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Analytical Misunderstandings about Emerging-Market Multinationals†

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Abstract: The rise of new multinationals corporations (MNCs) from emerging markets has led to an explosion of research into these organizations by international business scholars. One important stream has explored how these new MNCs are similar to or different from previous generations of MNCs from the US, Europe, or Japan. This article identifies nine analytical misunderstandings about emerging-market multinationals that get in the way of moving the literature forward in a clear-eyed way. By avoiding these analytical traps, research on emerging-market MNCs can advance extant theory at a faster pace. The value of researching emerging-market MNCs lies not in identifying how they are different from developed-country MNCs but in deepening our understanding of how firms become MNCs, taking advantage of events unfolding before our eyes simultaneously across many emerging economies. We must leverage these natural experiments to develop a universal theory of MNCs and the internationalization process.

Keywords: International business; Emerging-market MNCs, developed-country MNCs; internationalization process; foreign direct investment; reverse innovation

JEL Classification Numbers: F23, M16, M20, O30

1. Introduction

In this essay, I will focus on what we can learn from the rise of emerging-market multinationals (EMNCs) about the process by which companies become multinational corporations (MNCs). Historically, the first wave of multinationals came from Europe, followed by the US wave, and subsequently, after the second world war, the third wave of MNCs rising out of Japan and some East Asian economies. Ramamurti and Singh (2009) explored the fourth wave of multinationals coming out of emerging markets, starting around 2000, including the question of whether these multinationals were different from the MNCs that had come before.

There is a broad consensus that theories developed exclusively in the US or Europe often do not capture the realities of how multinationals are developing out of the emerging markets. We recognize that products developed for one country are not always successful in other countries without a degree of adaptation and redesign. The same is true for management theories developed in the US and then applied in other national contexts. Applying theories developed in the US in other countries allows us to identify the boundary conditions of those theories. That was the goal behind Ramamurti and Singh (2009), and the subsequent

studies reported in Ramamurti 2012a, Ramamurti 2012b, Ramamurti and Hillemann 2018, Ramamurti and Williamson 2018, and Williamson et al. 2014.

In addition to work on EMNCs, my own research has had a second stream that examined the subject of "reverse innovation," that is, the diffusion of innovations from developing countries to developed countries. These two streams of research are interconnected, because innovation is often the foundation for the internationalization of emerging-market firms. Thus, internationalization and innovation are closely interconnected. My work in the second stream has included Govindarajan and Ramamurti 2011, Govindarajan and Ramamurti 2013, Govindarajan and Ramamurti 2018a, and Govindarajan and Ramamurti 2018b.

In this paper I will focus more on the first stream of research by focusing on the common misunderstandings about emerging market multinational corporations (EMNC). I propose nine such misunderstandings and discuss them briefly in the sections that follow. The final section offers the article's main conclusions.

2. Analytically, "nationality" is not very helpful

First, I believe that in understanding a firm's internationalization, its nationality is of little value analytically. As Raymond Vernon (quoted in Wilkins 1986: 202) stated, "The multinationalizing trend [is] widely recognized as similar in nature irrespective of the nationality of the parent company." Nationality stands for so many things that it stands for nothing; it is a composite variable made up of so many constituent variables that it cannot be used analytically to explain anything. Our goal, therefore, has to be to identify the most important constituent variables that actually have logical, explanatory power.

But a lot of research tends to focus on MNCs from particular emerging markets, e.g. Indian MNCs or Chinese MNCs, and they ask how these MNCs differ from MNCs from developed countries. This approach is useful as a first step to get acquainted with MNCs from previously under-researched countries, but by itself cannot help explain those differences. It is one thing to recognize that Indian or Chinese MNCs are different from, say, American MNCs, but quite another to understand why. To do the latter, one must dig deeper to identify analytically relevant variables that individually can explain part of the observed differences and that collectively can contribute towards a more general theory of firm internationalization.

It is important to recognize that every country is unique, but that doesn't mean we need a unique theory of internationalization for each country. The goal of theory-building is to find variables that are analytically useful across different countries, so that the uniqueness of countries can be boiled down to just those differences that cannot be explained by other variables. In statistical parlance, the country-effect is merely the unexplained residual, and the goal should be to make that unexplained residual as small as possible.

3. EMNCs have firm-specific advantages, but they are different from DMNCs

The second area of misunderstanding has to do with the concept of firm-specific advantages. According to mainstream IB theory, firms operating globally enjoy two types of advantages. The first is country-specific advantage, derived from the firm's home country, also known as comparative advantage, such as the natural resources, climate, location, economic size, and so on. If a company competes only within its home market, these country-specific factors do not matter, because all companies in that country enjoy the same advantages. The second is firm-specific advantages. For instance, Coca Cola has a brand that belongs to Coca Cola and no other company in the world. When there is global competition, companies need to consider both types of advantage. An Indian firm competing with another Indian firm in India would be competing only on firm-specific advantages, but an Indian firm competing with a Chinese firm benefits from both country-specific and firm-specific advantages.

After many years of research, economists discovered that Western or American MNCs have some common firm-specific advantages, namely, intangible assets such as technology and brands. Historically, US companies that became global had higher R&D expenditure as a percentage of sales compared to companies that were operating mainly domestically. Similarly, they spent more than average on brands and marketing, as a percentage of sales. Typically, EMNCs do not possess either of these advantages: they are not usually technological leaders, at least not in the beginning. Observers, such as Rugman (2009), have argued that EMNCs have no meaningful firm-specific advantages and they are only exploiting country-specific advantages, such as cheap labor, natural resources, or cheap capital, when they compete globally. Based on this line of reasoning, Rugman concludes that EMNCs have no sustainable advantages, because home-country advantages can be tapped by all firms, including DMNCs.

I believe this line of thinking reflects a Western bias and very narrow view of firm-specific advantages. When you study EMNCs closely, you discover they have other kinds of firm-specific advantages that are as valuable as technology or brands. In other words, we must be open to the possibility that other kinds of firm-specific advantage can also allow firms to internationalize. For instance, EMNCs have deep insights into customers in emerging markets, they run ultra-low cost operations and are good at frugal innovation; and they operate with speed, flexibility, and a high tolerance for volatility and uncertainty, all of which are valuable capabilities in an emerging-market context. I disagree, for instance, with Madhok & Keyhani's (2012) assessment that being a low-cost player is an "ordinary" advantage.

In summary, research on EMNCs gives us an opportunity to rethink the concept of firm-specific advantage, why it is important, why some firms have more of it than others, and how much of it is needed before a firm can become a multinational player.

4. EMNCs stage of evolution as a multinational is analytically relevant

The third misunderstanding is to overlook differences between where EMNCs and DMNCs are in their evolution as multinational firms. I contend that most EMNCs are infant MNCs, whereas most leading Western MNCs are mature MNCs. This difference in their stage of evolution as MNCs explains some

differences between EMNCs and DMNCs—differences that are erroneously attributed sometimes to their countries of origin. For instance, as firms mature they enter more countries and invest in brand-building in those countries. Brand is not a global asset; it's a multi-country asset, requiring companies to invest in brands in each country. A brand is a location-bound asset, which is not easily transferred to other locations without fresh investment. (In contrast, technology is much less location-bound).

Therefore, what is analytically relevant here is to realize that EMNCs are late to internationalize and are therefore early-stage multinationals, whereas DMNCs were early to internationalize and are late-stage multinationals. The table below illustrates the different stages of evolution of MNCs and how their characteristics change across these stages.

Table 1. Stages of evolution as an MNE

	Stage 1 Infant MNE	Stage 2 Adolescent MNE	Stage 3 Mature MNE
Dependence on home market and home-country CSAs	High	High to medium, and falling	Medium to low, and falling
Strength of FSAs	Weak	Moderate	High
Brand	Strong at home, unknown abroad	Strong at home, up-and-coming abroad	Strong global brand
Tapping into other countries' CSAs	Minimal	Increasing	Extensive
Location boundedness of FSAs	Key FSAs like distribution, brand, government relations are location-bound	New FSAs acquired through internationalization and capability building may be less location-bound	Many FSAs are not location-bound
Ratio of exports to foreign production	Exports exceed overseas production	Exports and overseas production are both important	Overseas production exceeds exports
Geographic footprint	Few countries, many in home region	Several countries with emphasis on home region	Dozens of countries, across many regions

Source: Adapted from Ramamurti (2009: 420)

Prior research on EMNCs did not always recognize that they are infant MNCs, unlike DMNCs. The international business field was born in the US in the 1950-60s. The association of the Academy of International Business and the Journal of International Business Studies came to life in the 1970s. Therefore, by the time the international business field was established, US firms were already quite internationalized and thus US scholars like Vernon or Knickerbocker began studying firms that were already mature MNCs. A few business historians studied how DMNCs became multinationals in the first place, but most others studied the behavior of mature MNCs without necessarily recognizing that their sample was skewed in that fashion.

5. Global context during internationalizing is also analytically relevant

A fourth source of misunderstanding about EMNCs arises from the failure to recognize the global context in which they are internationalizing. For instance, it is often noted that EMNCs are internationalizing rapidly rather than incrementally (unlike DMNCs), or that they are resorting to high-commitment strategies, such as mergers and acquisitions, before exhausting low-commitment strategies, such as exporting or indirect selling in foreign markets.

I argue that these differences between EMNCs and DMNCs are partly explained by the fact that EMNCs are internationalizing at a different time historically. The global context has changed drastically in the last few decades. Even compared to Japanese companies that internationalized in the 1960s, EMNCs did so at a time (2000s) when it was much easier to internationalize. Williamson & Zeng (2009) refer to "gateways to internationalization" that opened up in the 2000s, such as "the rise of outsourcing, the modularization of global value chains, the codification of knowledge, the gradual concentration and globalization of retailing, the more fluid international market for talent and professional services, and the increasingly open market for corporate control in many countries." These developments made it easier for all firms—EMNCs and DMNCs—to internationalize.

In fact, at the same time that some scholars were studying EMNCs, others were studying a phenomenon called "born-global" companies. These were small companies in developed countries that were globalizing very rapidly, sometimes very soon after their birth. The reason they could do so was because they leveraged the same gateways to internationalization that EMNCs leveraged. Firms in both sets of countries took advantage of the many enablers of globalization, such as the globalization of accounting firms, consulting firms, venture capital firms, banks, advertising firms, and trends such as the deverticalization of industries, offshoring, and global dispersion of the value chain. All these trends made it easier for new players to put together the pieces required to become multinational firms.

It is also worth noting that global context will change again, as it seemed to be doing after 2013-14, when anti-globalization sentiment grew in many developed countries, including the US. The lesson for international business scholars is to remember that when comparing firms from different countries or from different eras one must disentangle period effects from other effects. Failing to do so will lead one to overestimate the country-of-origin effects.

6. Rethinking country-specific advantage and government's role in creating them

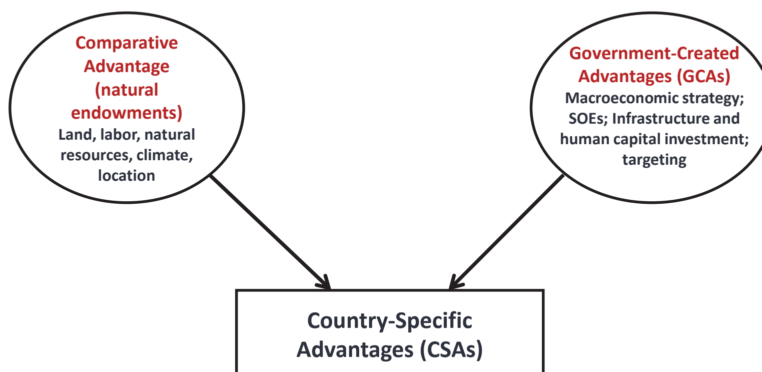
A fifth concept that needs deeper study is the notion of country-specific advantages. In the early formulation of this idea, country-specific advantages were assumed to be available to all firms in a country, such as large market, high growth economy, natural resources, cheap labour, cheap capital, and so on. But upon closer inspection, not all companies within a country have the same access to those advantages. For instance, in China, state-owned enterprises have access to cheap capital from large state-owned banks, whereas private companies lack access to capital from the same banks. In Russia, a country that is rich in oil and gas, not every company has access to these resources, especially if not favoured by the government.

The idea that country-specific and firm-specific advantages are orthogonal to one another also needs reexamination. Sometimes, one is needed to gain the other. For example, India possesses abundant cheap labour, as well as abundant labour force in the IT sector. However, what companies such as Accenture, IBM and others did not know was how to tap into that talent pool, because the labour force was not well educated or adequately trained. Moreover, it was not hard to deploy, because prospective employees often lived far away, and housing and transportation infrastructure were poor. In short, Indian IT firms built many firm-specific advantages in hiring, training, and HR policies that allowed them to leverage India's latent country-specific advantages in human capital. Sometimes firm capabilities are indispensable for tapping into country-specific advantages.

The other thing I have learnt from studying Chinese MNCs is that country-specific advantages are really of two types. One is the traditional concept of comparative advantage or natural endowments, such as climate, natural resource endowment, or location—things that are god given and not easily altered or created. Then there is another important category that I call "government-created advantages" (Ramamurti 2013), which are willfully created by governments to improve a country's international competitiveness. In my opinion, government-created advantages were the most important reason for China's success, much more than anything China was naturally endowed with. These government created complementary assets, included investments in physical infrastructure, economic infrastructure, human capital development, industrial policies, and international agreements. It was only after the Chinese government changed its development strategy under Deng Xioping that China's economy took off. Peng (2012) notes that the home government may not be important for DMNCs but that it was a key player for Chinese MNCs.

China had many comparative advantages even before the country opened up in the 1970s, such as large population, natural resources, vast territory, etc. but the country did not take off until the government changed its national strategy. Country-specific advantage is therefore the result of both comparative advantage and government-created advantages (see Figure 1).

Figure 1. Roots of CSAs



Source: Ramamurti (2013)

7. EMNCs pursue many internationalization strategies, some not seen in DMNCs

The next point of misunderstanding is overlooking the fact that just as EMNCs are different from one another, the pathways they use to become multinational or global are also different. Just as Porter (1980) presented generic strategies for domestic competition, one can identify a number of different paths that emerging market firms can take to become global. Yet, scholars often assume that all EMNCs—regardless of nationality or industry—follow the same internationalization strategy.

Take, for instance, contract manufacturer Acer that made laptops and electronic products for HP, IBM and others. Initially, it was taking advantage of Taiwan's country-specific advantages that HP could not leverage. Having done that for a while, it was logical for Acer to offer more value to its customers by expanding the number of products it made for them, by adding more value to existing products, and by partnering in the development of new products. To serve its Western customers better, Acer also began putting employees, such as design engineers or supply-chain coordinators, close to their customers' headquarters. At some point, Acer also diversified the countries in which it made products for its customers. Eventually, Acer decided to introduce laptops and other consumer electronics products under its own brand name for sale in Asian markets. In this way, a purely domestic firm became a multinational firm over time. This was one path many EMNCs took to becoming global players, but not the only path available to them.

Figure 2. Generic internationalization strategies of Indian MNCs

Source: Ramamurti and Singh (2009)

Other EMNCs followed different paths. A company like Tata Motors developed small trucks for the Indian market that were fuel efficient, tough enough for India's rugged roads, and easy to maintain. Having

done that, it found that the same product was well suited to the needs of many other emerging markets, e.g. in Africa, where the economic context was similar. This led Tata Motors to acquire or open assembly units in other countries and gradually become an MNC in its own right. Ramamurti and Singh (2009) describes three other generic paths to internationalization followed by EMNCs.

It is worth noting that some of these internationalization strategies seem to be unique to EMNCs and were not used by DMNCs. For instance, internationalization based on labor-cost arbitrage (i.e. of the Acer variety) was rare among DMNCs because the per-capita income across developed countries was more equal than that between emerging and developed countries. This again shows that changing the national context makes researchers see more clearly the boundary conditions that shaped the findings on DMNCs. Ramamurti and Singh (2009) lays out five generic internationalization strategies that Indian firms used to become MNCs, each driven by a unique logic (see Figure 2).

8. Some EMNCs will be global first-movers, leading to "reverse innovation"

We also realized as we looked at the examples, that some multinationals who were becoming first-movers in their industries, typically the DMNCs from the US were the first-movers in their industries, such as chemical, pharmaceutical or computing. They were the first-movers in technology, which gave an important advantage in becoming global players. Typically, EMNCs were late-movers in their industries, so they lagged behind Western rivals in technology—unless they were able to catch up on technology, as Huawei or Embraer did in their respective industries, or when they leapfrogged to the latest technology in industries such as telephony.

In digital industries, EMNCs are quite capable of becoming global first-movers, because they have not been saddled with legacy technologies or legacy investments in obsolete business models. We see this, for instance, in the pace at which wireless telephony, smartphones, e-payments, or e-commerce have grown in some emerging markets, outpacing growth in developed countries. In all such instances, innovations from the emerging markets are relevant to rich countries, and these innovations are likely to flow from developing to developed countries, through "reverse innovation" by EMNCs and DMNCs. China, in particular, is likely to pioneer many such innovations in the coming decades, helping turn many Chinese digital firms into global players, e.g. TikTok, Alibaba, Didi Chuxing, and Tencent.

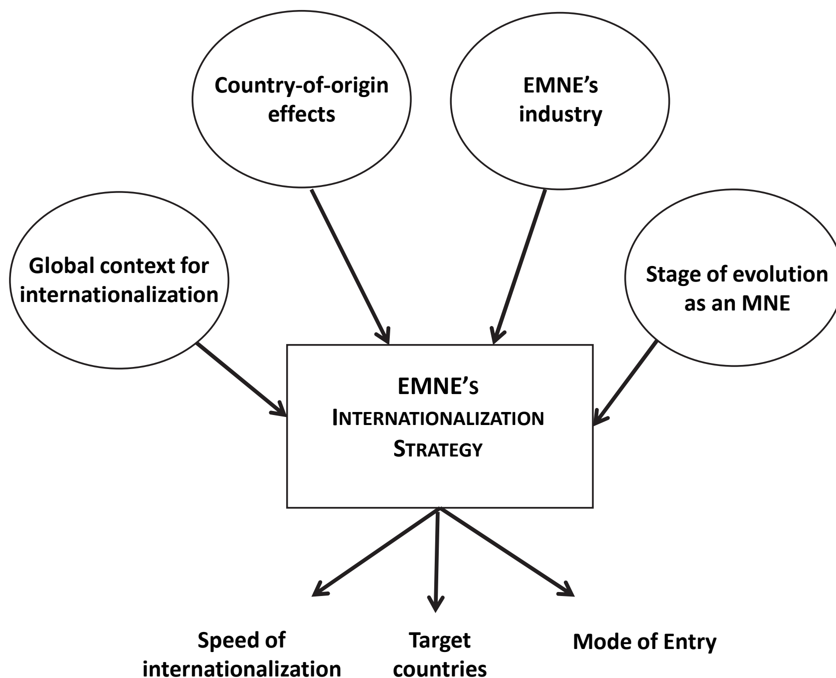
9. China is important enough case to warrant special attention

Although nationality is not a useful variable analytically, sometimes it is worth understanding EMNCs in a country in depth even if that does not directly contribute to theory development. Among US scholars, the United States has been one such country; studies in the US context are valued even if they do not add to a universal theory of management, but studies of other countries are held to a higher standard, i.e. journal editors often ask what the study of firms in India or Turkey tells us about some general theory. I believe

today China has risen to the same level of importance as the US and that there is great value in studying topics that are unique to China without always having to show that the research sheds some universal truth about all EMNCs or all countries. An example is research on the Belt & Road Initiative, a trillion-dollar program, that has no equivalent in any other emerging or developed country.

Goldman Sachs coined the term “BRIC” in 2001 to highlight the fact that four countries were likely to stand out among developing countries and join the ranks of the G6, displacing incumbents such as Germany, France, Italy, and the UK. But in the last few years, it has become clear that China stands head and shoulders above the other BRIC countries, in terms of GDP, exports, outward FDI, and technological capabilities. Looking at the foreign direct investment from emerging markets, the China share is much greater compared to several years ago, when it looked like India, Brazil, Russia or South Africa would all produce many giant multinationals. But by 2020, outward FDI from all of those countries, except China, had fizzled out. Today, the EMNC phenomenon is largely a Chinese phenomenon; for example, the *Fortune Global 500* list in 2020 included 124 Chinese companies, compared to only seven from India. Researchers should tread carefully when pooling samples of Chinese with non-Chinese firms to test hypotheses about EMNCs; what they find may be features of Chinese MNCs rather than EMNCs in general (Ramamurti & Hillemann 2018).

Figure 3. Determinants of EMNC internationalization



Source: Ramamurti (2012)

10. OLI paradigm helps explain why MNCs exist, not how firms become MNCs

The final point of misunderstanding in the EMNC literature has to do with the IB's field most important paradigm, the OLI model. What is often missed is that the OLI model is static, not dynamic, and it explains why MNCs exist, not how firms become MNCs. Like many colleagues, I began studying EMNCs with a view to understanding if and how they were different from DMNCs. Only after a few years did I realize that the real value of studying EMNCs is to understand how firms become MNCs. As I noted earlier, early work on American MNCs studied firms that were already very global, but EMNCs give us a unique opportunity to study in real time how national firms become regional or global players. This can overcome the limitation of prior research which paid insufficient attention to how American or European firms became MNCs. The real value of studying EMNCs is not to disprove the theories developed for DMNCs; many aspects of those theories, including the OLI framework, are useful to understanding EMNCs too. But while preserving the useful parts of extant theory, we must strive to develop a universal theory that accommodates variations across diverse countries. One way to do that is to search for analytically useful variables from national studies that have explanatory power in other countries. The figure above highlights some of the key factors that seem to shape the internationalization process, as informed by research on EMNCs.

11. Conclusion

In conclusion, research on EMNCs has reached the point where it is worth taking a moment to assess what we have learned, what some of the research traps are, and how we can best move the field forward. In that spirit, this article presents nine analytical traps or misunderstandings that I have fallen prey to myself in prior research. By highlighting those traps, the hope is that future research can proceed in a more effective and clear-eyed way to help develop a universal theory of how firms become MNCs, regardless of whether they are from underdeveloped, emerging, or developed countries. Each country is unique, but the aim of theory-building should be to identify variables that have explanatory power across countries, so that we do not need a unique theory for each country. As noted earlier, the real value of studying EMNCs is not to understand how they differ from DMNCs but to enrich general theories of MNCs and the internationalization process.

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