The internationalization of emerging market multinationals: An alternative typology

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Abstract:

The paper introduces a new and augmented taxonomy of internationalization strategy and it is created by examining the country- and firm-specific advantages leveraged and their global value chains participation. The taxonomy includes four types of strategies: Home Country Advantage Exploiter, Emerging Market Optimizer, Value Chain Climber, and Industry Leader. Each strategy relies on a different combination of country- and firm-specific advantages and results in a different mode of global value chain participation. Each category is accompanied by a case study. The four companies included in this project are: Tung Thih, Giant, Hisense, and Huawei. By developing a multi-dimensional taxonomy of strategy that is tailored to the circumstances of emerging economies, the internationalization process of multinational enterprises from these regions can be better understood.

INTRODUCTION

Driven by economic growth, trade liberalization, and globalization, enterprises from the emerging economies have achieved remarkable success in recent years. Some of them are integral components of the value chains of big Western multinationals and others have become leading players, pioneering advanced technologies, design, and engineering. Companies from emerging economies such as Taiwan, China, Russia, and Brazil have achieved impressive growth and garnered attention as major players in the global business arena. Despite recent slowdown in the global markets, emerging market multinationals are growing faster than their counterparts from developed markets. According to a Boston Consulting Group report, the top 100 players in 63 industrial sectors from emerging markets grew three times faster than those from mature markets (Boston Consulting Group).

Many of the enterprises originated from emerging economies have become household names; Huawei, Lenovo, TSMC, and Acer are all high-profile players in their respective sectors. These enterprises are young, rapidly expanding, and globally competitive. The rise of multinational enterprises from emerging markets is a relatively new but impossible to ignore phenomenon. The globalization of markets, production, and value chains precipitated the growth of young-and-coming companies from emerging countries and created a multitude of success stories. Their outward expansion has become one of the most interesting research topics in the area of international business. Although the rising prominence of emerging market multinationals (EMMNEs) has inspired scholarly attention but there lacks a consistent narrative regarding the internationalization strategies adopted by these enterprises. From the product-life cycle theory proposed by Vernon, the stages theory of the Uppsala school, and the now-classic OLI paradigm developed by Dunning, the majority of the older mainstream internationalization theories are built around the experience of multinationals from the developed markets and their applicability to the experience of EMMNEs are questionable. The objective of this study is to examine the internationalization of emerging market multinational enterprises by developing a new and augmented taxonomy of their internationalization strategies. Through investigating each category of strategy this study aims to illustrate the internationalization process of EMMNEs in a manner that is more comprehensive and more relevant to the current conditions of international business.

TOWARD A NEW TAXONOMY

Overview

As discussed in the previous section, two prior taxonomies are analyzed and concepts from both are extracted and incorporated in the new scheme in order to develop an augmented taxonomical scheme for generic internationalization strategies adopted by EMMNEs. The first one is developed by

Ramamurti (2009) and it is largely based on the analysis of country- and firm-specific advantages firms leveraged. The second one is developed by Craig and Douglas (1997), which is presented through the global value chain perspective.

When Hymer, Kindleberger, and later Dunning proposed their influential theories on the internationalization of enterprises, the notion of global value chain is not yet developed in the realm of international business studies. Given the conditions of high level of globalization and intensive interactions between enterprises from different countries, the older, Hymer-inspired perspective is no longer sufficient to illustrate the ecosystem of international business today. The fragmentation of business activities motivates enterprises to innovate their operations while the evaluation and the leveraging of country- and firm-specific advantages serve as the basis of their restructuring strategies. Therefore, to study how enterprises from emerging economies expand their scopes internationally, it is necessary to take into accounts of both perspectives.

Ramamurti's Taxonomy

In the book Emerging Multinationals in Emerging Markets (Ramamurti and Singh, 2009), Ravi Ramamurti proposed five of generic internationalization strategies basing on the country-specific and firm-specific advantages companies leverage. Firstly, the Natural-resource Vertical Integrator is a strategy that relies heavily upon the access to natural resources endowments of the home countries. Firms that adopt this type of strategy engage in forward and backward integrations to secure both upstream resources and downstream market access. Secondly, the Local Optimizer is a strategy that is relatively unique to EMMNEs since it requires the possession of firm-specific advantages such as deep knowledge of the emerging markets and the ability to navigate weak institutions and infrastructure. Firms that pursue this strategy expand to other emerging markets by offering products or services that are suited for the tastes and conditions of emerging market consumers. Third, the Low-cost Partner strategy is based on the country-specific advantage of low production costs. Particularly, the cheap and abundant labor in emerging economies has been widely leveraged as the basis of international expansion of firms in the automobile, manufacturing, and garment industry. Fourth, the Global Consolidator strategy is often adopted by firms in the industries that are considered mature in developed markets. By expanding existing capacities and acquiring new capabilities, firms in the emerging economies target not only markets with similar levels of development but also the more developed economies. Lastly, the Global First-mover strategy is adopted by firms that possess 'traditional' firm-specific advantages such as cutting-edge technology or advanced engineering capabilities. Similar to their counterparts from the developed economies, firms enter the international stage using this strategy are leaders in their respective industries and those from the emerging economies can compete effectively with those from the United States, Europe, and Japan.

Craig and Douglas' Taxonomy

Craig and Douglas propose that the understanding of where value is created in the global value chain is crucial to the formulation of successful internationalization strategies as such knowledge enable firms to optimize the capitalization of their country-specific and firm-specific advantages. The global value chain encompasses activities from research and development, engineering, marketing, to local distribution. The extent to which a firm is capable of controlling the value chain decides how much profit it can capture. Most of the EMMNEs do not participate in the value chain fully, but their partial participation serves as an important initial strategy for them to become international players.

Depending of the country-specific and firm-specific advantages they leverage and the level of participation in the global value chain, Craig and Douglas develop a taxonomy with six categories of internationalization strategy. Three of them represent low-level value chain participation and the other three represent high-level participation. The strategies with low levels of value chain participation include Low-cost Commodity, Manufacturing for Private Label, and Component Manufacture. These three strategies focus on the low-value section of the value chain such as production, sourcing, and manufacturing. The Low-cost Commodity strategy is built on the low costs of commodities and raw materials in the emerging economies. The Manufacture for Private Label and the Component Manufacture strategies are based on the country-specific advantage of low production costs. Firms that adopt Manufacture for Private Label strategy lack the firm-specific advantage of well-recognised brands and established distribution channels, therefore, they choose to become partners with bigger multinationals and focus on the production and manufacturing sections of the value chain. Component Manufacturing is a similar strategy that focuses of manufacturing activities pursued by firms that lack certain knowledge- or technology-based firm-specific advantages. In this case, the key value creation section of the value chain is the assembly and this type of strategy is often adopted by firms in the automobile and computer hardware industry. Firms pursuing these two types of strategy have very limited control over the value chains because they inhabit the segments that have low value-adding potential and they have no direct contact to the end consumers. However, through working with their value chain controlling partners, they can gain access to end markets and knowledge in foreign markets gradually.

On the other end of the value-creation spectrum, the three strategies that entail higher levels of value chain participation are: Low-cost Leader, Market Specific Technology, and Specialized Niche. The Low-cost Leader strategy is adopted by firms that assume leading roles in price-sensitive markets.

While the main focus is still the manufacturing and production, firms increase their value chain participation by engaging in marketing and distribution activities. Contrasting the Component Manufacture and the Manufacture for Private Label strategy, the Low-cost Leader strategy does not rely exclusively on the country-specific advantage of low production cost but also some firm-specific advantages such as the ability to offer products with the optimal price-feature mix for other emerging markets. Market-specific Technology strategy is pursued by firms that internationalize by entering into markets where the infrastructure and the technology are similar to the home country. As emerging markets often have under-developed infrastructure, weak institutions, and less advanced technologies, it is necessary for firms that adopt this type of strategy to be able to operate in such circumstances. This ability serves as a firm-specific advantage that EMMNEs can exploit to expand internationally. Additionally, it is equally critical to be able to offer products that are 'just right' for local consumers and that are most suitable for the local economic condition. Another way to internationalize with full value chain participation is to adopt the Specialized Niche strategy. Niche industries existed in a wide range of sectors and often these industries are too small for big Western multinationals to develop tailored products. This void provides an opportunity for EMMNEs to leverage their ability to differentiate their products or services and their contact and access to end consumers signify their more complete participation in the global value chain.

The New Taxonomy

The new, augmented taxonomy of internationalization strategies combine the country- and firm-specific perspective of the Ramamurti taxonomy with the global value chain perspective of the Craig and Douglas taxonomy. Table 1 offers an overview of the four categories.

[Insert Table 1]

Home Country Advantages Exploiter

Description

The first category, the Home Country Advantages Exploiter, includes strategies that are built on an enterprise's access to cheap production factors or natural resources. This category can be further divided into two sub-categories, the first one is those dependent on the access to low-cost production factors and the second on is those dependent on the access to natural resource endowments.

The access to low-cost labor or raw materials is considered to be a country-specific advantage that can be leveraged by enterprises as they are able to manufacture products or provide services with comparatively lower costs. Leveraging such advantage, enterprises from emerging economies often become partners, through sub-contracting, joint ventures or original equipment manufacturer contracts (Child and Rodrigues, 2005), with bigger Western multinationals and therefore participate in the global value chain partially and superficially. Emerging multinationals that adopt this type of strategy are often involved in business activities such as production and assembly, sections of the value chains that do not require sophisticated know-how or advanced technologies. The Low-cost Partner strategy from Ramamurti's taxonomy is closely associated with this category. Some commentators consider this type of strategy to be the foundation of the international expansion of emerging economy multinationals. Rugman (2009) points out that the success of Chinese multinational enterprises is attributable to the abundance of cheap labor and their access to cheap capital, another country-specific advantage. While such strategy relies heavily upon the home-country advantages, it is possible for enterprises to foster firm-specific advantages such as economic of scale. The Low-cost Commodity, Manufacturer for Private Label, and the Component Manufacture strategies from Craig and Douglas' taxonomy similarly leverage EMMNEs' ownership of country-specific advantages. These three strategies are adopted by enterprises that focus on the production and manufacturing processes but with very limited control over the value chains. The advantages of this type of strategy is that it offers enterprises from emerging economies opportunities to jump start their international expansion. Leveraging their competitive advantage of low cost production, they are able to expand their operations beyond the home countries and gain access, albeit only partially, to international markets and consumers. Moreover, as this strategy does not require significant commitment in resources, consequently, it is viable for EMMNEs that do not possess sufficient funds. There are several disadvantages associated with this strategy. First of all, it is highly reliant on country-specific advantages that are potentially unsustainable. Many Chinese multinational enterprises have achieved successful expansion through their access to cheap labor, however, as the economy develops and wages rise, many enterprises will turn to less-developed emerging economies where production costs are lower. Secondly, access to cheap production factors is available to Western multinationals operating in emerging economies as well, therefore, it is likely that through FDI, they can internalization the production processes and eliminate the need for local partners. Thirdly, as the control of the value chains remains in the hand of larger MNEs, firms that adopt this strategy have very limited scope of international expansion and they reap very limited value as the margins are low.

The other sub-category is the strategy that relies on firms' access to natural resource endowments. Comparable to the Natural Resources Vertical Integrators in Ramamurti's taxonomy, these enterprises leverage their country-specific advantages, more specifically their access to natural recourses, to consolidate their position within the industries through backward and forward linkages. However, this type of vertical integration strategy is not unique to emerging market multinationals (Vernon, 1983; The Economist, 2009). The advantages of this strategy are firstly, lower transaction costs (McKern, 1993). Secondly, backward linkages offer firms more control over the supply of resources. Thirdly, vertical integration increases an enterprise's market power and raises entry barriers (Stuckey and White, 1993). On the other hand, one of the most daunting challenges associated with this strategy is that vertical integration requires significant commitment in resources (Buzzell, 1983). Additionally, vertical integration increases the complexity of an enterprise's internal coordination and the managerial capabilities of EMMNEs may not be sufficient to overcome this challenge.

To summarize, enterprises that adopt the Home Country Advantages Exploiter strategy rely on their access to cheap production factors or natural resources to expand beyond national boundaries. Capitalizing on low-cost production, they can partner with larger Western multinationals and focus on activities such component manufacturing and assembly. While this strategy is potential unsustainable and profit margins are low, it enables enterprises to jump start their international expansion with lower risk and lower level of commitment in resources. Moreover, from a growth and development perspective, entering into partnerships with strong, mature enterprises can allow technologies and expertise to be transferred and subsequently pave the path for future growth and transformation. In terms of the enterprises that leverage their home countries' rich natural resource endowments, they follow similar paths of internationalization as their developed market counterparts and expand through vertical integration.

The Application of the Home Country Advantages Exploiter Strategy: The Case of Tung Thih

Company Overview

Tung Thih Electronics is an automobile parts manufacturer based in Taiwan. Tung Thih was founded in 1979 and it primarily focuses on the manufacturing of automobile electronics such as parking sensors. It reported 9.9 billion NTD (304 million USD) in revenue and 1.2 billion NTD (37 million USD) in net profit in the year 2016[1]. The majority of the revenue was generated overseas with Asia being its largest market. Only six percent of the revenue was generated in Taiwan (Tung Thih, 2017). It has offices located in Taiwan, China, Japan, and the United States. The five principal clients of Tung Thih are: SAIC Volkswagen, Ford, Great Wall Motors, Nissan, and SAIC General Motors (Liu, 2014). In addition to parking sensors, Tung Thih also manufactures alarm systems, Bluetooth systems, central door locking systems, and other automobile electronic parts.

[1] The exchange rate on December 30, 2016 is 32.44 TWD to one USD

The Internationalization Process

Tung Thih Electronics was founded in 1979 and it started out as a windshield wiper timer provider to Honda. In the following years, Tung Thih expanded its manufacturing capacity and started to supply central locking systems and speed alarm systems to Honda. In 1984, it broadened its client base and started to supply car remotes and speed monitoring systems to Daihatsu and Renault. In the 1990s, the quality of Tung Thih's products were increasingly recognized and many of them became standard features for Honda, Nissan, Renault, Mitsubishi, and other brands. In 2005, it established a subsidiary in the United States, highlighting its organizational internationalization efforts. In 2007, to leverage the lower production costs and to further penetrate the China market, a production base was set up in Kunshan. In 2017, Tung Thih formed a joint venture with Indian automobile component manufacturer Minda Industries to take advantage of India's growing automobile market (Reuters, 2017) and to increase its global presence. Today Ting Thih mainly focuses on its parking sensors products, which account for 72 percent of its revenue (Chen, 2016), while providing other automobile electronics. Moving forward, Tung Thih aims to focus on improving the quality of its products, enhancing its manufacturing capabilities, developing new products, and seeking new markets to maintain its competitive advantages.

Analysis of the Internationalization Strategy

Home Country Advantages Exploiters rely on country-specific advantages to expand globally. In the case of Tung Thih Electronics, its ability to produce high quality products with low costs enables it to become a successful original equipment manufacturer and also an original design manufacturer with high profile clients. Additionally, Tung Thih's geographic and cultural proximity to China, another country-specific advantage, allows it to take advantage of the lower production costs and large market over there. Although leveraging such country-specific advantages has facilitated Tung Thih's internationalization, it has also presented it with a number of obstacles. Firstly, its profitability is highly correlated with the performances of its clients and foreign automobile markets. However, the automobile in the United States and China are projected to be strong, therefore, Tung Thih is expected to perform well in terms of sales in the near future (Huang, 2017). Secondly, without higher degree of product differentiation, Tung Thih is replaceable from their clients' perspectives. The production costs in other less-developed regions are lower and it is likely that enterprises from those regions will be able to manufacture products comparable to those offered by Tung Thih. If Tung Thih solely based their competitive edge on low prices, its competitiveness and growth would not be sustainable. Lastly, as an original equipment manufacturer and an original design manufacturer, Tung Thih only participates the global value chain partially. Partial and shallow participation of the global value chain weakens its position within the network and it is at the risk of being marginalized. Only through continuous acquisition of new capabilities (upgrading) can Tung Thih uphold its leading position in the industry and increase its earning potential.

Emerging Market Optimizer

Description

The second category, the Emerging Market Optimizer, represents strategies that leverage EMMNEs' firm-specific advantages such as their deep understanding of local markets and their abilities to operate in the sub-optimal environment in emerging economies. This strategy closely resembles the Local Optimizer in Ramamurti's taxonomy as they both focus on the firm-specific advantages that are unique to EMMNEs. In terms of its counterpart in the Craig and Douglas taxonomy, it is related to the Low-cost Leader (focusing on price-sensitive markets) and the Market-Specific Technology (target markets that are similar to home market). Among the four categories, the Emerging Market Optimizer strategy is the most unique to the circumstances of emerging market multinationals. Insights into the tastes, preferences, and needs of consumers in emerging economies allow enterprises to tailor products and services. Adding features that are not found in Western products, such as washing machines that can also wash vegetables (Ramamurti, 2012) or trucks that can withstand poor road conditions, EMMNEs can fulfil the demand of local consumers better than their Western counterparts. Also, their abilities to produce at lower costs and to deliver products at lower price points add to their competitive advantages. By finding the right balance between prices and features, enterprises can cater to a demographic that are ignored by Western multinationals (Coleman, 2007) and expand their businesses to other emerging economies. Moreover, as the business environment in emerging economies are often less than ideal, EMMNEs' capabilities to operate in harsh conditions that are characterized by weak infrastructure (Khanna and Palepu, 2006), obscure regulatory environment, difficult logistics serve as another leverage of international expansion. From the global value chain perspective, enterprises that adopt this strategy often exercise higher degrees of control over the value chains. Relative to the Home Country Advantages Exploiter strategy discussed in the previous section, the business activities engaged by Emerging Market Optimizers are not limited to manufacturing and assembly. To develop products that are well suited to emerging economies, Emerging Market Optimizers are involved in the design and the engineering processes. However, the skills involved are not overly sophisticated and the innovation capacities of these enterprises are comparatively low as in many cases as they simply modify the designs of Western products. As they expand to other emerging economies, they are also involved in the distribution and the marketing of their products.

One of the advantages of this strategy is that the firm-specific advantages leveraged are more sustainable. Building their internationalization strategies on value-creating activities that are unique to the firm allow enterprises to compete effectively. Moreover, Emerging Market Optimizers move away from the low value-adding sections of the value chain and conduct high value-adding business activities such as distribution, capturing bigger share of the profit and becoming less reliant on developed market multinationals. The main challenge associated with this strategy is that as EMMNEs target other emerging economies with similar conditions, the room for growth and development is evidently limited. Products that cater to consumers from emerging economies are not likely to suit the demand of those from developed markets. Therefore, expanding beyond emerging countries may be difficult for Emerging Market Optimizers.

To summaries, Emerging Market Optimizers leverage their intimate knowledge of emerging market customers and their abilities to operate in difficult business environments to expand into other emerging economies. Compared to the Home Country Advantages Exploiters, they do not exclusively rely on country-specific advantages and they are more involved in the global value chain as they are engaged in the marketing and distribution of products in foreign markets. Although this strategy gives enterprise more control over value chains and they can potentially earn higher margins as they expand their operations beyond manufacturing and assembly, Emerging Market Optimizers will inevitably hit a demand ceiling as their products might not be suitable for more developed markets.

The Application of the Emerging Market Optimizer Strategy: The Case of Hisense

Company Overview

Founded in 1969, Hisense is a state-owned enterprise with two publicly traded subsidiaries. One of its subsidiary, Hisense Electronics, is primarily engaged in the manufacturing and distribution of televisions. Hisense Kelon Electrical Holdings, the other public subsidiary, manufactures and sells household appliances such as refrigerators, freezers, and air conditioners. Hisense Electronics reported a revenue of 31.8 billion CNY (4.6 billion USD) and a net profit of 1.8 billion CNY (260 million USD) in 2016 (Hisense Electronics, 2017) while Hisense Kelon Electrical Holdings reported a revenue of 26.7 billion CNY (3.8 billion USD) and a net profit of 1.1 billion CNY (157 million USD) in the same year (Hisense Kelon Electrical Holdings, 2017)[2]. In 2016, Hisense International generated a revenue of 3.19 billion USD (Hisense International). Hisense is headquartered in Qingdao and its predecessor is Qingdao Number 2 Radio Factory, a facility founded by Qingdao government authorities in 1969. Hisense is the largest television manufacturer in China by market share and in 2015, Hisense held 5.6 percent of the global television market (Korea Herald, 2016).

[2] The exchange rate on December 30, 2016 was 6.95 CNY to one USD

The Internationalization Process

Hisense is originated from Number Two Radio Factory, a state-owned facility focusing on the manufacturing of radio transmitter (Bell, 2008). The production of television started in the early 1970s on a trial basis, however, the initial production capacity was severely limited due to the constrained access to critical components (Liu, 2005). In 1979, Number Two Radio Factory was merged with three other factories and Qingdao General Television Company was created. Encouraged by supportive government policies, the production capacity increased substantially and Qingdao General Television Company became the biggest television manufacturer in the region. In the 1980s, it started to transfer technology from Japan through the Japanese brand Matsushita. In 1991, Hisense Import and Export was created, marking the acceleration of its internationalisation efforts (Larçon, 2008). In 1992, the then-president Zhou launched a consolidation program. Additional technologies were purchased from Matsushita and the company "Hisense Group" emerged (Bell, 2008). Later in 1994, Hisense moved into South Africa, setting up manufacturing, sales, and services bases. In the following years, Hisense further strengthened its position through international acquisitions and joint ventures. Today Hisense owns multiple overseas manufacturing bases in South Africa, Czech Republic, Mexico, Hungary, and Algeria and 7 overseas R&D facilities (Hisense; Boston Consulting Group, 2006). It possesses a diversified product portfolio and sells products under its own brands in the global markets. It has achieved considerable market shares in emerging countries, for example, its market share in South Africa was slightly above 20 percent in 2016 (van Zyl, 2017). Moving forward, Hisense plans to diversify its product mix further, investing in the sales of microwaves and laundry machines. Moreover, it also aims to diversify geographically by increasing the production capacity of its facility in the middle east and Africa (Zhang, 2017).

Analysis of the Internationalization Strategy

Enterprises that internationalize by adopting the Emerging Market Optimizer strategy rely largely on their ability to provide products that are suitable for other emerging markets. Consumers in emerging markets are more sensitive to price than their counterparts in the developed markets. Therefore, being able to offer them products with the right price-feature combination is a critical firm-specific advantage that could facilitate the international expansion of EMMNEs. By focusing on the 'low-end' market segments which were not targeted by dominant players such as Samsung and Sony, Hisense successfully expand internationally into the South Africa market (Kim, 2016; Williamson and Zhang, 2009). Additionally, Hisense's success is also attributable to the relatively cheap production costs in China and the supportive policies of the Chinese government (Boston Consulting Group, 2006). However, one of the most significant challenges Emerging Market Optimizers face is that their products, while suitable for emerging markets, are often considered suboptimal in more developed countries. According a McKinsey report (Eloot *et al*, 2013), an executive of a Chinese television maker confessed that the products his company offers cannot fully satisfy the requirements of customers from the "high-end" market segments. This statement highlights the limited scope of expansion of Emerging Market Optimizers and reiterates the importance to upgrade capabilities to ensure sustainable growth. From the global value chain perspective, by cultivating competencies beyond manufacturing Hisense holds a non-negligible degree of control over the value chain. However, in order to further enhance its competitiveness and profitability, it is necessary to continue to invest in high value business activities including R&D, design, marketing, and distribution.

Value Curve Climber

Description

The third strategy, the Value Curve Climber, is adopted by companies that have already acquired strong manufacturing or assembly capabilities and have generated strong cash flows that could support more aggressive forms of expansion. Value Curve Climbers grow by acquiring high value-added capabilities such as R&D, design, and branding. According to the smiling curve concept proposed by Stan Shih (Shih, 1996; Shin *et al*, 2012), the founder of one of the largest emerging multinationals Acer, the highest value is added at the 'input end' and the 'output end' of the curve. The input end includes upstream activities such as R&D and design while the output end includes market related activities such as marketing, distribution, and branding. Some enterprises move closer to the knowledge-intensive, innovation-led (upstream) end of the curve by acquiring research and development capabilities and engage in the conception and the design of products. Toward the other end (downstream) of the curve, some enterprises establish more intimate contact with end users and markets by focusing on acquiring brands and strengthening their marketing and distribution capabilities. Adopting the Value Curve Climber strategy can be viewed to be a logical next step for Home Country Advantages Exploiters as they shift their focuses away from low-cost manufacturing and transition to positions where more value can be captured. The Value Curve Climber strategy shares similar qualities with Ramamutri's Global Consolidator as the latter expand their scales and consolidate their positions through the acquisition of their counterparts in both emerging and developed economies. Craig and Douglas' Low-cost Leader also resembles the Value Curve Climbers as the Low-cost Leader strategy is likely to be pursued by enterprises with pre-existing international experiences and more emphases are put on the marketing and distribution efforts in foreign markets. From the global value chain perspective, similar to Emerging Market Optimizers, Value Curve Climbers have higher degrees of control over the value chains as their operations are not confined in the manufacturing and assembly sections. As Value Curve Climbers continue to shift toward the two ends of the smiling curve, their control over the value chains increases. This is associated with the concept of ‘upgrading’ in the global value chain literature, especially ‘functional upgrading’, a process that entails the acquisition of new functions that are more profitable, from Humphrey and Schmitz’s (2002) framework. The main advantage of this strategy is that enterprises can escape from the low-value sections of the value curve and generate more income from high-value activities. Starting out and being stuck in the valley of the U-shaped smiling curve is considered to be one of the reasons why firms from emerging markets are not capable of competing with giants from the United States, Europe, or Japan (Bartlett and Ghoshal, 2000). Adopting the Value Curve Climber strategy enables periphery multinationals to avoid this fate of marginalization (Gibbon and Ponte, 2005) and find their ways into the main playing field of the global commerce. Performing business activities with high added value by acquiring superior technologies and knowledge is not only the search for higher profits but also the pursuit of competencies. However, to adopt this strategy, enterprises have to be able to commit significant amount of resources and be willing to take associated risks. Many emerging multinationals do not possess such prerequisites and their management might be ill-prepared to govern the upgraded organizations as the coordination of business activities will become more complex.

To summaries, Value Chain Climbers leverage firm-specific advantages such as strong position in home markets, manufacturing or assembly capabilities, and adequate cash flows to support aggressive expansion measures to enter foreign markets. By acquiring high value-added capabilities, this strategy allows enterprises to capture larger shares of profits as they are engaged more deeply in the value creation and have more control over production processes. However, to pursue this strategy firms have to possess sufficient resources to back the expansion and upgrading. Moreover, the management of the expanded firms could be a new challenge for these emerging multinationals.

The Application of the Value Curve Climber Strategy: The Case of Giant

Company Overview

Founded in 1982, Giant Manufacturing Co. Ltd. is a manufacturer and distributor of bicycles based in Taiwan. In 2016, it generated 57 billion NTD (1.8 billion USD) in revenue and three billion NTD (92.5 million USD) in net income after tax (Giant, 2017). In the same year, Giant produced 4.8 million bicycles with its seven factories located in Asia and Europe (Taiwan, China, and the Netherlands). Giant not only caters to the Taiwanese domestic market but it also distributes its products in the global markets. Europe is Giant’s biggest market, accounting for more than 30 percent of its revenue. Asia was the second biggest market following Europe and accounted for around 30 percent of the 2016 revenue. In addition to manufacturing bicycles under its own brand, Giant also manufacture for other well-known brands such as Trek, Colnago, and Scott.

The Internationalization Process

Giant Manufacturing was founded in 1972 in Taichung with only 38 employees. In 1978, it became a supplier for Schwinn Bicycle Company from the United States. It became a successful original equipment manufacturer (OEM), supplying bicycles to companies including Scott and Trek. However, at that time many large Western multinationals had started to end their partnerships with Taiwanese firms and moved their production processes to China, where the cost of labor was much lower. This was a turning point at which the OEM business model was proven to be unsustainable and the management of Giant decided to focus on the development of their own brand. Because of its previous experiences working with larger multinationals from developed countries, Giant had acquired strong manufacturing and assembly capabilities. By leveraging their solid manufacturing competency, sponsoring teams in international competitions, and intensive investments, Giant successfully created its own brand 'Giant' in 1981 and it has become one of the leading player in the industry. In late 1980s, Giant established its European headquarter in the Netherlands, marking its official organizational international expansion. To broaden it's the scope of its internationalization, offices in the United States, Germany, France, the United Kingdom, and Japan were opened in the subsequent years. By the time when Schwinn, Giant's main client, ended its OEM contract with Giant, 60 percent of the revenue came from the Giant brand. Today, Giant adopts a two-pronged strategy, focusing on both own-brand positioning, which account for around 70 percent of their total revenue and OEM, which constitutes the remaining 30 percent (Giant, 2017).

Analysis of the Internationalization Strategy

As discussed in the previous section, the Value Chain Climber strategy is adopted by companies that have achieved certain level of excellence in manufacturing or assembly. Through the 10 years of working as an original equipment manufacturer for Western brands, Giant had accumulated experiences and competencies this these departments and therefore had laid a solid foundation for future outward expansion. The end of the partnership between Schwinn and Giant demonstrates the unsustainability of strategies that are largely built on cost arbitrage (Rugman, 2009). The low labor cost is a country-specific advantage that is commonly leveraged by EMMNEs in their early stages of internal expansion (Kogut, 1985) and it is inevitable that the internationalization strategies of EMNNEs would need to be revised and adjusted. As the story of Giant illustrated, with time and economic development firms have to seek knowledge-based firm-specific advantages to stay competitive. Occupying the low value-added segments of the global value chains implies that these firms are highly vulnerable to market fluctuations and the actions of the enterprises holding leadership positions within the network. By transforming from an original equipment manufacturer who was highly dependent on other enterprises to an original branded manufacturer with a globally recognizable brand, Giant shows how an EMMNE can avoid being marginalized and capture larger portion of the value by upgrading its competencies.

Industry Leader

Description

The fourth strategy is the Industry Leader. While enterprises from North America, Europe, and Japan still dominate the global commerce, many enterprises from the emerging market has become leading players in their respective sectors. In comparison with previously discussed strategies, Industry Leaders target not only other emerging markets but also developed ones. In addition, they often operate in knowledge-intensive or niche industries. Echoing the characteristics of Ramamurti's Global First-mover strategy and Craig and Douglas' Specialized Niche strategy, the core competitive advantage Industry Leaders leverage is their abilities to differentiate their products or services from their competitors. Such firm-specific advantage is not unlike those leveraged by Western and Japanese multinationals. The differentiation comes from strong R&D, design, engineering, or brand management capabilities and through a combination of acquisitions, mergers, greenfield investments, and organic growth their operations are expanded beyond the borders of their home countries.

From the global value chain perspective, Industry Leaders have the highest levels of control over the value chains among the four categories. Enterprises adopting the previous three strategies start their internationalization process from the low value-add sections of the chains and subsequently achieve various degree of control. In contrast, Industry Leader often hold the leading positions and participate in the value chains more completely. Being able to govern what products to produce, how the products are produced, marketed, and distributed minimize enterprises' chance to be affected of the decisions of other participating agents of the value chains. The key advantages of this strategy are the high margins and large market shares that can be captured. Industry Leaders are not only leaders in terms of revenue but also leaders as measured by many other criteria such as technology and innovation. However, it is difficult for enterprises from emerging economies to pursue this strategy because of the disadvantages associated with their home markets and their lack of resources to invest heavily in activities such as R&D and marketing.

To summaries, Industry Leaders leverage more 'traditional' firm-specific advantages including strong R&D, design, engineering, and branding competencies. They operate in sophisticated knowledge-intensive sectors such as aerospace and communication technology and compete with Western multinationals effectively. Holding leading positions in their respective sectors allows Industry Leaders to reap higher profits and they have the highest level of control over of their value chains among the four internationalization strategies. The primary disadvantage of this strategy is that it is not viable for many enterprises from emerging economies because of the high barriers. The resources that are required to be invested and the associated risks are likely to be too high for many firms to bear. Nevertheless, the Industry Leader strategy brings enterprises from the periphery of the international business arena to the center of the stage and alter the nature and the dynamic of the competition.

The Application of the Industry Leader Strategy: The Case of Huawei

Company Overview

Huawei is the world's leading telecommunication equipment provider. The information and communication technology (ICT) solutions, products, and services provided by Huawei is visible across the globe in more than 170 countries. In 2016, Huawei reported 75.1 billion USD (521.6 billion CNY) in revenue and 5.3 billion USD (37.5 billion CNY) in net profit (Huawei, 2017). Their Carrier Business segment accounts for over 50 percent of their total revenue and over 50 percent of the revenue was generated abroad. Europe, the Middle East and Africa (EMEA) was Huawei's biggest overseas market by revenue in 2016, accounting for around 30 percent of the total revenue. The three main business groups of Huawei are: Carrier, Enterprise, and Consumer. The Carrier business group focuses on the provision of network products, solutions, and services to operators. For example, Huawei helps their clients to build cloud networks and improve their existing operations systems. The Enterprise business group focuses on ICT infrastructure including both the hardware and the software. Their clients come from a wide variety of industry such as manufacturing, education, public safety, and finance. The Consumer business group delivers communication devices such as smartphones, tablets, and related accessories. Citing data on the global smartphone market published by GfK, Huawei claims to be the top three players in the industry with 12 percent of the market share in 2016 (Huawei).

The Internationalization Process

Huawei was founded in 1987 in Shenzhen producing switches and it started its R&D efforts in early 1990s. In the early years, Huawei focused on the rural areas in China and later moved on to the urban areas in 1998. The first international contract Huawei won was to provide fixed-line network products for Hutchison-Whampoa in Hong Kong. Later Huawei entered the Russian and Brazilian market through joint ventures, however, its early efforts in international expansion were not particularly successful (Zhu, 2008; Wu and Zhao, 2007; Nakai and Tanaka, 2010). Since 1999, Huawei started to build on its R&D capabilities and R&D centers were established in multiple foreign countries including India, Sweden, and the United States. In 2001, its Indian R&D center achieved CMM level-4 accreditation and later CMM level-5 accreditation. During this time, Huawei also formed multiple joint-ventures with large Western multinationals such as 3Com and Siemens and it also expanded globally on a larger scale. In 2004, Huawei won its first significant contract in Europe and its international revenue surpassed its domestic revenue for the first time. Thereafter, Huawei has worked with clients from both developed and emerging countries and become one of the most prominent player in the telecommunication industry. It surpassed Sweden's Ericsson as world's biggest telecommunication equipment provider in 2012 (The Economist, 2012) and it boosts considerable market shares in the global smartphone market.

Analysis of the Internationalization Strategy

Huawei is categorized as an Industry Leader because it is globally competitive, operates in knowledge-intensive sectors, and it leveraged knowledge-based firm-specific advantages to achieve successful internationalization. Huawei's strong R&D capabilities are the key factors that enabled its global expansion. By investing heavily in offshore R&D centers and related activities, it is able to offer high quality products and services recognized in both emerging and developed markets. In 2016, around 45 percent of Huawei's employee is engaged in R&D and related activities and it spent more than 10 percent of its revenue in research and development (Huawei, 2017). Huawei's focus on its R&D activities highlighted that Industry Leaders do not rely on cost arbitrage and they actively cultivate competencies that add value to the firm. As it is involved in multiple business activities from product development to the marketing of its products, Huawei holds a highly crucial position in the global vale chain; its performances and decisions affect a considerable amount of enterprises operating in a number of related sectors. Its high level of participation in the value chain allows Huawei to reap a significant share of the value and enjoy long-term competitive advantages. The catching-up and leapfrogging of Huawei disrupts the dynamic of the industry and demonstrated that enterprises originated in the emerging market can become a technological pioneer.

Concluding Remarks

The main purpose of this research project is to analyze the internationalization strategy of emerging market multinational enterprises. The mainstream internationalization theories were largely built on the experiences of enterprises from developed economies such as the United States, Europe and Japan. While many theories and frameworks are still relevant in the study of emerging market multinationals, they appear to be insufficient. The conditions of the business environment and the level of globalization today are drastically different from those when the mainstream theories were developed. Many scholars have revised the earlier theories and paradigms to better understand the phenomenon observed in the emerging markets today and many interesting concepts have been proposed. As discussed in previous sections, in addition to revised theories, the recently emerged global value chain perspective also facilitated the understanding of EMMNEs.

To systematically investigate the internationalization strategies adopted by EMMNEs, a new and augmented taxonomy of internationalization strategy is created by building on earlier studies in this area. Each category of strategy is exemplified by a case study of an actual emerging market multinational enterprise and the two primary sources of inspiration and theoretical foundation are the works by Ramamurti (2009) and Craig and Douglas (1997). The taxonomy proposed by Ramamurti is developed by examining the country- and firm- specific advantages and is grounded in the mainstream internationalization theories. On the other hand, the taxonomy proposed by Craig and Douglas incorporated the new concept of global value chain. By analyzing the different level of participation in the value chains and the control over the value chains, this taxonomy offers another dimension to the analysis of emerging market multinationals. The new taxonomy created includes four categories of internationalization strategy. Home-country Advantages Exploiters are those who rely on their access to local low labor or raw materials costs or their access to natural resources endowments. They have the lowest level of global value chain participation and their growth momentum is likely to be unsustainable. Emerging Market Optimizers are the firms that possess intimate knowledge on the consumers of emerging economies or the ability to operate in adverse business environments. They target other emerging markets but might face demand ceiling as their products might not appeal to consumers from developed markets. Value Curve Climbers are those with pre-existing capabilities in manufacturing or assembly and move on the acquire higher value competencies. They can move upstream to acquire R&D and design capabilities or move downstream to acquire marketing and branding capabilities. By increasing their presence within the value chain, they are able to capture larger shares of the profits and compete more effectively. Industry Leaders resemble their counterparts originated from developed markets. They operate in knowledge-intensive sectors and possess highly sophisticated firm-specific advantages. They not only target other emerging markets but also developed ones and they have the highest degree of control over the value chain among the four categories.

Although the new taxonomy offers a multi-layered framework that could facilitate the understanding of the behavior of emerging market multinationals, there exist some limitations. First of all, the new taxonomy does not fully capture the dynamic nature of the international expansion of EMMNEs. Internationalization is a dynamic process; an enterprise is likely to adopt the Home Country Advantages Exploiter strategy at first and subsequently graduates to adopt the Value Chain Climber or the Emerging Market Optimizer strategy. Therefore, it is important to be mindful that the developmental stage an enterprise is in will affect which internationalization strategy it pursues.

Second, whether this taxonomy of strategy will be applicable to enterprises from less-developed markets such as Africa or South East Asia remains to be seen. Enterprises from countries that are recognized as less-developed today will face a distinct array of different opportunities and challenges. With time and economic development, it is inevitable that a new generation of enterprises will come to the center of the stage and an analytical framework designed for EMMNEs today might become inadequate and outdated for them as the study of corporate strategy is highly contextual. Nevertheless, the taxonomical scheme developed in this project can serve as a starting point for future extension and modification. To address the limitations discussed above, some future research topics include firstly, the evolution of an enterprise's internationalization strategy. How do various internal and external factors affect an enterprise's decision to adjust the strategies it adopts? How can the path of strategy evolution can be analyzed systematically? Secondly, another potential topic is to examine whether this taxonomy can be applied to enterprises from newly emerging economies and how do the strategies these enterprises adopt compare to those adopted by EMMNEs today? Thirdly, many subtler and intangible factors might affect the internationalization strategy of EMMNEs. To add yet another layer to the current analytical framework, factors such as culture, entrepreneurship, and institutional quality can also be taken into consideration. Lastly, as the competitiveness of EMMNEs continue to increase, it will be interesting to investigate how their rise to prominence alter the strategies of the incumbents in their respective industries and how they can learn from the experiences of EMMNEs.

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Strategy	Key leverages	GVC participation	Example
Home Country Advantages Exploiter	■ Access to cheap labor or raw materials ■ Access to natural resources	Low except for the enterprises relying on natural resources	Tung Thih (Automobile electronics)
Emerging Market Optimizer	■ Intimate knowledge on emerging market consumers ■ Ability to operate in suboptimal business environments	Moderate, increasing participation in downstream activities	Hisense (Television and whitegoods)
Value Curve Climber	■ Strong manufacturing or assembly capabilities ■ Strong cash flows	Moderate, increasing participation in downstream and upstream activities	Giant (Bicycles)
Industry Leader	■ Strong R&D, design, engineering, marketing, or branding capabilities	High	Huawei (Telecommunication)

Table 1. Overview of the internationalization strategies