**MANAGING LINKAGES AND LEARNING IN EMERGING MARKETS:**

**A CASE STUDY OF MULTINATIONAL ENTERPRISES**

**IN CHINA’S MEDIA SECTOR**

**Submitted to the Eastern Academy of Management conference, 2017.**

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**Abstract:**

Globalization is increasing the integration and conflicts of organizations around the world. Older multinational enterprises (MNEs) grew slowly from advanced national origins, but newer MNEs from emerging markets are growing faster and trying to transform their organizations to diversify from their industry and national origins. Older theories of MNEs emphasized ownership and location advantages to internally manage (OLI), but newer theories of EMNEs stress linkages, leverage, and learning (LLL). This paper is a case study of recent LLL strategies by four growing EMNEs in China’s media and telecommunications sector. While all sampled firms used Internet access to forge market linkages, they also gained leverage and learned how to manage growth by related diversification strategies and alliances.

**Key words: multinational enterprises; emerging markets; China; media; related diversification.**

Globalization has been increasing the integration of markets and economic activities in the world (e.g. Ghemawat, 2016; Peng, 2017), but the driving forces and key players behind global integration are also changing. Older multinational enterprises (MNEs) from the advanced developed countries and Triad regions are being joined, or even *displaced,* by newer MNEs from big emerging markets like China and India (Ramamurti and Singh, 2009; Guillen and Garcia-Canal, 2013). The growth of these new MNEs is increasing the extent of rivalry within many industries and markets, which may signal a big shift in the centers of gravity in the world economy. But how significant is this regional economic shift? And what management differences exist between the older MNEs and the newer MNEs from emerging markets?

In this short paper, we will review the characteristics or variations of both older and newer MNEs. First, there is evidence of an increased number of newer MNEs being founded or based in emerging markets. These newer MNEs have established headquarter offices in emerging market capitals; but most of their employees, sales, and assets are still based in their home country or adjacent regions. Second, the rapid growth and diversification of these “dragon” MNEs is challenging their managers to control operations and implement effective strategies (Cf. Mathews, 2002). Third, these newer MNEs are trying to grow beyond their home markets by mergers and acquisitions (M&A), but have had problems managing and integrating these acquired firms, especially in more developed countries which MNEs want to enter and learn from. Fourth, the influence of home and host institutions on MNE strategies is also evolving, as some of the newer MNEs are still state-owned enterprises (SOEs), or rely upon government support.

There are several extant theories of MNEs to explain their management choices with asset ownership, location, and internalization of market variables (Dunning’s OLI framework). However, there are still theoretical and empirical questions whether the OLI paradigm, or other general theories of MNEs, can also explain the strategies and behavior of newer MNEs in different environments (Verbeke, 2014). After a brief review of current literature, we focus on the recent growth of MNEs in the telecommunications and media industries of China, where Chinese firms have been growing with state support and protection as a “strategic sector” (Hsueh, 2011). Data from this industry case study highlight the growth strategies and constraints typical of many newer MNEs. We conclude that current management theories of MNE’s should be revised to include the prevailing options and circumstances for MNEs from emerging markets.

**The Changing Population of MNEs**

There are hundreds of MNEs with thousands of subsidiary units and affiliates operating around the world (Peng, 2017). Most of these older MNEs are based in the developed OECD countries of North America, Japan, and Western Europe. Although many older MNEs were founded in earlier periods, and have grown gradually by sequential internationalization, they are now being challenged by newer MNEs which are based in different countries and emerging market regions. These newer “dragon” MNEs come from China, India, or other emerging markets with distinctive competitive strategies and faster growth plans.

The growing representation of MNEs from emerging markets (EMNEs) is one indication of the shift in economic gravity and new business formations. Table 1 below shows the increasing number and share of EMNEs in the Fortune Global 500 (Ghemawat; Peng, 2017). Beginning in the 1970’s and 1980s, there were a rising number of MNEs based in some Newly Industrializing Countries (NICs), such as Samsung from South Korea. However, there have been more MNEs from a few emerging markets since 2000; and there are likely to be even more MNEs founded, or launched globally from the larger emerging markets. By 2014, there were more Fortune 500 headquarter offices located in Beijing (52) than in New York (20).

**Theories of MNEs: OLI or LLL?**

There are several contending theories to explain the growth and operations of MNEs (Cf. Verbeke, 2014), but they usually assume that there should be overwhelming competitive advantages to offset the liabilities of being foreign in non-native environments (Peng, 2017). These firm-specific advantages of MNEs can vary in scale and scope, but represent the potential Ownership advantages to be exploited or leveraged in other foreign markets. The OLI paradigm of Dunning adds location factors and internalization strategies for MNEs to transfer or use ownership advantages in different places, or bypass external markets failures.

There has been extensive research to test OLI theory on samples of older MNEs from developed nations, where they had originated and gradually evolved to become big firms crossing many borders (Cantwell, 2014). However, can the same OLI theory and variables explain the recent growth of EMNEs from big emerging markets, which have grown faster from different institutional environments or industries?

In this short paper, we try to extend and apply the OLI framework to MNEs from one emerging market, China. The Chinese economy has grown to become the second largest in the world by attracting foreign direct investment (FDI) from older MNEs, and by fostering the development of their own set of EMNEs. As Table 1 indicated, there are now many Chinese based MNEs with headquarters located in Beijing, and other Asian MNEs establishing extensive operations in other Chinese cities. The location advantages of China have been evolving from low cost production to more advanced manufacturing, services, and even foster innovation to create more new products or technologies (Yip and McKern, 2015; Cantwell, op cit.).

A revised theory of MNE growth in emerging markets is being developed and tested (Mathews, 2002; Ramamurti and Singh, 2009; Thite et al., 2016). Although all MNEs need advantages to offset their own liabilities of foreignness, EMNEs may have fewer *Ownership* advantages per se, and rely more on their location, organizational, and political or cultural advantages to compete. Mathews (2002) has proposed an *LLL* framework to complement the OLI paradigm with “Linkage, Leverage, and Learning” advantages. *Linkage* refers to the capabilities of MNEs to identify and bridge market gaps, at home and abroad. The *Leverage* capabilities refer to strategies of EMNEs to exploit their unique resources and cultural assets. *Learning* aspects of EMNEs entail more willingness to engage in open innovation or alliances to learn.

In the process of investing in and creating more advanced industrial development (Hsing, 2014), China and other emerging markets have also stimulated the growth of newer MNEs, with potentially different competitive advantages and forms of management. In the next section, we focus on a case study of the telecommunications and media industry, which has been designated a “strategic sector” in China with distinctive regulatory policies (Hsueh, 2011; Su, 2016). While older and non-Chinese MNEs have had limited access to China’s telecom and media markets, newer Chinese based MNEs have been able to grow domestically and internationally, with the protection or support of state institutions (Shirk, 2010). Hence, this sector in China’s economy provides a unique environment to test the *LLL* theory of MNEs.

**A Case Study of the Telecommunications Sector in China**

The initial industry where an MNE develops and exploits their competitive advantages is often formative in shaping future strategies and growth paths. Older MNEs were founded when tangible assets were more essential and national locations were divided for slower growth; but newer MNEs are being founded from leveraging intangible assets across more easily connected economies, to quickly gain the scale and scope advantages of regional or global integration. Thus, the structural characteristics of information and service based industries are likely to be conducive to the formation, entry, and rapid growth of newer EMNEs.

The telecommunications sector in many countries encompasses a complex cluster of many related and supporting industries, including information technologies for communication, data transmissions, smart phones for computer searches, and media for delivering entertainment or accessing a variety of content. The total media sector sales revenues of over $100 billion in China includes $80 billion in services, plus more revenues from equipment manufacturing, plus billions in growing revenues for movies and content.

Such a diverse cluster offers many opportunities to compete and grow; but diversification into related industries by mergers and acquisitions (M&A) seems to be the preferred corporate level strategy within the telecom sector as it provides a faster mode of *learning* and market entry, compared to organic growth. Constrained diversification offers many opportunities for *linkage* and *leveraging related* assets by M&A. However, the strategic sector status and active role of government agencies has limited market access by foreign MNEs, leading to more entries by alliances, joint ventures or licensing contracts with local firms.

While there are many different kinds of firms competing in China’s growing telecom sector, originating from different industries and product markets, we will focus on four of the larger and more successful EMNEs. Table 2 summarizes the background, sales, assets, and diversity of these four Chinese based firms. Three of the firms started in the last 18 years or less, except *Huawei Technology*, founded in 1987.

All of the firms began in electronic or Internet-based industries, but they have diversified into related technological or media service industries, often by acquisitions or alliances. These rapid diversification strategies indicate the *linkage and leveraging* actions of the LLL theory, which complements the *learning* objectives of more open innovation; but two of the four Chinese firms are still focused on home markets. A high and rising rate of Internet penetration among millions in China’s urban population helps as well. Aggressive foreign market expansion is underway in two of the firms, but they all need alliance partners to grow beyond their home based and domestic customer focus to become diversified and global EMNEs.

**Alibaba.** A Chinese Internet startup has grown to become the world’s largest electronic (e-) commerce enabler, for both consumers (B2C) and businesses (B2B). Alibaba started competing against E-Bay in China, and its market success attracted foreign investments from Yahoo! and an Initial Public Offering (IPO) in the U.S. Alibaba. The e-commerce company now employs over 22,000 people directly in China, plus thousands more indirectly among those who sell products on Alibaba’s portal and other B2B trade.

Alibaba’s e-com sales benefitted from the growing connectivity and Internet access of Chinese consumers and businesses. Only 2% of China’s population were online in 2000; but by 2015, over 50% of Chinese were online and actively searching for information or merchandise. The 50% online population amounted to over 300 million Internet users in China, which is more than exist online in North America and Europe combined. The main online activities at Alibaba are search, auction, and business-to-business (B2B) or consumer (B2C) sales by both small and large firms. Alibaba has three main platforms to manage their online activities: Taobao, Tmall, and the Alibaba.com. Thus, Alibaba combines the strategies of Amazon.com, E-Bay, and Google within China; but it doesn’t have to worry about foreign competition at home, due to state regulations. There is growing Internet competition in China from Baidu, Ten Cent, and other Chinese firms. The car sharing service *Uber* was also constrained by state regulations, and retreated from China.

Alibaba has grown by both related and unrelated diversification strategies into 29 huge separate business units, with decentralized management (Erisman, 2015). Alibaba has acquired a multi-screen entertainment and media company, *Youku Tudou,* to enter the growing Chinese film and streaming video markets. The growing enterprise also wants to expand in cloud-computing segments to diversify their revenues, and leverage their IT networks. Alibaba’s management recognizes the local media trends to more mobile users and advertising, and wants to reach more customers in remote rural regions of China and in adjacent Asian nations to grow retail sales.

In the past few years, Alibaba has acquired many local rivals in China to enter or control more markets; but they still depend mostly on the domestic Chinese market, which has been slowing to a more modest economic pace. They have also been making more foreign acquisitions in India and Southeast Asia, such as a majority stake in Singapore’s *Lazada* to serve local consumers in other Asian markets. Alibaba now wants to expand its e-commerce services in India with smaller investments in online payment startups (*Paytm),* and other big online logistical companies, like *Snapdeal.* Alibaba has the experience and networks to expand beyond China, and may be able to catch-up to other Asian media firms by leveraging their smartphone links to access or process customer transactions. Alibaba already has partnerships with local Chinese smartphone vendors (Huawei, OPPO, vivo, Xiaomi), who have been able to dominate China’s smartphone market as the largest market in the world. Thus, related diversification and other media industries in China are converging to forge more integrated clusters and data connections. The outcomes reflect the co-evolution of local and state-owned firms, other MNEs, and Chinese state regulatory policies.

**Huawei.** The largest and most sophisticated Chinese MNE in our case study was founded in 1987 as a phone switch maker; but Huawei has grown rapidly since then, and diversified into many other related telecommunications and media businesses around the world. Nearly 60% of Huawei’s total revenues are derived from other carriers’ network business, both equipment and value added services. Another third of their revenues come from manufacturing consumer and mobile broadband devices. Enterprise networks are also an important cloud-based business.

Huawei now has over 170,000 employees, and many of them work outside of mainland China. Huawei operates in 170 different countries, and manages 16 different R&D centers in Europe, Asia, the U.S., as well as in their main market in China. Huawei spends more on R&D (10% of sales revenues) than other sampled and rival firms, and has filed thousands of patents to exploit or protect their discoveries. Although Huawei employs nearly 80,000 employees engaged in R&D, they are still criticized and suspected of patent infringement and weak intellectual property rights in foreign markets. Some of Huawei’s equipment sales and acquisitions in the U.S. and Europe have been delayed or blocked, due to technical security concerns by foreign government agencies. Thus, despite its size and scope, Huawei faces liability of foreign threats as an EMNE.

**Ten Cent.** The Tencent Holding Company was founded in 1998 as an Internet access business for Chinese users, but has quickly grown and diversified into a more regionally based social media firm. Tencent has launched many mobile value added services in China, such as their popular instant messaging services QQ, QZone, WeChat. Tencent has also launched the QQ game portal and portal website, then acquired other gaming firms and licenses to expand their Internet traffic. Moreover, Tencent has imitated Alibaba, and learned how to provide online payment solutions and other e-commerce services by themselves, or with other strategic partners. Internet and media platforms created new market opportunities for Tencent to deliver content.

The growth and diversification of Tencent by M&A has allowed the firm to employ over 30,000 employees, including many young gamers and media engineers. Tencent invests more to develop new games, brands and media services; but there are no accurate numbers on the R&D spending. However, the growth of Tencent into social media and new sports streaming services has brought the firm into more conflicts and competition with other big online providers in China, such as Alibaba and Baidu. Constant innovation and faster new product cycles has also allowed Tencent to learn from other foreign media firms, such as Facebook, and to leverage their resources in other Asian markets. Although Tencent is still focused primarily on the Chinese media market, the firm has been diversifying into movie studios and online entertainment activities. Hence, Tencent wants to expand its footprint beyond China into regional markets, and is benefitting from the relaxed government rules and regulations about their imported online cultural content. Thus, Tencent’s revenues and profits grew over 30% on an annual basis in 2016 from their ads.

**Xiaomi.** One of the newest and fastest growing media firms in China has built its strategy on the linkages between smartphones and the Internet. Xiaomi began in 2010 by selling affordable, but very powerful smartphones directly to consumers online. Their phones were so popular that they often sold out shortly after being available online; Xiaomi also gained the largest market share in 2015 in China by shipping 67.5 million units, but slipped back 32% to only a 9% share in 2016.

This online direct sales model has allowed Xiaomi to expand into India and other Asian regional markets, as well as into niches of the U.S. market. However, Xiaomi has not been able to transfer their strategies and capabilities as easily outside of China, and has lost some market share inside China’s phone market in 2016. But Xiaomi has been forging more alliances to learn from, and is diversifying into Internet TV and sports devices to leverage their knowledge. Hence, Xiaomi’s transition to a diversified EMNE is still in progress, but managing the growth is a real challenge.

**Summary and Conclusions**

Globalization is creating more opportunities, conflicts, and threats for many managers and organizations. Manageable conflicts involve the strategic choices and organizational designs of MNEs in a variety of countries, but the environments and representation of MNEs are changing in the 21st century. Older MNEs from the more advanced industrialized countries are now facing more conflicts and competition from many newer MNEs, who have emerged recently from the bigger emerging markets like the BRIC economies (Brazil, Russia, India, and China). The OLI theories that explains the ownership and location advantages of older MNEs needs to be updated.

This short paper considers the LLL paradigm (Mathews, 2002) to explain the linkages, leverage, and learning capabilities of newer MNEs from emerging markets. Such EMNEs tend to originate in more technological and information based industries, where speed and interfirm connections are essential to gaining and sustaining competitive advantages in both emerging and developed markets. We focused on the growth strategies and diversification of EMNEs in four firms within China’s media and telecommunications sector. The four Chinese firms exemplify the LLL types of advantages to compete in the media sector, and have been diversifying beyond their original industry and national origins in China. More research is required to understand the growth and management strategies required for MNEs, new and old, from advanced and emerging markets.

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**TABLE 1**

**NATIONALITIES OF CORPORATE HEADQUARTERS and LOCATIONS**

**National Origins/Year 1995 2000 2005 2010 2014**

***Developed Economies***

**United States 153 185 170 133 128**

 **European Union (EU) 148 136 165 149 128**

 **Japan 141 95 70 68 57**

 **Switzerland 16 10 12 15 13**

 **Canada 6 13 14 11 10**

 **(2014) Developed Nations HQ=336+**

***Emerging Economies***

 **China 2 10 20 61 95**

 **India 1 2 6 8 8**

 **Brazil 4 3 4 7 7**

 **Russia 1 2 5 7 8**

 **(2014) Total BRIC HQ= 118**

**Sources: *Fortune (2016); Ghemawat (2016); M. Peng (2017).***

**TABLE 2**

**CORPORATE PROFILES OF CHINESE MEDIA MULTINATIONAL ENTERPRISES**

 **ALIBABA HUAWEI TENCENT HOLDINGS XIAOMI**

***Founding:*  1999 1987 1998 2010**

**Original business Internet Switches Internet Phones**

**Core Business E-commerce IC Tech E-Commerce, IM Smart Phones**

**Total sales (2015) $61 Billion $16.5 Billion $19 Billion**

**Annual growth 17% 12% 30% + 25%+**

**Corp. Strategy Related + Related, Related, Single Bus.**

 **Unrelated Linked Constrained**

**Total Employees 22,700+ 170,000 31,557 8,100**

**International Strategy “Bi-Regional” “Global” Regional + Regional+**

**Foreign sales % 9% 58% 6 % 4%**

**Foreign markets 6+ 140+ 5+ 8+**

**Alliances Yahoo; Many Many Few**

**R&D/Sales ratio NA 10%+ NA NA**

**Internet strategy Open; B2C, B2B Supplier + Mobile Direct sales**

**Legal status `Public, IPO Public Public Private**

**Sources: IBIS (2016a, b); Marketline (2015-2016); company websites; Tse (2015)**