that chosen by incumbent multinationals.

Research limitations/implications – The study is limited to EMNEs from the BRIC countries, but implications for EMNEs emerging from other countries are discussed.

Originality/value – We bring to bear extensive data and a systematic approach to understanding the new breed of multinationals emerging from the BRIC countries; their sources of competitive advantage; and how they are using innovation, foreign investment and overseas acquisitions to transform global competition.

Keywords China, Brazil, India, Russia, Competitive advantage, Emerging markets, Multinational enterprises, BRICs, Global competition

Paper type Conceptual paper

Introduction

Early explanations of any success achieved by emerging market multinationals (EMNEs) competing abroad focused on fortuitous access to "country-specific advantages" (CSAs) such as a pool of low-cost labour in their home base (Rugman and Verbeke, 2001). This reflected the contention advanced by many observers even up the present time (Mathews, 2002; Rugman, 2009; Madhok and Keyani, 2012) that EMNEs lack ownership of the rich stocks of proprietary, intangible assets that theory argued was required for multinationals to be an efficient organisational form (Caves, 1982). But this argument contains an uncomfortable paradox: if EMNEs lack competitive advantages that can be efficiently transferred and leveraged abroad, how can EMNEs operate profitably in another country in which they cannot rely on the comparative

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advantage of their country of origin? Under this scenario, the very existence of EMNEs must be the result of market distortions such as trade barriers or government support.

In the face of continued growth and success of EMNEs (Williamson *et al.*, 2013, pp. 1-2), these explanations relying on widespread market distortions to explain the existence of EMNEs are looking increasingly dubious. At the same time, a growing body research suggests that EMNEs do have competitive advantages that can be leveraged abroad. But because these advantages are not usually based on proprietary technologies or brands, they are easily overlooked. Examples of these non-traditional competitive advantages are increasingly being acknowledged in the literature. These draw on "firm-specific assets" (FSAs) that could provide EMNEs with competitive advantage in global markets (Rugman, 1981), such as capabilities for cost innovation (Zeng and Williamson, 2007; Williamson and Zeng, 2009), efficiently unlocking latent demand in low-end segments (Prahalad, 2006), optimising products and processes for emerging markets (Ramamurti and Singh, 2009), dealing with weak institutions and infrastructure (Morck *et al.*, 2008; Cuervo-Cazurra and Genc, 2008) or optimising their value chains globally in ways that allow their low-cost talent and resources to be leveraged effectively in emerging markets (Williamson *et al.*, 2013).

It is therefore opportune to step back and re-assess both the nature and sources of the competitive advantages EMNEs may or may not enjoy. But given the diversity of potential competitive advantages and their sources an exhaustive analysis is unrealistic. So to remain tractable, the analysis that follows concentrates on three, interrelated potential sources of competitive advantage: the innovation capabilities of EMNEs; the way in which they have sought to access and combine different resources and strengths by locating different activities in different geographies (their "value chain configurations" [VCC]); and the role of cross-border mergers and acquisitions (M&As) in helping EMNEs to access complementary resources and learning that can be integrated with their existing capabilities to build new sources of competitive advantage. Previous work (Ramamurti and Singh, 2009) suggests that these drivers lie at the core of the EMNEs' competitive advantages. Other sources of advantage such as economies of scale, home and host government policies, market power, branding, institutional context and governance are also discussed where appropriate.

For similar reasons of tractability, the focus is on multinationals venturing abroad from the four largest emerging economies: Brazil, Russia, China and India – dubbed by Jim O'Neill of Goldman Sachs the "BRICs". The subsequent discussion, however, includes some analysis of the extent to which the findings might be generalised to EMNEs expanding from other home bases.

The remainder of this paper is organised as follows. The next section lays out a simple framework for examining the relationships between innovation, VCC and offshore M&A and the competitive advantages of EMNEs. The series of 12 studies commissioned from different authors to examine these relationships for a sample of EMNEs from the BRIC countries is then briefly described. The main findings for the nature of competitive advantages arising from EMNEs' innovation, VCC choices and offshore M&A are then summarised. Some of the implications for theory and practice as well as potential wider applicability and limitations are then discussed. Finally directions for future research on the competitive advantage of EMNEs are suggested.

A framework for analysing the sources of EMNEs' competitive advantages

In analysing the competitive advantages of EMNEs and some of their sources, this paper adopts the framework proposed by Williamson *et al.* (2013, pp. 290-293). This conception is consistent with the process described by Makadok (2001), whereby firms build competitive advantages that can underpin economic rents by means of two complementary activities:

(1) by drawing on superior knowledge to select resources that are underpriced relative to their value (in combination with other resources) in supplying the market; and

(2) by building capabilities that are valuable because they improve the productivity of other resources and that are organisationally embedded, firm-specific and non-transferable (Makadok, 2001, p. 389).

It seems probable that a firm's superior knowledge and the resources it is most aware of will be biased towards resources available to it locally. We can expect, therefore, that the competitive advantages arising from Makadok's first source, superior resource selection, are likely to draw on the CSAs of the home country as the raw material from which they are developed by the firm (Porter, 1990). Historically, it was often contended that these CSAs were "common to all firms in a given country" (Lessard and Lucea, 2009, p. 282). But more recently, it has been argued that firms have differential capabilities to access CSAs, with locally bred firms having an advantage in accessing CSAs in their home markets (Hennart, 2012; Wan, 2013). If this is the case, EMNEs will create a set of initial FSAs through superior resource selection that differ quite markedly from those created by EMNEs from other countries (EMNEs from the same home country, meanwhile, will tend to create FSAs that are broadly similar in nature, although they will differ between individual firms depending in differences in the abilities in accessing CSAs and the mechanisms which the use to transform them into proprietary advantages.). For the same reasons, we can also expect that the FSAs enjoyed by EMNEs will differ markedly from those of multinationals from developed countries because of the different types of CSAs that firms have drawn upon as their raw material for creating advantage (Wan, 2013).

In parallel, the second source competitive advantage identified by Makadok (2001), the building of capabilities that improve the productivity of other resources, will also be at work. This capability-building process may begin with the initial endowment of knowledge and experience provided to the firm by its founders. These initial capabilities and their associated competitive advantages can then be enhanced through innovation, as complementary resources are selected and accessed. Going abroad is one way to access new resources and, as a result, fuel this process of innovation.

Meanwhile, going abroad involves some sort of reconfiguration of a firm's value chain. This value chain reconfiguration, in turn, may lead to enhancement of a firm's competitive advantage. The goal of reconfiguring a firm's international value chain can also lead a firm to undertake cross-border M&A activity. Likewise cross-border M&A can improve a firm's competitive advantage both by directly contributing new competences and by stimulating profitable innovation through new learning. Cross-border M&A may itself also create new opportunities for reconfiguring the firm's value chain.

Of course, a firm may also internationalise to exploit its competitive advantage. This may involve entering new markets that, in turn, can stimulate innovation, lead to reconfiguration of the value chain and initiate further cross-border M&A. The process of exploitation in new markets, therefore, may itself contribute to the creation of new FSAs and the enhancement of a firm's competitive advantage. These interactions are summarised in Figure 1.

Research design

A group of experts with a detailed knowledge of EMNEs for each of the BRIC markets were identified, totalling some 23 individuals. These researchers were asked to analyse the nature and source of competitive advantages (either innovation, VCC or offshore M&A) for EMNEs headquartered in their country of expertise and produce a research report using the framework above. The specific research methodologies to be used were left to the individual discretion of these researchers so as to allow adjustment required to reflect the context of individual countries and the types of data available. A listing of the researchers and the topics to which they were assigned is provided in Appendix 1. Each researcher was asked to examine not only the "raw materials" from which EMNEs create competitive advantages but also the processes they have adopted to build those advantages. These processes included the key role of their absorptive capacity (Cohen and Levinthal, 1990) and EMNEs' use of dynamic capabilities to convert their domestic CSAs and resources accessed abroad into competitive advantages (Teece *et al.*, 1997). For example: How have Chinese multinational enterprises (MNEs) used acquisitions to acquire new technologies or research and development (R&D) capabilities that came be combined with their internal product and process design and manufacturing capabilities to create new sources of competitive advantage? How have Russian MNEs configured their value chains to leverage the natural resource endowments in the home country? How have Indian MNEs absorbed host country knowledge and adapted their innovative business models to gain competitive advantage in other emerging markets? How have Brazilian firms transferred production transfer of competences from overseas subsidiaries to headquarters to improve their competitive advantage both at home and abroad?

The number of cases studies and the industries covered for each of the BRIC countries are listed in Appendix 2. The information drawn from these case studies was

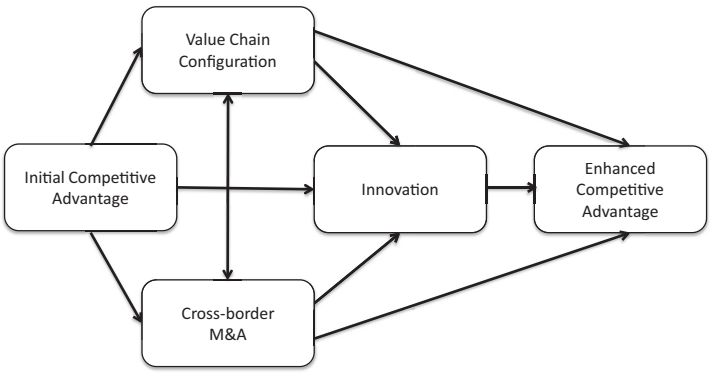

Figure 1.
A model of enhancement of competitive advantage through internationalisation

supplemented with analysis of available statistics on outward foreign direct investment (FDI) and offshore acquisitions, although for most countries, this was only available at a more aggregated industry or national level.

The findings in the form of 12 papers (one of each of innovation, VCC and offshore M&A for each of the BRIC countries) were presented and discussed at a conference held in Cambridge, UK, in March 2012. A further six experts drawn from universities around the world (also listed in Appendix 1) were asked to review these findings and compare and contrast the patterns across the BRIC countries. Based on this feedback, all researchers revisited their papers with the aim of testing the validity of the results, filling gaps identified and re-examining apparent anomalies.

Results

The results are summarised under the headings of innovation, VCC and offshore M&A as contributors to the competitive advantages of EMNEs from each of the BRIC countries, respectively. This allows the evidence from EMNEs headquartered in different BRIC countries to be compared and contrasted. Where appropriate other sources of competitive advantage enjoyed by firms from particular countries have also been noted.

Innovation as a source of competitive advantage for EMNEs

The wide-ranging research developed and considered in this study found little evidence that EMNEs have so far managed to reach the technological frontiers of their industry. In a few cases – such as Huawei of China in telecoms, Embraer of Brazil in regional jets and Dr Reddy's of India in pharmaceuticals – EMNEs had accumulated sufficient innovation capabilities to introduce new products that could successfully compete directly with the new products of multinationals from developed markets (DMNEs). In other cases – such as Suzlon of India in wind energy or Tencent of China in instant messaging platforms –leading-edge EMNE innovators were first movers in emerging industries (although even here, many of their technical capabilities had sometimes been built through the acquisition of developed country firms, rather than through in-house R&D).

On the other hand, the findings indicated that EMNEs had built strong capabilities in process innovation. This has allowed them to gain competitive advantage by re-engineering processes in ways that allows them to lower costs dramatically to meet the low price points necessary to serve mass markets at home or to operate in the price conscious, turbulent business environment found in many developing countries. So, while they may not possess cutting-edge technology, EMNEs have adequate absorptive capacity to modify existing technologies to lower costs dramatically or to add and subtract product features in line with market requirements (Wells, 1983). As Tidd *et al.* (2001, p. 5) have noted, "being able to make something no one else can, or to do so in ways which are better than anyone else, is a powerful source of advantage".

Another kind of innovation prevalent among EMNEs is business model innovation, in which an existing product or service is produced, sold, financed and serviced in wholly new ways, with costs, risks and profits generated in ways not seen in developed countries. Chinese firms, such as Tencent, Brazilian firms such as Gerdau and AmBev and Indian firms such as Bharti Airtel and SKS Microfinance, have revolutionised their respective industries by introducing innovative, new business models.

Many of these business models have been based on bypassing traditional impediments to building a profitable business, especially in emerging markets. Tencent, for example, introduced software to link personal computers and tablets with mobile telecommunications networks to allow its customers to play online games for free. This eliminated the need to download the software onto a gaming console and hence the problem of counterfeiting that had dissuaded many of its US and Japanese rivals from entering the market. Instead of charging for downloads of the gaming software, Tencent collected revenue from exploding number of gamers by selling them digital add-ons such as virtual weapons and clothing. This new business model proved extremely successful, contributing to Tencent reaching a market capitalisation exceeding US $150 billion by March 2014.

Other business model innovations by EMNEs are often designed to reduce the final price to consumers to a level that can unlock mass-market demand in low-income countries. Bharti Airtel, a leading provider of mobile telecommunications in India, is a good example. Bharti Airtel restructured the business model used by most telecommunications providers across the world by focussing on introducing innovative marketing, pricing and billing systems specially adapted to appeal to low-income consumers that allowed them to pay small amounts by the second only when they made calls, rather than monthly fees. By outsourcing many of the technology-related activities such as developing and managing network equipment as well as some of the back-office information technology (IT) activities such as customer data, it was able to reduce capital expenditures. This business model enabled the firm to unlock the latent demand for mobile phone access in the vast interior of rural India. Bharti Airtel was then able to use the knowledge and capabilities that it had amassed in managing this business model in India to successfully replicate the approach in other developing markets, including 20 countries in Africa and Asia.

Process and business model innovation by EMNEs, therefore, seems to be important in creating competitive advantages that set them apart from other local competitors that lack the absorptive capacity, capital, scale, brands and local distribution to invest in extensive process innovations. It also sets them apart from DMNEs, which often have considerable difficulty modifying products developed for the "Triad" markets of the USA, the EU and Japan to suit the peculiar needs of emerging economies. Hence, the competitive advantage of EMNEs is not based solely on their home country's low factor costs, particularly labour costs. Rather an important part of their competitive advantage comes from devising innovative ways using cost and other locational advantages in to create better value-for-money offerings (dubbed "cost innovation" by Zeng and Williamson, 2007), higher efficiencies and, sometimes, new sources of value.

Certainly, the scope of innovation by EMNEs varied across the BRICs. China and India appeared to be hotbeds of entrepreneurship, and in China's case, this seemed to be somewhat true even in state-owned enterprises (SOEs). Much of the innovation in these countries was targeted at consumers at the middle or the base of the economic pyramid, because of the large size of populations with relatively low disposable income, compared to middle-income Brazil or Russia.

In Brazil, process innovations occurred mainly in manufacturing and natural resource industries, e.g. in deep-sea oil exploration or gasohol (low ethanol blends) production. Companies such as Vale and Petrobras not only developed new techniques for resource extraction, but their technical knowledge also allowed them to pursue

opportunities for exploring new mineral or oil and gas fields abroad. Similar achievements were recorded by Brazilian agribusiness firms who worked on innovations in concert with national research institutes.

In Russia, the competitive advantage of EMNEs relied more heavily on close ties to politicians and privileged access to natural resources or finance than on innovation. The giant oil and gas firms were either SOEs, such as Gazprom and Rosneft, or privatised entities bought by investors with close ties to government (e.g. Lukoil). Likewise, giant MNEs in steel (Severstal and Evraz) and non-ferrous metals (Norilsk Nickel and Basic Elements) resulted from the privatisation of SOEs and their subsequent expansion. Despite their size and resources, innovation seemed be held back by the lack of a conducive institutional environment in Russia (including uncertainties about whether successful commercialisation would attract rent-seeking behaviour from authorities), despite state subsidies and repeated calls by the country's leaders for more innovation.

Overall, the research observed that innovations by EMNEs of all three types – product, process and business model – contributed to competitive advantage beyond an EMNE's home country. Products that fit the needs of one emerging market also appealed to customers in other emerging markets. In addition, drastically lowering costs through process innovation had value even in developed countries. Innovations aimed at emerging markets could also appeal to substantial low-income segments or the growing number of financially strapped middle-class consumers in developed countries (especially where buying decisions were driven by value for money). This opened up the opportunity for so-called "reverse innovation" (Govindarajan and Ramamurti, 2011) that provided EMNEs with competitive advantage overseas these segments.

The impetus to exploit these advantages overseas was sometimes reinforced by government policy and strategy (China), by the desire of top management to spur the organisation to new heights (Brazil) or by the sheen that internationalisation added to an organisation's reputation and image (Brazil and India).

International VCC as a source of EMNEs' competitive advantage

The results identified a wide variety of influences on the VCCs chosen by EMNEs, as they internationalised. Some of the key influences included the disincentives for EMNEs to move the bulk of their labour-intensive operations (such as processing and assembly) away from an already rich natural resource or low-cost home country and the fact that EMNEs typically lacked the well-developed managerial processes and experience to enable them to efficiently manage a value chain where activities are highly dispersed. Some EMNEs chose to operate as a "value chain builder" (Katkalo and Medvedev, 2013) – seeking to control their own global value chains. These firms therefore adopted very different international configurations from those that chose to focus on a few activities that could be slotted into the value chains controlled by others (acting as a "value chain joiners").

In drawing research conclusions from observations concerning the way EMNEs configured their value chains, it must also be borne in mind that because the EMNEs are mostly late movers to internationalisation, the current snapshots of their VCCs may reflect an immature stage of development. They may be in the process of evolving along a path to a different future configuration that is closer to their optimum.

Nonetheless, in some cases at least, the observed international value chains are structured in ways that make a significant contribution to the competitive advantage of

EMNEs. The nature of this contribution varies depending on whether the aim of internationalisation by an EMNE is to enhance its upstream resources and capabilities (such as providing access to raw materials or R&D capabilities) or to enhance its downstream capabilities in areas such as distribution and brand building.

We found many examples of Brazilian firms internationalising downstream by creating overseas distribution subsidiaries. This strategy seemed to be aimed at improve the route to market for Brazilian products, especially in emerging markets where distribution was either inefficient or concentrated in the hands of a small number of incumbents. A few of these Brazilian firms took this strategy further, establishing or acquiring downstream subsidiaries overseas to access customer knowledge and build brand equity overseas.

In resource-intensive industries, Brazilian firms also implemented a strategy of backward vertical integration with the aim of controlling inputs of natural resources. This seemed to be aimed at enhancing their competitive advantage by reducing transactions costs in environments where intermediate markets suffered chronic imperfections and improving the predictability of the supply chain. Some firms also established overseas subsidiaries to improve their access to international finance. In a limited number of cases, Brazilian firms established overseas downstream in R&D and product development to obtain access to foreign technology design capabilities.

A peculiarity of the VCCs adopted by Brazilian firms was the apparent duplication of activities overseas that were also undertaken in Brazil, especially in the area of production. This may reflect sub-optimisation associated with immature international value chains or the tendency for Brazilian firms to target markets that impose trade barriers on product lacking substantial local content.

The majority of overseas subsidiaries established by Russian firms were aimed at strengthening their downstream resources and capabilities. In the case of value chain builders, including important firms in the energy sector, the focus was on establishing downstream subsidiaries with the aim of improving the distribution of their products and energy in overseas markets. For Russian value chain joiners, the main role of overseas subsidiaries was to cement partnerships with others involved in the international value chain of which they were a part, particularly by establishing subsidiaries close to customers in the next stage of the chain with the aim of better coordination. Among Russian high technology firms, the emphasis was also on establishing downstream subsidiaries, in this case designed to improve competitive advantage by accessing customer intelligence.

The impact of Indian EMNEs' VCC choices on competitive advantage varied by industry. In the case of IT firms, mainly those providing IT services to overseas customers, overseas subsidiaries were mainly established downstream with the purposes of capturing information about customer requirements and to providing local service capability to complement their global delivery model where the bulk of activities were undertaken in India. In the case of the pharmaceutical sector, overseas subsidiaries operated further upstream, providing capacity for innovation and a way of sidestepping regulatory restrictions by manufacturing locally in the customers' countries. In developed markets, overseas subsidiaries also had a major role downstream to provide local marketing and distribution support.

Chinese EMNEs most commonly established overseas subsidiaries upstream to access new technology and design capabilities that were absent or in short supply in

China and could be linked to highly efficient manufacturing operations in China to improve the level of quality and value added of products supplied both to the domestic and international markets. In some cases, Chinese MNEs also established overseas subsidiaries downstream to assist in gathering customer intelligence and brand building. Other evidence (Williamson and Raman, 2011) suggests that in industries such as steel and aluminium, Chinese firms established overseas subsidiaries upstream to perform extraction and transport of raw materials to gain the benefits of vertical integration in the face of imperfect intermediate markets, including lower transactions costs and security of supply.

Overall, it appears that EMNEs configure their global value chains primarily as a way of positioning their international subsidiaries to provide access to new capabilities, knowledge and customers, rather than to optimise efficiency and improve the cost competitiveness of their value chains. In fact, rather than disaggregating the value chain and relocating activities within low-cost countries (as is the dominant pattern for DMNEs), the overseas subsidiaries of EMNEs often duplicate activities already undertaken at home with the aim of accessing new additional capabilities and knowledge to strengthen their overall competitiveness. In natural resources industries, meanwhile, the configuration of EMNEs' value chains tends to be driven by the objectives of security of supply, potentially increased market power and growth aspirations, rather than efficiency *per se*.

Offshore M&A as a source of competitive advantage for EMNEs

The primary role of cross-border M&A by EMNEs revealed by the research was to provide access to new capabilities, resources and knowledge that would help to accelerate and improve innovation and adjust the firms' VCCs in ways that will enhance their competitiveness in both the domestic and international markets. In fact, cross-border M&A deals involving pure technology or R&D outfits seem to be particularly attractive to many EMNEs (especially those from China). This is because they provide access to existing intellectual property or R&D capacity without the burden of large and uncompetitive manufacturing or service capacity that is likely to lead to complex restructuring and associated shutdowns and redundancies that EMNEs are generally ill-equipped to effect smoothly, especially in unfamiliar developed economies. Relatively unencumbered technology and R&D acquisitions meant that the people, knowledge and capabilities acquired could be nurtured through additional investment and their day-to-day activities left to operate relatively independently, with only broad direction and the establishment of sufficient links back to the parent company necessary to ensure that the knowledge and capabilities they generate are transferred back home. In fewer cases, the assets and capabilities acquired and repatriated also include under-utilised brand assets and marketing capabilities. This strategy has been pursued most strongly by Chinese MNEs, but has also been adopted by Indian, Brazilian and Russian MNEs and predominantly involves acquisitions of companies based in developed economies.

In industries where the technology is relatively mature and customer needs tend to be well-defined (sometimes referred to as "sunset industries") such as steel, petrochemicals and even business process outsourcing, EMNEs tended to use cross-border M&A to promote global industry consolidation. This helped them to reap greater economies of scale and scope, opened up opportunities to transfer and leverage FSAs developed in

their home markets where these industries enjoy a favourable environment and remain dynamic. Cross-border M&A designed to build major positions in these industries also held out the possibility of increased market power. Mature assets in the developed world also offered the potential for cross-border M&A to provide EMNEs with access to capabilities and knowledge that had been "orphaned" by the decline of volume product in these industries in developed markets. These assets could then be redeployed in their vibrant home market operations or in other emerging markets by EMNEs (be they physical plants that could be dismantled and relocated or technicians or intellectual property that could be transferred). Brazilian, Chinese and Indian MNEs all adopted this strategy.

In other cases, the role of cross-border M&A is primarily to allow the EMNEs to enhance its competitive advantage by pursuing a strategy of vertical integration. In resource-based industries, this type of M&A was used as a tool to create long value chains designed to achieve increased market power, control of distribution and access to customer intelligence, as well as to reduce transactions costs and promote security of the supply chain. In industries where EMNEs' goal is to participate in a more limited range of activities (short value chains), the primary roles of acquisitions are to secure access to customer intelligence or accelerate the building of capacity to provide local distribution or service.

The primary attraction of M&A as a tool for achieving any of these goals appeared to be speed. As latecomers, many EMNEs saw themselves in "catch-up mode" with a limited window of opportunity to close the gap with global incumbents. The opportunity to use M&A as a route to accessing assets (especially intangibles) that are slow and costly to build or are in scarce supply was therefore alluring. If successfully integrated, they allow the acquirer to gain speedy access to people, knowledge and capabilities that would otherwise be slow and difficult to assemble and/or a way to rapidly reconfigure the firm's value chain. Speed was particularly attractive to EMNEs because they generally operate in fast-changing markets both at home and in other developing markets that are often their key targets in which to win market share.

Implications for theory and practice

The findings concerning the nature and sources of competitive advantages enjoyed by EMNEs have a number of implications for the theoretical models used to understand the rise and behaviour of EMNEs as well as for management practice and policy making.

Implications for theory building

First, it is clear that to understand the competitive advantages of EMNEs, traditional definitions need to be broadened beyond the ownership advantages, such as possession of proprietary technology or global brands that reviews (Ramamurti, 2012) have identified as the focus of most models of the multinational enterprise. A broader set of competitive advantages needs to be considered in the case of EMNEs, including differentiated capabilities in reinventing existing products, processes and business models; the ability to develop deep insights into emerging market customers and use these to develop products and services that satisfy their needs at the right price points; the capability to hire from pools of cost-effective people with relevant skills and to train and motivate them; and process optimisation to suit local factor availability.

Some of these "non-traditional" FSAs may underpin competitive advantages that are location bound (Rugman *et al.*, 2011), while others may give rise to transferable capabilities and competitive advantages that can help an EMNE prosper overseas. Distinguishing between transferable and non-transferable competitive advantages requires careful definition of the nature of these non-traditional competitive advantages. It will generally not be possible, for example, for an EMNE to leverage the benefits of low-cost labour in its home country when investing overseas (except by exporting low-cost products, components or services to support its foreign operations). At the same time, however, the *capabilities* required to leverage low-cost talent and resources in emerging economies – capabilities that many EMNEs have learnt in the course of building strong positions in their own home markets may well be transferable so as to provide competitive advantage when operating in emerging markets with similar characteristics. Likewise for the capabilities required to operate effectively in the unpredictable, unstable environments. In fact, our evidence suggests that many of EMNEs' non-traditional capabilities do give them significant advantages over MNEs from developed countries in unlocking other emerging markets around the world.

We have also seen evidence that these differentiated capabilities in innovation and the nature of EMNEs' value chain optimisation, combined with a growth bias, can give EMNEs advantages in acquiring, restructuring and consolidating assets in both developed and emerging markets in industries that are considered as declining or "sunset" in mature economies. These capabilities and mindsets have enabled EMNEs to come to dominate a number of these industries, including steel and brewing globally. EMNEs have also demonstrated an advantage in effectively leveraging capabilities that have been "orphaned" in developed countries by applying them in emerging markets, through the acquisition of firms, people or assets in developed countries. One reason may be that EMNEs can generate more value with those capabilities than developed country firms because of their ability to apply the capability to high-growth emerging markets.

A second important implication of our findings for theory building is that EMNEs appear to emphasise the role of internationalisation as a means to access new locational advantages rather than necessarily to exploit existing ownership advantages. This has important implications for which markets EMNEs choose to expand into and in what sequence. Because EMNEs often enter foreign markets to learn rather than primarily to exploit existing capabilities they do not always expand their international operations incrementally starting with regions with low psychic distance from their home market to regions with higher psychic distance (Vahlne and Wiedersheim-Paul, 1973; Zaheer, 1995). Instead, they often appear to establish subsidiaries or make acquisitions in locations with high psychic distance from their home base because these markets offer more resources that better complement their existing advantages and more opportunities for learning. By contrast, existing theories of international expansion and market entry choices tend to be dominated by models that implicitly assume market exploitation is the primary goal. This perhaps reflects the fact that the roots of much of our existing theory can be traced back to studies of multinational firms that expanded their networks following World War II (Wilkins, 1970). These included the idea of FDI moving "advantages" (Hymer, 1976) from more developed markets to less developed ones (often driven by barriers to trade and government policies to promote import substitution) and the role of maturation of technologies and products along a lifecycle as

a primary determinant of location (Vernon, 1966). These early, post-war studies were largely based on samples of US firms, perhaps not surprisingly, as the USA accounted for an estimated 85 per cent of global FDI between 1945 and 1960 (Jones, 2005).

This emphasis on resource and knowledge seeking also suggests that theory needs to place more emphasis on the potential role of M&A in accessing new knowledge, speeding up learning and assembling new or more efficient vertically integrated supply chains rather than in entering new markets, reaping economies of scale and increasing market share. This includes the possibility the smaller acquisitions of firms with deep portfolios of intellectual property or strong R&D capabilities may have a greater long-term impact on the global competitiveness of EMNEs than large, expensive foreign acquisitions that tend to receive most attention. Moreover, this raises the possibility that EMNEs could pursue a two-stage strategy (termed the "double handspring" by Williamson and Raman, 2011). Under this scenario EMNEs begin by acquiring foreign technology, know-how and the services of experienced staff and deploy these in their home market to strengthen their competitive advantage and build a strong position at home. In a second stage, they then use this home-base position as a newly powerful platform to distribute, market and service product overseas capture increased share in the global market.

A third key implication of our results for the development of theory is that theory building needs to pay special attention to that fact that since today's EMNEs are expanding internationally in today's environment that is already highly globally integrated, their strategies are likely to differ from the one given with protectionist barriers and impediments to the flow of capital and products across the world on which much of the existing theoretical concepts have been based. Our results indicate that the higher level of global integration, more advanced communication technologies and freer flows of everything from capital to information across the world influence the strategies available to EMNEs as they expand internationally and build their global competitive advantage. This also means that in comparing EMNEs with MNEs from developed countries and looking for similarities and differences theories need to allow for differences in the stage of their development cycles (Ramamurti and Singh, 2009, pp. 419-420).

Finally, from a theory-building perspective, our findings suggest that the nature and direction of knowledge flows within EMNEs are likely to be different from MNEs from developed country home bases. Most MNEs from developed countries still have their core technological competencies located home (or in the home region), despite the fact that many now conduct R&D for localisation of products or to access lower costs in other countries (Kuemmerle, 1997; Cantwell and Mudambi, 2005). Our finding indicate that for many EMNEs, by contrast, their most advanced knowledge resources (people, labs, relations with the technical community) are in far-away developed countries, while their most important markets and manufacturing operations are closer to home. This different spatial distribution of resources and functional capabilities, therefore, places disproportionately greater demands on EMNEs to develop organisational structures and processes that can effectively integrate far-flung, complex knowledge and R&D activities in a reversal of the normal flow: from the geographic periphery of their network back to the centre, rather than knowledge transfers that radiate primarily outwards from the headquarters. As a result, we can expect that the organisation and

management approaches adopted by EMNEs to differ from the patterns observed in MNEs from developed markets.

Managerial and policy implications

From the standpoint of managers, our findings about the competitive advantages of EMNEs and their evolution amplify the message that the likely impacts on global competition and the geographic configuration of activities should not be underestimated. It is clear from our research that EMNEs are rapidly becoming an important force in shaping the global economic landscape. Yet the power of their competitive advantages is easily overlooked because their advantages tend to be different from those of established MNEs and many of their relative strengths lie in dealing with volatile environments, limited infrastructure, and "institutional voids" (Khanna and Palepu, 2005) that characterise many of the world's high-growth, emerging and developing markets rather than the environments of mature economies that are widely viewed as more sophisticated. As we look to the future, however, the capabilities to win the competitive battles in emerging markets maybe precisely those that are required to succeed in the next round of global competition. This suggests that to succeed in the future incumbent multinationals may need to focus more attention on building some of the skills and capabilities enjoyed by EMNEs to complement their own portfolios of advantages. Rather than simply a question of EMNEs playing a game of "catch-up", maybe a race between EMNEs and DMNEs to equip themselves to thrive in new global competitive landscape of tomorrow has begun.

Another implication from our analysis of importance to managers is that the emphasis we observed EMNEs place on using internationalisation as a way to access new, complementary capabilities and as a route to learning relative to incumbent players suggests that the current gaps between the technologies and capabilities available to them relative to EMNEs may well close more quickly than many observers assume. Moreover, many of the leading EMNEs we examined in this study are extending their activities abroad and using cross-border M&A not only to catch up with DMNEs but also to access complementary capabilities, knowledge and resources to fuel their innovation engines. While there is still a wide gulf in experience and organisational maturity between most EMNEs and established multinationals, therefore, managers need to be alert to the growing possibility of innovative and potentially disruptive competition from EMNEs in global markets. As EMNEs gain experience and expand their capability bases this new, disruptive competition will not be confined to low-end segments and low value-added activities; EMNEs will increasingly compete by adding value to their offerings.

In parallel, our findings suggest that as EMNEs develop their capabilities, they are increasingly competing for greater control of the global value chains. Historically many EMNEs focused on particular stages of the global value chain (such as low-cost assembly operations). Some EMNEs will continue to concentrate in a limited number of value-generating steps, operating as "value chain joiners" and seeking to compete by achieving greater scale and efficiency. But a significant number of the EMNEs from the BRIC countries we studied are moving to become "value chain creators" seeking to control the global value chain for their products and services. In some cases, this shift is achieved by integrating forward from a strong resource base to gain control of value-added activities in processing, distribution and marketing. In other cases, EMNEs

are using strong positions in their large domestic markets, and their associated economies of scale, as a base for which to extend their own value chains overseas. For managers of incumbent MNEs, this means that competition from EMNEs will not simply be for particular activities; increasingly, they will need to compete with alternative global value chains constructed by EMNEs and designed to leverage their own innovations and capabilities.

As already noted in discussing the implications for theory, our findings suggest that some EMNEs have distinctive advantages and managerial mind-sets that help them drive consolidation of existing value chains in industries that are considered "mature" in developed economies (such as steel making and bulk chemicals). While these industries as seen as being in decline in developed markets they remain growth industries in emerging economies. Our findings suggest that this encourages the management of EMNEs to see greater potential in these industries, including opportunities to deploy the process capabilities developed at home to drive up productivity and share economies of scale, as well as a greater willingness to invest in restructuring and renewal. EMNEs are also acquiring and accessing pockets of capabilities and technology "orphaned" by the decline of production capacity in these industries that they can use to complement and extend the capabilities they have built in their operations at home and in other emerging markets. Managers in developed economies should therefore expect increasing competition from EMNEs in these industries as they deploy these "contrarian" approaches and gain the scale and scope benefits by driving further global industry consolidation.

Our findings also suggest a number of implications for policy makers. There is a clear trend towards increased FDI by EMNEs. Although this varies by country of origin, EMNEs from the BRICs together are investing right along the value chain from natural resources, through production, technology and R&D, distribution and brand building. This FDI spans different modes from greenfield establishment of subsidiaries through joint ventures and partnerships to cross-border M&A. As FDI by EMNEs continues to rise in importance, regulatory and political issues will inevitably arise by virtue of the fact that EMNEs are headquartered in countries with different institutional contexts from those of many of the recipient countries. Among these differences, are the degree of state ownership (China and Russia being particular examples), levels of transparency and disclosure requirements and the degree of development and effectiveness of "soft infrastructure", such as legal and regulatory systems. Such differences arise most starkly when EMNEs invest in developed economies – a trend that we can expect to continue in view of the important role these investments play in EMNEs' strategies to build competitive advantage. Policy makers will need to develop ways of resolving these tensions if they are to avoid costly frictions and lost opportunities as EMNEs continue to globalise.

More generally, as EMNEs become a more powerful force in the global economy, policy makers will need to decide how and where EMNEs fit into their national economic strategies. In some emerging and developing economies, this raises issues of perceived over-dependence and potentially excessive market power of EMNEs in national economies – especially in the case of EMNEs from large economies with access to deep pockets and considerable resources. Policy makers in developed economies, meanwhile, will need to adapt to the on-going shift of EMNEs to higher value-added activities, greater control of global value chains and an increasing role as potential investors and

acquirers of existing businesses. Host country policies and international governance, meanwhile, will need to adapt to the rising importance of EMNEs in the global economic system.

These implications are, of course, based on our studies of EMNEs from the BRIC economies. There are reasons to believe that many of these findings will also hold true for EMNEs for other economies, while some of the results will be specific to EMNEs from the BRICs, not least because of the large size of their home economies. We can expect that, regardless of their specific country of origin, the developing nature of all EMNEs home bases mean that their sources of competitive advantage are likely to differ from MNEs from developed markets. Those competitive advantages will rarely be based on cutting-edge technology or global brands but rather on innovation that involves product adaptation, process improvisation and novel business models. As latecomers to globalisation, the strategies of all EMNEs will be influenced by the fact that they are internationalising in a world that is "flatter" (Friedman, 2005) and more integrated than the conditions under which incumbent MNEs went abroad; hence they have opened to them different opportunities and a different path dependency from established MNEs.

Similarities in the home country advantages of all EMNEs, meanwhile, suggest that the evolution of their VCCs will likewise resemble that of the BRIC MNEs, with core production operations remaining at home and technology or R&D activities undertaken abroad, often in developed countries. Likewise their shared motivation to catch up with incumbent MNEs will make cross-border M&A an attractive mechanism to complement and fuel the extension of their existing competitive advantage. Meanwhile, EMNEs' relatively strong capabilities and motivation to restructure and consolidate mature (or sunset) industries are likely to lead to their extensive use of cross-border M&A to implement this strategy, often in developed countries.

At the same time, the fact that our finding are based on studies of EMNEs from the four large BRIC countries means other EMNEs without the similar home economy conditions will also adopt somewhat different approaches to building their competitive advantage. Those from countries with exportable surpluses of natural resources will probably seek advantage by integrating forwards to secure downstream markets (as we observed among those EMNEs from Brazil and Russia), and those from countries with resource deficits seek to build advantage by integrating backwards to secure resources abroad if faced with incomplete or inefficient intermediate markets. EMNEs from countries with relatively large home markets (e.g. Mexico, Turkey) will use that to gain scale in mature industries, first at home and then globally, an option that may be closed to EMNEs from small home markets. Finally, EMNEs from home countries with large pools of low-cost labour will be more likely to look for ways of building new competitive advantages based on deploying this resource for cost or business model innovation, as firms from China or India have done, while those lacking such a labour pool will look for other sources of competitive advantage.

Shaping the future research agenda

Our results on the sources and evolution of EMNEs' competitive advantages and their implications for theory building, management and policy discussed contain some strong pointers for future research. Arguably, the findings suggest that agenda needs to rethought and reshaped because existing work has been so heavily (and often

unintentionally) influenced by the particular conditions under which incumbent MNEs evolved: starting from relatively developed economies, enjoying technological and brand advantages compared with local firms that they wished to exploit in their target markets, and globalising in a world where national markets were delineated by high barriers to the free movement of goods, people and knowledge. The conditions under which EMNEs are building competitive advantage in today's global environment vary markedly from these assumptions.

First, our finding that "learning from the world" and enhancing innovation is as least as important as market exploitation, if not the primary motivation for EMNEs going global, would lead us to suspect that existing models of entry mode choice need to be fundamentally rethought. It seems most unlikely, for example, that the relative advantages and disadvantages of greenfield investments, joint ventures and acquisitions will remain the same when the goal is learning and innovation rather than exploitation of existing FSAs in new markets as is generally assumed. Likewise, indicators of the relative attractiveness of alternative locations would need to be redefined.

Second, this reconceptualisation indicates that in researching EMNEs' globalisation, much more attention needs to be given to the mobility characteristics of the resources, capabilities and knowledge being transferred. This is because, unlike the capital, products and codified systems and processes that multinationals from developed countries typically needed to transfer in the course of exploiting new markets, the assets that EMNEs need to move are much more prone to loss or degradation during the transfer process. These assets face the well-known difficulties of transferring tacit knowledge over distance and the difficult processes of de-contextualisation and re-contextualisation (Kogut and Zander, 1993). A major element of any model of the globalisation process where learning and innovation are primary goals, therefore, must be a characterisation of the processes by which complex, messy types of knowledge can be transferred across distance. Yet while this issue has been widely researched in the context of the on-going management of mature multinationals (Björkman *et al.*, 2004), it has received little focus in theories seeking to explain the emergence of new multinationals. Similarly, this perspective would lead us to postulate that the absorptive capacity (Cohen and Levinthal, 1990) of the firm would be a major factor in determining the success of its globalisation initiatives, although this capacity plays little role in most theories of multinational expansion where the goal is market exploitation.

Third, if the primary goals of international expansion were to be taken as learning and innovation, our future research should give much greater consideration to the interaction and melding of diverse knowledge and capabilities in ways that achieved those results, going beyond resource seeking or exploitation. Firms could no longer be conceived as assembling "bundles" of resources accessed through international expansion. The research focus should shift from "resource assembly" to "resource interaction", and the processes of recombination and interaction in the innovation process to forge new FSAs would need to move to the forefront of internationalisation models.

Fourth, the emphasise EMNEs appear to place on internationalisation as a process of learning and innovation would require new research on models of multinationals' organisational structures and management processes. It is unlikely, for example, that a multinational, whose core knowledge generating assets and activities, such as R&D,

design and marketing, were located far from the home country, while more routine activities such as simple assembly were located in the home country (as might be the case for an EMNE expanding globally to enhance its learning and innovation), would thrive with the same organisation structures and processes as a firm whose goal was the exploitation of existing FSAs in new markets. New organisational models and processes would therefore need to be explored that would be consistent with the efficient management of this new type of VCC.

Fifth, our results suggest that a priority for future research should be to develop a better understanding of the nature of EMNEs' non-traditional FSAs and their implications both for likely developments in global competition and for the future behaviour of EMNEs.

Finally, it is clear that future research needs to incorporate more explicitly the implications of "late-comer" context: the fact that EMNEs are expanding internationally in a world that has both the opportunities and challenges of markets that are often already highly globalised and where global value chains are already in place. This calls for perhaps the most fundamental shift in future research design of all: moving from countries and the linkages between them as the dominant paradigm for the study of MNEs to be replaced by global value chains as the primary unit of analysis.

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Appendix 1: List of commissioned research papers included in the study (Each of the research papers has been published in full as chapters in Williamson *et al.*, 2013)

(1) Innovation by Brazilian EMNEs
- Moacir de Miranda Oliveira Junior, Felipe Borini and Afonso Fleury

(2) Innovation by Russian EMNEs
- Sergey Filippov and Alexander Settles

(3) Innovation by Indian EMNEs
- Nikhil Celly, Jaideep Prabhu and Venkat Subramanian

(4) Innovation by Chinese Multinationals
- Peter Williamson and Eden Yin

(5) Value chain configurations of Brazilian EMNEs
- Afonso Fleury, Maria Tereza Leme Fleury, Felipe Mendes Borini

(6) Value chain configurations of Russian EMNEs
- Valery S. Katkalo and Andrey G. Medvedev

(7) Value chain configurations of Indian EMNEs
- Suma Athreye

(8) Value chain configurations of Chinese EMNEs
- Kaimei Wang and Yongjiang Shi

(9) Cross-border M&A and competitive advantage of Brazilian EMNEs
- Alvaro B. Cyrino and Erika P. Barcellos

(10) Cross-border M&A and competitive advantage of Russian EMNEs
- Kalman Kalotay and Andrei Panibratov

(11) Cross-border M&A and competitive advantage of Indian EMNEs
- Ravi Ramamurti

(12) Cross-border M&A and competitive advantage of Chinese EMNEs
- Peter J. Williamson and Anand P. Raman

Appendix 2

Cases	Brazil	Russia	India	China
Number of cases examined	41	36	19	28
Industries covered	Agribusiness	Automobiles	Auto parts	Aircraft
	Aircraft	Banking	Diamond cutting	Automobiles
	Auto parts	Chemicals	Beverages	Auto parts
	Banking	Construction	Healthcare services	Computer equipment
				Consumer electronics
	Beverages	Energy	IT services	Chemicals
	Building materials	Information technology	Machinery	Electrical equipment
	Cosmetics electrical equipment	Insurance	Pharmaceuticals	Energy
	Energy	Metallurgy	Software	Internet services
	Engineering services	Mining	Wind turbines	Machinery
	Footwear	Software		Mining
	Steel	Steel		Telecoms equipment
	Textiles and apparel	Telecoms		White goods

Note: [a]Each of the research papers has been published in full as chapters in Williamson *et al.* (2013)

Table AI. Industries and numbers of cases examined in the study[a]

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