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# What drives internationalization of emerging country multinationals (EMNCs): Towards a conceptual framework

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# **What Drives Internationalization of Emerging Country Multinationals (EMNCs): Towards a Conceptual Framework**

By

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## **Abstract**

In the last decade there has been growing internationalization of firms from developing economies which has raised interest in understanding the motivation of these emerging economy multinationals (EMNC) to internationalize. However, questions have been raised about the applicability of extant theories to explain and understand EMNC motivation. In this context, this paper argues about the inappropriateness of the integration- responsiveness (IR) framework to explain EMNC strategic orientation and proposes a new framework. Accordingly, EMNC strategic orientation is driven by decisions on two strategic dimensions- choice of foreign market to enter and the requirement to acquire strategic resources abroad. Based on this, the framework proposes four strategic orientations for EMNCs- Market Seeker, Supplier, Resource Acquirer and Reputation Builder.

## **Introduction**

There has been growing internationalization of firms from developing economies, in terms of their greater participation in international trade, growing outflows of foreign direct investment (FDI), and surge in their cross-border mergers and acquisition activity (Athreya & Kapur, 2009). This is reflected by the fact that between 1980 and 2011 the share of developing economies outward FDI in the world outward FDI rose from 6.2 percent to 26.9 percent (Al-Sadig, 2013). So today, it could be increasingly seen that multinationals from developing countries such as Haier (China), Embraer (Brazil), Tata Motors (India), Koc Holdings (Turkey), CEMEX (Mexico), etc., are operating around the world. Practitioners like Sirkin et al., (2008) and Van Agtmael (2007) conclude that “emerging MNC” (EMNC) are quickly assuming leadership positions in global markets, forcing established leaders to compete on new terms. EMNCs are internationalising aggressively by acquiring strategic resources abroad (Luo and Tung, 2007) and are representing attractive financial investments compared to their western rivals (Ramamurti and Singh, 2008; p 9). It can be concluded that the surge of EMNC activity is reshaping the structure of international business.

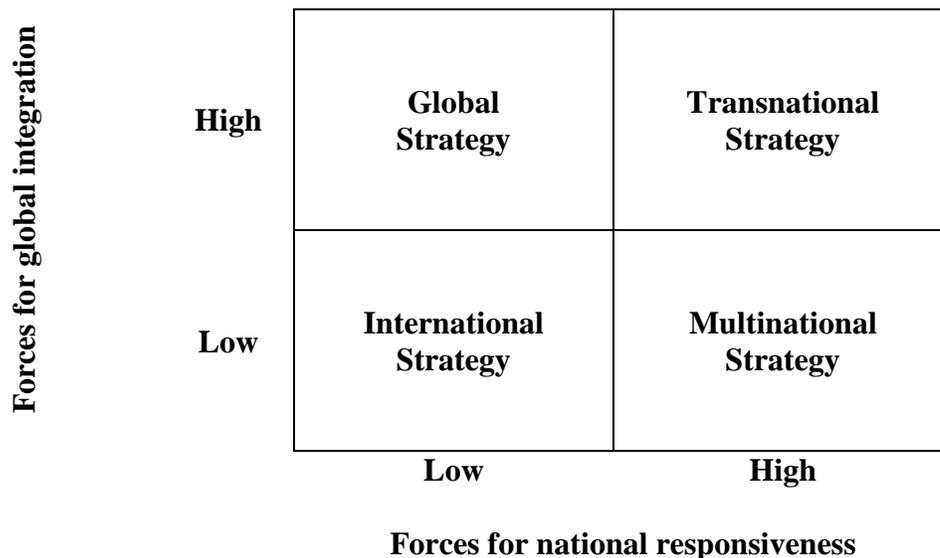
The rise of the EMNCs has evinced interest in understanding their motivation and operations. Study by Peng et al., (2008) shows that motivation for EMNCs to internationalize was to escape bureaucratic restrictions or volatility at home markets. In terms of their operation EMNCs obtain their inputs more from internal business groups as compared to developed country MNCs (Khanna and Yafeh, 2007); rely on more relational assets (Dunning and Narula, 2004); and operate in more mature rather than technologically fast-paced industries (Dunning et al., 1998; Ozawa, 1992). As the trajectories followed by EMNCs are often different from those of established MNCs, it is increasingly being asked whether the extant theories are relevant to EMNCs that are internationalizing in a different era, with different starting points and possibly very different internationalization patterns and paths (Gammeltoft et. al., 2010). Buckley et al. (2007) and Child and Rodrigues (2005) argue that the existing theories should be modified to explain the EMNC internationalisation phenomena more accurately. The purpose of this paper is to develop an understanding of the EMNC strategies and their implication for EMNC operation.

## **Extant Theory of Internationalisation**

MNC subsidiaries operate in market settings that are often very different from home markets, which require complex organizational and strategic arrangements to govern their operations. MNC performance depends on how well subsidiary operations are aligned with local environments (Porter, 1986) and performance of overseas subsidiaries is affected by the choice of strategic configurations that aligns internal operations with uncertain and complex environmental components (Ghoshal and Nohria, 1993). Studies in international management have identified several approaches of strategic configuration such as ownership- location- internalisation framework (Dunning, 1980); increasing

market commitment with increasing knowledge of foreign markets (Johanson & Vahlne, 1977); and balancing globalisation vs localisation (Ghoshal, 1987).

In the choice of strategic configuration, MNCs need to grapple with two issues- utilisation of resources spread across their global network and accessing markets around the globe. According to Prahalad & Doz, (1987), these present conflicting competitive pressures for MNCs – global integration and local responsiveness. The pressure for global integration arises due to the MNCs desire to leverage experience and transfer competencies and skills across the global network. The pressure for local responsiveness arises due to the need to accommodate the diverse demands arising from differences in consumer tastes and preferences, competitive conditions, government policies, etc. of different markets entered into. According to Bartlett & Ghoshal (1989), the extent of pressures for global integration and local responsiveness would require appropriate strategies to deal with the situation, as characterised by the Integration- Responsiveness (IR) framework (figure 1).



**Figure 1** Global integration-national responsiveness framework

Bartlett & Ghoshal (1989) have characterised these strategies as

- a. International strategy- MNCs will exploit the knowledge and capabilities developed at the parent headquarters by their transfer and adaptation to overseas markets through worldwide standards and specifications.
- b. Multinational strategy- MNCs will respond to local opportunities on a country-by-country basis with strong national entities in multiple markets.
- c. Global strategy- MNCs will aim to exploit an integrated and unitary world market by the realization of cost advantages at highly centralized global scale operations.

- d. Transnational strategy- MNCs will aim to simultaneously achieve global efficiencies and multinational responsiveness and flexibility by worldwide transfers of parent company knowledge and competencies as well as respond to local market opportunities.

### **Inapplicability of IR framework for EMNCs**

This section will analyse the inappropriateness of the IR framework to formulate strategies for EMNCs. The global strategy as envisaged in the IR framework has been found to be practised by MNCs whose dominant strategic requirement is efficiency realised by achieving economies of scale through integration and rationalization of their global production to produce standardised products (Harzing, 2000). However, as EMNCs are late entrants into international operations behind developed country MNCs, it increases their liability of foreignness (Zaheer and Mosakowski, 1997) thereby impacting their ability to gain global market share comparable to established MNCs. Moreover, emerging economies, being developing countries, have lower levels of economic and technological development than developed countries and so EMNCs may not possess the same overwhelming competitive advantage as MNCs from developed countries (Dunning, Kim & Park, 2008; Kumar, 2007). Therefore, EMNCs would suffer from lack of reputation in developed countries, impacting their ability to capture market share in developed countries. These would mean that EMNCs would not have size of operations on global scale to realize economies of scale compared to MNCs from developed countries. This is evident from the fact that in 2006 Indian EMNCs such as Infosys and Wipro had only \$2 billion of sales compared to \$18-20 billion for US rivals such as Accenture and EDS (Ramamurti and Singh, 2008; p 9). Therefore, practising a global strategy by an EMNC would not provide any competitive advantage as compared to the practice of global strategy by MNCs from developed countries.

Employing multinational strategy require MNCs to respond to local opportunities on a country-by-country basis by adapting products and services to local circumstances by using higher proportion of local sourcing, production and R&D (Harzing, 2000). The dominant strategic requirement is differentiation rather than economies of scale and enterprises practising multinational strategy would face increased cost of operation in each country. As EMNCs are more likely to compete on price rather than product differentiation (Shenkar, 2009) therefore EMNCs would lose the competitive advantage by employing the multinational strategy.

The requirements for employing the transnational strategy would require achieving the objectives of efficiency in global strategy and differentiation in multinational strategy. However as discussed earlier, both these are less likely to be achieved by EMNCs thus making the employment of transnational strategy not favourable for achieving competitive advantage. This brings into question the appropriateness of the IR framework in developing EMNC strategy for achieving competitive advantage and calls for a new understanding on how should EMNCs formulate their strategy to achieve competitive advantage.

A bibliometric study of the publications in *Journal of International Business Studies*, a top leading IB journal, found that there has been a substantial increase in the citation of Bartlett & Ghoshal's (1989) work during the period 1989-2010 (Ferreira, 2011). This indicates that the conceptualization of multinational strategy typologies as envisaged in the IR framework had a significant impact on the thinking and understanding of MNC strategy. So it could be expected that EMNC managers could also have been influenced to develop their strategy based on the IR framework. However, as discussed, it is less likely that the IR framework would be as appropriate to understand and develop EMNC strategies. This would call for developing a new framework to understand EMNC strategies, which is supported by Gammeltoft et al. (2010) wherein they have indicated that the extant theories of MNCs are less applicable to EMNCs and thus needs a relook.

### **Strategy Framework for EMNCs**

Despite the inappropriateness of the IR framework to support strategy development of EMNCs, the IR framework focuses on two critical dimensions of strategy development—firm resources and markets characteristics. The resource dimension supports the resource-based view of international strategy wherein foreign expansion is about appropriating rents in foreign markets by deploying idiosyncratic firm specific resources (brand name, technological capabilities, management know-how), either as integrated across the globe or as disaggregated across different countries. The assumption is that the MNC already possess the resources and decides how to deploy them. However, EMNCs do not have idiosyncratic firm specific resources to exploit in foreign markets due to low level economic and technological development of their home countries (Uhlenbruck, Meyer, & Hitt, 2003). Also due to the resource constraints, EMNCs normally utilize their existing resources available in developing countries, for example EMNCs have been found to use more labour-intensive technologies than did MNCs from developed economies (Lecraw, 1993). On the other hand, it has also been observed that to overcome resource constraints, EMNCs internationalize to achieve the purpose of acquiring strategic resources abroad (Luo and Tung, 2007). Therefore, one of the strategic dimensions of EMNC internationalisation strategy is the decision regarding the extent of acquisition of strategic resources abroad.

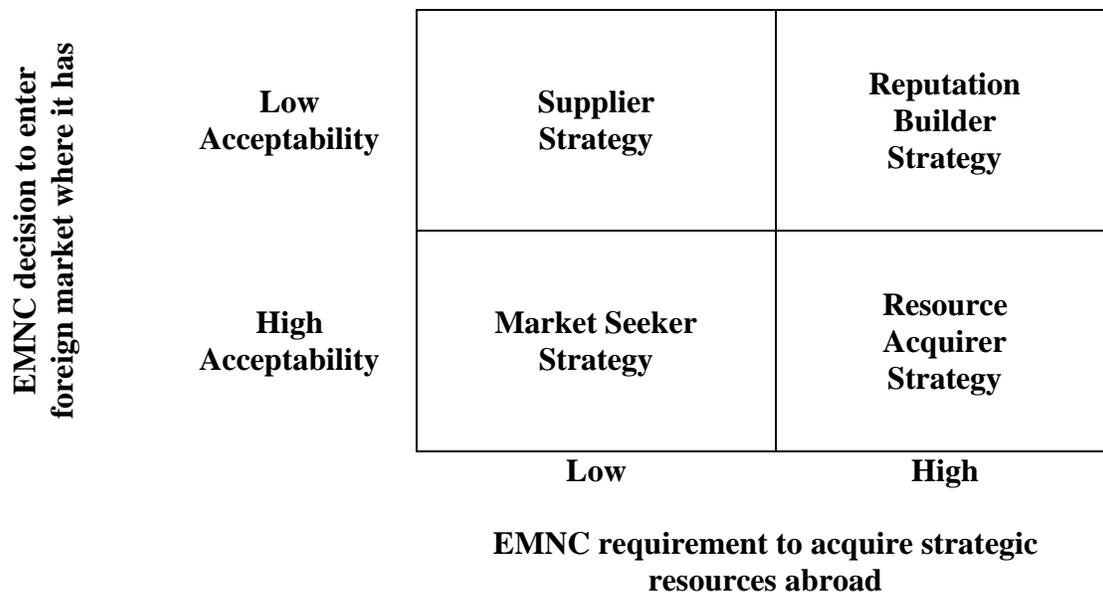
The strategic dimension of market characteristics indicates the way the MNC would respond to market opportunities. This differentiated market response is supported by the industry-based view of international strategy wherein globalization potential across industries differ (Yip, 1992) due to differences in terms of consumer tastes and preferences across industries. So industries producing standardised products are more globalised than industries producing consumer products where tastes and preferences differ across cultures. The assumption is that the entry barrier faced by developed country MNCs is based on their ability to be responsive to the foreign market. However, EMNCs have to overcome the entry barrier of acceptability in the foreign markets due to additional biases stemming not only from their country of origin, but also from the very nature of their “emergingness”.

As EMNCs lack intangible resources (patents or trademarks, brand name, marketing skills) they would lack attractiveness in foreign markets, a fact supported by UNCTAD's (2006) study suggesting that developed country MNCs are most likely to possess advantages in internationalization based on ownership of key assets such as technologies and brands. Even to obtain local managerial talent in developed countries, EMNCs were found to have significantly lower organizational attractiveness than equivalent European or American owned MNCs (Alkire, 2014). As emerging countries have greater institutional and geographic distance with developed countries, EMNCs are more likely to suffer from liability of foreignness (Campbell et al., 2011; Eden and Muller, 2004).

Also, research indicates that source country image impact consumer product evaluation and purchase decisions (Min Han and Quallis, 1985; Peterson and Jolibert, 1995). For example, after massive toy recalls, tainted toothpaste scares and poisonous pet food incidents, have made consumers around the globe apprehensive about buying Chinese made goods (Roberts 2007). This country- of- origin effect is also evident in the case of EMNCs. For example, the multi-billion dollar Indian automotive and agricultural tractor manufacturer Mahindra and Mahindra has been in business since 1945 but finds itself being forced to fund a multi-million dollar marketing campaign in the USA aimed at introducing its farm tractors to American customers that have never heard of the brand (Einhorn, 2013).

As EMNCs originate from developing countries, they suffer from negative country-of-origin effect by "virtue of being from emerging economies" (Madhok and Keyhani, 2012, p. 28) thereby impacting their acceptability in the global market. The existence of a negative bias toward emerging market firms is further supported by a growing trend in developed countries to adopt formal approval bodies for reviewing any acquisitions by EMNCs deemed to be in the "strategic-asset" category (Sauvant et al., 2009). Elango and Sethi (2007) have found empirical support for the notion of a country of origin effect having a significant impact upon the success or failure of a given firm's subsequent internationalization performance. Thus, the lack of acceptability in the foreign market would impact EMNCs ability to gain competitive advantage as compared to developed country MNCs. Therefore, another strategic dimension for EMNC internationalisation strategy is the decision about which foreign market to enter based on the degree of acceptability.

Therefore, EMNC internationalisation strategy needs to take into considerations decisions on these two strategic dimensions- choice of foreign market to enter based on high or low degree of acceptability and low or high requirement to acquire strategic resources abroad. The different EMNC internationalisation strategy configurations are depicted in figure 2.



**Figure 2** EMNC strategic framework

The following section will discuss each of the strategy typologies depicted in figure 2 and its impact on EMNC strategic practices.

### **EMNC Strategy Orientation**

#### ***Market Seeker strategy***

EMNCs practising this strategy will choose to enter foreign markets where they have high acceptability but the requirement to acquire strategic resources in these foreign markets is low. For example, Bajaj Auto (India) used this strategy by establishing sales offices in Bangladesh, Sri Lanka and Africa to export two-wheeler and three-wheeler vehicles and has achieved 1 million vehicle export in 2010 ([www.globalbajaj.com](http://www.globalbajaj.com)). Across the globe, Bajaj is known as the no. 1 three-wheeler company, with a very dominant position in Sri Lanka, Egypt, Bangladesh and Peru. The similarity of the socio-economic conditions these foreign markets with India, makes the two-wheelers and three-wheelers readily acceptable in these foreign markets with little or no adaptation. This helps Bajaj Auto to export to these foreign markets from their home production base without making substantial resource acquisition in these foreign countries.

This strategy is likely to succeed when EMNCs enter foreign markets which are in the neighbourhood of the EMNC home as in these foreign markets EMNCs would enjoy higher acceptability. For example Indian EMNCs would have higher level of acceptability in Bangladesh, Sri Lanka, Nepal, etc. which are in the neighbourhood of India. Similarly Brazilian EMNCs would have higher level of acceptability in South American countries while Chinese EMNCs would have higher level of acceptability in South East Asian countries. The higher level of acceptability for the EMNC is an outcome of the positive country-of-origin effect for the EMNC in these foreign markets.

The physical proximity leads to higher trade between EMNC home and foreign markets as per gravity model (Tinberg, 1962) as well as cross-border people movement thereby making EMNC products acquire visibility and prominence in the foreign markets. With greater visibility and prominence, there would be positive country-of-origin effect as a country's image undergoes change as consumers gain experience with the EMNC's products (Khan & Bamber, 2008).

Also, higher level of acceptability could happen in foreign markets that are not in the neighbourhood but that have positive political relationships with the EMNC home country. This facilitates greater trade and people contact leading to positive country-of-origin effect for the EMNC. This would explain the use of this strategy by Bajaj Auto in Africa though it is not in the neighbourhood, as India has positive political relations with African nations.

The market seeker strategy would work most beneficial for EMNCs that are not acquiring strategic resources in the foreign markets. The strategic resources in the foreign markets would be developing supplier network or setting up production plant or R&D or brand building. The physical proximity of the foreign markets and EMNC home would lower the CAGE distance (Ghemawat, 2001) between them leading to better fit (and lower adaptation) of EMNC products with the foreign market consumer tastes and preferences. Due to the need for little or no adaptations, there is low need for the EMNC to invest in supplier network or production or R&D in the foreign markets. Secondly, the higher acceptability of the EMNC in the foreign markets reduces the need to build firm specific resources (brand name, patent).

In which sectors would this strategy work the best? In this strategy, EMNCs strength is based on home country resources which are low technology and labour intensive. So sectors such as basic products and consumer goods that are based on EMNC home country indigenous resources stand to benefit. Also, as the EMNCs enjoys high acceptability in the entered markets, the EMNC product/ services should have established a name in the home country and require little or no adaptation to gain prominence in the eyes of the consumers in the entered markets.

### ***Supplier strategy***

EMNCs practising this strategy will choose to enter foreign markets where they have low acceptability and also the requirement to acquire strategic resources in the foreign markets is low. For example, Cipla, an Indian pharmaceutical major, uses this strategy. Cipla was among the first Indian companies to develop and manufacture Active Pharmaceutical Ingredients (APIs) and exporting API and generic formulation products to U.S., Canada and countries in Europe. They have strategic alliances for registration and distribution of their products in international markets. Cipla has 34 manufacturing plants in India that are approved by major international regulatory agencies for production of generic drugs ([www.cipla.com](http://www.cipla.com)). Similarly, Indian IT major Wipro also uses this strategy by developing the offshore development centre concept to service their clients in US and Europe from India ([www.wipro.com](http://www.wipro.com)).

Lower acceptability of EMNCs in foreign markets would happen when EMNCs enter developed countries where the EMNC's brand and quality lack reputation due to negative country-of-origin effect. Research has shown that negative evaluation of products made in less developed countries was not overcome by a well-known brand name (Ahmed et al., 2004; Clark et al., 2000). This was the problem that Hyundai experienced when they entered into US, where Hyundai's products were perceived to be of poor quality. Lower acceptability would also happen not only in developed countries but in developing countries as well, especially in sectors where EMNCs are known not to possess competitive advantage compared to developed country MNCs. For example in the fashion industry, an EMNC would invariably be considered less superior to established MNCs originating from France or Italy, even in the EMNC's home country. Bridging this reputational gap is a huge challenge for the EMNC and requires lots of investment not only in brand building but also to remove the stigma attached to the EMNC's location. So for EMNCs the most prudent strategy would be operating within the upstream segment of the value chain as a supplier of undifferentiated products/ services. Thus factors where EMNC reputation is lacking does not come to the fore and thereby allows the EMNC to meet the minimum acceptability requirement of these foreign markets.

For a supplier of undifferentiated products/ services, competitive advantage would tend to be based on price competition. Therefore, for the EMNC to acquire strategic resources in the foreign markets, especially developed countries, would increase the cost of production and erode away the competitive advantage of the EMNC as a supplier of undifferentiated products/ services. Thus in the supplier strategy, the EMNC's requirement to acquire strategic resources in these foreign markets is low, which is logical as given the high risk of acceptability in foreign markets it is not feasible to invest in these markets to acquire strategic resources.

In practising supplier strategy, EMNC's competitive advantage lies in competing on price rather than product differentiation. Pursuing supplier strategy is beneficial for EMNCs that operate in product/service sectors where the demand in the foreign markets has shifted towards undifferentiated products/ services based on price competition and low technological sophistication. As EMNCs possess advantage in price competition and low technology operations, they would have competitive advantage over developed country MNCs. So Cipla sells branded drugs in India but sell generic drugs through partners in the US.

### ***Resource Acquirer Strategy***

EMNCs practising this strategy will choose to enter foreign markets where they have high acceptability but also have high requirement to acquire strategic resources in these foreign markets. EMNCs practise this strategy to invest abroad to secure access to resources, especially natural resources and raw materials required for the economic growth of the home country. So EMNCs that are state-owned have been at the forefront of this strategy like China National Offshore Oil Corporation (CNOOC) and India's Oil

and Natural Gas Commission (ONGC). For example, CNOOC has made investment in Africa, Middle East, Latin America and Far East for oil exploration ([www.coonltd.com](http://www.coonltd.com)). Similarly, ONGC has made investments in African, Far East, Khazakh oil blocks ([www.ongevidesh.com](http://www.ongevidesh.com)). Also Tata Steel (India) has made investments in Ivory Coast for acquiring iron ore and in Mozambique for acquiring coal to feed its steel plant in India ([www.tatasteel.com](http://www.tatasteel.com)).

This strategy is likely to succeed when EMNCs enter a foreign country where they have high acceptability. As the objective of this strategy is to acquire natural resources that belong to the foreign country, any perception that the EMNC operation does benefit the foreign country could face opposition. This could be observed in the failure of Aluminium Corporation of China to acquire stake in the Australian mining company Rio-Tinto in 2009 and also the failed attempt by a Chinese company to take over Unocal, the American oil company, in 2005 (Barboza and Wines, 2009). Both the cases drew strong political opposition to sell strategic assets to Chinese companies. This was due to the low acceptability of Chinese companies in western democracies caused by the negative perception of Chinese companies being state controlled.

If EMNCs are to succeed in overcoming this political challenge to have high acceptability in the foreign country it is necessary that the EMNCs need to gain the support of the foreign country government. In gaining this support the home country government could play an active role to create high acceptability for its EMNCs. So it could be observed that the EMNC would enjoy high acceptability in developing countries as the EMNC's home country can play a more positive role with these developing countries due to south-south cooperation.

### ***Reputation Builder Strategy***

EMNCs practising this strategy will choose to enter foreign markets where they have low acceptability but the requirement to acquire strategic resources in these foreign markets is high. In the other three EMNC strategies practised, the EMNC has not been able to develop an independent presence in the consumer markets of the developed countries. Through practising the supplier strategy, the EMNC had entered the developed country but it operates as a supplier of undifferentiated product/ service which does not give the required presence in the consumer markets of the developed countries. Because of this, the EMNC lacks the reputation as compared to that of the developed country MNCs. The practice of the reputation builder strategy by the EMNC is to overcome this reputation gap.

In this strategy, the EMNC is entering the foreign country where it enjoys low acceptability. As discussed earlier, this would happen when EMNCs enter developed country markets where the EMNC brand and quality lack reputation due to negative country-of-origin effect. Building up the reputation in brand and quality would require investment in strategic resources in the foreign countries as the home country resource base of the EMNC is not suitable for the developed country markets. These strategic resources are those that can be deployed in foreign markets to overcome the reputational

gap, and would require investments to build idiosyncratic firm specific resources such as brand name, technological capabilities, supplier base, management know-how and patents. Therefore, practising the reputation builder strategy would require the EMNC to have a high requirement in acquiring strategic resources in the foreign markets.

The practice of this strategy could be seen in the case of Tata Motors (India) which acquired the Jaguar Land Rover (UK), in 2008 and in 2004 had acquired the Daewoo Commercial Vehicles Company, South Korea's second largest truck maker ([www.tatamotors.com](http://www.tatamotors.com)). In both these foreign markets, Tata Motors had low acceptability but acquired strategic resources that allowed it to compete in the global market. In South Korea, the strategic resources acquired allowed Tata Daewoo to launch several new products in the Korean market, while also exporting these products to several international markets and today two-thirds of heavy commercial vehicle exports out of South Korea are from Tata Daewoo. Similarly, the acquisition of Jaguar Land Rover allowed Tata Motors to push Jaguar Land Rover luxury brands in India, China and Russia such that Jaguar Land Rover became the primary driver of growth and profit for Tata Motors. Even, Haier practised this reputation builder strategy by entering developed countries, where Haier had low acceptability, to acquire strong managerial, technological and reputational competencies through joint ventures and subsequently applying these newly acquired competencies in developing countries (Ling, 2005).

The practice of this strategy would be successful for the EMNC operating in more technological advanced sectors e.g. automobiles, appliances, etc. where idiosyncratic firm specific resources (brand name, patent, technological capabilities) are required to compete effectively. EMNC's home country resources are weak in these areas while these idiosyncratic firm resources are located in developed countries. Therefore, it is imperative for the EMNCs to enter the developed country to acquire these strategic resources even though the EMNCs have low acceptability in these markets.

### **Implementing the Strategy Orientations**

The success of multinational strategy would require delineating the role and interlinkage between headquarter (HQ) and subsidiaries. Multinationals achieve this through their decisions related to organizational design and subsidiary role, the nature of interdependence between HQ and subsidiary, the extent of local responsiveness, type of control used by HQ, and the type of expatriation. An analysis of the important studies of multinational strategy typologies shows that the difference between the multinational strategies is reflected in the decisions that are taken on these variables (Harzing, 2000). For example, the difference between multidomestic and global strategy would be reflected in the degree of independence granted to subsidiary managers. Table 1 presents a comparison of the possible decisions on these variables that would support the EMNC strategic orientations.

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Insert Table 1 here

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### ***Organizational design and subsidiary role***

Given the orientation of the market seeker strategy, the subsidiary has a limited role and acts as a pipeline of the headquarter (HQ) to push the marketing and sales of the product in the foreign market. However, in the other strategic orientations the subsidiary would play a more strategic role as there is need for more critical issues related to the foreign market environment that has to be dealt with, like overcoming low acceptability and/or acquiring strategic assets. Thus, in case of Supplier strategy the subsidiary's role is to identify market opportunities, in Resource Acquirer strategy the subsidiary has a strategic role to acquire resources for HQ and in the Reputation Builder strategy the subsidiary has a strategic role to act as a centre that creates strategic assets for the EMNC.

### ***Interdependence***

Based on the discussion on the subsidiary role, it is expected that in the Market Seeker strategy the subsidiary would be wholly dependent on HQ. However, in the case of other strategic orientations there would be varying kind of interdependence between the subsidiary and HQ. In Supplier strategy, the nature of interdependence is defined by the HQ depending on subsidiary for market information while subsidiary is dependent on the HQ for product flow. In Resource Acquirer strategy, the subsidiary is dependent on HQ for technical support while the HQ is dependent on subsidiary for resource provision. In the Reputation Builder strategy, the HQ is dependent on subsidiary for strategic assets while the subsidiary would be dependent on HQ for guidance about corporate policies.

### ***Local responsiveness***

In Market Seeker strategy there is going to be low degree of local responsiveness while in Reputation Builder strategy there is going to be high degree of local responsiveness. In Supplier strategy, the local responsiveness is for the downstream operations of product modification and market adaptation while in Resource Acquirer strategy, the local responsiveness is for the upstream operations of production and R&D.

### ***Type of Control***

Control mechanism have been classified based on the dimensions - direct or indirect and cultural or bureaucratic, leading to four typologies of personal centralised control, bureaucratic formalised control, control by socialization/ network and output control (figure 3).

	Personal/ Cultural	Impersonal/ Bureaucratic
Direct/ explicit	Personal centralised control	Bureaucratic formalise control
Indirect/ implicit	Control by socialization or network	Output control

**Figure 3** Different type of control mechanism

In Market Seeker strategy there is low degree of uncertainty in the foreign market and with the subsidiary being wholly dependent on HQ, it is expected that bureaucratic formalised control would act as the dominant control mechanism. However, in Supplier strategy as the degree of environmental uncertainty faced is high there is need for greater autonomy to subsidiary. This would favour more indirect than direct form control the dominant control mechanism would be expected to be output control. Output control is favoured in situation with high environmental uncertainty (Child, 1981) and which is the case for Supplier strategy. In Resource Acquirer strategy, the HQ has to secure the investment in strategic assets while dealing with the political issues in the foreign country. Thus, the dominant form of control that is expected would be personal centralised control in addition to bureaucratic formalised control. However in Reputation Builder strategy the objective of the HQ is to ensure how to utilise the strategic assets for the EMNC reputation building but at the same time keep the subsidiary decentralised. Thus the dominant form of control expected would be socialization and personal centralise control.

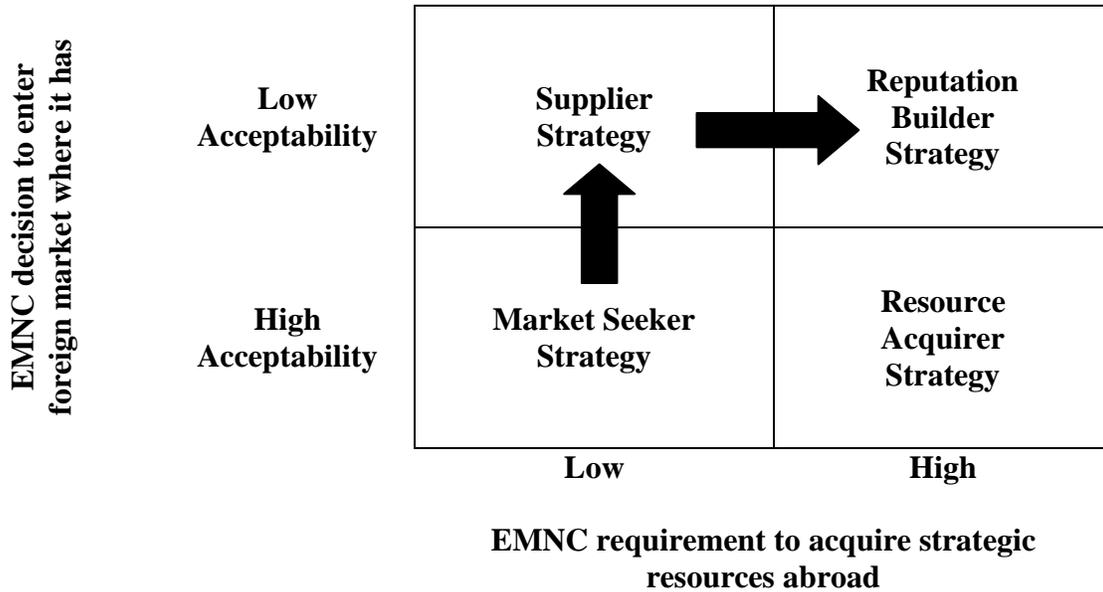
### ***Type of Expatriation***

In Market Seeker strategy the HQ would want to have operational control of the subsidiary, so the subsidiary would be managed by parent country nationals (PCN) sent from HQ. In Resource Acquirer strategy the subsidiary is dependent on HQ for technical and investment support and so it is necessary for HQ to have its people influence the subsidiary operation. Thus it is expected that PCNs will manage the key positions in subsidiary operations that would ensure the supply of resources. In Supplier strategy the subsidiary operates in an environment where the EMNC has less acceptability, so the use of PCNs would be limited. PCNs will interact with host country managers (HCN) to understand market requirements to interlink with HQ objectives. Finally, in Reputation Builder strategy due to strategic independence of subsidiary, the HQ will limit use of PCN in direct operational role. However, to achieve the integration of strategic assets in the EMNC network, PCNs would play the socialization role by ensuring creation of informal communication networks with HQ.

### **Conclusion**

The EMNC strategic orientations as discussed provide a new perspective to understand how EMNCs should develop their strategy to achieve competitive. The use of the existing IR framework based on the internationalisation strategies adopted by developed country MNCs, is not suitable for EMNCs. The challenges faced in EMNCs during internationalisation are different such as lack of strategic resources, late entrant, negative image vis a vis developed country MNCs. Therefore, the issues of internationalization strategy for EMNCs require a different perspective. How these challenges are handled by EMNCs provide the necessary strategic orientations that EMNCs should pursue in order to gain competitive advantage.

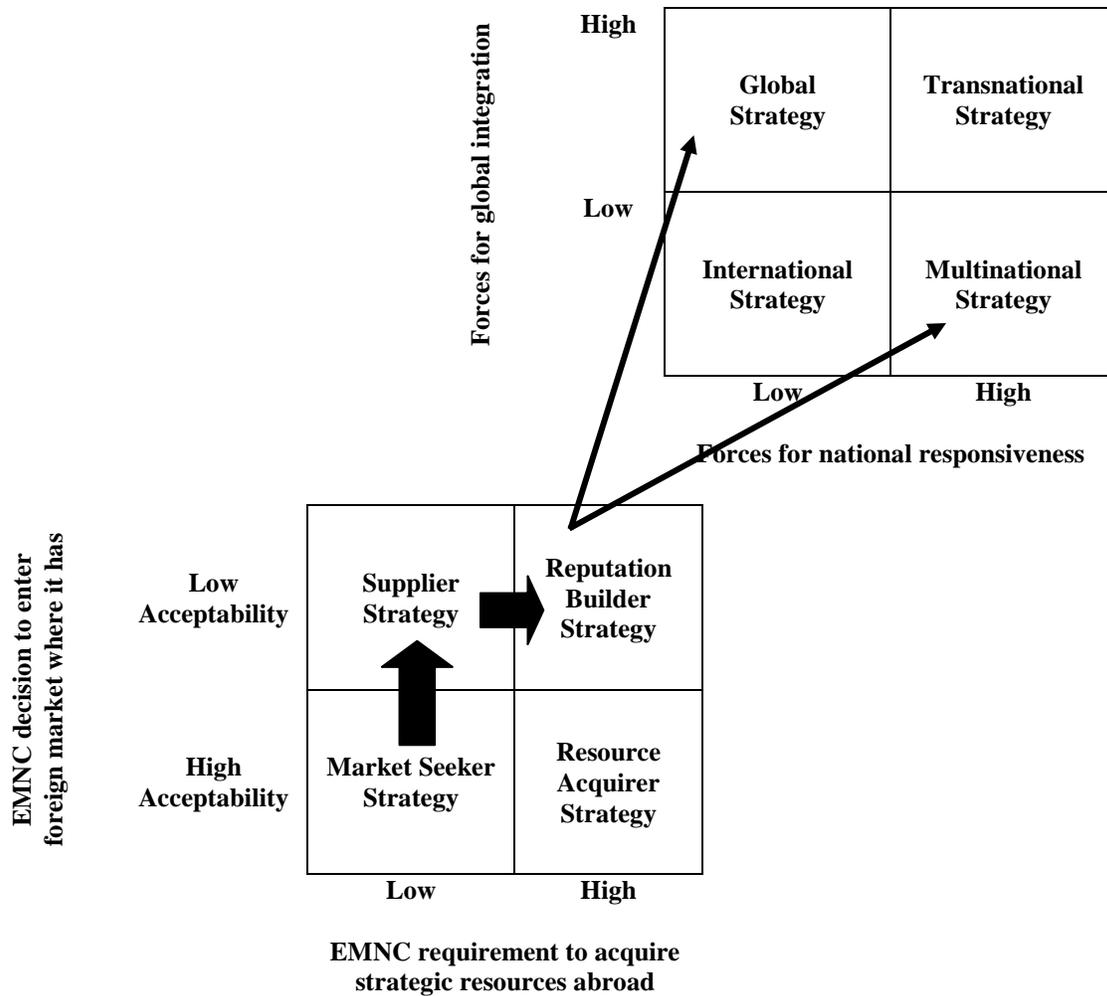
However, these strategic orientations do not represent fixed approaches for EMNCs but provide a dynamic approach to EMNCs attempt to catch up with developed country MNCs. As the EMNCs gain the experience in internationalisation, it could be observed that EMNC strategic orientation shifts from Market Seeker strategy to Supplier strategy to Reputation Builder strategy (figure 4).



**Figure 4** Path of strategic movement for EMNC

Moving into the Reputation Builder strategic orientation would allow the EMNC to have access to strategic resources located in both home and abroad. The Reputation Builder strategy also allows the EMNC to have access to developed country markets. Both of these accesses provide the EMNC the necessary ability to decide how to organize their worldwide strategic resources and worldwide markets, which is akin to the concerns of developed country MNCs as envisaged in the IR framework. So the practice of the Reputation Builder strategy allows the EMNC to develop the necessary strengths to implement their internationalisation strategy based on the IR framework (figure 5).

So the proposed strategic orientation framework of EMNC developed in this paper provides a bridge for EMNC managers to understand how to develop their strategy to compete effectively with the developed country EMNCs. As pointed out that the IR framework had a significant impact on the thinking and understanding of MNC strategy and so it might have impacted the thinking of EMNC managers in formulation their internationalisation strategy. However, this paper would like to sound a caution for EMNC managers that the impact of the IR framework on the EMNC strategy formulation needs to be assessed based on the understanding of the strategic orientation of the EMNC, as per the proposed framework. Only then would EMNC strategy formulation see greater degree of success.



**Figure 5** Integration with IR Framework

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<b>EMNC Strategic Orientations</b>				
<b>Strategy Variables</b>	<b>Market Seeker</b>	<b>Supplier</b>	<b>Resource Acquirer</b>	<b>Reputation Builder</b>
<b>Organizational design and subsidiary role</b>	Subsidiary acts as a pipeline to HQ and operates under the HQ export division	Subsidiary has a strategic role to identify market niche and operates as a foreign market division	Subsidiary plays a strategic role to acquire resource	Decentralised federation, subsidiary has strategic role as centre of excellence
<b>Interdependence</b>	Subsidiary has high dependence on HQ	High interdependence, HQ on subsidiary for market info while subsidiary on HQ for product flow	HQ is dependent on subsidiary for resource while subsidiary is dependent on HQ for technical support	Subsidiary only dependent on HQ for corporate guidance while HQ dependent on subsidiary for strategic asset implementation
<b>Local responsiveness</b>	Low degree of local production or product modification, low/medium degree of market adaptation	Low degree of local production and R&D but high degree of product modification and market adaptation	High degree of local production and R&D but low degree of product modification and market adaptation	High degree of local production and R&D, product modification and market adaptation
<b>Type of control</b>	Bureaucratic formalised control by HQ	Use of output control by HQ	Use of personal centralised and bureaucratic control by HQ	Control by socialization and network
<b>Type of expatriation</b>	HQ will exercise direct control over subsidiary by having PCN managers	PCN role limited to interact with HCN to identify market requirements that fit with HQ objectives	Use of PCN is widespread in key positions to ensure proper utilization of HQ technical support to subsidiary	PCN role to provide socialization of host country managers to ensure their integration into the EMNC network

**Table 1:** Comparison of EMNC strategic orientations practices