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Emerging multinational corporations: Theoretical and conceptual framework

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A process of going multinational could tangibly improve competences of corporations and governments of emerging markets, particularly those based in Africa. They are assumed to be interested in adopting what is referred to as outward foreign direct (OFDI) promotion policies envisaging initiating and boosting the global orientation of their own firms. In other words, shifting their firm's orientation, from focusing mainly on the domestic market as a unique destination to being an international actor. To assure effectiveness of OFDI promotion polices, the policy maker should be well acquainted with the key salient features of multinational corporations (MNCs) based inside the borders of his national economy.

As such, drafting OFDI promotion polices requires a wide range of detailed information regarding the types of MNCs based in the national economy, as well as their preferred market entry modes and foreign market choice. In the same vein, it remains important to underline timing of initiating their global orientation and how it evolves over time. Equally important is to compile information concerning the key drivers of the global orientation of domestic firms. The first step towards addressing the aforementioned issues is to outline the primary theoretical aspects pertaining to emerging markets based multinational corporations (EMNCs).

The multinationalisation of emerging markets based firms is often expected, by most theories, to be a slow and incremental process. As a result, firms tend to firstly work in their domestic markets for a certain period of time until they have acquired the necessary competencies required for competing abroad. After this initial growing phase, they can start operating in the international market sphere. By contrary, a few theories argue that the global orientation could be accomplished through leapfrogging rather than an incremental process, enabling firms to start their foreign activities early, right from their inception.

Regarding the drivers of the global orientation, EMNCs are likely to be motivated to invest abroad either by the need to exploit their resources, or to obtain access to unavailable resources, or a combination of both motives. Moreover, some theoretical frameworks recognise the potential role of home countries' governments in boosting the foreign expansion of their firms. In other words, cross-border investment motives could be categorised into two groups. The first relates to home country specifications or what is referred to as push factors. On the other hand, the second group of motives relates to the advantages prevailing in the country hosting EMNCs activities or what is labelled as pull factors.

From another perspective, emerging multinational corporations can choose from a wide range of entry modes, including: exports, licensing, turnkey projects, franchising, contracts, strategic alliance, original equipment manufacturers, joint ventures and wholly owned subsidiaries. Such entry modes vary significantly according to ownership, the nature of overseas' operations, the control of parent firms over these activities, and the extent of externalising and internalising. Firms are assumed to initiate foreign activities through low market commitment modes such as export orders due to risks and uncertainty pertaining to working abroad. In a subsequent stage, companies could commit higher resources to their activities abroad and commence investing in these markets.

Concerning foreign market choice, most theories predict that firms will probably favour working in neighbouring markets owing to what is referred to as the psychological proximity factors referring to similarities in culture, language, traditions and political systems. Having explored neighbouring markets, firms can then proceed to invest in distant markets after having acquired the necessary competitive advantages. These advantages or competencies are pivotal for neutralising the threats resulting from investing in culturally and socially different markets.

Last, but not least, ten different types of EMNCs are recognised in the literature, to reflect the difference between firms, according to the motives for global orientation (market, resources, strategic asset and efficiency seeking EMNCs), the geographical dispersion of economic activities (regional and global EMNCs), the relation between the headquarters and its affiliates (foreign seller and foreign source EMNCs) and finally, the timing of initiating overseas’ investment (born local and born global EMNCs).