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The Role of Dynamic Capabilities in Global Strategy of Emerging Economies' Multinationals

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Abstract

The internationalization of firms from emerging economies have attracted significant research interest. Yet, there is limited research that has examined the role of dynamic capabilities in the global strategy of these firms, and how these firms develop and use different set of dynamic capabilities in their foreign operation. This article provides key insights of the special issue and highlights important areas for future studies on this important topic. The six articles shed light on the nature and role of dynamic capabilities in the context of firms from emerging markets.

Keywords: Emerging economy firms, emerging markets, dynamic capabilities, internationalization, global strategy

Introduction

There has been a significant scholarly interest in examining the internationalization behavior of firms originating from emerging markets (cf. Buckley 2018; Buckley et al. 2007; Cuervo-Cazurra 2012; Hennart 2012; Hernandez and Guillén 2018; Luo and Tung 2007; 2018; Williamson 2015). A large body of current research has examined these emerging market multinational enterprises' (EMNEs') overseas investment motives and whether existing theories are applicable in explaining their rapid rise (Buckley 2018; Luo and Tung 2018). Research has highlighted several challenges that these firms face, such as the 'liability of emergingness' (He et al. 2019; Madhok and Keyhani 2012) and the need to establish legitimacy in their host markets (Kostova and Zaheer 1999).

Current research on EMNEs reveals that, based on their business experience at home, they aggressively invest in foreign markets by acquiring overseas assets in developed markets (Buckley et al. 2007). Through this, EMNEs are likely to complement their lack of advanced

knowledge and develop value chains within their home market. Even though many of them take advantage of location-specific specialties at home, known as a springboard perspective (Luo and Tung 2007), arguably, some of the successful EMNEs may require high-order capabilities to identify, internalize, and master skills and knowledge during their internationalization or post-internationalization process. Similar to the growing number of research publications on EMNEs, the research on dynamic capabilities (DCs) has also attracted significant research interest and numerous studies, which have applied DCs lens across different research domains and various contexts (e.g., Khan and Lew 2018; Teece, Pisano and Shuen 1997; Teece 2014).

DCs have been widely studied in the field of strategic management (cf. Helfat 1997; Teece et al. 1997; Teece 2007; 2014). Much of this literature is based on multinational enterprises (MNEs) from developed economies and their innovation-creating behaviors. The key argument in this stream of research is that unlike functional/operational strategies, DCs contribute to firms' innovation and competitiveness in terms of sensing, seizing, and transforming processes (Teece et al. 1997). Also, micro-foundations provide meta-knowledge within the firm boundary and therefore are of critical importance for these processes. Thus, the firm knows what allows individuals to access more knowledge than what is already embedded in them (Argote and Ren 2012; Teece 2007). These transactive memory systems within an organization are not only beneficial in stable environments but also in dynamic environments; typically, the observed context for international business activity. The international business strategy entails cross-border value chain activities of economic and innovation actors (Tallman and Pedersen 2015).

There have been relatively limited comparative studies conducted on EMNEs and developed market multinational enterprises (DMNEs), and how these firms develop and use a different set of DCs in their foreign operation. Thus, the purpose of this issue is to encourage scholars to link DCs' perspective to the context of EMNEs, and to different strategies that these firms pursue in foreign markets.

Overview of the selected articles

We attracted over twenty submissions from scholars based in developed and emerging economies to this issue. All papers went through an intensive review process, after which six papers were selected for publication. The selected papers provide important insights into the role of DCs and EMNEs. Few articles have adopted a comparative analysis and examined firms from developed markets and the lessons which can be applied in the context of EMNEs. The papers are presented here.

In the first article, Ferreira, Ries, and Pinto performed a citation and co-citation review of two decades (1992- 2013) of management research on emerging economies. The authors find that an institutional perspective has been widely applied in examining firms from emerging markets. Also, their bibliometric analysis reveals an emerging body of scholarships within the context of EMNEs, which have taken strategic choices as well as resource- and dynamic capabilities-based views. Such a systematic review is central to the current state of research on EMNEs and the firms that are rapidly expanding into emerging markets, thus, illuminating promising research avenues.

The second article by Akhtar, Ullah, Amin, Kabra, and Shah is a conceptual piece that integrates DCs with environmental sustainability within the context of EMNEs. The authors propose macro- and micro-level DCs and coordinated efforts for linking these two layers of DCs in examining the environmental sustainability of EMNEs. In doing so, their study provides important conceptual foundations for environmental sustainability surrounding EMNEs, particularly in overseas markets. This article demonstrates the importance of taking both macro- and micro-based perspectives on the investigation of EMNEs' overseas investment behaviors, and, furthermore, on how such firms develop institutional legitimacy in host markets and, thus, maintain relationships with different stakeholders.

In the third article, Amankwah-Amoah and Osabutey provide imperative insights into emerging economies' firms' learning lessons from failure by developed markets firms. Drawing on the attention-based view and the literature on ambidexterity, the authors suggest that previous research has paid limited attention to how MNEs' unbalanced attention and resource allocations to both domestic and international expansions lead to divestment. Based on historical analysis, the authors developed an illustrative case of a British multinational retailer. The article provides novel insights into learning from failures from developed-markets MNEs. Such experiential learning can be important for emerging-markets MNEs that are rapidly expanding into foreign markets.

In the fourth article, Park and Xiao examine the role of DCs in the performance of EMNEs through the moderating effects of entrepreneurial orientation and environmental dynamism. The authors use the sample of manufacturing firms from the emerging market of China. They find support for the moderating effects of entrepreneurial orientation and

environmental dynamism on EMNEs' performance. Their study confirms the important role of DCs within the EMNEs context.

The fifth article, by Liu and Kang, examines the impact of DC on the international entry mode choice of emerging markets' firms. The authors integrate dynamic capabilities theory with the industry-based view and institutional theory in explaining the international entry mode strategy. Their findings suggest that EMNEs adaptive DCs are important for EMNEs adopting a Greenfield entry strategy rather than mergers and acquisitions. Furthermore, they suggest that the host country's institutional quality and home country industry's conditions, such as industry research and development, as an input that can positively influence EMNEs choice for Greenfield investment.

In the sixth and last article, Garri and colleagues examine the relationship between DCs, corporate control style, and high margin product development within the context of a developed market multinational, which is operating in around 50 markets. The authors conduct qualitative interviews in a large telecommunication firm and suggest that DCs are important for high margin product development and the company's performance. They further suggest that the influence of DCs on performance depends on the corporate control style. They identify two potential channels, namely, surge and lurch, through which managers can enhance DCs management within the firm. Furthermore, their study compares the findings in developed market multinationals with those of EMNEs and provides good understanding of the role of DCs and competitive advantage of DMNEs and EMNEs.

Conclusions and directions for future research

The selected articles in this issue provide key insights into the DCs and emerging economies' firms. The research on EMNEs is growing at a rapid pace, and there is much to be learned by examining these firms' outward investment and how these firms utilize their resources and capabilities in foreign markets since EMNEs have been aggressively acquiring strategic assets in foreign markets. There are a number of issues that are still underexplored. First, we suggest that scholars need to delve into the micro-foundations of DCs (Felin et al. 2012; Foss 2011) and examine the growth trajectories of EMNEs. Such an approach can be further linked with the research on ambidexterity and global strategy of EMNEs. Second, future research could integrate the frameworks of resource orchestration (e.g. Sirmon et al. 2011) and managerial DCs (Adner and Helfat 2003; Helfat and Martin 2015) in examining EMNEs global strategies and their impact on the EMNEs' economic and social performance. Third, there is limited understanding of how EMNEs control and coordinate the activities of their value chain partners; thus, future research could integrate economic geography and regional science perspectives to examine the inter-organizational governance and coordination issues within the EMNEs' value chains context. Fourth, studies are needed to explore how aggressive EMNEs in global value chains develop and exercise DCs at the post-M&A integration stage. Furthermore, there is a need to understand how EMNEs impact the learning and capabilities of their acquired firms (e.g. He et al. 2018), and the influence of such learning on various types of innovation. Lastly, future studies could examine the institution and legitimacy related issues (Kostova and Zaheer 1999), and stakeholders management strategies adopted by EMNEs in their host markets. Such a view could provide valuable insights into how EMNEs mitigate their liabilities of emergingness and country of origin (Madhok and Keyhani 2012).

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