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## **Guest Editors' Introduction**

### **Strategy Research in Emerging Economies: Challenging the Conventional Wisdom\***

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**ABSTRACT** This review and introduction to the Special Issue on 'Strategy Research in Emerging Economies' considers the nature of theoretical contributions thus far on strategy in emerging economies. We classify the research through four strategic options: (1) firms from developed economies entering emerging economies; (2) domestic firms competing within emerging economies; (3) firms from emerging economies entering other emerging economies; and (4) firms from emerging economies entering developed economies. Among the four perspectives examined (institutional theory, transaction cost theory, resource-based theory, and agency theory), the most dominant seems to be institutional theory. Most existing studies that make a contribution blend institutional theory with one of the other three perspectives, including seven out of the eight papers included in this Special Issue. We suggest a future research agenda based around the four strategies and four theoretical perspectives. Given the relative emphasis of research so far on the first and second strategic options, we believe that there is growing scope for research that addresses the third and fourth.

## **INTRODUCTION**

Emerging economies are assuming an increasingly prominent position in the world economy. In 2002, emerging economies not only received significant amounts of foreign direct investment (FDI) inflows but also accounted for 12 per cent of the world's FDI outflows, which grew from \$65 billion in 1980 to \$849 billion in 2002 (UNCTAD, 2003). This change has come primarily because these economies

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comprise countries with a rapid pace of development and government policies that favor economic liberalization. Of the 64 emerging economies identified by Hoskisson et al. (2000), 51 are rapidly growing developing countries and 13 are in transition from centrally planned economies (often called 'transition economies').<sup>[1]</sup>

The growing importance of emerging economies is reflected in an upsurge of strategy research on the topic in recent years. Since the first major overview of the field by Hoskisson and colleagues (2000), numerous publications have appeared to push the frontier of this research. In addition to journal articles, books which cover more than one country or region in this area include Cavusgil et al. (2002), Estrin and Meyer (2004), Hooke (2001), Mathews (2002), and Peng (2000). We argue that for strategy research in this area to flourish and make a lasting contribution there is a need to consider the extent to which theories and methodologies used to study strategy in mature, developed economies are suited to the unique social, political, and economic contexts as well as firm characteristics of emerging economies. The purpose of this Special Issue is to examine these challenges to conventional theory and method derived from more developed economies.

Four conceptual perspectives – transaction cost theory (TCT), agency theory (AT), resource-based theory (RBT) (including capabilities, knowledge, and learning perspectives), and institutional theory (IT) – have been identified by Hoskisson et al. (2000) in the context of emerging economies in general, by Peng et al. (2001) in Greater China, and by Meyer and Peng (2004) in Central and Eastern Europe as leading theories when probing into emerging economies. Emerging economies provide a new context in which to understand the relative strengths and weaknesses of these different perspectives. However, the challenge to the wholesale adoption of developed economy-based theoretical and methodological approaches in emerging economies is magnified by the heterogeneity of emerging economies. Among the 64 emerging economies noted earlier, there is considerable variation concerning their progress in economic and institutional development. Some former centrally planned economies in Central and Eastern Europe (e.g. Hungary, Poland, Czech Republic, and the Baltic states) had made sufficient progress to accede to the European Union in May 2004, while others have been less successful. Thus, our contention is that these theories are not equally effective in driving the strategy research agenda among emerging economies.

TCT studies the influence of transaction costs on whether market, hierarchy, or hybrid forms are the most appropriate governance mode (Williamson, 1975). The central concern of AT is with the problems involved in creating the most appropriate form of governance to ensure that managers as agents act in the interests of owners (Jensen and Meckling, 1976). Regarding both theories, Hoskisson et al. (2000) suggest that challenges are likely to arise in emerging economies because of weak institutional infrastructures due to uncertainties arising from economic and political instabilities and a lack of market-based management skills.

The RBT is concerned with the influence of firm resources and capabilities in explaining why firms differ and how they achieve and sustain competitive advantage (Barney et al., 2001). Firms in emerging economies may face resource scarcities and obsolescence where resources that were valuable under a former institutional regime become less valuable under more market oriented institutions. Organizational arrangements such as business groups (conglomerates) and networks may have evolved in emerging economies as a way of dealing with problems of underdeveloped market institutions. However, as emerging economies move toward more market oriented institutions, business groups as well may need to restructure in order to access the resources and capabilities necessary to succeed in a more developed market environment. A central challenge for this perspective concerns the need to understand the barriers to the acquisition of these resources and capabilities and how they might be overcome.

IT focuses on the role of the political, social, and economic systems surrounding firms in shaping their behaviour (North, 1990). Hoskisson et al. (2000) noted the potential importance of this paradigm for explaining enterprise behaviour in emerging economies but observed that at the end of the 1990s relatively few studies adopted this approach. They suggested that challenges concerned the need to consider the impact of the speed and nature of institutional change upon firm strategies, as well as a need to examine the interaction between IT and other theories. They speculated that, as emerging economies develop, IT would become less important relative to these other conceptual approaches.

We suggest that in order to examine the appropriateness of different conceptual approaches it is necessary to consider the broad strategic alternatives available to firms associated with emerging economies. Within each emerging economy, there is significant organizational heterogeneity, represented by (1) incumbent firms (primarily business groups, state-owned enterprises [SOEs], and privatized firms), (2) entrepreneurial start-ups, and (3) foreign entrants (Peng, 2003; Peng et al., 2004). These firms are associated with four broad strategies (discussed below). Previous research has failed to make these distinctions explicit which we argue has led to an absence of clarity in the appropriateness of different conceptual and methodological approaches.

The four strategic options are identified as follows. First, in the early stage of development, particular importance is likely to be placed on the strategies of foreign firms from developed economies entering emerging economies to exploit the skills developed in their home markets. Second, incumbent and start-up firms in emerging economies are likely to develop exploratory strategies as markets improve in their domestic market. As emerging economies become more developed, both sets of strategies may change as a result of firm learning and changes in the institutional infrastructure. As development occurs, foreign firms may reconsider their mode of operation and even their presence in emerging economies. But two further strategic options may also become more important and challenge the

conventional wisdom about firm behaviour in emerging economies. As a third strategy, some emerging economy firms may seek to enter other emerging economies and exploit the expertise developed in their domestic markets. Fourth and finally, some emerging economy firms may also seek to enter developed economies.

To examine these issues we first consider the applicability of each conceptual approach to the four principal strategic options. We then summarize the papers presented in the Special Issue in the context of these four strategic options. Finally, the third section discusses the prospects for future research on strategies in emerging economies.

## **STRATEGIC OPTIONS**

### **Firms from Developed Economies Entering Emerging Economies**

It is the entries of multinational enterprises (MNEs) from developed economies into emerging economies that first created the rising appetite for knowledge about competition in these new markets (Meyer, 2004; Ramamurti, 2004). Such research has drawn on all four theoretical perspectives.

TCT – or its variant in international business, internalization theory – has been a dominant perspective underpinning research on foreign entries (Dunning, 1993). Not surprisingly, emerging economies have become a new ground to test and refine TCT. For example, Brouthers and Brouthers (2003), based on data from Central and Eastern Europe, find that behavioural uncertainty is of higher relevance to service firm FDI, while environmental uncertainty is of prime concern to manufacturing firm FDI. Although in a new context, these findings are in line with TCT expectations. However, relative to other perspectives such as RBT and IT noted later, TCT, when measured by the number of articles, seems to be relatively less popular among scholars probing into emerging economies. One possible reason is that given the hundreds of TCT studies – including numerous foreign market entry studies – already in the literature (Boerner and Macher, 2004), it is difficult to make solid contributions based on a pure TCT perspective. This does not mean that the theory is not valid in the context of emerging economies. The key constructs such as transaction costs, opportunism, and uncertainty are certainly highly relevant in emerging economies. Hoskisson et al. (2000, p. 255) argue that transaction costs are higher in emerging economies than those in developed economies, a statement that few dispute. However, scholars interested in extending TCT when probing into emerging economies have often found it useful to link this perspective with IT (Meyer, 2001), given the institutional differences between developed economies which give rise to TCT in the first place and emerging economies which present new challenges to overcome transaction cost problems (which we discuss later).

Although AT has been widely used in developed economies to examine the monitoring of firms, there is relatively little AT-based research concerning foreign entrants and new ventures. However, Pruthi et al. (2003) adopt a mixed AT and IT perspective to examine the monitoring approaches adopted by foreign and domestic venture capital firms (VCs) in India. They find that foreign VCs are more likely to be involved in investees at the strategic level while domestic VCs are more likely to be active at the operational level. Ramaswamy et al. (2002) find the foreign joint venture (JV) investors are more likely to monitor a situation in which they have significant investment. Because JVs are formed through large block ownership positions investing in the venture from the home and foreign owned companies which have created the venture, these owners are likely to monitor the venture closely. Also, because these owners have significant understanding through executives participating in managing the venture and because they do not fear retribution from a client relationship as a domestic bank providing capital would, they have both better information and motivation to closely monitor the strategic behaviour of the venture.

Starting in the early 1990s, RBT has gained influence in the strategic management (Barney et al., 2001) and international business literature (Peng, 2001b). In part because research on emerging economies started to accumulate a critical mass when the RBT literature gathered steam, research on emerging economies has significantly broadened and deepened the RBT while raising new puzzles and questions (Meyer and Peng, 2004). One popular area of RBT research focuses on foreign entrants, in particular the resources and capabilities underpinning successful alliances and acquisitions in emerging economies. On entry strategies, examples include Hitt et al. (2000) on partner selection and Isobe et al. (2000) and Luo and Peng (1999) on entry timing. Post-entry, organizational learning in IJVs attracts the attention of several papers (Lane et al., 2001; Steensma and Lyles, 2000; Minbaeva et al., 2003; Tsang, 2002). Post-acquisition integration also captures increasing interest (Meyer and Lieb-Doczy, 2003).

A puzzle has emerged concerning organizational fit. The literature has long singled out organizational fit between two cooperating firms as a key, organizationally embedded, invisible resource behind cooperative success (Jemison and Sitkin, 1986). In line with expectations, Fey and Beamish (2001) report that similarity of organizational climates between JV parents indeed has a positive impact on performance. However, surprisingly, Uhlenbruck and De Castro (2000) find the opposite. That is, the higher the degree of organizational fit between SOE targets in CEE and their Western acquirers (e.g. both focusing on control and reward systems), the *worse* the post-acquisition performance. Uhlenbruck and De Castro (2000) speculate that given the different institutional contexts, 'an appearance of organizational fit may be illusory' (p. 393). However, they cannot ascertain how and why apparent organizational fit can lead to a *negative* impact on post-acquisition performance. This result is probably due to the lack of attention of

Western MNEs on these areas (e.g. control and reward systems) whereby there is an ostensible 'fit'; in reality, these areas probably should have been adjusted more fully in the post-acquisition situation as much as other areas without such apparent fit.<sup>[2]</sup> In essence, this finding may be indicative of the hazards of superficially adopting measures of organizational resources such as fit, which are validated by research in the West. An apparent fit between firms based on theory built in developed economies, which turns out to be illusory, may be detrimental to post-acquisition performance in CEE (and probably in other emerging economies as well) (Uhlenbruck, 2004).

While the rise of new institutionalism has been found throughout the social sciences since the 1970s, IT's ascendance as a leading perspective in strategy is a more recent phenomenon (Wan and Hoskisson, 2003). A hallmark of emerging economies is institutional transitions defined as 'fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players' (Peng, 2003, p. 275). Not surprisingly, research on emerging economies has helped propel this perspective to the leading edge of the strategy research agenda (Meyer and Peng, 2004; Peng, 2000). Representative IT-based studies, often in combination with TCT and RBT, include Brouthers and Brouthers (2001) on the role of cultural and institutional distance affecting entry decisions, Delios and Henisz (2000) and Meyer (2001) on experience and capabilities in unfamiliar environments in emerging economies, Fey and Bjorkman (2001) on HRM practices in host countries, and Meyer (2004) on MNEs' spillover effects in emerging economies.

While such IT-based studies on firms from developed economies entering emerging economies are helpful, they have barely scratched the surface of the impact of both formal and informal institutions on the strategies of foreign entrants. A fundamental challenge confronting MNEs from developed economies is whether their traditional 'global strategy' can be extended and adapted with minimal changes to emerging economies. The traditional 'global strategy' is built on business models profiting from the top of the global economic pyramid, namely, the one billion or so people (including a small percentage of high-income consumers in emerging economies). A focus on emerging economies calls for more strategic attention and new business models built on how to profit from the bottom of the global economic pyramid, that is, the four billion people each making less than \$2000 a year (Hart and Milstein, 1999; London and Hart, 2004; Prahalad and Hammond, 2002). In other words, simple adaptation and extension of traditional 'global strategy' may not be sufficient. It seems impossible to do well in emerging economies without an understanding of how formal and informal institutions affect their firms and consumers. Overall, emerging economies present a powerful challenge to the traditional 'global strategy' engaged by many MNEs from developed economies. While there is some convergence between developed and emerging economies (such as cell phone usage), if Western MNEs only look

at these aspects of convergence, they may be 'trapped by their devices in gilded cages, serving the affluent few but ignoring the potential of the billions of new customers that attracted them in the first place' (Dawar and Chattopadhyay, 2002, p. 457). Despite significant regional and country differences, emerging economies have enough common underlying logic to justify developing an alternative business model based on price/value trade-offs different from those in developed economies.

A further distinct dimension of these strategies is that foreign entrants into emerging economies may also gain benefits for their own domestic markets. In the world of 'transnational management' (that is, mutual learning) popularized by Bartlett and Ghoshal (1989), MNEs' new learning on how to tackle emerging economies may provide a strong growth engine not only for emerging economies but also for *developed* economies. For example, a number of automakers such as GM and Honda are racing to develop \$5000 entry-level car models for China. Given these MNEs' inability to profitably produce such models in the United States and Japan, imagine the profit potential these developed-in-China models may have back home where entry-level cars now sell for close to \$10,000.

Overall, the leading challenge for MNEs from developed economies with an eye on (or a toehold in) emerging economies is: How to make their strategy work? For researchers interested in tracking the success and failure of these MNEs, it seems that simple application of TCT (similar to simple adaptation of the MNEs' traditional 'global strategy') is likely to yield limited mileage and that integration among TCT, AT, RBT, and especially IT promises to yield larger dividends. This point is illustrated in the subsequent subsections.

### **Domestic Firms Competing within Emerging Economies**

Domestic firms competing within emerging economies face a 'high velocity' environment of rapid political, economic, and institutional changes that are accompanied by relatively underdeveloped factor and product markets. These environmental uncertainties with which firms must deal if they want to survive in the long run create the need for upgrading and re-configuring existing resources and capabilities. The EU accession process and internationalization of transition economies such as Poland and Hungary imposed new demands on domestic firms to develop their dynamic capabilities that enable them to take advantage of new opportunities, including gaining access to new product markets.

Previous research in developed economies has emphasized institutional and market forces as major drivers of firms' strategic adaptation (D'Aunno et al., 2000). More specifically, strategic restructuring studies have concentrated on a number of strategic options, which mostly comprise portfolio, financial, and organizational restructuring (Bowman and Singh, 1993; Gibbs, 1993), the latter in the form of changes in organizational structure, internal reorganizations, and downsizing

(Johnson, 1996). However, institutional constraints and lack of developed factor markets limit the applicability of these strategic options in emerging economies, and new theoretical perspectives relevant to this specific environment are urgently needed (Hoskisson et al., 2005). In emerging economies, important contextual factors may also contribute to explanations of strategic decisions of domestic firms. These factors include the development of market institutions, (high) levels of government involvement, industry structures, ownership patterns, and enforcement of business laws (Filatotchev et al., 2003; Khanna and Palepu, 1997, 2000; La Porta et al., 1998; Peng, 2000, 2003).

More recent developments of the RBT in emerging economies put emphasis on the notion of 'strategic flexibility' of firms. Uhlenbruck et al. (2003), for example, strongly emphasize that the continuously changing market conditions in emerging economies require the development of 'strategic flexibility' that should help firms to take advantage of existing and new strategic opportunities. Strategic flexibility depends jointly on the inherent flexibility of resources available to the organization and on managers' flexibility in applying those resources to alternative courses of action, or 'flexibility in coordinating the use of resources' (Sanchez, 1995, p. 138).

Organizational theorists suggest that, in an emerging economy, managerial strategic flexibility, or their incentives and ability to make decisions over capability-enhancing strategies, may become particularly important (Filatotchev et al., 2000; White, 2000). Newman (2000) explains that, as with individuals subjected to ever-increasing environmental uncertainty and stress, firms can be exposed to too much change. With deep, simultaneous and repeated institutional upheavals, organizational learning and the search for the appropriate organizational template by firms may become impossible, and the extent of a firm's embeddedness in the old institutions may become a barrier to enterprise survival.

To summarize these arguments, one may assume that strategic restructuring may be impeded not only by constraints related to the lack of organizational resources, but also by a lack of managerial ability to undertake change (Mahoney, 1995; White and Linden, 2002). Sanchez (1995) proposes that strategic flexibility is the joint outcome of a firm's resources *and* its ability to coordinate their uses. Resources and their use are dynamic in nature (Volberda, 1996), and managers' flexibility in re-configuring, developing, and using resources are most critical tasks in distinguishing the successful from the unsuccessful firms in emerging economies (Uhlenbruck et al., 2003, p. 265).

Studies on emerging economies that build on IT have uncovered a number of important institutional factors that may have an impact on strategic decisions of domestic firms. For instance, business groups have become intermediaries and organizational arrangements to fill institutional voids in some emerging economies such as India and Chile (Khanna and Palepu, 2000; Khanna and Rivkin, 2001; Nachum, 2004). These groups have also played an important role in firm restruc-

turing in some transition economies such as China (Bruton et al., 2003; Carney and Gedajlovic, 2003). Kim et al. (2004) and Toulan (2002), however, consider the drawbacks of diversification by business groups. Based on these contrasting findings, Peng et al. (2005) develop longitudinal theory to explain the evolution of the scope of the firm in emerging economies over time, based on the notion of 'institutional relatedness'. Other IT research on domestic firms in emerging economies examines the importance of network linkages (Spicer et al., 2000), the necessity of environmental scanning (May et al., 2000), the importance of risk taking (Makhija and Stewart, 2002), the crucial interaction between institutional transitions and adaptive capabilities (White and Linden, 2002), and the challenges associated with corporate turnaround (Ahlstrom and Bruton, 2004; Bruton et al., 2003).

Filatotchev et al. (2000) indicate that managerial opportunism in emerging economies is not controlled effectively by the institutional owners of the firm, arguing that institutional monitoring is constrained by difficulties in gaining board seats in insider dominated firms, by weak legal enforcement, by weak external capital market forces, and by volatile product markets. Although this study also related to AT, from an IT perspective it suggests that business groups can create a counter-balance to a fluid state of the institutional environment in emerging economies and improve strategic flexibility of local firms (Uhlenbruck et al., 2003).

There is little IT research on local start-ups in emerging economies but Peng (2001a) examines wealth-creation strategies during institutional transitions in transition economies and Ardichvili and Gasparishvili (2003) consider differences in informal values and norms between entrepreneurs and non-entrepreneurs in Russia and Georgia.

A growing number of studies on strategies of domestic firms build on AT and emphasize the crucial role of corporate governance factors. Existing empirical evidence in emerging economies indicates that evolving corporate governance is important for the outcome of firm restructuring in general, and privatized firms in particular (Djankov and Murrell, 2002; Filatotchev et al., 2000). In the context of transition economies in CEE and FSU, it is also likely that different privatization methods, such as the sale to strategic foreign investors, buyouts by local management, and 'give-away' deals will be associated with different governance outcomes and performances. Emerging economies present distinct settings and research results on the relationship of governance and restructuring from highly developed Anglo-American samples may not be applicable (Hoskisson et al., 2001). Straight applications of standard AT propositions, such as outside board directors may lead to better firm performance, are refuted in emerging economies such as China (Peng, 2004) and Russia (Peng et al., 2003). Overall, like TCT, some AT research on local incumbents has also migrated toward a combination of IT and AT (Buck et al., 1998). Other AT work has moved to integrate the RBT such as Filatotchev et al. (2000) on downsizing, Chang and Hong (2000) and Guillen (2000)

on capabilities to enter multiple industries, Fahy et al. (2000) on marketing prowess, Makhija (2003) on local resources, and Kogut and Zander (2000) and White (2000) on R&D capabilities.

Studies on emerging economies have also provided further developments and extensions of the traditional AT framework, in particular when analysing the effects of dominant owners in this environment. A number of studies acknowledge that firms may have heterogeneous groups of principals whose interests and objectives do not coincide (Walsh and Seward, 1990). For example, the 'law and economics' research suggests that in countries with relatively low protection of minority investors' rights, dominant shareholders may abuse their power and try to extract private benefits of control at the expense of minority shareholders. As a result, the primary agency problem in this environment is not the failure of professional managers to satisfy the objectives of diffused shareholders, but rather the expropriation of minority shareholders by the controlling shareholders (La Porta et al., 2000). Dharwadkar et al. (2000) argue that these are 'unique agency problems that result from principal-principal goal incongruence'. These differences in principals' goals and objectives lead to a principal-principal agency relationship with associated agency costs (Young et al., 2002).

A number of papers focus on possible organizational outcomes of dominant owners. Filatotchev et al. (2001a), for example, provide empirical evidence that ownership concentration in Russia is accompanied by a decline in performance and investment in privatized manufacturing firms. Chang (2003) suggests that concentrated ownership may create an incentive for the family owners to expropriate wealth from the subsidiary businesses of a large diversified business group. This is accomplished through pyramid structures and cross share holdings. In a study of Indian business groups, Bertrand et al. (2002) suggest that the relationship between ownership and performance may be attributable to 'tunnelling'. This refers to transferring resources from firms in which a controlling family with relatively small cash flow rights in a business group subsidiary transfers resources to a business group subsidiary in which the family owns substantial cash flow rights. In this way, firms can expropriate value from minority shareholders.<sup>[3]</sup>

More recently, the financial crisis in Southeast Asia has resulted in a plethora of research that has concentrated on the importance of models of corporate governance in countries that are largely organized through a system of family control and ownership of firms (Anderson et al., 2003; Bruton et al., 2003; Carney and Gedajlovic, 2003; Young et al., 2002). These studies tend to focus on the impact of various forms of family ownership on firm performance, attributing corporate vulnerability to the degree of family involvement.

The evolution of modern corporate governance in emerging economies is characterized by learning at both ends; not only do managers need to satisfy the demands of multiple stakeholders, principals need to learn their role and develop monitoring systems (Phan, 2001; Filatotchev et al., 1996). Setting up efficient

monitoring systems, however, is difficult due to the new 'rules of the game' (North, 1990; Peng, 2004).

Finally, according to RBT (and its variant, the knowledge-based view), strategic decisions of local firms will be shaped by the cognitive capabilities of their managers. The propensity of firms to explore and acquire new knowledge is influenced by the exposure to diverse, external sources of knowledge (Zahra and George, 2002). RBT research on local start-ups in emerging economies has primarily focused on network connections and relationships as crucial value-adding resources leading to better firm performance (Batjargal, 2003; Peng, 2001a; Peng and Luo, 2000). The tendency to stay within established networks and the little impetus from the firm's governance body to seek diverse knowledge may, however, limit absorptive capacity. Furthermore, the firm's ability to overcome competency traps based on capabilities that were of crucial value in the past may also decline, hindering the successful adaptation in the changed environment (Ahuja and Lampert, 2001; Levinthal and March, 1993). Puffer and McCarthy (2001) argue that entrepreneurs in highly turbulent environments such as Russia may stand out even among their entrepreneurial peers around the world, since it almost requires a special breed of people in order to survive and hopefully prosper there. Therefore, there is an urgent need to study how managers' cognitive capabilities influence their recognition and responses to environmental pressures and the internal dynamics of the firm's strategic flexibility.

These diverse theoretical perspectives on the strategy process of domestic firms have a number of common elements that may suggest various avenues for future research. First, one needs to understand how institutional factors and the environmental dynamics in emerging economies impact on strategic choices of managers in domestic firms. Second, it is important to recognize that these factors may have different impacts on the strategies of various organizational forms, such as small firms, business groups, and state-controlled firms. Third, it seems highly unlikely that a single theoretical perspective may be able to explain strategic decisions that are made in these 'high velocity' environments, and an integrated approach that brings together various theories may be more fruitful.

### **Firms from Emerging Economies Entering Other Emerging Economies**

Similar to the previous sections, emphasizing IT is a good way to lay a foundation for later arguments relating to the internationalization of emerging economy firms in regard to emphases on other theoretical approaches that will be employed (Peng, 2003). Recent work by Wan and Hoskisson (2003) suggests that firms exist in resource environments that are more or less munificent regarding their institutional as well as economic development context. In regard to the tying of RBT to IT, because firms coming from emerging economies may reside in less munificent

resource environments, many of the resources enjoyed at home, especially by firms affiliated with large business groups, may be situation specific given the relative underdevelopment of their home countries (Guillen, 2000). That is, resources may be employed within the business group in order to compensate for the lack of environmental resources available. Accordingly, Hu (1995) has argued that firms coming from emerging economies may have a competitive disadvantage in entering developed economies. However, he also notes that they may have a competitive advantage in entering country environments with underdeveloped institutions and economic resources – in other words, other emerging economies.

Although the reasons for international diversification in any given country are likely to contain rationales and motivations for both exploitation and exploration of a firm's resources, firms moving from emerging to other emerging economies are more likely to emphasize exploitation (as opposed to exploration as explicated by March, 1991). This is because their resources may more readily apply to the resource situation in similar institutional settings to their home setting. Performance from international exploitation is expected to vary to the extent that resources and capabilities are transferable to a given host country situation (Luo and Peng, 1999). Lee and Beamish (1995) suggest that Korean firms face a lower knowledge gap in emerging economies because these economies present similar economic and institutional contexts similar to their home country context. Pananond and Zeithaml (1998), for instance, find that Charoen Pokphand Group (CP Group), Thailand's largest multinational business group, is able to successfully exploit its base of resources and capabilities in other emerging economies of Indonesia, Hong Kong, Singapore, Taiwan and mainland China. It is able to more successfully realize economies of scale and scope in these emerging economies than it may have in seeking to compete in other more developed economies. It is also likely that in these emerging economies, firms such as the CP Group may have a competitive advantage relative to global competitors entering from developed economies because competing in emerging economies may require global competitors from developed economies to change their business model (Prahalad and Lieberthal, 1998). As such, firms from developing economies competing in emerging economies may cause the developed economy firms to compromise their global identity (Dawar and Frost, 1999).

In tying arguments from IT and TCT, in regards to organization costs, firms from emerging economies may find that their transaction and coordination costs at the margin are lower than for firms from developed economies when they are both trying to compete in emerging economies (Geringer et al., 2000). If this is the case, future research might profitably address this question.

There are also a number of research questions that can be addressed by tying RBT and TCT. Insights from an RBT perspective can help understand why certain firm configurations as suggested by TCT may not perform effectively in emerging economies. For example, although firms from emerging economies pur-

suing strategies in other emerging economies might allow for better exploitation of existing resources as intimated above, exploration may be curtailed because other emerging economies may not have strong knowledge bases in which learning can become world class. Also, most business groups that are capable of pursuing international diversification from emerging economies have significant levels of product diversification. With substantial unrelated product diversification in their business portfolio, they may not have a norm of cooperative learning among the divisions. Large business groups often require decentralization as a way to manage extensive diversification. This is often a hindrance to learning and technological advance from other business units (Hoskisson et al., 1993). As such, if they pursue international diversification for learning purposes in developed economies, it is likely that this high level of diversification would hinder their learning capability because of the broad product scope and the complexity of managing knowledge learning in their home operations. However, firms that come from these economies which are organized more in a network form in regard to knowledge sharing (Yiu et al., 2004) may have an advantage relative to those that are organized hierarchically and more decentralized (Keister, 1998). Similarly, those firms from emerging economy business groups which have significant related diversification or vertical integration because of norms for cooperation and interdependence among business groups (Chang and Hong, 2000, 2002) are likely to have a learning advantage over those that have broad diversified operations which are managed in a decentralized and unconnected way.

AT offers some explanation for exporting behaviour by emerging economy firms into other economies. The governance influence of foreign firms from developed economies, through ownership or board representation relating to emerging economy firms may assist the latter to enter foreign markets. Filatotchev et al. (2001b) and Wright et al. (2002) show, using a longitudinal dataset, that export intensity outside the former Soviet Union for firms in Russia, Ukraine, and Belarus is associated with the nature of corporate governance. Outside board representation tends to be positively associated with the presence of a foreign partner and export-oriented product development. Managerial ownership, in contrast, is associated with acquisition activity and negatively associated with the presence of a foreign partner. Emphasizing the need to consider dynamic effects, these authors also find that the relationship between foreign partners and managerial control changes over time, starting as positive and becoming negative. This observation raises important questions concerning whether entrenched managers have become reluctant to deal with foreign partners or whether foreign partners have become less interested in linking with enterprises with external managers. It is not clear whether these issues apply only to former centrally planned economies in transition or whether they apply to emerging economies generally. While this limited evidence relates to issues concerning entry into primarily developed economies, issues are raised concerning whether governance alone is sufficient for foreign

firms to enable emerging economy firms to enter other emerging economies. For example, there may also need to be an appreciation of the different institutional contexts of other emerging economies and owner-managers of emerging economy firms may consider that they have the social capital and other expertise to facilitate entry into other emerging economies. More work needs to be done to examine how agency problems are exhibited when firms move from emerging economies into other emerging economies.

### **Firms from Emerging Economies Entering Developed Economies**

To improve their competitiveness, especially in terms of seeking to compete in global markets, firms based in emerging economies are likely to want to enter developed economies to develop new resources and capabilities (Hoskisson et al., 2004). Because firms coming from emerging economies are likely to be at a disadvantage in global markets relative to firms coming from developed economies, learning theory associated with RBT (Cohen and Leventhal, 1990) is likely to apply in the situation where emerging market businesses are seeking to enter developed economies. To develop knowledge bases that are globally competitive, emerging economy businesses may be forced to enter developed economies to acquire new technological capabilities (Cantwell, 1992). Dawar and Frost (1999) suggest that when Samsung, a large Korean business group, sought to gain advanced technology in memory chips it located R&D facilities in Silicon Valley. Once it gained expertise, it was able to transfer much of this capability back to Korea. Such international exploration allows emerging economy businesses to enhance their long term performance (Frost et al., 2002). Accordingly, firms often use exploration not to develop near term performance but to develop potential absorptive capacity (Zahra and George, 2002). Thus, it is likely that a central motivation for firms from emerging economies entering developed economies is an emphasis on exploration (as opposed to exploitation discussed in the previous section).

Smaller entrepreneurial firms in emerging economies seeking to enter developed economy markets may, however, face problems. The abilities of small entrepreneurial firms in developed economies to internationalize their operations are often regarded as a value-adding resource. Yet, Lyles et al. (2004) report that in post-1989 Hungary, local start-ups, if they internationalize aggressively, end up having a *lower* likelihood of survival. This suggests an inherent liability of foreignness for small firms entering emerging economies since they have lower margins for error relative to larger companies. Although this may be in part due to a lack of resources, such firms may also be disadvantaged due to the shortcomings in the institutional environment, which may have lacked incentives for entrepreneurial activity as in former planned economies. Thus, IT has application in firm moving from emerging to developed economies.

As noted in the previous subsection, product diversification can dampen the effect of exploration, especially in emerging economies. Although product diversification may be a positive thing for exploitation in entry opportunities in other emerging economies due to similarities in the institutional environment, it is likely to mitigate the ability of larger businesses from emerging economies in entering more developed economies. To the extent that related businesses pursue learning opportunities in developed economies, it is more likely that these firms would gain an advantage using an exploration motive (Chang and Hong, 2000). Additionally, firms from emerging economies that have strong networks and well developed social capital (that is, strong norms of trust relationship and shared language) may facilitate cooperation in developing knowledge and transferring it to businesses in the home country. For instance, Koka and Prescott (2002) suggest that social capital can yield benefits in terms of increased richness and volume of information that flow to an organization in a learning situation.

However, if a firm is focused on exploitation rather than exploration, it is likely that social capital can work against the organization seeking to develop new knowledge. Nahapiet and Ghoshal (1998) suggest that organizations with high social capital may become 'ossified' if they have norms focused on exploitation and thus restrict access to diverse sources of ideas and information which would be negative for a goal of exploration. Thus social capital can have positive as well as negative influences in developing new knowledge.

It is also important to note that networks may be more difficult to operate in developed economies because of the legal and institutional infrastructure that prevent fluid operation of such networks due to intellectual property right laws and other laws restricting cooperation or collusion between firms. Thus, business groups with strong social capital coming from emerging economies are likely to find their operations impeded when positioning themselves in developed economies compared to other emerging economies. These firms develop network capabilities to overcome their lack of market institutions in emerging economies. However, this may be another reason why exploitation is more likely and possible in another emerging economy for firms from emerging economies (Lant et al., 1992). We have noted in the previous section some of the AT-related issues facing emerging economy firms entering developed economies. Meeting corporate governance requirements may be difficult for an emerging economy firm moving to a developed economy with stringent requirements for transparency, ownership, and board functioning. For example, since the 2002 enactment of the Sarbanes-Oxley Act in the United States which was designed to curtail Enron-style corporate governance abuses, a number of firms from emerging economies, which previously were eager to list their shares on US stock exchanges, have abandoned their US listing plan. The primary reason cited is often an inability (and probably unwillingness) for these firms from emerging economies to be in compliance with

Sarbanes-Oxley. Thus, there is opportunity for a contribution by combining AT and IT when examining firms that seek to move operations from emerging economies to developed economies, especially those that have more stringent governance requirements.

## **PAPERS IN THE SPECIAL ISSUE**

The papers in this Special Issue were part of a much larger set of submissions that resulted from a general call for papers to be presented at the Strategic Management Society Mini-Conference on this topic hosted and co-sponsored by the Chinese University of Hong Kong and Asia Academy of Management. We received 26 submissions, all of which were double blind reviewed by three reviewers. Papers that received revise and resubmit decisions from the first round of reviews were invited to be presented at the above conference held in Hong Kong in December 2003, which provided the opportunity for further developmental input. Following further reviews, eight papers were finally accepted for inclusion in the Special Issue. A few papers were submitted to the Special Issue, although the presenters could not attend the conference. The main aspects of the papers are summarized in Table I.

### **Firms from Developed Economies Entering Emerging Economies**

Embedded in an Asian context, Chung and Beamish adopt IT as their main theoretical underpinning and also employ TCT logic to account for more micro theoretical rationales in understanding the detailed process of institutional management and the resulting dynamics of institutional change. These authors examine the influences of policy reforms on the characteristics and survival of foreign subsidiaries in emerging economies before and after the 1997 Asian Economic Crisis. Foreign subsidiaries are found to be more likely to take the form of majority JV, minority JV, or manufacturing operation in the pre-crisis period, but more likely to take the form of wholly owned subsidiary (WOS), majority JV, or trading operation in the post-crisis period. Consistently, foreign subsidiaries with the latter characteristics are more likely to survive in the post-crisis period.

Drawing on data from Vietnam, Meyer and Nguyen present and test a theoretical framework to analyse how national and sub-national institutions in an emerging economy influence entry strategy decisions by foreign investors. Firms' strategic decisions, they suggest, may have to accommodate institutional conditions that vary not only between countries, but also within the host economy. Institutional barriers may induce some investors not to invest in a given location, while others may seek to overcome the barrier by forming a JV. Sub-national institutional variables have a significant influence on both dimensions. The availability of scarce resources affects the location of FDI and the likelihood of greenfield

Table I. Summary of articles in the Special Issue

<i>Authors</i>	<i>Topic</i>	<i>Primary theoretical approaches</i>	<i>Data and context</i>	<i>Analytical techniques</i>	<i>Main findings</i>
Chung and Beamish	Influences of policy reforms on characteristics and survival of foreign subsidiaries in emerging economies.	IT; TCT	Matched parent-Japanese parent-subsidary data on up to 4011 subsidiaries from national level questionnaire survey, press releases, annual reports, and telephone interviews for period 1986–2001 covering activities in Indonesia, Thailand, Korea, Malaysia, and Philippines.	Binary logistic regression and proportional hazard regression models.	Foreign subsidiaries more likely to take form of majority joint venture (JV), minority JV, or manufacturing operation in pre-crisis period, but more likely to take form of wholly owned subsidiary (WOS), majority JV, or trading operation in post-crisis period. Foreign subsidiaries with the latter characteristics more likely to survive in post-crisis period.
Meyer and Nguyen	How institutions in an emerging economy (including within country variations) influence location and entry mode choice decisions by foreign investors.	IT; TCT	FDI determinants in 152 FDI establishments in 61 provinces in Vietnam during 1991 to 2000.	Negative binomial regression; logistic regression.	Availability of scarce resources affects location of FDI and likelihood of greenfield entry. Institutional pressures arising from incumbent state-owned firms and domestic market orientation of investor lead to preference for joint venture entry.

Table I. *Continued*

<i>Authors</i>	<i>Topic</i>	<i>Primary theoretical approaches</i>	<i>Data and context</i>	<i>Analytical techniques</i>	<i>Main findings</i>
Child and Tsai	Understanding of how accommodations are reached in respect of environmental policy in emerging economies between institutions and MNCs.	IT and political theory (bargaining power and strategic choice).	3 multinational firms and 4 local firms in China and Taiwan; interviews and archival data.	Multiple (embedded) case studies.	Accommodation between MNCs' strategies and institutional constraints is achieved through a system of dynamic relationships in which both firms and institutional agents have a stake.
Zhao, Anand and Mitchell	How firms transfer knowledge from MNE source networks to IJVs and how this knowledge diffuses to local firms' recipient networks.	RBT (knowledge based view; networks).	46 interviews in 4 IJVs in China; interview and archival data.	Multiple case analysis.	Asymmetries in capabilities and motives of dual networks strongly influence knowledge flows. Individually-carried capabilities diffuse easily through local networks but diffusion of group-embedded capabilities requires more complex mechanisms such as vertical relationships.
Wan	Identification of optimal firm capabilities and corporate diversification strategies in a firm's country resource environment.	IT; RBT	NA (theory paper)	NA	In response to characteristics of country resource environments, firms should develop dissimilar types of capabilities [market (competitive) capabilities and non-market (political) capabilities] and adopt different corporate diversification strategies (product and international diversification strategies).

Yiu, Bruton and Lu	How business groups acquire resources and capabilities to prosper.	IT; RBT	224 business groups in China; official accounting/financial data from China's National Statistics Bureau (CNSB) and 2 surveys of archival and perceptual data from CFOs and CEOs.	OLS & Heckman two-step regression	Most endowed government resources do not help business groups to create a competitive edge but those developing a unique portfolio of market-oriented resources and capabilities most likely to prosper.
Narayanan and Fahey	Analysis of Porter's Five Forces Framework's underlying assumptions and their efficacy in emerging economies.	IT and Porter's Five Forces Framework	NA (theory paper)	Toulmin analysis	Absence of validity of FFF institutional level assumptions in emerging economies.
Brouthers, O'Donnell and Hadjimarcou	How can emerging market firms (EMFs) prosper in the developed markets of Triad.	IT	33 Romanian and 68 Chinese firms; field visits.	Hierarchical OLS regression	EMFs that: (1) target EU and use a Premium strategy, (2) target Japan and use a Superior Value strategy, or (3) target the USA and use an Economy strategy achieve higher levels of satisfaction with export performance than EMFs that enter emerging markets or EMFs that employ other product strategies in Triad nations.

entry. Institutional pressures arising from incumbent state-owned firms and the domestic market orientation of the investor lead to a preference for joint venture entry.

Two papers involve both foreign and local firms. First, the paper by Child and Tsai contrasts large-scale diversified multinational corporations in the chemicals sector, each with manufacturing in both mainland China and Taiwan, with local firms in the same sector. The authors combine institutional and political perspectives to develop a framework for analysing MNEs' strategy in relation to demands for environmental protection in emerging economies. They show that an accommodation between MNEs' strategies and institutional constraints is achieved through a system of dynamic relationships in which both firms and institutional agents have a stake. They indicate that institutional constraint is not the sole source of isomorphism among firms but that it also results from interaction between MNEs and national institutions, in which the latter adopt various proactive forms of political action. However, they suggest that MNEs are in a far stronger position to take such action than local firms.

Second, the paper by Zhao, Anand, and Mitchell adopts a knowledge based and dual network perspective to examine how the source networks and recipient networks in which international joint venture (IJV) partners operate influence inter-organizational knowledge flows. Their approach thus combines insights relating to foreign firm entry and local firm strategies. Using four cases in the Chinese auto industry they investigate how firms transfer knowledge from MNE source networks to IJVs and how the knowledge then diffuses to the local firms' recipient networks. Their research emphasizes the need for network-to-network analysis rather than examining only individuals and firms. They suggest that in emerging economies it is important to account for the collective nature of knowledge and limit the dependence on individual personnel or training alone. They note that, perhaps counter-intuitively, that MNE experience in other emerging economies was at least as important as experience in developed markets for assisting successful knowledge transfer. They also observed an occasional outflow of knowledge from IJVs in China to IJVs in other emerging economies, which they expected to increase as IJVs in China become more established.

### **Domestic Firms Competing within Emerging Economies**

In a theory paper, Wan draws on the core arguments developed in institutional economics to identify the *optimal* firm capabilities and corporate diversification strategies in a firm's country resource environment. In the context of emerging economies, this analysis helps in understanding the choice of domestic or internationalization strategies of local firms. Wan argues that in response to the unique characteristics of their country resource environments, firms should place emphasis on developing dissimilar types of capabilities. Viewed in the light of RBT, Wan

focuses on two broad, distinctive types of firm capabilities: market (competitive) capabilities and non-market (political) capabilities. He conceptualizes different corporate diversification strategies (product and international diversification strategies) as strategic actions, based on firms' market or non-market capabilities, to facilitate the acquisition or utilization of country-level resources for developing competitive advantages in specific resource environmental contexts.

In contrast to earlier research that has used a TCT perspective to study business groups as a response to market inefficiencies, Yiu, Bruton, and Lu employ RBT and IT to examine how business groups acquire resources and capabilities to prosper. They use empirical evidence from over 224 business groups in China and show that most of the endowed government resources do not help business groups to create a competitive edge. In contrast, those business groups with strategic actions to develop a unique portfolio of market-oriented resources and capabilities are most likely to prosper. Their results provide insights on the relationship between the initiation of institutional transformation and the desired outcome to be realized by organizational transformation.

Narayanan and Fahey, in another theory paper, explore the contention that strategic management models originating in developed economies, especially the Porter Five Forces Framework (FFF), do not necessarily fit the conditions prevalent in emerging economies. Three key qualifiers in the theoretical structure of FFF are identified – transaction costs, capital flows and laws governing rivalry. Evidence from emerging economies indicates that FFF's assumptions about the qualifiers are not met in these economies. Firms in emerging economies undertake strategic actions to address the key uncertainties pertaining to exchange, capital availability and unrestricted rivalry but many of these actions are not derivable from Porter's FFF. The authors suggest that their three qualifiers provide a way of building typologies and taxonomies to accommodate the diversity of institutional contexts and to link them to firm-level strategies. Their analysis highlights the need to focus on laws governing rivalry, a relatively under explored topic in emerging economies, and the effectiveness of different network strategies.

### **Firms from Emerging Economies Entering Other Emerging Economies and Entering Developed Economies**

Drawing on survey data from China and Romania, Brouthers, O'Donell, and Hadjimarcou address both emerging economy firms that enter other emerging economies and those that enter developed economies. Based on the IT concept of mimetic isomorphism, they theorize that, by imitating the home country MNE modal generic product strategy in each Triad nation, emerging market firms (EMFs) can improve their export performance satisfaction. Specifically they hypothesize that EMFs that (1) target the EU and use a Premium strategy, (2) target Japan and use a Superior Value strategy, or (3) target the USA and use an Economy

strategy will, on average, achieve higher levels of satisfaction with export performance than EMFs that enter emerging markets or EMFs that employ other product strategies in Triad nation markets. Using a sample of 33 Romanian and 68 Chinese exporters they find support for these hypotheses.

## DISCUSSION AND CONCLUSIONS

We have examined challenges to conventional wisdom regarding the strategies of both domestic and foreign firms competing in (and sometimes out of) emerging economies. The articles contained in this special issue contribute to addressing some of these challenges but many other challenges remain. The analysis in this paper has identified a number of research questions and issues. These are summarized in relation to the four theoretical perspectives and the four strategic options in Table II. It is important to note that all of these future research questions are forward looking and speculative in nature. We believe they are important because currently we do not have theoretically and empirically adequate answers to address them.

Regarding the relative prominence of the four theoretical perspectives identified in this paper, Hoskisson et al. (2000, p. 263) speculated that as markets emerge, IT may first become most relevant, followed by TCT and AT, and then RBT. However, five years since the publication of Hoskisson et al. (2000), we are not sure this is the likely trajectory of theoretical evolution. Rather, the trajectory does not appear as linear as previously envisaged. First, IT has definitely gained more and sustained prominence. Five years ago, Hoskisson et al. (2000, p. 253) observed that 'The number of theoretical and empirical studies using an institutional perspective in emerging economies is limited'. Given the rising number of IT studies reviewed here, this statement is no longer true. IT has indeed risen, as predicted by Hoskisson et al. (2000), to become a new dominant theory guiding strategy research on emerging economies. Seven out of the eight papers accepted have drawn heavily from IT. However, Hoskisson et al. (2000) envisaged that the importance of IT would decline as emerging economies became more developed. Looking back, it seems that IT has become *more* enduring than anticipated as the development of institutions in emerging economies has been slower than anticipated and the nature of institutional developments has not been uni-directional. Second, the prediction that TCT, AT, and RBT will become more relevant and prominent in research on emerging economies develop has only partially been realized. What has emerged at this point is more integration and blending with IT and these other perspectives. Of course, institutional transitions take time and whether or not IT will continue to dominate will be determined by future studies.

Despite IT's growing importance, a number of important theoretical issues remain within IT. The existing IT literature, largely based on developed

Table II. Some questions to advance theory and research in emerging economics

<i>Theories</i>	<i>Firms from developed economies entering emerging economies</i>	<i>Domestic firms competing within emerging economies</i>	<i>Firms from emerging economies entering other emerging economies</i>	<i>Firms from emerging economies entering developed economies</i>
Transaction cost theory	<ul style="list-style-type: none"> <li>• How do variations of transaction costs between countries and over time explain variations of entry modes?</li> </ul>	<ul style="list-style-type: none"> <li>• How do transaction costs influence restructuring in emerging economies? To what extent is such restructuring moderated by AT and path dependencies?</li> <li>• How does TCT explain diversification strategy of business groups?</li> </ul>	<ul style="list-style-type: none"> <li>• Do emerging economy firms entering other emerging economies experience lower transaction costs than developed economy firms entering such markets?</li> </ul>	<ul style="list-style-type: none"> <li>• How do emerging economy firms select appropriate local partners and/or acquisition targets in developed economies?</li> <li>• How does the nature of diversification of emerging economy firms (related or unrelated; centralized or decentralized) affect their ability to learn from entry into developed economies?</li> </ul>
Agency theory	<ul style="list-style-type: none"> <li>• How do control mechanisms of foreign corporations and venture capitalists entering emerging economies differ from those of domestic investors?</li> <li>• How do such differences manifest themselves in strategies of investors and investees?</li> </ul>	<ul style="list-style-type: none"> <li>• Why are outside board directors and new managers, hypothesized by standard agency theory models, seemingly to be <i>unable</i> to make a difference in firm performance?</li> <li>• To what extent do different privatization methods and pre-emergence ownership structures create path dependencies that restrict learning?</li> <li>• What are the appropriate governance structures for local start-ups?</li> <li>• What is the role of venture capital firms in monitoring start-ups?</li> </ul>	<ul style="list-style-type: none"> <li>• To what extent are broader stakeholder agency theory perspectives appropriate?</li> <li>• To what extent do weak governance structures lead emerging economy firms to enter other emerging economies as it is 'easier' but does not necessarily contribute to learning or performance?</li> </ul>	<ul style="list-style-type: none"> <li>• How do control mechanisms of emerging economy firms entering developed economies differ from those of incumbents in developed economies? To what extent does adaptation occur?</li> <li>• What changes in governance factors are needed to enhance the effectiveness of entry of emerging economy firms into developed economies?</li> </ul>

Table II. *Continued*

<i>Theories</i>	<i>Firms from developed economies entering emerging economies</i>	<i>Domestic firms competing within emerging economies</i>	<i>Firms from emerging economies entering other emerging economies</i>	<i>Firms from emerging economies entering developed economies</i>
Resource-based theory	<ul style="list-style-type: none"> <li>Why is perceived organizational fit between foreign and domestic firms, long regarded as a crucial resource for acquisition success, <i>negatively</i> correlated with post-acquisition performance?</li> </ul>	<ul style="list-style-type: none"> <li>How do firms manage the reconfiguration of their resources necessitated by a changing environment?</li> <li>Why do some start-ups which aggressively internationalize, often regarded as a crucial capability to help them succeed, seem to have a <i>lower</i> likelihood of survival?</li> </ul>	<ul style="list-style-type: none"> <li>To what extent do diversified emerging economy business groups exploit competitive advantage in other emerging economies?</li> <li>Do 'old' social capital and networks facilitate or restrict learning and entry?</li> </ul>	<ul style="list-style-type: none"> <li>To what extent does being product diversified restrict emerging economy business groups from entering developed economies?</li> <li>What is the role of social capital in facilitating or restricting learning and entry? How does this social capital change?</li> </ul>
Institutional theory	<ul style="list-style-type: none"> <li>How do informal institutions complement formal institutions to explain foreign investor's entry strategies?</li> <li>To what extent do problems arising from institutional differences increase transaction and agency costs and lead to exit by foreign entrants?</li> </ul>	<ul style="list-style-type: none"> <li>Will there be <i>convergence</i> among individual beliefs and firm strategies between Western European and Central European countries that will become new members of EU? Will there be <i>divergence</i> between new EU-member Central European countries and the FSU countries?</li> <li>Will start-ups de-emphasize an intense, networking strategy and migrate toward a more market capability-based strategy as institutional transitions deepen?</li> </ul>	<ul style="list-style-type: none"> <li>To what extent do institutional differences between emerging economies create a need for emerging economy firms entering other emerging economies to change business models?</li> <li>Do emerging economy firms have advantages vis-à-vis developed economy firms in entering other emerging economies?</li> </ul>	<ul style="list-style-type: none"> <li>What impact do differences in institutional frameworks between emerging economies and developed economies have on the ability of emerging economy firms to use their network based approaches to business?</li> <li>Are firms from particular emerging economies likely to be more successful at entering developed economies than others?</li> </ul>

economies, tends to flow from a set of known institutional 'rules of the game' and then to explore strategic responses. As a result, this literature does not provide enough insightful answers to new questions, such as 'How do organizations play the new game when the new rules are not completely known?' (Peng, 2003, p. 283). Research on emerging economies therefore has pushed the frontier of IT research, by providing a variety of initial answers to these relevant but largely unresolved questions (Hitt, 2003; Meyer and Peng, 2004). Similarly, while few scholars (even among non-institutionalists) would debate the basic proposition that 'institutions matter', *how* they matter remains a subject of considerable debate.

In addition to the importance of IT, it is also clear that RBT has continuing importance as a theoretical perspective, especially with respect to the need to understand the learning mechanisms and the barriers to learning in emerging economy firms. As we have shown, learning issues relate to all four broad strategic options. We suggest that there is a need both to develop the learning aspect of RBT in relation to emerging economies and to consider its integration with other conceptual perspectives such as IT to identify complementarity and substitution effects. The changing nature of both institutional contexts and of learning processes in emerging economies suggests a need to develop a co-evolutionary perspective (Volberda and Lewin, 2003). The paper by Meyer and Nguyen presented here provides some analysis of the issues involved. A co-evolutionary perspective may provide insights into the processes that facilitate and constrain the ability of firms in emerging economies to develop their competitive advantage.

It is clear both from our review of previous literature and from the papers presented here that most research has focused on two of the four broad strategies identified earlier: foreign firms entering into emerging economies and domestic firms competing in emerging economies. There is relatively little research on the internationalization of emerging economy firms either into other emerging economies or into developed economies (only the Brouthers et al. paper in this Special Issue deals with these issues). As emerging economies develop and firms within them develop their expertise, we suggest that firms from these economies will increasingly take an active interest in developing their strategies outside the home market. For example, the entry of some transition economies into the EU has major implications for the ability of firms based in these transition economies to access other developed markets. As such, there is likely to be a growing need for research that addresses issues concerning these two strategic options focusing on the internationalization of firms based in emerging economies. An important aspect of this research seems likely to be consideration of the differing role of social capital and networks in entering other emerging economies versus entering developed economies.

Our main focus here has been to highlight issues concerning entry, but a further dimension concerns the adoption and implementation of strategies to grow firms once entry has occurred. This raises research questions such as, how do domestic

and foreign firms' strategies compare within emerging markets? How do domestic firms react to the strategies of foreign firms? To what extent does this behaviour differ in comparison with foreign and domestic firms in developed markets? Moreover, there is also a need to understand the dynamics of strategies of firms entering emerging markets. The problems of asymmetric information in emerging economies may lead new entrants to reconsider their strategy once they appreciate the real extent of market conditions. Also, firms entering through acquisition may find that they purchase businesses that contain parts that they do not want. For example, in 2000 Pernod Ricard of France acquired a large Polish group with diverse drinks activities that contained a fruit juice business that was not considered part of its core spirits business. This business was divested to the regionally-based private equity firm Enterprise Investors who saw synergies with an existing juice company in its portfolio. This example raises interesting research issues concerning the configuration of foreign and domestic-owned business groups in emerging economies, as well as the nature of reconfiguration of business groups put together under a former institutional regime when the institutional environment, transaction costs and governance aspects change.

Implementing effective corporate governance is a major issue in emerging economies. Another gap in existing knowledge is associated with understanding the governance effects of domestic and internationalization strategies of firms in emerging economies. An integration of IT and AT may provide a novel framework that can be used as a heuristic lens in research on these important issues.

With respect to the empirical methods used in emerging economies, the greater problems regarding access to reliable archival data and the conduct of questionnaire surveys in emerging as compared to developed economies are well-known (Estrin and Wright, 1999; Hoskisson et al., 2000; Tan and Peng, 2003). The dynamic nature of emerging economies also challenges the role of cross-sectional studies. As emerging economies progress, a central question concerns the extent to which it is feasible to overcome these problems to conduct reliable, archival based longitudinal research. There are encouraging signs from the papers presented here that it is now feasible to address some of these difficulties. A number of studies use archival in conjunction with other data sources: Meyer and Nguyen; Chung and Beamish; Child and Tsai; Zhao et al.; and Yiu et al. However, papers using longitudinal data are still scarce. Such research is largely confined to qualitative case studies while few databases as yet offer reliable longitudinal data.

While research on strategy in emerging economies has grown, coverage of countries and regions has been uneven. Hoskisson et al. (2000) noted the general absence of research on emerging economies in South America, Africa, and the Middle East. The growing body of research on strategies in South America (Aulakh et al., 2000), has not been matched by research on Africa and the Middle East. Given the importance attached to institutional issues, additional research on these regions is to be welcomed. A further issue remains the need to examine the

dimensions of the heterogeneity of emerging economies. It is not clear whether experience from centrally planned economies in transition applies to those emerging economies that have not followed this trajectory (and if such experience can be generalized elsewhere, what their limitations are). There are also vast differences in size and structural composition among all emerging economies, which may affect their attractiveness for foreign entry as well as the nature and feasibility of expansion of firms from these emerging economies into other countries. Further research might usefully consider this heterogeneity by incorporating samples of firms from multiple emerging economies (see Hitt et al., 2000 and Brouthers et al. in this issue as examples).

Research has also been uneven in terms of the industrial sectors within emerging economies that have been examined. In particular, little distinction has been made between manufacturing and service sectors. Research on internationalization is increasingly recognizing that there are important differences between these two sectors in terms of their influence on crucial strategies such as foreign market entry (Brouthers and Brouthers, 2003). Further research might usefully consider differences in firm behaviour as between manufacturing and service sectors. For example, while former centrally planned economies were especially focused on manufacturing industries, services – especially financial services – were neglected. Similarly, the need to develop a service financial sector is also a key aspect of emerging economies generally.

Finally, as the pattern of emergence shows considerable diversity between firms and between economies, there is the growing challenge to understand such diversity. We suspect that a major route forward will be to develop interactions between different theories and in particular that between learning and institutional factors.

In conclusion, for the same reason that strategy practice in emerging economies pushes the frontier in strategic thinking, strategy research with a focus on these emerging economies, both as an opportunity and as a necessity, is challenging conventional wisdom in academic thinking and theories in significant ways. To the extent that emerging economies are fertile grounds not only for testing existing theories but also for developing newer ones, these endeavours are likely to greatly enrich the strategy enterprise globally. We are confident that a new generation of scholarship pursuing some of the future research questions outlined in Table II will widen the trail blazed by the papers included here.

## NOTES

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- [1] These 64 countries (in alphabetical order) are: Albania, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, Chile, China, Colombia, Cote d'Ivoire, Croatia, Czech Republic, Ecuador, Egypt, Estonia, Georgia, Ghana, Greece, Hungary, India, Indonesia, Israel, Jamaica, Jordan, Kazakhstan, Kenya, Korea, Kyrgyzstan, Latvia, Lithuania, Macedonia, Malaysia, Mauritius, Mexico, Moldova, Morocco, Nigeria, Pakistan, Peru, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Slovakia, Slovenia, South Africa, Sri Lanka, Taiwan, Tajikistan, Thailand, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Ukraine, Uzbekistan, Venezuela, and Zimbabwe.
- [2] K. Uhlenbruck, personal communication, 7 January 2004, as quoted in Meyer and Peng (2004).
- [3] Previous research has shown that this type of expropriation can also happen in developed economies such as Italy (Zingales, 1994), Japan (Weinsten and Yafeh, 1998), Sweden (Bergstrom and Rydqvist, 1990), and the United States (Barclay and Holderness, 1989).

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