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# Emerging Market Multinationals, Value Chains and Innovation

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## Emerging Market Multinationals (EMNEs) come to the fore

- According to UNCTAD (2018), from 2000 to 2017 FDI outward stock from emerging countries have increased by 10 times (from \$690 to \$6898 bl) and those from China by 53 times (from \$28 to 1482 bl);
- By 2025, emerging regions are expected to be home to almost 230 companies in the Fortune Global 500, up from 85 in 2010;
- In 2016, there were 215 megadeals (over 1 billion US\$) : 46 were undertaken by Emerging Market Multinationals (EMNEs) (33 from Chinese MNEs) (UNCTAD, 2017).

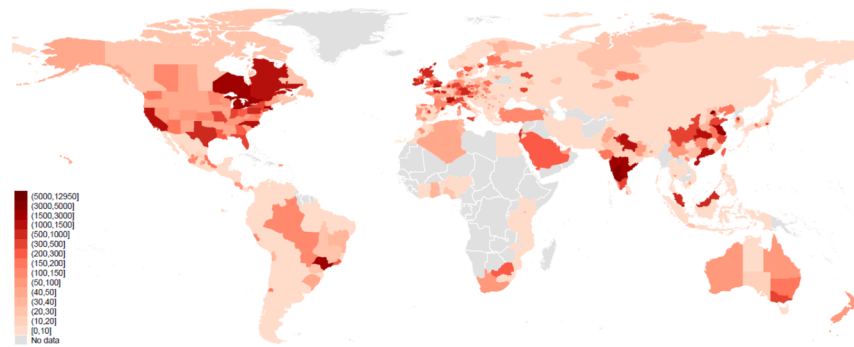
## EMNEs strategic asset seeking investments

- An important motivation of internationalization for EMNEs is to access advanced knowledge available in developed countries;
- EMNEs undertake exploration (rather than exploitation) investments aimed at enhancing capabilities for improving their long-term global competitiveness and catching up with the incumbent global leaders (Dunning, 1993; Meyer, 2015).

## (E)MNEs location strategies in the GVC age

- MNEs locate abroad a larger variety of activities, involving different degrees of local embeddedness;

Foreign Investment in R&D activities  
2004-2014



Inward FDI projects, Regional Cumulative Capex, Millions \$ – Own Elaboration – FDI Markets Data

- MNEs activities are placed in the locations offering the best characteristics for them.

# Fitting location factors with activity characteristics: where EMNEs do locate their innovative activities?

(Crescenzi, Pietrobelli & Rabellotti, 2016)

- 19,444 greenfield investments (between 2003 and 2008) from the entire world into the EU25 countries, geocoded at NUTS2 level (Source: FDI Markets) and disaggregated in 5 activities: Headquarters, Innovative Activities, Commercial Activities, Production, Logistic and Distribution;

- What are the characteristics of the host economies that matter the most to EMNEs' strategic asset seeking investments?
- Are EMNEs' local attraction factors and spatial behaviours different from the drivers of AMNE investments?
- Do EMNEs primarily target countries or specific regions/subnational units in their search for strategic assets?

# Investment location drivers

## 1) Regional Innovation Capacity

- **Patent Intensity;**
- **Social Filter** measuring structural pre-conditions to establish well functioning regional systems of innovation (Crescenzi & Rodriguez Pose, 2011);

## 2) FDIs Regional Agglomeration:

- total pre-existing investments;
- total investments in the same sector;
- total investments in the same functions;

## 3) Market size and labour market indicators.

# Findings in a nutshell

- When they are conducting abroad innovative activities, EMNEs are attracted to EU regions with high technological capabilities measured by patent per capita;
- Large cultural and cognitive distance makes it difficult for EMNEs to 'de-code' the nuances of 'soft factors', measured by the Social Filter, in European cities and regions;
- EMNEs locate where there are other multinationals active in the same activity to maximize what they can learn from proximity to similar companies;
- Policy-makers should support the development of 'institutional bridges' able to facilitate EMNEs in their understanding of 'soft' innovation drivers, enabling and accelerating their 'insidership';
- Better understanding the behavior of EMNEs would allow local policymakers to minimize predatory investment strategies, attracting investments keen to contribute to local economic development.

# (E)MNES ownership advantages

- In the information age, due to the increasing complexity of knowledge and technology, MNEs are complementing their own knowledge by tapping into geographically dispersed, local knowledge bases;
- *MNEs as orchestrators of international networks* (Dunning and Lundan, 2008): Ownership Advantages are the combinations of MNEs' own capabilities AND of the capabilities that can be accessed externally through networks of various kind to which MNEs participate;
- **EMNEs**: firm or country based advantages may be weaker or diverse from traditional O advantages, but O advantages do also depend on the networks in which they are able to enter.



# Insidership and outsidership in networks

- In this more decentralized knowledge system, the capacity of MNEs to *create* and *capture value* also depends on their capability of building of networks and on their **insidership** in these networks;
- Key is whether MNEs are insiders or outsiders within local knowledge networks as well as the determinants of insidership vs. outsidership, which are likely to be locally and firm specific;
- **EMNEs**: Whether and how are EMNEs able to access knowledge through their investments in advanced countries? Which are the main determinants of their insidership in local networks? What are the frictions and impediments in getting embedded in local networks?

# Chinese and Indian MNEs' shopping spree in advanced countries. How good it is for their innovative output?

(Amendolagine, Giuliani, Martinelli & Rabellotti, working in progress)

**RQ: Do EMNEs benefit in terms of their innovative output from investing in innovative target firms and regions? What makes this more likely? What are the factors moderating this impact?**

- 466 cross-border acquisitions (CBAs) accomplished by 301 Chinese and Indian medium to high-tech firms in Europe (EU28) and the U.S. (2003–2011).

## What are EMNEs' key targets?

Individual firms' technological knowledge and expertise



Specific regions/clusters tapping into local knowledge and networks



# EMNEs face two challenges

- **Absorptive capacity:**
  - To identify useful knowledge and to learn and successfully accommodate innovation and learning routines with those of the acquired firm;
  - To take advantage of the 'local buzz';
- **Status/Reputation:**
  - Liability of emergingness (Madhok and Kayhani, 2012)
  - Negative stigma jeopardizing EMNEs legitimacy (Hansen et al., 2016)

# Hypotheses

- Baseline expectation: **the more innovative the target firm** (# of patents applied in the 5 years before the deal) **and the region** (social filter), **the more the acquiring firm will be able to innovate after the deal** (# of patents applied by the acquirer in the 3 years after the deal);
- (Positive) moderating factors:
  - **Absorptive capacity of the acquiring firm** (# of patents and citations in the 5 years before the deal);
  - **Status**: EMNEs more positively portrayed in the international press, will face fewer difficulties in the process of accessing local knowledge residing in the target firm or region.

# Learning through acquisitions is not for everyone

- More innovative target firms may be resistant to knowledge transfer and may present barriers to EMNEs' absorbing and appropriating the relevant knowledge;
  - This resistance is moderated by a strong knowledge base (expected) and a high status (additional mechanism);
- EMNEs are able to benefit from regions characterized by an ecosystem favoring innovation and knowledge circulation;
- But tapping into regional knowledge is not a trivial issue for EMNEs with low status;
- EMNEs may find it difficult to benefit from regional assets and actors no matter how innovation-prone the region is.

# Final takeaways and questions for future research

- EMNEs' innovation capacity increasingly depends on their networking activity, through which they can access very diverse knowledge;
- EMNEs are not a homogeneous group of firms, all suffering from country-of-origin skepticism and liability of emergingness, but there are (absorptive capacity) and status differences influencing their learning processes in the host economies;
- We need to know more about:
  - Other factors allowing or hindering EMNEs to become insiders in local innovation ecosystems?
  - Sources of knowledge and pathways for reverse knowledge:
    - Learning mechanisms: learning from customers, from co-operation, from labor mobility?
    - Disseminating and integrating mechanisms of new knowledge within EMNEs?
  - Entry modes: How different entry modes influence routines of knowledge learning and capabilities' accumulation? What does drive the entry mode choice: at firm and host country/region level?
  - Reverse knowledge transfer on home regional innovation systems: mechanisms and contingent factors?

# Policy implications

- EMNEs' heterogeneity call for more sophisticated national and local investment policies which should evolve from the attraction of '*inward FDI no matter what*' to more diversified and place-sensitive policies;
- In recipient countries, local policy makers need to know more about the relationships between local and international knowledge networks (in particular those involving EMNEs) and about how these networks may help to promote or impede local innovation and economic development;
- In emerging countries, policy-makers need to develop and strengthen policies oriented to technological capability building for enabling EMNEs to benefit from distant knowledge.



Thank you

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