INTRODUCTION

International expansion of emerging market enterprises: A springboard perspective

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Abstract

In this article, we present a springboard perspective to describe the internationalization of emerging market multinational corporations (EM MNEs). EM MNEs use international expansion as a springboard to acquire strategic resources and reduce their institutional and market constraints at home. In so doing, they overcome their latecomer disadvantage in the global stage via a series of aggressive, risk-taking measures by aggressively acquiring or buying critical assets from mature MNEs to compensate for their competitive weaknesses. We discuss unique traits that characterize the international expansion of EM MNEs, and the unique motivations that steer them toward internationalization. We further delineate peculiar strategies and activities undertaken by these firms in pursuit of international expansion, as well as internal and external forces that might compel or facilitate their propulsion into the global scene. We finally explain the risks and remedies associated with this international ‘springboarding’ strategy and highlight major issues meriting further investigation.

Introduction

The past two decades have witnessed rapid growth and remarkable transformation in emerging economies. According to the World Investment Report 2005 (UNCTAD, 2005: 34), of the top six most attractive global business locations five are emerging economies (China, India, Russia, Brazil, and Mexico). Unlike the early path of internationalization for multinational enterprises (MNEs) from advanced markets (e.g., US, Europe and Japan) and newly industrialized economies (e.g., Korea, Singapore, Hong Kong and Taiwan), emerging economy enterprises have benefited tremendously from inward internationalization at home by cooperating (via original equipment manufacturing (OEM) and joint venture in particular) with global players who have transferred technological and organizational skills, allowing emerging market enterprises to undertake outward internationalization later in some unconventional ways. Although developed country MNEs remain the major source of outward foreign direct investment (FDI) today, outflows from developing and emerging economy MNEs have significantly risen, from a negligible amount in the early 1980s to $83 billion in 2004, or 11% in world stock, with active engagement in a large number of cross-border mergers and acquisitions (UNCTAD, 2005: 8).
In this article, we present an overarching framework that analyzes the uniqueness of emerging market multinational corporations (EM MNEs), including their rationale and motives, activities and strategies, propelling and facilitating forces, as well as risks and challenges in the course of international expansion. At the core of this framework is our argument that EM MNEs use outward investments as a springboard to acquire strategic assets needed to compete more effectively against global rivals and to avoid the institutional and market constraints they face at home. Their ‘springboard’ behaviors are often characterized by overcoming their latecomer disadvantage in the global stage via a series of aggressive, risk-taking measures by proactively acquiring or buying critical assets from mature MNEs to compensate for their competitive weaknesses. They are often not path dependent nor evolutionary in selecting entry modes and project location. Instead, their investments abroad could be attributed to several pressures, such as late-mover position, strong presence of global rivals in their backyard, quick changes in technological and product development, and domestic institutional constraints. At the same time, their ‘springboard’ approach is encouraged by their respective home governments, the willingness of global players in advanced countries to sell or share strategic resources, and the increasing integration of the world economy and global production. While benefiting from many opportunities, ‘springboard’ activities can inherently involve more risks and challenges by requiring EM MNEs to overcome their critical bottlenecks, such as poor governance and accountability, lack of global experience, managerial competence and professional expertise, and weak technological and innovation capabilities.

By developing a springboard perspective for EM MNEs, we do not imply that existing MNE theories are incapable of explaining behaviors of EM MNEs. For instance, Dunning’s (1981, 1988, 2001) eclectic paradigm is still relevant to the extent that EM MNEs expand internationally, especially in other developing countries, in search of location-specific advantages by leveraging their unique capabilities. Similarly, although EM MNEs do not necessarily follow the incremental approach in internationalization, they still attend carefully to the importance of organizational learning and global experience, the central thesis of the evolutionary process theory (Johanson and Vahlne, 1977). In addition, late development (Dore, 1990) or latecomer advantage (Buckley and Casson, 1981) arguments offer some explanations (e.g., the leapfrog effect) that are shared by the springboard perspective, though these two perspectives, as discussed later, differ. Our objective here is to enrich the existing theories by examining the approaches adopted by EM MNEs, since they appear to face unique parameters, rationales and strengths, while seeking to play an increasingly important role on the global stage. This paper seeks to build upon the wealth of knowledge developed in the mid-1980s that addressed outward expansion by ‘third world’ multinationals (e.g., Lecraw, 1977, 1983; Wells, 1983; Lall, 1984). Although EM MNEs are at present much less path dependent (e.g., ethnic network is no longer the key) and much more risk-taking (e.g., through aggressive acquisitions and mergers) than ‘third world’ multinationals in the 1980s, the two groups still share some basic strengths (e.g., cost advantage) and weaknesses (e.g., limited knowledge of overseas markets). Despite these similarities, as illustrated below, there are significant peculiar traits characterizing present-day EM MNEs that merit the development of a new framework specific to these firms.

**EM MNEs: concepts and typology**

**Defining EM MNEs**

We define EM MNEs as international companies that originated from emerging markets and are engaged in outward FDI, where they exercise effective control and undertake value-adding activities in one or more foreign countries. Using this definition, we exclude emerging market-based large import and export companies, because they do not engage in outward FDI, and enterprises that are involved in minority joint venture relationships overseas, because they do not effectively control these subunits. We also exclude enterprises that invest mainly or exclusively in tax-haven countries such as the Cayman and Virgin Islands for the primary purpose of taxation evasion or reverse ‘round-tripping’ investments (i.e., using their own money under a ‘foreign’ subsidiary name to invest back at home to obtain preferential treatment by the home government), because they do not engage in value-adding activities overseas. Lastly, our definition of EM MNEs excludes state-owned enterprises whose roles are to completely pursue political objectives designated by their respective home governments (i.e., they do not compete in international markets for optimizing corporate returns). For instance, we exclude those firms that
seek merely to acquire natural resources from another country to meet governmentally planned tasks (e.g., Indian Oil Corporation's acquisition of oil and gas resources in West Africa) or undertake foreign aid investment programs to strengthen the political and diplomatic ties between home and host country governments (e.g., China's state-owned construction companies, which built bridges, stadiums, railroads, and hospitals in Africa) because these do not really compete in global markets nor perform tasks to benefit corporate gains.

This article focuses on MNEs from major emerging markets that have undergone significant structural transformation in the recent past, such as China, India, Brazil, Russia, and Mexico. Emerging markets represent countries whose national economies have grown rapidly, where industries have undergone and are continuing to undergo dramatic structural changes, and whose markets hold promise despite volatile and weak legal systems. To the extent that several other emerging markets, such as Poland, Ukraine, Thailand, South Africa, Chile, Argentina, Turkey, and Malaysia, among others, also share these features, our discussion also applies to them in large part. We caution that these major emerging markets are not individually homogeneous, but to the extent that enterprises in these countries face some similar constraints, share similar motives, and have common experiences in international business, we seek to develop a model that is generally applicable to MNEs from these economies. Although businesses from smaller developing or emerging markets have not yet reached a sizable scale of internationalization, the discussions and arguments presented in this paper may also apply to firms in these countries in the future. MNEs from newly industrialized economies or NIEs, though they are still categorized as developing countries by the United Nations, are not the focus of discussion in this article. However, previous and current strategies used by NIE multinationals can be important lessons that EM MNEs should analyze and learn. Previous research (e.g., Kumar and Kim, 1984; Han and Brewer, 1987; Levy, 1988; Tallman and Shenkar, 1990; Li, 1994; Yeung, 1994, 1997, 1998) has documented the patterns, motives, and strategies of NIE multinationals, and new efforts that examine what lessons from these multinationals are transferable to EM MNEs are merited.

Niche entrepreneurs are non-state-owned MNEs whose geographical and product coverage in international markets is narrowly focused. Examples of this type include China's ZTE (a handset producer and exporter that recently built production facilities in Dallas to focus on North America), India's Patni Computer Systems Ltd (a Mumbai-based IT service provider that is active in the US), Russia's Kamaz (a machinery and truck company that has operations in the Commonwealth of Independent States), Mexico's Mabe (an appliance producer that is active in Central and Latin America), and Turkey's Arcelik (a home appliances manufacturer that is investing in the UK). Unlike state-owned companies, these niche entrepreneurs typically do not receive government funding nor possess rich industrial experience. They focus on a narrow line of products and markets to leverage their strengths.

Second, world-stage aspirants are non-state-owned MNEs that are relatively diversified in their product offerings and geographical coverage in the international marketplace. Examples in this category...
include Russia's Lukoil (a privately owned giant that operates in both upstream and downstream activities worldwide), China's Haier (the world's fourth largest white-goods manufacturer, operating in Europe, North America, Asia, and Oceania), India's Tata Group (that country's largest private company, operating in more than 40 countries across six continents), Brazil's Embraer (the world's fourth largest aircraft manufacturer, privatized in 1994, which owns subsidiaries in the US, France, Australia, China, and Singapore), Mexico's Cemex (the world's top building-solution company, with operations in more than 50 countries), Thailand's Charoen Pokphand (a multinational conglomerate with subsidiaries in more than 20 countries), and South Africa's Nando (a food franchiser offering dozens of products in more than 30 countries). Although they have not yet reached the scale and scope of internationalization of big MNEs from advanced markets, these world-stage aspirants have become a formidable force in shaping the landscape of global competition where cost advantages are critical. These pertain to products that are mass-manufactured and technologically mature.

Third, transnational agents are state-owned MNEs that have invested extensively abroad for their business expansion, while still being subject to home government instructions or influences. Examples include China's International Trust & Investment Corp. (CITIC) and Ocean Shipping Co. (COSCO), Russia's Gazprom and UES, Brazil's Petrobras and Companhia Vale do Rio Doce, India's Hindustan Petroleum Co. Ltd. (HPCL) and Oil & Natural Gas Corp. (ONGC), and Mexico's Pemex and Bancomext. These agents generally operate in vital sectors that are of strategic importance to their respective countries. As such, their governments are usually their largest shareholders. They have gone global to seize opportunities presented by a better investment climate to foster overall business growth while supporting economic development at home.

Lastly, commissioned specialists are state-owned MNEs whose outward investments focus on only a few foreign markets in which they leverage their competitive strengths while at times fulfilling governmentally mandated initiatives. Examples of these include China's Minmetals and Sinopec, Russia's Rosneft and Alrosa, India's Bharat Heavy Electrical Ltd. and National Thermal Power, Brazil's Electrobras and Banco do Brasil, Malaysia's Petronas, and South Africa's Anglogold Limited. These specialists emphasize certain geographic domains, and operate along a focused line of business or products to play their dual roles: to reap the fruits of international expansion as a legitimate business and, at the same time, to complete state-assigned mandates within their area of expertise.

This typology, which incorporates the nature of ownership, a dimension typically absent in previous typologies of MNEs, can help to address varying strengths, weaknesses, different behaviors, and rationales of idiosyncratic types of EM MNE. For instance, transnational agents and commissioned specialists receive greater institutional support and government underwriting, but face higher bureaucratic hindrances and political intervention than do world-stage aspirants and niche entrepreneurs. Consequently, risk-taking behavior, investment strategies, subsidiary governance, and parent–subsidiary relations may vary significantly between state-owned and non-state-owned groups. Because state-owned groups usually have fewer discretionary powers in certain international expansion decisions (e.g., choice of foreign location or foreign partner) than non-state-owned groups, decisions made by transnational agents or commissioned specialists might be only sub-optimal, with discrepancies and misalignments between optimal strategic options and actual choices under governmental influence. Similarly, owing to variations in international diversification, world-stage aspirants and transnational agents might enjoy more opportunities and higher returns but face greater risks than niche entrepreneurs and commissioned specialists. This may lead players in the former group to engage in greater global integration (vertical or horizontal), conduct broadened value chain activities abroad (e.g., building foreign R&D centers), and involve stronger interactions among subunits in different countries than do companies in the latter group.

International springboard: behaviors and motives

We suggest that EM MNEs systematically and recursively use international expansion as a springboard to acquire critical resources needed to compete more effectively against their global rivals at home and abroad and to reduce their vulnerability to institutional and market constraints at home. These efforts are systematic in the sense that ‘springboarding’ steps are deliberately designed as a grand plan to facilitate firm growth and as a long-range strategy to establish their competitive positions more solidly in the global marketplace.
They are also recursive because such ‘springboard’ activities are recurrent (e.g., one foreign acquisition may improve an EM MNE’s disadvantage in brand awareness and international reputation, while a subsequent acquisition of a foreign logistics or distribution company may rectify its deficiency in accessing foreign customers) and revolving (i.e., outward activities are strongly integrated with activities back home). This recursive nature distinguishes springboard from leapfrog behaviors. Leapfrog is normally used by late entrants to catch up earlier movers’ competitive position while avoiding the risks of technological obsolescence and proprietary technology diffusion to rivals as well as the extra burden of educating a changing base. For instance, EM MNEs (such as China’s TCL, Lenovo, Chunlan, ZTE, and Haier) have reorganized their home supply or production bases to meet their increased global sales for high-end products, or have re-branded their homemade products after using foreign acquirees’ technologies and trademarks. Viewed in this manner, the global success of such EM MNEs is still highly dependent on their performance at home (e.g., sales, market share, reputation) and their home base to serve as the manufacturing center (components, semiproducts, and products) for their worldwide operations. In other words, they will encounter many difficulties, and perhaps face extinction, if their home performance weakens or their home base fades away. Furthermore, it is foolish for these EM MNEs to ignore their home markets while multinational from advanced and newly industrialized countries are strongly attracted to the opportunities, and hence huge profit potential, posed by emerging economies. Because these global rivals face liabilities of foreignness whereas EM MNEs enjoy home court advantage, it is counterproductive for EM MNEs not to capitalize on their home markets and home bases. Hence we argue that international expansion is a springboard, not an end, to most EM MNEs’ success in global competition. Because outward expansion also generates many opportunities that are either unavailable or cannot be substituted for at home, the long-term viability and success of EM MNEs lie in their ability to simultaneously leverage core competences at home and explore new opportunities abroad in an integrated fashion. This argument is consistent with dynamic capability theory (Kogut and Zander, 1992; Teece et al., 1997).

‘Springboarding’ is manifested in several behaviors or activities. First, EM MNEs use international expansion as a springboard to compensate for their competitive disadvantages. When investing in developed countries, they seek sophisticated technology or advanced manufacturing know-how by acquiring foreign companies or their subunits that possess such proprietary technology. They differ sharply from advanced market MNEs, which generally leverage and exploit their ownership-specific competitive advantages in foreign countries (Dunning, 1981; Lecraw, 1983). While NIC MNEs had also sought such knowledge acquisition in their early internationalization, they were more evolutionary in this process (e.g., using minority joint ventures rather than acquisitions). In general, EM MNEs are eager to acquire technology and brands through internationalization to fill their resource void. Foreign firms’ willingness to sell or share their technology, know-how or brands due to financial exigency or restructuring needs makes it possible for EM MNEs to fulfill this need (Child and Rodrigues, 2005).

Second, EM MNEs use international expansion as a springboard to overcome their latecomer disadvantage. Through some path-independent and proactive steps, such as mergers and acquisitions and strategic asset-seeking from advanced markets, ‘springboard’ moves allow EM MNEs to alleviate some latecomer or newcomer deficiencies in areas such as consumer base, brand recognition, and technological leadership. Unlike NIC MNEs, which have generally been evolutionary and path dependent in internationalization over the past decades (Han and Brewer, 1987; Li, 1994; Yeung, 1994) with their outward FDI driven primarily by ‘push’ factors such as appreciating currencies, growing current-account surpluses, rising labor shortages, escalating operating costs, and small yet saturated domestic markets (Wells, 1983; Kumar and Kim, 1984; Deng, 2004), EM MNEs’ outward investments are triggered mainly by ‘pull’ factors, such as the desire to secure critical resources, acquire advanced technology, obtain managerial expertise, and gain access to consumers in key
foreign markets so that they can overcome their latecomer handicap.

Third, EM MNEs use international expansion as a springboard to counter-attack global rivals' major foothold in their home country market. To most EM MNEs, their home country markets are still their primary territory of operation. However, these markets have been increasingly penetrated and even dominated by advanced market and NIC MNEs. To become truly global or transnational, some large EM MNEs recognize that they must directly serve and win consumers in key foreign markets such as Europe, the US, and Japan. Thus transnational agents and world-stage aspirants take the plunge by entering their global competitors' home or backyard in search of market share and competitive foothold. Some risk-taking activities such as acquisitions and greenfield investments are undertaken, in part at least, for this purpose.

Fourth, EM MNEs use outward investment as a springboard to bypass stringent trade barriers (e.g., quota restrictions, anti-dumping penalties, and special tariff penalties). Although this motive is not unique to them, many EM MNEs, especially those producing technologically standardized products, are more dependent on global export markets and more likely to use export intermediaries and distributors to reach foreign consumers than their competitors. This allows EM MNEs to leverage their massive production capabilities while avoiding their deficiency in reaching and interacting with overseas customers or end users. To avoid export barriers, EM MNEs can either invest directly in a target host country (e.g., China's Haier built its manufacturing facilities and assembly operations in the US to avoid American quota restrictions and potential anti-dumping suits and to protect the exporting of parts to the US) or first invest in a third country (typically another developing country, preferably treated by a target country's government) and from there springboard to a targeted advanced market. For example, dozens of Chinese companies have invested in Central and South America, the Caribbean and Mexico as a strategic platform to manufacture garments, footwear, bicycles and household appliances for export to the US without facing quota or other restrictions.

Fifth, EM MNEs use international expansion as a springboard to alleviate domestic institutional constraints. Institutional voids (e.g., lack of legal protection for property rights, poor enforcement of commercial laws, non-transparent judicial and litigation systems, underdeveloped factor markets, and inefficient market intermediaries) and political hazards (e.g., political instability, unpredictable regulatory changes, government interference, bureaucratic red tape, corruption in public service and government sectors, and extremely discretionary explanation or enforcement of ambiguous laws and rules) at home erode the competitiveness of the firms, thus propelling them to go global. Regardless of the skills and networks possessed by the firms in handling such domestic constraints, it is always costly (both financially and time-wise) for a corporate entity to deal with these institutional voids and political hazards. By selecting and operating in an institutionally more efficient, transparent and encouraging environment without such constraints and hazards, EM MNEs could avoid the aforementioned deterrents and thus be able to concentrate on building, exploiting and upgrading their competitive advantages in international markets.

Sixth, EM MNEs use international expansion as a springboard to secure preferential treatment offered by emerging market governments. They do so mainly through reverse investments. Reverse investment occurs when an EM MNE first invests abroad and creates a subsidiary in a foreign country, and then uses this subunit as the 'foreign' entity to invest back home to receive financial privileges (e.g., tax break and cheaper land fees) and non-financial privileges (access to scarce resources and regulatory support) offered by emerging market governments. Although seeking reverse investment benefits may not be the overriding objective behind these firms' international expansion, outward investment is a convenient means to taking advantage of these preferential treatments. Because attracting foreign investments will continue to be an important policy for emerging market governments, these financial and non-financial privileges are likely to remain. When these privileges are present, EM MNEs may be motivated to use foreign expansion as a springboard to receive domestic preferential treatment. Another possible incentive is the desire to diversify assets as a safeguard against domestic instability. For instance, there was a fast parallel increase of both inflows and outflows in Russia, partially due to this type of round tripping by Russian MNEs. Government financing exists when an EM MNE uses home-government-provided capital to fund its foreign project(s). Many governments, such as China, India, Mexico, Thailand, and Poland, offer financial incentives to encourage their businesses to go global (Cai, 1999; Andreff,
If an EM MNE can combine government financing and reverse investments sequentially (i.e., use government loans to invest abroad and then take some portion of the loan to reinvest at home), this type of 'opportunity' seeking is even more apparent.

Lastly, EM MNEs use international expansion as a springboard to exploit their competitive advantages in other emerging or developing markets. Many EM MNEs are national champions in their respective industries at home. They have developed expertise in mass production through OEM arrangements and international experience through cross-national alliances in their home country. Despite the overall inferiority of these companies in terms of original technology and innovation, by virtue of well-established open global markets in applied technology, advanced machinery and equipments, the latest tools and instruments, and sophisticated materials and components, EM MNEs can simply buy much of the technology and expertise they need. This availability, together with their mass production capabilities and experience, have spurred EM MNEs to manufacture technologically standardized products in other emerging and developing markets where the demand for such items is huge. Their low-cost position allows these latecomers to offer a price that is very attractive to local consumers, thus enabling them to increase their market share vis-à-vis multinationals from advanced and newly industrialized countries that have been there for a long time.

Accordingly, EM MNEs' motives behind the springboard behaviors can be broadly summarized as (1) asset-seeking or (2) opportunity-seeking. While these two motives can apply to all MNEs regardless of their origin, EM MNEs seem to have some unique property associated with asset-seeking and opportunity-seeking. Assets sought by EM MNEs may include technology, know-how, R&D facilities, human capital, brands, consumer bases, distribution channels, managerial expertise, and natural resources. These assets are necessary to meet the needs for (1) bolstering economic and social development at home, and (2) compensating firm-level competitive disadvantages. Because of strong governmental involvement, especially for transnational agents and commissioned specialists, these two objectives are sometimes dual and interconnected. The acquisition of raw materials by state-owned enterprises to meet their own operational needs, and the growing demand for the same materials at home, are often important reasons for EM MNEs (particularly those from China and India) to invest overseas. By more radical approaches, such as acquiring an established firm, EM MNEs may gain access to the acquiree's entire package of product and process innovation. By so doing, they may use the acquired advanced technology to upgrade their domestic manufacturing as well as develop new products for international markets (Deng, 2004). Many NIC MNEs, though not all, tended to learn the more sophisticated process and product technology from licensing and joint venture relationships with large MNEs from developed countries, and then further modify and adapt them to the target market (Yeung, 1997).

To accomplish the goal of opportunity seeking, EM MNEs aim at:

- tapping niche opportunities in advanced markets that complement their strengths (e.g., India's top four software companies, Infosys, Wipro, Satyam, and Tata Consultancy Services, all benefited from new clients and rapid growth in North America);
- gaining preferential financial and non-financial treatment offered by home and/or host governments (e.g., the Chinese government has given Lenovo some support, such as financial underwriting as well as privileged access to domestic government and educational markets);
- increasing company size and reputation (e.g., several Brazilian banks, including Banco Bradesco, Banco do Brasil, and Unibanco, achieved these objectives through investments in Europe and Latin America);
- escaping from institutional or market constraints at home (e.g., some South African MNEs, such as SABMiller, have to operate globally to avoid governmental control over foreign exchange usage and to escape from the limited domestic market);
- bypassing trade barriers into advanced markets (e.g., some Chinese textile and clothing companies invested in Turkey as a springboard to increase exports to the EU, Fiji as a gateway to Australia and New Zealand, and Jamaica as a platform to increase US sales);
- seizing opportunities in other developing countries to leverage their cost-effective manufacturing capabilities (e.g., many Chinese companies invested in south-east Asia to absorb their excess production capacity, as do Latin American companies that invested in neighboring countries); and
• taking advantage of opportunities in unrelated but promising areas in high-income countries (e.g., 65% of Latin American investment in the US between 1980 and 1988 was in real estate, especially in Florida and New York).

In contrast to NIC MNEs, whose outward FDI was often designed as an export-production platform (Wells, 1983; Levy, 1988; Li, 1994), EM MNEs are less likely to seek cost minimization opportunities, given the fact that their home supply or manufacturing bases allow them to continually enjoy low-cost advantages through their vertically integrated global production systems.

EM MNEs may vary in the foci of the above incentives. Regarding asset-seeking, for instance, world-stage aspirants may place greater emphasis on the acquisition of technology, brands, and distribution networks to compensate for their capability voids and to satisfy geographically dispersed business needs, while transnational agents may have to meet home government requirements to seek natural resources to support national economic development. In contrast, niche entrepreneurs may be less motivated to seek global brands, research facilities, or distribution networks through aggressive mergers and acquisitions. Rather, they may be more interested in seeking other kinds of assets, such as management expertise and experience or product development unique to a target market, through strategic alliances. Commissioned specialists, on the other hand, may focus mainly on acquiring special resources in a particular country or region (e.g., China Minmetals' investment in the Channar Iron Mine in Australia). Concerning opportunity-seeking, niche entrepreneurs and commissioned specialists may focus on opportunities in much more limited foreign markets than world-stage aspirants and transnational agents. For instance, niche entrepreneurs from Russia are motivated by a desire to gain a foothold in the enlarged EU. Similar MNEs from other Central and Eastern Europe (CEE) countries seek market opportunities by focusing their investment on neighboring CEE countries. Moreover, while transnational agents and commissioned specialists try to escape from home governmental intervention, world-stage aspirants and niche entrepreneurs may seek better legal protection overseas over their property rights and business activities than they face at home. Figure 2 schematically highlights motivations and other elements in the springboard framework we present.

International springboard: strategies and activities

Although some notable exceptions exist, EM MNEs often undertake several strategies or activities associated with international springboarding. These include:

- cumulative benefits from inward investment before undertaking outward FDI;
- leapfrog trajectory; and
- coopetition with global players.

Cumulative benefits from inward FDI, ranging from import and export, OEM, ODM (original design manufacturing) or OBM (original brand manufacturing) to cooperative alliances and equity joint ventures, can stimulate EM MNEs' outward internationalization efforts. EM MNEs generally focus on advantages that can be acquired externally. They may use participation in global value chains and OEM arrangements to overcome problems of market intelligence and uncertainty regarding the quality of knowledge. They have also leveraged resources acquired through links established with incumbents or foreign partners. Through inward internationalization, local companies have accumulated considerable financial and operational assets, upgraded technological and process management skills, and developed unique capabilities and learning experiences (Young et al., 1996). Although indirect, inward internationalization has deepened emerging market businesses' understanding of international markets and helped them develop international experience. Guthrie (2005), for instance, documented that such inward partnerships with developed country MNEs, more so than with overseas Chinese MNEs, could be an effective means of transferring modern practices to mainland Chinese companies, thus strengthening their international competitiveness and outward expansion activities. More specifically, OEM, ODM or OBM arrangements offer local firms the advantages of preserving their own identity, achieving economies of scale, and gaining an international reputation for manufacturing excellence in their own right. Cooperative alliances and joint ventures, on the other hand, integrate local firms more closely into the internal network of their foreign partners. This can offer a highly effective mechanism for the transfer of tacit knowledge to local partners, not just in terms of production and distribution, but also in other areas where internationally competitive standards have to be achieved (Simonin, 2004; Child and Rodrigues,
Reasons encouraging them to spring
- Home government support for going global
- Willingness of global players to share or sell strategic resources
- Offshore availability of standardized technology
- Desire to hit the core and key international markets
- Entrepreneurial leadership

Springboard perspective
Systematically and recursively use international expansion as a springboard to:
- Compensate their competitive weaknesses
- Overcome their latecomer disadvantage
- Counter-attack global competitors
- Bypass stringent trade barriers into advanced markets
- Alleviate domestic institutional and market constraints
- Secure preferential treatments from home governments
- Exploit competitive advantage in other emerging and developing countries

Reasons impelling them to spring
- Their late mover position in international markets
- Strong foothold of global rivals in their backyard
- Fast change of technological and market landscape
- Shortened life cycle of industries and products
- Their deficiencies in core competencies and strategic assets

Motivations of EM MNEs
- Asset seeking
- Opportunity seeking

Unique activities
- Inward internationalization
- Risk-taking entry modes (acquisitions or greenfield)
- Path departure in location selection
- Radical in investment size and commitment

Unique challenges
- Poor corporate governance
- Post-spring integration and organization difficulties
- Lack of global experience, managerial competence and professional expertise
- Weak product/process innovation

Figure 2  International expansion of EM MNEs: a springboard perspective.

2005). For example, the joint venture between Mexican supermarket chain Grupo Gigante and French chain Carrefour enabled the former’s management to learn superior management experience from Carrefour’s management, which it leveraged to compete successfully with Wal-Mart in Mexico and subsequently expand its supermarket operations into the United States. Thus MNEs from advanced economies can provide multiple benefits to EM MNEs – they can serve as role models, transfer technology to local partners, and offer many opportunities for local firms to learn about international technology, practices and standards, which can in turn reduce these firms’ liability of foreignness when they eventually expand abroad. Moreover, when emerging market enterprises compete successfully against foreign MNEs in their home markets, they develop capabilities, experience and confidence that enable them to compete against the same MNEs abroad. This may help explain why emerging economies that have been successful in attracting inward FDI (e.g., China and India in Asia, Brazil and Chile in Latin America) have been able to quickly increase their outward FDI. Although further investigation is necessary before definite conclusions can be drawn, inward investment has apparently fostered or helped accelerate EM MNEs’ subsequent outward FDI. Although largely unarticulated in MNE theories, inward investment has helped indigenous companies accumulate general, though not host country-specific, international experience. Organizational
learning theory holds that this experience or knowledge cannot be easily acquired in open markets, and involves routinization and institutionalization (Levitt and March, 1988). Once this knowledge is acquired, the firm will increase its market and resource commitment to international markets (Pennings et al., 1994).

There are several leapfrog trajectories to mirror EM MNEs’ springboard behaviors in outward investment. First, they tend to internationalize very rapidly and not in an incremental fashion as predicted by conventional internationalization process theory (Johanson and Vahlne, 1977). A key notion in this theory is that a firm’s involvement in international markets occurs incrementally according to an establishment chain: from export to sales subsidiaries and eventually manufacturing facilities. This sequence of stages indicates an increasing commitment of resources to the market. As latecomers on the global stage, EM MNEs need to accelerate their pace of internationalization so as to catch up with that of incumbents. Although they vary in geographical diversification, many EM MNEs embark on a strategy whereby they will simultaneously pursue customers in many foreign markets, not just one at a time. Large EM MNEs rapidly expand internationally through high-risk, high-control entry modes such as acquisitions and greenfield investments. For instance, the number of international acquisitions by Chinese firms has been growing drastically in recent years. They were valued at $2.85 billion in 2003 and about $7 billion in 2004 (Child and Rodrigues, 2005). Acquisitions are used primarily to secure brands and technology quickly and pre-empt similar moves by competitors. Thus acquisition adds innovation, differentiation, and brand advantages to the existing cost advantage. This strategy of ‘buying-in’ established international reputations and global brands accelerates their market entry and the process of internationalization. For those EM MNEs that have already built product reputation and need organizational control over foreign production, greenfield investments are chosen too (e.g., Haier’s production plant in South Carolina and design center in Los Angeles). In the first nine months of 2004 alone, Brazilian MNEs invested in 36 greenfield FDI projects abroad (UNCTAD, 2004b: 5). Vertically integrated global production systems, including greenfield investment projects for certain value chain activities within the system, nourish the exploitation of these companies’ already established reputation and capacity.

A second leapfrog trajectory is that many EM MNEs tend to be radical in their choice of location (country). The conventional internationalization process logic suggests that firms enter new markets involving successively greater psychic distance, which is defined as differences in language, culture, political systems, and so forth. Hence firms start internationalization in those markets they can most easily understand, where it is easy to spot opportunities, and where perceived liabilities of foreignness are low (Johanson and Vahlne, 1977; Davidson, 1980). This is consistent with Rugman’s (2000) findings that regionalization, rather than globalization, can more accurately explain investments and trade patterns worldwide – for example, 60% or more US–Canada trade and investment can be explained for by regionalization. The same is true for the European Union and Japan. Many EM MNEs, particularly world-stage aspirants and transnational agents, however, do not seem to shy away from psychic distance. Very often, they first venture into advanced markets such as Europe and North America, normally viewed as highly psychically distant destinations from their home countries. Perhaps psychic distance or liability of foreignness may have been attenuated, in part, by the process of inward FDI discussed above. Capability deficiencies needed to run businesses in psychically distant locations and to overcome liabilities of foreignness are partly offset by:

- the availability of technology, key components, product development, and brands through direct purchase;
- the use of acquisitions to secure tacit knowledge and distinctive resources; and
- the reliance on host country experts to organize and manage sophisticated activities.

Accompanying these characteristics is EM MNEs’ (notably those from India, China, Mexico, and Turkey) lower dependence on ethnic ties and higher proactiveness in geographical diversification in comparison with the early stages of internationalization by MNEs from Singapore, Taiwan, and Hong Kong (Mathews, 2002; Yeung, 1994). With the exception of some niche entrepreneurs who prefer locations with strong ethnic networks, many EM MNEs may not be path dependent on ethnic ties. This does not mean that ethnic networks are no longer important to them; instead it means that, to become global players, they have to ‘springboard’ faster and be more aggressive in their attempt to leapfrog from their late entrant position.
If their global ethnic ties do not support their overall springboard strategies, they will not use these ties. Furthermore, differing from the conventional wisdom that suggests that geographical diversification is evolutionary, that is, beginning with a market the firm is most familiar, then gradually and progressively diversifying into less familiar markets, some EM MNEs do not necessarily follow this path and instead enter those markets where more opportunities abound for their products (e.g., China's TCL's first major outward investments were in Germany by acquiring Schneider Electronics and in France by acquiring the television arm of Thomson and the handset operations of Alcatel. These were then followed by investments in South-east Asia and Russia).

According to the internationalization process theory, when a firm expands abroad, learning is transmitted via institutionalized organizational practices, such as decision-making procedures and corporate policies, through which firms progressively acquire site-specific knowledge (Andersen, 1993). Davidson (1980) reported that less experienced firms often overstate risks and underestimate returns: consequently, they shy away from undertaking significant resource contributions and making stronger resource commitments to the host market. While the importance and progressive nature of learning still holds true for EM MNEs, their resource commitment, especially investment size, is not necessarily a function of time, experience or learning. Instead, their initial commitment tends to be large (owing to the use of acquisition or greenfield investment) and does not necessarily involve many small steps (owing to the strategic need to leapfrog from their latecomer position). Also, departing from the conventional wisdom of control, which suggests that required managerial control by the firm's senior expatriates must increase with resource commitment (Hennart, 1989) and with more risky entry mode (Hill et al., 1990), EM MNEs tend to use localized senior management team, rather than parent country nationals, that is, expatriates, to organize complex operations in advanced markets (e.g., both Lenovo and Haier's US headquarters are led by local CEOs). This may also be compounded by the fact that these expatriates are not well qualified or accepted in these developed markets.

Coopetition (simultaneous competition and cooperation) between EM MNEs and global players seems common in both home and host countries (Luo, 2004). Many EM MNEs have transformed their global rivals into alliance partners. While they still compete in certain products or geographic domains, they form alliances in other specific areas. For instance, Ranbaxy of India cooperates with GlaxoSmithKline (GSK) for drug discovery and clinical development collaboration in a wide range of therapeutics areas, with Merck for clinical trials, and with Terumo (Japan) for producing and marketing blood bags and dialysis systems. At the same time, Ranbaxy also competes with GSK in Europe, Merck in the US, and Terumo in Japan in other products or areas in which they operate alone. Mabe of Mexico has several joint venture agreements with GE in Mexico and Brazil to share key components, and yet it competes intensely with GE in North America, especially in the middle-end white goods consumer market. Such coopetition links with rivals, suppliers or distributors fit well with the yin-yang philosophy, which is deeply rooted in some emerging economy cultures (China and India, in particular, where Taoism or Hinduism is strong). This philosophy synthesizes the yin side (e.g., soft and collaboration) with the yang side (e.g., hard and competition) and views the two sides as mutually complementary. Coopetition goes beyond the old rules of competition and cooperation to combine the advantages of both. It develops win–win scenarios in which a business strives to gain more, not necessarily by taking market share from a contender in every area, but by creating a bigger pie in some complementary areas to benefit both (Brandenburger and Nalebuff, 1996). EM MNEs work with some global rivals, suppliers or distributors to collectively enhance performance by sharing complementary resources and committing to common task goals in some areas of common interest (e.g., improving industry standards, basic research, common supplies, and consumer awareness) while they compete by taking independent action in other areas to improve their own performance (e.g., product quality, market share, sales growth, and cost-effectiveness).

**International springboard: external and internal forces**

Springboard behaviors of EM MNEs are fostered or propelled by several critical forces, including:

- home government support for going global;
- willingness of global players to share or sell strategic resources and offshore availability of standardized technology;
• corporate entrepreneurship and strong motivation to enter key foreign markets;
• increasing competitive pressure from global rivals; and
• quick changes in technological and market landscapes and a heightened borderless world economy.

The growth of outward FDI from emerging economies is facilitated by the liberalization of government policies and the relaxation of regulations on offshore investment. For instance, since the late 1990s, foreign exchange control limits on outward FDI and restrictions on foreign dividend repatriation have been removed in most emerging economies. In India, for example, improvements in the regulatory framework have played an important role in the increase in Indian investment abroad. Since 2000, Indian companies have been able to make overseas investments by market purchases of foreign exchange without prior approval of the Reserve Bank of India; they are allowed to be funded up to 100% by American Depository Receipt; investments in joint ventures or wholly owned subsidiaries abroad by way of share swaps are permitted; and overseas investments are now open to registered partnership firms and companies that provide professional services (UNCTAD, 2004a, 2004c). Similarly, in 1999 the Chinese government launched its ‘Go Global’ policy, encouraging high-performing Chinese firms to invest abroad to further enhance their competitiveness. The Chinese government sponsors overseas expansion through the provision of low-interest loans to fund the purchase of foreign companies from sources it controls such as state banks. Thus there are two push and pull elements of the institutional environment that prompt EM MNEs to expand globally: one involves more institutionally embedded constraints such as limited property rights protection, weak judicial and legal systems, and unexpected changes to regulatory policies. Firms attempt to avoid these constraints by investing abroad. At the same time, the institutional environment involves less institutionally embedded but favorably evolving government policies that encourage local firms to expand. Under the second condition, government officials and corporate executives view international expansion as a strategic choice, a phenomenon of co-evolution (Lewin et al., 1999).

Furthermore, the willingness of advanced market MNEs to sell or share their strategic business units (SBUs), technology, brands or other assets makes it possible for the sharp increase in international acquisitions by EM MNEs. To advanced market MNEs, selling off some of their SBUs (including R&D workforce and facility) and/or brands helps them to:
• cash in on slow-growing businesses at the best time;
• improve competence-portfolio fit;
• allocate and exploit resources more productively; and
• improve financial position and share price.

To EM MNEs, this provides a faster alternative to consummate their resource portfolio. Acquired strategic assets such as technology, brands, and access to the global consumer base generally complement mass-manufacturing cost advantages, resulting in possible synergies for EM MNEs. Cooperation via joint ventures or strategic alliances between EM MNEs and advanced market and NIC MNEs during inward investment foster cooperation between them when they themselves venture abroad. Many advanced market MNEs are also willing to enter into various modes of collaboration with EM MNEs in the forms of joint research, production and marketing. India’s Ranbaxy, for instance, is able to access the US market through its US-based marketing alliances with Eli Lilly and Dade, largely because they have cooperated successfully in India for many years. In addition, EM MNEs’ international springboard activities have been facilitated by the global open market for key components and technologies. This availability has reduced the burden for EM MNEs to invest heavily in R&D to enable them to mass-manufacture with standardized technology and thus offset their technological weaknesses. Austin-based Silicon Laboratories, for example, supplies semiconductor chips for cellular phones and computer modems to several large EM MNEs (e.g., China’s TCL and Lenovo and Brazil’s Embratel Participacoes). In the PC market, the latest technologies developed in Silicon Valley now arrive in China within months. This, for instance, allows Dongguan, a small city in the Guangdong province with the world’s highest concentration of component manufacturers, to provide Chinese PC markets with a ready supply of world-class technology. Since well-established open global markets in applied technology, advanced machinery and equipments, latest instruments, and sophisticated materials and components were not present in the early years’ expansion of advanced market MNEs and NIC MNEs, these
Entrepreneurial leadership is also an important driving force behind springboard activities. For both state-owned and non-state-owned enterprises, the interaction between institutional legacies of emerging economies and dynamic capabilities of their corporate entrepreneurs is crucial for understanding their internationalization strategies (Child and Rodrigues, 2005). Unlike their counterparts in advanced market or NIC MNEs, corporate executives in EM MNEs have to skillfully maneuver their strategic choice within their domestic institutional context. They need to find ways of co-opting political support that has given them the freedom and endorsement to pursue international expansion strategies of their own choosing. EM MNEs that are proactive in international markets are often led by corporate executives who have sharp vision and have adopted pragmatic measures to tap into foreign markets that provide resource-seeking or market-seeking opportunities (Andreff, 2002; Tsang 2002). A cursory review of the examples at some leading EM MNEs, such as China's Lenovo and Haier, and India's Tata and Wipro Technologies, reveal just that: their corporate leaders have a strong appreciation of the core of global competition – serve worldwide customers, including those in advanced markets, quicker, better and more cheaply. To achieve this goal, springboard activities have become essential to mitigate their latecomer or newcomer status in international markets. Related to this, organizational innovation and corporate entrepreneurship (venting and strategic renewal are the two key elements) also facilitate EM MNEs' springboard activities. As latecomers, these firms have to find innovative ways to create space for themselves in markets already saturated with very capable firms. They have to seek new ways to learn from their previous experience in OEM and alliances, acquire strategic assets from these precedents, and maintain competitive networks with global players. Through these compensatory strategies, or through their capacity to leverage resources from the strengths of others, some EM MNEs are able to grow very rapidly. These compensatory strategies, designed to primarily enhance a firm's critical resources rather than to exploit existing assets, represent a significant organizational innovation and a departure from the conventional theory of MNEs.

Springboard behaviors in outward FDI are also propelled by fierce competition facing EM MNEs in their home markets, especially with powerful global rivals from advanced markets and NICs. Put another way, they are somehow 'pushed' out by the latter, who have already established strong presence, market share, competitive position and brand recognition in emerging markets. Many MNEs from advanced economies and NICs see their large-scale operations in emerging markets as key to their overall corporate success and global market leadership. They have clear advantages in technological capabilities (technology, know-how and innovation) and operational capabilities (branding, finance, information technology, and value chain integration). With greater accessibility and an increase in sophisticated consumption and brand awareness, many foreign MNEs have built their competitive advantages and secured more market share in emerging markets. Global players are extremely large scale, with emerging market operations accounting for a considerable portion of corporate sales or capital investment. To maintain and develop this position, they aggressively expand their scale and scope by investing parent capital in new projects and/or reinvesting accumulated retained earnings in existing or other new projects. For example, Motorola has plans to increase investment, revenue and procurement in China by $10 billion in each category over the next five years (Farrell et al., 2004). These powerful players have evolved into strategic or dominant players by shifting strategic goals from merely establishing a local presence and learning about emerging markets to securing dominant market share and achieving sustained high returns. They have built new competences necessary in emerging markets, diversified lines of products suitable to multi-tier consumers, participated in extended value chain activities, and emphasized massive localization and adaptations (Perez et al., 1995). As a result, many local companies that used to dominate in certain industries at home now find themselves in an increasingly disadvantageous position to compete with global players for high-end and mid-end products in their own backyard, thus compelling them to consider international diversification.

Lastly, quick changes in the technological and market landscapes and heightened integration of the global economy have propelled EM MNEs to enter onto the world stage. Compared with the technological and market conditions that faced advanced market and NIC MNEs before the 1990s, the fundamental nature of competition facing EM MNEs has changed and is now characterized by
rapid technological changes, shortened product life cycle, rapid technology diffusions, increasing importance of knowledge, and dramatic changes in information and communication technologies. Meanwhile, the global economy has also been changing, with goods, services, people, and ideas moving more freely across geographic boundaries, new opportunities emerging in multiple global markets, and markets and industries becoming more integrated and internationalized. Under this new calculus of global competition, speed, innovation, and flexibility have become the new keys to success. International springboarding can thus be viewed as a strategic response to new landscapes in both competition and globalization.

International springboard: challenges and remedies

While international springboarding presents many opportunities, it also involves many risks. While all multinationals have to contend with risks, based on the aforementioned discussions, we see that EM MNEs are confronted with some unique problems or challenges. A detailed analysis of these challenges and proposed remedies for these problems is beyond the scope of this article. However, several major handicaps deserve mention here.

First, owing to underdeveloped stock markets at home, corporate accountability, and lack of transparency stemming from their ties with their host government, corporate governance of EM MNEs is generally weak. These limitations, in turn, tarnish organizational reputation and hinder shareholder confidence and relationship building with global stakeholders (including those with foreign country legislators and regulators). Although corporate governance varies in different emerging economies (e.g., corporate governance in Russia and China is much more distant from the Anglo-Saxon governance system than is the case in India, Brazil, and Mexico), relationship-based governance mechanisms are widely used in emerging economies. In this environment, foreign stakeholders may perceive the behaviors of board members and executives of EM MNEs as less accountable, transparent, and trustworthy. In particular, some state-owned EM MNEs, such as transnational agents and commissioned specialists, may be regarded as even more worrisome in terms of corporate governance and accountability. When global stakeholders harbor stereotypes about poor governance of firms in emerging markets, even some well-governed EM MNEs could fall victim to such negative images.

Regardless of whether a foreign subsidiary has its own board of directors, the poor corporate governance at the parent headquarters level might still obstruct the subsidiary-level managerial governance so much that frontline foreign units’ morale and conduct may deteriorate and their internal control and strategy implementation may be thwarted. For most EM MNEs, their global success hinges upon frontline units’ initiatives, commitment, and performance. To help improve internal transparency, decision effectiveness, and corporate image, EM MNEs may place top executives (e.g., CEOs) of key frontline units on the parent firm’s board or supervisory committee. While they cannot markedly change the poor image of the distorted stock market at home, EM MNEs must improve their own transparency in corporate undertakings, in response to the global stakeholders that they serve. Accountability is essentially a matter of disclosure (financial disclosure and non-financial disclosure), transparency and explanation of corporate policies, investment decisions, and strategic actions to those to whom the company is beholden. While it will remain a daunting challenge for long to improve their poor image in accountability and governance, EM MNEs may consider spin-off to separate their prime frontline units from their parent organizations and arrange these key units listed on advance market stock exchanges. Having well-known international accounting firms, rather than home country ones, as outside auditing agencies may also help improve EM MNEs’ financial accountability. Superior accountability can help these firms to receive a better rating or evaluation by market intermediaries who globally disseminate this information to the market, thus improving their trustworthiness, credibility, and reputation. Resource-based theory suggests that trustworthiness, as perceived by market intermediaries, is a critical source of competitive advantage, and is especially important for firms from economies with strong government intervention, where the line between public and private is often blurred (Barney and Hansen, 1994).

A second challenge pertains to post-springboard, post-acquisition difficulties. These can range from building effective working relationships with host country stakeholders, reconciling disparate national- and corporate-level cultures, organizing globally dispersed complex activities, to integrating home and host country operations. While some of these difficulties are common to all MNEs, rapid and radical leaps into highly developed markets
often exacerbate the difficulties for those EM MNEs that lack international experience and organizational expertise in handling these issues. Although they can hire local talent to manage routine operations in the host country, many of these post-springboard activities bear upon the head office operations of EM MNE's and their peer units in other countries. To deal with these issues, rich knowledge in global planning and execution is required. Many Japanese and Korean MNEs that expanded abroad in the 1980s and 1990s had to pay dearly for mistakes in this regard. These painful lessons have led them to revise their strategy to one of gradual international expansion and conservative acquisition (Li, 1994; Chang, 1995). According to the dynamic capability theory, a firm's ability to deploy, transfer, and manage geographically dispersed critical resources, especially in risk-taking and radical investments, is a necessary condition for sustained success in global competition (Teece et al., 1997). To overcome post-springboard and post-acquisition challenges, EM MNEs have to plan ahead the global resource-flow and product-flow systems before embarking on such aggressive expansions abroad, including the creation of a special office or task force responsible for post-springboard integration and coordination, the motivation of key country managers to make decisions consistent with the parent firm's global interests, and the creation of effective global wheels (e.g., information flow and reporting systems) to streamline intra-corporate sharing and support. In many ways, these suggestions are consistent with the literature on post-mergers and acquisitions, even within a domestic context.

Furthermore, lack of global experience, managerial competence, and professional expertise has posed critical bottlenecks for many EM MNEs. While 'objective' knowledge (e.g., product development) can be taught or acquired in international expansion, 'experiential' knowledge, such as host-market-specific experience, is typically implicit and tacit and therefore can be secured only through experience, that is, learn by doing (Davidson, 1980; Barkema and Vermeulen, 1998). As stated in organizational learning theory (Levitt and March, 1988), institutionalization of learning takes place through organizational codes, procedures, and routines into which inferences about past successes and failures are embedded. Although inward investment has helped EM MNEs to acquire some familiarity with global products and foreign companies, international leapfrog approaches often skip over some necessary steps of experiential learning, such as how to deal directly and effectively with foreign consumers, regulators, legislators, courts, unions, employees, financial institutions, and the like. Thus inward investment alone is inadequate of curtailing an EM MNE's liability of foreignness, particularly in advanced markets. Since many EM MNEs do not have sufficient experience in structuring, organizing, and managing large-scale and sophisticated worldwide operations, they are more likely to encounter friction with external business stakeholders. They may also face conflicts in managerial philosophies, corporate culture, incentive schemes, leadership styles, and formalized managerial procedures with local executives at foreign subunits. Furthermore, most EM MNEs lack sufficient professional knowledge in international accounting, taxation, branding, auditing, finance, transfer pricing, cash flow and risk management, as well as in the host country's business law, judicial system, and commercial arbitration. Although they can hire and rely on indigenous talent to handle such functions overseas, many of these activities have to be performed interactively between foreign subunits and the corporate head office in the emerging market, thus involving tremendous planning, coordination, control, and support by the home office. To mitigate these challenges, EM MNEs may continue to hire local talent to fill the void in professional knowledge, and consider joint training programs with leading accounting and law firms or other professional service providers, as well as customized executive programs at major universities overseas. Rotation of senior executives along regional, divisional, and functional lines might also be a useful tool to facilitate knowledge acquisition and accumulation and experience development. When acquisitions are contemplated, it is important to evaluate the foreign target firm's 'human capital', especially managerial and professional expertise. While such human capital, if acquired, can significantly redress an EM MNE's organizational weakness, it could at the same time pose tremendous challenges to the acquiring company (Tung, 1988, 1994).

Last, but not least, weaker product innovation and process innovation compared with advanced market and NIC MNEs can continue to handicap EM MNEs' success in global competition. International acquisition can be useful in helping a firm acquire a target company's knowledge and expertise; nonetheless, no company can survive in the
long run by merely relying on external acquisitions for knowledge development. In the final analysis, it is the acquiring firm's capability to research, develop and design as well as to combine, integrate and reconfigure externally acquired competences with its existing knowledge base that ultimately determines the sustainability of global competitive advantages (Kogut and Zander, 1992). The success of some NIC MNEs, such as Samsung, illustrates the importance of internal development. Samsung Electronics reportedly deploys 34% of its total workforce in R&D. At the center of its global success is its design competitiveness, and at the center of its design competitiveness are its design capabilities and design bank. According to the option theory, international expansion can be regarded as an option window that permits MNEs to gain tacit knowledge and explore emerging opportunities. Once the initial experience is achieved, the new option calls for further investment and commitment. To do so, it requires strong capabilities, and a knowledge base from the firm can make these advancements (Kogut, 1994). To improve their weaker position in innovation, EM MNEs may hire the world's top design firms or experts to teach their designers and engineers the skills and values of innovation that can be learned. They may also send designers and engineers overseas to work in Western design studios or R&D centers. Innovation goes beyond the product itself, and extends to process innovation (particularly the interplay between consumer needs and product attributes) and managerial innovation (especially the mindset to encourage R&D employees to share ideas and challenge their superiors).

**Overview of the focused issue**

This focused issue was developed with the objective of shedding light on the growing phenomenon of outward FDI from emerging markets. 'The rise of transnational companies from developing economies is part of a profound shift in the world economy today' (UNCTAD, 2005). Undoubtedly, it is imperative that we, as scholars of international business, seek to understand the motivations, dynamics, processes, and challenges associated with this new development.

We would like to thank all the authors who have responded to the 'call for submissions' for this focused issue. The response was quite overwhelming, illustrating that many international business scholars and researchers are already studying this phenomenon. We would also like to thank all the reviewers for their careful and thorough evaluation of all the submissions to guide us in the selection of papers most suitable for the focused issue and, more importantly, provide invaluable feedback to the authors to strengthen the papers accepted for inclusion.

Collectively, the five papers selected for inclusion in the focused issue delve into various theories, motivations, behaviors, and activities associated with international expansion of EM MNEs. The first paper, by Buckley, Clegg, Cross, Voss, and Liu, examines the determinants of outward FDI from China and represents the first systematic and empirical attempt to refine existing theories of FDI to more adequately capture the dynamics associated with EM MNEs. Their finding, based on an analysis of secondary data from China between 1984 and 2001, shows some unique trajectory and investment behavior of Chinese MNEs, and hence illustrates the importance of developing a more suitable theoretical perspective for these firms. The second paper, by Yiu, Lau and Bruton, analyzes the primary data containing 274 Chinese firms pertaining to home country networks and firm capabilities. Their framework and evidence advances our understanding of international venturing activities by emerging market enterprises. The third paper, by Elango and Pattnaik, sheds further light on the significant role of networks in international expansion through a study of 794 Indian firms. The fourth paper, by Filatotchev, Strange, Piesse and Lien, through an analysis of 122 Taiwanese companies with investments in China's mainland, investigates the role of corporate governance in choice of entry mode and location. Although Taiwan is already a newly industrialized economy, investment strategies by Taiwanese MNEs may offer some lessons on how EM MNEs, as they mature, will succeed in operating in neighboring economies with which they have strong economic, historical and cultural ties. To reflect the practical significance of the theme, this focused issue ends with an executive's note by Mr Chuanzhi Liu, co-founder of Lenovo, based on his keynote speech upon acceptance of the 2006 AIB Distinguished Executive of the Year Award. In this note he traces the reasons behind Lenovo's global expansion, the challenges associated with its acquisition of IBM's PC division, and the solutions that overcome these challenges (including those identified in this paper). The Lenovo case provides an illustrative example of some springboarding strategies discussed in this paper, including the desire to 'buy into' established global brands.
Together, the six papers in the focused issue highlight the unique challenges and opportunities for future research on EM MNEs and their outward FDI. Challenges arise because existing theories and concepts previously developed to explain advanced market MNEs can be insufficient for explaining some unique motives, processes, and behaviors associated with EM MNEs. Opportunities exist, at the same time, because a more thorough understanding of the special circumstances that surround this new breed of MNEs can help not only develop existing MNE theories further along or make them more complete but also engender some practical guidance or managerial implications from which international executives from emerging economies may benefit. To this end, we hope that international business scholars will derive some insights and inspirations from reading the papers in the focused issue and use them as a 'springboard' to develop new theories and research agenda that will further advance our collective wisdom and knowledge on constantly emerged international business phenomenon in the twenty-first century.

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