Process Perspectives on the Growth of Emerging Economy Multinationals

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1. Introduction

Recent studies of emerging economy (EE) multinational enterprises (MNEs) have shed new light how origins and historical contexts shape the strategies and growth paths of MNEs (Cuervo-Cazurra, 2012; Meyer & Thaijongrak, 2013; Ramamurti 2012; Verbeke and Kano, 2012). While we may not need new theories to explain EE MNEs, they direct our attention on aspects of MNEs that may also exist elsewhere, yet were not considered typical, and thus received limited attention in the scholarly literature. Moreover, this research has highlighted the inherently static nature of mainstream theories, which thus contribute little to explaining the evolution of MNEs over time, or the difference between mature and inexperience MNEs, such as EE MNEs. Therefore, in this chapter, I review the prime dynamic model in the IB field, the internationalization process model (IPM), and discuss how it can contribute to advancing our theoretical understanding of EE MNEs (and thence MNEs in general).

The IPM analyzes a firm's international business as a series of commitment decisions, driven by learning processes leading to a path a gradually changing (usually increasing) resource commitments. Specifically, the model explains the step-wise increases of commitments to foreign operations as a function of knowledge accumulated through learning processes enabled by earlier commitments (Johanson & Vahlne, 1977; 2006; 2009). It provides a powerful foundation for research explaining the growth of MNEs over time, which is highly relevant to EE MNEs. Mainstream theorizing on MNEs has primarily focused on mature MNEs as they are common in Anglo-American economies, while small or early stage MNEs are relegated to specialist subfields, such as international new ventures (Oviatt & McDougall, 2004). However, smaller firms engaging in international business are commonplace in other parts of the world, e.g. in Northern Europe, where many scholars have investigated how firms start and grow their international business (Anderson 1997; Benito, Pedersen & Welch, 2009; Forsgren, 2002; Meyer & Gelbuda, 2006).

These small and early stage MNEs have been the primary focus of process oriented international business research. However, the IPM is also highly relevant for EE MNEs because although they are often quite big in terms of sales or employees due to the vast scale of their domestic operations, they are internationally still relatively inexperienced. Hence, with respect to building international business capabilities, they often are still at early stages.

The recent literature on EE MNEs has developed several lines of theoretical insights that I consider quite innovative. These are respectively (a) 'strategic asset seeking' as motive for EE MNEs (e.g. Luo & Tung, 2007, Deng, 2009, Rui & Yip, 2008), (b) the local partner perspective on the choice of organizational firms (Hennart, 2009; 2012; this book), and (c) home country institutions as a driver and constraint of EE MNEs (Buckley et al., 2007, Morck et al., 2008, Wang et al., 2012). In this chapter, I will argue that these perspectives are complementary to the internationalization process perspective. Specifically, the IPM provides avenues to both add a dynamic perspective to several theories, and to explain why the above mentioned theoretical perspectives may be more relevant for EE MNEs than for mature MNEs.

I start by providing some data illustrating the recent, rapid emergence of MNEs from several countries to illustrate the point that most EE MNEs are still relatively immature in terms of international business experience. In section 3, I outline why I consider the IPM developed and advocated by Johansen and Vahlne (1977, 2006, 2009) to be a useful theoretical foundation for research on EE MNEs. To this end I summarize my assessment of the current stage of research on the internationalization process model, drawing on Meyer and Thaijongrak (2013). In section 4, I outline how the internationalization process model can inform future research along the three lines of theorizing named above. Section 5 concludes.

2. Trends of FDI from EE

Before engaging in the theoretical discourse, let us look at the empirical phenomenon we are trying to explain. Over the past four decades, the dominance of MNEs from a handful of industrialized economies has gradually diminished. For example, the share of the USA in global FDI outflows declined from 54% in 1970 to 23% in the 2011, while the British share declined from 12% in 1970 to 3% in 2010 recovering to 6% in 2011. In their place, MNEs from a wider range of countries have become players on the global stage.

Using data from the UNCTAD database, Figure 1 shows FDI flows in absolute terms (not inflation adjusted) in US$ from ten selected emerging economies since 1997; while in Figure 2 plots the percentage contributions from the same ten countries to worldwide FDI outflows from 1970 to 2011.

**** Figure 1 and 2: EE MNEs FDI trends ****

Two of these countries, namely South Africa and Brazil, had a small but non-negligible presence in worldwide FDI flows since the 1970s (Figure 2), with the largest share in global flows dating back to respectively 1980 for Brazil (1.5%) and 1982 for South Africa (1.4%). In the recent surge of FDI from EE both countries however played only a small part; in fact both countries recorded *negative* FDI outflows in certain years. For example, South Africa had a net withdrawal of over US$ 3 billion in the year 2008 US$, presumably attributable to major MNEs relocating their registration out of South Africa, for example to London (which results as them being considered as British MNEs in the balance of payments statistics that are the basis for these data).

The other countries in this selection of emerging economies generated very little outward FDI until about 2005. In the middle of the decade, however, Chinese and Russian MNEs in particular emerged as substantive players as their share in global FDI flows grew to respectively 4.7% and 3.6% in the year 2010, before falling slightly back in 2011 (Figure 2). In addition, several other EEs have increased their FDI outflows, including India, Indonesia, Thailand and Malaysia in Asia, and Mexico and Chile in Latin America.[1] However, none of these countries exceeded 1% of global FDI flows in any single year.

Two empirical observations I would like to emphasize because they shape the research questions we would want to ask with respect to EE MNEs. First, the recent push by MNEs onto the global stage from eight of the ten selected countries is the extension of a longer trend where MNEs from a more and more diverse range of countries of origin are investing around the world. Hence, models based solely of Anglo-American experiences lose their ability to explain the world economy. Second, with exceptions, notably in Brazil and South Africa, MNEs from EEs are still relatively recent entrants to the global economy, and they are expanding without the rich international business experience that their counterparts in industrialized economies can draw upon. This relative lack of international experience by (most) EE MNEs and its theoretical implications are the main focus of this paper.

3. The Internationalization Process Model as a Theoretical Lens

The internationalization process model places each foreign investment decision in the context of the investing firm's own history, notably its prior to a particular investment. In other words, internationalization is conceptualized as a process of learning by which firms build international business competences that enable them to profitably operate abroad (Li, 2010; Mathews, 2006). Many EE MNEs are still at early stages of this process, hence the creation of competence building opportunities plays a central role in their strategy.

Johansen and Vahlne (1977; 2006; 2009) explain the dynamics of such processes as the interaction between state variables (such as capabilities of a firm at a particular point in time), and change variables (such as the learning that takes place over time, and commitment decisions taken at irregular intervals). This model is theoretically concise, but perhaps not so intuitive. In particular, the original illustration does not bring out very well the dynamic and cumulative nature of this process over time. Therefore, I prefer to depict the process in terms of the changes over time, which occurs in a discontinuous

[1] Note that the data do not include Hong Kong, which reported substantial FDI inflows and outflows over the past decade. However, as a high, yet unknown, share of the FDI is entering China indirectly, or round-

pattern (Figure 2). Such a representation of the model helps both to introduce the model to students (as in our textbook, Peng & Meyer, 2009) and to illustrate modifications of the model in recent research contributions (as in a special issue introduction, Meyer & Gelbuda, 2006). The inner logic of the model in Figure 3 is the same as in Johansen and Vahlne's model. However, I view the essence of the IPM in the dynamics of increasing resource commitments over time, and therefore prefer this time-line representation.

*** *Figure 3 (The internationalization process Model)* ***

The critical points in the IPM are the changes in commitment at irregular intervals. Normally, these changes represent an increase of commitment, though sometimes MNEs also decrease their commitment to a particular market, though this is mostly the exception from the rule (Benito 2005; Santangelo & Meyer, 2011). These changes in commitment levels go hand-in-hand with processes of learning, knowledge accumulation, and capability building: Each resource commitment enables new learning processes.

The learning enhances a firm's international business knowledge, which is the foundation for a wide range of capabilities that enable doing business outside one's own country. It includes for example knowledge of practices used in international markets, knowledge of relevant languages, and knowledge of formal and informal institutions governing the markets in which a firm is operating. Such knowledge facilitates key business challenges such as the recognition of business opportunities, and the assessment of risk, while reducing the marginal costs of further expansion moves.

Table 1 illustrates some types international business knowledge that are often underestimated by inexperienced businesses. In particular, knowledge that firms fail to recognize as being important – also known as "unknown unknowns" – is often not acquired and hence leads business failures. One way of identifying such knowledge is to consider the mistakes that Western firms did in China, and on that basis to speculate as to the problems that Chinese MNEs may run into in a Western country. For example, with respect to institutional actors, Westerners in China struggle to understand how to interact with key players such as the party or local government officials. On the other hand, Chinese companies in Europe or the US struggle to appreciate how to interact with the

tripping investment from China, Hong Kong FDI data are very difficult to interpret.

media and with trade unions. A dictionary will provide simple translations, and there are political parties, local governments, media and trade unions in (most) countries. Yet, the roles that they play, the ways they influence the business environment, and how foreign investors can interact with them are fundamentally different, and require a lot of tacit knowledge that only individuals and firm experienced in international business will fully appreciate. Similarly, understanding the legal framework, consumer behavior or employee motivations requires deep local knowledge (Table 1).

**** Table 1 here ****

These examples illustrate knowledge that is specific to particular countries or societies, and is grounded in 'location-bound' experience. Other international business capabilities are of a more general nature, and relevant in different geographies and hence not location bound (Clarke, Tamaschke & Liesch, 2013). Knowledge creation processes therefore take place both at the global level with respect to general international business competences, and at a location-specific level with respect to competences for specific locations or markets. These processes at multiple levels likely re-enforce each other.

The tacit nature of this international business knowledge implies that it is created by the key protagonists in a firm through personal experiences, and may be shared through interpersonal interactions. Johanson and Vahlne (1977) originally focused on internal experiential learning as the main process by which firms build international business competences. Other scholars have shown that the internationalization process of a firm is highly interdependent with the internationalization of it business network, especially for smaller firms (Chetty & Blankenburg-Holm, 2000; Coviello, 2006; Meyer & Skak, 2002). To some extent, such networks enable the sharing of tacit knowledge beyond organizational boundaries (Forsgren, 2002). Thus, in particular studies of smaller firms in emerging economies expanding internationally have found that home-country based networks play an important facilitating role in the process of setting up operations abroad (e.g. Prashantham & Dhanaraj, 2011; Zhou, Barnes & Lu, 2010).

Recent studies in the tradition of the IPM have explored a broader range of processes through which firms accumulate international business knowledge. First, firms may build an entrepreneurial team that has international experience, thus acquiring knowledge through managerial recruitment. A consistent finding across the burgeoning literature on international new ventures – or born globals – is that they typically start with an entrepreneurial team with high prior international experience (e.g. Oviatt & McDougall, 1997; Rialp, Rialp & Knight, 2005; Meyer & Xia, 2012). Extending this line of thought, several studies found that returnees play an important role in the creation of entrepreneurial businesses in emerging economies, and internationally oriented start-ups in particular (Filatotchev, Liu, Buck & Wright, 2009, Wang, Zweig & Lin, 2011). More mature firms may 'push' internationalization by externally recruiting key individuals, though they may face challenges integrating newly recruited senior executives with the existing team, which could be a problem if the existing team has cognitive horizon limited to the local context. However, the internationalization of the top management team is an important process that facilitates firm internationalization, and a major challenge for many EE MNEs.

Second, firms can learn how to engage in international business before they formally step outside their own country by working with foreign individuals or businesses that do international business in their country. Before EE firms launch their international activities, they go through a process of technological catch-up with foreign investors (e.g. Kumraswamy, et al., 2012). This domestic catch-up usually precedes internationalization, and may well be conceptualized as an early stage of it. In this process, the formation of joint ventures with foreign partners appears to be an important channel not only for learning of modern technologies, but about practices in international business, which in turn facilitates a firm's initial own steps abroad. This inward-outward linkage appears to have played an important role for many Chinese MNEs (Buck, Liu, Wei & Liu, 2009).

Third, firms like individuals can learn by imitating others (De Clercq, Sapienza, Yavuz, & Zhou, 2012). Imitation enables firms to engage in strategies the consequences of which they do not yet fully understand and a form of low risk strategy if their performance is assessed relative to these other firms. Imitating action of competitors thus not only reduces uncertainty but can accelerate learning processes about international business. However, imitation strategies also entail the risk of jumping onto a bubble that eventually will burst.

Fourth, firms may learn through collaborating with partners abroad. Such collaboration can take many forms. For example, a small firm may partner with a major multinational by joining its international supply chain; it may draw upon internationally-experienced consultants or private equity investors, or it may cooperate with a local firm in the host country (Forsgren, 2002, Li & Meyer, 2009, Prashantham & Birkinshaw, 2008).

These processes of external knowledge accumulation supplement the original IPM, which was mainly focused on internal processes. The range of mechanisms by which organizations learn is very wide, and go beyond the experiential learning processes in the original model. Research on EE MNEs provides new opportunities to study different means by which organizations learn, and to enhance our understanding of how firms accumulate international business knowledge.

4. Integrating process perspectives with other lines of theorizing

The process-oriented insights of the IPM complement other theoretical perspectives that have evolved to explain distinct features of EE MNEs. These are (a) 'strategic asset seeking' as motive for EE MNEs, (b) the local partner perspective on the choice of organizational firms, and (c) home country institutions as a driver and constraint of EE MNEs. In this section, I briefly outline how the IPM may complement the three lines of theoretical thought, and how it may inform relevant new research questions (Table 2). This integration highlights the critical role of the concept of experience, which may affect pivotal strategic decisions in more complex, possibly non-linear, ways than is usually hypothesized in the literature.

**** Table 2 here ****

4.1. Strategic asset seeking FDI

Some EE MNEs use foreign direct investment (FDI) to acquire strategic assets, that is target firms that have capabilities, e.g. technologies, that the acquirer intends to use not only in the host country, but in its global operations. This phenomenon challenges the view that FDI primarily aims to exploit firm-specific advantages (FSAs) as apparently in such cases the investor has no internationally exploitable FSAs (Rugman, 2009; Rugman & Nguyen, this book). This phenomenon has been observed before (Kogut & Chang, 1991), but only with the recent surge of EE MNEs did it gain substantive attention in the scholarly literature.

The acquisition of strategic assets is a form of external knowledge accumulation outside the scope of the original IPM. It appears to be common among EE MNEs that acquire target firms in Europe or North America that embody a substantially higher level of technology of brands then they themselves (Cui, Meyer & Hu, 2013; Deng. 2009; Li, Li & Shapiro, 2012; Knoerich, 2010; Luo & Tung, 2007). I believe we can extend the IPM to include strategic asset seeking FDI as a mechanism through which firms build their knowledge base, and thus enhance their international business capabilities.

However, this extension requires rethinking the mechanisms of knowledge accumulation and the possible sequences of different types of resource commitments. First, the implementation of an acquisition requires high level managerial resources, both in the acquisition process itself, and in the subsequent management and integration of the acquired unit (Cui et al., 2013). Even if the unit is managed “at arms’ length”, as appears to be common for Chinese acquisitions in Europe, the top management of the acquirer has to engage in complex intercultural leadership and negotiation challeges for which a previously mainly domestic firm is normally not well prepared. For this reason, it is somewhat surprising from the perspective of the IPM that firms with limited international business experience engage in major acquisitions. Several possible answers can be hypothesized:

- the acquiring firms may have access to relevant managerial competences from somewhere else, perhaps because they share such expertise within business groups or home country communities,
- they may have a low risk aversion and thus are consciously taking high risks in the pursuit of long term objectives, perhaps because they benefit from an implicit guarantee from a state owner,
- they may be subject to agency conflicts that allow managers to pursue their own objectives in terms of prestigious high profile deals, perhaps because systems of corporate governance offer outside shareholders only weak protection.

Either way, the IPM suggests that we are facing an empirical puzzle that merits further investigation as investment decisions are influenced by mechanisms that we do not yet understand well. Moreover, it raises interesting questions regarding the long-term implications of such ‘big jump’ commitments that occur when previously internationally inexperienced EE MNEs make large scale investments abroad.

Second, talking to executives and reading case studies, I note that many corporate decision makers design their strategic asset seeking deals as partial rather than full acquisition because they expect a better learning experience (see Meyer & Thaijongrak, 2013 for an example). In other words, they acquire a controlling stake in another company but not taking full equity even though they have the necessary financial resources and the seller is willing to sell the entire firm. Such partial acquisitions create particular complex managerial challenges because any major organizational change would have to be agreed with the co-owners (Meyer & Tran, 2006). It is, however, not clear to me theoretically why such an arrangement would enhance learning processes, and under which circumstances such learning benefits outweigh the downside of having to manage an acquired firm with limited control over that entity. There is certainly scope for further theoretical development here.

Third, I am very intrigued by the fact that large Chinese companies buy small German companies with the aim of acquiring their advanced technology, and then to transfer this technology backward to improve the productivity of operations in China (For case examples see e.g. Sohm, Linke & Klossek 2009, Lynton 2011, Schütte & Chen 2012). This sought-after technology is usually only partially (or not at all) codified in patents. The knowledge of modern manufacturing and R&D processes is embedded in organizations, and thus inseparable from the organizational structure and culture. Hence, such knowledge cannot easily be disembodied and transferred, nor does it easily fit into a traditional EE organization (Williamson, this book). For example, flat hierarchies are often key to managing knowledge-intensive, creative organizations, yet they would be at odds with the often very hierarchical structures of many Chinese state enterprises, or Indian, Thai and Brazilian business groups.

Hence, the transfer of organizationally embedded technology to the parent firm represents not only a challenge to knowledge transfer, but to the willingness of the acquiring organization to undergo major organizational and cultural change to be able it to absorb it. Moreover, such competences may be embedded in the technology environment, for example the educational system. A major source of competitive advantage of small German manufacturing companies is, in my personal opinion, grounded in the training system that people go through, which in turn is embedded in the national economic system (Hall & Soskice, 2001). This raises the question, how to transfer an education system from Europe to an organization in China? It would require the Chinese parent company not only to change its own processes, but to implement changes in the wider community, notably the education system. It is my impression that many Chinese investors have not yet fully thought through the complexity of this challenge.

Fourth, EE MNEs embarking on an acquisition spree have opportunities to learn from one acquisition to the next. Many acquisitions are not one-off deals but stepping stones within ambitious strategies of acquisition-led growth, aiming to create a major global player. This M&A knowledge is certainly part of international business knowledge accumulation. Hence, Elango & Pattnaik (2011) find that EE MNEs engage in successively larger acquisition projects. However, how such knowledge is created and integrated merits further research.

Finally, when along its internationalization path is a firm most likely to benefit from strategic asset seeking FDI? Inexperienced investors can use strategic asset seeking FDI to address critical gaps that prevent them from competing effectively internationally, or in fact in their home market. At this stage, strategic asset seeking FDI is feasible *if* the firm can draw on external financial resources to pay for the acquisition, which in an emerging economy context may be obtained through past profits in a large domestic market, through financing within a business group, or (especially in China) through preferential access to bank finance from state banks. As MNEs progress along their internationalization process, such a need for strategic assets diminishes and we would expect to see a shift from strategic asset seeking to organic growth.

An experienced MNE, on the other hand, is likely to have developed managerial processes to manage international operations, including capabilities in managing acquired companies. At the same time, the MNE is likely to generate internal financial resources from its international operations that enable future growth. In other words, the mature MNE is actually much better positioned to successfully implement strategic asset seeking FDI. However, it may do so not to bridge the gap with global leaders, but to selectively acquire specific technologies, brands or market positions that complement its asset portfolio and enable better exploitation of its resource base. The effects of needs and ability together suggest opposite hypotheses as to the stage of maturity when an MNE would be most likely to employ strategic asset seeking FDI. Moreover, the opposing effects may interact to generate a non-linear relationship, perhaps taking an u-shaped form.

4.2. Local Partners and the Choice of Organizational Form

The second line of research receiving new inspirations concerns the choice of organizational forms in international business. Traditionally, such work has taken the perspective of the foreign entrant to determine the likely costs and benefits of alternative forms, in particular the choice between a joint venture and a wholly owned subsidiary. However, as Hennart (2009; 2012; this book) eloquently explains, the organizational form by which two firms transact with each other depends on the contributions and costs faced by *both* partners. Hence, a joint venture is preferred only when both partners contribute resources that are subject to high transaction costs. This situation may apply to foreign investors seeking local knowledge in an emerging economy (the traditional focus of international business research) but also to EE MNEs acquiring brands or technology overseas, which they wish to share across their global operations. The difference lies in the types of contribution made respectively by foreign and local partners. In fact, if the acquisition of tacit knowledge is a primary motive for overseas investments for EE MNEs, then the perspective of the organization holding such sought-after tacit knowledge seems to be particularly relevant.

Seen through the lens of the IPM, these situations reflect a form of external learning from partners. Firms taking their first steps in international business, and having little access to international business expertise in their home environment are looking for different contributions from partners they work with abroad than do mature MNEs. In particular, they may look for partners that help them bridge the technological gap to world leaders, and know how to engage in international markets, to negotiate with various parties such as institutional investors etc. These sorts of partner contributions are less likely to interest mature MNEs. They look more selectively for complementary resources such as specific industry expertise or specific local distribution channels. How do these differences between experienced and inexperienced MNEs affect their partnering strategies along an internationalization process?

An important difference is the likely bargaining power between the partners, and their respective exposure to information asymmetries and other sources of transaction costs. The traditional "MNE-centric theories" (Hennart, 2009) in international business implicitly assume that the local partner is in a weak bargaining position, and hence the costs and benefits that a foreign investor is facing with alternative organizational forms are determining their choice. When focusing on inexperienced investors, however, it becomes apparent that this (implicit) assumption does not hold true. Where a local partner – say a family-owned SME – is providing advanced technology, this local partner not only has considerable bargaining power (because there likely are plenty of other potential suitors for their assets; Knoerich, 2010) but its contribution is subject to high information asymmetries and hence high transaction costs. This suggests that to better understand the observed strategies of EE MNEs in Europe, we need to study the objectives and motivations of European firms partnering with these inward foreign investors.

As a firm advances along its internationalization path, it not only enhances its ability to manage relationships with partners, but the types of partners and their relative bargaining power evolve. At any point in time, a firm's accumulated knowledge base provides the foundation for its next commitment decisions. However, the IPM does as not provide uniform predictions as to what level and type of experience would lead to the choice of which organizational form. Some scholars working in the internationalization process tradition suggest a sequence of modes running from contractual collaboration to joint ventures and eventually to fully owned subsidiaries (e.g. Hadjikani, 1997; Millington & Bayliss, 1990). An inexperienced foreign investor would benefit most from the local knowledge and network of a local joint venture partner. However, selecting a suitable joint venture partner and managing the cross-cultural interface with a local firm is in fact very demanding in terms of managerial abilities and local knowledge, and thus greatly benefits from both local and general international business.

Hence, the ownership mode literature faces a paradox (Li & Meyer, 2009): On the one hand, the more experience a firm has, the more its internal capabilities enable it to operate in the particular host environment, and hence the less it needs access to resources from local partners. On the other hand, the more experience a firm has in a local context, the better it is able to identify suitable and trustworthy partners, and consequently to manage a relationship with such a partner (Figure 4). These opposing effects of strategic needs and implementation capability suggest that the relationship between a firm's international experience and the ownership modes it chooses may vary for different types of experience and in different contexts, and it may take non-linear forms. As EE MNEs progress their internationalization often very rapidly, opportunities emerge to study choices of organizational form at different stages of maturity.

**** Figure 4 (two effects) about here ****

4.3. Institutional Perspectives

The third line of research extends the institutional perspective in international business. Traditionally, institutional work on FDI has focused on the influence that the institutional setting of the host country has on the inflow of FDI (Bevan, Meyer & Estrin, 2004; Globerman & Shapiro, 2003) and on the organizational form chosen by foreign investors (Brouthers, 2002; Meyer, 2001; Meyer, Estrin, Bhaumik & Peng, 2009). What is new about recent work is firstly the focus on how home country institutions such as availability of bank finance and approval processes shape the flow of outward FDI from an emerging economy (Buckley et al., 2007; Luo, Xue & Han, 2010; Morck et al., 2007), and how MNEs align their strategies to government policy objectives to secure such support (Cui & Jiang, 2012; Ramasamy et al., 2012; Wang et al., 2012).

How do these home and host country institutional pressures evolve while an MNE advances along its internationalization path? For businesses taking their first step abroad, support from their home environment can compensate for a lack of internal resources. Thus, both business networks and the institutions that facilitate or inhibit access to resources are likely to be critical. For example, preferential access to financial resources in form of guarantees or loans from state banks, or to information and services from trade missions and embassies, are likely to be more critical for firms that have not yet built up such resources internally, i.e. those at an early stage of their internationalization process. However, studies of Chinese MNEs suggest that such support is often conditional on aligning outward FDI to government policy agendas (Meyer, et al., 2013; Morck, Yeung

& Zhao, 2012; Wang et al., 2012). For mature MNEs, these issues are less likely to be critical because they control more resources themselves, and are in stronger bargaining positions vis-à-vis external stakeholders such as governments.

Moreover, institutional environments vary in how much support they provide to internationalizing firms. Many countries have low key schemes aiming to help small and medium sized enterprises to internationalize, for example by providing export credit insurance under preferential conditions, or by providing advisory services through the country's diplomatic missions. Other countries, such as China, provide more overt support such as credit from state banks that is specifically earmarked towards international investment projects that are in line with the country's economic policy objectives (Luo et al., 2010; Sheng & Zhao, 2012). In the present context, the critical question is how does such institutional support enhance a firm's international learning processes, and hence the long term sustainability of its international operations? Financial support and match-making services identifying joint venture partners may help firms take a few big steps early in their internationalization process. But such opportunistic large steps also entail high risks as the company may lack the competences to generate learning processes that create internal competences that would support the company's economic success on the global stage in the long run.

Turning to host country institutions, research on Chinese MNEs suggests a new twist to research on host country institutions. In some cases, they appear to discriminate between different types of foreign investors both by country-of-origin and by ownership type. Low trade barriers, open and liquid financial markets, clear intellectual property rights and low levels of corruption are usually associated with more FDI inflows. Yet, some countries that score high by these criteria, notably the USA, are said to cause most obstacles to the inflow of FDI by EE MNEs (Cui & Jiang, 2012; Sauvant, 2010). Most notably Chinese state owned enterprises have to work extra hard to attain legitimacy in countries where they appear inconsistent with the dominant ideology (Globerman & Shapiro, 2010; Peng, 2012; Sauvant, 2012), for instance by taking lower equity stakes in subsidiaries they establish abroad (Cui & Jiang, 2012, Meyer, Ding, Li & Zhang, 2013). These concerns have arisen in particular in the mining industry as societies rarely appreciate if their natural resources are controlled by foreign entities, especially if entities from a particular country dominate such investment. Thus, Chinese mining firms experienced public opposition and additional regulatory barriers in resource rich countries ranging from Australia (Nyland, Forbes-Mewett & Thomson, 2011, Wong, 2012) to Canada (*Conference Board of Canada*, 2012) and Mongolia (Pu & Wang, 2012). This suggests that the institutions that attract US or UK investors are not the same as those that attract Chinese or Russian investors. These observations suggest to revisit institutional theory, for example to examine how and why institutions discriminate between types of investors. Moreover, we may have to revisit the way we measure institutions such as ‘business climate’.

A critical theoretical concept in this discussion is ‘legitimacy’. The challenges that MNEs face to being accepted by host societies as ‘legitimate’ vary with the firm’s characteristics apparently including their country or origin and their ownership type (i.e. state versus private firms). On the one hand, few host country stakeholders are concerned about the entry of small companies from a new source of origin; in fact such entrants weaken the power of big players already in the market, and possibly perceived to be a threat. Yet, large companies, especially those engaging in acquisitions and those originating from countries with different economic systems, are seen with greater suspicion, and encounter more opposition in the host country (Peng, 2012; Zhang, Zhou, & Ebbers, 2010). At the same time, the international growth of a firm, also strengthens its ability to engage with local stakeholders and hence its ability to ‘earn’ local legitimacy. This would suggest that as EE MNEs progress along their internationalization path, threats to legitimacy may increase, whilst their ability to handle such threats also increases. The relationships between international experience and host country legitimacy may thus be non-linear.

5. Conclusion

What distinguishes the IPM from other popular theories is its focus on dynamic processes and its longitudinal angles on the phenomenon. Most contemporary strategy research is designed to study cross-sectional data sets rather than long term developments over time. This is a particular concern when it comes to EE MNEs because they are not looking for advice on one-off decisions, but on how best to manage a process of internationalization that eventually leads them to a leadership role in their chosen industry. To provide managers of EE MNEs with tools for strategic leadership, we as scholars ought to provide better insights into the likely long-term outcomes of processes they initiate. The IPM provides a starting point for developing such insights.

Using the IPM as a theoretical perspective suggests that EE MNEs command different sets of resources than mature MNEs from developed countries, in particular experiential knowledge on how to do international business. In consequence, they face different constraints and opportunities, and they rely to a larger extend on external resources such as networks and government support. However, this reliance of external resource is likely to decrease over time as they increasingly can draw upon richer internal resources. We can thusn predict that the strategies of EE MNEs will evolve as richer internal resources become ready to be exploited, and further needs for complementary resources focus on specific gaps.

More broadly, the IPM suggests that international experience of the firm is an important concept of international business, but not a concept that can be expected to be linearly associated with key strategic decisions over the internationalization path of a firm. Future research on EE MNEs may thus explore the evolution of different strategic actions as firms mature. Such research will enhance our understanding how and why different types of international business experience matter for different players in the global economy.

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Figure 1: FDI flows from selected Emerging Economies 1997 to 2011 in thousands of US$

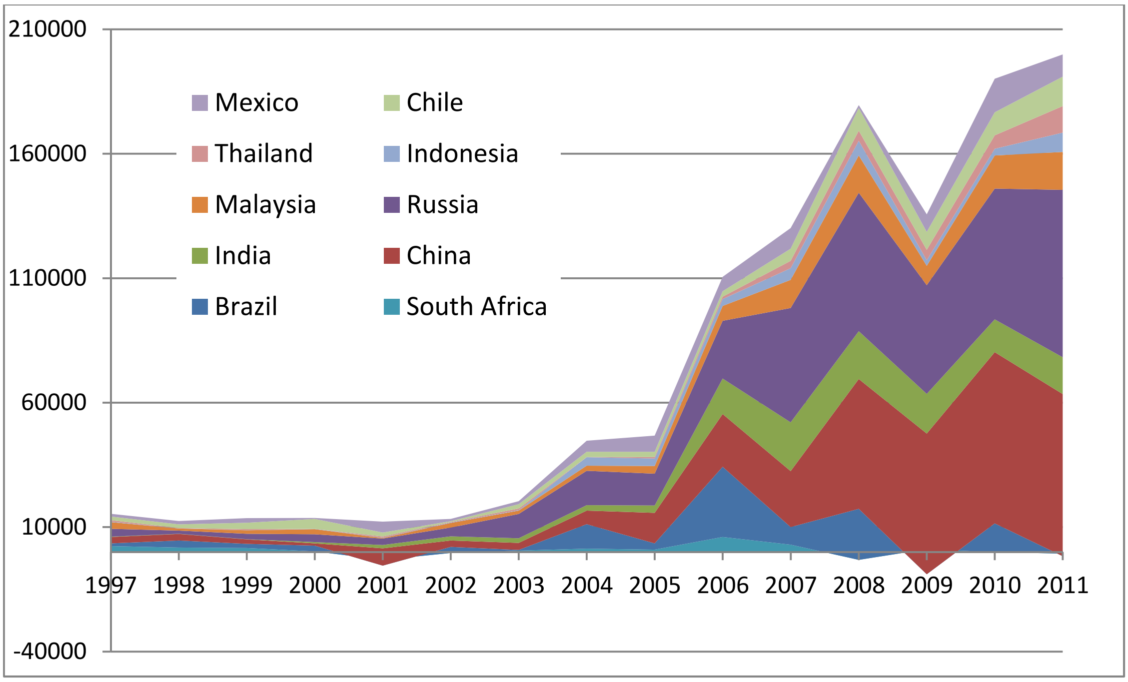


Figure 2: FDI flows from selected Emerging Economies 1970 to 2011 as percentage of worldwide FDI flows

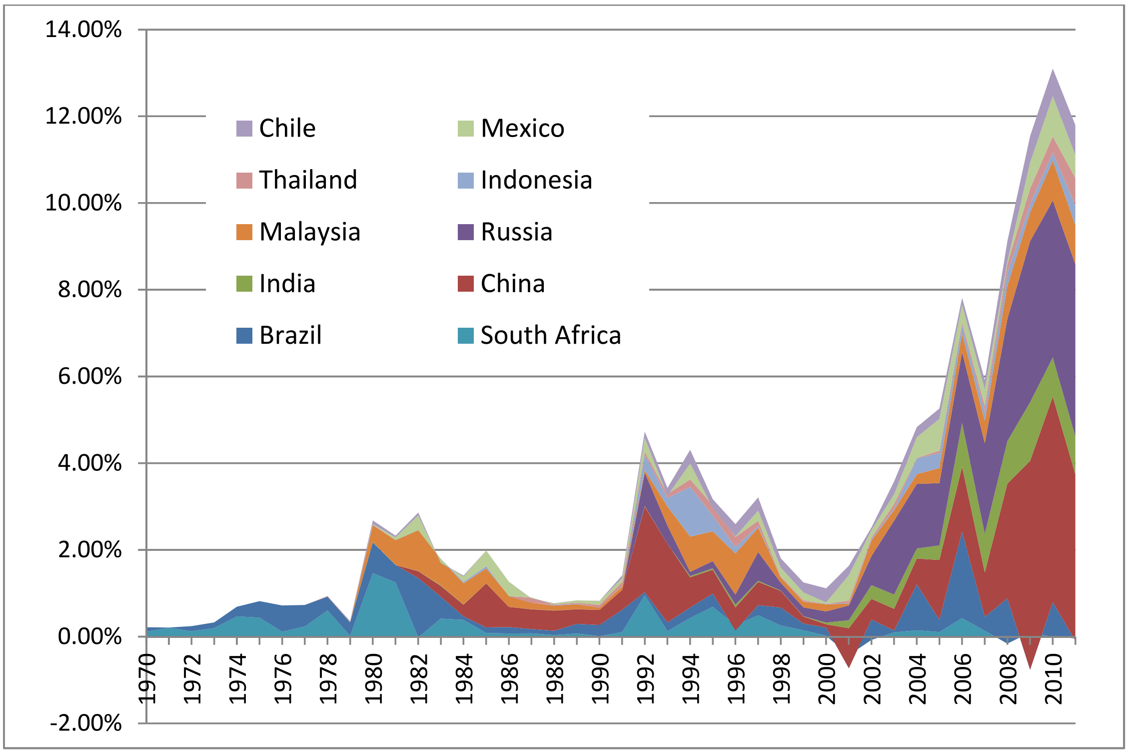
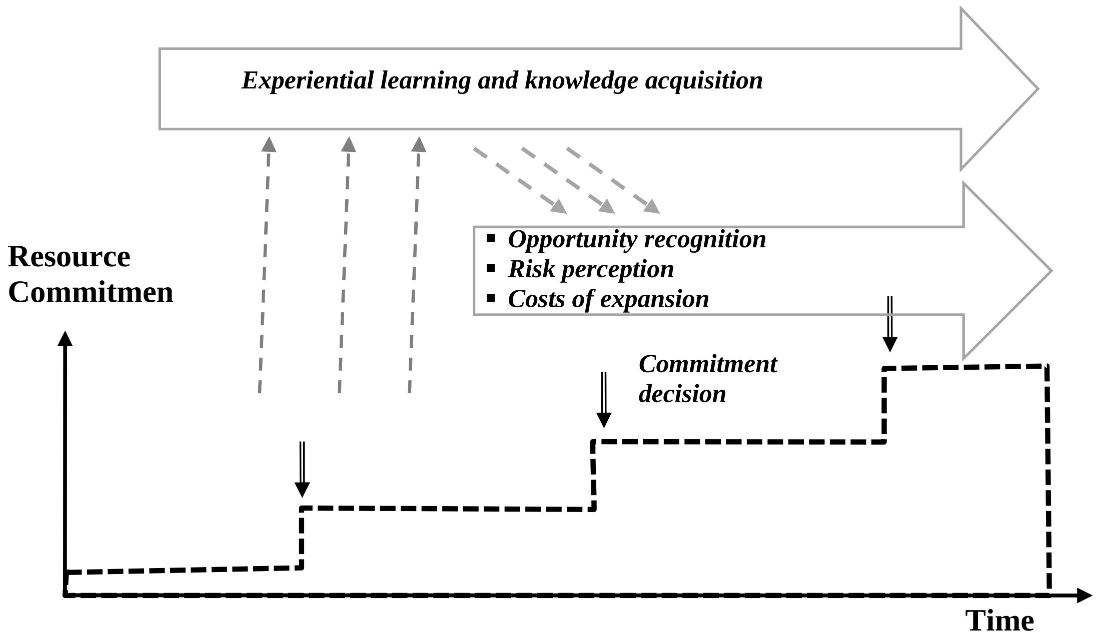
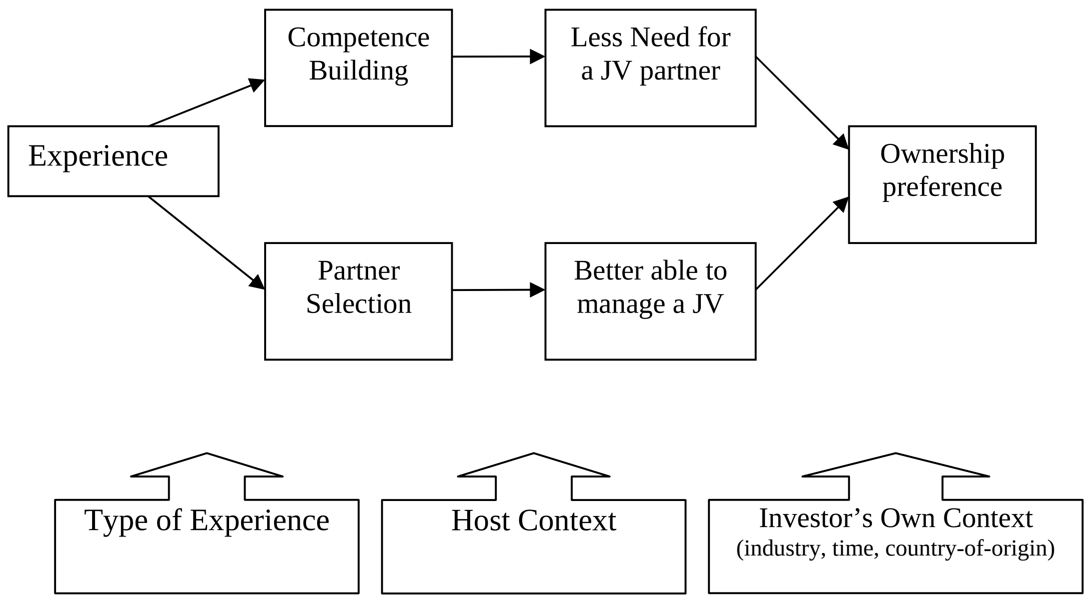


Figure 3: The longitudinal dimension of the internationalization process



Source: Meyer & Thaijongrak (2013)

Figure 4: Competence Building and Partner Selection Effects



Source: Li & Meyer (2009)

Table 1: Examples of Tacit International Business Knowledge

Aspects of the business environment	**Challenges reported by Westerns operating in China**	**Challenges likely to be faced by Chinese operating in Western countries**
Actions of key institutional actors	Why should I spend so much time dining with officials? How to interact effectively with government officials, and the CPC (party)?	Why are the media reporting such biased stories, and why are the trade unions making so much noise? How to interact effectively with the media, and with trade unions?
Practice of the legal system	Why do Chinese competitors get away with copying our products? How to get Chinese courts to enforce our intellectual property rights?	Why are competition authorities putting their nose into our business? How can we make profits if we are not allowed to talk to our competitors?
Consumer behavior	Why are Chinese so passionate about certain brands? How to create brand loyalty among volatile consumers?	Why do Westerners not like to buy our products even if the quality seems to be just the same? How to overcome negative country-of-origin image?
Employee motivation	Why are Chinese employees so eager to switch jobs, even for small salary increases? How to cope with the unrealistic expectations of the post-1990 generation?	Why do our Western employees not follow what they are instructed to do? How to integrate highly qualified, highly autonomy-minded individuals in a hierarchical organization?

Source: based on large numbers of mostly informal conversations with Europeans in China, and Chinese in Europe.

Table 2: Innovative Perspectives on EE MNEs

	Challenges to mainstream theories	Central Proposition	Research questions arising from a process perspective
Strategic asset seeking FDI perspective	Most theories explain FDI as a means to exploit firm specific advantages overseas. Yet, for some FDI projects, exploitation of existing advantages is not the primary goal.	Some FDI projects aim to acquire assets overseas that aim not only to establish a position in a particular host country, but to enhance the global resource and capability base of the investor. These are called strategic asset seeking FDI projects. They are particularly relevant to firms that are in a (relative) catch-up situation in their respective industry.	• How can EE MNEs managing strategic asset seeking FDI when they often lack internationally experienced management? • How can EE MNEs use partial acquisitions to accelerate their learning processes? • How do Chinese MNEs manage the challenge of reverse transferring technology that is not only organizationally embedded, but societally embedded? • How do EE MNEs learn from one acquisition to the next how to manage acquisition processes?
Host partner perspective on organizational forms	Most studies of the choice of organization form for foreign operations (such as joint venture versus wholly-owned subsidiary) consider only the preferred mode from the foreign investor's perspective. Yet, it equally depends on the local partner.	The choice of organizational form is the negotiated outcome of strategies of foreign and local partners. Hence, the characteristics of the transactions between the local operations and BOTH partners, as well as BOTH partners' bargaining power shape the choice of organizational forms.	• How do the contributions sought from a local partners to an alliance change with the maturity of the investor, and how does that hence change their preferred and realized organizational form? • How does the learning taking place within an alliance shape the preferences on both sides to continue the alliance?
Home institutional perspective	The institutional environment of host countries has been explored as a key aspect of the locational advantages that may attract or deter inward FDI. Yet, institutions in firms' home country also influence outward FDI strategies, including risk-taking propensity, location choice and modes of entry	Institutions in a firm's home country shape the strategies of outward FDI via, among other effects, governance structures, access to financial resources, and industrial policy. These effects may be selective for specific types of firms (e.g. state-owned firms), and may encourage or discourage FDI.	• How do home and host country institutional pressures evolve as MNEs progress along their internationalization path? • How does firms responsiveness to specific institutional pressures evolve with shifting bargaining power between institutional and corporate actors? • How do national level and firm level processes of learning interact?

Source: Based on literature cited in the text.