

Global Strategy and Emerging Markets

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INTEREST IN FIRMS FROM EMERGING MARKETS and their impact on global competition has steadily grown in recent years, as these so-called emerging market multinationals (EMNCs) are increasingly contributing to world economic growth. Examining EMNCs and their environments increases our understanding of these important global actors, provides insight into international competitive dynamics, and helps test the generalizability of existing international business theories. Interest in EMNCs is evident in recent articles published in top journals, but also in the scope and focus of conferences worldwide.

This issue of *AIB Insights* focuses on the Global Strategy and Emerging Markets conference held at the University of Miami from January 6-8, 2016. This three day conference was organized by Alvaro Cuervo-Cazurra, Joseph Ganitsky, Yadong Luo, and the Associate Editor of this journal, and was sponsored by the University of Miami Center for International Business Education and Research.

The conference's academic program featured 4 keynote speakers and presenters from 16 countries (representing 5 continents) who discussed wide-ranging and detailed analyses of emerging markets and their indigenous multinationals. Topics included unique strategies and behaviors of EMNCs, winning strategies of advanced market multinationals (AMNCs) operating in emerging markets, co-opetition between EMNCs and AMNCs, competitive strengths and weaknesses of EMNCs, business model innovation by EMNCs, and EMNC adaptation to the new competitive realities of global connectivity, the accelerated flows of trade, investment, finance, people, and data. Presenters also addressed commonalities and differences among institutional environments, motives, and international expansion strategies of EMNCs from different emerging markets.

An interesting component of the conference was that the organizers not only concluded with a detailed summary and wrap-up of the research presented, but they further advanced their synthesis to develop a conceptual framework to better understand differences between EMNCs and AMNCs. This framework is discussed in the first article in this issue. It details how key characteristics of emerging market environments shape the distinctiveness and competitive approaches of EMNCs. The authors argue that examining EMNCs in this context provides insights into the drivers of EMNC behavior, and that examining such non-traditional contexts has the potential to broaden theories of the multinational enterprise.

The other three articles were adapted from conference keynote speeches. In the second article, Pankaj Ghemawat and Steven Altman systematically assess differences and distances between advanced and emerging markets based on the dimensions of the CAGE distance framework: cultural, administrative/institutional, geographic, and economic. Utilizing a variety of data, their preliminary findings point to interesting areas of difference and distance between firms from advanced and emerging markets, but also between firms from different emerging markets. Investigating these differences provides insight into understanding the differential effects of distance.

In the third article, Philip Nichols details the strategy of creating shared value, which is a business strategy designed to increase profitability by improving the social context in which a business operates. While similar to corporate social responsibility, creating shared value focuses on how a *business* intersects with the rest of society to affect economic performance. The author discusses specific implementation challenges faced when trying to create shared value, and he also illustrates corruption control efforts as an example of a strategy to create shared value.

In the fourth article, Jaeyong Song discusses processes by which late mover firms from emerging markets were able to close the technology gap they face with respect to first mover firms from advanced economies. Citing patent filing as evidence of technological catch-up, the author attributes the successful technological advancement of late mover firms from emerging markets to their creative knowledge sourcing techniques, as well as their balanced approach to pursuing a mix of imitation and innovation strategies.

FEATURED COMMENTARY With the second issue of this year (Volume 16, Issue 2), we started a new series of lead articles that raise insightful and thought-provoking questions with the intent of making *AIB Insights* more interactive. In this current issue, we publish a summary of the responses to the question the first article in this series, authored by AIB Fellow Jean Boddewyn, had raised: *Is Your 'IB' Research Truly 'International'?*



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Global Strategy and Emerging Markets

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Introduction

The last two decades have witnessed an increase in interest in understanding the global expansion of emerging market multinationals (EMNCs). We propose that the uniqueness in studying EMNCs is how their home country environments impact their behavior. Specifically, we argue that their underdeveloped economies, which are undergoing pro-market reforms, and their underdeveloped pro-market institutions both affect ownership, capability, and innovation of firms, which in turn drive their internationalization and global success. Thus, this framework links the underdevelopment of emerging markets to firm internationalization via firms' characteristics and strategies. The framework was derived from presentations and conversations at the Global Strategy and Emerging Markets Conference that took place at the University of Miami in January 6–8, 2016. This issue's Editorial Commentary provides more information about this conference.

Global Strategy and Emerging Markets : A Framework

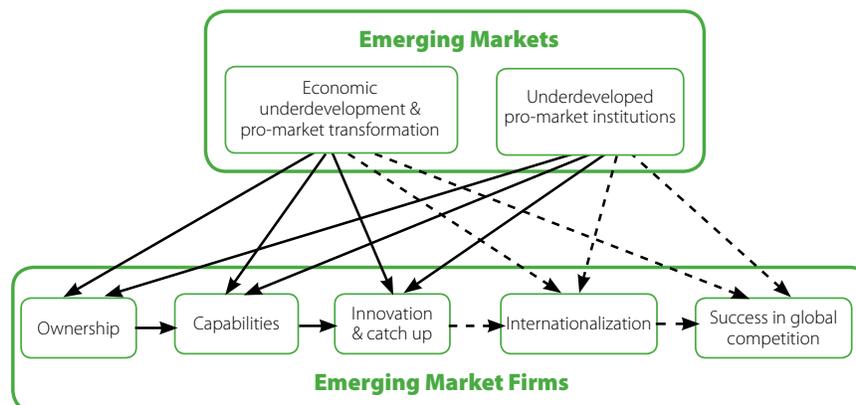
The rise of EMNCs has led to an increasing interest in these firms. These firms are now part of the competitive landscape, with multinationals from advanced economies encountering EMNCs in both emerging economies and advanced countries. Although EMNCs entered the competitive landscape several decades ago, scholarly interest in these firms is relatively recent. An incipient literature in the 1980s identified

the phenomenon (e.g., Wells, 1983), but deep interest in analyzing these firms did not emerge until the late 2000s (e.g., Khanna & Palepu, 2006; Luo & Tung, 2007).

The plethora of studies analyzing these firms yield not only new insights on their behavior and distinct patterns of internationalization (e.g. Luo & Tung, 2007) but also new insights on the theory of the multinational enterprise (Cuervo-Cazurra, 2012). These new insights emerge from the study of these firms and, more importantly, from identifying key features that make their study distinct.

From conference sessions and discussions we derived a framework that helped organize the various conference papers and establish links among them, and so offer guidance for future research on EMNCs. Figure 1 illustrates our framework. We first identified two characteristics of emerging markets that seem to drive strategies of EMNCs: economic underdevelopment and pro-market transformation, and the underdeveloped pro-market institutions. These two defining characteristics of emerging markets appear to influence three key dimensions of EMNCs' behavior: ownership, capabilities, and innovation. Through their influence on ownership, capabilities, and innovation, these environmental characteristics explain much of the differential behavior of EMNCs in terms of their internationalization, and their ultimate global success. This framework is not meant to be a comprehensive analysis of all research on EMNCs, since there is already research analyzing the influence of home country on international expansion of EMNCs (e.g., Luo & Wang, 2012). Rather, it summarizes insights gained from the confer-

Figure 1. Emerging Markets and the Behavior of Emerging Market Multinationals



Note: Solid arrows illustrate commonly analyzed relationships, while dashed arrows illustrate less known relationships.

ence that help classify and organize future research. In Figure 1 we also highlight with dashed arrows the relationships that are still understudied, warranting much greater attention in future research.

Characteristics of Emerging Markets

Economic Underdevelopment and Underdeveloped Pro-Market Institutions

Countries that have relative economic underdevelopment but are undergoing pro-market reforms, and that have relatively underdeveloped institutions are usually considered emerging economies (Hoskisson et al., 2000). For a more detailed discussion of how to define emerging markets, please see the Ghemawat and Altman article in this issue.

Economic underdevelopment is important for understanding how emerging market firms behave. Emerging economies may not have large segments of the population with high income levels capable of paying premium prices for products, highly sophisticated providers of inputs or supporting services, or advanced transportation and communication infrastructure. As a result, many EMNCs have to invest in domestic infrastructure to compensate for deficiencies in the provision of assets by their governments. Nevertheless, nascent pro-market reforms have altered the competitive landscape and led these firms to improve competitiveness.

Underdeveloped pro-market institutions is the second dimension that tends to characterize emerging markets. Underdeveloped pro-market institutions have been called institutional voids (Khanna & Palepu, 2010). We believe that emerging markets may not lack institutions, but rather have weak or underdeveloped pro-market institutions. Many studies analyzing EMNCs have focused on this dimension of the environment, investigating how weak institutions encourage EMNCs to undertake investments and upgrade capabilities.

Ownership, Capabilities, and Innovation

We identified three sets of characteristics of EMNCs that seem to drive their behavior as a result of their country of origin: ownership, capabilities, and innovation. Although these dimensions have interrelations in defining global strategy, discussed later, for now we organize these in a sequential process to better understand influences of home country characteristics on them.

First, ownership of emerging market firms appears to be influenced by the underdevelopment of the country and, especially, of financial institutions that ensure access to abundant and low cost capital and protect investors' rights. As a result, state-owned firms seem to take a particular preeminence in emerging markets, with the state becoming an investor that provides firms with the capital required to offer needed products and services. This is not only the case of utilities, in which the state has been a usual investor, but also of sectors requiring large amounts of capital which private investors may not be able to obtain in emerging

markets, such as in heavy industries. The lack of investor protection may also result in the emergence of large family-owned firms that substitute for capital markets and become business groups. These family-owned firms achieve control of the ever-expanding set of firms via pyramidal ownership (gaining control of a firm via a chain of ownership relations) thus, becoming primary investors in other firms. This pyramidal investment pattern often reaches a point in which even though the family has a small stake in a firm, it exercises control.

Second, capabilities of EMNCs depend in part on a country's supporting infrastructure and comparative advantages, such as education and innovation systems. Firm capabilities depend not only on a firm's investments, but also on the quality of inputs it obtains. In many emerging markets available inputs tend to be of lower quality and sophistication, especially inputs that must be developed rather than those that are part of the country's endowment. This shortcoming is due to three primary reasons: (1) Individuals, private and public sectors are unable to invest sufficiently in developing an educated workforce, which limits the pool of skilled employees needed to improve firm competitiveness. (2) The government has not developed a clear regulatory framework, which would have enabled firms to invest in capabilities without fear of expropriation. (3) Weaknesses in infrastructure also make input providers less sophisticated and unable to provide quality intermediate inputs to firms because they lack specialization. Thus, EMNCs cannot rely on external providers for many inputs, even if these inputs or services have little to do with the overall ability of firms to compete in global markets (e.g., security, cleaning services or transportation). Instead EMNCs often have to internalize activities done by specialists in advanced economies, thus becoming much more vertically integrated and diversified. As a result of these limitations, EMNCs must develop and leverage a wide array of capabilities instead of focusing on their core areas or activities.

Third, EMNCs suffer from the weakness of innovation systems in emerging markets, which limit their ability to develop highly sophisticated technology and innovate. Notwithstanding some exceptional technological leaders, many EMNCs tend to have less sophisticated technologies than competitors in advanced economies. For a more detailed discussion of technology gaps, please see the Song article in this issue. The main reason for this is that innovation systems in emerging markets are less developed due to lower previous public and private investments in R&D, a less sophisticated university educational infrastructure yielding less creative and inquisitive professionals, lower or no tax incentives for R&D investments, as well as less protection of intellectual property rights. These factors discourage firms from investing in technology. Thus, EMNCs appear to follow different paths for developing technology and innovating (Luo & Tung, 2007). Some firms copy ideas and innovations from advanced market multinationals via reverse engineering in an attempt to improve competitiveness without having to invest in innovation. Other firms focus on process and business models innovations, because these are more difficult to copy than product innovations. Some firms improve technology by establishing alliances or becoming part of the global supply chain of advanced economy multinationals

and integrating advanced market multinationals' more sophisticated process technologies. Yet other firms focus on creating product and/or business models innovations that reduce production and operation costs and address limitations to distribution and customer payments, which are more appropriate for emerging markets.

Innovation and Escape Internationalization

These three firm-level characteristics—ownership, capabilities, and innovation—influence ways in which EMNCs internationalize. We consider two different ways (Cuervo-Cazurra & Ramamurti, 2014): internationalization in other countries to take advantage of innovations and capabilities developed in the home country, and internationalization to solve some limitations of the home country.

First, internationalization to take advantage of innovations created in the home country reflects the usual argument that ownership advantages help firms expand abroad, but for EMNCs, ownership advantages that have internationalized take additional dimensions that help these firms achieve success in global competition. One dimension is developing innovations for the base of the pyramid, that is, individuals in the lower segments of income. EMNCs create products and services to serve poor consumers in their home countries and use these innovations to serve poor consumers in other emerging economies. These innovations can also become the so-called reverse innovations (Govindarajan & Ramamurti, 2011), in which innovations that are created for individuals at the base of the pyramid in emerging countries are transferred to advanced economies to serve the needs of higher income individuals there. EMNCs can also use expertise gained in dealing with weak institutions at home to achieve an advantage and become leading investors in other countries with weak institutions (Cuervo-Cazurra & Genc, 2008). Thus, managers develop an ability to deal with underdeveloped pro-market institutions in the home country in the form of a flexible management style and better management of uncertainty in rules and regulations that provides their firms with an advantage when they enter other emerging markets with weak institutions.

Second, internationalization often helps EMNCs avoid underdeveloped conditions of their home countries. This is an extension of the institutional escape argument (Witt & Lewin, 2007) but EMNCs can escape both the uncertainty and high risks in emerging markets, and the harsh conditions that their governments may impose; and seek more stable and predictable institutional settings in which EMNCs may experience greater success. Thus, EMNCs escape poor institutions of the home country in search of foreign financial markets that provide better protection of shareholder rights. They also escape poor technological conditions in their home country that discourage developing advanced technology. Some EMNCs achieve this by purchasing technologically sophisticated firms in advanced economies, which facilitates access to better innovation systems and transfer of advanced tacit technologies.

Conclusions

The framework presented here has important implications for international business research. It provides an overarching explanation of the mechanisms that link the conditions that characterize emerging markets to the international expansion of their firms. We go beyond a summary of existing arguments and provide a complete framework that connects the underdevelopment of the economy and institutions of emerging markets to their competitive behavior and internationalization. These areas have received limited attention in the literature. Thus, with this framework we encourage studies that not only provide additional depth to the analysis of the relationship between ownership, capabilities, innovation and internationalization, but also studies that analyze these relationships within the economic and institutional context in which firms operate. Future studies can analyze areas that have received little attention, for example the influence of economic and institutional development on internationalization and success, or the interaction between innovation and internationalization, and the impact of internationalization on success. Future studies can also analyze how particular characteristics of emerging markets might have an impact in ways not predicted by traditional models of the multinational. These traditional models were developed with the implicit assumption of an advanced economy that provides companies with soft and hard infrastructures that are supportive. However, such infrastructures are not as well developed in emerging economies and thus the mechanisms and predictions of existing models likely need modification. In this sense, studies of EMNCs have potential to extend existing models of the multinational. But to do this any study of EMNCs must account for the context of their behavior and how being in an emerging country affects their ownership, capabilities, innovation and internationalization. It is the influence of this context that holds promise for such analyses of EMNCs to extend and transform existing models of the multinational enterprise. We hope this framework will spur additional research to broaden our understanding of EMNCs and their potential for advancing the theory of the multinational enterprise.

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Emerging Economies: Differences and Distances¹

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Introduction

A full 78% of AIB members are based in advanced economies, yet our research and teaching increasingly demand attention to emerging economies. Despite the recent emerging market slowdown, the IMF still projects these economies to deliver 72% of global growth from 2015 to 2020 in purchasing power parity (PPP) terms (IMF World Economic Outlook Database, April 2016). In this short article, we delve beyond the obvious differences between emerging and advanced economies to present a more holistic characterization of these important—but often misunderstood—parts of the world.

We begin by examining the classification of economies based on levels of development, both to draw attention to the controversies involved as well as to clarify the basis for the material that follows. Then, we apply the CAGE distance framework (Ghemawat, 2001) to look systematically at differences and distances between advanced and emerging economies. The CAGE framework identifies four dimensions of distance (cultural, administrative/institutional, geographic, and economic), and we analyze these first with respect to internal (unilateral) characteristics of countries and then in reference to attributes that can only be measured bilaterally, e.g., common languages and geographic distance.

IMF's current *World Economic Outlook* states that their classification is “not based on strict criteria, economic or otherwise, and it has evolved over time.” Nonetheless, it still seems to reflect criteria for advanced status listed in earlier editions: “per capita income levels well within the range indicated by the group of industrial countries, well-developed financial markets and high degrees of financial intermediation, and diversified economic structures with relatively large and rapidly growing service sectors” (IMF World Economic Outlook, May 1997).

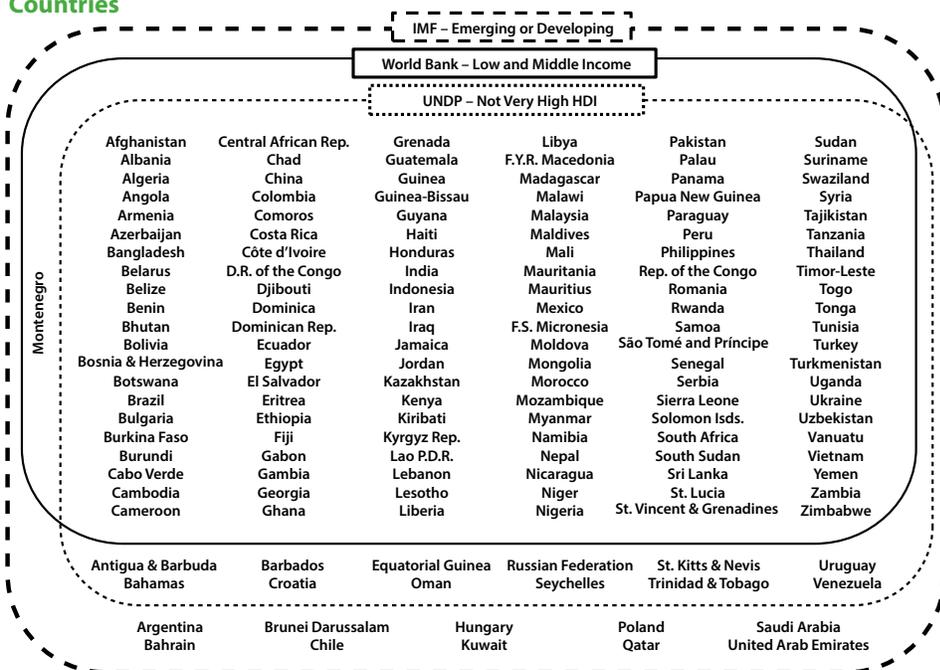
Figure 1 compares lists of emerging economies and their analogues (low- and middle income, etc.) across commonly used classification systems. Given our own emphasis on multi-dimensional (CAGE) distance, we prefer the IMF's broader set of criteria to the narrow economic cutoffs used by the World Bank and UNDP. The World Bank defines low- and middle-income countries as those with purchasing power parity-adjusted GNI of less than \$12,736,² thus excluding many oil-rich countries as well as several others, primarily in Latin America and the Caribbean. The UNDP uses their Human Development Index (HDI), comprised of per capita income, educational attainment, and life expectancy, and classifies countries without “very high” HDI as those below 0.8 (United Nations Development Programme, 2015) (on a 0 to

Classification Controversies

Antoine van Agtmael coined the term “emerging markets” in 1981 to promote a Third World investment fund, but his definition seems to have evolved over time. In 2013, he declared the United States the next great emerging market (Zweig, 2013). Others ranging from McKinsey managing director Dominic Barton to Harvard professor Krishna Palepu have also ascribed, for different reasons, emerging economy characteristics to the U.S. However, stretching “emerging” to incorporate virtually all countries would also make it a contentless qualifier. We choose, therefore, to stick with earlier conceptions of emerging markets, and follow the IMF's classification of countries into “advanced” versus “emerging and developing.”

Classifying countries based on levels of economic development is itself politically sensitive, and the

Figure 1: Venn Diagram Comparing Classifications of Emerging and Developing Countries



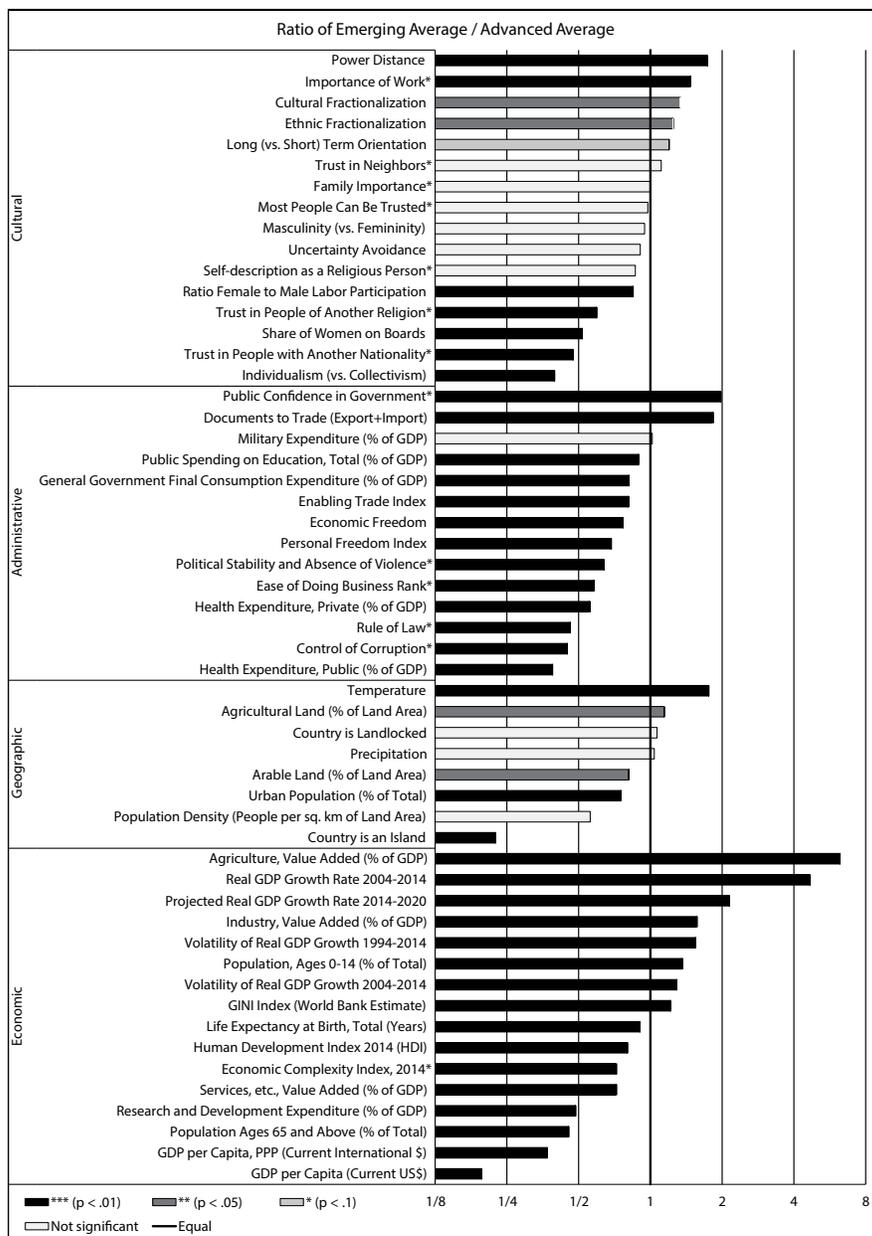
Sources: IMF, World Bank, United Nations Development Program (UNDP).

1 scale), again excluding several oil-rich countries as well as Argentina, Chile, Hungary, and Poland.

What Is Different about Emerging Economies?

While the IMF's classification scheme does consider a wider array of country characteristics than the alternatives discussed in the previous section, it still addresses only the economic dimension of the CAGE framework, and there are even some surprises on that dimension itself. Figure 2 covers country characteristics across all four CAGE dimensions. It compares GDP-weighted (rather than simple) averages to highlight differences that business practitioners encounter in the large markets on which they often focus.³

Figure 2. Internal Differences between Advanced and Emerging Economies (Weighted by GDP)



Notes: Variables marked with asterisk (*) were transformed using min-max normalization prior to calculating comparisons.⁵

Sources: World Values Survey (waves 2005–2009 and 2010–2014); Fearon, “Ethnic and cultural diversity by country,” (2003); Geert Hofstede Dimension Data Matrix (2015); World Bank World Development Indicators (2016); World Bank Climate Change Knowledge Portal; Catalyst Knowledge Center (2014); GMI Ratings Women on Boards Survey (2013); World Bank Worldwide Governance Indicators (2014); Heritage Foundation Index of Economic Freedom (2015); World Economic Forum Global Enabling Trade Report (2014); World Bank Ease of Doing Business (2016); Centre d’Etudes Prospectives et d’Informations Internationales (CEPII) Geography Database; Google Maps; International Monetary Fund World Economic Outlook Database (October 2015), United Nations Development Program HDI (2015); Cato Institute, Fraser Institute and Friedrich Naumann Foundation for Freedom Human Freedom Index (2015); Ricardo Hausmann, César A. Hidalgo, et al. The Atlas of Economic Complexity: Mapping Paths to Prosperity. (Cambridge, MA.: Harvard’s Center for International Development (CID); Harvard Kennedy School; MIT Media Lab, 2011), <http://www.atlas.cid.harvard.edu/book/>.

Starting with economic differences, the most obvious are the emerging economies’ lower per capita incomes and faster real growth rates. But even those characterizations fail to apply to every emerging economy: the IMF lists both Qatar and Yemen as emerging or developing even though they had the world’s third-highest GDP per capita and lowest real growth rate, respectively, in 2015. From a business perspective, lower R&D intensity in emerging economies is particularly salient, given the association between R&D (and advertising) intensity with resources that enable firms to become multinational. Also, the higher proportion of GDP coming from the industrial sector in emerging economies implies that it is no longer appropriate to treat “industrialized countries” and “advanced economies” as synonymous.

Culturally, there are statistically significant differences on three of Hofstede’s dimensions of national culture (Hofstede, 1980; Hofstede & Bond, 1988). Greater power distance, collectivism, and long-term orientation in emerging economies all imply requirements for executives to vary leadership practices. Based on data from the World Values Survey, people in emerging economies accord work a higher priority in their lives—presumably an advantage for employers—but have lower levels of trust in foreigners, which can complicate international business activities in particular. Furthermore, the higher cultural fractionalization and lower representation of women on boards in emerging economies highlight the importance of thinking about diversity within as well as across countries.

Administratively, emerging economies rank significantly worse than advanced economies on indicators of institutional quality, e.g., rule of law, political stability, and control of corruption, all of which can dampen international business activity. According to an estimate by Shang-Jin Wei (2000, p. 1), “an increase in the corruption level from that of Singapore to that of Mexico would have the same negative effect on inward FDI as raising the tax rate by fifty percentage points.” Emerging economies also require more documents to conduct international trade and rank lower on the World Economic Forum’s Enabling Trade

Index. Surprisingly, despite their administrative weaknesses, publics in emerging economies express greater confidence in their governments.

Emerging economies also present distinct geographic conditions. They average lower levels of urbanization which impact both demand patterns and supply chains. Temperature levels are also higher, on average, in emerging economies. And while emerging economies' higher likelihood of being landlocked is not statistically significant, infrastructure deficiencies make landlocked emerging economies far less accessible than landlocked advanced economies.

The multifaceted differences between emerging and advanced economies hint at the limitations of previous efforts to characterize the salient differences among them in terms of one CAGE dimension—whether it be power distance (cultural), institutional voids (administrative), higher temperatures (geographic), or lower per capita incomes (economic)—rather than more broadly. Previous characterizations are also limited by a focus on (an unduly narrow subset of) unilateral differences at the expense of bilateral (or multilateral) differences, even though the latter have been shown to have profound influences on international interactions (Ghemawat, 2017).

What Is Distant (Bilaterally) about Emerging Economies?

In addition to the distance created by differences in internal attributes, other sources of distance can only be assessed bilaterally across pairs of countries. Figure 3 provides a set of bilateral comparisons along the cultural, administrative, and geographic dimensions of the CAGE framework, incorporating variables on which gravity models have shown that

greater distance significantly dampens trade and/or FDI.⁴ It compares commonalities and distances across pairs of two advanced economies, of one advanced economy and one emerging economy, and of two emerging economies. Here, we utilize sums of country pairs' GDPs as weights to compute weighted averages for each of the categories.

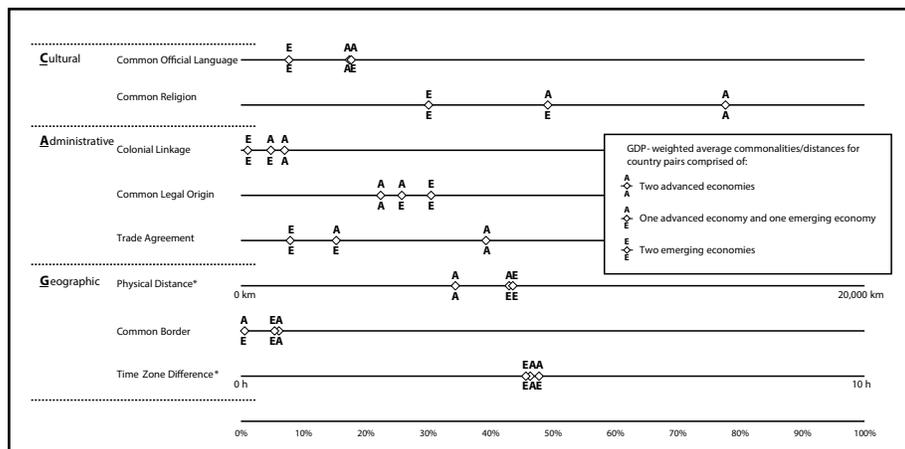
It is useful to consider the material summarized in Figure 3 separately from the perspectives of firms based in advanced and emerging economies. For a typical firm from an advanced economy, emerging economies are more different or distant—to a statistically significant extent—than other advanced economies on every variable except language and legal origins. Geographically, emerging economies are more than one-quarter more distant, and administratively, advanced economies are about two-and-a-half times as likely to have trade agreements with other advanced economies as with emerging economies. Based on a gravity model with the measures shown in the figure as explanatory variables (along with origin and destination country GDPs and fixed effects), shifting from the weighted average distance between two advanced economies to the weighted average distance between one advanced and one emerging economy is expected to reduce merchandise trade by 36% and FDI stocks by 29%! Incremental distance, thus, clearly imposes substantial challenges on firms from advanced economies pursuing growth in emerging markets.

For firms expanding abroad from emerging economies, while similar levels of development create economic proximity with other emerging economies, many of the other commonalities that bind advanced economies together are absent. Emerging economies share common languages, common religions, colonial linkages, and trade agreements more often with advanced economies than they do among each other.

The paucity of trade agreements between emerging economies is particularly striking: two emerging economies are half as likely as a pair comprised of one advanced and one emerging and one-fifth as likely as two advanced economies to have a trade agreement. The only variable where emerging economies benefit from the greatest commonalities with other commonalities with other countries is legal origins, a legacy of shared colonial histories.

Considering all of the variables in Figure 3 together, the gravity model indicates that firms from emerging economies face *greater* resistance due to non-economic distance when trading and investing in other emerging economies than they do in advanced economies: shifting from two emerging economies to one emerging and one advanced is expected to boost both trade and FDI by 15% as a result of greater non-economic distances, on average, between emerging economies. And, of course, firms from emerging economies face far greater distance-related challenges in advanced economies than do competitors from advanced economies—many factors that make emerging

Figure 3. Bilateral Comparisons between Advanced and Emerging Economies (Weighted by GDP)



Notes: For variables marked with asterisk (*), distance rises from left-to-right across the chart; for all other variables, commonality/proximity rises from left-to-right. All differences (AA vs. AE, AE vs. EE, and AA vs. EE) are significant at the 0.01 level, except for Physical Distance (AE vs. EE) and Common Border (AA vs. EE) which are significant at the 0.05 level and Time Zone Differences (AA vs. AE and AA vs. EE) which are significant at the 0.1 level. The only difference that is not significant at any standard level is Common Official Language (AA vs. AE).

Sources: Based on data from Centre d'Etudes Prospectives et d'Informations Internationales (CEPII), Dow and Karunaratna (2006) (using series R1 and treating scores of 1-3 as reflecting a common religion), and World Trade Organization (WTO).

economies harder for advanced economy based firms also apply in the reverse direction. These results imply that distance imposes even greater challenges on multinationals from emerging economies than on those from advanced economies, and our preliminary research also suggests that emerging market based multinationals also have weaker capabilities for traversing distance.

The greater distances faced by emerging economies as well as some of the unilateral characteristics covered in the previous section contribute to another barrier to business into and out of emerging economies: their lower levels of globalization as measured on our *DHL Global Connectedness Index* (Ghemawat & Altman, 2016). Advanced and emerging economies are roughly at parity with respect to trade intensity—exports and imports of goods and services as a share of GDP. However, with respect to capital and people flows, advanced economies are four to five times as deeply globalized and advanced economies are nine times as deeply globalized with respect to international information flows.

Conclusion

The salient differences between advanced and emerging economies for multinational firms extend well beyond obvious ones such as lower income levels and faster growth. By applying the CAGE distance framework to analyzing them, we have sought both to provide a convenient sketch of many relevant differences as well as to illustrate the power of attention to multiple dimensions of distance when analyzing countries and strategies that seek to create value by doing business across them.

We contend that future research on emerging markets and multinationals based in them would benefit from greater attention to distance across multiple dimensions and to heterogeneity across countries and firms in their capacities for bridging distance. As firms stretch to traverse the great distances between advanced and emerging economies, research on them can also stretch our understanding more generally of distance effects and what enables some firms to handle more distance than others.

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Endnotes

- 1 This article is based in part on Chapter 11 of Pankaj Ghemawat, *The Laws of Globalization and Business Applications*, Cambridge University Press, 2017.
- 2 More specifically, for the 2016 fiscal year, high-income economies are those that had a gross national income per capita of \$12,736 or more in 2014, as reported at <http://data.worldbank.org/about/country-and-lending-groups>.
- 3 Analysis based on simple averages is more strongly affected by small economies that receive less attention from multinational firms. Nevertheless, there is a 0.9 correlation between weighted and unweighted versions of this analysis and in most cases, ratios that were greater than one in the weighted version were also greater than one in the simple averages version (and vice versa).
- 4 In a gravity model of merchandise exports, all of the variables shown in the figure were significant at the 0.01 level with expected signs except common legal origin which was significant at the 0.05 level. In a gravity model of FDI outward stocks, they were all significant at the 0.01 level except common religion, time zone difference, trade agreement, and common border which retained their expected signs but were not significant at any standard level.
- 5 Min-max normalization rescaled values to lie between 0 and 1 without changing the shapes of the relevant distributions. Variables from World Governance Indicators and Economic Complexity Index were normalized to avoid incorporating negative values into the ratio calculations; variables from World Values Survey were coded based on answers to individual survey questions and made comparable via normalization; World Bank's Ease of Doing Business ranks were normalized in order to reverse order and improve comparability with other data components.

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Creating Shared Value by Combatting Corruption

Philip M. Nichols, University of Pennsylvania, USA

Introduction

Many people offer differing definitions of emerging economies; one salient way of *understanding* emerging economies is that they are experiencing profound change, particularly institutional change. Inexperience with and weaker accountability in institutions contributes to more frequent incidents of corruption, which is costly for local and transnational businesses. Businesses operating in emerging economies should consider the *creating shared value* strategy, a business strategy that increases profitability by improving the social context in which a business firm operates. Although fairly well known in some emerging economies, among North American and European business firms the creating shared value strategy has received little attention. A debate between Michael Porter and Mark Kramer (2011) and Andrew Crane and others (2014), for example, treats the creating shared value strategy as if it exists only in theory.

In emerging economies the creating shared value strategy is a reality. Implementing the strategy requires rethinking and refocusing goals so as to take into account unmet social needs, and is made easier by socially-oriented partners with shared interests. Difficulties in implement the strategy include difficulties in measurement and difficulties in finding a common language. This article, after explaining the creating shared value strategy, suggests that solutions to those difficulties are to be found by leveraging off of the existing global and local efforts to control corruption.

Corporate Social Responsibility and Social Impact

The creating shared value strategy explicitly deals with the intersections between a business firm and other aspects of society. It thus is sometimes confused with other undertakings in the same realm. It is helpful, therefore, to distinguish creating shared value strategies from similar undertakings.

The best known of these is corporate social responsibility. The phrase "corporate social responsibility" has become so overused as to have almost lost any meaning. At its roots, however, corporate social responsibility describes a business that acts as a mature and responsible member of society. This can manifest itself in a multitude of ways. A business firm might, for example, attempt to reduce its carbon footprint because it feels that that is what a responsible and mature member

of society does, or for similar reasons might contribute to efforts to clean up a park shared by the local community. Ben & Jerry's offers an interesting example of corporate social responsibility. The firm wears its social values on its sleeves; its website is peppered with comments such as "it's not just an environmental issue; it is an issue of social and economic justice," and "it's good for us to turn a shovel, lift a hammer or dip a paint brush to do some good in our local communities."

"Social impact" is a phrase that is becoming almost as popular as "corporate social responsibility," and is similarly at risk of losing meaning. At its heart social impact refers to the use of business skills, tools and experience to effectuate socially desirable goals rather than business goals. A non-profit, socially-oriented organization might do so, as when First Book utilizes business techniques to place books in the hands of children who otherwise would never get them. Non-profit organizations might work in concert with for-profit businesses, as when the National Trust for Historic Preservation jointly marketed with American Express to raise funds to restore the Statue of Liberty. Or it may be undertaken entirely by a for-profit business, as when Jesus Vizcarra Calderón utilized the extensive business experience he had accumulated in turning Corrales Vizcarra into one of Mexico's largest beef exporters to create and operate Salud Digna, a premiere healthcare facility for people of lesser means.

Creating Shared Value

The creating shared value strategy is similar to corporate social responsibility and to social impact in that it focusses on the intersection between business and the rest of society. It differs, however, in that it is a business strategy intended to contribute to the profit earned by a business. creating shared value is about the bottom line.

Creating shared value strategies recognize that business is embedded in society and business firms benefit from the many inputs provided by society, and that failures in society limit the extent to which a business firm can profit and grow. A creating shared value strategy enriches society in a targeted way, so as to make it possible for a business firm to profit and grow.

One example of a creating shared value strategy in an emerging economy is the work of AACE Food Processing & Distribution Ltd., founded in Nigeria by Ndidi and Mezuo Nwuneli. AACE faced difficulties in expand-

ing and even in maintaining production, largely because the substandard production methods in Nigeria resulted in sporadic supply and in foodstuffs that did not meet quality standards.

A conventional approach to these difficulties would be to either import foodstuffs from a more reliable source or to relocate to a country with access to stable supplies. The Nwuneli's instead invested time and money into improving agriculture in Nigeria's West and Central regions. Among other things, AACE organized educational workshops, helped provide credit and insurance, and organized coops. Significantly, the Nwuneli's did not tie participation in these programs to providing foodstuffs to AACE. They simply improved the quality of agriculture in Nigeria. As, however, the quality of agriculture in Nigeria improved, so too did the fortunes of AACE. AACE now has steady access to high quality foodstuffs, has a solid position in the Nigerian market, and is a respected exporter to European and North American markets.

Implementing a Creating Shared Value Strategy

Firms adopt creating shared value strategies to enhance their bottom line, but a creating shared value approach differs markedly from the conventional North American approach. The conventional approach seeks the easiest route to the lowest hanging fruit. Warren Buffett captured this approach in a letter to Berkshire Hathaway shareholders: "Easy does it. After 25 years of buying and supervising a great variety of businesses, Charlie and I have not learned how to solve difficult business problems. What we have learned is to avoid them. To the extent we have been successful, it is because we concentrated on identifying one-foot hurdles that we could step over rather than because we acquired any ability to clear seven-footers" (Buffett, 1990).

The creating shared value strategy takes on those seven-foot barriers, but attempts to reduce them to one-footers rather than to jump over them.

A study of successful implementation of creating shared value strategies found that among the most important factors for success are (1) restating goals around societal needs, (2) focusing efforts on defined unmet needs, (3) tracking value creation for the firm and for society, and (4) bringing in partners for *mutual* benefit. The same study also identified barriers to implementation of creating shared value strategies, including: (1) a longer time frame than conventional strategies, (2) difficulties in measuring social and firm benefits, (3) inadequate shared language encompassing a broad perspective, and (4) difficulties in understanding social needs (Pfizer, Bockstette, & Stamp, 2013).

Corruption and Its Costs

Corruption can be defined as abuse or misuse of a position of power or trust for personal benefit rather than the purpose for which that power or trust was bestowed. Although not socially accepted anywhere, in many emerging economies corruption clearly constitutes part of the social context in which businesses are embedded. Indeed, corruption is identified as one of the top five impediments to business in more than

half of the countries analyzed in the World Economic Forum's Competitiveness Index (2016), most of which are emerging economies.

Corruption imposes costs on an individual business. Studies have found that firms that pay bribes spend more time and money dealing with government than firms that do not. Corruption distorts the allocation of resources within a business firm, and is associated with decreased productivity and slower rates of market penetration; increases the cost of raising capital and decreases the share value of publicly traded firms; diminishes the ability of a business firm to form relationships with other firms; degrades the internal ethical climate of a firm, which can contribute to self-serving or dysfunctional behavior among workers; and creates legal liabilities, including the potential of imprisonment (Nichols, 2012).

More importantly, corruption inflicts extensive damage on the social context in which businesses are embedded. Corruption eviscerates society. Corruption retards economic growth, decreases rates of investment, increases inflation and depreciates currency. Corruption distorts public spending, which manifests itself in ways such as low quality infrastructure, inadequate education, ineffective healthcare, and unenforced environmental rules. Not surprisingly, there is also a strong relationship between corruption and mistrust of government and other institutions.

Business Strategies to Deal with Corruption

Current business activities seem to focus on costs and risks. Managers, understandably, want to reduce operational costs and want to avoid going to jail. Most if not all transnational firms have implemented internal programs to prevent violation of the law by people associated with the firm. Many large firms also train local suppliers, distributors, and other associated local firms in compliance, again for the purpose of avoiding secondary liability. Dell, for example, requires all suppliers to attest that they will comply with anticorruption laws and to participate in Dell's Supplier Engagement, Capability Building and Assessment Programs.

Some businesses do contribute to projects intended to control corruption. Siemens, as part of a settlement following its admission to paying bribes, has created a US\$100 million fund to support anticorruption projects. Funded projects include the Basel Institute on Governance and the International Anti-Corruption Academy. While these programs and projects might indirectly benefit Siemens, they are undertaken purely for their own merit.

Corruption Control as a Creating Shared Value Strategy

Although not yet adopted by transnational firms, corruption control offers several attractive features with respect to creating shared value strategies. The attractiveness of such a strategy can be illustrated by returning to the practices that contribute to successful implementation of a creating shared value strategy.

One aspect of a successful implementation is understanding and defining societal needs. This is not always simple; CEMEX, for example, sent teams of engineers, anthropologists, and sociologists across Mexico for over a year to define the social needs of rural persons. In the case of corruption, however, a business firm can leverage off of a great deal of detailed research that has been conducted by a great variety of people and institutions, including the World Bank, the Organization for Economic Cooperation and Development, and dozens of regional organizations.

Accurate measurement and tracking also contribute to successful implementation of a creating shared value strategy. With respect to business operations, this is relatively easy. Businesses have had centuries to develop and refine such measurement, and measurement and tracking are the focus of many business school curriculums. Moreover, measurement has for the most part a common denominator—units of currency.

“Problems in implementing a creating shared value strategy do exist with respect to corruption, and a firm should understand those problems.”

The same cannot generally be said for socially desirable goals. Far less effort has been put into developing social measurement techniques, and there is no common denominator to make comparison easy and meaningful. Society cannot even agree upon definitions for objectives such as the general healthfulness of a population, much less agree on measurement. A great number of social needs that might otherwise be fertile ground for a creating shared value strategy simply cannot be measured.

Corruption does not suffer that difficulty. Corruption is without question difficult to monitor and track, but useful tools have emerged over the last twenty years, including Transparency International's Corruption Perceptions Index, the Global Economic Forum's Competitive Index, and risk analysis measures developed by consulting firms.

Finally, successful implementation of a creating shared value strategy often turns to local partners for mutual benefit. Unilever Hindustan, for example, turned to local organizations dedicated to empowering village women when Unilever was trying to identify women with the potential to succeed as retail sellers when Unilever implemented its *shakti* program. Unilever benefitted in not having to replicate (if it could) the detailed local knowledge that the empowerment organizations had developed over a period of years, and the goals of the local empowerment organizations were furthered using Unilever's resources and business opportunities.

The realm of corruption offers a rich variety of potential partners. Around the world, people have tired of corruption and have organized against it. Transparency International has chapters in more than one hundred

countries. Those chapters represent only the tip of the iceberg. No comprehensive catalogue of local anticorruption organizations exists, but the number of such organizations could be in the thousands.

Difficulties in Implementing a Creating Shared Value Strategy

The problems in implementing a creating shared value strategy do exist with respect to corruption, and a firm should understand those problems. Most seriously, creating shared value strategies require longer time horizons than some western business firms, particularly publicly traded firms facing quarterly pressure from stock analysts, can contemplate. Very little research explores the timeframe for controlling corruption. Some believe that corruption control follows a “tipping point” path: progressing slowly until reaching some tipping point, after which incidents of corruption sharply decrease. It is unlikely, however,

that any investment in improving the condition of the social context in which a business firm is embedded will yield immediate returns.

Creating shared value strategies also suffer from the bias toward increasing revenue rather than reducing costs. Improving social conditions

with respect to corruption will reduce the cost to a firm of engaging in business, but in some circumstances it may not create new lines of revenue, nor will a manager be able to point to a discrete revenue stream that flows from implementation of the strategy. In many circumstances, however, a firm will be able to win bids or clients that it could not have been able to win in a corrupt system, because that firm will now be able to compete in a transparent way based on cost and quality rather than on the basis of opaque connections and underhanded bribes.

A Useful Strategy

Corruption is not unique to emerging economies, but the heightened level of corruption in many emerging economies cannot be denied. Firms working in emerging economies should not avoid honest evaluation of the extent to which corruption imposes costs and will at some point limit growth. Because corruption constitutes part of the broad social context, a creating shared value strategy targeting corruption may be the most effective response.

The work of international and local anticorruption organizations creates an avenue whereby firms can implement such strategies. Firms can learn from existing research on the social context of corruption in their environment, and can borrow existing measurement tools. Firms can utilize the social goals and metrics created by those organizations. Most importantly, firms can leverage existing anticorruption efforts and can work with experienced organizations to improve the social and business environment.

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Technological Catch-up and Knowledge Sourcing of Latecomers from Emerging Economies

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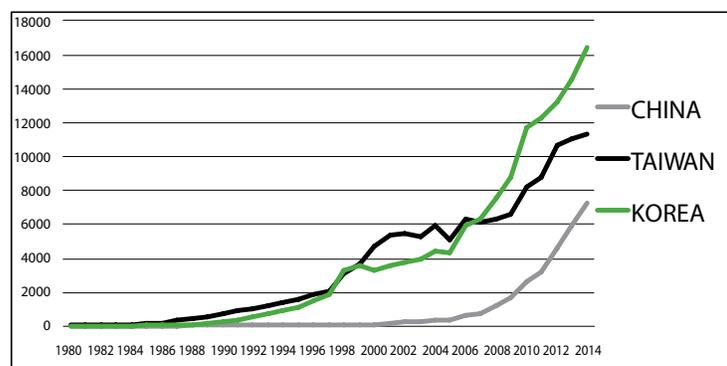
Introduction

In most technological sectors, firms in developed countries such as the US, Europe, and Japan have accumulated technological capabilities for many years and are now recognized as global technology leaders. Firms in emerging economies are behind these incumbent leaders in developed countries. Due to the size of their head start, some economists have argued that it is almost impossible for latecomers in emerging economies to catch up with incumbent industry leaders in knowledge-intensive industries such as semiconductors, biotechnology, or computer software. However, some laggards in emerging economies such as Samsung Electronics have recently caught up with incumbent leaders even in technology-intensive industries such as the memory chip industry. How do laggards from emerging economies catch up with industry incumbents in such technology-intensive industries? Investigation of the catch-up strategies utilized by these firms is worthwhile for researchers in the fields of strategy and international management. In particular, researchers should examine how and under what conditions laggards from emerging economies can catch up with incumbent leaders. In this article, I suggest promising areas for future empirical research on this increasingly visible and important phenomenon in international business.

Increase in Technological Catch-up of Latecomers from Emerging Economies

In recent decades, major firms in such East Asian countries as Korea, Taiwan, and China have rapidly developed their own technologi-

Figure 1. Utility Patents Granted by the USPTO from 1963 to 2009 (China, Korea, Taiwan)



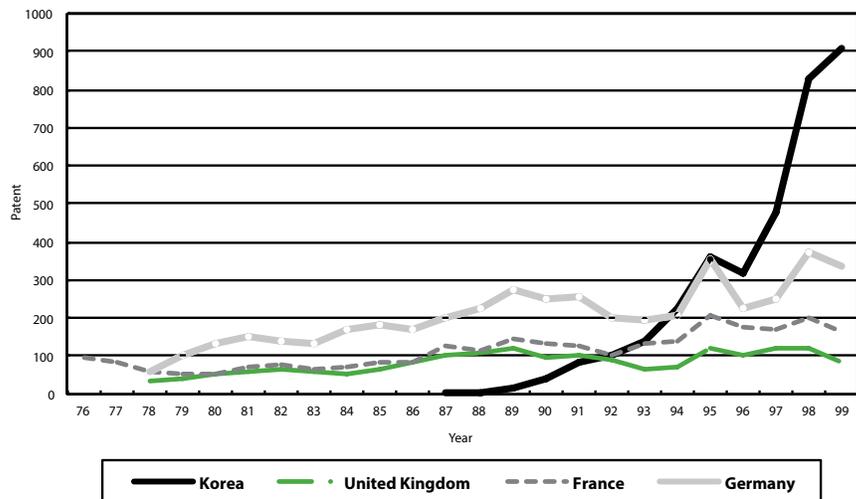
cal capabilities. As powerful proof, patent records from the US Patent and Trademark Office (USPTO) show that the number of patents has increased exponentially since the late 1980s in Korea and Taiwan and since the turn of the 21st century in the case of China (see Figure 1). Figure 2 shows that in the semiconductor industry, Korea recorded exponential growth in the number of patents since the late 1980s. This figure shows that in terms of patents in the semiconductor industry, Korea and Taiwan has outperformed the UK, France, and Germany since the mid-1990s. More importantly, unlike the exponential growth in the number of semiconductor patents in the 1990s in Korea, only a slight increase was observed in these countries during the same period.

Over time, some Asian companies (e.g., Samsung, LG, and Hyundai-Kia Motors in Korea, MediaTek and AUO in Taiwan, and Huawei in China) have shown that under certain conditions, technological laggards can overcome disadvantages and use latecomer-specific advantages to catch up with incumbent, first-mover firms in developed countries. In particular, Korea's Samsung Electronics has been the global leader in the memory chip business since 1993, just 10 years after its initial entry into the industry. In 2006 and 2014, Samsung ranked second in terms of patent registration in the U.S., surpassed only by IBM. In 2015, the Samsung name finally reached the top of the USPTO patent ranking.

Boundary Conditions for Technological Catch-up of Laggards

I propose that in future research on this topic of technological catch-up of latecomers from emerging economies, boundary conditions should be investigated. The technological environment, which may also be called the technological regime, offers the most important boundary condition for technological catch-up of laggards. This term refers to economic factors that govern the trajectory of technological advancement and innovation. The technological environment affects how patterns of innovation and technological catch-up differ by industry. Nelson and Winter (1982) showed that technological environments, including technological opportunities, cumulateness, and appropriability of knowledge, have major effects on the intensity of innovation, the degree of industrial concentration, and the rate of entry in any industry. Understanding of how the technological environment influences technological catch-up activities of laggards requires identification of the technological conditions that favor laggards while undermining incumbent leaders.

Figure 2. Comparison of Korean Semiconductor Patents with Those of Major Advanced Countries (registration counts in the USPTO)



Prior literature defines a latecomer as a firm that is a late entrant to an industry that is initially resource-poor, and that regards catching up as its primary goal (Mathews, 2002). Extant studies on entry order identified many advantages for first movers. These competitive advantages for incumbents are important market barriers to laggards (latecomers), making catch-up tremendously difficult. Thus, latecomers in emerging economies should seek technological environments that are more favorable for catch-up with incumbent leaders. Research has shown that latecomers are more successful when they seize emerging opportunities within their technological environments.

In some cases, a paradigm shift in the technological environment disrupts existing technological trajectories that have provided advantages to market incumbents. In my earlier work examining Samsung (Khanna, Song, & Lee, 2011; Song & Lee, 2014), I highlighted the case of Samsung's catch-up with Sony in television technology and sales when the electronics industry underwent a paradigm shift from analog to digital technology. To catch up with Sony, Samsung concentrated its innovation efforts on digital television early on, whereas Sony, the incumbent leader, stuck to analog for too long, partly due to a success trap or inertia and partly due to the fear of cannibalization. In addition to technological opportunities, other aspects of technological regimes such as appropriability, cumulateness, or technology life cycles can influence latecomers' catch-up probability. The technological regime influenced innovation activities in emerging economies and chances of catching up successfully (Lee & Lim, 2001).

While the technological environment serves as an important boundary condition for catch-up, firm-level factors such as learning strategy can also be important boundary conditions for catch-up. In the catch-up process, laggards follow moving targets, as technological leaders are always moving on to new innovations (Nelson & Winter 1982). Thus, to succeed in catch-up, they must develop appropriate strategies for time-compressed learning so that they can move faster than industry

incumbents. They should also choose an appropriate learning target in the catch-up process, depending on their absorptive capacity and the size of the technology gap with incumbent leaders.

Knowledge Sourcing Modes and Technological Catch-up

In the technological catch-up process, laggard firms from emerging economies can source knowledge through diverse modes (Song, 2014). In the early stage of technological catch-up, imitation is crucial (Kim, 1997); many laggards from emerging economies tend to acquire technology through reverse engineering, OEM, or licensing. Some laggards may go one step further by sourcing external knowledge through strategic alliances, including joint ventures or even M&As. Foreign direct investment in the form of strategic equity investment can be an efficient vehicle for sourcing country-specific, firm-embodied technological knowledge (Shan & Song, 1997).

Other laggard firms that lack sufficient absorptive capacity may source knowledge by scouting experienced engineers from incumbent firms. State-of-the-art technologies often comprise tacit knowledge built through experience and learning-by-doing. Valuable tacit know-how is embodied in individuals; thus, without the mobility of engineers, it cannot be easily transferred across firms. As opposed to technology licensing, as a result of which laggards often end up with outdated technologies, mobile engineers can bring not only tacit know-how but also ability to develop it further. In my article (Song, Almeida, & Wu, 2003), I showed "learning-by-hiring" is a useful strategy by which latecomers gain access to advanced knowledge.

To catch up with incumbent leaders, laggards from emerging economies should allocate resources to in-house R&D investments as well (Kim, 1997). Striking a fine balance between imitation and innovation is critical for the technological catch-up of latecomers. Setting up overseas R&D operations in the geographical center of innovation can be an effective strategy for laggards from emerging economies to catch up with incumbent leaders. My research found that overseas R&D labs are more effective for knowledge sourcing and transfer across the borders than alliances or licensing (Almeida, Song, & Grant, 2003). My research also demonstrated the importance of both technological capabilities of overseas R&D labs and external embeddedness in local scientific and engineering communities in knowledge sourcing from host countries (Song, Asakawa, & Chu, 2011).

Samsung's remarkable catch-up in the semiconductor industry illustrates the importance of setting up an overseas R&D lab in the geographical center of innovation (Song & Lee, 2014). Since its entry into the DRAM business, Samsung has used multiple modes of technology sourcing—technology licensing, internal development, technology-seeking foreign direct investment, and recruitment of experienced

engineers—simultaneously. Recognizing its lack of a prior knowledge base in the DRAM business, Samsung set up its “SSI” R&D lab in the Silicon Valley in 1983 to coincide with its entry into the DRAM business. Samsung then scouted experienced engineers who had worked for U.S. companies. About 80% of SSI engineers were ethnic Korean engineers, as an important objective of setting up the R&D lab in the Silicon Valley was to harness the abilities of engineers who wanted to stay in the U.S. In a peak year, SSI hired 260 engineers in the Silicon Valley.

From the beginning, SSI made attempts not only to absorb and assimilate licensed technologies for mass production in Korea, but also to build new knowledge. Just ten months after developing 64K DRAM chips based on licensed technology from Micron Technology, SSI developed its own design for 256K DRAMs, which was rated superior to the licensed design. In addition, these overseas R&D labs served as training grounds for Korean engineers who were educated and trained in Korea. They also served as information scanning outposts to acquire the latest technical information, as well as to monitor and identify important new technological trends that were taking place in the Silicon Valley or the U.S. in general.

Conclusion

In this article, I called for more systematic and rigorous empirical investigation of technological catch-up of latecomers from emerging economies. Though some prior studies offered good insights into how technological regimes affect catch-up strategies in developing countries, most were conducted at the country or industry level. Various case studies document the ways in which Asian companies have been able to close the technological gap effectively (e.g., Khanna et al., 2011). However, it is difficult to generalize findings based on these studies, as they focus on specific, usually successful, cases. Few studies have investigated this phenomenon empirically at the firm level, using large-sample firm-level data. As a result, our understanding of why some laggards manage to catch up successfully while others fail to do so is still limited. To catch up with industry incumbents, latecomers from emerging economies should identify environmental conditions that favor laggards while undermining incumbent leaders. Thus, I propose that we should examine under what conditions latecomers from emerging economies are more likely to catch up. To catch up with industry incumbents, they may need to rely on multiple modes of technology sourcing. Thus, I also propose that we should investigate what channels or modes of entry latecomers from emerging economies should rely on for knowledge sourcing and innovation and how they should change the mix of channels/modes in different stages of catch-up.

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What You, Readers of AIB Insights, Said: Responses to the Article “Is Your ‘IB’ Research Truly ‘International?’”

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In his article “Is Your ‘IB’ Research Truly ‘International?’” (published in Volume 16, Issue 2, pages 3-5), **Jean Boddewyn** invited comments and questions from readers of AIB Insights. Professor Boddewyn received several of them, which he summarizes here, with some further comments.

MANAGEMENT CONSULTANT AND ENTREPRENEUR Brent Marcus, of CPI Interactive, agreed with Graham Astley’s argument that “truly international” research requires identifying those unique characteristics of a nation-state, which provide it with a competitive advantage vis-à-vis another country. He claimed that, “as a practitioner, I have found Professor Ghemawat’s CAGE framework to be the most directly applicable IB concept for measuring the cultural, administrative, geographic and economic ‘distances’ between countries in order to map out a go-to-market strategy based on the relative ‘closeness’ of other countries.” His comment reminded me that all research is basically comparative—whether explicitly or implicitly.

Peter Buckley commented that international-business (IB) research privileges one dimension of variation—nationality—above others such as industry, region, and dimensionality (e.g., size). This is true whether we look at the firm, the manager, the owners or the location as the primary focus of interest.

He added that the approach Mark Casson and he have taken “in our 1976 book *The Future of the Multinational Enterprise* is to see the national firm as a special case of the multinational firm—not the other way around. This chimes well with current approaches, not least with the notion that many firms are ‘born global.’ For instance, we stated that: ‘The location strategy of a firm with integrated production, marketing and R&D has a characteristic form attributable to the fact that knowledge is a public good within the firm, and its transmission costs are normally low. This means that the exploitation of proprietary knowledge is logically an international operation. For similar reasons, the search for knowledge in a particular field is also an international operation’ (p. 35).”

To be sure, strong regulation at the industry level may constrain national firms from becoming MNEs but “the link between the internalisation of markets and the existence of MNEs is very simple: an MNE is created wherever markets are internalised across national boundaries (p. 45).”

This fact has a strong implication for IB research: “The characteristics of MNEs are thus attributable not to their multinationality *per se* but to the factors which govern internalisation in the industries in which they operate (p. 35).

In summary, *MNEs are the general case and national firms are a special case where contextual conditions prevent the internalisation of markets across national frontiers.* Therefore, the national dimension is an important source of regularities coinciding with national boundaries but it is not the only source of variation.” Well said, Professor Buckley!

Lorraine Eden agreed that, “for research to be “truly international,” both the dependent variable and independent variable need to be “international” defined as “inter-national” where “inter” means “between or among” countries. For instance, the external motivations affecting transfer pricing comes close to fitting this description of a “truly IB” phenomenon since, by far, the bulk of transactions and interesting issues involved in transfer pricing occur across national borders. However, your article on what constitutes international research reminded me of three others.

The first was Sundaram and Black’s article on “The Environment and Internal Organization of Multinational Enterprises” (1992) where they defined the key features of the IB environment as being “multiple sources of external authority” and “multiple denominations of international value”. In fact, I think that only the first feature is key, what with multiple government entities at the national or international level setting different rules that affect the multinational firm.

The second was John Dunning’s original three-fold way to think of MNE advantages: (1) those advantages that one firm has over another firm in the same place (Ricardian rents); (2) those advantages that arise from the firm having multiple plants and/or market in different locations inside the same country (multi-plant or multi-market firm), and (3) those advantages that arise from the firm having multiple plants and/or markets in different countries. Dunning argued that the only true advantages that multinationals have over other firms or organizations are those that arise from the third set — that is, from being able to take advantage, whether through arbitrage, leverage, integration or coordination of having access to multiple plant locations and multiple

markets in different countries. The truly IB phenomena are those which give rise to multinationality's advantages."

The third piece is the article that Professor Eden, Dan Li and Li Dai (2010) wrote: "International Business, International Management, International Strategy: What's in a Name?" "In that piece, we compared the fields of international business, international management and international strategy in order to identify the critical importance of truly international phenomena in each one of these three fields."

As you can tell, the issue of what constitutes "truly international" research is an old issue that remains young forever!

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