



Competing with emerging market multinationals

Ravi Ramamurti

College of Business Administration, Northeastern University, Hayden Hall 309, 360 Huntington Avenue, Boston, MA 02115, U.S.A.

KEYWORDS

Emerging market multinationals;
Multinationals;
Emerging markets;
Competitive threat;
Competitive advantage;
Internationalization

Abstract A new breed of multinationals from emerging markets is appearing in many industries. Western firms are wrong to underestimate, as they often do, the competitive threat from these firms. The discussion herein highlights the non-traditional competitive advantages these firms use to win at home and abroad and shows how these firms use internationalization not only to exploit competitive advantage but to bolster it. The article concludes with suggestions for how Western managers should respond to the competitive threat from emerging market multinationals.

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1. New kids on the block

Up-and-coming multinational enterprises (MNEs) from emerging markets are shaking up many industries and ruffling the feathers of Western MNEs. Familiar names include Tata of India, Lenovo of China, Embrapa of Brazil, and Lukoil of Russia. Following closely behind are dozens of lesser known firms with similar aspirations, and more than a few of them are likely to succeed (Ramamurti & Singh, 2009). In this article, I consider three questions:

1. How serious is the competitive threat from emerging market multinational enterprises (EMNEs)?
2. What kinds of competitive advantage do they enjoy and why?
3. How should Western firms respond?

E-mail address: r.ramamurti@neu.edu

Many American and European firms underestimate the competitive threat from EMNEs. Take the example of Huawei, a Chinese telecom equipment firm that was founded in 1988 by an officer of the People's Liberation Army at a time when companies like Ericsson and Siemens already had a foothold in that market (Ramamurti, 2011a). Huawei began by selling public telephone exchanges (PBXs) to small and medium enterprises in rural China, a segment neglected by Western firms. In the early 1990s, Huawei introduced its first digital switch for telephone operators and used its state connections to gain a piece of the Chinese market, which was dominated by two state-owned telephone companies. It poured money into research, hired the best and brightest Chinese engineers, deployed nearly half its headcount in research and development (R&D), entered into multiple technology alliances with Western firms, and gradually expanded into other emerging markets. Its key competitive advantages were low cost

(30%–40% lower than Western rivals), a willingness to customize hardware and software, and quick turnaround for customer requests. Its technology was reportedly inferior to that of Western firms but of 'good enough' quality for price-sensitive buyers. Huawei's product appealed to telecom firms in emerging markets and, as quality improved, to operators in Western Europe.

By 2010, the company offered its own 4G products and was expanding into smartphones, routers, storage, and other high-end products. The only market beyond its reach was the United States, where rumors that it was controlled by the Communist Party prevented it from winning big orders despite Huawei's protestations that it was fully owned by employees. Meanwhile, following the dot-com collapse, Nortel of Canada went bankrupt, a weakened Lucent merged with Alcatel, and each of the other firms (i.e., Siemens, Nokia, Motorola, and Ericsson) faced challenges of their own. Huawei, in contrast, was on its way to becoming the #1 telecom equipment company in the world. The point of the story is that as late as 2000, few Westerners were aware of Huawei's existence or its global ambitions. The competitive threat from EMNEs is still routinely overlooked by many Western firms.

2. How serious is the competitive enterprise threat?

Emerging economy multinational
In some ways, the rise of EMNEs is like a replay of the 1960s and 1970s when new global players appeared out of Japan, Taiwan, and Korea. The good news is that Western firms are less complacent this time around, but the bad news is that not all firms remember the historical lessons. The current challenge is broader and deeper since it involves a larger number of developing countries and encompasses both manufacturing and services.

It is understandable that Western firms might underestimate the competitive threat from EMNEs. After all, the stereotypical EMNE is technologically backward, has unsophisticated products, runs inefficient plants, knows little about marketing, and lacks international experience. It is generally only assumed to be good at making cheap products, which is attributed to cheap labor in its home country.

Another reason to be dismissive of the EMNE threat is that emerging markets are fraught with so many risks, such as weak political institutions, corruption, social tensions, overreliance on natural resources, and degrading natural environments—any of which could derail growth and competitiveness. Despite having stable political parties and strong institutions,

however, Japanese firms that were expected to take over the world never did. Instead, Japan has been stagnant for two decades, and its firms seem to be retreating in many industries. So, is the threat from EMNEs being similarly exaggerated?

There is no question emerging economies face macro risks that could derail their growth, but today's developed countries are also beset by serious macro risks. They face severe fiscal imbalances, out-of-control entitlement programs, aging infrastructure, rising income inequalities, and adverse demographic trends. The growth rate of the Japanese, European, and U.S. economies has been in secular decline for four decades. The financial crisis of 2008 drove home the point that the industrialized country's power in the global economy is at an inflection point. As such, emerging economies will almost certainly grow faster than developed economies in the next two to three decades. Even if China's growth rate falls from the 10% rate it averaged over the past 30 years to a mere 6%–7% per year, it would still be two to three times the rate of industrialized countries. Therefore, emerging economies will account for two-thirds or more of the world's future gross domestic product (GDP) growth, which will make them strategically important for Western firms and will enhance EMNEs' competitiveness.

In the 1960s, firms in the United States were challenged by firms from Japan and the four small Asian tigers of Hong Kong, Korea, Singapore, and Taiwan. This time around, the challenge comes simultaneously from all over Asia, Latin America, Eastern Europe, and even parts of Africa, and is an order of magnitude greater in scope. Besides, China and India have populations that are 10 times the population of Japan, which means history is not a useful guide for how things might unfold this time around.

When emerging economies like Brazil and India opened up in the 1990s, local firms in these countries feared that Western multinational firms would quickly put them out of business in their home markets because of their superior products, technology, and brands (Dawar & Frost, 1999). This happened in some cases, but many EMNEs discovered they had a significant home-field advantage because their strategies were ideally suited to the local environment. This is one reason why Western firms must take their budding rivals from emerging markets seriously: they are formidable competitors in their home markets, which are also some of the largest and fastest growing in the world.

Having survived economic liberalization in their home markets, many emerging market firms have expanded into other emerging markets, especially

within their own regions. Brazilian firms expanded into other parts of Latin America, Indian and Chinese firms into neighboring Asia, and South African firms into the rest of Africa. Often, the products and prices these firms brought from their home countries were also well suited to the needs of their neighbors. Thus, Western firms run into tough competition from emerging market firms in other emerging markets as well. For example, a Chinese firm like Haier (which makes white goods) is a threat to Whirlpool not only in China but also in Indonesia, Malaysia, and the rest of Southeast Asia. This should be a significant worry for Western multinationals since world growth will be concentrated in emerging economies.

The threat could be even greater in those cases where EMNEs set their sights on markets in developed countries. Like Huawei, which aspires to gain worldwide leadership rather than just national or regional leadership, many EMNEs desire to join the top-tier companies in their industries. Thus, Haier hopes to become the next Whirlpool, Infosys and Tata Consulting Services of India seek to become the next Accenture, Chery Automobile and Geely of China want to become the next Honda or Toyota, and Petrobras aims to be the next Shell (Ramamurti, 2011b; Williamson, 2011). At the aggregate level, data on outward foreign direct investment (FDI) from the BRIC countries (i.e., Brazil, Russia, India, and China) shows that a very large share, sometimes even a majority, goes to Europe and North America rather than other emerging economies. Clearly, many EMNEs have global ambitions.

All emerging market firms may not be as successful as Huawei, but it would be foolish for Western firms to dismiss the possibility that an EMNE or two from some part of the developing world will become a serious rival in the future. The demise or decline of telecom equipment firms like Nortel, Lucent, Alcatel, or Motorola can be blamed to some extent on the rise of upstarts like China's Huawei and Taiwan's HTC. A key reason General Electric (GE) is doubling its attention to emerging markets is the fact that Chinese firms are nipping at its heels in core businesses, such as steam turbines, power generators, wind energy, and high-speed rail, not just in China but around the world. Writing in *Harvard Business Review*, GE's chief executive Jeff Immelt admitted candidly the seriousness of the EMNE threat (Immelt, Govindarajan, & Trimble, 2009, p. 59):

GE has tremendous respect for traditional rivals like Siemens, Philips, and Rolls-Royce. But it knows how to compete with them; they will never destroy GE. By introducing products that

create a new price-performance paradigm, however, the emerging giants [EMNEs] very well could.

3. What are the competitive advantages of EMNEs?

So what competitive advantages do EMNEs enjoy? On the surface, they do not seem to possess the competitive advantages of Western MNEs. For instance, they do not possess cutting-edge technologies, global brands, global scale, or international experience (Madhok, in press). Instead, they are typically technological laggards with strong brands at home but none abroad and limited presence or distribution outside their home countries. Based on these facts alone, some observers conclude that EMNEs have no real competitive advantages other than home-country advantages (e.g., cheap labor, abundant natural resources) that are potentially available to all firms in the country, including foreign firms (Rugman, 2009). In other words, the international expansion of EMNEs is viewed as fundamentally unsustainable and, therefore, an aberration that must eventually correct itself.

However, the evidence points to EMNEs' continued international expansion. Indeed, a historical view suggests that we may be witnessing the fourth wave of multinationals to appear on the global stage (Aharoni & Ramamurti, 2011). Before World War I, the world's leading multinationals were European, specifically British, Dutch, French, and German (see Table 1). They built their global networks on the backs of their home countries' colonial expansion. In 1914, they accounted for 94% of the world's stock of FDI versus only 6% for American firms. The second wave of MNEs came from the United States following the two world wars when the global networks of European MNEs were badly damaged. By the late 1960s, America accounted for 55% of the world's FDI stock. The third wave of MNEs came out of Japan in the 1980s and 1990s as the country's firms created subsidiaries in Asia, Europe, and the United States. The fourth and latest wave seems to be unfolding now from the 'rest of the world'; that is, the emerging economies. By 2009, Japan and the United States' share of the world's FDI stock was falling while that of emerging economies was rising. In terms of annual FDI flows, emerging economies' share was close to one-fifth of the total in 2009 and, by most accounts, will rise further in the coming years.

Thus, we need to rethink our assumptions about EMNEs' competitive advantages. For one thing, the

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GE

Table 1. Share of worldwide stock of outward FDI (OFDI)

Region/Country	1914	1969	1980	1990	2009
Europe [#]	93%	43.2%	41.1%	49.5% [#]	56.0% [#]
United Kingdom	} 50%	16.2%	14.1%	12.8%	8.7%
France		NA	4.2%	6.1%	9.1%
Germany		NA	7.5%	8.5%	7.3%
The Netherlands		NA	7.4%	6.0%	4.5%
United States	6%	55%	37.7%	24.3%	22.7%
Japan	0%	1.3%	3.4%	11.2%	5.6%
Emerging Markets	0%	0%	12.7%	8.3%	15.9%
Worldwide OFDI Stock (USD)	NA	NA	571	1,791	18,982

Source: Adapted from Aharoni & Ramamurti 2011, p.116, except for 2009 data, which are from *World Investment Report 2010*, pp. 172-76. See Aharoni and Ramamurti (2011) for original sources for other years.

[#] Europe's share fell secularly from 1914 to 1980 but began to reverse course because of growth in intra-EU FDI after the Single European Act (1986) and the creation of the euro. Here, Europe does not include transitional economies such as Hungary, Poland, Czech Republic, or the Baltic states, but includes what UNCTAD calls 'developed Europe' (e.g., Switzerland). Per UNCTAD definition, 'emerging markets' include countries like Hong Kong, Taiwan, Singapore, and Korea.

① advantages

only to state-owned
China

assumption that home-country advantages are freely available to all firms in a country is questionable (Ramamurti, 2009). Russia's natural resources are certainly not available to all Russian firms, never mind all foreign firms. Similarly, China's abundant savings are not freely available to all Chinese firms, only to state-owned enterprises. Secondly, many home-country advantages cannot be exploited without a modicum of firm-level capabilities. For example, Indian firms had to find innovative ways to get around the country's weak educational system and weak infrastructure before they could engage in labor-cost arbitrage in information technology and software services. More importantly, however, EMNEs seem to possess several capabilities that undergird their international competitiveness (Guillen & Garcia-Canal, 2009). These are firm-specific, not country-specific, advantages. A few examples follow.

3.1. Insight into customer needs

EMNEs attempt to truly understand customer needs in emerging markets. They understand the need to keep products cheap, to carefully select product features, to make products sturdy and portable, and so on. This does not always mean taking the bells and whistles out of Western products. Sometimes it means adding features not found in Western products, such as adding flashlights to mobile phones for use during power outages—which are common in emerging markets—or allowing rural consumers in China to wash vegetables in their washing machines. It means making products

simple to use and maintain, as L&T of India did with its electrocardiogram (ECG) machines. These principles not only apply to consumer products but also to B2B businesses, in, for example, making trucks or machine tools sturdy, simple to maintain, and inexpensive.

3.2. Ultra-low cost production

To deliver products at the price points that emerging market customers can afford, EMNEs have become creative at cost reduction. They are not low-cost producers simply because they are based in low-wage countries: they have devised many other ways to keep costs low. On the capital expenditure side of the picture, for instance, they economize on space, capital equipment, land, and construction costs and are more likely to locate facilities in second-tier rather than first-tier cities. They are more likely to use second-hand machines or to even make replicas of expensive Western machines in-house or through local suppliers. They are also likely to use fewer machines and more labor, both of which lower total cost in the emerging markets context. On the operating expense side, EMNEs have minimal overhead, fewer management layers, and lower wages and benefits for workers, and they utilize capacity more fully.

3.3. Frugal innovation

EMNEs are also good at frugal innovation; that is, coming up with new products quickly and cheaply. Chinese firms have found ways to produce advanced

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products at lower costs—for example, lithium-ion batteries that use less expensive inputs and can be manufactured at ambient temperature—or to produce a large variety of products in small batches while still keeping costs low (Zeng & Williamson, 2007). Indian auto manufacturers have produced new models at about a third of the cost of Western firms. They have also developed drastically cheaper products, such as low-cost refrigerators, cataract and heart surgeries, and personal computers. The less complex regulatory environment in emerging markets also makes innovation easier, cheaper, and faster in fields like healthcare and renewable energy.

3.4. Operational excellence in adverse environments

EMNEs have also acquired the ability to operate effectively in the harsh business environment of emerging markets. For instance, they use backup generators if power is in short supply or is unreliable. If skills are lacking, they grow them in-house, and if suppliers are missing, they backward integrate into components or develop suppliers from scratch. They find ways to compensate when infrastructure is weak and logistics are difficult. If government policies are vague, opaque, or volatile, they learn to be nimble and proactive. All this adds up to EMNEs' ability to operate reliably in highly unreliable environments. Occasionally, innovations in several functional areas result in radically different business models from those of Western rivals in the same industry. A case in point is India's wireless service industry, which provides world-class service at one-tenth the price of that in the United States. The industry does this by using an innovative business model, one that Western rivals like Vodafone and Sprint are now trying to learn and replicate.

3.5. Privileged access to resources and markets

Many countries reserve natural resources for exploitation by national firms and sometimes even more narrowly for state-owned firms. The state may show similar preference for local firms when allocating capital or foreign exchange. Where the state is adept at industrial policy, as in China, it also uses local market access as a bargaining chip to force foreign firms to transfer technology to national firms or to source components and sub-systems from local suppliers. These may be regarded as unfair practices, but they do create tangible and valuable advantages for EMNEs.

3.6. Traditional first-mover advantages

Although most EMNEs are late movers in their industries, a few have caught up with Western firms or taken the lead in new industries to become first-movers. Ramamurti and Singh (2009) refer to these as 'global first-movers.' In such cases, EMNEs may even be at the frontier of technology or have the capacity to integrate cutting-edge technologies acquired from developed countries. Besides Huawei, examples of first-movers include Embraer of Brazil in aircraft, Suzlon of India in wind energy, Dr. Reddy's of India in pharmaceuticals, Petrobras of Brazil in deep-water oil drilling, Cosan of Brazil in bioenergy, and BYD of China in electric batteries. In some instances, the emergence of such EMNEs is aided by the fact that emerging economies leapfrog over arcane technologies to the very latest innovations as evidenced, for example, in telephone services, wireless banking, and renewable energy. In such instances, EMNEs may be competing head-on with Western MNEs, like Goldwind and Suzlon are doing in the wind energy sector against Vestas, Siemens, Gamesa, and GE.

4. Internationalization and competitive advantage

EMNEs use internationalization to exploit their home-based competitive advantages, but they also use it to acquire new competitive advantages for exploitation at home and abroad. Thus, internationalization further strengthens their competitive advantages. A few common varieties of EMNEs are described below and are summarized in Table 2; for more, see Ramamurti (2009).

4.1. Expanding into other emerging markets

EMNEs with products and processes optimized for their home markets find that the same formula often works well in other emerging markets. Ramamurti and Singh (2009) refer to these firms as 'local optimizers.' Thus, a low-priced truck that is rugged enough to withstand India's poor roads and easy enough to maintain in remote corners of the country is also well suited to many other low-income countries. Bharti Airtel's inexpensive but high-quality wireless service is an appealing business model in other poor countries, which explains why the firm acquired wireless companies in Bangladesh and all over Africa. The bad news is that products optimized for emerging markets may be sub-optimal for developed countries. Therefore, EMNEs may be stymied in their efforts to break into markets in

Table 2. Foundations of internationalization by EMNEs

Generic Internationalization Strategy	Home Country–Based Competitive Advantages	Reasons for Internationalization	Examples
1. Local Optimizer	<ul style="list-style-type: none"> • Ability to optimize products for home market by making them ultra cheap and easy to use • Customer insight on how to trade off price and product features 	<ul style="list-style-type: none"> • To introduce products optimized for the home market into other emerging markets 	<ul style="list-style-type: none"> • HiSense, Mahindra & Mahindra, Tata Motors, Shoprite, Marcopolo
2. Low-Cost Partner	<ul style="list-style-type: none"> • Ability to leverage home country's talent to engage in labor cost arbitrage despite adverse business environment • Project management skills 	<ul style="list-style-type: none"> • To diversify the low-cost locations from which customers in high-cost countries can be served • To move up the value curve by getting closer to key customers in developed countries 	<ul style="list-style-type: none"> • Wipro, Infosys, TCS, GVK Bio, WEG, Sabo
3. Global Consolidator	<ul style="list-style-type: none"> • Production and project execution excellence in capital-intensive process industries • Late-mover advantages in scale, organizational processes, and technology • Strong position in large and growing home market, resulting in strong cash flows 	<ul style="list-style-type: none"> • To build scale and lower cost • To acquire complementary technologies and capabilities • To improve (turn around) the performance of acquisitions abroad 	<ul style="list-style-type: none"> • Tata Steel, Hindalco, South African Breweries, Lenovo, Wanxiang, Cemex, Haier
4. Natural-Resource Vertical Integrator	<ul style="list-style-type: none"> • Privileged access to natural resources • Privileged access to large home markets 	<ul style="list-style-type: none"> • To enable forward integration to secure markets • To enable backward integration to meet growing domestic demand for natural resource–based products 	<ul style="list-style-type: none"> • Gazprom, Lukoil, Norilsk, Vale, AngloGold, PTT • Petrobras, Oil & Natural Gas Commission, Indian Oil, China National Offshore Oil Corporation, Chinalco
5. Global First-Mover	<ul style="list-style-type: none"> • Large home demand that helps local firm(s) launch in an emerging industry • Sometimes aided by home country leapfrogging to latest technology (e.g., wireless telephony or renewable energy) • Sometimes significant state support 	<ul style="list-style-type: none"> • To acquire key missing technologies and capabilities necessary to compete in new emerging industries • To acquire global customers, scale, and reach 	<ul style="list-style-type: none"> • Embraer, Huawei, ZTE, Suzlon Energy, Dr. Reddy's Pharmaceuticals

developed countries. Thus, Ford or Volkswagen can expect to run into Tata's \$2,500 Nano car in India and a few other emerging markets but are less likely to run into it in the United States or Western Europe, although Tata Motors has said it intends to export an upgraded version to Europe.

4.2. Becoming an offshore partner

Some EMNEs go abroad to take advantage of their ability to produce low-cost products, components, or services for customers in high-cost countries; that is, they become the offshore partners of Western

firms. Ramamurti and Singh (2009) refer to these firms as 'low-cost partners.' Low-cost partners' competitive advantage is their ability to tap into their countries' location-related advantages. For instance, Taiwanese firms like Quanta or Hon Hai Precision Industries assemble products for companies like HP and Apple. Initially, the assembly was in Taiwan but it was later moved to several low-cost locations, including China. The same strategy has been used in services by Indian information technology, software, and R&D service firms to support U.S. and European companies. Initially, staff was in India, but centers in other emerging economies followed quickly.

To move up the value curve, these EMNEs open centers in 'near-shore' and onshore locations to be close to key customers. Target markets for such offshore services are developed countries since labor cost arbitrage is not possible between two low-wage countries. EMNEs that begin as offshore partners of Western firms sometimes graduate to become independent players in the industry (e.g., Acer of Taiwan in the personal computer business). This progression has sometimes been described as moving from an original equipment manufacturer (OEM) to an original design manufacturer (ODM) to an original brand manufacturer (OBM).

4.3. Building scale in mature industries

Industries that are regarded as mature in developed countries (e.g., cement, steel, aluminum, auto parts, personal computers, beverages) are considered high-growth industries in most emerging economies. As such, EMNEs in these industries have grown in size, added new plants, upgraded technology, and expanded their headcount. The more aggressive among them have become leaders in their home markets with strong cash flows and have used that momentum to acquire companies in other countries. Examples of 'global consolidators' (Ramamurti & Singh, 2009) include Lenovo, which bought IBM's personal computer business; Tata Steel, which acquired steel companies in Singapore, Thailand, and Europe; South African Breweries, which took over beer makers in Africa, Asia, and Europe, as well as Miller Beer in the United States; Chery Automobile of China, which acquired Volvo; Cemex, which acquired rival cement companies in Australia, the United Kingdom, and the United States; and JBS Friboi of Brazil, which acquired Swift & Co. in the United States to become the world's largest beef producer.

Western firms in these industries may have advanced technology, but their plants are often older and undersized, their labor contracts are uncompetitive, they are saddled with pension liabilities,

and their sales and profits are often spiraling downward, thus making them targets for takeover by EMNEs rather than the other way around. In fact, global consolidators typically originate in large emerging economies, such as the BRICs, Mexico, and South Africa.

4.4. Integrating vertically in natural resources

Another type of EMNEs internationalizes to integrate vertically in the natural resources sector. Those EMNEs from countries with abundant natural resources, such as Brazil and Russia, integrate forward into Europe or North America, while EMNEs from countries with large demand, such as China and India, integrate backward to secure natural resources. For instance, Chinese firms, such as CNOOC, Sinopec, Chinalco, and China Minmetals, have been locking up resources in Australia, Africa, and Latin America. EMNEs in these industries are often state-owned or have close ties to home governments. Western firms are likely to find themselves vying with EMNEs for strategic resources even as EMNEs vie with one another for the same materials.

4.5. Acquiring complementary assets

EMNEs also use internationalization to acquire complementary resources that will enhance their competitiveness at home and abroad. Low-end car maker Chery, for example, acquired Volvo for its advanced technology and to help grow Volvo's sales in China. Similarly, Tata Motors, Hindalco, and Suzlon acquired companies in Europe and North America to get their hands on valuable technologies. At other times, EMNEs acquired companies abroad to obtain valuable brands, as TCL of China tried with its purchase of Thomson Electronics and Lenovo did with IBM's Thinkpad brand. Still other EMNEs acquired companies abroad to complement existing product lines or to expand distribution in new markets.

5. How should western firms respond?

Based on the discussion thus far, it is clear that EMNEs are growing rapidly and expanding globally. They enjoy important competitive advantages in their home markets, some of which extend into other emerging markets and, in some cases, also into developed markets. The more entrepreneurial EMNEs are using the shift in the world's economy toward emerging markets to catapult themselves into the top league of their industries. EMNEs can

disrupt Western firms because they hail from countries whose resources, capabilities, and factor costs are so different from those of industrialized countries. Large global firms still think of their competitors as consisting of other large global firms from industrialized countries. Interestingly, EMNEs do not usually figure on this list. However, EMNEs can be strong competitors because they tend to combine global reach through acquisitions with a large footprint in low-cost countries. The result is often firms with global scale but significantly lower costs than Western rivals.

So, what will it take for Western firms to succeed in the future as the economic center of gravity moves toward emerging markets? Perhaps the most important and difficult change will be in traditional MNEs' attitudes and mindset. Here are a few suggestions for their consideration.

5.1. Take the challenge seriously

The first prerequisite is to recognize the challenge for what it is: one that must be taken seriously rather than spurned, but can be more than overcome using the Western multinational's traditional strengths in technology, brands, global scale, and global reach. This awareness must exist at the top of the organization by corporate headquarters and by companies' CEOs. This awareness cannot merely exist at lower organizational levels or within firms' subsidiaries in emerging markets.

5.2. Be patient

The second prerequisite to overcoming EMNEs' competition is patience in formulating and implementing a strategy to win in emerging markets. Many Western firms, particularly U.S. firms, have a relatively short time horizon. That is, returns are expected within a year or two. However, that is much too short a time frame in which to develop and execute a strategy for emerging markets. Figuring out the right business model for key emerging markets and developing the proper product portfolio at the correct price points may take up to a decade. Without patience on the part of corporate management, country managers will find it impossible to make the investments necessary to figure out the correct strategy for emerging markets.

5.3. Get deeply engaged

Following the first two requirements, the third prerequisite for success is that Western firms must be prepared to get deeply engaged in major emerging markets, especially China and India. They must

strive to become a 'Chinese company' in China and an 'Indian company' in India. This means targeting all key segments of the market, not just the premium segments or the urban markets. In turn, this means developing products and services for the mid-market in these countries and building new and sometimes unconventional distribution channels to reach the middle class or the poor, including those in rural areas. Only through this kind of deep engagement will Western firms be able to challenge emerging market firms in their backyards before those firms challenge them in rich-country markets. Acquiring local firms is one way to deepen one's engagement in emerging markets, but it is not always easy to acquire firms due to government restrictions or family ownership in attractive targets.

5.4. Be willing to learn

Western firms and managers would be well served by humility and a willingness to learn lessons from local competitors about how to make products cheaper, better, and more appealing to low-income consumers in emerging markets. The best Western firms must be willing to learn from rivals and consumers in emerging markets if they want to succeed in these markets. The surest way to protect Western firms' traditional markets in the Triad region (i.e., North America, Europe, and Japan) is to snuff out EMNEs in their own home markets.

5.5. Innovate in and for emerging markets

Many Western firms have begun to conduct R&D in emerging markets. This may rightly be considered innovating *in* emerging markets, but it is not always innovating *for* emerging markets. To really succeed in emerging markets, Western firms must be prepared to develop products and services for these countries using a clean-slate approach. The really good firms will also be adept at moving those innovations from one emerging market to another and, where appropriate, even to developed country markets through a process known as 'reverse innovation' (Govindarajan & Ramamurti, 2011).

5.6. Develop an 'emerging markets' strategy

Eventually, Western firms will discover that emerging economies can be leveraged in three distinct ways: (1) as places with talent that can be used to make goods and services for the world, (2) as markets with large and growing demand, and (3) as centers of innovation. Any given firm may have started by exploiting one of these dimensions and

then discovered the opportunity to exploit others. For example, toy and footwear companies have sourced products from emerging economies for years but have only recently recognized that developing products for the growing middle class in those countries is a huge opportunity. In other cases (e.g., GE, IBM), their engagement in emerging markets went in the opposite sequence, first as customers and then as production platforms. A firm that leverages emerging markets in all three ways may have the most to gain because of the synergies involved. A few Western firms, including IBM, 3M, Honeywell, and GE, are on their way to this ideal state, but it has not been an easy journey nor is it close to complete. However, other Western firms can and should profit from their experience.

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