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Bachelor’s Thesis

Evaluating The Validity of Proposed Firm-specific Factors Affecting the Internationalization of Emerging Markets’ Firms: A Multiple Case-study

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1. Introduction

Emerging economies are steadily increasing their prominence in the world economy. UNCTAD data from 2007 and 2012 indicates that at this time emerging economies are continuing to take in almost half (45 %) of total world foreign direct investment (FDI), even after the financial crisis of 2008. Additionally, outward FDI from emerging economies has grown rapidly, from 5 % of total FDI in 1990 to approximately 20 % in 2011. This means that firms from emerging economies are steadily increasing their involvement in developed markets as well as frontier markets. The internationalization of emerging market (EM) -based firms has warranted the increase of strategy research concerning them in the recent decade. Researchers are trying to find out answers to important issues such as what enables EM-based firms to successfully compete against their more developed western counterparts in the global marketplace. Solving these issues can have practical implications for firms from emerging as well as developed economies: answers can help EM firms to leverage their core competencies more effectively, whereas Western firms may be able to gain a better understanding of their competitors.

Existing research on the internationalization of firms from emerging markets points towards the notion that a different framework is required in comparison to the internationalization of developed-country firms (for instance Cao 2012, Ramamurti & Singh 2008, Luo & Tung 2007, Wright *et al*. 2005). An important prerequisite for building such a framework is to build an effective theoretic basis for the factors that affect the internationalization of EM-based firms. Literature on this subject is not yet fully developed, but it is clear that this theoretic basis includes at least two important themes: firm-specific factors and country-specific factors. The primary purpose of this thesis is to find firm-specific factors that have been advantageous for EM-based firms in their internationalization, and compare those factors to the existing factor framework in an attempt to evaluate its validity. As a natural continuity, the secondary purpose is to propose improvements for the framework where shortcomings and discrepancies are found. The purpose of this thesis can thus be condensed into two research questions, primary and secondary:

- How well does the current framework for firm-specific factors affecting the internationalization of emerging markets' firms reflect reality?

- What improvements, if any, does empirical research of firm-specific factors affecting the internationalization of emerging markets' firms warrant for the current framework?

In order to achieve useful results, some limitations must be placed for the course of this research. There are quite a few sets of interconnected factors that affect the internationalization of EM-based firms, of which firm-specific factors are only one. To stay true to the goals stated in the research questions while keeping within the limits placed on this thesis, the interplay between firm-specific and other factors and their causal relationships will mostly be discussed only superficially.

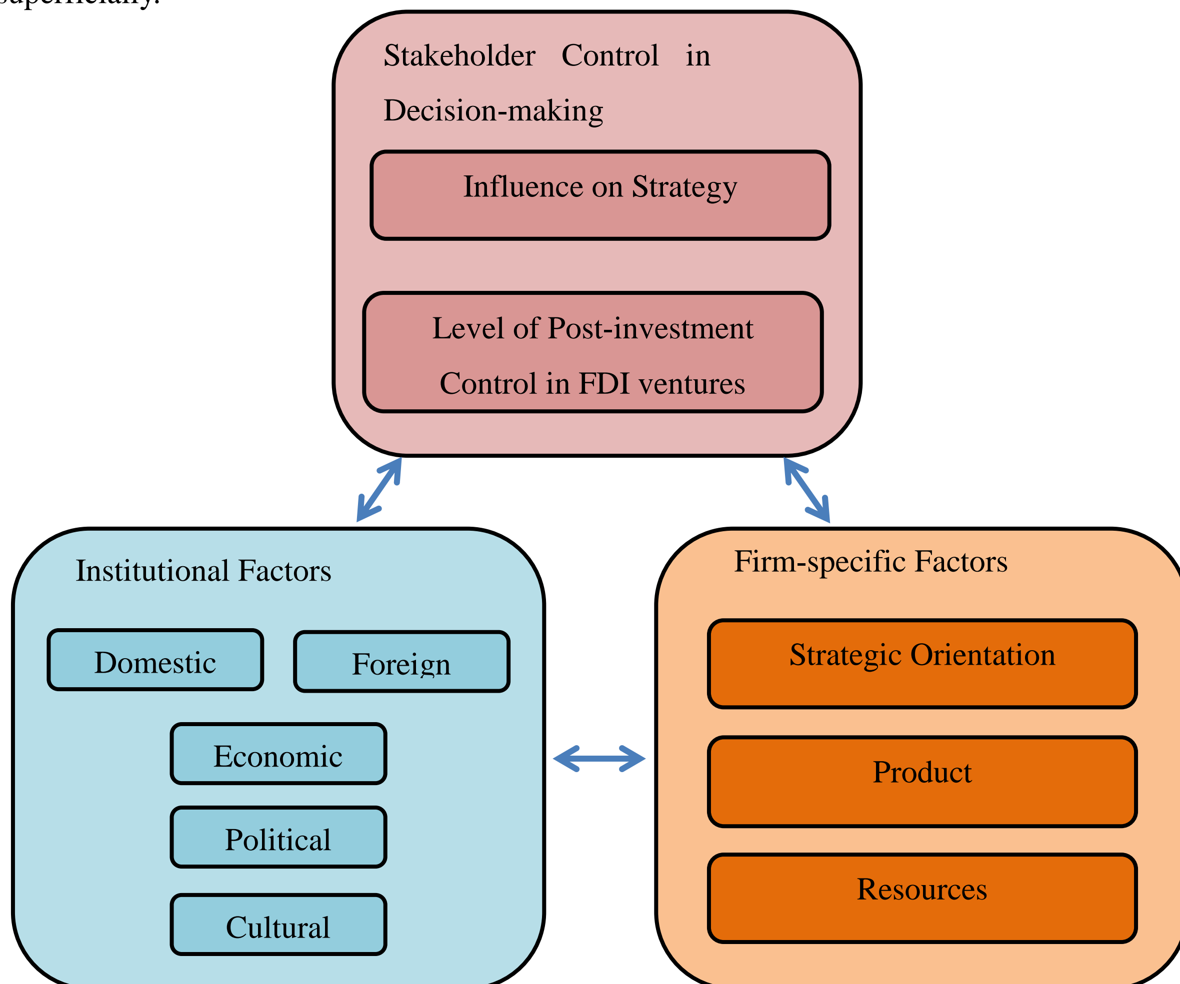

Figure #1: Factors affecting firm internationalization. Derived from Ekeleido (2008).

Furthermore, the firms discussed in the empirical section will be limited to ones that hail from the BRIC-countries (Brazil, Russia, India and China). There are several reasons for this. Firstly, there are plenty of globally internationalized firms to be found that are based in these countries, which makes finding case examples less complicated. Secondly, the BRIC-countries have reached a similar stage of economic development but are nevertheless geographically and politically different, which should make for a reasonable and interesting basis for firm comparison. Firms in the BRIC area form a coherent basis for research, and adding more emerging economies to the list would create a practical problem: the number of necessary case firms would turn out to be too high. Many speak of the BRICS area (with South Africa included), and Mexico is a prominent emerging economy as well, but the aforementioned reasons are nevertheless grounds for their exclusion from this research.

To conduct the necessary research, analyze it against the relevant theoretic background and finally answer the research questions, this thesis will follow a commonly used research path. The methodology and methods of data collection used in this research will be presented in the following section. After this, a literature review will be conducted in an effort to provide the reader with a good overview and insights of concepts that are relevant to the internationalization of emerging economies' firms. The main goal of the literature review will be to establish a theoretic framework for the firm-specific factors affecting those firms' internationalization. Next, in the empirical section of this thesis, an analysis of relevant case firms will aim to find and isolate firm-specific factors in practice and find empirical evidence related to the validity of the theoretical framework. The final section will focus on analyzing the empirical findings and their implications. Conclusions will be made to clarify key findings and provide answers to the research questions.

1.1. Methodology and Data

The research method used in this thesis is multiple-case study, and the collected case data will be analyzed following a qualitative approach. According to Yin (1994) the case study method is the preferred one to answer "how" questions such as the primary research question of this thesis.

Using a qualitative approach allows for a certain degree of flexibility in conducting this research and this is important due to the nature of the data and issues at hand. Every case company that will be described has faced different circumstances in their internationalization and thus their experience of expanding abroad has been unique. In order to find the most relevant and interesting empirical evidence, a dynamic, “soft” qualitative analysis method is consequently chosen.

The qualitative analysis method used in this thesis consists of two phases that support each other and have elements of both inductive and deductive approaches. The first phase will be the initial display and analysis of case data using an inductive approach. According to Thomas (2006) inductive analysis refers to “*approaches that primarily use detailed readings of raw data to derive concepts, themes, or a model through interpretations made from the raw data by an evaluator or researcher*”. Because there are many cases all of which differ from each other, it is important to find the most relevant facts related to each one and display them in a concise manner. The goal of this phase is to provide short descriptions of the companies and their internationalization, while conducting an inductive analysis and identifying relevant firm-specific factors that have been in play during the companies’ histories. This phase will lay the groundwork for the next one, in which the various empirical findings will be discussed to further the research goals of this thesis.

The second, deductive phase of this thesis’ analytical process is all about pattern matching. Pattern matching is a deductive procedure used in qualitative research which was first introduced by Campbell in 1975 and discussed further by, among others, Hyde in 2000. In this phase, answers will be sought for the primary research question: “How well does the current framework for firm-specific factors affecting the internationalization of emerging markets’ firms reflect reality?”. To answer this question, the firm-specific factors that have affected the case companies’ internationalization will be reviewed and matched with the theoretical framework. According to the principles of pattern matching, it will be necessary to not only identify similarities between the two, but also discrepancies and missing theoretical explanations. This is an important prerequisite for answering the secondary research question: “What improvements, if any, does empirical research of firm-specific factors affecting the internationalization of

emerging markets' firms warrant for the current framework?". If there are modifications to be made to the theoretical framework, they can be proposed only through thorough analysis of the interplay between the found firm-specific factors and the existing framework. As an extension of the second analytical phase, these possible modifications will be proposed should a need for them emerge while discussing the empirical findings.

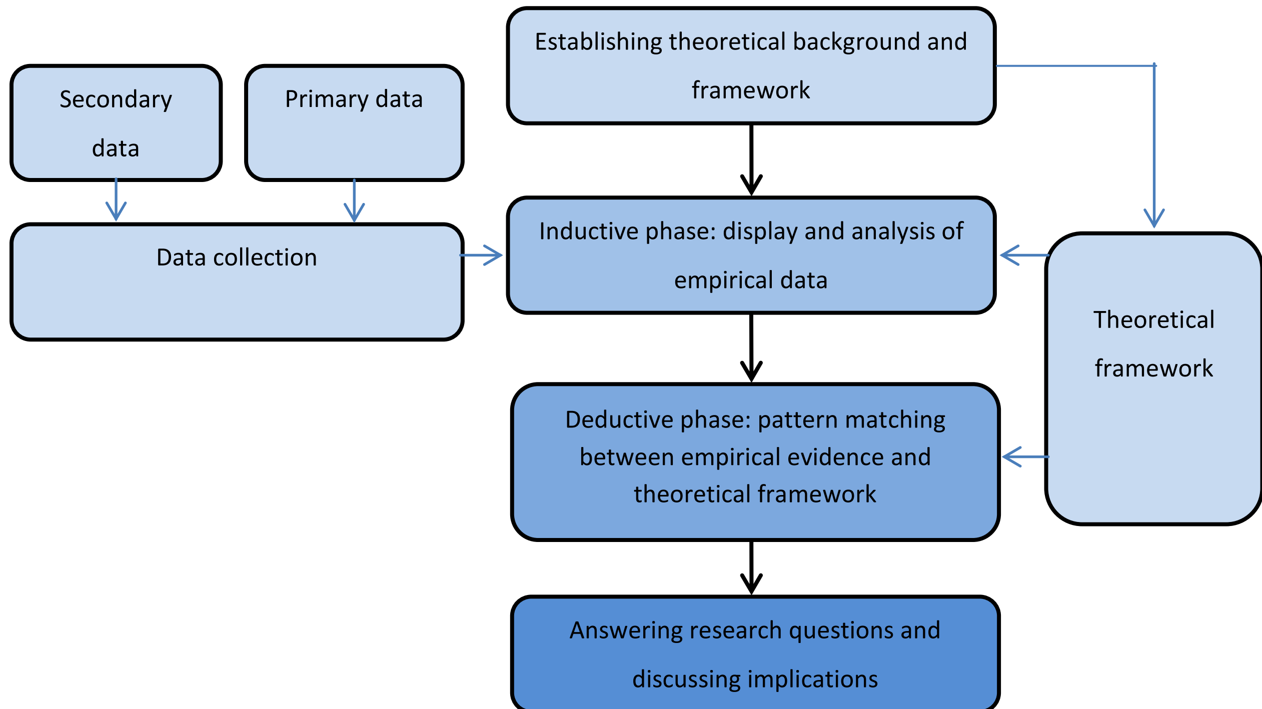

Figure #2: An illustration of this thesis' research process.

The data used in this research will consist of information on case companies from the four largest emerging economies referred to as the BRIC-countries; Brazil, Russia, India and China. The most important data relates to the internationalization of these companies: their process of international expansion and what enabled them to internationalize.

The necessary data will be collected from primary as well as secondary sources. Company data from the case companies' websites and yearbooks will be the most important source of data in this research. It will be used to form a general picture of the companies as well as their internationalization. Where possible, secondary data such as information from previous case

studies and analyses will also be used to deepen the data pool and possibly gain valuable insights into the companies.

2. Factors Affecting Firm Internationalization

The purpose of this literature review is to firstly provide the reader with an overview of the big-picture factors that affect the internationalization strategies of firms in emerging markets. This is important in order to understand the background framework within which firm-specific factors play their role, and to be able to analyze the interplay between the two. The second and main purpose of this literature review is to establish the firm-specific factors that affect the internationalization of emerging markets' firms according to current business research.

According to Ekeleido (2008), there are three major sets of factors to be distinguished when the internationalization strategies and entry mode choices of emerging markets' firms are considered. They are as follows:

(1) Various stakeholders' level of control in decision making
(2) Institutional factors (external factors)
(3) Firm-specific factors (internal factors)

The stakeholders' level of control in the firm's decision making structure (1) affects internationalization processes in two distinctive ways. First, the major stakeholders of a company may have strong influence over the broad strategy of the firm. Secondly, an important element is the level of post-investment control that firms have over FDI ventures i.e. foreign market entry, which can be executed in a number of ways including licensing agreements, joint ventures and wholly owned subsidiaries (Buckley & Casson 1998). Control is dependent on the level of financial commitment made, and accordingly entry mode strategies have been classified into equity-based and non-equity based modes by Ekeleido (2008). Non-equity based entry modes mitigate risk as a result of lower financial commitment, but accordingly the firm's ability to control the investment decreases. Licensing is an example of a non-equity based foreign market

entry mode, in which the licensor rents out its business model to the licensee who in turn usually carries the bulk of the financial risk. By contrast, equity-based entry modes require a significant financial investment but in turn allow the investor comprehensive or full control of foreign operations. Research has established that liability of foreignness is a major hindrance for the internationalization of emerging markets' firms (Gaur *et al*. 2011). In short, this phenomenon refers to the lower survival rate of foreign companies in markets compared to domestic companies. Gaur *et al*. (2011) and Ekeleido (2008) have both suggested that EM firms often use acquisitions in order to secure ready brands and customer bases, circumventing liability of foreignness through the use of equity-based entry modes.

The institutional factors (2) affecting EM firms' internationalization can be divided into factors in domestic and foreign markets. Porter (1990) has shown that demand conditions and competitive circumstances in the home country have a deep-reaching effect into the internationalization capabilities of firms. However, research by Lau *et al*. (2010) questions the explaining power of Porter's theory in the case of some of the Asian IT-intensive firms that have aggressively expanded internationally in recent years. This research suggests that instead of institutional factors, firm-specific factors (3) such as unique competencies in R&D and manufacturing have been the main force behind these companies' internationalization. Besides demand and competitive forces, additional external factors include for example political and cultural circumstances. Lessard *et al*. (2008) illustrate the complex relationship between country-specific factors (in essence, external factors) and firm-specific factors, arguing that quite often the former is the basis for the generation of the latter. This will be discussed more in-depth in the theory section on firm-specific factors.

When EM-based firms internationalize to other emerging markets, host-country specific economic, political and cultural aspects become very important. Quite often EM firms have exceptional knowledge on operating in tumultuous environments and are able to leverage these capabilities to succeed where developed countries' firms fail. Yiu *et al*. (2007) discuss this phenomenon and stipulate that it is a key source of competitive advantage for EM firms. Additionally, they point out that such firms' better knowledge of cultural aspects in target markets allow them to develop products that are more successful than their western counterparts.

Many emerging market countries have been under colonialist influence in the past, and Peng (2009) has found out that EM firms often have an easier time finding common ground and interacting in countries with similar colonial pasts.

2.1. Firm-specific Factors

To conduct this literature assessment on the firm-specific factors affecting the internationalization of emerging economies' firms, the firm-specific factors affecting the internationalization of firms in general should first be presented. This will continue the top-down approach of this literature review. To maintain high relevance with emerging economies, findings of researchers concerning them will be woven in throughout the first part of this section. In the second part the focus will be specifically on proposed firm-specific factors in emerging economies.

Firm-specific factors can be divided into three distinctive categories: resources, the nature of the product, and strategic orientation. Wernerfelt (1984) laid the groundwork for research on resources, classifying them into tangibles and intangibles, i.e. assets and competencies. This research was developed further by Grant and Day in the early nineties (1991 and 1994, respectively) with the introduction of core competencies. Core competencies are distinctive sources of competitive advantage that arise from a firm's ability to take advantage of tangible or intangible resources more effectively than its competitors. The theory on core competencies is extremely important in the search for advantageous firm-specific factors, as it provides a way to explain competitive advantages between firms with similar tangible and intangible assets. This can be a great help in understanding why some firms succeed in internationalizing and some do not. For example, according to research by Battat and Aykut (2005) some Chinese, Indian and Malaysian companies were able to successfully internationalize into other challenging emerging markets by leveraging their unique core competencies which western companies did not have. These competencies included an ability to navigate the host countries' complicated regulatory frameworks, as well as products and production processes tailored to the target countries' specific requirements.

As mentioned, the nature of the firm's product is one of the three major elements of firm-specific factors. Products are classified into goods and services, and have characteristics like tangibility, perishability, heterogeneity and separability (Zeithaml *et al*. 1985). The type of product the firm markets has a large impact in the choices it has available when formulating its internationalization strategy. Most notably it affects entry modes: for example, a product that has high transport costs may dictate that exporting is out of the question and in order to internationalize, production must be established in the target country (Ekeleido 2008). Services are a type of product that requires large investments in on-site facilities. Naturally, this does not necessarily apply to digital services, which are one of today's main trends in business evolution. According to Chiao *et al*. (2010), protection of core competencies and proprietary information is crucial in e-business. Furthermore, these requirements often lead to sole proprietorship of international ventures, the capital requirements of which are often minimal.

The third category of firm-specific factors affecting internationalization is the strategic orientation of the firm. Hill *et al*. (1990) and Terspstra *et al*. (1994) emphasized the importance of strategic goals in the firm's internationalization, finding them extremely influential. Dunning (1993) identified four drivers for internationalization that shape firms' internationalization strategies: market seeking, resource seeking, strategic asset seeking and efficiency seeking. These drivers were discussed further by Peng in 2009:

- Market seeking firms are interested in increasing the number of markets they operate in and enlarging their customer bases. Andreff (2002) shows that market seeking is a common driver for EM-based firms to operate in developed countries' markets. Douglas and Craig (1995) argued that firms with aggressive strategic internationalization goals favor equity-based entry modes. This is especially the case with EM-based firms that possess low brand capital and face liability of foreignness issues in developed markets, resorting to acquisitions or joint ventures as the preferred entry mode (Chiao 2010).

- Resource seeking as motivation for internationalization most notably applies to companies operating in the fields of natural resource extraction and marketing. For these

types of companies, the amount of natural resources under the firm's control is usually a key metric of success. Emerging markets are home to quite a few major natural resource giants, and these companies have long been the subjects of EM business research. Cuervo-Cazurra and Genc (2008) have argued that EM-based firms are exceptionally skilled in transforming their perceived weaknesses into advantages when entering frontier markets. In essence, these firms are "tougher" as a result of their home countries having less developed infrastructure and as such are able to operate effectively in similar countries.

- According to recent research, strategic asset seeking is emerging as a key motivator for foreign acquisitions made by EM-based multinationals (Wang & Boateng 2007, Gammeltoft *et al*. 2010). This seems to especially be the case concerning Asian firms, who are looking to supplement their strong production capabilities with R&D- and technological capabilities in which they are lacking. Wu and Ding (2009) have found that many Chinese firms are internationalizing in order to acquire strategic assets to improve their technological capabilities and international brand images.

- Companies that seek efficiency by internationalizing are looking to produce in countries where labor costs are low and to take advantage of economies of scale. With EM-based firms this motivation often does not apply in the beginning: low labor costs are in fact often the factor that *facilitates* their initial internationalization (Ekeleido 2008). However, in many cases emerging multinational corporations have been compelled to internationalize into less developed markets in order to reduce production-related labor costs that have risen in their domestic markets (Giroud 2004).

2.2. Firm-specific Factors in Emerging Markets

Research very relevant to firm-specific factors enabling EM-based firms to internationalize effectively was undertaken in 2008 by Ramamurti and Singh. In their book they point out that much research has been done on the firm-specific factors of developed economies' firms and the

results have already been well quantified, but that this is not the case with EM-based firms. Ramamurti and Singh argue that with EM-based firms, research on firm-specific factors is lacking and the factors themselves are still largely unspecified. They go on to illustrate five firm-specific factors that have led to competitive advantages while internationalizing and propose them as hypotheses for empirical validation:

- **Products suited to emerging markets:** Emerging markets and frontier markets differ from their western counterparts in substantial ways, and often place requirements on modifying the firm's offering. Common requirements are cheaper and more affordable products, and products that are more rugged and easy to maintain. According to Wells (1983) and Lecraw (1973) making these adjustments has been a key capability of early EM-based multinationals. The capability to tailor products for emerging and frontier markets is based on knowledge of these target markets, which EM-based firms often possess and western firms are less likely to invest in (Lall 1983).

- **Production and operational excellence:** This second factor identified by Ramamurti and Singh consists of superior production efficiency and process excellence in emerging markets. They explain that this factor has a technical component, for example being able to optimize production processes by using more labor and less capital, using inputs more efficiently, or having lower overheads than Western competitors. They also argue that this factor is partly a result of late-mover advantages: for example, being able to adopt best practices right from the start without costly investments into process development.

- **Privileged access to resources and markets:** This factor is a result of support that some firms enjoy from their home governments. Usually support comes in the form of preferential regulations or preferred access to markets and capital. State support is widely regarded as an unfair advantage in international competition, but even in the post-WTO environment it is possible for states to support important domestic firms which often are state-owned. When state support is extended to only certain national firms or business groups, it must be recognized as a firm-specific advantageous factor even though it lacks the legitimacy of proprietary technology or brands. (Ramamurti & Singh 2008)

- **Adversity advantage:** Khanna and Palepu (2005) speak of “institutional voids” such as unreliable power generation capabilities, poor port and road infrastructures, corrupt bureaucracies, and regulatory uncertainties. These are characteristics of many emerging and frontier markets that make operating in their business environments more challenging. According to Ramamurti and Singh (2008), EM-based firms enjoy a relative advantage to foreign firms in operating in those kinds of environments. EM-based firms have operated in similar conditions in their home markets from their inception and are able to translate their ability to cope in those conditions into foreign markets as well. However, as conditions in emerging markets improve and as Western firms gain experience in operating in them, the significance of this advantage erodes.

- **Traditional intangible assets:** In proposing this last firm-specific advantageous factor, Ramamurti & Singh (2008) point out that there are exceptions to the notion that EM-based globalizers are late-movers which possess few intangible assets such as leading-edge technology and strong brands. They go on to list a plethora of examples of EM-based firms that have been able to solidify leadership positions in technological industries and some that have already developed globally recognized brands. While these firms’ successes in the global business environment can no longer be accredited to the firm-specific advantages they have enjoyed in their home markets, analyzing the phases of their internationalization may reveal that such advantages were in fact leveraged earlier.

Rugman (2008) has argued that instead of firm-specific factors, companies from emerging economies internationalize based on country-specific advantageous factors such as plentiful natural resources or access to a large pool of cheap labor. He argues that competitive advantages based on country-specific factors are not sustainable in the long run, because they are far more easily imitable than firm-specific factors. Lessard and Lucea (2008) support this notion. Ramamurti and Singh (2008) recognize that this argument may be valid, but not fully. Their counter-argument is that country-specific factors are likely to be important in the early stages of internationalization, but its relevance diminishes as the firm expands its operations and acquires

firm-specific advantages. Furthermore, they point out that country-specific factors do not necessarily yield advantages for every firm operating in a certain national market. This point is supported by examples: Russian natural resource companies do not have similar levels of access to Russia's plentiful natural resources, and Western firms have been largely unable to exploit India's low-cost labor pool as effectively as Indian firms. Consequently, it can be argued that in some cases firm-specific factors enable firms to effectively take advantage of country-specific factors.

Another significant finding by Ramamurti and Singh (2008) is that internationalized EM-based firms can, most of the time, be classified into five different types of internationalizers. This finding may be important in understanding why certain companies end up leveraging certain firm-specific advantages, as well as why those advantages form. In fact, similar types of firms were found to have similar firm-specific advantages. These internationalizer archetypes (with short additional descriptions) are as follows:

- The natural-resource vertical integrator (usually state-influenced, aims to own its value chain)
- The local optimizer (optimizes offering for domestic and regional markets)
- The low-cost partner (serves b2b-customers in developed countries)
- The global consolidator (secures home market and aggressively goes global, usually via acquisitions)
- The global first mover (secures market leadership in emerging high-tech industries)

2.3. Theoretical Framework for Firm-specific Factors

The theoretical framework used in this thesis against which empirical findings will be analyzed largely consists of Ramamurti & Singh's (2008) propositions. Currently, their input into the research on EM firms' firm-specific factors forms the most concrete basis for this kind of analysis. At the core of the framework are the five factors that they have illustrated which were described earlier in this literature review. An interesting element of this framework is the one labeled "traditional intangible assets". According to Ramamurti & Singh's research, this competency applies to mainly firms that have already solidified their position globally in their

respective industries. An interesting issue to focus on may be to find out whether or not it can be generalized that some of the more EM-exclusive firm-specific factors have led to procuring those intangible assets. Luo & Tung (2007) have done research on the subject, postulating that EM-based firms leverage their advantages in order to make rapid high-risk acquisitions abroad and secure traditional intangible assets. They call this strategy “springboard internationalization”.

Another interesting aspect that is in interplay with the proposed framework for firm-specific factors is the ubiquitous presence of country-specific factors. As mentioned, Rugman (2008) as well as Lessard & Lucea (2008) argue that country-specific factors are most influential in the international expansion of EM-based firms. This may or may not be the case, but certainly the relationship between firm- and country-specific factors is a complicated one, and the one cannot be analyzed without taking the other into account. This is why country-specific factors are included in the following theoretic framework model as a background element. Some effort will be devoted to analyzing the two factor groups’ relationship in the empirical and analysis sections. However, already it is important to note that in many cases it will probably be a matter of the researcher’s opinion as to which factor “was first”. This is why this causal issue will receive less attention in this thesis, with the focus being on identifying firm-specific factors. The influence of country-specific factors will be pointed out where it is relevant.

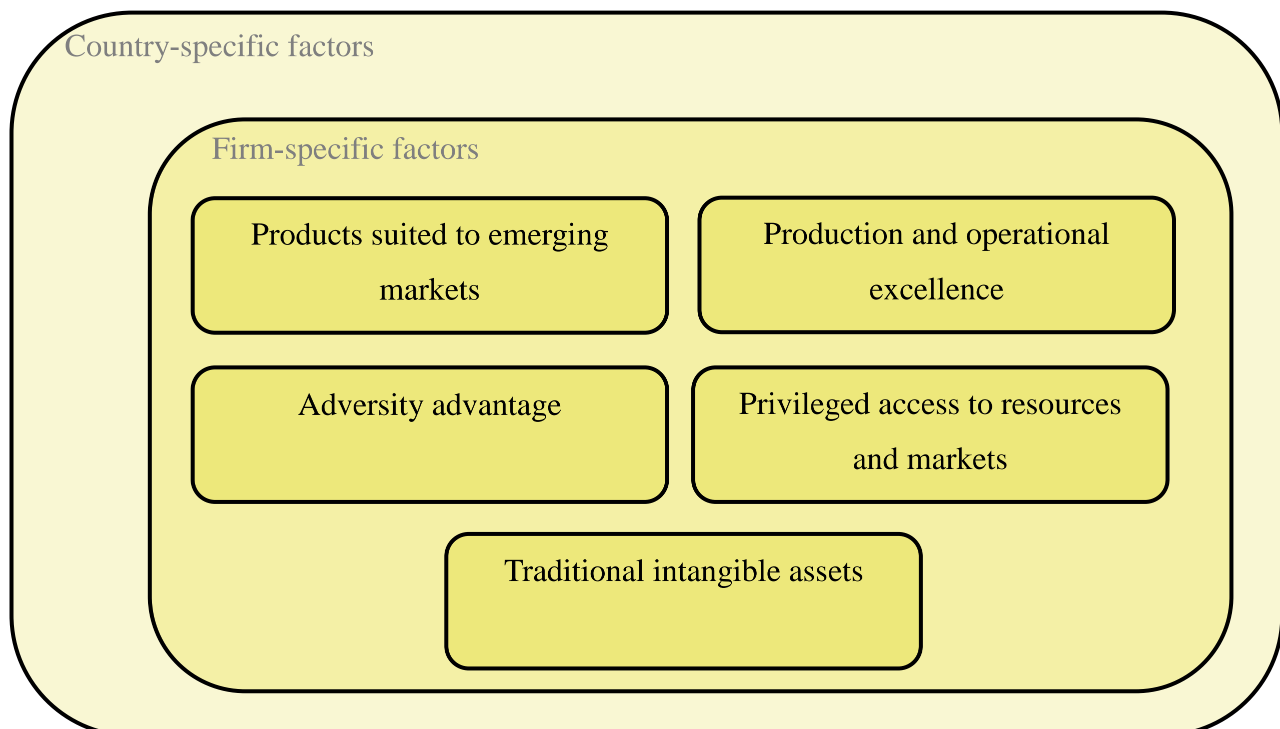

Figure #3: Theoretical framework of firm-specific factors affecting the internationalization of emerging markets' firms, with country-specific factors playing a background role.

3. Empirical Evidence from Case Firms

This empirical section consists of eight case firm analyses, the goal being to find firm-specific factors and advantages that the firms have leveraged throughout their international expansion. The subsections devoted to the case firms will contain concise descriptions of them including some company history and general information on the companies' internationalization processes. Through analysis of relevant facts, firm-specific factors that have been leveraged will be uncovered.

The case firms have been chosen in a random fashion with no particular requirements concerning their characteristics so long as the requirement for internationalization is fulfilled. There are two firms from each of the BRIC-countries and they are as follows:

- **Embraer** – Brazil
- **Vale** – Brazil
- **Lukoil** – Russia
- **KGK Global** – Russia
- **Suzlon Energy** – India
- **Essel Propack Limited** – India
- **Wanxiang** – China
- **Haier Group -** China

3.1. Embraer

Embraer is a Brazilian airplane manufacturer; its name is short for Empresa Brasileira de Aeronáutica. It was founded as a government-controlled company in 1969, and was not very

successful at first. The situation was especially dire during the Brazilian econo-political crisis during the late 80’s and the early 90’s. However, in 1994 Embraer was privatized, which marks the beginning of its growth into one of the largest airplane manufacturers of the world. Embraer’s strategy today is based on exporting made-in-Brazil airplanes around the world for use in commercial, executive and defense aviation. Besides its exporting activities Embraer generates revenue by offering support services for its aircraft from subsidiaries in the US, France, Portugal, Singapore and China. (Embraer 2012a)

While Embraer is a private company, it is regarded as a strategic national asset by the Brazilian government. This has certain implications, such as a 40 % limit on voting capital for foreign interests and the Brazilian government having veto rights on defense airplane contracts. For Embraer, governmental involvement in its business operations has been beneficial: the company might not even exist if the government had not supported it with defense airplane contracts in its early years. This support enabled Embraer to weather difficult times while constantly growing its competencies in airplane manufacturing also in the defense sector (Embraer 2012b). Evidently, governmental support has been a key firm-specific factor enabling Embraer to grow its business to the point where it could become an internationally renowned airplane manufacturer.

After Embraer was privatized, it took in significant amounts of foreign and domestic investment capital. A large portion of this new capital was spent in investments to in-house R&D as well as procuring new technologies with transfer agreements. A key capability that Embraer has shown after these investments and focus on technological advancement has been its ability to absorb best business practices and effectively take advantage of new technology. In fact, this organizational capability has been phenomenally advantageous for Embraer’s success and has been widely renowned in the world business community (UNCTAD 2002). This capability is Embraer’s second key firm-specific advantage. When viewed against the theoretical framework for firm-specific factors, it closely resembles “production- and operational excellence”, but it is worth noting that in Embraer’s case this excellence did not fully arise from country-specific cost advantages, from which factors best fitting this category often emerge.

3.2. Lukoil

Lukoil is a Russian vertically integrated oil industry giant, currently second publicly traded oil company in the world in terms of proven natural gas and oil reserves. It was created in 1991-1993 during the privatization period in Russia by merger of three national oil enterprises. Today Lukoil is the only Russian fully privately owned oil company, and also the only one that has internationalized to a significant extent. (OAO Lukoil 2012)

After Vladimir Putin's presidential inauguration in 2000 the Russian government began a policy of increasing its control over domestic oil production. At this point Lukoil began to aggressively expand its operations abroad, due to having to "escape" its home market. Besides these market-seeking drivers for internationalization there were other reasons as well: Lukoil was at a point where it needed to begin resource-seeking abroad, and doing that could increase its extraction efficiency as well. Additionally, due to the rapid rise of crude oil prices in 2000-2008, Lukoil had plenty of liquid capital to work with. With the help of this capital Lukoil began its internationalization in the Caucasus region and Eastern Europe, went on to the Middle-East, and today even owns the Getty petroleum chain in the USA (OAO Lukoil 2012). Easy access to capital enabled Lukoil to make many acquisitions, which in addition to joint ventures are the main entry mode into foreign markets in the natural resource industry.

Lukoil is a somewhat exceptional firm in the "natural resource vertical integrator" category because it does not enjoy support from its home state. In fact, at times the Russian government has been outright hostile towards Lukoil. The company's main firm-specific advantage that has helped it internationalize seems to be an adversity advantage: the Russian business environment in the 90's was certainly most challenging, especially for the lone privately-owned firm. Lukoil has been able to take what it has learned in doing business in a post-soviet country and translate it into success in the Caucasus region and Eastern Europe and other areas. Even though Lukoil's internationalization was fueled by an abnormal amount of liquid capital as a result of the oil price increase, that capital is not the reason for its exceptional degree of internationalization: many Russian oil companies experienced the same capital inflow but did not go abroad. That capital was in fact the enabler of internationalization, which was shaped in the end by Lukoil's firm-

specific capabilities in operating in CIS countries and motivation to escape its home market. Now there is less capital: the financial crisis of 2008 resulted in a 60 % decrease in oil prices and effectively stopped Lukoil's internationalization. Now, in order to stay successful, Lukoil has to develop new intangible capabilities, creating and improving its brand abroad as well as adopting more effective technologies.

3.3. Suzlon Energy

Suzlon Energy is an Indian company that operates in the wind energy sector. Initially the company was founded in 1995 as a family-run small time wind turbine manufacturer by the Tanti family. Suzlon has experienced exponential growth in the last 15 years, and today is one of the biggest players in the wind energy sector. Suzlon is also one of the few wind energy companies that are fully vertically integrated, meaning that it offers not only the necessary equipment for power generation but also its assembly, installation, commissioning and maintenance. The company operates in over 20 countries around the world, with a global market share of over 10 % and a major share of its multi-billion dollar revenues coming from outside India. An important fact to note is that the vast majority of Suzlon's manufacturing facilities are located in India. (Suzlon 2012, Suzlon 2011)

In 1995 the Tanti family saw an opportunity to use wind power to power their textile business in India, and went ahead and bought 10 wind turbines from a German manufacturer called Sudwind. Soon they decided to move into the wind turbine business themselves and used a consultant to teach them the business. Suzlon acquired Sudwind in 1997 when it went bankrupt, gaining valuable R&D capabilities and business know-how which helped it to quickly achieve success in the wind energy sector. Suzlon began its vertical integration by acquiring assets such as the company Hansen Transmissions of Belgium, the world's second largest gearbox maker, and a one-third stake of REPower, one of the largest on- and offshore wind turbine manufacturers in the world. This aggressive strategy of vertical integration through acquisitions was a key success factor for Suzlon Energy. Today the company is focusing on expanding its capabilities with international managers and leadership. (Oswal 2009)

When considering the firm-specific factors that enabled Suzlon to succeed globally in such a rapid fashion, the following elements seem to have been of key importance:

- The capability to quickly assimilate technological know-how
- Competitive manufacturing costs in India
- Strong leadership of the Tanti family
- An innovative strategy of vertical integration

Of these factors, the manufacturing cost advantage is one that can clearly be placed in our framework for advantageous firm-specific factors. The success factors that entail leadership qualities and strategic vision are traditional ones, but an interesting point may be to find out how they are related to Suzlon's capability to assimilate new technologies so quickly. This capability was a key firm-specific success factor for Embraer as well, and it should be analyzed more closely. Acquiring strategic assets to overcome the late-comer disadvantage is something that Luo & Tung (2007) were talking about in their analysis of a "springboard" strategy for EM-based company internationalization. The capabilities that enable these companies to execute such a strategy may prove to be relevant and quantifiable firm-specific advantages.

3.4. Wanxiang

Wanxiang was founded in 1969 in China with $500 in startup capital, and began as a small repair shop for agricultural machinery. In the 70's Wanxiang made a smart strategic decision, focusing its offering on only one product type: universal joints. This enabled Wanxiang to grow into a medium-sized domestic supplier of motor vehicle parts by the beginning of the 80's. (Wanxiang 2012a)

In 1984 Wanxiang began exporting its products to the USA, marking the beginning of its internationalization in the role of a low-cost supplier partner. The next step was taken in the 90's,

when the company opened its own sales branches in the US. At this time Wanxiang had a solid revenue base in China, and the US economic downturn of 1998 to 2001 opened up lucrative opportunities for the capital-endowed company: it acquired an auto parts dealer and a major brake manufacturer in the US. Wanxiang had already solid relationships with these companies which were in fact the main buyers of its products, and as a consequence it gained a larger sales network, brands, patents and equipment. At this time Wanxiang broke out of its low-cost partner status and established itself as a major outsourcing partner in the US auto industry. Today, Wanxiang is China's 2nd largest non-state owned company and has one of the country's best recognized brands. Wanxiang also serves 8 of the 15 largest tier one auto parts suppliers in the US, has established large overseas manufacturing and operations headquarters in Illinois and in 2010 had over $12 billion in revenue. (Wanxiang 2012a, Wanxiang 2012b)

Wanxiang's foreign expansion has been a good example of a stage internationalization, with foreign operations starting at exporting and continuing on to the establishment of foreign sales subsidiaries and eventually foreign manufacturing and other in-depth operations. Market seeking has likely been Wanxiang's main motivation for expansion, and production-and operational excellence has evidently been the key firm-specific factor that enabled it to do it. The low manufacturing costs that the company enjoys in its home country have been a key factor that enabled it to gain the necessary capital to establish foreign operations. While Wanxiang can no longer be attributed to the "low-cost partner" internationalizer archetype described by Ramamurti & Singh (2008) it is today nonetheless the global leader in cost-effectiveness while still having some of the best technical capabilities in the business. Continuing to form strategic partnerships with automotive systems suppliers while holding on to its leader status in cost-effectiveness are also some of Wanxiang's stated strategic goals (Wanxiang 2012a).

3.5. Vale

Vale is a Brazilian mining company formally known as CVRD (*Companhia Vale do Rio Doce).* It is one of the largest mining companies in the world and has a global leadership position in iron ore production. Its supportive mining capabilities include global nickel, copper, bauxite,

manganese, potassium and other non-ferrous metal mining operations (Casanova & Hoeber 2009). In 2011, Vale was ranked Latin America's 4th largest company by América Economía.

Vale was founded in the late 19th century under a different name by a group of British investors, but the company was nationalized by the Brazilian government during the 2nd world war and merged with other government-owned mining assets. The reason behind this was pressure from the US government, as they needed Brazil to supply ore to support their war effort. War-time demand in combination with post-war rebuilding efforts fueled Vale's growth in the 40's and 50's. Starting in the 60's Vale started to transform into a serious mining and metal conglomerate. It added assets in iron ore pelletizing, as well as logistics capabilities and mining operations in a multitude of non-ferrous metals. Throughout its growth period in 1960 to 1980, Vale could rely on a key firm-specific factor: it had extensive governmental support. An example of leverage provided by this support was when U.S. Steel discovered the world's largest iron ore reserve, the Carajás deposit in Brazil in 1970. The Brazilian government forced U.S. Steel to enter into a joint venture with Vale if it was to exploit the deposit. The company had no choice, and eventually in 1977 decided to sell its stake and walk away from the venture altogether, leaving Vale as the sole owner. In the turn of the millennia Vale was privatized, which marked the end of its extensive governmental support. Nevertheless, the Brazilian government holds golden shares in the company that give it veto rights in important decisions concerning strategic matters. The case is very similar to that of governmental involvement in Embraer today: the Brazilian government wants to maintain some control over these massive companies, in essence retaining rights to veto decisions harmful to the Brazilian economy. (Casanova & Hoeber 2009)

Vale's strategy after its privatization has been driven by its new, young and charismatic CEO Roger Agnelli. The strategy has consisted of two phases, the first of which was to consolidate the company's home market in Brazil. This was done in 2001-2002 by independently acquiring three Brazilian mining companies and one more in a joint effort with the Japanese Mitsui conglomerate. The acquisition of these assets left Vale with a 18 % share in global iron ore mining and a 28 % share of the global iron ore export market. The second phase has been an effort to make additional global investments and consolidate existing ones in order to secure a stable global demand basis, reduce the company's dependence on iron ore revenues and become

a global one-stop-shop for steel. The latter objective is the company's focus today, and it means being able to supply steel producers with all the various raw materials they need anywhere in the world. (Casanova & Hoeber 2009)

Vale's key firm-specific factors have changed during the course of its years. The first key factor was governmental support in the 60's through to the 80's. The situation with Vale here is very similar to Embraer which also enjoyed government support in its adolescence. In the recent years however, much of Vale's global success story has to be attributed to the personal leadership capabilities of its CEO Roger Agnelli. Agnelli's vision has transformed Vale from an iron-ore dependent company to one that has a stable global demand pool and a complex value creation model that encompasses multiple types of ores. In Vale's case, the effect of external factors has to be noted as high commodity prices have been perhaps the single most influential factor in the company's success. Vale has also had some luck: the Carajás reserve alone is estimated to have a 400 year supply of the finest grade iron ore.

3.6. Haier Group

Haier is a Chinese company that manufactures a great variety of products, most notably home appliances such as washing machines, refrigerators, air conditioners and microwave ovens. Although Haier's business is not limited to home appliances, they are at the core of its success: the company has been the global brand leader in the area for three consecutive years with a retail volume share of 7,8 % in 2011 (Haier 2012a). After its founding in 1955 up until 1984 the company lived a somewhat non-meaningful existence achieving little success. The situation changed dramatically after Mr. Ruimin Zhang stepped in as CEO and started to execute his strategic vision that eventually led to domestic and global market leadership (Haier 2012b).

Mr. Zhang strived to create a disciplined corporate culture that was market-driven and innovative. Through smart decisions such as developing a reduced-size refrigerator for the cramped apartments of Shanghai consumers the company quickly achieved domestic success. Already in the early 90's the company faced internal and external pressure to internationalize.

For example, the Chinese market was close to being fully saturated, and Haier's goal to be one of the global top 500 companies meant that internationalization was the next step. Moreover, with China's entry to the WTO international competitors were entering Haier's domestic market, and internationalizing to its competitors' markets was seen as the best defense. According to Hong & Kequan (2002), a number of basic principles were consistently followed in the course of the company's internationalization:

1. Tackle tough markets first
2. Use local distributors
3. The initial focus in a foreign market must be on a single product
4. Strive to meet customers' special requirements
5. Localize HR, capital and culture to build a world famous brand

These principles, most of which are connected to the goal of building a recognizable global brand, have been the foundation of success in Haier's internationalization strategy. Already in 2001, Euromonitor ranked Haier into the top 5 global white goods producers, and estimated it to have the world's #1 refrigerator brand (Haier 2012b).

According to Marinova *et al.* (2011) Haier has had a number of pre-existing and emergent firm-specific advantages during the course of its history. State support, a low-cost production capability and the strategic vision of company leadership have been present from 1984 up until today, and those factors have also been reinforced. State support and low-cost production capabilities are of course factors that fall within our framework. It is worth noting that Haier has a high capacity for innovation and flexible development which have enabled the development of numerous firm specific advantages that are not exclusive for emerging markets' firms. This supports the notion that EM-based firms are striving to develop modern, intangible competitive advantages. Such goals may indeed prove to be wise, as it seems likely that EM-based firm-specific advantages erode over time. In Haier's case this erosion is visible in the form of rising labor costs in China.

3.7. Essel Propack Limited

Essel Propack Limited is an Indian company which manufactures laminated tubes and other specialty packaging items. Laminated tubes are most commonly used to package for example tooth paste and cosmetics. EPL is the largest player in the laminated tube business with a global market share of over 33 % in 2011. The company has forged valuable relationships with many multinational and regional companies including Procter & Gamble, Colgate, Unilever et cetera. These customers are served through a substantial manufacturing presence of consisting of 24 facilities across 12 countries on 5 continents. These close customer relationships are the foundation of EPL's success. (Essel Propack Limited 2012a)

EPL began operations back in 1984 and its focus was to serve the Indian oral care industry, with an intention to shift the industry standard from metal tubes to laminated ones. This strategy was a success and the company was able to increase its domestic customer base to the extent that it started to face pressure to internationalize. There was a big market outside India, and furthermore the use of laminated tubes was most common in the Americas and Western Europe. Additionally, the customers for this product preferred to buy them from close suppliers instead of importing them. This is the reason why EPL formed a global strategy to "go and grow with customers"; i.e. to have a manufacturing presence in close proximity to its clients (Pillania 2009).

The internationalization strategy used by EPL has a few discernible phases. The company first started to consolidate its position as the world's largest laminated tube manufacturer through setting up production in Egypt, China, Germany and Nepal. This was followed by acquiring the Propack Group which had manufacturing operations in a number of countries, all of which were emerging markets. This goes to show that the company felt like it needed to create a strong foothold in emerging markets before venturing into developed, competitively tougher markets. In the following years EPL set up operations in the US and in the UK. (Essel Propack Limited 2012b)

EPL's success is based on a few competitive advantages, the main one being its ability to be the lowest cost player in the market. This cost advantage is based on the facts that EPL is vertically

integrated (it owns one of the largest packaging material plants in India, and has set up a joint venture with a tube cap manufacturer) and that it has made a significant commitment to continuous value addition through R&D and innovation (Pillania 2009). Most of EPL's operations are concentrated in emerging markets, and it can therefore be said that some of its cost advantage does stem from production- and operational excellence. The factors that seem to have enabled EPL to hold on to this advantage are however more traditional in nature, and they are the company's strong commitment and capabilities in product innovation and process development.

3.8. KGK Global

KGK Global is the last case company of this empirical section and also the smallest and youngest one. KGK serves customers in Russia, Ukraine and Brazil and is therefore not as globally involved as our other case companies. Nevertheless, analyzing this comparably small and IT-intensive company and its internationalization may provide an interesting viewpoint.

KGK is a Russian IT company founded by two people, Aleksandr Tsygankov and Igor Ivanov. The company was founded in 2006, while product development began already in 2004. KGK offers a global logistics management solution which uses the GPS and GLONASS satellite positioning networks (Latukha *et al.* 2011). With its help the customer can, for example, manage a fleet of trucks in real time with the use of a computer or a tablet (KGK Global 2012a). The system can be adapted to air- sea- and land transportation, and several add-on services such as fuel consumption monitoring, driver identification and remote engine shut-off are offered (KGK Global 2012b).

KGK's logistics management system has been popular in Russia, and the company has secured big clients such as Sberbank, Gazprom Neft and the Domodedovo airport in Moscow. KGK has also successfully offered its services in Ukraine from the beginning of its operations, which can be attributed to the fact that Russia and Ukraine have similar business environments and the requirements placed on a logistics system are largely the same. These countries have very dynamic driving cultures which create a need to have good control over drivers, and this is

something that KGK excels in providing. When KGK decided it was in a stable enough position to expand overseas, it screened possible markets with specifics in mind that also applied to Russia and Ukraine: they were looking for a fast growing market with a growing number of vehicles and large road cargo transports where the driving culture needed controlling. (Latukha *et al.* 2011)

The list of possible markets was a short list of emerging markets, as there was little demand for products increasing logistics security in developed ones (Latukha *et al.* 2011). This of course implies that KGK has a product that is very well suited to emerging markets. In the end, Brazil was chosen because it filled all the requirements placed by KGK and has a similar business and cultural mindset as Russia. There was nevertheless much to be done in order to adapt to the environment, for example, the logistics management system had to be made more Internet traffic-efficient and better suited to combat carjacking (Latukha *et al.* 2011).

Today, it seems that KGK has successfully penetrated the Brazilian market, as it has at least 15 clients there (KGK Global 2012c). It can easily be argued that some of this success is due to an adversity advantage held by the company. There is however no way to effectively deduce that that has actually been the case based on the available information. Perhaps one should consider whether, say, a German or Finnish company could have achieved similar success in Brazil in such a short time span.

4. Analysis

Before delving into the analysis itself, it is worthwhile to discuss some of the limitations placed on this study and what can realistically be achieved within their constraints. Although this is a multiple case study, the amount of empirical information gathered is obviously in no way enough to make definite, rigorous conclusions about the validity of the firm-specific factors described in the framework. That is possible in a large-scale research project, but is neither a possibility nor the goal in this thesis. Instead, the aim is to make valuable observations and offer an educated evaluation of the validity of the aforementioned factors, highlighting possible areas where

additional research is most called for. Furthermore, suggestions will be made to increase the usefulness of the theoretical framework in a way that makes it easier to understand how firm-specific factors operate and evolve.

There are a number of broad observations that can be made on the basis of empirical findings. The first one is that EM-based firms seem to be trying to decrease their dependence on firm-specific factors that have helped them to succeed in their early phases. To some degree this observation can be made in all of our case firms except KGK Global, which is a young, already technologically very advanced firm that is leveraging its capability to develop products suited for emerging markets. Many case firms such as Haier, EPL, Embraer and Lukoil are making significant efforts to continually improve their technological and innovative capabilities as well as brand image in order to gain competitive advantage, and have also had success in doing it. Essel Propack Limited displays some of the most cutting edge innovative capabilities within its industry and Lukoil is currently in the process of re-branding the Getty petroleum chain in the US under the Lukoil brand. The strategy makers of such companies clearly think that sustained competitive advantage cannot be based on firm-specific factors such as low-cost production or government support alone.

What, then, is the reason for these firms' distrust in the long-term advantages provided by EM firm-specific factors? One possible answer is that these factors erode over time. This erosion is something that was already suggested by Ramamurti & Singh in 2008. It is also something that empirical findings seem to support, and is thus another broad observation that can be made here. Some predict that labor costs in China are to double by 2020, and certainly with the living standards rising in emerging economies the only way can be up. This of course implies that the advantage provided by the factor "production- and operational excellence", helpful to many of our case companies, is likely to erode. State support or "privileged access to resources and markets" is also a factor that seems to have lost some of its importance, especially in the cases of privatized companies. Companies like Embraer and Vale are privatized, but are both nonetheless constrained by the Brazilian government in their strategic decisions. While such companies can continue to receive governmental support, it is feasible that this advantage can turn into a disadvantage if the two parties have conflicting interests. In the case of Vale, the mind behind the

company's successful modern internationalization strategy, CEO Roger Agnelli, was ousted by the government last year due to "not doing enough to bolster Brazil's economic development" (Reuters 2011). Others, such as the effectively state-owned Haier Group continue to enjoy the benefits of governmental support but are potentially vulnerable to similar business-hurting demands. A suggestion of this thesis is, that some firm-specific factors are more vulnerable to erosion than others, with "production- and operational excellence" and "privileged access to resources and markets" being potentially the most vulnerable ones. The factors "products suited to emerging markets" and "adversity advantage" are likely also subject to erosion, but this eroding force is external and caused by developed-country multinationals. It is feasible to think that Western multinationals have the necessary resources to create emerging-market oriented products and develop capabilities that allow them to do business in emerging and frontier markets more effectively when they choose to do so.

Many emerging multinationals seem to strive to procure traditional intangible advantages from the very beginning of their internationalization. A quintessential way for them to do this is what Luo & Tung (2007) described as the springboard strategy for internationalization, where companies make rapid acquisitions of assets abroad to assimilate their capabilities into their organization and overcome their late-comer disadvantage. Of our eight case firms, Suzlon Energy and Lukoil are a few clear examples of the use of the springboard strategy. Because the springboard strategy for internationalization is an important aspect of the theory concerning the internationalization of emerging economies' firms, it could be fruitful to consider the firm-specific factors that enable those firms to execute it. It appears that there are two factors that are of key importance when executing such a strategy: leadership vision and a capability to assimilate acquired assets into the base organization, especially when they of technological or otherwise intangible nature. This issue warrants further research. How do the strategists of EM-based firms develop such a self-aware and EM-oriented mindset and what methods of operation do they use to translate it into an advantage in executing a springboard strategy? Which competencies constitute the ability EM-based firms have in successfully and quickly assimilating advanced intangible assets? As a contribution of this thesis, the addition of the firm-specific factors *EM-oriented mindset of strategists* and *asset assimilation capability* into the framework are placed under consideration. The former refers to the strategic management's awareness of the

competitive field and the EM-based firm's position in it, namely in a way that enables the firm to make competitively sound strategic decisions. The latter refers to the firm's ability to assimilate acquired tangible and intangible assets in an effective, competitive advantage-producing manner. Both of these factors are highly related to the successful execution of a springboard strategy. They are also related to the fact that as the global competitive field matures; EM-based firms will have to rely on new competitive advantages as their initial firm-specific advantages erode.

The main purpose of this thesis, as stated, is to evaluate the validity of the theoretical framework for firm-specific factors that was established on the basis of Ramamurti & Singh's (2008) work. As it stands, there are no grounds to make radical changes to the five firm-specific factors that constitute the framework. In the empirical section there were examples to be found of all the factors, and certainly there seems to be no basis to remove anything from the framework. Further information and research is required. An interesting research topic, for example, would be to undertake a comparative study into the factor "adversity advantage". As mentioned in the empirical section, a part KGK Global's success in Brazil can likely be attributed to an adversity advantage. To find out the extent of this factor's effect, perhaps it would help to analyze and compare several developed- and EM-based firms' ventures into Brazil (or some other emerging economy). That said, there are however a few improvements and additions that can be considered on the basis of the observations and suggestions made earlier. The first of these is to take into account the changing nature that firms-specific factors display over the course of time. Naturally, the validity of a factor depends on the individual firm that leverages it, as well as the industry and country in which it operates. However a generalization can be made that the factors in our framework erode over time, and some do so more than others. As an addition to the framework, the factors *EM-oriented mindset of strategists* and *asset assimilation capability* that were discussed earlier are suggested.

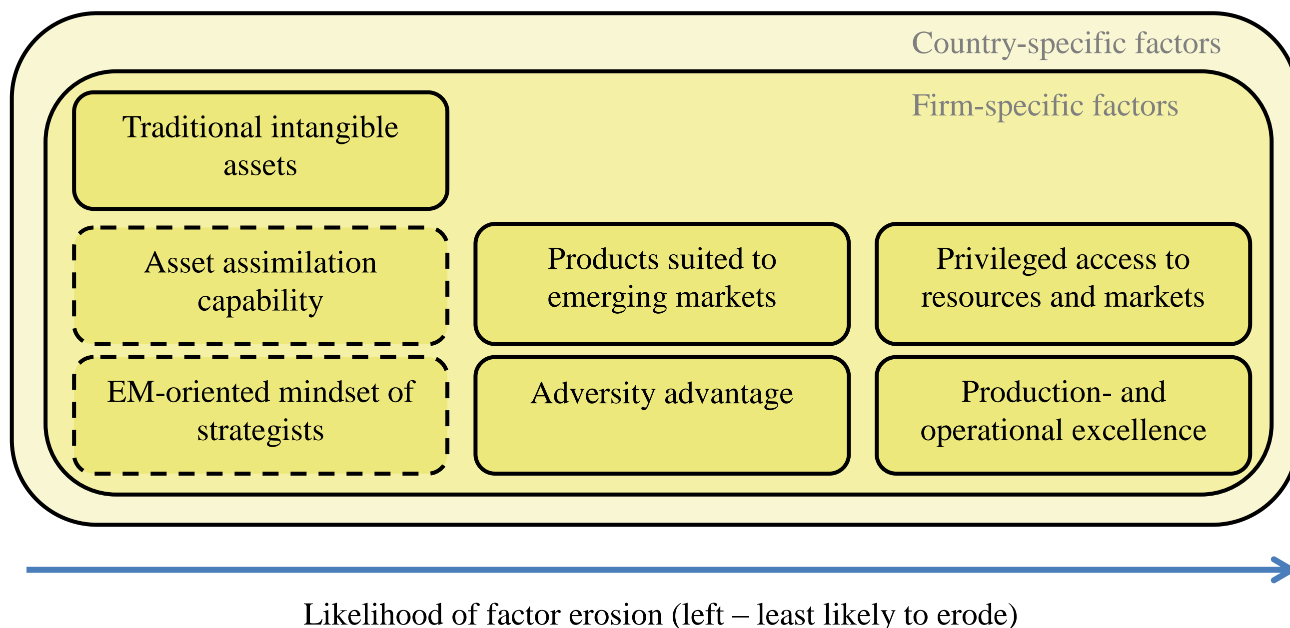

Figure #4: Proposed firm-specific factor framework.

Country-specific factors were included in the original framework as a background element that affects the existence of firm-specific factors. The precise nature of this relationship is something that is not the focus of this thesis, and has thus received less attention. Country-specific factors are included in the proposed framework as well, and an interesting observation can be made. It appears that the likelihood of firm-specific factor erosion increases in the case of factors that are closely tied to host-country specifics. This relationship is not explored precisely, but nonetheless it is obvious that the two factors seen most likely to erode (privileged access to resources and markets, production and operational excellence) are vastly more dependent on country-specifics, than, say, an asset assimilation capability or the strategists' mindset. This of course is in support of EM-based firms' ambition to pursue geographic diversification and more complex competitive advantages.

5. Conclusions

There are a number of conclusions that can be highlighted from the analysis section. To begin, here are some concise answers for our two research questions.

- How well does the current framework for firm-specific factors affecting the internationalization of emerging markets' firms reflect reality?

The current theoretical framework is quite valid in the sense that the firm-specific factors it presents can be verified empirically. However, it fails to take into account a critical element: the erosion of factors over time.

- What improvements, if any, does empirical research of firm-specific factors affecting the internationalization of emerging markets' firms warrant for the current framework?

As a result of the empirical findings and analysis presented in this thesis, two additions to the framework are suggested: a design that takes into account the erosion of firm-specific factors over time, and two additional factors concerning EM-based firms' ability to execute a springboard strategy.

Additional findings include a proposition that some firm-specific factors are more vulnerable to erosion than others, and that this vulnerability at least partly arises from increased interconnectivity to country-specific origins. As a result, EM-based firms strive to diversify their competitive advantages.

Further research on this topic could be undertaken to attempt to uncover unique capabilities that enable EM-based firms to successfully execute springboard strategies. Additionally, more in-depth research could certainly be done produce more quantifiable results pertaining to the validity of some of the the firm-specific factors discussed in this thesis, especially "products suited to emerging markets" and "adversity advantage".

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