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How to Survive in Developed Economies? An Environment Partitioning Perspective for Emerging Market MNEs

Abstract

- **How do emerging market MNEs survive in developed economies wherein global incumbents are rooted? This paper endeavors to fill this void in the IB literature. We argue that emerging market MNEs need to achieve local effectiveness and legitimacy by leveraging both home country competitive advantages and institutional embeddedness. The long term viability of these new comers lies in (1) the co-evolving relationships between the host and home country environments at both technical and institutional levels, and (2) the co-evolving balance between strategic independence and institutional embeddedness in the home countries. We elaborate on scholarly and practical implications at the end.**

Key Results

- **We develop an environment partitioning perspective based on the distinction between technical and institutional environments on one hand, and the demarcation between host and home country environments on the other hand.**
- **Applying our theoretical perspective, we put forward a set of propositions to articulate that the survival of emerging market MNEs in developed economies depends upon local effectiveness and local legitimacy which are in turn affected by these MNEs' home country competitive advantages and institutional embeddedness.**
- **We conduct two detailed case studies on Huawei and TCL, two leading Chinese MNEs. The results largely validate our propositions.**

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Introduction

Are emerging market multinational enterprises (EM MNEs) doomed to struggle in developed economies (DEs)? Wells (1998) observed that “many of the upstream—[from poorer countries] to richer countries--investments failed, or at least did not grow...[because many of these investments] were not based on some kind of competitive advantage...” (P.112) Similarly, Nolan (2001) doubted if EM MNEs could ever mount a serious challenge to traditional MNEs without government sponsorship. The withdrawal from the U.S by Huawei in 2003 and the difficulties faced by TCL after the 2004 partial acquisition of the French Thomson Electronics are anecdotal evidence supporting such conventional wisdom.

Indeed, despite the increasing presence in the global arena, EM MNEs---with the exception of a few “superstars” such as Cemex, Tata, Huawei and Lenovo---are much less visible than the traditional MNEs from North America, Western Europe and Japan.

Scholars have recently studied the internationalization motives and patterns of EM MNEs to assess the adequacy of the extant MNE theories, notably the OLI paradigm and internalization theory (e.g., Child/Rodriguez 2005, Luo/Tung 2007, Yamakawa/Peng/Deeds 2008). The success of EM MNEs, however, has rarely been addressed (Lau/Bruton 2008, Luo/Rui 2009). In particular, the survival or the continued presence of EM MNEs in DEs, one of the few unique issues for EM MNEs vis-à-vis traditional MNEs, has been neglected.

Granted that the main stream FDI of EM MNEs has taken place in emerging and developing economies, the FDI of EM MNEs in DEs has already accounted for 20% of total outward FDI from emerging economies (Yamakawa et al. 2008). Thus, it is important to examine how EM MNEs may enhance their survival likelihood in DEs. This paper endeavors to develop an environment partitioning perspective to address this “how” question to fill a void in the extant literature on EM MNEs.

Our theoretical perspective is rooted in the open system organization theories which distinguish between technical and institutional environments (Scott 1998). The technical environment affects firm survival because a firm's continued existence relies upon the effective exchange of resources, information and personnel with external stakeholders such as customers, suppliers, creditors, competitors etc (Pfeffer/Salancik 1978). The institutional environment matters because the firm must conform to external collective norms, beliefs and rules to gain legitimacy (Meyer/Rowan 1983).

The development of our perspective is also in tune with the recent emphasis on the dynamic interplay between MNE activities and the institutional environment in the sense that we not only stress the adaptation of the firm to the institutional environment but also take into account the possible firm agency (Cantwell/Dunning/Lundan 2010).

More specifically, we share the same contention with some other scholars that the home country institutional environment perhaps plays a unique role in the internationalization of EM MNEs (Child/Rodriguez 2005, Luo/Rui 2009, Peng/Wang/Jiang 2008, Del Sol/Kogan 2007). Consistent with North's (1990) institutional view, EM MNEs not only have deep roots and development opportunities in the high-growth emerging economies, but also tend to play different "rules of the game."

This paper makes the following contributions. First, we articulate an environment partitioning perspective based on the distinction between technical and institutional environments on one hand, and the demarcation between host and home country environments on the other hand. We argue that EM MNEs need to achieve both local effectiveness and local legitimacy by, *inter alia*, leveraging their home country competitive advantages and institutional embeddedness (i.e. embeddedness of business in the social and economic relations of a society, including the constraints that governmental and other agencies impose on business actions) (Child/Rodriguez 2005, Granovetter 1985).

Second, we elaborate on three co-evolving relationships that EM MNEs need to establish to facilitate their long term survival in DEs: (1) the co-evolving integration between host country and home country technical environments, (2) the co-evolving reconciliation between host country and home country institutional environments, and (3) the co-evolving balance between strategic independence and institutional embeddedness in the home country.

Third, we present two EM MNE case studies in the Chinese context to illustrate our arguments and explore the implications for scholars, managers and policymakers.

In the following sections, we first develop our environment partitioning perspective. Then, we apply the conceptual framework and put forward several propositions in the context of EM MNEs. We discuss the scholarly and practical implications and draw our conclusions.

Survival of FDI: An Environment Partitioning Perspective

The survival of FDI, defined as the continued presence of FDI in the host countries (Li 1995), has been extensively tested in the IB field (Kronborg/Thomsen 2009). The OLI paradigm (Dunning 1980), internalization theory (Buckley/Casson 1976, Rugman 1981), the incremental organizational learning perspective (Johanson/Vahlne 2006) and the notion of liability of foreignness (Johanson/Vahlne 2009, Zaheer 1995) have primarily been invoked to address the impact on the FDI survival of ownership-specific advantages (or intangible assets), entry modes, experience, and cultural/institutional distances (Delios/Beamish 2001, Gaur/Lu 2007, Li/Guisinger 1991, Meyer/Estrin/Bhaumik/Peng 2009, Meyer/Sinani 2009). However, the majority of the studies have targeted the traditional MNEs from North America, Western Europe and Japan.

Are these received theories adequate for explaining the survival of FDI from EM MNEs in DEs? We concur to the scholars such as Child and Rodriguez (2005) and Mathews (2006) that the extant theories

should be modified to be applicable to EM MNEs because of, *inter alia*, their lack of emphasis on the interplay between MNEs and institutional environments (Cantwell et al. 2010).

If we acknowledge the growing consensus that the variations and complexities of business environments distinguish between domestic firms and MNEs as reflected in the notions such as liability of foreignness (Hymer 1976, Zaheer 1995), the geovalent elements (Guisinger 2001), and the institution-based view (Kostova/Zaheer 1999, Peng/Zhou/York 2006, Westney 1993), a theoretical framework addressing the survival of FDI ought to focus on international business environments.

The institutional theory-oriented IB scholars have long argued that foreign operations face competing isomorphic pulls from the host and home country environments. To deal with the dual environmental influences properly is critical for FDI to survive and grow (Rosenzweig/Singh 1991, Westney 1993, Witt/Lewin 2007). The economics-based IB scholars, though much less environment-oriented, also stress (host and home) country location advantages for MNEs (see Dunning's JIBS decade award winning article 1998, Rugman/Verbeke 2000). Thus, a distinction between the host and home country environments should be incorporated in a theoretical framework to explain the survival of FDI.

The open system organization theories (e.g., resource dependence theory and institutional theory) distinguish broadly between institutional and technical features of environments. "The institutional elements encompass the more symbolic, cultural factors affecting organizations; the technical, the more materialist, resources based features." (Scott 1998, p. 131) The separation between technical and institutional environments is important for examining the survival of FDI because an FDI must not only play an effective role in managing interdependence with stakeholders (the technical level) (Pfeffer 1976) but also conform to the formal and informal institutions or at times try to influence "rules of the game" in order to gain legitimacy and resources needed to survive (the institutional level) (DiMaggio/Powell 1983, Meyer/Rowan 1983, North 1990).

In sum, the above arguments indicate that an FDI is faced with two major environmental spaces, namely, a (new and uncertain) host country environment and a (familiar) home country environment. Each environmental space may be stratified into two levels, i.e., a technical (or task) environment wherein operating effectiveness is imperative and an institutional environment wherein legitimacy takes the center stage which does not relate strictly to price, quality or efficiency (Pfeffer 1976). Thus, a two dimensional international business environment partitioning framework can be created (see figure 1).

Insert Figure 1 about here

The four quadrants in the framework represent four necessary conditions to be satisfied in order for an FDI to survive in the long run. First and foremost an FDI needs to be operationally effective in managing its business (e.g., achieving efficiency and product quality) in the host country (quadrant I). Second, it needs to adapt to the host country institutional environment to establish local legitimacy (quadrant II). Third, the long term survival of an FDI may have a lot to do with whether the corporate parent has obtained home country competitive advantages (Falvey/Greenaway/Yu 2007) (quadrant III). Finally, it is necessary for the corporate parent to establish home country institutional embeddedness, which affects the company's ability to raise financial capital, get access to labor market, solicit government supports etc (quadrant IV). As will be elaborated in the next section, this environment partitioning perspective is instrumental in discussing the survival of EM MNEs in DEs.

Propositions

To apply the environment partitioning perspective to addressing the survival of EM MNEs in DEs, we need to delineate briefly the unique context for EM MNEs. First, EM MNEs are typically faced with a home country environment wherein the institutional environment is tightly intertwined with the technical environment of the business in many informal ways or through a close "relational framework" (Child/Rodriguez 2005). To invest and survive in DEs where the formal institutions (laws, regulations)

are dominant, EM MNEs would have to cope with a challenging transition which differs considerably from the typical one experienced by traditional MNEs from their home countries to the host countries.

Second, unlike traditional MNEs which are normally poised to exploit their ownership-specific advantages abroad, EM MNEs, regardless of their internationalization motives, need to acquire and build ownership advantages in DEs to offset their international competitive disadvantages as latecomers (Luo/Tung 2007, Luo/Xue/Han 2010). The effectiveness for EM MNEs to accrue new ownership advantages in DEs (host countries) depends considerably upon their home country competitive advantages (in terms of strong market position, cost-effective operation, relational capabilities etc) as well as their institutional embeddedness at home (reflected in institutional supports and/or constraints).

Last but not least, EM MNEs need to manage the balance between their strategic independence and entrepreneurship (typically underscoring their home country competitive advantages), and the degree of their institutional embeddedness (Child/Rodriguez 2005).

The above-mentioned contextual elements complement our environment partitioning perspective to direct the following proposition development which aims at articulating the conditions and mechanisms critical to the survival of EM MNEs in DEs (see figure 2).

Insert Figure 2 about here

Local Effectiveness

The host country technical environment (Quadrant I) is comprised of the local business stakeholders (e.g., customers, suppliers, competitors) who are primarily driven by economic interests. To achieve local effectiveness at a reasonable pace, many EM MNEs rely on some existing competencies to generate local stakeholder value through delivering quality products and services at competitive prices. Relative to the indigenous rivals in DEs, EM MNEs tend to have some advantages in operational efficiency derived from the low cost structure and entrepreneurial flexibility (Luo/Rui 2009). Haier, a

major Chinese manufacturer of household appliances, for example, capitalized on its competitive pricing on lower end but reliable products such as small freezers and wine cellars in penetrating the U.S market.

Proposition 1a. EM MNEs are likely to realize local effectiveness and thus to survive in DEs if they focus on operational efficiency (i.e., value delivery at a competitive price).

In contrast with traditional MNEs, EM MNEs typically lack absolute ownership-specific (non-location bound) advantages to compensate the costs of doing business abroad (Hymer 1976). Thus, it is critical for them to leverage their home country competitive advantages such as strong market position, cost-effective operational facilities, and relational capabilities (Luo et al. 2010) in order for their operations in DEs to enhance local effectiveness. Falvey et al. (2007) used economic modeling to demonstrate that the corporate parents with higher productivities (i.e., higher marginal output per unit input) can help to increase the survival probabilities of their foreign operations. Li, Lin and Arya (2008) argued that social (relational) capital in the home country could help EMs-based firms to develop and maintain their strategic importance in dealing with global rivals.

It is also well documented in the business presses that the EMs-based firms have been able to make successful foreign market entry when they have achieved competitive advantages in their home country markets. For example, Lenovo, the leading Chinese PC manufacturer entered the U.S and European markets after it had become a clear market leader in the home market with nearly 30% of market share in late 1990s (compared to the combined market share of 12% of HP and IBM). Even prior to the acquisition of IBM PC division, Lenovo's North American and European operations already accounted for over 10% of its total sales and profits in 1999 (Lenovo annual report).

Proposition 1b. EM MNEs are likely to enhance local effectiveness and thus to survive in DEs if they have achieved competitive advantages in their home country markets.

To boost their local effectiveness in DEs, not only can EM MNEs capitalize on their home country competitive advantages but also their institutional embeddedness at home. According to the open system perspective of organization theory, firms can exert proactive influences on external environments (Scott 1998). Some scholars have recently suggested that one of EM MNEs' unique strategic behaviors is to forge co-evolving relationships with home country institutions so as to induce government support and promotion of their FDIIs (Luo/Rui 2009, Luo et al. 2010). Similarly, Child and Rodriguez (2005) stated that Chinese firms undertaking outward FDIIs often leveraged "government sponsorship and financial underwriting to secure other advantages through purchase and associated opportunities to learn."(p. 403) They further posited that Chinese firm internationalization (or for that matter, EM firms in general) might have reflected both strategic choices of the firms and institutional embeddedness in terms of following government mandates for economic development. Indeed, some Chinese MNEs seemed to "have found ways of co-opting political support..." (p. 403)

Proposition 1c. EM MNEs are likely to enhance local effectiveness and thus to survive in DEs if their institutional embeddedness in the home country is conducive to its internationalization, (which can be expected when their international expansion is consistent with the government development agenda.)

Local legitimacy

The host country institutional environment (Quadrant II) refers to political and legal structures as well as the norms governing market behaviors in the host country (Scott 1998). According to institutional theory, conformity to the norms and social expectations of institutional environment improves an organization's survival chance significantly (e.g., Meyer/Rowan 1983). The resource dependence theory also acknowledges the importance of favorable exchange relationships for firms to gain competitive advantages (Pfeffer 1976). Thus, a major goal of foreign subsidiaries is presumed to achieve local legitimacy, which can be defined as a generalized perception that actions of foreign subsidiaries are desirable and appropriate in the local context (Zimmerman/Zeitz 2002). In a similar vein, Rindova and

Fombrun (1999) pointed out the importance of interpretations of the constituents in the environment related to reputation, performance standards and evaluation of firms. They contended specifically that “favorable interpretations are a source of [competitive] advantage.”(Rindova/Fombrun 1999, p. 695)

For EM MNEs in DEs, it is a challenging task to gain favorable interpretation or legitimacy because of the conventional image of inferior economic and social situations in EMs in contrast with DEs. For example, many consumers in DEs still perceive the products from EMs to be of low quality (Bartlett/Ghoshal 2000). Nonetheless, there are some potential approaches which may help EM MNEs to gain local legitimacy in DEs.

First, it may hire local professionals with international experience or partner with mainstream distributors or OEM customers in the form of joint ventures or alliances (Pfeffer 1976, Scott 1998). Second, it can boost local acceptance and institutional support by providing employment opportunities and making local purchases. Third, it may try to issue stocks in the host country stock exchanges or get access to the host country capital market by other means. This is not only important for financing its operations in the host country but also substantially enhances its local legitimacy because of the general belief that publicly listed or locally financed companies have high credibility and accountability.

Proposition 2a. EM MNEs are likely to achieve local legitimacy and thus to survive in DEs if they immerse themselves in the mainstream business communities.

Many EM MNEs preceded their outward FDIs with exports and/or “inward internationalization” by collaborating with traditional MNEs which had entered their home countries. For example, TCL, a leading Chinese consumer electronics firm, achieved rapid growth of exports prior to its FDIs. Alternatively, Lenovo formed extensive partnerships with leading MNEs such as IBM, Toshiba, Intel, and Microsoft in China prior to its outward internationalization. These partnerships contributed greatly

to the accumulation of Lenovo's tangible and intangible assets (Li et al. 2008). More importantly, such relational capital was leveraged to naturally extend Lenovo's business to foreign countries.

Proposition 2b. EM MNEs are likely to enhance local legitimacy and thus to survive in DEs if they have achieved home country competitive advantages through exports to these DEs or prior partnerships with the MNEs from these DEs.

With few exceptions, EM governments have recently tried to urge home-born MNEs to expand abroad and develop global competitive advantages. They have been eager or willing to offer various institutional supports, including advising services through government agencies (e.g., Chamber of Commerce), bilateral or multilateral frameworks to liberalize investment conditions in host countries, assistance in dealing with host country government or legislative institutions, and conformity with international agreements such as WTO protocols (Luo/Rui 2009, Luo et al. 2010). Collectively, the above-mentioned institutional supports can help EM MNEs to remove obstacles and thus enhance local legitimacy in DEs. Certainly, the availability of such government sponsorships would depend upon the institutional embeddedness of the EM MNEs in their home countries.

Proposition 2c. EM MNEs are likely to enhance local legitimacy and thus to survive in DEs if their institutional embeddedness in the home country is conducive to its internationalization, (which can be expected when their international expansion is consistent with the government development agenda.)

Survival-enhancement Co-evolving Mechanisms

IB scholars have recently shown tremendous enthusiasm about the notion of co-evolution (Cantwell et al. 2010, Luo/Rui 2009). Drawing upon North's (2005)'s concept of non-ergodic uncertainty, Cantwell et al. (2010) argued that the increasingly complex interconnections and interdependence among MNEs, other firms, home and host governments greatly enhanced the sense of unpredictability in IB activities, which tend to encourage MNEs to engage institutional entrepreneurship (or the continuous experimentation and adaptation of institutions that sustain value-added business activities). In other

words, MNEs would favor open network structures which provide flexibility in adapting to the changes in institutional environment, which is in tune with evolutionary economics (Nelson 1994). In a similar vein, Luo and Rui (2009) proposed that EM MNEs needed to leverage ambidexterity to overcome competitive disadvantages as late comers in the global competition. Essentially, these scholars have stressed the need for MNEs to forge co-evolutionary relationships with local institutions.

In line of this co-evolutionary perspective, we contend that EM MNEs can establish three co-evolving mechanisms to enhance their long term survival in DEs: (1) the co-evolving integration between host country and home country technical environments, (2) the co-evolving reconciliation between host country and home country institutional environments, and (3) the co-evolving balance between strategic independence (associated with technical environment) and institutional embeddedness in the home country.

Co-evolving Integration

Regardless of the market entry motives, the affiliates of EM MNEs in DEs are typically “mandated” to acquire and explore strategic assets from the host countries. Often times they endeavor to gain access to the state of art technology, financial and human capital in DEs, which helps enhance the competitive advantages of the corporate parent. For example, through M&As and partnerships in DEs, Lenovo and Tata have accelerated its paces to improve product development and penetrate new markets (Deng 2009, Duysters/Jacob/Lemmens/Jintian 2009, Liu 2007).

Moreover, the affiliates of EM MNEs in DEs can sense the market trend and/or generate lead market effects to strengthen the parent companies’ market positions at home. Haier, for example, deliberately tested its refrigerators in the U.S market and surprisingly won a “five star diamond” quality award, which solidified its market position and reputation in China.

The above-noted enhancement of the competitive advantages of the corporate parent can in turn contribute to the local effectiveness of EM MNEs in DEs.

In contrast to traditional MNEs which have the propensity to pursue “internalization” to maximize the exploitation of the existing ownership advantages, which more often than not backfires due to the well-known “subsidiary-headquarters” problem of morale (Mathews 2006), EM MNEs notably try to establish a long term reciprocal interdependence between the parent company and the affiliates so that the local initiatives and global coherence can co-exist. Acer’s global cluster of semi-autonomous businesses is one of those cases. For our purpose here, we contend that such a reciprocating mechanism can be called co-evolving integration which effectively bridges the developed host country and the home country technical environments in the long run. In sum, the overall scarcity of resources and capabilities seems to mandate that EM MNEs rely on such a co-evolving relationship between the host and home country operations so as to capitalize on both resource exploitation and exploration to accrue long term competitive advantages. This line of reasoning leads to the following proposition:

Proposition 3. EM MNEs are more likely to survive in DEs if they establish a co-evolving integration mechanism between the host and home country technical environments.

Co-evolving Reconciliation

As noted previously, EM MNEs need to achieve local legitimacy (i.e., conforming to the institutions) to survive in DEs. Considering that typical EM MNEs are institutionally embedded in their home country environments (Westney 1993), some tensions can easily be detected between the host and home country institutional environments due to the disparities of norms and rules. The increasing prevalence of regional and global multilateral agreements (e.g., NAFTA, EU, ASEAN+3 RTA, WTO) can be instrumental for identifying the common grounds or compatible traits between different institutions. Also it is possible for EM MNEs to relocate its corporate headquarters to dilute the notion of the country

of origin so that the institutional discordance can be mitigated. Lenovo, for instance, moved its official home office to the U.S after its acquisition of IBM PC division and hired an American executive to manage its global operation, which enhanced its local legitimacy. Interestingly, this strategic move didn't affect Lenovo's institutional embeddedness in China. Recently Lenovo has shifted its focus back to China without any disturbance in the surrounding institutional environments. The co-evolving reconciliation at the institutional level seems to be helpful for the survival of EM MNEs in DEs.

Proposition 4. EM MNEs are more likely to survive in DEs if they establish a co-evolving reconciliation mechanism between the host country and home country institutional environments.

Co-evolving Balance

In EMs, the institutional environment tends to be tightly intertwined with the technical environment. The business activities in general and the firm internationalization in particular have been subject to the government administrative guidance and societal coordination for a long time (Witt/Lewin 2007). However, it has been noted that some EMs-based firms may have learned to be accommodating to the strong institutions in novel ways to retain the latitude to pursue the strategies of their own choosing, a practice in line with “institutional entrepreneurship” (Cantwell et al 2010). As Child and Rodriguez (2005) pointed out insightfully, “the interaction between the institutional legacies of developing economies and the dynamic capabilities of their [corporations] will be crucial for understanding the internationalization strategies that the latter pursue.” (p. 405) Researchers have suggested that such an interaction should be a co-evolutionary process in which EM MNEs adapt to and influence the institutional environment at home in a balanced fashion so that the latter can be stimulative to EM MNEs' global reach rather than impose a path dependency (Lewin et al. 1999, Luo/Rui 2009).

Proposition 5. EM MNEs are more likely to survive in DEs if they realize a co-evolving balance between strategic independence and institutional embeddedness in their home countries.

Case Studies

Since there is very limited literature on the survival of EM MNEs in DEs, the case study approach is useful for feeding insights into the theory building process (Eisenhardt/Graebner 2007). We rely on two detailed case studies of two Chinese MNEs (i.e., Huawei and TCL) to examine the validity of our theoretical arguments. These two companies were selected because on the one hand, they met our two main criteria: (1) a relative long history of international expansion (at least eight years) and (2) experiences of investing and operating in DEs, and on the other hand, they granted our access to senior managers for collecting primary information.

We interviewed fifteen senior managers of Huawei at its headquarters in Shenzhen, China, and Dallas, Texas, U.S., and eleven senior managers of TCL at its headquarters in Huizhou and Shenzhen, China during the past two years. These managers' functional departments include R&D, sales, marketing, and human resources management. In all the interviews, we asked a series of closed and open-ended questions to collect information.

A number of follow-up interviews were undertaken through e-mails and phone calls for clarification and additional inputs. In addition, the archival data based on news releases, annual reports and public business publications are searched to supplement our primary research.

Taken together, these sources provide a decent amount of information for us to conduct a series of independent experiments to validate our theoretical arguments (e.g., Duysters et al. 2009, Lee/Slater 2007, Li 2007).

International Expansion: Huawei and TCL

Huawei and TCL were both incorporated in Guangdong province, one of the frontiers of China's economic reforms. Both companies established their leading market positions in China by the turn of the new Millennium. Their enormous domestic success became a harbinger for their ambitious international

expansion, especially after China's accession to the World Trade Organization (WTO) in December 2001. However, both companies somehow suffered from their aggressive market entry into the developed economies (DEs) and learned some tough lessons. Table 1 provides an overview of the two companies and their respective international expansion.

Insert Table 1 about here

The Case of Huawei

Established in 1988 with a loan of US\$9 million and 30 employees, Huawei has become the second largest telecom equipment provider worldwide within two decades.¹ In 2009, the company generated the revenue of US\$21.5 billion and was serving 31 of the world's top 50 telecommunication carriers. Amid the global economic meltdown, Huawei outperformed most of its Western rivals such as Alcatel-Lucent, Cisco, Ericsson, Motorola, and Nortel (Nortel filed for bankruptcy protection in 2009).²

Business Week included Huawei as one of the "World's 10 Most Influential Companies" in 2008 while *Fast Company* listed Huawei as No. 5 "Most Innovative Company" in 2010.³ With 75% of its sales from outside of China in 2008, Huawei is a remarkable example of EM MNEs. The company first built and nurtured its competencies to dominate the low-end domestic market and then was engaged aggressively in the global competition as a late comer.

Notably, Huawei has allocated an annual R&D budget accounting for 10% of its revenue. 48% of its 87500 employees are dedicated to R&D activities. In 2008, Huawei applied for the largest number of patents in accordance with World Intellectual Property Organization (WIPO) Patent Cooperation Treaty (PCT).⁴ The company also joined 83 international standard organizations and actively participated in international standard-setting.

Huawei's international expansion, however, was filled with challenges and struggles. As a private company competing with state-owned enterprises and foreign invested firms in the Chinese context,

Huawei embraced a so called “wolf spirit” which is characterized by sensitiveness, aggressiveness and persistence in “attack”.

With a domestic sales growth of 85% in 2000, Mr. Ren Zhengfei, the CEO, sensed an imminent stagnation in the Chinese telecom market. He made a bold decision to sell Avansys Power Co., Huawei’s fast growing subsidiary, to Emerson for US\$750 million, and initiated a large-scale attack on the global markets. His first main target was the United States.

In 2001, Huawei adopted a very aggressive marketing strategy, selling its products at a price 30% lower than the market and in so doing, directly challenged Cisco’s dominance in the U.S.

In 2003, after Huawei turned down its proposal for cooperation, Cisco brought up a lawsuit of intellectual property rights (IPRs) infringement to prevent Huawei from selling its products in the United States.⁵ Allied with 3com, Huawei reached a settlement with Cisco six months later, and withdrew almost all of its products from the U.S market.

Huawei decided to shift its focus to the EMs and EU markets. The deregulation wave around the world helped Huawei obtain businesses in both EMs and the EU markets. Many low-budget EM carriers were attracted to Huawei’s low-cost, high-quality products and were apparently not bothered by its alleged IPR problems. The company also won the first national network contract from France’s second-largest fixed-line telecom carrier, LDCOM Networks in 2003, and joined the “short list” of British Telecom’s 21st Century Network planning in 2004. In addition, Huawei won the first global commercial contract to supply equipment for an advanced "fourth-generation" (4G) LTE mobile network in Norway.

Huawei learned a lesson from Cisco’s lawsuit and scaled up its patent applications worldwide. Since 2004, it has achieved a rapid growth in registered patents with the US Patent and Trademarks Office (USPTO). In China, Huawei has been ranked No. 1 in the number of patent applications for consecutive

years. According to WIPO, Huawei became the world's largest patent applicant with 1,737 applications published in 2008.

After a failed market attacks in the international arena, Huawei realized that it could not win the global game as a lone wolf. Consequently, Huawei changed its predatory attitude and began to stress cooperation with established telecom equipment suppliers. Since 1999, Huawei has established joint R&D labs with Texas Instruments, Motorola, IBM, Intel, Agere Systems, Sun Microsystems, Altera, Qualcomm, Infineon, and Microsoft.

After resolving the IPR issue with Cisco, Huawei reentered the United States. It opened a 4G wireless technology lab in Richardson, Texas, in July 2009. Subsequently, it won a contract from Cox Communications and Clearwire, the largest WiMAX operator in the United States.⁶

Nevertheless, there were still lingering problems. For example, Huawei partnered with Bain Capital, a private equity firm, to take over 3Com in 2007. The acquisition failed to pass the national security review by the Committee on Foreign Investment in the United States (CFIUS) and thus had to be abandoned in 2008.

The Case of TCL

Founded in 1981 under the direction of the municipal government of Huizhou, Guangdong Province, TCL was a locally controlled state-owned enterprise. The name, TCL, comes from the English phrase "The Creative Life", which symbolizes a new contemporary lifestyle that the company was trying to embrace. Through a partnership with a Hong Kong-based company in manufacturing telephones and by the subsequent entry into the TV sector, TCL quickly became a top Chinese brand thanks to its innovative marketing practices. In 2002, TCL went through a drastic restructuring process. After the local government sold 18% of its ownership to foreign strategic investors such as Toshiba, Sumitomo,

Philips etc, TCL listed its TV assets in Hong Kong, and went public as a holding company on the Shenzhen Stock Exchange, China in 2003.

Today, TCL is engaged in multimedia electronics, mobile communications, and digital electronics businesses worldwide. It is the second largest consumer electronics company in China and the world's largest TV vendor. Its global operations include 14 factories, 6 design centers, and over 45 major sales agents located across the EU, the U.S, Russia, Vietnam, Malaysia, Indonesia etc. Its foreign sales accounted for 44.62% of total sales in 2008.

TCL's international expansion, however, suffered from some tremendous setbacks. The company started an ambitious internationalization program called the "Dragon and Tiger Plan" in 1999. It set a strategic goal to become a global Top 500 firm with multiple brands. It set up a new factory in Vietnam in 2000, and expanded the business in Malaysia, Indonesia and Russia in 2001. The company's global expansion reached its climax in 2004 when it decided to acquire Alcatel's mobile phone business, and create a global joint venture TTE (TCL-Thomson Electronics) with the French Thomson Electronics Corp., the world's biggest TV maker.

The establishment of TTE, unfortunately, proved to be a costly move. In 2005, the European color TV market experienced a dramatic change with the traditional CRT TV being replaced by the flat-panel TV at an alarming speed. With a product line dominated by the outdated products manufactured in the European factories, TCL incurred a substantial loss of 203 million euros in 2005-06. TCL had to close seven subsidiaries in Europe, including the regional headquarters in France. After writing off 45 million euros for employee relocation and service termination, TCL found itself to only keep the OEM/ODM business in Europe.

TCL decided to revamp its international expansion strategies. First, the company shifted its focus back to the Chinese domestic business to tap into the huge potential LCD TV market. Second, it sought

to redesign the manufacturing process and cut costs to become a major OEM supplier in the EU and U.S markets.⁷ Compared to the gross margin of 22.3% in the domestic market, the OEM business generated a gross margin of only 13.3%, but it was still better than 12.9% from the sales of its own branded products in Europe and North America in 2007.⁸ Third, TCL endeavored to develop its own brand in the emerging markets, especially the key Southeast Asian markets. Finally, TCL attempted to build partnerships with major global players to explore new business opportunities. In 2008, TCL formed a strategic alliance with Intel to develop next-generation Internet-capable televisions.⁹ The adjustment of its strategies and the restructuring of its businesses paid off. TCL returned to profits in 2007-08.

Case Discussion

The Huawei and TCL cases help illuminate the critical effects of local effectiveness and local legitimacy on the survival of EM MNEs in DEs. The experiences of the two companies are also enlightening as to the roles of the three co-evolving mechanisms that we articulated earlier. Table 2 is a summary of the case evidence in light of our propositions.

Insert Table 2 about here

Local effectiveness: The TCL's Lessons

The setback of TCL in the EU markets was in part due to the company's neglect of local effectiveness. Prior to the initiative of TCL-Thomson Electronics, TCL achieved its competitive advantages in China (the home country market) and some other EMs owing to its product quality and operational efficiency. The pursuit of Thomson's CRT technology and brand name (a strategic-assets seeking behavior) as well as the focus on the high-cost European operations were essentially oblivious of TCL's existing competencies as a leading provider of low-cost quality products. The fact that the CRT technology became outdated seemed to aggravate the disadvantages of TCL being an EM MNE engaged in the competition in DEs.

The near collapse of its European operations forced TCL to refocus on its operational efficiency and its home country competitive advantages and consequently helped sustain and improve its OEM/ODM business in the EU markets.

Local Legitimacy: The Huawei's Lessons

Huawei's initial failure in the U.S can be attributed to its neglect of local legitimacy. Emboldened by its competencies of offering quality products at very competitive prices, Huawei seemed to take it for granted that it could penetrate the U.S market the same way as it had done it in the domestic market. Considering that the legal infrastructure and the law enforcement were still lax in China, Huawei was unprepared to deal with the stringent intellectual property protection institutions in DEs. Moreover, its lone "wolf" spirit led to its risky and aggressive attack on a sophisticated market without much experience in exporting its products to and/or collaborating with the incumbents in that particular market, i.e., the U.S. Furthermore, as a private enterprise located in Guangdong province, Huawei was much less institutionally embedded than the state-owned enterprises and/or collectively owned companies, especially in terms of its relationships with the central government agencies. Therefore, not only did Huawei not obtain much of any institutional support, but perhaps dislike any institutional intervention in its business. As a result, the unfamiliarity with the host country (the U.S) institutional environment coupled with the absence of the home country institutional support increased its liability of foreignness and procrastinated its readiness of conforming to the local norms. The overall effect was that Huawei was situated in an unenviable position in its legal standoff against Cisco.

Coevolving Mechanisms: The Huawei and TCL's Experiences

For both Huawei and TCL, the lack of co-evolving integration between the host country and home country technical environments contributed to their failure in the U.S and EU respectively. In the case of Huawei, its early obsession with operational efficiency based on home country experience mismatched

with its need for exploration of new competencies in the host country (U.S) whereas for TCL, its single-minded acquisition of western technologies and brand names in DEs (EU) was not complemented by its low-cost competitive advantages established at home. Only when they realized a co-evolving integration mechanism later on were they able to come back on their feet in the U.S and EU. Huawei's co-evolving integration mechanism was forged among its R&D centers and partnerships (in both the host and home countries) for exploitation and exploration of patents and technologies. TCL's co-evolving integration mechanism was established between EU and China centering on its OEM business.

However, it appeared that TCL could not reconcile its labor policies between host and home institutional environments. The main reason that TCL had to close his European subsidiaries was the expensive labor protection system in the EU. As for Huawei, it also encountered the institutional conflicts (in terms of legal institutions) between the host and home countries. Not only did Huawei struggle with the Cisco's lawsuit but also had to abandon the intended acquisition of 3com due to the national security screening by CFIUS. We contend that both TCL and Huawei's experiences were largely consistent with our proposition that EM MNEs need a co-evolving institutional reconciliation mechanism to alleviate the institutional disharmony between DEs and the home country. Such a mechanism can be made possible with home country government sponsorships under the increasingly prevalent bilateral or multilateral frameworks. It can also be facilitated when EM MNEs make efforts to rotate its institutional embeddedness between the host and home countries as Lenovo did.

It's interesting to note that both Huawei and TCL were able to operate in a relatively "free" institutional environment given that Guangdong province was situated at the forefront of China's economic reform. Although TCL was initially state owned, the local government sold out a large part of its ownership later on, which essentially rendered TCL's senior management team discretion to make strategic decisions.

However, for the two companies, the benefits from the absence of institutional constraints seemed to be offset by the lack of government sponsorship, especially from the central government agencies despite that their international expansion was totally consistent with the Chinese government's "going abroad" policy. Had Huawei and TCL established a (co-evolving) balance between strategic independence and institutional embeddedness, they would likely have alleviated their woes in DEs.

Contributions and Implications

Despite the ascending roles of EM MNEs in the global competition, the success of these late and new comers is not ascertained. A growing number of IB scholars have pointed out that the dominant MNE theories such as the OLI paradigm and internalization theory fall short of delivering a satisfactory discourse as to why some EM MNEs have been able to accelerate their international expansion without obvious ownership-specific advantages and how these challengers could compete with the established global players (Child/Rodriguez 2005, Luo/Rui 2009, Mathews 2006, Yamakawa et al. 2008). In the present paper, we seek to fill such a lacuna in the literature by addressing how EM MNEs may sustain their presence in developed economies (DEs) which traditional MNEs claim as their turfs.

We have noted the recent development of the institutional perspectives in the context of MNE research in general and EM MNE studies in particular (Cantwell et al. 2010, Child/Rodriguez 2005, Peng/Lee/Wang 2005, Yamakawa et al. 2008). We concur to the essential contention that the impact of institutions on EM MNEs appears to be rather unique vis-à-vis traditional MNEs and may be fundamental to the survival and success of EM MNEs. We have developed an environment partitioning perspective based on a systemic delineation of the institutional environments in conjunction with the technical (task) environments in the host and home countries. In line with the open system organization theories (Scott 1998), we avert that such a perspective is conducive to exploring the long term survival issue of EM MNEs in DEs.

Applying the environment partitioning perspective in the context of EM MNEs, we have put forth a set of propositions to inform researchers, managers and policymakers that EM MNEs must persistently pursue local effectiveness and local legitimacy to sustain their presence in DEs. Granted that it's also necessary for traditional MNEs to establish local effectiveness and legitimacy, it is imperative but inherently difficult for EM MNEs to do so because of the paucity of ownership-specific advantages and ill perception of their country of origin. Our case studies on two Chinese MNEs revealed that TCL's failure in the EU markets was largely due to the neglect of local effectiveness while Huawei's struggle in the U.S reflected the challenges to gain local legitimacy in DEs. We further argue that EM MNEs need to leverage their home country competitive advantages as well as institutional embeddedness to enhance local effectiveness and legitimacy. Both Huawei and TCL were able to capitalize on the former but they largely overlooked the latter. We aver that EM MNEs can rely on institutional embeddedness to enhance their survival likelihood in DEs, which is typically not the case for traditional MNEs.

Furthermore, we elaborate on three co-evolving relationships that EM MNEs need to establish to facilitate their long term survival in DEs: (1) the co-evolving integration between host country and home country technical environments, (2) the co-evolving reconciliation between host country and home country institutional environments, and (3) the co-evolving balance between strategic independence and institutional embeddedness in the home country. Our case studies validated the positive effects of the co-evolving integration for both Huawei and TCL, and revealed to a certain extent that the relative absence of the co-evolving reconciliation and balance was at least partially culpable for their struggles in DEs. Indeed, Huawei and TCL seemed to be full of entrepreneurial initiatives to the extent that their home country institutional embeddedness was never noted or appreciated. Clearly, future studies are needed for us to obtain a more in-depth understanding of the effects of institutional embeddedness.

Scholarly Implications

Not so long ago, the essential issues for EMs-based firms were how to survive in the home markets in face of the growing investment and competition from the global giants (traditional MNEs) (Dawar/Frost 1999) and how to overcome their lack of resources and confidence in the international arena (Bartlett/Ghoshal 2000). However, the recent ambitious global expansion of some EM MNEs (e.g., Acer, Hindalco, Lenovo, Tata, TCL) through high-profile M&A activities have seemingly changed the worldwide competitive landscape overnight (Kumar 2009). The acquisition of Volvo by the little known Chinese carmarker, Geely, is the most recent example.

Does the phenomenal rise of EM MNEs call for new theoretical perspectives (Mathews 2006) or extension of the existing theories in IB research (Child/Rodriguez 2005)? Will EM MNEs be able to survive the global competition and succeed in the long run (Luo/Rui 2009; Nolan 2001)? Will their long term success depend upon intra-regional expansion or accelerated global expansion (Rugman/Li 2007)? These questions are indeed challenges for IB research. The present paper endeavors to address the survival issue of EM MNEs in the context of DEs where the rivalry with and the potential retaliation from traditional MNEs tend to be most intense. While our environment partitioning perspective has made some important contributions to the growing literature on EM MNEs, it is theoretically exploratory to a certain extent. There are a number of potential avenues for further theoretical development and empirical investigation.

First, we made an implicit assumption in developing our theoretical perspective. That is, EM MNEs will have to follow the convention to leverage their cost advantages to achieve local effectiveness and conform to the institutions in DEs to gain local legitimacy. Although we believe that the challenge of achieving both objectives by following the convention warrants scholarly attention, a more complex question may be whether EM MNEs are (and will be) changing “rules of the game” fundamentally. For

example, would EM MNEs “be valued for their differences from local actors... and not just for their capacity to conform with or adjust to local norms of behavior” in DEs? (Cantwell et al 2010).

Second, it would be worthwhile to examine the interactive effects between local effectiveness and local legitimacy. Should local effectiveness or local legitimacy be the top priority for EM MNEs in entering DEs given that neither is a light issue? How and to what extent should EM MNEs leverage “social technology”(relational and coordinating capabilities) vis-à-vis “physical technology” (more tangible assets) (Nelson/Sampat 2001)?

Third, although it is apparently important for EM MNEs to establish a co-evolving integration between the host and home technical (task) environments, it is unclear as to how EM MNEs should experiment and adopt the right mechanism (Cantwell et al. 2010). Given institutional embeddedness can be an advantage or a constraint, to what extent should EM MNEs leverage it in DEs where certain institutional supports may not be perceived positively.

Fourth, while both the co-evolving integration (technical environments) and the co-evolving institutional reconciliation are critical, it would be interesting to examine when and under what conditions each may work effectively. This is important considering that EMs have substantial variations in terms of culture, institutions, and economic development. For example, firms from those EMs which stress institutional conformity are more likely to grapple with institutional reconciliation.

Fifth, there is a need for more case studies to help further develop our perspective (or any other emerging perspectives for that matter). Specifically, our current case studies do not lend enough validity to propositions 4 and 5. Thus, it would be helpful, for instance, if further case analyses could delve into the impact of the home country environments by industry or business sector. Dess and Beard (1984) characterized task environment by munificence--the extent to which the environment can support sustained growth, dynamisms--the level of predictability of the environment change, and complexity--

the degree of heterogeneity within the environment. Without such detailed information, it is unclear how strategic independence may be effectively balanced with institutional embeddedness for EM MNEs. For example, firms operating in a more munificent environment may accumulate more slack resources and be more innovative, which would reduce their need for home country government sponsorship.

Similarly, environmental dynamism may increase firm networking activities with government agencies in order to absorb structural uncertainty (Luo 2003). Future studies that focus on multiple industries with various environment characteristics can enrich our understanding of the co-evolving balance between strategic independence and institutional embeddedness at home.

Last but not least, it would be a natural extension for us and other scholars to empirically test our propositions. Perhaps the biggest challenge would be to sample both the existing and failed affiliates of EM MNEs in DEs. Although large sample analysis is certainly appreciated, other methodologies can be useful. For instance, process tracing method would be an ideal one for this type of inquiry (Yin 1994). Since many EM MNEs may be still at the early stage of their operations in DEs, it can be difficult to define and measure their survival. A process tracing account essentially delineates what happened or why a past event took place. It can effectively combine managerial perceptions (of success or survival) and history of firm internationalization. Moreover, the process tracing method can help reveal the co-evolving mechanisms we proposed, which are typically characterized by strategic interaction, feedback loops, bidirectional causality, and higher-order interaction effects. Articulating the robust processes of EM MNEs' investment in DEs is necessary to identify the institutional environment drivers and the behaviors of these firms in response to these drivers (Goldstone 1991).

Practical Implications

This paper is of value to the senior managers of EM MNEs. Our environment partitioning perspective provides a useful tool for these managers to navigate the turbulent water in the beginning years of

investing and operating in DEs. In the course of our case studies, we found quite surprisingly that the EM MNEs such as Huawei and TCL, failed to pay enough attention to either local effectiveness or local legitimacy in DEs. Perhaps a large part of this neglect had to do with the managerial hubris resulting from their unquestionable success in competing with the global giants in the home market. The essential implications of Huawei and TCL's struggles for other EM MNEs can be specified in view of our environment partitioning perspective.

First, EM MNEs would be unwise to overplay its cost leadership advantages to gain local effectiveness in DEs where competitive pricing may not be perceived as totally legitimate and could trigger head-on rivalry with the powerful local incumbents in an unfamiliar institutional environment. Instead, it would likely be smart to establish its local legitimacy in DEs through extensive partnerships, some of which should be initiated in the home country prior to the market entry into DEs. Second, EM MNEs would be remiss in obsession with strategic-assets seeking in DEs to the extent to ignore their home country competitive advantages, which are often complementary to the new competencies being pursued. Third and more importantly, EM MNEs should actively establish and leverage their institutional embeddedness at home, which could be of unique value for EM MNEs to enhance their survival in DEs. Both Huawei and TCL seemed to be over-dependent on their strategic independence and ignored the fact that institutional embeddedness can be more an advantage than a constraint.

Our environment partitioning perspective may also benefit the senior managers of traditional MNEs in that it helps alert these managers to both the opportunities and potential threats brought up by EM MNEs. These incumbents need to assess their vulnerability in the dynamic competitive landscape. Furthermore, the framework would be useful for management consultants in DEs when they consult with both domestic clients as well as EM MNEs.

This paper also bears important implications for the policy makers of both emerging markets and developed economies. For the policy makers in EMs, our work may provide some ideas regarding whether to encourage outward FDI in certain industries and how to facilitate the buildup of international competitiveness of the home-grown emerging MNEs. It may also help policy makers to consider pro-market reform at a deep level to further reduce the institutional tensions between EMs and DEs (Del Sol/Kogan 2007). For the policy makers in the advanced countries, this study may help them to be aware of the roles that EM MNEs' affiliates play in the local economies (e.g., local employment) as well as the potential long term structural change of inward FDIs.

Conclusion

This paper contributes to our understanding of the survival (the continued presence) of emerging market MNEs in developed economies. We have developed an environment partitioning perspective in line with the recent scholarly emphasis on the unique roles of institutional environments in the rise and competitiveness of these new and late comers in the international arena. Our theoretical arguments and detailed case studies of Huawei and TCL, two leading Chinese MNEs, indicate that emerging market MNEs need to achieve local effectiveness and legitimacy and thus to survive in developed economies by leveraging both home country competitive advantages and institutional embeddedness. We contend that their long term strategic viability lies in the co-evolving relationships between the host and home country environments at both technical and institutional levels. It will be to the advantages of emerging market MNEs if they maintain a co-evolving balance between strategic independence and institutional embeddedness in the home countries.

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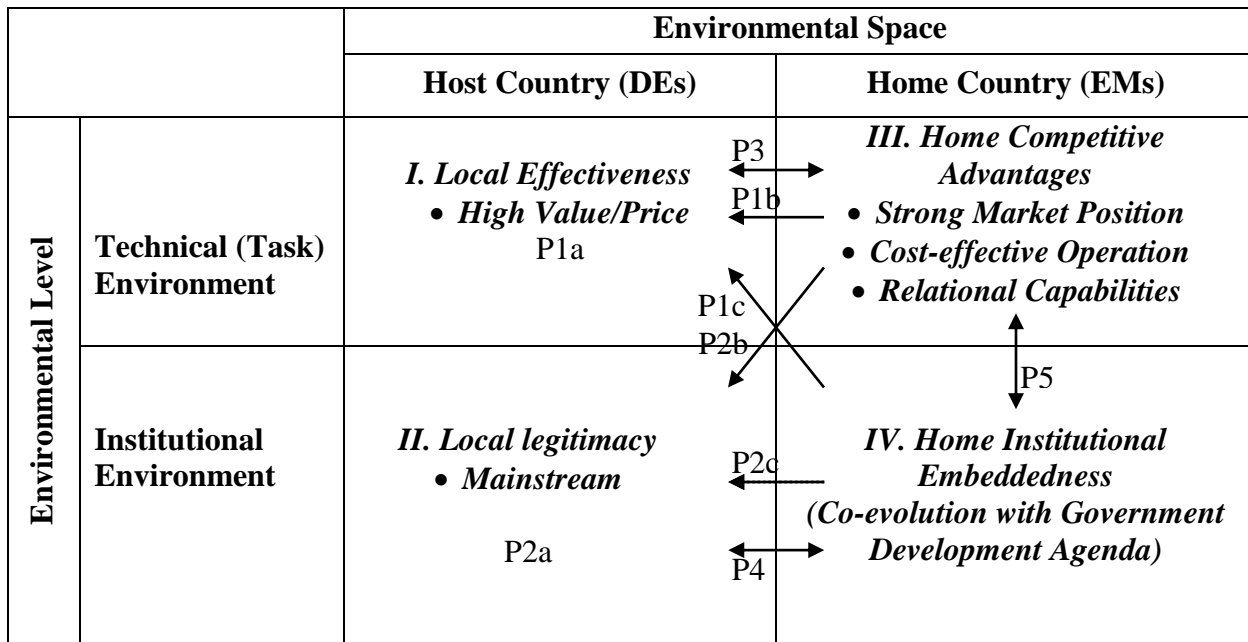
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Figure 1. An Environment Partitioning perspective

		Environmental Space	
		Host Country Environment	Home Country Environment
Environmental Level	Technical (Task) Environment	<i>I. Local Effectiveness</i>	<i>III. Home Competitive Advantages</i>
	Institutional Environment	<i>II. Local legitimacy</i>	<i>IV. Home Institutional Embeddedness</i>

Figure 2. Survival of EM MNEs in DEs: Co-evolving Mechanisms



Direct Impact
 Co-evolving mechanism

Table 1. Background Information and Internationalization: Huawei and TCL

	Huawei	TCL
Founding year	1988	1981
Industry	Telecom equipment and services	Consumer electronics
Ownership	Private	State-owned (locally controlled) but privatized
Total revenue	US\$ 21.5 bn in 2009	US\$ 6.47 bn in 2009
CEO	Zhengfei Ren	Dongsheng Li
Home country market position	Largest telecom equipment supplier in China	Second largest consumer electronics firm in China; No. 1 in terms of TV market share for six years
Beginning of large scale Internationalization	2000	1999
Percentage of foreign sales	75% in 2008	45% in 2008
Achievements	1 st global commercial contract of 4G LTE mobile network in 2009; the world's largest patent applicant with USPTO since 2008; No.2 in global telecom equipment market	TCL's TV market share was ranked No.5 globally in 2009
Worldwide presence	<ul style="list-style-type: none"> • R&D centers in Dallas, Texas and the Silicon Valley, California (U.S), Bangalore (India), Moscow (Russia), Stockholm (Sweden) • Over 100 foreign subsidiaries 	<ul style="list-style-type: none"> • 14 foreign factories, 6 design centers and more than 45 major sales agents in EU, Russia, Vietnam, Malaysia, Indonesia etc.
Overall business strategy	From cost leadership to innovation leadership (substantial R&D investment and patent applications)	Cost leadership in OEM/ODM business
Strategic partnerships	Joint R&D labs with Texas Instruments, Motorola, IBM, Intel, Agere Systems, Sun Microsystems, Altera, Qualcomm, Infineon, and Microsoft; joint venture with 3com and Symantec; alliance with Vodafone	Introduced Toshiba, Sumitomo, and Philips as strategic shareholders in 2002
Key internationalization initiative	Large scale U.S market "attack" and head-on competition with Cisco in 2001;	Joint venture with Thomson Electronics (TCL-Thomson Electronics) in 2004.
Major setback in internationalization	Withdrawal from the U.S market in 2003 because of Cisco's lawsuit on IP rights infringement; failure to take over 3Com in 2007.	Loss of 203 million Euros in 2005-2006 due to outdated products (CRT-based TV sets); closure of seven subsidiaries in Europe in 2006.

Table 2. Survival of EM MNEs in DEs: Huawei and TCL Case Studies

	Huawei	TCL	Comments
<p>Proposition 1a. <i>EM MNEs are likely to realize local effectiveness and thus to survive in DEs if they focus on operational efficiency (i.e., value delivery at a competitive price) and/or international connections.</i></p>	<ul style="list-style-type: none"> • Quality products at competitive prices (30% lower than Cisco’s products) in the U.S in 2001. • Aggressive marketing and sales growth in the U.S until Cisco’s lawsuit forced withdrawal in 2003. • Huawei shifted to EU where many customers liked Huawei’s low-cost, high-quality products. • Low-cost advantages in R&D 	<ul style="list-style-type: none"> • Dated products (CRT-based TVs) mainly sourced in the high cost European countries • Loss of €203 mil in 2005-06 • Closure of 7 subsidiaries • Only OEM/ODM business left (based on cost leadership) 	<ul style="list-style-type: none"> • Validate Proposition 1a • Huawei was able to achieve local effectiveness by delivering efficiency-based customer value in the U.S and EU; its withdrawal from the U.S was related to its local legitimacy. • TCL overlooked operational efficiency and its existing connections across Vietnam, Malaysia, Indonesia, Russia as complementary assets
<p>Proposition 1b. <i>EM MNEs are likely to enhance local effectiveness and thus to survive in DEs if they have achieved competitive advantages in the home country market.</i></p>	<ul style="list-style-type: none"> • Huawei established its leading position in China before its entry into the U.S and EU • Huawei has been No.1 in patent applications in China since 2003 	<ul style="list-style-type: none"> • Second largest consumer electronics company in China with the domestic sales amounting to RMB 38.41 bn in 2008 • TCL refocused on the Chinese market to return to a decent level of profitability after its struggle in EU 	<ul style="list-style-type: none"> • Validate Proposition 1b • Both Huawei and TCL achieved home country competitive advantages, which was critical to their survival in DEs
<p>Proposition 1c. <i>EM MNEs are likely to enhance local effectiveness and thus to survive in DEs if their institutional embeddedness in the home country is conducive to its internationalization, (which can be expected when their international expansion is consistent with the government development agenda.)</i></p>	<ul style="list-style-type: none"> • Privately owned; located in Shenzhen, Guangdong, the first special economic zone in China • Institutionally embedded in a relatively “free” economic environment in Guangdong • International expansion consistent with the government’s “going abroad” policy in 2001. 	<ul style="list-style-type: none"> • Set up as a locally controlled state-owned company in Huizhou, Guangdong. • Institutionally embedded in a relatively “free” economic environment in Guangdong • The local government sold 18% of its shares in 2002. • International expansion consistent with the government’s “going abroad” policy in 2001. 	<ul style="list-style-type: none"> • Validate Proposition 1c • Due to their locations in Guangdong where the free market policies have been most prevalent in China, both Huawei and TCL faced few institutional constraints. • Somewhat unexpectedly, both companies didn’t seem to have much government sponsorship.

Table 2. Continued

	Huawei	TCL	Comments
Proposition 2a. <i>EM MNEs are likely to achieve local legitimacy and thus to survive in DEs if they immerse themselves in the mainstream business communities.</i>	<ul style="list-style-type: none"> • Huawei was initially trying to “attack” the U.S market as a lone “wolf”. • Huawei was unfamiliar with the U.S patent laws and refused to cooperate with Cisco. • Later, Huawei learned to form extensive alliances with established telecom equipment suppliers in the U.S and EU. 	<ul style="list-style-type: none"> • TCL’s local employment and brand acquisition seemed to be not adequate to overcome its lack of business network in EU. • TCL didn’t hire an experienced executive to head its EU operations 	<ul style="list-style-type: none"> • Validate Proposition 2a. • Huawei didn’t try to immerse itself in the mainstream business communities until several years later • TCL fell short in immersing itself in the mainstream but its struggle in the EU was perhaps more related to its lack of local effectiveness.
Proposition 2b. <i>EM MNEs are likely to enhance local legitimacy and thus to survive in DEs if they have achieved home country competitive advantages through exports to these host countries or prior partnerships with the MNEs from these host countries.</i>	<ul style="list-style-type: none"> • Huawei didn’t have substantial exports to the U.S prior to its investment. • It only had a short history of collaborating with traditional MNEs in R&D. 	<ul style="list-style-type: none"> • TCL’s international expansion (including exports) had been concentrated in the other emerging markets prior to its acquisition of Alcatel and Thomson Electronics 	<ul style="list-style-type: none"> • Validate Proposition 2b. • Both Huawei and TCL was trying to launch a very ambitious internationalization without much experience in collaborating with traditional MNEs or of exporting their products to DEs
Proposition 2c. <i>EM MNEs are likely to enhance local legitimacy and thus to survive in DEs if their institutional embeddedness in the home country is conducive to its internationalization, (which can be expected when their international expansion is consistent with the government development agenda.)</i>	<ul style="list-style-type: none"> • Institutionally embedded in a relatively “free” local economic environment in Guangdong. • International expansion consistent with the government’s “going abroad” policy in 2001. • But lack of institutional embeddedness in its relationships with the central government 	<ul style="list-style-type: none"> • Institutionally embedded in a relatively “free” local economic environment in Guangdong • International expansion consistent with the government’s “going abroad” policy in 2001. • But lack of institutional embeddedness in its relationships with the central government 	<ul style="list-style-type: none"> • Partially validate Proposition 2c. • Both Huawei and TCL faced few institutional constraints. • However, they didn’t seem to have much government sponsorship, in particular at the central government level.

Table 2. Continued

	Huawei	TCL	Comments
<p>Proposition 3. <i>EM MNEs are more likely to survive in DEs if they establish a co-evolving integration mechanism between the host and home country technical environments.</i></p>	<ul style="list-style-type: none"> • Huawei initially focused on the exploitation of its operational efficiency competencies in the U.S and EU • Later, Huawei set up R&D centers in the U.S, Sweden etc in addition to its domestic R&D facilities. It also formed extensive R&D partnerships with established MNEs. • Essentially, Huawei has built a global learning network. 	<ul style="list-style-type: none"> • TCL initially failed to exploit its operational efficiency in the EU market. • TCL also failed to acquire needed strategic assets due to the decline of CRT technologies. • Later, TCL appeared to gain competitive advantages in the OEM businesses by linking its operations in the emerging markets to the EU operations 	<ul style="list-style-type: none"> • Validate Proposition 3 • Huawei seemed to establish a co-evolving integration mechanism among R&D centers and partnerships for both exploitation and exploration of patents and technologies • TCL seemed to have built a co-evolving integration mechanism between EU and China centering on its OEM business.
<p>Proposition 4. <i>EM MNEs are more likely to survive in DEs if they establish a co-evolving reconciliation mechanism between the host country and the home country institutional environments.</i></p>	<ul style="list-style-type: none"> • Huawei decided to “attack” the U.S market after China’s accession to WTO • However, the host country (U.S) and home country (China) institutions appeared to be conflicting in terms of intellectual property protection. 	<ul style="list-style-type: none"> • TCL’s ambitious partial acquisition of Thomson Electronics took place after China’s accession to WTO. • TCL failed to reconcile the labor policies between China and the EU. 	<ul style="list-style-type: none"> • Partially validate Proposition 4. • Both Huawei and TCL failed to reconcile the institutional differences between the host and home countries and consequently had setbacks.
<p>Proposition 5. <i>EM MNEs are more likely to survive in DEs if they realize a co-evolving balance between strategic independence and institutional embeddedness at home.</i></p>	<ul style="list-style-type: none"> • As a private company, Huawei was strategically independent to a large extent; • However, it was institutionally not well embedded in the home country (China) 	<ul style="list-style-type: none"> • Although it was once a state-owned company, TCL increased its strategic discretion through privatization. • However, it seemed to be institutionally not well embedded in the home country (China) 	<ul style="list-style-type: none"> • Partially validate Proposition 5 • Both Huawei and TCL were strategically independent but were not institutionally embedded

Endnotes

¹ Reuters, 2009, China's Huawei takes No. 2 spot in mobile gear, November 13.

² *The Wall Street Journal*, 2008, Huawei posts sales growth, even as rivals slump. January 16.

³ *Fast Company*, March, 2010. <http://www.fastcompany.com/magazine/143?25#www.black-hattitude.pl>

⁴ WIPO, 2009, Global economic slowdown impacts 2008 international patent filings, http://www.wipo.int/pressroom/en/articles/2009/article_0002.html

⁵ B. Einhorn, 2003. Huawei vs. Cisco just got nastier, *Business Week*, June 3; B. Einhorn, 2003, Cisco: In hot pursuit of a Chinese rival, *Business Week*, May 19.

⁶ L. Luk, 2009, Huawei to beef up North America ops, adding staff, *Dow Jones Newswires*, November 23.

⁷ Knowledge@Wharton (2005). TCL's Dongsheng Li: We should control and own our brands.

<http://knowledge.wharton.upenn.edu/article.cfm?articleid=1168>, accessed on 24 March 2009.

⁸ Tejal, A (2007). TCL eyes private label space in retail sector. *Business Standard (Mumbai.)*, 15 June.

⁹ Tabeta, S (2009). Ties, tactics underpin strong performances in slowing China. *Nikkei Weekly*, 9 March.