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International Knowledge Flows and Innovation

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EMERGING MARKET MULTINATIONALS, INTERNATIONAL KNOWLEDGE FLOWS AND INNOVATION

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Abstract: International knowledge flows and innovation are becoming ever more important to the competitiveness of multinational corporations. Emerging market multinationals (EMNCs) in specific are deploying increasingly activist measures to harness foreign sources of knowledge and innovation as a strategy to build up their firm-specific resources and capabilities. In the following we argue that EMNCs' strategic asset-seeking investments constitute a particularly interesting class of investments, as it presents important challenges to international business theory, firm strategy and public policy. We argue that outward investment to acquire strategic assets abroad at the scale we observe today is a recent addition to the instrument set deployed by emerging economies for development. We proceed to discuss how this type of investments does not sit well with mainstream international business theory and propose ways in which this disagreement can be reconciled through recognition of other EMNC advantages, particularly abilities to leverage country-specific assets, and possession and development of dynamic capabilities. Finally, we identify a set of core themes in the recent literature on strategic asset-seeking investments and relate them to the contributions in the current special issue and conclude with outlining an agenda of future research.

Keywords: emerging market multinationals; EMNCs; outward foreign direct investments; strategic asset-seeking investments; firm-specific advantages; dynamic capabilities

Reference to this paper...

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Introduction¹

The rising international prominence of multinationals from emerging economies (EMNCs) over the past couple of decades is both a consequence and a cause of a period of globalization characterized by increased economic openness and growing economic power of emerging markets. Expansion of EMNCs is driven by a search for new markets, efficiencies, innovation and sources of inputs and, in some cases, by less tangible elements of national prestige and government policy. This expansion has also generated significant and continuing research interest on EMNCs. Predominantly, however, this research focuses on two aspects of global expansion of such companies: motivations behind the internationalization and variations in the processes of internationalization. Although increasing in importance, research on innovation by and from EMNCs, and knowledge flows that EMNCs initiate and orchestrate, has so far remained an afterthought.

This is rather surprising given the role that innovation and learning has played throughout human history. Foreign knowhow and technology has been pivotal in the formation of competitiveness not only in individual firms but also for entire nations. In medieval Europe, artisans routinely traveled abroad to work on construction projects to acquire tacit and explicit knowledge related to their trade. In the wake of the Meiji Restoration, the Japanese sent their brightest students overseas to acquire the most advanced technologies and organization methods so that they could invigorate the rebuilding of the Japanese nation upon their return. In the early 20th century, Danfoss, Danish world-leading supplier of technologies in refrigeration, air conditioning and heating, built early technological capabilities by reverse engineering products from US manufacturers that could not be traded at the time due to customs barriers and import bans. More recently, Geely acquired Volvo not only to access advanced capabilities in technology and marketing they could not easily build internally but also to attain an active long-term presence in a vibrant auto technology cluster abroad.

Efforts to regulate and sometimes inhibit the flows of international knowledge and skills have an equally long history. Medieval European guilds carefully regulated production and trade in various industries, including skill formation and which inventions and procedures could be introduced. During the British industrial revolution, for half a century skilled artisans were prohibited from leaving the country and the export of important machinery and parts was forbidden, especially for textile production (Andreas, 2014). All trade with Japan during the Shogunate (i.e. prior to the Meiji Restoration) was funneled through a special trading post in

¹ The authors thank Max von Zedtwitz for comments on the paper.

the Nagasaki harbor, and foreigners and even shipwrecked Japanese sailors were risking their lives to set foot in Japan. Today, modern IPR systems create markets allowing for the intricate governing of commercial exchange of knowledge.

Emerging economy firms increasingly venture abroad in search of knowledge and technology for building competitive advantage (Makino, Lau & Yeh, 2002; Mathews, 2006; Luo & Tung, 2007; Gammeltoft, 2008; Rugman, 2009). While market seeking remains the dominant motive for foreign direct investment from emerging economies, strategic asset-seeking investments are becoming a larger and more important component of these flows. This tendency is fueled by several contemporary trends: globalization has brought about more liquid markets for strategic assets; an increasing number of EMNCs possess the capabilities necessary to establish and manage knowledge-intensive activities abroad; and emerging economy governments have become much more accommodating and even supportive of such flows. In most cases, technology-seeking FDI is motivated by attractive assets abroad, which can be bundled with firms' complementary assets or with country-specific advantages (CSAs) at home to bring about new competitive capabilities. Occasionally, though, adverse institutional, technological or infrastructural conditions domestically motivate companies to compensate for domestic weaknesses through internationalization in cases where this is a more productive or less costly option than trying to build the deficient assets internally.

The International Journal of Technology Management has been an important outlet for innovation and knowledge research set in emerging markets. This special issue brings together several articles that offer fresh insights on the topics. In the rest of this article we first expand on why research on innovation and knowledge in EMNCs is important for understanding their behavior and for strengthening existing theories. Before summarizing the articles selected for this issue we outline a research agenda for the future.

National development regimes and firm capabilities

Emerging market multinationals are a highly diverse group of companies and the literature has amply pointed out that generalizations should be made with great care. Emerging economies and the institutional systems out of which these companies grow also exhibit an immense variety between as well as within themselves. Various typologies have been suggested for reducing the complexity of the overall group of EMNCs, the most prevalent of which is probably the one proposed by Ramamurti (2009), which distinguishes between natural resource integrators, local optimizers, low-cost partners, global consolidators, and global first movers. Among these five types, even though it represents a small minority in the total population of EMNCs, it is the fifth and last type that represents the most severe challenge to international business theory. International knowledge flows and innovation can be important to all these five types of firms, however, as they may seek to capitalize on international assets to bolster their firm-specific advantages (FSAs) to compete in domestic and foreign markets.

Comparing EMNCs to developed market multinationals (DMNCs) is complicated by several factors (Ramamurti, 2012): EMNCs internationalizing today are doing so in an era of intense

globalization vastly different from the era when now mature DMNCs internationalized. EMNCs as a group have a particular industry composition with a relatively large representation of mature, low-tech and resource-intensive industries. Finally, comparing EMNCs to DMNCs often involves comparing firms at a relatively early stage of their evolution to much more mature and established companies. In other words, when time period, industry composition and stage of evolution are taken into account much of the EMNC variety vis-à-vis DMNCs is explained away.

Yet, not all variety is explained away. Emerging economies are high-growth, low-income countries with relatively weak institutions and weak economic structures overall, which are undergoing rapid transition, usually for the better. Growing out of economic systems with these characteristics tends to lend EMNCs, perceived in a broad ideal typical sweep, with certain characteristics that often set them apart from comparable DMNCs. These are characteristics such as a high prevalence of business groups and state-owned enterprises, a high degree of diversification and vertical integration, a resilience to and ability to navigate adverse institutional environments, organizational flexibility, cost efficiency, a relatively high reliance on country-specific advantages, strengths in frugal innovation, relative weaknesses in managing internal and external stakeholders, a high reliance on networks and other informal institutions, and aggressive internationalization processes, which progress fast and with high commitment modes.

Technology and knowledge do not flow freely into firms but require deliberate, costly and time-consuming activities to acquire. It is well established that tacit, sticky and locally embedded knowledge in particular requires considerable investment in strong absorptive capabilities at firm, industry and national level to facilitate effective flows. Historically, while the significance of foreign sources of technology has always been recognized by emerging economy governments, orthodoxies of national development strategies have varied in terms of how to engage with them (Gammeltoft & Kokko, 2013). During the 1960s and 1970s, import substitution regimes placed curbs on international flows and focused on building up self-reliant local systems, predominantly accessing technology through arms-length modes such as imports of machinery and intermediate goods. In the 1980s and 1990s, orthodoxy converged towards export-oriented models and more open and active systems for foreign technology acquisition, whether it was more based on arms-length modes (Japan, South Korea) or FDI (Taiwan, Singapore). Today, firms' strategic asset-seeking investments have reached a scale and character, particularly of course in the case of China but also other emerging economies, where it can reasonably be perceived as a distinct and relatively new component in the portfolio of industrial and technological upgrading strategies.

The previous modes share in common that activities associated with learning from foreign technology predominantly took place within the domestic institutional system, with the various institutional, technological and managerial home-country advantages available there. Technology acquisition through outward foreign direct investment (OFDI) adds additional layers of complexity: the EMNC requires the capabilities to enter a foreign market, be it greenfield or acquisition, operate a subsidiary in an institutional system potentially very alien to its home system, and then orchestrate bi-directional transfers of assets between headquarter

and subsidiary and, for more mature 'meta-national' EMNCs, between individual subsidiaries (Gammeltoft, Filatotchev, & Hobdari, 2012). Accessing and transferring technology from abroad through this modality requires a different and more complex capability set than absorbing technology within the home institutional system.

EMNCs and challenges to international business theory

The distinct characteristics that EMNCs do display make them useful for challenging received international business theories and making more visible these theories' in-built premises. This is also part of the reasons for the intense and sustained research efforts that have gone into EMNCs in recent years. One of the central debates in the growing EMNC literature is whether EMNCs as a phenomenon can be subsumed under extant theory of MNCs or if EMNCs are a new breed of multinationals and new or revised theory is needed to explain their existence and behavior. Three positions have materialized: some argue that existing theories and frameworks can adequately explain EMNCs. Even though their behavior, strategies, structures and processes tend to be different they are not qualitatively different in ways that cannot be contained within existing theories (Dunning et al. 2008; Rugman 2008; Narula, 2012). A middle position is taken by those who argue that existing theories need extensions and adjustments to properly explain behavior and operations of EMNCs (Gammeltoft et al., 2010; Cuervo-Cazura 2012; Ramamurti 2012). Finally, at the other end of the spectrum are those who argue that it is necessary to build new theory to properly account for EMNCs (Bonaglia et al. 2007; Guillen & Garcia-Canal 2009; Hennart 2012; Li 1998; Luo and Tung 2007; Mathews 2006; Madhok & Keyhani, 2012).

When trying to reconcile traditional IB theory with EMNCs, one of the first challenges that emerges is the issue of the existence and exact nature of these companies' firm-specific advantages (FSAs). Conventional IB theory assumes that internationalization represents the exploitation of a firm's FSAs in overseas markets (Caves, 1971; Hymer, 1976; Vernon, 1966). Operating in a foreign country is associated with liabilities of foreignness (Hymer 1976; Zaheer, 1995) and strong FSAs are necessary to offset these disadvantages. Dominant IB theories, e.g. Dunning's eclectic theory, stages models such as the Uppsala model, and innovation-related internationalization models, tend to see internationalization as preceded by an initial technological innovation step, which at a later stage with sufficient maturity is projected into international markets. A related challenge of IB theories is the implicit assumption that FSAs are innate to, i.e. are born and remain with, the firm. All multinationals, including developed market multinationals, need time to develop the ownership advantages that allow them to succeed in the marketplace.

Dunning (1977) originally defined ownership advantages as a firm's unique or monopolistic, usually intangible, advantages, generally developed in the home market, that allow the firm to compete in overseas markets. These could be for example R&D capability, product differentiation, scale economies, monopoly power, proprietary technology and brands, management, organizational or marketing systems, quality of human resources, preferential access to inputs, or government protection. Later, a distinction was made between two types (Dunning, 1988): asset advantages (Oa), which are unique assets protected by market

failures, and transactional advantages (Ot), which arise from the unique capacity to generate value from owning a network of assets in different countries. Later still, a third type was differentiated, institutional advantages (Oi), which are advantages arising from rules, norms and culture, codes of conduct, and incentive systems both internal and external to the firm (Dunning & Lundan, 2008).

In spite of its more dynamic and process-oriented articulation, the Uppsala model (Johanson & Vahlne, 1977, 2009) also relies on a notion of firm-level competitive strengths initially being built up in the home market. These strengths are what subsequently allow the firm to internationalize in a gradual, experientially-based process to locations, which are at progressively larger psychic distance and applying progressively higher commitment modes. Typically, firms will begin with occasional exporting and along with the increasing acquisition of foreign market knowledge will gradually work their way through higher commitment modes towards wholly-owned manufacturing subsidiaries, first in nearby and familiar markets and then progressively in more psychically distant ones.

The innovation-related internationalization models (Bilkey & Tesar, 1977; Cavusgil, 1980; Reid, 1981) recognize, as does the Uppsala model, the longitudinal nature of investment decision, location and operating mode choice, and operations. These models also start from the premise that the firm a priori possesses some advantage or product that allows it to compete in foreign markets. When internationalizing, firms then follow a sequence of steps driven by organizational learning as knowledge increases and uncertainty is reduced. This schema was modeled on Rogers' (1962) theory of the innovation adoption process, describing the selection of an innovation as the most acceptable alternative among a series of options at a given point in time.

As these models illustrate, dominant IB theories do not capture very well the co-evolution between firm capabilities and internationalization processes but tend to perceive FSAs as exogenously formed prior to internationalization. This lends them with blind spots in cases of EMNCs where firm genesis is based more on international learning than on innovation (Mathews, 2006; Hobday, 1997; Amsden, 1989; Guillen & Garcia-Canal, 2009).

FSAs and strategic asset-seeking investments

The literature on motives for investing abroad emphasizes several types of motives (Cui, Meyer & Hu, 2014). Among them, strategic asset-seeking motives have played a continuously increasing role. We use the term strategic asset seeking to encompass several other terms used in the literature: 'knowledge seeking' (Chung & Alcacer, 2002; Li et al, 2012), 'asset augmenting' (Narula & Zanfei 2004), and 'resource augmenting' (Meyer et al., 2009). Strategic asset seeking has been recognized as a motivation for investing abroad with the purpose of tapping into strategic resources of foreign firms, which is key to multinationals' international expansion and success (Chen and Chen, 1998; Makino et al. 2002). The literature, though, is divided regarding the usefulness of identifying such a motive. For instance, sceptics point to the fact that the sole purpose of investing abroad is to exploit existing firm-specific advantages (Rugman & Nguyen, 2014). Others argue that the

concept of strategic asset seeking is captured well by the other motives for investing abroad, namely market and efficiency-seeking investment, so the concept becomes redundant. Despite these theoretical debates, the international business literature has successfully used the concept to investigate several issues of interest, such as location choice (Chung & Alcacer, 2002) and R&D internationalization (Narula & Zanfei, 2004).

The growing literature on EMNCs stresses that there exists a group of EMNCs that engage in strategic asset-seeking FDI with the intent of acquiring FSAs rather than exploit pre-existing ones. This class of EMNCs is particularly important in the context of international knowledge flows and innovation, and poses multiple important challenges to IB theory. While extant theory applies fairly well to most types of outward investment from emerging economies, for strategic asset-seeking investments, which is the investment class that primarily concerns us here, it has limitations. Differently put, strategic asset-seeking investments seem particularly promising for enriching IB theory. A variety of studies suggest that these types of investments tend to exhibit a different behavior than predicted by mainstream theory (Child & Rodrigues, 2005; Mathews, 2006; Luo & Tung, 2007; Rui & Yip, 2008; Deng, 2009; Ramasamy, Yeung & Laforet, 2012).

Conceptually, strategic assets can be defined as ‘the set of difficult to trade and imitate, scarce, appropriable and specialized resources and capabilities that bestow the firm’s competitive advantage’ (Amit & Schoemaker, 1993). Examples of strategic assets are R&D capability, brand name, knowledge, and proprietary technologies, reputation and buyer–supplier relationships. Dunning (1991) originally defined strategic asset seeking as firms’ activities ‘to create or gain access to resources and capabilities that complement their existing core competencies’. Further refinements of the concept have defined strategic asset seeking as investments that advances global competitiveness of the investing firm beyond a single or a few markets (Dunning and Narula, 1995; Dunning & Lundan, 2008; Cui, Meyer & Hu, 2014; Meyer, 2015). This extended definition is in line with the phenomenon that strategic asset seeking occurs among latecomers or firms with few technological capabilities trying to reduce their gap, e.g. by acquiring innovative firms for needed resources (Wesson, 2004).

Establishing and operating sustainable value-adding activities abroad requires a considerable level of firm capabilities, even though the exact nature and level of these capabilities for EMNCs is the object of some debate. In addition to some competitive advantage to offset host country disadvantages, successful internationalization requires the ability to merge firm capabilities with host country locational assets as well as organizational and managerial capabilities to orchestrate the international value chain. The resulting capabilities will be strategic in that they will increase the competitiveness of the EMNC not only in the market where the capabilities are built, but also globally, including improving the competitive position at home.

Country-specific advantages (CSAs), or locational advantages in Dunning’s terminology, are immobile country-based assets such as cheap labor, natural resources, local markets, investment incentives, trade barriers, institutions (e.g. effective IPR systems), etc. The early contributions in the current ‘wave’ of literature on EMNCs tend to argue that these

companies primarily competed on the basis of CSAs rather than FSAs (Buckley et al., 2007; Rugman 2009). Consequently, it was considered unlikely that the international forays of these companies would be very sustainable and extend beyond an initial subsidized or financially unsound period for two reasons. First, CSAs are traditionally assumed to be freely available to all firms, local and foreign alike. Hence, subsidiaries of foreign MNCs in EMNCs' home markets can easily acquire the same advantages and undermine their competitiveness. Second, CSAs are not internationally mobile as FSAs are and hence are less useful for offsetting liabilities of foreignness in markets abroad.

Nevertheless, there is ample evidence of cases where EMNCs have internationalized, often aggressively and seemingly quite sustainably, without strong FSAs. Different reasons are conceivable: it may be that received theory is correct and, by implication, EMNC internationalization is strategically unwise, unsustainable, and commercially unsound (e.g. only enabled by subsidies) (Rugman & Li, 2007; Rugman, 2009; Lessard & Lucea, 2009). It is also conceivable that the deviation between IB theory and EMNC practice indicates that new theories need to be developed (Mathews, 2002, 2006; Luo & Tung, 2007; Li, 1998; Madhok & Keyhani, 2012). Finally, it could be the case that while EMNCs may not have FSAs similar to those of established Western MNCs, they possess other advantages that allow them to compete abroad (Zeng & Williamson, 2007; Cuervo-Cazurra & Genc, 2008; Ramamurti, 2009; Hennart 2012; Guillen & Garcia-Canal, 2009).

More recent contributions in the current wave of literature on EMNCs follow the latter line of argument. Ramamurti (2009, 2012) contends that EMNCs possess FSAs, but these are different from the ones predicted by mainstream theories and observed in developed market multinationals, such as technology and brand value. The literature attributes to EMNCs special advantages relating to customer relationships in emerging markets, navigating difficult environments, and providing low-cost, but good-enough products and services (Cuervo-Cazurra and Genc, 2008; Govindarajan and Ramamurti, 2011; Guillen and Garcia-Canal, 2009). Another argument why EMNCs may be competitive in the absence of strong FSAs is that CSAs are in fact often not freely available to all but have transactional properties similar to FSAs (Hennart, 2012; Williamson, 2014). They may be 'club goods' (Narula, 2012) or even monopolies and hence serve as bases for sustainable competitive advantage. When both FSAs and CSAs can assume proprietary properties it is the relative transferability of (foreign) strategic assets and (local) locational assets that determines the specific governance form under which such asset bundles are exploited, be it through arms-length modes, joint ventures or wholly-owned subsidiaries (Hennart, 2012). For example, if FSAs residing in a developed-economy firm are very costly to transfer, their owners will exploit the assets by bundling them in a joint venture in the host market. However, if the FSAs have low transfer costs, emerging economy firms will either simply copy them or purchase them on technology markets and will keep the whole equity.

Hence, according to this line of argument, competing primarily on the basis of CSAs does not per se exclude EMNCs from developing sustainable international competitiveness. It is neither FSAs nor CSAs alone that are crucial but specific value-generating bundles of FSAs and CSAs and competitive firms are those that are successful in establishing and managing

such bundles. Furthermore, periods of successful value-generating international operations primarily on the basis of CSAs allow EMNCs to reinvest profits into further FSA formation, e.g. through investments in strategic assets abroad.

In these undertakings, namely building FSAs through FDI, EMNCs may be at a relative disadvantage vis-à-vis DMNCs in their balancing of exploration and exploitation. Organization theory suggests that ambidexterity, i.e. the ability of a firm to simultaneously explore and exploit, is likely to lend firms with superior performance relative to firms specializing in one at the expense of the other (Tushman & O'Reilly, 1996; Eisenhardt & Martin, 2000; He & Wong, 2004; Hsu, Lien & Chen, 2013). The structures, processes and capabilities necessary for exploitation (emphasizing efficiency and incremental adjustment) and exploration (emphasizing innovation and flexibility) are vastly different and firms that are able to command both of them and manage their balance tend to have superior performance. Given pre-existing strong FSAs, DMNCs' foreign investments in knowledge-intensive activities tend to be mixed motive or, if they are not so at the outset, relative quickly expand into mixed mandate units. EMNCs on the other hand tend to focus more on exploration than exploitation as the aspiration to acquire FSAs is more predominant (Awate, Larsen & Mudambi, 2014). According to this stream of literature, all else being equal, EMNCs should still be at a consequent relative performance loss in their investments (see Luo & Rui, 2009 for an opposing view).

Strategic asset-seeking investments and EMNC dynamic capabilities

We argue that dynamic capabilities can be perceived not only as a consequence but also an important antecedent of EMNC strategic asset-seeking investments. Building upon Teece's (2009) thesis that multinationals can be understood through a dynamic capabilities perspective, which can be defined as 'the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments' (Teece et al, 1997), it can be argued that strategic asset-seeking investment is a step towards building such capabilities. At the same time, however, EMNCs can possess dynamic capabilities, which allow them to offset weaknesses in traditional FSAs such as technology and brands: for example, combinative capabilities, aggressive internationalization, flexibility, frugal innovation, and the ability to successfully undertake strategic asset-seeking investments itself are reflective of such EMNC dynamic capabilities.

Strategic management research has long focused on explaining firms' quest for building competitive advantage. The most prominent view in this literature depicts organizations as bundles of capabilities, with heterogeneities in capabilities producing lasting differences in outcomes. The literature identifies the so-called dynamic capabilities as the main mechanism leading to these differences. While their role in explaining differences in firm-level outcomes is well explored, the same cannot be said about understanding the origin of such capabilities. Some argue that prior experience and capabilities are the foundation of dynamic capabilities (Eisenhardt & Martin, 2000), while others contend that dynamic capabilities are determined by organizational culture and climate (Teece et al, 1997), or formal and informal structures

(Jansen et al, 2005). Further, research on dynamic capabilities struggles with the question how such capabilities are formed and how firms actively manage this process.

Dynamic capabilities consist of organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, or decline (Eisenhardt & Martin, 2000). To avoid confusion, dynamic capabilities have been differentiated from ordinary, largely operational, capabilities in that dynamic capabilities are intended to adapt, renew, create, leverage or transform the resource base, routines, and other capabilities to address the demands of dynamic environments (Schreyögg & Kliesch-Eberl, 2007; Teece et al, 1997). Table 1 is an attempt to provide such distinction. As the authors highlight, dynamic capabilities are characterized by signature (unique) practices and business models, Valuable, Rare, Inimitable, and Non-substitutable (VRIN) resources, and managerial ability to adopt the right strategy.

Table 1. Elements of the capability framework

Core building blocks	Weak ordinary capabilities	Strong ordinary capabilities	Strong dynamic capabilities
Processes (routines)	Sub-par practices	Best practices	Signature practices and business models
Positions (resources)	Few ordinary resources	Munificent ordinary resources	VRIN resources
Paths (strategy)	Doing things properly	Doing things right	Doing the right things (the good strategy)

Source: Pitelis and Teece (2015)

Where do dynamic capabilities come from? Prior literature points to past routines and capabilities, as the origin of current and future capabilities (Eisenhardt & Martin, 2000). Other factors proposed to affect development of dynamic capabilities are organizational culture and climate, process management, tacit organizational elements, such as routines, processes, managerial cognition, and knowledge, and firms' adaptive, absorptive, and innovative capability (Grant, 1996; Pisano, 1994; Wang & Ahmed, 2007). The IB literature has emphasized the notion that firms compete with one another on the basis of their dynamic capabilities (Chang & Rosenzweig, 2001; Luo, 2002; Sapienza et al., 2006). The view in both strategy and international business literatures is that dynamic capabilities are sources of firms' competitive advantage by adding unique value to the firm through systemic change (Teece et al, 1997). However, the channels how they manifest are not clear, largely due to the fact that empirically it is quite difficult to make a distinction between ordinary and dynamic capabilities, leaving Helfat and Winter (2011) to conclude that the difference between dynamic and ordinary capabilities is 'unavoidably blurry'. Further, dynamic capabilities are

shaped by economic context(s) firm operate, with some capabilities being valuable in certain contexts but less so in others (Peng et al, 2009).

While important to success and survival of any firm, dynamic capabilities are especially relevant to multinationals that own and control diverse assets in many different locations. Such a situation requires global orchestrations skills, often referred to as ‘managerial orchestration’ (Katkalo et al., 2010; Teece, 2014), which is an important element of dynamic capabilities. Obtaining and maintaining such dynamic capabilities allow multinationals to develop sustainable competitive advantage. This approach views multinationals as driven by the opportunity to leverage capabilities to create and capture value on a global scale. An example would be the global distribution of R&D and innovation efforts, which supports creation and development of capabilities in different locations that, in turn, are integrated to produce new products.

Since dynamic capabilities are crucial to long-term competitiveness and success of multinationals, including EMNCs, one way they can be acquired is through strategic asset-seeking investments, which are intended to create or acquire new resources and capabilities outside the home environment. Prior literature suggests that EMNCs must possess absorptive capacity in order to successfully integrate these newly created or acquired resources and capabilities (Cohen and Levinthal, 1990; Zahra and George, 2002). In fact, it could be argued that the existing internal resources and capabilities of EMNCs have a positive moderating effect on their propensity to engage in strategic asset-seeking investment (Makino et al, 2002). For instance, Deng (2010) attributes the success of Lenovo’s acquisition of IBM’s PC division to its existing absorptive capacity. This capacity consisted of Lenovo’s prior related knowledge about the unit, its combinative capabilities to effectively assimilate and integrate the acquired strategic assets, and its strategy execution capabilities to apply the acquired strategic assets effectively to commercial ends. Yet, prior research has also found that strategic asset seeking is common among firms with few capabilities that are trying to reduce the gap by acquiring needed resources (Deng, 2009).

Conduct of EMNC strategic asset-seeking investments

What do we know about the conduct of EMNC strategic asset-seeking investments? A number of recent studies have been made of the motives and antecedents, process, location, performance, innovation, and knowledge transfer, respectively, of this type of investments. Considering first motives and antecedents, studies illustrate the importance and interaction of both internal firm-specific factors, such as experience and managerial capabilities, and external factors, such as competitive environmental forces, linkages and government incentives. Chinese MNCs often acquire strategic assets by adopting aggressive entry modes with larger international commitments than received theory would predict. This is undergirded by exposure to foreign competitors, high financing capability, and past experience with exports or FDI (Cui, Meyer, & Hu, 2014). Chinese firms’ strategic asset-seeking investments are motivated more by exploration than exploitation of existing assets. They are made in response to competitive forces in domestic and international markets, government incentives and pressures, adverse domestic institutional conditions e.g. in factor

markets, an increasingly entrepreneurial and internationally oriented mindset among Chinese corporate leaders, and prior experiences with linkages with inward FDI or JVs in China combined with an intent to overcome the constraints of those arrangements (Deng, 2009).

As argued above, strategic asset seeking serves the purpose of acquiring or developing capabilities, augmentation of resources and/or transfer of knowledge. For this strategy to be successful it is important for EMNCs to be able to leverage the earned capabilities beyond the individual subsidiary. This is what Narula (2016, this issue) calls being “meta-integrators”. Only through the development of efficient internal markets and well-structured cross-border hierarchies will EMNCs achieve the objective of such investments, build competitive advantage and ensure long-term survival. Of equal importance in the success of this type of investments is the ability to interact the existing and acquired capabilities (Malik, 2016, this issue). For instance, it is the interaction of frugal innovation capability with relational learning or acquisition dynamic capabilities that influence the growth of emerging market multinationals.

With respect to processes of internationalization, emerging economy firms often use serial acquisition strategies to build capabilities to compete with foreign firms at home in the domestic markets. Through sequential acquisitions, firms develop competencies to compete by building up experience in minimizing risk and managing acquisitions (Elango & Pattnaik, 2011). Both inward and outward FDI are important sources of technology and their relationships are important for the knowledge-acquisition strategies of EMNCs. But inward and outward FDI are rarely analyzed in combination and studies differ in their assessment of how these relationships matter. One study finds that EMNCs are attracted to countries with comparative technological advantage but that EMNCs’ propensity to invest in those host countries is decreased by their exposure to similar types of knowledge brought in by inward FDI in the domestic market. In other words, the possibility to benefit from technological spillovers at home decreases EMNCs’ propensity to invest overseas for knowledge seeking (Li, Li & Shapiro, 2012). However, rather than a substitution effect, another study finds a supplementary or synergetic effect where host country and home country effects are mutually reinforcing: EMNCs may learn from DMNCs in the home market through a variety of linkages such as original equipment manufacturing (OEM), international equity joint ventures or alliances, or being suppliers, and the effect on subsidiary performance of learning in the host market is reinforced by learning in the home market and vice versa (Liu, Gao, Lu, & Liolioua, 2014).

Being latecomers in international business arena EMNCs have displayed patterns of accelerated internationalization. This is especially the case for born-globals, defined as firms established with capabilities to compete internationally and coordinate resources across countries (Jones et al, 2011). A large proportion of such firms is technology-intensive firms, characterized by possession of products embodying a high degree of knowledge and expertise, thereby requiring constant innovation, which enables the firms to internationalize more rapidly. Yet, not all the evidence seems to support this conjecture. For instance, Brazilian new-technology based firms use their innovation capability to delay internationalization instead (Cahen et al, 2016, this issue).

An increasing literature has paid attention to location strategies of EMNCs, especially in the developed economies vs. other developing/emerging economies dichotomy. The consensus so far is that EMNCs locate more in developing countries for resource-seeking and market-seeking purposes and in developed countries when they aim at accessing strategic assets and markets (Kedia et al. 2012; Makino et al, 2002). In addition, the likelihood for EMNCs to invest in a particular location is also influenced by the characteristics and the capabilities of the investing company. Gammeltoft and Fasshauer (2016, this issue) find that host country characteristics, especially the potential for market exploitation, play an important role in attracting Chinese FDI in the European Union. Surprisingly, however, there is no strong correlation between aggregate national R&D spending and Chinese knowledge-seeking investments, implying that such investments tend to be individual and highly idiosyncratic cases. An important finding of the analysis is that that internationalization does not proceed in a path dependent process with respect to either geographical or cultural distance.

Strategic asset-seeking investments are not fully determined by the external institutional environment (e.g. state directive) but also reflect managers' strategic intent. EMNCs strategically use cross-border acquisitions to achieve goals such as acquiring strategic capabilities to offset their competitive disadvantages and leveraging their unique ownership advantages, while making use of institutional incentives and minimizing institutional constraints (Rui & Yip, 2008). Subsidiary mandates evolve over time and investments, which are initially motivated by technology exploration, often display a dynamics where the mandate is gradually extended to include technology exploitation (Di Minin, Zhang & Gammeltoft, 2012)

In terms of performance outcomes, while most studies report a positive effect of strategic asset-seeking investments on the innovative activities of the parent company (Chen, Li & Shapiro, 2012; Anderson, Sutherland, & Severe, 2015), some studies have found negative effects (Amendolagine et al., 2015). However, the positive effect of knowledge-seeking investment on innovation capability at home is contingent upon a multitude of factors. For instance, Chinese firms experience a positive impact of outward foreign investment on innovation performance when foreign firms have acquired an ownership interest in the focal Chinese firm and when they possess higher R&D intensity (Wu et al, 2016, this issue). While EMNCs' strategic asset-seeking acquisitions strengthen their innovative activities at home, they do not necessarily similarly influence innovative activities in the acquired firm (Anderson, Sutherland, & Severe, 2015). This may be the case when investments are primarily being made with the intent to strengthen the competitive position at home or when they involve a 'light-touch' acquisition strategy with low interference in the acquired company.

When focus shifts on the effect on profitability and sales of acquired firms, evidence shows positive effects (Buckley, Elia & Kafourous, 2014). International business and organizational learning literature stipulates that subsidiaries' financial performance is positively impacted by increased sharing of both explorative and exploitative knowledge. Yet, the positive impact might disappear or even turn negative when the two are not in balance. Kang and Lee (2016, this issue) find support for these conjectures when considering intra-chaebol knowledge sharing at both the headquarters-subsidiary and subsidiary-subsidiary levels.

Looking at knowledge transfer, reverse knowledge transfer from overseas acquisitions to the parent company is contingent on a range of factors (Nair, Demirbag & Mellahi, 2015).

Knowledge transfers are greater the higher the economic level of the host country, the higher the subsidiary capabilities, the closer the ties between subsidiary and parent company, and the more complex the knowledge. Reverse transfers of innovation from subsidiaries to the parent company is also supported by subsidiary R&D being focused on innovation rather than local adaptation, a strong entrepreneurial orientation in the corporation, and subsidiary age (Borini et al., 2012).

Finally, innovation and innovation capabilities are considered crucial for contemporary multinationals, EMNCs included. There have been different schools of thought on the role of innovation in the cumulative evolution of EMNCs. On one hand, these companies are viewed as having limited scope for innovation, while on the other hand, they are seen innovative, especially at home, with the purpose of international operations being primarily to exploit their unique home country-derived technological advantages internationally. The accumulated evidence seems to provide more support to the second set of arguments (Tolentino, 2016, this issue). While these debates continue to rage in the literature, a consensus seems to emerge EMNCs are innovative and often undertake investment projects with the purpose of augmenting their innovative capabilities (Meyer, 2015).

R&D internationalization can augment innovation capabilities. The R&D literature stresses that observed R&D strategies would depend on R&D motive, R&D structure and learning mode. When looked through the lens of these contingencies, for Chinese firms it can be seen that there are commonalities in R&D strategies, but at the same time there are important differences (Di Minin et. al., 2016, this issue). For instance, the starkest difference is observed in the learning mode depending on location of R&D units, with European units' learning taking place through an initial close cooperation with the local partner, while U.S. units' learning achieved through maintaining collaborative learning with local partners and remaining highly embedded in the local innovation system.

An outcome of increased innovation capabilities is increased product innovation, which may be defined as 'development of new products, changes in design of established products, or use of new materials or components in manufacture of established products' Product innovation though is driven not only by firm-level capabilities but also from market structure both at home and host country. The more balanced the exposure to home and host market, the stronger product innovation performance of Chinese firms (Xie and Li, 2016, this issue)

Future research

The arguments presented above open up several avenues for future research on both theoretical and empirical fronts. Theoretically, it is important to build frameworks that explain why some firms engage in FDI with the intention of acquiring new rather than exploiting existing capabilities. These frameworks will not emerge from a void but rather result from expanding or combining existing frameworks. For instance, the awareness-motivation-capability framework could be further extended to accommodate other contextual factors accounting for firms' strategic intent (Cui et al, 2014). Similarly, the insights from the strategy literature could augment FDI models by explicitly acknowledging that FDI projects

have both an exploitation and resource augmentation dimension (Meyer, 2015).

The literature on EMNCs' strategic asset-seeking investments would also benefit from further studies applying longitudinal process perspectives. While there are now ample studies on the motivation and determinants of the initial internationalization step, relatively few studies analyze the evolution of these investment projects over time. More process-oriented studies can shed light on longitudinal variations e.g. in headquarter-subsidiary relations, engagement with host-country stakeholders, including governments, and mobilization of home-country resources.

This applies particularly to post-acquisition behavior. Strategic asset-seeking investments often take the form of acquisitions and while acquisition events are by now fairly well studied through both case-based and representative methodologies, post-acquisition processes are not yet equally well analyzed. How do EMNCs manage the post-acquisition human and task integration processes; are changes introduced in the embeddedness of the acquired firm into the local innovation systems; what are the dynamics of subsidiary mandates and legitimacy; and does post-acquisition behavior vary systematically by home and host countries are among the relevant questions to ask.

Conceptually, it is also important to further develop the definition and measurement of dynamic capabilities. A large literature in strategic management and international business seems to conflate uniqueness of such capabilities at the firm level with best practices similar across firms (Laaksonen and Peltoniemi, 2016). Given the argument that obtaining dynamic capabilities could be at the core of EMNCs' strategic asset-seeking investments, we believe it would benefit future research to better conceptualize their uniqueness and develop measures to operationalize the concepts.

The role of human capital in strategic asset-seeking investments also remains insufficiently analyzed. Human capital is crucial in obtaining and enabling other firm capabilities. For instance, a dominant motivation for conducting acquisitions may be access to specialized human resources. Further, successful acquisition and integration of R&D-related activities is highly contingent on successful management of the people conducting these activities. As such, future studies could provide more detail on the relationship between post-acquisition performance and human resource strategies for integrating, retaining and recruiting key employees. More generally, an emerging literature (Wright et al, 2014) around the notion of 'strategic human capital' points to its potential for understanding and explaining the behavior of organizations. We see potential for international business scholars to utilize and refine the notion of this resource in explaining the internationalization behavior of multinationals in general and EMNCs in particular.

Most studies focus predominantly on a single analytical level, i.e. either firm, industry or an aggregate national level. Studies could analyze more explicitly the interplay between different levels to capture more fully the dynamics between levels, e.g. how micro-level strategic and organizational decisions are influenced by macro-level legitimacy concerns, by linkages to other actors in the domestic innovation system, or by home and host country government incentives. Analysis at multiple levels will also enable more detailed treatment of the exchanges between firm-specific and country-specific advantages.

It is widely accepted that institutions and institutional complexity shape the evolution of technologies, business practices and organizational forms. The literature has grown to

recognize well the significance and influences of home country institutions on the behavior and strategies of EMNCs. The role of host country institutions however remains weakly studied and theorized. To which extent and how are EMNC organizational practices abroad contingent on the institutional environment in which they invest? What are the performance implications of different institutional distances, and to which extent do subsidiary practices diffuse back to home country and parent operations? In addition, institutional theory views multinationals as agents of change (Westney, 1993) within the host country. For instance, by introducing new business practices multinationals may challenge the legitimacy of existing norms and spur the trend towards better business practices. Future research must explore the impact of EMNCs in shaping institutional environment of the host country.

Summary of the articles in the special issue

This special issue contains nine articles. They focus on the issues of innovation and knowledge flows from a variety of perspectives. This diversity of perspectives provides a comprehensive account of the links between innovation and knowledge flows, and other issues such as internationalization of emerging market firms and its drivers, their growth in foreign markets, especially in developed markets, capability building, export and competitive behavior, subsidiary performance and R&D strategies. The table below summarizes the articles, their research questions/problems, main findings and the areas they contribute to. As it is clear from the table, the special issue contains a set of significant contributions, ranging from theoretical advances to international business theory and internationalization theories to more specific issues related to innovation, knowledge transfer and learning.

Table 2: Summary of findings and contributions of the papers in the special issue

Paper	Authors	Type	Research Focus	Main Findings	Contributions
‘The Internationalisation of New Technology-Based Firms from Emerging Markets’ Cahen et. al.	F.R. Cahen, M.M. Oliveira, and F.M. Borini	Empirical	What drives the accelerated internationalization of new technology-based firms from emerging economies?	Innovation capability matters in delaying internationalization instead of leading to creation of born globals.	Born globals, internationalization of high-tech firms.
‘When Davids Start Becoming Goliaths: Unique Capabilities of Emerging Market Multinational Enterprises and how They Foster Growth in Developed Markets?’	O.R. Malik	Conceptual	Extending OLI framework to explain the pattern of investment and growth of emerging market multinationals in developed markets.	Builds a typology of unique capabilities that allow growth of emerging market multinationals in developed markets. Stresses that what matters is not individual capabilities but their interactions.	IB theory, firm-specific advantages in internationalization.
‘Performance Effects of Explorative and Exploitative Knowledge Sharing within Korean chaebol MNEs in China’	J.K. and J.Y. Lee	Empirical	How do explorative and exploitative knowledge sharing within emerging multinational enterprises affect their subsidiaries’ financial performance?	Subsidiaries’ financial performance is positively impacted by increased sharing of both explorative and exploitative knowledge, but it is negatively affected by imbalance between the two types of knowledge.	IB theory, headquarter-subsidiary relationship.
‘Export Intensity, Domestic Competition, and Product Innovation in	Z. Xie and J. Li	Empirical	What drives product innovation in emerging economy firms?	Exporters exploit technological and market knowledge gained from overseas through domestic product innovation; exporters focus less on	Innovation, internationalization of EMNCs

an Emerging Economy’				product innovation as they find themselves technology laggards with limited market knowledge; and firms with an appropriate balance of domestic and overseas sales introduce more new products.	
‘Technological Innovation and Emerging Economy Multinationals: The Product Cycle Model revisited’	P.E. Tolentino	Conceptual	Comparative assessment of implications of different schools of thought on the role of innovation in the cumulative emergence and evolution of emerging market multinationals.	Points to the increasing relevance of the concepts of localized technological change and technological accumulation over the product cycle in explaining the current role of evolving technological capabilities in the emergence and evolution of EMNCs.	IB theory
‘Characteristics and Host Country Drivers of Chinese FDI in Europe: A Company-Level Analysis’	P. Gammeltoft and K. Fasshauer	Empirical	Which host country characteristics determine Chinese investment in the European Union and European Free Trade Agreement area?	Several host country characteristics, especially the potential for market exploitation, play an important role in attracting Chinese FDI. Yet, there is no strong correlation between aggregate national R&D spending and Chinese knowledge-seeking investments. Strategic asset-seeking investments are individual and idiosyncratic	Internationalization of EMNCs,internationalization theory in general.
‘The Impact of OFDI on Firm Innovation in an	H. Wu, J. Chen and Y. Liu	Empirical	Does innovation capability at home depend on OFDI	OFDI is positively related to innovation performance, with the	Innovation, internationalization of

Emerging Country'			for knowledge-seeking and knowledge-integration purposes?	relationship being stronger when foreign firms have acquired an ownership interest in the Chinese firm and when they have higher R&D intensity.	EMNCs
'A Comparison of International R&D Strategies of Chinese Companies in Europe and the U.S.' by	A.D. Minin, X. Quan and J. Zhang	Empirical	How do R&D motives, R&D structure and learning mode impact observed R&D strategies across locations?	R&D strategies of Chinese EMNCs are similar across Europe and U.S. However, in European units learning takes place through an initial close cooperation with the local partner, while U.S. units' learning is achieved through collaborative learning with local partners and high embeddedness in the local innovation system.	Learning strategies, R&D determinants.
'Emerging Market MNEs as Meta-integrators: The Importance of Internal Networks'	R. Narula	Conceptual	What drives the long-run success of emerging market multinationals?	EMNCs need to be 'meta-integrators', able to leverage knowledge within and between the different affiliates, which requires efficient internal markets and well-structured cross-border hierarchies.	IB theory, internationalization of EMNCs.

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