



The Role of Labour in Capability Upgrading: The Case of Emerging Market Multinationals

Vito Amendolagine and Roberta Rabellotti

I STRATEGIC ASSET-SEEKING INVESTMENTS AND EMERGING MARKET MULTINATIONALS

Since the beginning of 2000s, foreign direct investments (FDIs) by Emerging Market Multinationals (EMNEs) have increased their shares on worldwide FDIs (Fig. 1). With a focus on BRICS (Brazil, Russia, India, China and South Africa) starting from just 0.8% in 2001, their FDIs have reached 17% of worldwide FDI outflows in 2020 (UNCTAD, 2021). Notwithstanding recent concerns on foreign ownership fuelled by national security considerations (UNCTAD, 2019), emerging countries still rank in top positions as both FDI origins and destinations. In 2020 China is the second host country of FDIs in the world (149 US\$ billion), India the

V. Amendolagine

Dipartimento di Economia, Università di Foggia, Foggia, Italy

e-mail: vito.amendolagine@unifg.it

R. Rabellotti (✉)

Dipartimento di Scienze Politiche e Sociali, Università di Pavia, Pavia, Italy

e-mail: roberta.rabellotti@unipv.it

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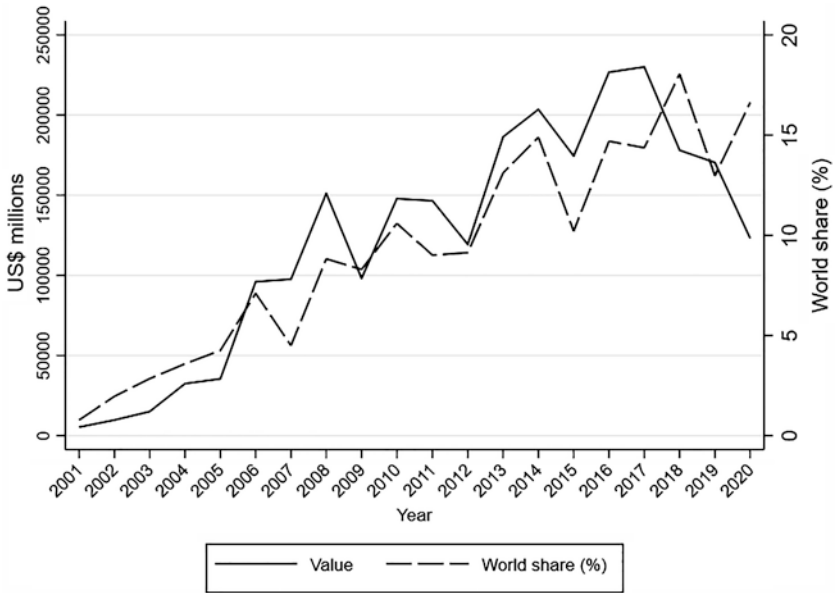


Fig. 1 Foreign direct investments (FDIs) by Emerging Market Multinationals (EMNEs)—shares on worldwide FDIs. (Source: UNCTAD (2021))

fifth (64 US\$ billion) and Brazil the eleventh (25 US\$ billion). Considering outflows, China is the third most important FDI origin country in the world (133 US\$ billion) and India the twentieth (12 US\$ billion) (UNCTAD, 2021).

According to UNCTAD (2017), around 40% of FDIs from emerging countries target developed countries with two main motivations: strategic assets and market seeking (Ramamurti, 2012). The literature agrees that EMNEs lack the competitive advantage to compete local firms in foreign markets and therefore they seek to augment their strategic assets through the acquisition of a variety of intangible resources such as technologies, R&D capability, managerial competency, human capital, brand names and commercial knowledge (Buckley et al., 2016).

EMNEs gain a quick access to advanced knowledge and technological assets directly through acquisitions of technological leading companies. Alternatively, they undertake greenfield investments in technologically

advanced hubs, connecting with local actors such as suppliers, universities and service providers (Meyer et al., 2011).

But how does the knowledge acquisition and capabilities upgrading process take place in EMNEs undertaking strategic asset-seeking investments in developed countries? A key role is indeed played by the access to specialized workers, such as scientists, managers and engineers operating either in the EMNEs' subsidiaries or through tapping into local networks including other local firms and institutions such as R&D labs or universities. In the rest of this note we provide an, incomplete, account of some interesting contributions which explore how access to skilled labour can contribute to capability upgrading in emerging multinationals, also discussing some of the challenges EMNEs often face.

2 THE KEY ROLE OF SKILLED LABOUR FOR ACQUIRING KNOWLEDGE

The role played by staff mobility between host and home countries has been studied in several case studies mainly with a focus on Chinese multinationals. The establishment of an independent R&D company—China Euro Vehicle Technology (CEVT)—by Geely Auto and Volvo is investigated by Jakob et al. (2018), who stress that the intensive collaboration between Sweden and China is mainly based on exchanges of engineers and other managers. These authors emphasize that learning is a two-way process with Chinese engineers visiting Sweden to improve their technological competences and Swedish managers learning from Chinese employees about the booming Chinese automotive market.

By exploring the operations in developed countries of two Chinese ITC leading multinationals—Huawei and ZTE—Fu et al. (2018) show how the integration of the headquarters with their subsidiaries' human resources, including engineers, managers and technicians, is key for the upgrading of investors' technological capabilities. They argue that such integration of resources takes place through three different but related steps: (i) leveraging subsidiaries' resources; (ii) generating new resources; and (iii) releasing resources. The authors explain that to develop new products and business capabilities, headquarters and subsidiaries combine their knowledge by exchanging not only production components but also specialized personnel; however, in some cases innovating can also imply

releasing some of the existing resources, by selling assets or substituting part of the existing workforce.

In addition to staff mobility within multinationals, the access to the specialized labour market of the local context where EMNEs invest also matters for their learning opportunities. The seminal work by Almeida and Kogut (1999), focusing on the US semiconductor industry, shows that regions are significantly different in terms of knowledge endowments and this happens because they differ in the specialized labour markets for scientists, engineers and other skilled workers. Thus, innovative hubs such as the Silicon Valley enjoy strong technological spillovers, triggered by intense local inter-firm mobility of skilled workers. These spillovers are also important for emerging market multinationals seeking to acquire knowledge in developed countries. In the case of Chinese and Indian cross-border acquisitions in EU-28 and USA, Amendolagine et al. (2018) show that knowledge transfer, also occurring through skilled labour mobility, takes place not only within the company, between the subsidiaries and the headquarter, via expatriate managers, but also within the regional context where the subsidiaries are located. EMNEs making investments in regions with strong innovative capacity have opportunities to tap into the regional pool of specialized labour leveraging the acquired firms' linkages to other actors in the regional ecosystem.

Liu and Giroud (2016) highlight the role of high-skilled returnee migrants as another mechanism that can help integrating investors' and subsidiaries' innovative resources. By studying or working abroad, returnees accumulate knowledge and experience about international markets that can support EMNEs when sourcing technology from developed markets. In some cases, for EMNEs employing returnee managers or CEOs can compensate for the liability of emergingness, that is, a country of origin disadvantage, and for their lack of international experience. Particularly, high-skilled returnee employees' language and cultural competencies can enhance trust in acquired companies and in the local host ecosystem, facilitating knowledge sharing and learning and overcoming some of the challenges faced by EMNES, described in the next section.

3 LABOUR INTEGRATION BETWEEN EMNEs AND DEVELOPED COUNTRIES' SUBSIDIARIES IS NOT ALWAYS AN EASY TASK

EMNEs are not easily able to take advantage of their FDI in developed countries to improve their innovative capabilities, acquiring knowledge and learning from their subsidiaries and from other key actors with whom they interact in the host regions. Amendolagine et al. (2018) find that Chinese and Indian acquisitions in developed countries do not always boost investors' innovative capacity and identify two moderating factors influencing their capabilities to learn and acquire knowledge: (a) the *absorptive capacity*, which is very heterogeneous among investors; and (b) the *status*, that is, the perception of EMNEs' qualities, which affect the willingness of the local skilled workers and other relevant actors to share knowledge. Due to the investors' liability of emergingness, managers and other skilled workers (such as researchers, engineers and technicians) in acquired companies might be unwilling to collaborate with the new owners. In some cases, the most skilled and talented personnel might even leave the company, so reducing the knowledge endowment available within the multinational boundaries. Similar considerations are likely to apply to the host ecosystem where the local actors might fear loss of their knowledge, being unwilling to collaborate with EMNEs. Therefore, only an elite of EMNEs characterized by a strong absorptive capacity and high reputational status is able to effectively benefit from knowledge transfer through the access to local high-skilled human resources both in the acquired companies and in the host regions.

The importance of the perceived reputation of EMNEs is confirmed by an empirical study by Rao-Nicholson et al. (2016), inspired by the lively debate in the media after the acquisition of the British steel producer Corus by the Indian multinational Tata, in which the main narrative was about the possible loss of local jobs as well as other issues related to pension package that UK employees were expected to receive. The authors investigate the impact of Chinese and Indian cross-border acquisitions on the psychological safety of employees in the acquired companies, using survey methods to explore their expectations in terms of job stability and remuneration after the takeover. They find that the employees in the acquired firms experience negative emotions when the leadership of EMNEs is very active (i.e. proactive engagements of top managers in deal-related activities or in meetings with workers and trade unions). Local

employees and managers feel insecure and fear a loss of autonomy in the target company (particularly in developed countries). When instead there is trust in leadership ability, integrity and reputation, the psychological climate within the acquired company improves and workers feel safer and more willing to share their knowledge, sustained by the evidence of value congruence between the acquirer and the local employees.

4 CONCLUSIONS AND IMPLICATIONS FOR FURTHER RESEARCH

This note shows how the access to skilled labour represents a key mechanism for acquiring knowledge and learning in EMNEs undertaking strategic asset-seeking investments in developed countries. It indicates that there are two main channels: (a) within the multinational the staff mobility between host and home countries; and (b) within the host local context the access to specialized skilled labour market. The access to knowledge through these channels cannot be taken for granted and only EMNEs with strong absorptive capacity and high reputational status are able to overcome the liability of emergingness which can hamper their process of building up innovative capabilities.

In terms of further research, it would be highly relevant to collect more micro empirical evidence about the learning mechanisms from staff mobility and integration in locally embedded knowledge networks and about the range of frictions EMNEs face in the process of integration. Further questions to be addressed by future empirical research concern possible facilitators which can help less experienced EMNEs to access local human resources and networking with local partners as well as the investigation of the pathways for reverse knowledge to understand how new knowledge is disseminated and integrated within EMNEs. Finally, a key issue requiring more research is how different entry modes influence routines of knowledge accumulation and human resources integration in EMNEs and in the host local economies.

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