

**The Rise of Emerging Market Multinational Companies (EMNC): A Capabilities-based  
Perspective**

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## **Abstract**

Emerging Market Multinational Companies (EMNC) have risen to the forefront of academic and practitioner attention. The rapid international growth of EMNCs is contrary to dominant conceptual paradigms in international business. A central research question is what are the unique resources/capabilities that facilitate the rise of EMNCs? In this article, we conduct a Resource-based (RBV) analysis of historically-evolved and unique capabilities and resources of EMNCs. Based on an analysis of recent literature, we identify frugal innovation, market-sensing, political capabilities, relational learning, and acquisitions capability as uniquely contextualized EMNC capabilities. Entrepreneurial orientation of top managers serves as a moderating dynamic capability. Also, in resource-intensive sectors possessing control over home reserves of natural resources is critical to international growth. Our analysis highlights the historical evolution of these capabilities, and shows how they fare against RBV criteria of value, rarity, inimitability, and non-substitutability. Furthermore, we develop logic of how these capabilities underpin international growth in Emerging (EM) and Developed Markets (DM).

The rise of multinationals from emerging economies is an increasingly noticeable empirical phenomenon. The share of global outward Foreign Direct Investment (FDI) from emerging economy firms rose from 10% in 2000 to 25% in 2009 (UNCTAD, 2010). In concert with this Emerging Market Multinationals (EMNC) rose from 15 to 62 in the FT Global 500 list over 2006-2008, and numbered 82 in 2011 (Financial Times, 2011). Additionally, mergers and acquisitions by EMNCs have numbered in the hundreds with quite a few deals exceeding \$1 billion in value (UNCTAD, 2010). Some EMNCs have already gained global leadership positions in their industries, while others are vying for leadership (Aguilar, Bailey, Bhattacharya, Bradtke, de Juan, Hemerling, Koh, Michael, Stren, Waddell, & Waltermann, 2009). Thus EMNC international growth is gaining global significance at a very fast pace. In this article, we address the question of what capabilities underpin this international growth of EMNCs.

The international growth of firms from these erstwhile developing countries poses conceptual challenges for existing theories of multinational enterprises (Ramamurti, 2012). Existing theories of the Multinational Enterprise (MNE) have been clustered under Dunning's Ownership-Location-Internalization (OLI) umbrella framework (Dunning, 1988, Dunning & Lundan, 2008). Applications of this framework to the EMNC phenomenon have yielded two main assertions: (1) Firms must have ownership advantages to internationalize (a necessary but not sufficient condition) (2) EMNCs have weak, or in many cases, lack ownership advantages such as strong R&D and brands – generally intangible technology or marketing-based assets and multinational system coordination capabilities (Rugman, 2009). If these assertions are accepted, then EMNCs should be weak firms expanding to other developing countries at best, a notion which is clearly at odds with increasing empirical evidence (UNCTAD, 2010, Wells, 2009).

Recent conceptual research attempts to address the anomaly posed by EMNCs by making two key arguments: First, Hennart (2012) argues that although EMNCs do not possess ownership advantages, they however possess differentially easier and lower cost access to resources within their home countries (Country Specific Advantages or CSAs). Access to these CSAs for growing and important markets allows these firms to subsequently gain ownership-specific advantages that then help them internationalize. Second, Narula (2012) asserts that the basic logic of internationalization of EMNCs is the same as that of Developed Country MNCs (DMNC). However, EMNCs have ownership assets that are shaped by their home locations, and hence these are at an earlier stage of multinational evolution. In time, as EMNCs grow, the differences between EMNCs and DMNCs will become indistinguishable. Both these arguments accept that EMNCs have some non-tradable assets that facilitate internationalization but do not shed light on what are the contents and nature of these EMNC-specific assets or capabilities. These arguments also construe EMNC-specific capabilities as weaker than those possessed by DMNCs in facilitating internationalization, and primarily determined by ties with home countries rather than being firm-specific (Hennart, 2012, Narula, 2012, Ramamurti, 2012). Thus not only do these arguments not explain unique, historically-evolved EMNC capabilities, but they also over-emphasize country-level factors at the expense of firm-level explanations.

Efforts to elaborate EMNC-specific capabilities have most fruitfully focused on arguing that EMNCs have advantages in certain types of institutionally weak environments (other lesser developed countries) and thus have evolved capabilities to deal with weak regulatory environments and higher levels of corruption (Cuervo-Cazurra & Genc, 2011, Cuervo-Cazurra & Genc, 2008). This research however also shows that EMNCs are more prevalent in institutional environments with higher levels of rule of law (creating a logical contradiction with presence in

corrupt environments) (Cuervo-Cazurra & Genc, 2008). This line of argument further asserts that firm-capabilities that deal with these weak institutional environments are mainly developed because of adapting to home environments (Cuervo-Cazurra & Genc, 2011). In this sense, this argument is again based upon environmental determinism of firm-capabilities, without taking into account firm-level assets and routines that combine to form capabilities (Leiblein, 2011). Besides postulating that EMNC capabilities lie in the interstices between firms and weak institutional environments, this research has not explicated these politically-oriented or other specific capabilities that EMNCs may possess that facilitate their internationalization.

In this article we shift the focus from firm-specific advantages to capabilities. We eschew the “advantages” logic because of two reasons: First, because advantages that allow a firm to overcome liability of foreignness (Zaheer, 1995) in a particular environment can only be assessed on a case by case basis given idiosyncratic temporal, spatial, and institutional characteristics pertaining to that case. Second, we argue that firms do not need “advantages” to internationalize they can merely have asymmetries that allow them to build unique capabilities which facilitate seizing opportunities that lie beyond home-country borders (Madhok & Keyhani, 2012, Miller, 2003). Analyzing EMNCs at a capability-level of analysis (Collis, 1994), we show that EMNCs over time, both because of external and internal factors have developed firm-specific capabilities, that can be generalized across firms from various emerging markets, and which facilitate internationalization. Thus the research question that we address is: What are stylized, unique, historically-developed, EMNC capabilities that facilitate international growth in two types of environments: Emerging Markets (EM) and developed countries (DC) (Wright, Filatotchev, Hoskisson, & Peng, 2005).

The main contribution of this research is the identification of a set of generalizable, unique firm-specific EMNC capabilities and their relationship with international growth (Ramamurti, 2009). Earlier research on EMNC capabilities has attempted to view the capabilities of these firms from a Western-centric perspective (Lall, 1983); giving center stage to R&D, marketing and system-integration/coordination as key capabilities that underpin international growth of firms (Rugman, 2009). We instead analyze EMNC capabilities from an EM perspective and show that there are unique, knowledge-based capabilities that enable the international growth of these firms (Amit & Schoemaker, 1993). We also contribute to the growing literature on the Resource Based View (RBV) of the firm by developing a context-specific, as well as general (Ramamurti, 2009), conceptualization of the unique capabilities of EMNCs (Barney, 1991, Bruton & Lau, 2008, Collis, 1994).

#### **EMERGING VS. DEVELOPED MARKETS**

Although there have been a number of empirical classifications of EMs, there has not been a single attempt, in our knowledge, to explicitly state qualitative assumptions underpinning what is an Emerging Market? Stating these assumptions is important because they constitute the basic premises upon which theorizing regarding EMNCs rests. It is difficult to develop generalizable theoretical arguments about EMNCs unless we clarify and explicitly state these assumptions, clarify what constitutes an EM, and distinguish these from Developed Markets (DM).

The idea of an EM is linked to post-liberalization events (Sachs & Warner, 1995). In each case a country went through a series of watershed events that led to a more market-based economy. These institutional changes provided the context for high economic growth, increased domestic and international business activity, and consequently growing middle classes (Pillania,

2009). These markets then became attractive and emerging, with the caveat that they still had weak government institutions and inadequate physical infrastructure to support higher long-term economic growth (Khanna & Palepu, 2010).

At the global level, these changes in EMs were supported by liberalizing trade and easier access to global capital and technology markets (Sachs & Warner, 1995, Stopford & Strange, 1991). The spread of globally competitive services such as accounting, consulting and human-resources made catch-up easier for EM firms. Finally, the emergence and rapid growth of the Internet made transactions costs associated with outsourcing of value chains much lower (Ramamurti, 2009, Williamson & Zeng, 2009).

Given this context we make the following assumptions about what makes a country an EM:

1. An EM is a country that went through a phase of economic liberalization from mid-1980s to 1990s; shifting policy focus from import substitution to export-led growth (Haggard, 1990, Wells, 2009).
2. The country enjoyed high economic growth rates subsequent to liberalization related events (Sachs & Warner, 1995).
3. Consequently, it has a large and growing domestic market for a variety of goods and services (Arnold & Quelch, 1998).
4. Firms in the EM have relatively easier access to global capital, technology, and human resources flows compared with pre-liberalization eras (Stopford & Strange, 1991).
5. The EM still has weak institutions (governmental and regulatory) and inadequate physical infrastructure (especially transportation and energy-related investments) (Khanna & Palepu, 2006).

6. Post-liberalization, levels of competitive intensity in home EMs have increased across a number of industrial sectors (Goldstein & Prichard, 2009, Stopford & Strange, 1991).

Developed markets on the other hand were markets that had followed free market policies, prior to this era of global liberalization (Yergin & Stanislaw, 1998). These were large stable markets with lower rates of growth, technologically advanced firms, and reliable soft and hard infrastructure. Furthermore, these markets were organized into well-defined turfs of competition, with developed norms for mutual forbearance and interaction between firms (Chen, Katila, McDonald, & Eisenhardt, 2010).

### **EMERGING MARKET MULTINATIONALS: A HISTORICAL PERSPECTIVE**

Closely related to the question of conceptually identifying EMs is the question of what are EMNCs? EMNCs are firms that originate from countries that meet the earlier listed criteria for an EM. Additionally, an EMNC is a firm that is “*engaged in outward FDI, where they exercise effective control and undertake value-adding activities in one or more countries* (Luo & Tung, 2007 p.482)”. Research on multinationals from what were then called developing countries has a long history starting with work in the 1970s. Here, we identify main firm-specific capabilities of EMNCs identified in the pre-liberalization era.

The political economies of developing countries were very different prior to liberalization. States attempted to implement strategies of import-substitution industrialization resulting in these economies being largely closed from both market and investment standpoints (Wells, 2009). In cases, where there was some openness, there were large procedural and bureaucratic obstacles to engaging in relatively freer trading (Gilpin, 1987, Haggard, 1990). The capabilities of multinationals from these developing economies bore strong imprints of coping with these economic and institutional conditions (Wells, 2009).



In this era, research on multinational firms from developing economies showed that these firms had developed firm-specific capabilities of importing mature technologies and adapting these to smaller-scale labor-intensive operations. Technological adaptation also led to substitution of locally abundant raw-materials, in lieu of raw-materials that imported equipment and technologies were originally designed for (Agarwal, 1981, Jo, 1981, Lecraw, 1977, Lecraw, 1981, Ting & Schive, 1981, Wells, 1983, Wells, 1981, White, 1981). These localized technological adaptation trajectories explained the unique capabilities of developing country multinational firms, which were then used to target low-cost ends of mostly domestic and other developing countries markets (Katz & Kosacoff, 1983, Lall, 1983, Villela, 1983).

In an assessment of prospects for future international growth of these developing multinationals, in a seminal contribution, Wells (1983) argued that the costs of foreign operations were too high for these firms, and their unique “frugal adaptation” capabilities were easily imitable by local competitors in other developing countries. In sum, these firms had bleak prospects for international growth. This assessment is clearly not valid today. Post-liberalization, EMNCs seem to have transformed in many noticeable ways (Wells, 2009).

## **EVOLUTION OF CONTEMPORARY EMNC CAPABILITIES**

Recent research on EMNCs supports a wide range of firm-specific capabilities. EMNCs have grasped opportunities provided by liberalization to change existing paths and build technological and financial assets (Athreye & Godley, 2009, Chittoor & Ray, 2007, Chittoor, Sarkar, Ray, & Aulakh, 2009, Lee & Slater, 2007). Networking (Elango & Pattnaik, 2007, Filatotchev, Strange, Piesse, & Lien, 2007, Mesquita & Lazzarini, 2008, Prashantham & Dhanaraj, 2010) and relational capabilities (Duysters, Jacob, Lemmens, & Jintian, 2009, Mathews, 2006, Mathews, 2002, Mathews & Cho, 2000) have been used to support international

growth. EMNCs have displayed organizational learning internally (Malik & Kotabe, 2009), as well as in learning from partners (Mathews, 2002). Aggressive acquisition strategies have been undertaken to acquire assets and build new capabilities (Aybar & Ficici, 2009, Knoerich, 2010, Madhok & Keyhani, 2012). Entrepreneurial (Kim, 1998, Kim, 1997, Yiu, Lau, & Bruton, 2007) and adaptive capabilities (Lu, Zhou, Bruton, & Li, 2010) have facilitated international growth. EMNCs have also been noted for their strong relationships with home governments, displaying political capabilities to gain benefits (Peng, 2012, Zeng & Williamson, 2003). These political capabilities have also allowed EMNCs to successfully interface with weak institutional environments by rapidly internationalizing in other EMs using their institutional understanding of broadly similar environments (Cuervo-Cazurra & Genc, 2011, Cuervo-Cazurra & Genc, 2008, Del Sol & Kogan, 2007).

Thus post-liberalization capability portfolios of EMNCs look well poised for rapid international growth. Grounding our theoretical development in the above discussed recent literature on EMNCs, we present a conceptual framework of key capabilities of EMNCs. We conduct a resource-based analysis of these capabilities (Amit & Schoemaker, 1993, Barney, 1991, Peteraf, 1993, Wernerfelt, 1984), identifying how each capability may possibly create value for an EMNC (Hoopes & Madsen, 2008). Finally, we develop testable logic on how EMNC capability bundles are linked to international growth.

We chose firm growth as the dependent variable of our framework, because it is far from clear that internationalization activities of EMNCs are actually in pursuit of profits (Peng, 2012, Ramamurti, 2009). In fact, emerging evidence on high profile acquisitions by EMNCs shows that there may be other motives associated with these international moves (Aybar & Ficici, 2009). Research on Asian firms has already shown that learning and relationships that facilitate

leveraging inter-firm assets may be driving motives for international expansion (Mathews, 2006, Mathews, 2002, Mathews & Cho, 2000). At a casual empirical level, growth is a clear outcome of EMNC internationalization, thus we use this as our explanandum.

Starting with unique historical conditions and subsequent experiences, EMNCs over time have developed capabilities that display commonality across EMs. Identifying these capabilities and tracing historical conditions that led to their evolution allows us to elaborate key mechanisms driving international growth of EMNCs. Most of these capabilities are information-based and non-tradable and are thus uniquely rooted in EMNC evolutionary patterns (Amit & Schoemaker, 1993, Nelson & Winter, 1982). Hence, our contribution is a conceptualization and analysis of organizational, human, and physical capabilities and resources that are uniquely EMNC, both in origin and evolution (Barney, 1991).

### **Frugal innovation**

The most commonly discussed organizational capability related to emerging market firms is the ability to enjoy lower cost structures. Apart from its lower-cost outcomes, this capability is a consequence of firm-level assets and routines (Nelson & Winter, 1982, Williamson & Zeng, 2009). We define frugal innovation as an *EMNC capability that allows firms to imitate, design, and manufacture products and services using mature or commercially available technologies, smaller-scale and more flexible operations, easily accessible raw materials, and using local human resources.*

The historical roots of this capability lie in the constrained environments of pre-liberalization developing countries (Wells, 2009). Faced with restrictions on accessing foreign exchange, importing foreign technologies, and accessing higher-cost foreign raw-materials, firms in emerging markets learnt to innovate within constraints and developed routines for design and

production that worked reliably government imposed constraints (Wells, 1981). Because these firms did not have monopolistic advantages in international markets, they were unable to accumulate capital resources to pour into R&D (Winter, 2005). Thus instead of focusing on product innovation, they focused on process innovation and created capabilities in imitation and developing alternative sourcing/production processes (Chittoor, Sarkar, Ray, & Aulakh, 2009).

Additionally, given small markets in most developing countries these firms developed smaller-scale and more flexible versions of production technologies as an adaptive response (Lall, 1983). Not only were developing country environments constrained but they were also highly dynamic because of the unreliability associated with functioning of both hard and soft institutions. Delays, disruptions, and shortages were common occurrences. Given the damaging nature of these events to firm operations, EMNCs developed flexibility in routines as adaptive responses.

Post-liberalization, frugal innovation capability became a source of cost-advantages in both home and foreign markets. This capability allowed some EMNCs to imitate relatively standardized products by observing them indirectly through reverse-engineering, and developing imperfect imitations that could be sold to price-sensitive customer segments. Additionally, EMNCs used this capability to innovate at the margins by adding features to mature products. This was a pre-adapted capability that had been developed in an environment which was very different from liberalizing EMs (Cattani, 2005), but was uniquely useful in creating value by expanding the Value-Cost gap (Hoopes & Madsen, 2008). Furthermore, it was a rare capability, since only some EMNCs had developed this capability, and it was inimitable in the short-run because it was based on unique historical conditions and was mired in causal ambiguity (Barney, 1991, Peteraf, 1993). Given that products created using frugal innovation would be targeted to

price-sensitive customer segments, this capability was largely unattractive to DMNCs, who were shaped by brand and R&D intensive dominant strategic logics that led to higher cost structures (Bettis & Prahalad, 1995).

### **Market-sensing**

Since EMNCs were largely home-market based firms (Rugman, 2009) they developed a unique understanding of customers and distribution systems in their focal markets. The bulk of these markets (in terms of numbers of customers) were very different from developed country markets (Ramamurti, 2009): Customers were low-income, communication channels were different, buying behaviors were different, and distribution systems were small-scale and unreliable (Khanna & Palepu, 2006). Furthermore, in large parts of these markets many DMNC brands and R&D based product advantages were unknown. This unique EMNC capability was the ability to *sense opportunities in emerging marketplace(s) by using culturally and contextually appropriate cognitive frames.*

Market sensing as an organizational capability was composed of routines that allowed for market research using informal communication with distributors and retailers, establishing local brands, and adapting flexibly to changing customer requirements. These routines were undergirded with tacit managerial knowledge of how things worked in EMs; thus emphasizing relationship-building across channels rather than focusing on pure economic incentives. The effectiveness of this EMNC capability in EMs was enhanced by the fact that DMNC marketing capabilities were largely inapplicable and inadequate for the bulk of these markets, and were only partly suitable for targeting higher-end segments in EMs (Dawar & Chattopadhyay, 2002).

After liberalization, EMNCs used market sensing to target these growing markets as more people moved into middle classes (Dawar & Frost, 1999). Using this capability, EMNCs

not only further consolidated their positions in home markets (Zeng & Williamson, 2003), but also started targeting other liberalizing markets that displayed similar customer segments and distributional systems (Ramamurti & Singh, 2009). Market sensing created value by maintaining a reasonable Value-Price gap from the EM customer's standpoint (Hoopes & Madsen, 2008). Market sensing as an organizational capability was rare to EMNCs because it required systematic knowledge of very different market conditions alongwith relevant managerial cognitive frames used to interpret this knowledge.

As EMs gained attractiveness, DMNCs started to target the bottom-of the pyramid (Prahalad, 2005). DMNCs developed market research mechanisms and local managerial cadres to allow them to appropriate returns from larger market segments in EMs. Thus market sensing as a capability was neither inimitable nor non-substitutable, and hence could not provide sustainable competitive advantage for EMNCs. Nevertheless, it remained a source of international growth in other EMs, where DMNCs were at a time-based disadvantage in cultivating market sensing capabilities.

### **Political capability**

Prior to liberalization, firms in emerging markets operated in highly protectionist environments. Given high levels of government involvement in maintaining protectionist barriers, there was heavy corruption in the transactional space between governments and firms. This corruption mostly allowed large firms to engage in “unproductive entrepreneurship” where they created new means to cultivate rent streams by coopting public policy benefits (Baumol, 1990). Thus firm-level non-market routines were created *to influence and control political and state actors using social and financial incentive*: This constituted a firm-level political capability because it was patterned, routinized and provided useful outcomes to managers (Winter, 2003).

As an organizational capability, political capability was constituted by EMNC routines that facilitated cultivating relationships with important state and political actors, engaging in socialization, and providing both social and economic benefits. In some cases, given weak legal systems, state actors served on boards of business organizations, or had economic stakes in large companies. Furthermore, innovative mechanisms were developed to both offer and deliver bribes. In most EMs these routines were exercised with such frequency that they came to be viewed as social norms.

With the onset of liberalization, government corruption did not decline, in fact in many cases there were now larger incentives to engage in corruption. EMNCs that had cultivated and practiced their political capabilities in their home markets (McVey, 1992, Pananond, 2009) were comfortable in using this capability in other EMs which had similar levels of corruption. This capability created value for EMNCs by allowing them market niches in other EMs where their perceived risk/return ratios were lower than those of DMNCs who were more concerned about their international reputations and did not understand the social dynamics of EM backroom dealing between government and business actors. Hence, political capability was rare and inimitable for EMNCs and it was largely non-substitutable by DMNCs because they faced legal and social sanctions by their home environments, if they were discovered to be fostering corruption. Thus these political capabilities of EMNCs allowed them to internationally expand more in other EMs compared with DMNCs (Cuervo-Cazurra & Genc, 2008).

### **Relational learning capability**

Recent research on EMNCs suggests that these firms leverage inter-firm dependencies in ways that allow access to external knowledge (Mathews, 2006, Mathews, 2002). This inter-firm learning happens through relationships with parent networks and foreign partners (Elango &

Pattnaik, 2007, Pananond, 2009). In cases where firms lack access to internationally competitive capabilities, they leverage horizontal and vertical relationships as substitutes for firm-specific knowledge to increase productivity and innovation (Mesquita & Lazzarini, 2008). Even at the entrepreneur/individual level EMNCs use social capital of entrepreneurs to foster international expansion (Prashantham & Dhanaraj, 2010). In the case of Chinese EMNCs social networks are mediators between internationalization and the returns associated with international growth (Filatotchev, Strange, Piesse, & Lien, 2007).

Relational learning by EMNCs is underpinned by a firm-specific capability. We define EMNC relational learning as *routines that allow identification of suitable relational partners, facilitate direct and indirect observation of partners' knowledge in action, and help incorporate copied elements into EMNCs' operational routines*. In domestic partnerships (with parent networks or other Emerging Market Firms), EMNCs use routines that allow learning and leverage of resources they may lack themselves (Williamson & Zeng, 2009). In relationships with DMNCs, EMNCs are focused on technical learning that helps them address their historical weaknesses in R&D and marketing, while offering unique market sensing capabilities to DMNC partners (Hoopes & Madsen, 2008). Given the attractiveness of EMs, and DMNC's lack of market-specific knowledge, partnering with EMNCs is an attractive proposition. However, on the EMNC side firm-specific absorptive capacity has to be inculcated and routines created to interface with and learn technical knowledge (Cohen & Levinthal, 1990).

Increasing competitive intensity in home markets after liberalization put pressures on EMNCs to learn and improve their capabilities. EMNCs responded to these pressures by collaborating with parent networks and other EMNCs. Additionally, as more DMNCs entered EMs, there were increasing opportunities for forming alliances with DMNCs. Because DMNCs



perceive EMNCs as technically inferior, this leads to letting their guard down, thus it becomes easier for EMNC's who have systematically cultivated absorptive capacity to learn from these partnerships. High quality human resources, trained in EMs as well as in industrialized countries, are available to most EMNCs, making the process of cultivating absorptive capacity easier.

Relational learning capability creates value for EMNCs by allowing them to build new product design and marketing capabilities which underpin relatively higher-priced products sold primarily in EMs. These products which are in many cases “me too” copies are targeted to price-sensitive segments, thereby avoiding direct competition with DMNC offerings. This capability is rare because only EMNCs, given weaknesses in original product development and marketing, find it useful to cultivate this type of absorptive capacity. However, this capability is neither inimitable nor non-substitutable, as evidenced by DMNC strategies of using bottom-of the pyramid product and marketing strategies (Prahalad, 2005).

### **Acquisitions capability**

In recent years, EMNCs have aggressively undertaken foreign acquisitions. Despite negative short-term financial returns from these acquisitions (Aybar & Ficici, 2009), EMNCs persist in displaying growth in acquisitions. Case-based evidence suggests that there are short-term brand-acquiring and longer-term learning motives associated with EMNC acquisitions (Athreya & Godley, 2009, Duysters, Jacob, Lemmens, & Jintian, 2009). Acquisitions in developed markets provide EMNCs with quick access to higher-income market segments and “prized” assets that display well-developed R&D and marketing capabilities. EMNC acquisitions may also be different because they do not seek “integration” with the acquirer, and the eventual target may be building capabilities that can be used in EMs rather than in the country of acquisition (Madhok & Keyhani, 2012).

Borne in unique historical conditions, marked by constraints, EMNCs acquisitions capability is different from the acquisitions logic and capabilities exercised by DMNCs. EMNCs identify targets that possess valuable brands and technological assets that can be leveraged over time. EMNCs do not have strategic goals of controlling or integrating targets. In fact, prize acquisitions may lead to reputational benefits in home markets (Knoerich, 2010). EMNCs do not face pressures to create immediate shareholder returns from these acquisitions and can first acquire a prized asset and then develop plans of how to nurture, grow and learn from its possessions. In most cases, these acquisitions reflect the strategic aspirations of EMNCs (Winter, 2000) rather than well-defined economically rational plans. Thus we define EMNCs' acquisitions capability as the *ability to identify value, negotiate and execute acquisitions that provide reputational and learning platforms for the EMNC.*

Acquisitions capability creates value for EMNCs by providing new learning opportunities as well as brand assets (which are hard to build). It is rare because DMNCs seek immediate shareholder returns and tight fit with existing operations in their acquisition logic. Rarely would DMNCs seek to acquire assets that will remain stand-alone, and will be nurtured over time as independent prized possessions. EMNC's acquisitions capability is not imitable because DMNCs, given their strategic logic, would not desire to copy this capability. Finally, other capabilities like similarly well-known brands and equifinal technological capabilities can substitute for this capability.

### **Entrepreneurial Orientation**

In pre-liberalization eras, strategic aspirations of EMFs were severely constrained by heavy regulatory barriers in combination with rampant corruption associated with the working of government bureaucracies. Although, management teams in these firms harbored desires for

entrepreneurial growth, given environmental conditions, there were constraints on pursuing new paths. Liberalization became a watershed series of events that not only opened markets but also unleashed the entrepreneurial ambitions of EMNC managers. Many managers in EMs came to view liberalization as a significant opportunity for fashioning new, globally competitive, paths for their firms (Ramamurti & Singh, 2009). Emergence of entrepreneurial orientation in EMNCs was catalyzed by managers who in many cases understood emerging as well as DC markets, given their prior experiences in DCs (Amsden, 2009, Goldstein & Prichard, 2009).

This post-liberalization entrepreneurial orientation of EMNC managers can be viewed as a dynamic capability that facilitated change in the operational capabilities of these firms (Helfat, 2007, Teece, Pisano, & Shuen, 1997). Entrepreneurial orientation has been construed as a multidimensional construct that comprises of autonomy, innovativeness, risk-taking, proactiveness, and competitive aggressiveness (Lumpkin & Dess, 1996). Here we explain how these dimensions were formed in post-liberalization EMNCs.

All organizations are constrained by paths previously followed (Sydow, Schreyogg, & Koch, 2009). However, it is possible to also fashion new paths by imagining reality as a process of ongoing change and unfolding of new future events that can be shaped anew (Garud, Kumaraswamy, & Karnoe, 2010). In many EMNCs, top managers used liberalization as events that marked change or even prepared for changes prior to the onset of liberalization (Chittoor, Sarkar, Ray, & Aulakh, 2009). Consequently, EMNCs displayed path-breaking autonomy by restructuring and reconfiguring their resource bases (Athreye & Godley, 2009, Chittoor & Ray, 2007, Chittoor, Sarkar, Ray, & Aulakh, 2009, Duysters, Jacob, Lemmens, & Jintian, 2009). Many EMNCs displayed innovativeness by shedding old technologies, embracing new methods (Malik & Kotabe, 2009) and actively engaging in building new capabilities. Managers took risks

in reshaping firms and acquiring institutionally/culturally distant firms (Knoerich, 2010). In some cases, proactive changes were undertaken a decade prior to liberalization (Chittoor, Sarkar, Ray, & Aulakh, 2009). Furthermore, many EMNCs today proactively continue to build R&D and marketing capabilities in anticipation of greater global opportunities (Ramamurti, 2009). Although, EMNCs displayed competitive aggressiveness, this was manifested in not directly confronting DMNCs, rather EMNCs sought to carve niche markets and then expand from these niches, thereby employing strategic foresight and longer-term planning (Duysters, Jacob, Lemmens, & Jintian, 2009). This entrepreneurial orientation displayed by the most successful EMNCs is a distinct dynamic capability that will allow these firms to adapt to and shape future environments.

### **Natural resources**

For a long time, international business theories did not place much importance on possession of natural resources. Actually, human and mineral resources were viewed as country-based factors that could be accessed by any multinational firm (Hennart, 2012). The rapid growth of EMNCs has cast doubts on this perspective, now it seems that these country-based resources can be better accessed and controlled, in many cases, by firms that are from those countries (Hennart, 2012, Kalotay & Sulstarova, 2010).

Large pools of cheap, skilled and semi-skilled labor (Rugman, 2009, Williamson & Zeng, 2009), mineral resources and state concerns for keeping resources within national control (Fleury & Fleury, 2009, McCarthy, Puffer, & Vikhanski, 2009) have interacted to contribute towards the international growth of resource-intensive EMNCs. The main difference in managing natural resources in pre and post liberalization eras lies in their leveraging and exploitation to further international growth of EMNCs. Pre-liberalization, although states controlled many mineral

resources, the focus was on domestic exploitation and exports. Now with growing domestic needs and easier access to superior technologies global consolidation strategies seem viable (Ramamurti, 2009).

Thus possession of significant reserves of natural resources creates value for EMNCs by facilitating leverage that can be exercised for international expansion (Williamson & Zeng, 2009). In many cases access to these resources is rare, because they are country-based and require special knowledge to use effectively. Although, it is possible to imitate these strategies and substitute alternative resources, in many cases the interaction of home-based resources and government policies aimed at maintaining control and fostering growth of national champions provides an edge to EMNCs in global competition.

## **EMNC CAPABILITIES AND GROWTH IN EMERGING MARKETS**

EMNC capabilities influence growth in EMs through operating in bundles that display strong complementarities (Milgrom & Roberts, 1990). Thus it is not individual firm capabilities that facilitate international growth, but it is the confluence of these capabilities together, that provide bases for EMNC international growth. In this section we identify specific capability bundles that lead to growth in EMs because of the high complementarities between these capabilities.

### **Frugal innovation and market sensing**

EMNC abilities to design and manufacture low-cost products and services, which in some cases may be imitations of DMNC offerings creates unique opportunities in other emerging markets. EMNCs, using their market sensing capabilities, can better understand the needs of customers with low, but growing incomes and their aspirations for an upgraded lifestyle. Furthermore, given structural economic similarities among EMs, EMNCs can better deal with physical and

institutional constraints in establishing distributional and retail presence in these markets.

Therefore, we propose:

Proposition 1: The interaction between frugal innovation and market sensing capabilities will be associated with EMNC growth in EMs.

### **Frugal innovation, market sensing, and relational learning**

The synergistic combination between frugal innovation and market sensing capabilities allows EMNCs to target price sensitive segments in other EMs. However, when this interaction is combined with relational learning, it enhances EMNC capabilities in ways that higher income segments can be targeted. In sum, it allows EMNCs to develop more highly differentiated products.

Relational learning can be from parent networks, associations with other EMNCs, or through alliances with DMNCs. In all three cases, alliances with other firms allow EMNCs access to inter-firm resources, which combined with their organizational learning, allows EMNCs to systematically build enhanced product/ market capabilities, which in turn underpin new offerings. Thus we propose a three-way interaction:

Proposition 2: The interaction between frugal innovation, market sensing and relational learning capabilities will be associated with EMNC growth in EMs.

### **Political capabilities**

EMNC political capabilities provide two key abilities: Understanding of weak and corrupt institutional environments and skills in negotiating these environments through utilizing informal norms, including socialization with benefits and bribery. These capabilities can only apply in country environments, where similar cultural norms have evolved. It is difficult to gain market favors from government actors in DCs using these capabilities. This is because DCs have

evolved legal-rational institutions that govern over very different norms for accessing market favors. Thus, EMNC political capabilities will facilitate growth in other EMs, primarily because these capabilities can successfully interface with government actors' expectations.

Proposition 3: EMNC political capabilities will be associated with growth in EMs.

## **EMNC CAPABILITIES AND GROWTH IN DEVELOPED MARKETS**

EMNC growth in DCs presents IB researchers with a challenge. This is because these south to north investment patterns are contrary to many dominant IB theories (Ramamurti, 2009). Here, we present a theoretical rationale for these growth patterns based on EMNC capability bundles.

### **Frugal innovation and relational learning**

Earlier research on EMNCs has posited that because these firms do not enjoy R&D based and marketing advantages in DCs, they cannot grow successfully in these markets. This research neglects two key facts: First, not all market segments in DCs demand products with high R&D and marketing content. In fact, many DC firms have succeeded by trimming down on these costly activities. Second, this research neglects the strong inter-firm learning orientation displayed by EMNCs aspiring to establish presence in DCs. Accumulating empirical evidence suggests that EMNCs are hardly static in capabilities, in fact they are rapidly learning and building capabilities (Chittoor, Sarkar, Ray, & Aulakh, 2009, Malik & Kotabe, 2009, Mathews, 2006, Mathews, 2002, Mathews & Cho, 2000). Hence, the combination between frugal innovation, which leads to low production costs and relational learning (in working with DC firms) allows EMNCs to establish niches in price sensitive segments in DC markets (Duysters, Jacob, Lemmens, & Jintian, 2009). This logic supports our fourth proposition:

Proposition 4: The interaction between frugal innovation and relational learning capabilities will be associated with EMNC growth in DCs.

### **Frugal innovation and acquisitions capability**

Empirical evidence suggests that EMNCs are increasingly acquiring firms in DCs mainly for marketing and technological capabilities (UNCTAD, 2010). There is a synergistic logic in these acquisitions which is very different from the dominant strategic logic pursued by DMNCs.

EMNCs' frugal innovation capabilities are very useful for DMNCs in outsourcing, as well as reshaping their own cost structures. Furthermore, closer links with EMNCs allow superior access to EMs, which are viewed as large and attractive markets (Knoerich, 2010). In some cases, EMNCs have access to cheaper capital (Williamson & Zeng, 2009), which facilitates aggressive acquisitions of brands and technology. In many cases, EMNCs have government support in their acquisitions (Peng, 2012), and have low threats of takeovers in underdeveloped home markets for corporate control (Aguilar, Bailey, Bhattacharya, Bradtje, de Juan, Hemerling, Koh, Michael, Stren, Waddell, & Waltermann, 2009). Thus the financial and control risks associated with large acquisitions are mitigated in EM environments where the dominant goal is capability-building and growth rather than integration and short-term financial returns.

Proposition 5: The interaction between frugal innovation and acquisition capabilities will be associated with EMNC growth in DCs.

### **Entrepreneurial orientation as a dynamic capability**

Entrepreneurial orientation refers to organizational routines and processes associated with creating new combinations (Schumpeter, 1934). As a dynamic capability it allows firms to use unique combinations of existing capabilities to enhance growth. Many EMNC have displayed entrepreneurial, path-creating behaviors prior to and after liberalization (Chittoor, Sarkar, Ray, &



Aulakh, 2009). Many top managers in these firms display high aspirations for international growth and are positively inclined towards dealing with higher levels of competitive intensity. There are aspirations to prove their mettle in the international marketplace, and to build their organizations as successful international organizations. In this sense, entrepreneurial orientation positively moderates the relationships between EMNC capability bundles and growth in both EMs and DCs.

Proposition 6: Entrepreneurial orientation positively moderates the relationships between EMNCs' capability bundles and international growth.

### **Natural resources**

EMNCs that possess control over large home-based reserves of natural mineral resources leverage these to seek growth in foreign markets. This type of resource-seeking growth is different from capability-exploitation discussed earlier. The motivating factors for internationalization in this case are building capacity to serve growing needs in EMs, as well as gaining from global economies of scale. In some cases, these resource reserves may also interact with other EMNC capabilities to enhance opportunities for international growth. EMNCs seeking resources will target international expansion in both EMs and DCs, driven by their strategic logic of resource accumulation and leveraging resource reserves to enter foreign markets.

Proposition 7: Control over large home-country based natural resources leads to resource-seeking international growth.

### **BOUNDARY CONDITIONS OF THE FRAMEWORK**

Because of political and economic differences between EMs, and differences between firms within and across countries, it is difficult to develop general models of EMNCs (Ramamurti, 2009). However, as our analysis shows there are significant similarities between

these firms to the extent that some general statements about relationships between EMNC capabilities and international growth can be made.

Our analysis mainly focuses on EMNCs in medium technology sectors, which use mature technologies and sell relatively matured products. Innovation in these industries is mainly incremental, and there is relatively higher standardization of products and processes (Ramamurti, 2009). Industrial sectors with these characteristics contain majority of globally noticeable EMNCs. There are EMNCs that operate in high technology sectors such as Embraer from Brazil and Huawei from China, these firms possess capabilities very different from those identified in our analysis. Finally in low technology sectors, small internationally-oriented networks may be gaining dominance (Zeng & Williamson, 2003), our analysis also does not cover these instances of international growth emanating from EMs.

## **DISCUSSION**

Rapid growth and increasing prominence of EMNCs has focused academic attention on the question of what are the sources of international growth for these firms (Goldstein, 2007, Ramamurti, 2009). In this article, we take a capabilities-based look at EMNCs. Our conceptual framework identifies frugal innovation, market-sensing, political capabilities, relational learning, and acquisitions capability as historically-developed, unique EMNC capabilities. Furthermore, we identify entrepreneurial orientation as a dynamic capability that moderates relationships between EMNC capability bundles and international growth. We also conceptualize how natural resource reserves can lead to international growth. Our analysis also highlights which capability bundles lead to growth in EMs vs. DCs.

We make three main contributions to the growing literature on EMNCs in this article. First, we attempt to shift the debate from firm-specific and country-based advantages (Rugman,

2009) to asymmetric EMNC capabilities which can facilitate international growth (Miller, 2003). We present evolutionary logic that underpins a general model of EMNC capabilities and their relationships with international growth. Second, we identify contextually-bound capability bundles and develop logic on why these bundles are more important than other possible capability combinations. Finally, we differentiate between stylized versions of EMs and DCs and show that different EMNC capability bundles operate in facilitating growth in these two different market types.

Apart from a few recent conceptual works (Ramamurti, 2009), most research on EMNCs has focused on country-level differences between firms. However, to augment theories of MNCs, it is important to develop generalizable models of EMNC behavior that are at a level of abstraction that can account for similarities across EMNCs from different countries. Our conceptual framework presented in this article is a first step in this direction. We have attempted to narrow down historically-evolved and unique EMNC capabilities and relate them to growth in international markets. Future empirical research can test the relationships between these capabilities and international growth comparing EMNCs in EMs and DCs, as well as with DMNCs. If empirical testing supports our arguments that these types of capabilities are differentially more important in fostering growth in EMNCs than in DMNCs, then we have a basis for the development of a slightly different version of a capabilities-driven EMNC theory.

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