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Editorial

Rising powers from emerging markets—The changing face of international business

1. Introduction

There is recognition that some emerging economies, in particular China, India and Brazil and their economic dynamism have the potential to change the face of international business (IB). Both in terms of theory but also in terms of the amount of empirical evidence that is currently generated in the domain. Terminology and acronyms such as BRICs, MINTs and 'rising powers' are used to highlight the importance of the discourse taking place. However, what is meant by these terms, who is 'in' and who is 'out' is less clear. This introduction to the special issue theme "Rising powers from emerging markets—the changing face of international business" attempts to explore the phenomenon of 'rising', what we actually mean by 'rising powers' and provides an overview of IB contributions to emerging country multinationals. We conclude by asking whether emerging country multinationals are actually 'rising powers' and pose the question whether they are indeed challenging the 'rules of the game'.

2. The phenomenon of 'rising'

The rise of China, India and Brazil as economic and political 'drivers' of the global economy has generated substantial interest, both in policy circles and in academic research. China is now the world's second biggest economy and despite recent dampening forecasts, promises to grow at a phenomenal pace (Henderson & Nadvi, 2011). India is catching up, albeit with a time-lag, with mergers and acquisitions taking place in sectors as varied as automobiles, pharmaceuticals, and telecommunications. Brazilian multinationals are now major global players in mining, oil and a number of agro-processing sectors (Fleury & Fleury, 2011). Together, these economies and associated firms have managed to sustain growth despite the economic downturn, captured headlines in business magazines such as BusinessWeek and the Economist, seized interest from consulting firms such as McKinsey & Co. and the Boston Consulting Group and ignited recent scholarly interest on the internationalisation of emerging country firms (Luo & Tung, 2007; Makino, Lau, & Yeh, 2002; Ramamurti & Singh, 2009a).

What is interesting in this new rise of powerful players, particularly when compared to earlier work on FDI from developing countries (Lall, 1983; Wells, 1983), is that it may not simply be a revision of the earlier experience. The growth of Korean multinationals serves as an example of late industrialisation (Amsden, 1989), whereby industries learnt from earlier innovators, rather than innovate themselves. However, India and China are becoming major producers of products and services for global markets by pursuing rather distinctive development paths. In fact, there is evidence of highly creative response to institutional discontinuity in their domestic environment and tremendously swift build-up of innovation capabilities (Altenburg, Schmitz, & Stamm, 2008; Chittoor, Sarkar, Ray, & Aulakh, 2009; Luo, Xue, & Han, 2010; Williamson & Zeng, 2009; Zeng & Williamson, 2007). A critical question is thus whether these countries influence the 'rules of the game', challenge existing paradigms regarding firm competitiveness and performance and whether the 'rise' of these actors is thus a truly new phenomenon or rather a revisiting of previous patterns of competitive development.

3. What do we mean by rising powers from emerging markets?

Whilst there is no explicit criteria of how particular countries may be classified as 'rising powers' it is clear that they would be large emerging economies such as the so-called BRICs (O'Neill, 2001). In a never ending search for neologisms, attention has now expanded to the 'MINT' countries, referring to the economies of Mexico, Indonesia, Nigeria and Turkey (Wright, 2014). Irrespective of the actual term used, some traction can be gained from separating the 'rise' from 'power'. That such countries are 'rising' in a strictly economic sense is of course a matter of fact. The significance of which is widely acknowledged by international business consultants and the 'investment community' (Boston Consulting Group et al., 2013; Fourcade, 2013) as well as within IB and cognate academic literatures in economic development, international political economy and economic geography. IB scholars have discussed the challenges and opportunities that these economies provide for MNEs from 'advanced' countries for some time (Khanna, Palepu, & Bullock, 2010; Luo, 2007; Luo & Peng, 1999). Nadvi (2014) has sought to provide one particular framework to define 'rising power' that emphasizes economic scale, a growing dominance in international trade within particular sectors, a substantial and growing domestic market, a strong and effective state, a significant and expanding segment of private capital which is increasingly international in nature, and a growing voice for civil society.

However, whether countries such as the BRIC constitute rising *powers* is inherently more ambiguous. Explicit discussions of what 'power' entails in this context are rare. Fundamentally the BRICS and 'rising powers' are umbrella terms that do not say much in the way of specific criteria for inclusion and exclusion. In the UK, the

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Economic and Social Research Council (ESRC), a major grant funding body for the social sciences, has actually developed a large research programme around this umbrella term, suggesting that "These powers have significant populations, make increasingly important contributions to the global economy and have a potential for greater security capability. Their emergence challenges the pre-existing dominance of the OECD countries and will lead to a change in competitive conditions, global governance and international relations."

It has been argued that the assumed communalities shared by rising powers is more symbolic rather than material (Fourcade, 2013), the symbolism being particularly beneficial to 'well placed actors in financial markets to drum up excitement about investment opportunities' (Fourcade, 2013, p. 256). Other than such symbolism the commonality is that rising powers constitute important territories with large economies and assertive governments compelling decision makers in the 'advanced' countries—the hitherto 'dominant' powers—to pay more attention to them than previously. One study with an explicit rising powers focus considers the issue of power from a basically geo-political perspective (Hart & Jones, 2010). Countries are considered rising *powers* if they are able to confront the hegemonistic powers (Hart & Jones, 2010). Other studies take a somewhat broader approach, suggesting that, given the very large size of BRIC economies—especially in the case of China—their extraordinary rapid economic growth is, in itself, indicative of a 'transformative' process in the global political economy. This process is suggested to put these countries on a trajectory which is likely to turn them into developed economies and challenge the dominance of existing economic powers' effective control over the governance of global economic relations (Henderson and Nadvi, 2011). Notably, recent contributions to this transformative process seek to explore how these countries engage with issues relating to labour and environmental standards (Nadvi, 2014).

4. An overview of IB contributions to emerging country multinationals

Although the notion of rising power and associated discussions have been popular in economic development, international political economy and economic geography discourses, there has been relatively little focus on-arguably-a key player, i.e. the multinational firms based in 'rising power' economies. Whilst there is a growing body of literature within IB on the outward expansion of an increasing number of firms originating from emerging economies, such firms have not hitherto been tagged as 'rising powers' in the IB discourse. Broadly, the IB discussion can be characterised as exploring whether EMNEs are effective challengers to established performance regimes. 'Challenge' hereby is indicative or at least suggestive of the growing competitive capabilities by such firms who are deemed to be 'catching up' (or have 'caught up'?) with dominant, advanced country MNEs (AMNEs) at least in some sectors/industries (Luo & Tung, 2007; Ramamurti & Singh, 2009a). There is much debate in IB regarding the nature and the basis of the EMNE 'catch-up' phenomenon. The theoretical lens of the IB discussions revolves around the OLI framework. While some have argued that the outward expansion of EMNEs do not conform fully to the OLI framework (Luo & Tung, 2007; Mathews, 2006), the majority of IB contribution accept the OLI as the only relevant framework, supplemented, with insights from the 'late comer' perspective (Gerschenkron, 1962). Though some argue for modifications (e.g. Hennart, 2012), the key, though not the only issue in the debate, is whether the outward expansion of EMNEs reflects mostly the exploitation of country specific advantages (the home country 'L' factor) or firm specific assets of the focal players (the 'O' factor).

In much of this discussion it is a given that capabilities based on country specific advantage would pose less of a challenge to the dominance of AMNEs than those that are reflecting the development of 'ownership advantages' (Madhok & Keyhani, 2012) with Rugman being the most forceful exponent of the view that these EMNEs mostly lack FSAs (Rugman, 2010). Other influential contributions acknowledge competitive capability on the part of EMNEs, but note that these capabilities are narrowly based. For example, it has been argued that EMNEs have gained significant 'output capabilities' but lag behind in 'innovation capabilities' (Awate, Larsen, & Mudambi, 2012; Mudambi, 2013). Other contributions, argue that the predominant strategy of MNEs is imitative (Guillén & García-Canal, 2009; Luo, Sun, & Wang, 2011), labelling them as 'copycats' (Luo et al., 2011). Ramamurti (2012) has provided a cogent critique pointing out reasons why EMNEs advantages based on their home country CSA cannot be dismissed as necessarily 'weak'. Confirming this insight, most recent research, highlights robust EMNE capabilities derived initially from CSA but developed through distinctive innovation, value chain configuration and M&A strategies (Williamson, Ramamurti, Fleury, & Fleury, 2013a).

5. EMNES as' rising powers': are they changing the 'the rules of the game'?

In this section of we consider analyses that indicate the possibilities for a more fundamental challenge that would justify the 'rising power' tag: can EMNEs transform the landscape of IB in a way that does undermine existing rules of the game?

Whilst the IB debate concerns the competitive capabilities of EMNEs and the extent of the challenge posed to the current dominant players, the AMNEs, it is implicit in much of the discourse that EMNEs are not likely to overturn the dominant rules of the competitive game in global markets. EMNEs are not viewed as undermining, let alone transforming the extant rules of the game. The currently dominant rules of the game reflect a significant *competitive premium* linked to business models incorporating sophisticated products and brands, geared to demands of rich consumers in advanced economies. This is the territory occupied overwhelmingly by AMNEs who have carefully nurtured the organisational capabilities that sustain the business model. The organisational capabilities include two key dimensions: innovative and marketing capabilities enabling articulation and the creation of demand in advanced economies and the governance (or, simply, control) of increasingly globally dispersed value chains that manage the process of production targeted mostly to advanced economies (Gereffi, 2013). The assumed superiority of this approach is that being on top of the product cycles (with new products and brands) is the securest way to dominance in international markets. It suggests that every competitor wishes to emulate this process to secure markets via research and development excellency, product supremacy and customer demand lock in. This view is further supported by traditional MNE arbitrage opportunities. Furthermore globalisation, at least partly through the agency of AMNEs (including those dominating mass media and communication) has propelled a 'demonstration effect' leading to preference changes (or 'taste transfer') in developing and emerging countries (James, 2000). This has arguably further underpinned the dominant rules of the game, extending it globally.

In the present context this suggests a deeply held belief that effective EMNEs challengers would want to emulate the AMNEs and naturally aspire to be competing with them for the 'top', with globally recognised brands to match. Thus, as Ramamurti recently noted, if EMNEs do not have global brands yet, it is because they only started to invest in brands very recently (Ramamurti, 2012). The following observation by Ramamurti is a revealing testimony to the aforementioned assumption: 'EMNEs are (also) *important*

because they are potentially the Samsung's and Toyota's of the future' (Ramamurti, 2009, p. 9, our emphasis).

Such an observation would indicate that EMNEs are indeed appropriately viewed as 'copycats'—in a dual sense. Thus not only do they imitate, i.e. clone, product and technologies of their AMNEs rivals in the initial stages of their emergence. But they also follow essentially the same 'recipes'/business models for eventual global success. Such characterisation appears valid to a certain degree and it is certainly not overly difficult to identify many example of EMNEs of this type. More specifically it is undoubtedly true that some EMNEs can be categorised as 'world market aspirants' (Luo & Tung, 2007). Such firms may also have a greater incentive to invest in more liberal market environments to 'escape' institutional and other constraints of their home market (Child & Rodrigues, 2005; Witt & Lewin, 2007).

However, recent research also indicates trends contrary to those highlighted in the above narrative. These are suggestive of transformative capabilities for EMNEs, hence implying that they may merit the tag of 'rising powers'. Specifically, it has been argued that EMNEs have capabilities that 'match the requirement of the *new* global environment' (Gao, 2011, p. 541, our emphasis). An important aspect of the new global environment are indeed the very rapidly growing domestic markets of emerging economies where the vast majority of the population are poor but who constitute important markets—this being particularly true of China and India. EMNEs from different 'rising power' countries have not followed identical paths for their capability development. Nevertheless, a common pattern is that they have generated most of their capabilities specifically for this new market and, as has been noted widely, their outward investment in developed markets have also been largely aimed at gaining knowledge and other assets to buttress their competitive positions in their domestic markets. While China has clearly used MNs as a way of learning, gaining intellectual property through a rather weak implementation of intellectual property rights, it would be wrong to think that China has simply "borrowed" competitive strategies of western MNCs (Lauder, Brown, & Brown, 2008). There is evidence that goes beyond the views of China as a world factory or as an emerging market wanting for Western goods and technologies (Gao, 2011). Rather, firms are now pursuing their own low cost innovation strategies and strategies for leveraging cost innovation advantages which threaten to disrupt global competition as we know it (Williamson & Zeng, 2009; Zeng & Williamson, 2007). Indian MNEs have also had a focus on their domestic market and innovating for the home market has been an important basis of their capabilities (Celly, Prabhu, & Subramanian, 2013), especially in the case of the firms catgorised as 'local optimisers' (Ramamurti & Singh, 2009b). Other Indian firms, in pursuit of a different take on competitive strategies, have built on outsourcing agreements which were augmented by cost cutting exercises and projects in native India. Both examples have to be seen as more than simply cheap manufacturing or service strategies, as cutting edge R&D facilities provide opportunities for technology leverage strategies and accelerated internationalisation (Mathews, 2006) above and beyond a simple south–south trajectory as previously envisaged (Ramamurti & Singh, 2009a).

The growing size of the low and middle income segment in the emerging economies is proving a significant counterweight to the 'rules of the game', i.e. strategies that invariably aim for the 'top'. In an important recent study focusing on China, Brandt and Thun (2010) demonstrated that the crucial battleground between EMNEs and AMNEs is increasingly the 'fight for the middle'. EMNEs have a decided advantage over AMNEs in this battle because they have brought forth innovations specifically 'targeted at the middle or the base of the economic pyramid' (Williamson, Ramamurti, Fleury, & Fleury, 2013b, p. 296) that are perceived by consumers as being 'good enough' (Gadiesh, Leung, & Vestring, 2007). The phenomenon of the 'fight for the middle' is at least suggestive of transformative potential on the part of some EMNEs. Large scale battles 'for the middle' are not consistent with much traditional thinking about competitive strategy. Companies may occupy 'the middle' on their way to the top, but it would not be generally regarded as a sensible strategy for firms occupying the top of the market to 'come back' to the middle. In other words the 'fight for the middle reverses the usual competitive logic, where competitors usually need to 'upgrade' capabilities commensurate with those required for the 'top' of the market. Following the new logic, AMNEs essentially need to 'downgrade' capabilities commensurate with those needed for the middle or the base of the pyramid markets. This observation is reinforced by the notion of 'reverse innovation' (Govindarajan & Ramamurti, 2011; Immelt, Govindarajan, & Trimble, 2009). The reverse innovation strategy is motivated by the need of AMNE to strengthen their position in the enormously large, growing but relatively low income market segments in emerging economies.

However, in our view, it may be an exaggeration to attach undue importance to changing strategies of (a small number of) AMNEs as the 'spark' of change in emerging market economies (Mudambi, 2013). Most AMNEs lack a deeply rooted understanding of the complex institutions, structures and cultures and values of these economies. It is conceivable that these AMNEs only note the 'voids' and absent intermediaries that they take for granted at home. The notion that AMNEs may have to 'disrupt' themselves is testimony of certain liabilities. Arguably there is a 'liability of outsidership' (Johanson & Vahlne, 2009) with respect to emerging 'middle markets' and also of having to adopt new approaches to product development and innovation.

6. Contributions of this issue

The first two papers tackle issues that are central to the notion of "rising powers" and their distinctive capabilities. Giuliani, Gorgoni, Günther, and Rabellotti (2014) provide empirical evidence indicating that, while EMNEs may face challenges in terms of technological endowment, they still have relatively more positive socio-economic impacts than their AMNEs, even in advanced country contexts such as Italy and Germany. Hence, their study poses questions regarding the influence of the technological superiority of MNEs as a key factor shaping the formation of innovative ties at the local level. They identify a new typology of EMNE subsidiary that contributes through its significant local innovative efforts to development processes in the host country. The second paper by Sinkovics, Sinkovics, and Yamin (2014) suggests that business model innovation is a key capability that is particularly salient for emerging country firms that cater to the middle and the base segments of the bottom of the pyramid. The paper strongly implies that in the BOP context social missions aimed at removing or ameliorating the impact of key constraints can enhance the social and ethical legitimacy of the businesses. This type of embeddedness is of a kind that MNEs from the developed markets would find very challenging as it requires capabilities to meaningfully connecting with middle and lower level socio-economic strata in emerging markets.

The following two papers connect to global value chain aspects in international business. The paper by Azmeh and Nadvi (2014) captures a 'rising power' element in global value chains in as much as it shows that large Asian manufacturers are taking on roles a co-leaders in global value chains in the Apparel industry. They are strategic players in coordinating and exploiting geographically dispersed production linkages. The particular examples in the paper indicate a relatively exploitative and even 'unethical' behaviour specifically in their treatments of labour transferred from the South Asian continents. Through emphasising the of 'invisibility' of production practices vis-à-vis global labour organisations and NGOs, this paper opens up a debate around standards and the contribution

of key global suppliers in the orchestration and governance of global value chains.

The paper by Liu and Zhang (2014) speaks to the notion of the "thirst of learning" (Williamson et al., 2013b) regarding firms that are part of the Greater China. In a qualitative study of six Taiwanese technological firms with different positions in global production networks (characterised as original equipment manufacturers—OEMs, original design manufacturers—ODMs and original brand manufacturers—OBMs), they evidenced that firms were able to significantly enhance their capabilities and network position due to idiosyncratic learning processes at individual, team and organisational level. The authors also highlight important 'controversies' regarding knowledge management. First, the challenge of MNEs to share knowledge in partnerships while retaining and protecting distinct knowledge assets for competitive advantage. Second, the challenge of local suppliers to protect their clients knowledge while disclosing it within their own organisation and lastly, the challenge that results from improvements in the GPN positions that trigger a competitive position with existing clients.

Kubny and Voss (2014) analyse the linkage effects of Chinese firms in Vietnam, to see whether the assertion that FDI flows between emerging economies can benefit domestic firms more than investments from industrialised countries is correct. The literature suggests that this may be the case because of lower technology gap and more appropriate technology being transferred. Their analysis is built on data from 37 interviews with manufacturing firms and they find that backward linkages of Chinese firms are similar to those of advanced economy MNEs. However, forward linkages of Chinese firms are stronger than those of advanced economy MNEs. Local firm gains from linkage collaborations are limited by low value-adding interaction of MNEs with local firms—as local sourcing is confined to low-technology goods, and there is only sparse provision of training and financial support.

The paper by Jean (2014) examines how small firms from emerging economies are plugging into global value chains. The author examines unique and unconventional trajectories of the integration of Chinese new ventures into the GVC and examines the transformation and shifting of emerging-market firms from OEMs to original design manufacturers (ODMs). Empirical findings indicate that firms which participate effectively in trade shows are more likely to pursue functional upgrading. They use trade shows as a mechanism to learn about exporting and foreign markets and gain market and technical knowledge from their customers, agents, and competitors in foreign markets. Interestingly, although new technology ventures are very keen participants in electronic markets, participation in electronic markets reduces the probability of firms to engage in functional upgrading. It appears that the virtual nature of online B2B markets inhibits learning and renders the generation of innovative ideas problematic which supports earlier research on the effectiveness of foreign-market knowledge acquisition and accumulation (Yamin & Sinkovics, 2006).

The final paper by Wei Hu and Cui (2014) examines how key corporate governance factors influence internationalisation decisions of publicly listed Chinese firms. The effect of firm ownership structure, including the controlling owner's identity and the ownership effect of other salient non-controlling shareholders are tested by drawing on data from 224 Chinese firms. The authors found positive effects of ownership of domestic institutional investors and foreign corporations on the OFDI propensity of the firms, which were moderated by the power of the CEOs in these firms. However, although state-owned enterprises (SOEs) have privileged access to government financial support and can benefit from outward foreign direct investment (OFDI) promotion policies, state ownership does not necessarily influence the OFDI propensity of such firms. There are multiple challenges for SOEs in their international expansion, due to multiple and conflicting goals and pressures.

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Rudolf R. Sinkovics[a,b,*,1]
Mo Yamin[a,2]
[a]*Centre for Comparative & International Business Research (CIBER), The University of Manchester, Manchester Business School, Booth Street West, Manchester M15 6PB, UK*
[b]*Lappeenranta University of Technology, Finland*

Khalid Nadvi[3]
School of Environment, Education and Development, The University of Manchester, Oxford Road, Manchester M13 9PL, UK

Yingying Zhang Zhang[4]
Colegio Universidario de Estudio Financieros, Madrid, Spain

*Corresponding author. Tel.: +44 161 306 8980
E-mail addresses: Rudolf.Sinkovics@manchester.ac.uk (R.R. Sinkovics), Mo.Yamin@manchester.ac.uk (M. Yamin), Khalid.Nadvi@manchester.ac.uk (K. Nadvi), yzhang@cunef.edu (Y.Z. Zhang).

[1]http://www.manchester.ac.uk/research/rudolf.sinkovics.
[2]http://www.manchester.ac.uk/research/mo.yamin.
[3]http://www.manchester.ac.uk/research/khalid.nadvi.
[4]http://www.cunef.eu/profesor.php?p=192%3Famp;id=34.

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