



PALGRAVE STUDIES OF
INTERNATIONALIZATION
IN EMERGING MARKETS



International Business and Emerging Economy Firms

Volume I:
Universal Issues and the Chinese Perspective

Edited by

Marin A. Marinov · Svetla T. Marinova
Jorma A. Larimo · Tiina Leposky

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Palgrave Studies of Internationalization
in Emerging Markets

Series Editors

Marin Marinov
Aalborg University
Aalborg, Denmark

Svetla Marinova
Aalborg University
Aalborg, Denmark

Emerging market nations such as Russia, Brazil, China, South Africa and India as well as Eastern European territories, are in the process of changes and growth that require specific study and attention. The international business strategies employed in these territories target new opportunities, the study of which provides scholars the opportunity to evolve international business theory.

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Jorma A. Larimo · Tiina Leposky
Editors

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Editors

Marin A. Marinov
Department of Business and Management
Aalborg University
Aalborg, Denmark

Svetla T. Marinova
Aalborg Business School
Aalborg University
Aalborg, Denmark

Jorma A. Larimo
Faculty of Business Studies
University of Vaasa
Vaasa, Finland

Tiina Leposky
School of Marketing and Communication
University of Vaasa
Vaasa, Finland

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Notes on Contributors

Päivi Aaltonen develops her Ph.D. studies at Lappeenranta University of Technology, Finland, in the field of Business and Management. Her research interests are in knowledge creation processes, entrepreneurship, firm internationalisation and sustainable development, more specifically in organisational learning, innovation and recognition of entrepreneurial opportunities. She has presented papers at academic conferences.

Ahmad Arslan is Senior Research Fellow in International Business at Oulu Business School, University of Oulu, Finland. Previously, he worked in various academic institutions in the UK and Finland. His research interests include cross-border mergers & acquisitions, entrepreneurship, emerging economy firms, foreign market entry strategies, internationalisation of small firms and strategies of multinational firms. He has published in academic journals, including *British Journal of Management*, *International Business Review*, *International Marketing Review*, *Scandinavian Journal of Management*, *Journal of Strategic Marketing*, *Journal for East European Management Studies* and *Journal of Global Marketing* among others. He is Fellow of the Royal Geographical Society, the UK, and Fellow of Higher Education Academy, the UK. He is on the editorial board of two academic journals.

Li Thuy Dao is External Lecturer at the Department of Business and Management of Aalborg University, Denmark. Her major research interests include intercultural sensemaking, knowledge transfer and learning in east–west and north–south linkages, business leadership development and leadership ethics in emerging economies. She has a Ph.D. degree in intercultural management from Aalborg University. Her work has been published in the *International Journal of Strategic Business Alliances*, and in book by Adonis & Abbey Publishers Ltd and Copenhagen Business School Press.

Desislava Dikova is Professor in International Business at Vienna University of Economics and Business, Austria. Previously, she held academic positions at the University of Groningen, the Netherlands and King’s College London, the UK. She is Editor-in-Chief of the *Journal of East West Business*, associate editor of the *European Management Review*, senior editor of the *International Journal of Emerging Markets* and a member of the editorial boards of the *Journal of International Business Studies*, *Journal of World Business*, *Journal of International Marketing and Management* and *Organization Review*. Her research has been published in prestigious academic journals, including the *Journal of International Business Studies*, *Journal of Management Studies*, *International Business Review*, *Journal of Business Research*, *Journal of International Marketing*, and *Journal of International Management* among others.

Suraksha Gupta is Professor in Marketing at Newcastle University, London, the UK. She has over 20 years of industry experience as a practicing and consulting marketer, working with a number of firms possessing local and international brands. Her research interests are in the area of international brands, emerging economy markets, business-to-business networks and social development. Her research has been published in journals such as the *Journal of World Business*, *Industrial Marketing Management* and *Journal of Business Research*.

Katrin Held was awarded a Ph.D. degree at the Chair of Strategic Management of the University of Hamburg, Germany in 2017. After having been research associate, she now works as a Strategic Consultant, focusing on innovative and digital solutions in the logistics sector. Her

research interests and publications are in emerging economy multinationals as well as their challenges and opportunities resulting from their liability of foreignness and emergingness.

Igor Laine graduated with a Ph.D. degree from Lappeenranta University of Technology, Finland in 2016. His doctoral dissertation, approved with distinction, reflects his main research interests at the intersection of international business and entrepreneurship with a particular focus on emerging economies.

Jorma A. Larimo is Professor of International Marketing at the University of Vaasa, Finland. He is Vice Dean of the School of Marketing and Communication and Head of the Doctoral Programme of Business Studies at the University of Vaasa. He is also the leader of the FIGSIB, the joint doctoral programme of the Finnish Universities in the International Business field. His research interests include the internationalisation of small and medium-sized firms as well as foreign entry strategies of multinational enterprises, especially, particularly via foreign direct investments, mergers and acquisitions and formation of international joint ventures. He has edited six books in the field of International Business. He has published in numerous journals, including *International Business Review*, *Journal of International Business Studies*, *Journal of International Marketing*, *Management International Review*, *Journal of World Business*, *Journal of Global Marketing*, *Journal of East-West Business*, and *Journal for East European Management Studies* as well as in several edited books. He is on the editorial board of five international journals.

Tiina Leposky is Assistant Professor at the University of Vaasa, Finland, in the School of Marketing and Communication within the International Business and Marketing Strategies research group. Her research areas include servitisation of international and global companies, customer value creation in sales relationships across borders, digital applications, Internet of Things or multi-actor platforms in customer relationship management, and value co-creation and service provision with impoverished people. Her research has been published in the *Journal of Strategic Marketing* and *Journal of Transnational Management*.

Marin A. Marinov is Professor of International Business at Aalborg University, Denmark. He has thought and conducted research in many countries on both sides of the Atlantic and in Asia including Bulgaria, the United Kingdom, the United States of America, Denmark, Finland, Sweden, France, Germany, Portugal, Spain, Italy and China among others. His research interests include the internationalisation of businesses as well as management and marketing of multinational firms in general and in particular internationalising firms originating from emerging economies, areas in which he has researched and published at length over many years. He has consulted for numerous multinational companies, such as Kraft Foods, and national governments, including the Brazilian, Pakistani and that of the Sultanate of Oman on country and firm-specific strategies in the processes of internationalisation as well as in the area of business education. He is Book Series Editor of the *Palgrave Studies of Internationalization in Emerging Markets* and Routledge Frontiers of International Business, Management and Marketing. He has published in more than twenty academic journals including *International Marketing Review*, *European Journal of Marketing*, *Thunderbird International Business Review*, and *Journal of Marketing Management* among many others. He is on the editorial boards of several scholarly journals and periodicals, has published seventeen books, numerous book chapters and more than 90 academic articles.

Svetla T. Marinova was awarded a Ph.D. degree in International Business from Copenhagen Business School, Denmark. She is Professor in International Business and International Marketing at Aalborg University, Denmark. Her key research interests include the motives and strategies for firm internationalisation and the associated business models, institutional and resource capital enabling international activities. Her research has also explored multiple research areas including the internationalisation strategy of firms from emerging economies and their internationalisation motives, inducement and speed of internationalisation. She has published more than seventy papers in scholarly journals, including *International Marketing Review*, *Management and Organization Review*, *Journal of World Business*, *International Business*

Review, Research in Marketing, European Journal of Marketing, and Thunderbird International Business Review among numerous others. She is Book Series Editor of the *Palgrave Studies of Internationalization in Emerging Markets* and Routledge Frontiers of International Business, Management and Marketing and has published eleven books and many book chapters exploring institutions and internationalisation, corporate strategy and internationalisation of emerging economies and firms among numerous other areas. She has been on international evaluation and advisory boards on business education in numerous countries.

Øystein Moen is Professor at the Norwegian University of Science and Technology, Norway. His research interests are international marketing and the internationalisation processes of small and medium-sized enterprises. He has published in *International Business Review, Journal of International Marketing, Journal of Small Business Management, Management International Review* and the *European Journal of Marketing*. He was awarded the Hans B. Thorelli prize by the *Journal of International Marketing* in 2011.

Sina Mortazavi holds a Master degree in Business Administration from Linnaeus University, Växjö, Sweden. Currently, he is a full-time Ph.D. student at Lappeenranta University of Technology, Finland. He has published in the *Journal of Business Research*. His research interests include innovation, emerging economies and international business.

Anne Quarshie works as a Postdoctoral Researcher at the School of Business and Management of Lappeenranta University of Technology, Finland. Her main research interests include cross-sector interactions and sustainable supply chain management. She has published in the *Journal of Business Ethics* and *Journal of Purchasing and Supply Management*, among other journals.

Alex Rialp has a Ph.D. degree and is Associate Professor at the Universitat Autònoma Barcelona, Spain, and Adjunct Professor at the Norwegian University of Science and Technology, Norway. He has authored and co-authored several books, book chapters and articles published in academic journals, including *International Marketing Review, International Business Review, Journal of International Marketing,*

European Management Journal, and *Journal of Small Business Management* among many others. He is on the editorial review boards of *International Business Review* and *Journal of International Entrepreneurship*.

Josep Rialp has a Ph.D. degree and is Associate Professor in Marketing and Market Research and Vice-Dean of Postgraduate Studies at the School of Economics and Business at the Universitat Autònoma de Barcelona, Spain. His research interests are in international marketing, marketing metrics and firm internationalisation processes. He has published in many journals, including the *Journal of Academy of Marketing Science*, *Journal of Business Research*, *International Business Review*, *Journal of International Marketing*, and *Journal of Small Business Management*, among numerous others. He has been Associate Editor of *Business Research Quarterly*.

Lasse Torkkeli is Associate Professor at the School of Business and Management of Lappeenranta University of Technology, Finland. His areas of expertise are especially in the internationalisation of small and medium-sized enterprises, their networks, and partnerships, as well as the role of dynamic skills and culture in international business. His published research includes articles in conference proceedings and international academic journals, such as *Journal of International Entrepreneurship*, *European Journal of Management* and *International Journal of Procurement Management*.

Juha Väättänen is a Professor of International Business at Lappeenranta University of Technology, Finland. He has almost ten years of industry experience in international finance and emerging economy markets. His research interests are in international business, emerging economy markets, competitiveness and social inclusion. He has published in numerous journals, including the *Industrial Marketing Management* and *Journal of Business Research*.

Daojuan Wang is Assistant Professor at Department of Business and Management of Aalborg University, Denmark. She obtained her Ph.D. degree in International Business and Economics in 2016 from Aalborg University. Prior to pursuing her academic career, she worked as investment analyst, and also in the Bank of China as Assistant Financial

Manager. Her current research interests include mergers and acquisitions, investment policy and strategy, internationalisation of businesses and the financial aspects of innovation. She has published papers in the *Journal of Business Ethics*, *Thunderbird International Business Review*, *Sustainability*, and *Chinese Business Review* as well as book articles.

Xianhua Wei had worked for 13 years at the Changsha branch of the People's Bank of China as Director of the Technology Sector before he joined the University of Chinese Academy of Sciences (UCAS). He has a Ph.D. degree and worked as expert in Payment and Management on a number of foreign assignments. His research interests include Risk Management, Payment and Settlement and Investment Strategy. His papers are published on many academic journals, such as *Financial Research*, *Journal of Applied Mathematics*, *Systems Science and Mathematics* among others.

Maija Worek is Academic Coordinator at FHWien der WKW University of Applied Sciences, Austria, for Management and Communication. She is also Doctoral candidate at the University of Innsbruck, Austria. Her research interests are family businesses, especially their external growth development via internationalisation, which is the topic of her Ph.D. She has published papers in international conference proceedings and academic journals.

Ziwei Zhao studies for a double Master degrees from the University of Chinese Academy of Sciences, China, in management and engineering, and Aalborg University, Denmark, in economics and business administration. Her research interests are in innovation management. She has published in Chinese and US journals, such as *China National Conditions and Strength Journal*, *Journal of Mathematics in Practice and Theory*, *Chinese Business Review* among others.

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International Business and Emerging Economy Firms: Present Characteristics and Future Trends

Marin A. Marinov, Svetla T. Marinova, Jorma A. Larimo
and Tiina Leposky

Internationalization of Emerging Economies

Due to their consistent successful international expansion, emerging economy firms have continually attracted the attention of international business scholars. They face them with a plethora of challenges as existing international business theories, developed overtime in the Western

M. A. Marinov (✉) · S. T. Marinova
Department of Business and Management,
Aalborg University, Aalborg, Denmark
e-mail: marinov@business.aau.dk

S. T. Marinova
e-mail: svetla@business.aau.dk

J. A. Larimo
Faculty of Business Studies, University of Vaasa, Vaasa, Finland
e-mail: jorma.larimo@uwasa.fi

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context, often inevitably fail to explain how emerging economy firms internationalise and what accounts for their successful foreign operations. While emerging economies were in the past seen as markets and/or providers of resources targeted by expansion and opportunistic driven Western firms, present-day multinationals from emerging economies have become their contestants in multiple fields and industries worldwide. Besides, digitalisation, provide opportunities for firms, more importantly small companies, regardless of their origin, compete successfully in the world marketplace where many small and medium-sized firms from emerging economies have established their international presence.

Multinational firms from the BRICS countries—Brazil, Russia, India, China and South Africa—as well as the Next 11 nations, namely Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam among numerous others have already gained recognition as leaders or challengers in their industries worldwide.

Indian companies started sluggish internationalisation in the 1970s, activated the process in 1990s and in the early 2000s became marked a surge period of international activities causing upgrading of India's international competitive advantages in inexpensively provided technical expertise and knowledge built over the preceding decades of piling international experience (Ramamurti and Singh 2009). Research on multinational companies from Latin America is an emerging area (Casanova 2009), with an emphasis on Brazil (Fleury and Fleury 2011). Their international activities and research intent have taken an essentially regional position. Yet truly balancing the theoretical implications of international expansion and institutional influence are to be fully addressed (Lopez-Morales 2018). Russian geopolitical influence, abundance in natural endowments and government support have put Russian multinationals as important players in the global arena (McCarthy et al. 2009; Panibratov 2012). Least research seems to be the internationalisation of firms from South Africa (Matthee and Krugell 2012). Though most researched the internationalisation of

T. Leposky

School of Marketing and Communication, University of Vaasa,
Vaasa, Finland

e-mail: tiina.leposky@uwasa.fi

Chinese firms in comparison with all other emerging economy contexts (see e.g., Alon et al. 2018) the second part of this book is deducted to the newest developments of their internationalisation.

The unit of analysis of research on emerging economies has a macro or country level perspective investigating the dynamically changing contexts of these world spread environments (Marinov and Marinova 2012). Extant studies investigating the internationalisation of emerging economy firms take mostly a micro perspective exploring a broad number of issues ranging from home government support emerging economy firms are provided in the process of their internationalisation (e.g., Wang et al. 2012), to country-and firm-specific advantages/disadvantages impacting their foreign operations (e.g., Child and Rodrigues 2005; Marinova et al. 2011). Many emerging economy firms lack assets, hence resource-based advantages for internationalisation in developed economies. To develop successful international operations in other emerging economies, when there are environmental and institutional similarities from home and host country perspectives (e.g., Cuervo-Cazurra and Genc 2008) does not represent a challenge in emerging economy settings, characterised by weak host country infrastructures and institutional fields. These specifics pressure emerging economy firms to internationalise embarking on a quest of predominately valuable assets, as well as technological and managerial knowhow assisted by informal social networks (Yaprak et al. 2018). Gaining knowledge via learning from advanced economy markets, is not only a powerful motivator for emerging economy firms to internationalise in developed economy contexts, but also impacts the choice of entry modes of emerging economy firms in those contexts (Jonsson 2017).

Particular cases are the small and medium-sized enterprises (SME) of emerging economy firms in general and more importantly those from less developed countries. For example, a case study on a Ghanaian textile SME (Kujala and Törnroos 2018) implies that a combination of effectuation approach and networking may be necessary for the internationalisation of SMEs from emerging economies, especially the ones having severe resource constraints and lack of expertise in foreign operations. Research publications suggest that SMEs from emerging economies exhibit increasing international activities (e.g., Jormanainen and Koveshnikov 2012). Family firms often use their social contacts to

speed up their internationalisation and compensate for lack of institutional support (e.g., Miller et al. 2009; Marinova and Marinov 2017).

Overall, research evidence shows that the internationalisation of emerging economy firms, regardless of size and other specifics exhibit substantial differences from the internationalisation patterns demonstrated by developed economy firms. Consequently, the purpose of this volume to address the current developments in the internationalisation of emerging economy firms is beneficial.

There are significant dissimilarities among various emerging economies due to variety of reasons such as historical and cultural diversities and geographical variabilities, to add also striking contrasts within these countries concerning super rich and extreme poverty (Leposky et al. 2016). As poor consumers make the majority of the markets of many emerging economies, research at the Bottom-of-the-Pyramid (BoP) has received growing attention since Prahalad (2004) coined the term and highlighted the vast, untapped market of people living below the poverty line, still representing a consumer base. In international business, the BoP markets are often regarded as recipients of aid. However, there is evidence that resource scarcity can be a source of innovativeness. Understanding the BoP market needs can be beneficial for emerging economy firms in meeting the needs of a huge part of the population in emerging market contexts (Simanis and Hart 2009). Consequently, it is important to consider the BoP market effect to understand how and why emerging economy firms internationalise and compete in markets with such characteristics.

Recent Developments of Emerging Economies and Their Firms

The World Economic Forum that took place in Davos in 2018 revealed that eighteen emerging economies worldwide had demonstrated consistent spectacular long-run macroeconomic indicators mostly in terms of per capita gross domestic product growth of above 3.5% per year over a 50-year or at least 5% per year over a 20-year period.

These indicators had a positive impact on the economies of these countries simultaneously changing the fabrics of their home markets. Apart from China, Malaysia and South Korea these economies include the new fast advancing economies of India and Vietnam as well as Ethiopia and Uzbekistan.

The constantly increasing international competitiveness of the emerging economy firms originating from these countries have largely contributed to the above stated success. For example, by 2017 the Chinese phone manufacturer Transsion turned out to be the most important brand of smart and feature phones in the whole of Africa producing affordable handsets letting clients in African countries avoiding high cost when calling someone who uses a different mobile provider.

According to McKinsey Global Institute analysing the long-term performance growth of emerging economies and their firms emerging economies are a very influential locomotive securing growth for the world economy in the last fifty years. With China and India in the lead, all emerging economies brought practically two-thirds of the world's GDP growth in the period 2002–2017. Nevertheless, the economic performance in the group of emerging economies differs extensively. Despite the fact that many such countries have achieved commanding and lasting long-term advancement, others have grown less powerfully and little by little (Woetzel et al. 2018).

The Chinese Perspective

China and Chinese multinationals are the most researched emerging economy and its firms (see e.g., Deng 2012). The World Investment Report (2018) shows that in terms of foreign direct investment (FDI) inflows, in 2017 China was the second largest recipient in the world after the United States, while government policies clamping down on FDI outflows resulted in China falling behind the United States and Japan, showing a decrease for the first time since 2003. Yet, even with the late decrease, Chinese FDI outflows are by far the largest originating from a particular emerging economy.

The paper by Buckley et al. (2007) was the first theoretically based empirical publication of Chinese FDI having received the decade award in 2018 of *Journal of International Business Studies*. In recent years, the research on the internationalisation of Chinese firms has matured with the appearance of review articles pulling together the fragmented literature produced thus far. Deng (2012) has made an early attempt at organising the field dividing it in antecedents, processes and outcomes, uncovering gaps in existing research mostly in the last two areas, integrated by the understanding of how Chinese firms internationalise. The study argues that even though researchers have covered extensively the antecedents, theory building based on existing findings is yet in the making.

Haasis and Liefner (2019) have found that the expansion of research since Deng (2012) has already filled in numerous gaps identified by him, and fundamentals considering the overall understanding of the process of the internationalisation of Chinese firms laid down. Nevertheless, Haasis and Liefner (2019) argue that there is still insufficient clarity concerning the capabilities and innovativeness of Chinese firms, as well as the complex socio-political ramifications of firms, industries, host countries and home government policies. Thus, pronounced needs exist for research that will incorporate the Chinese perspective and continue exploring the unique descriptors shaping the internationalisation specifics of Chinese firms.

The recent review publications (e.g., Quer et al. 2015; Paul and Benito 2017; Alon et al. 2018) reveal that most of the extant research has focused on macro level, possibly explained by the strong influence institutions put forth on the internationalisation of China and its firms. Authors have used the role of institutions to explain China's internationalisation rather than foreign expanding through strategic entry abroad. Chinese firms are unique in that, that they are seeking a strategically motivated exit from their home market characterised by provincial boundaries causing fragmentation as well as by excessive bureaucracy (Boisot and Meyer 2008). Thus, institutions play roles in driving internationalisation and supporting it. Consequently, institutional theory has been the most frequently used approach to analyse

internationalisation of Chinese firms in general and outward Chinese FDI in particular (Quer et al. 2015).

The institutional environment can account for the internationalisation of Chinese firms, especially via FDIs, which mostly target resource rich countries with weak institutions (Kolstad and Wiig 2012). Institutional support in internationalisation approaches, used in conjunction with a multinational strategy and combined by a rapid speed of internationalisation and experiential learning can offset environmental uncertainty in turbulent or fractured host markets (Clegg et al. 2016) that Chinese firms often target. Special interest has been devoted to Chinese investments in Africa, generating a “considerable controversy” (Chen et al. 2018: 610). There are suggestions that Chinese investments help sustaining weak or corrupt governments, which may in turn lead to unsustainable human and material resource exploitation and raise human rights issues (Allard 2012). Nonetheless, researchers have found that Chinese investments raise income per capita (Donou-Adonsou and Lim 2018) and increasing economic growth in the long-run (Koomson-Abekah and Nwaba 2018) in the host countries offering benefits to the local population and providing access to capital. The relationship between China and African countries has not been uniform over the years and the Chinese approach to investments in Africa has varied (Kaplinsky and Morris 2012).

Numerous specifics need further attention in Chinese internationalisation. For example, innovation, which generally is a driving force of Western born-global firms, is one of the key weaknesses in comparable Chinese firms (Andersson et al. 2015). This implies that internationalising Chinese firms may possess capabilities providing firm-specific advantages assisting their internationalisation process.

Further comparative studies covering internationalised Western firms and their Chinese counterparts are needed to test the existing internationalisation theories and enrich research on China (Alon et al. 2018). As Haasis and Liefner (2019) note, the future of research in the Chinese context will be greatly influenced by the political decisions that the Chinese government will enact, whether seeking stronger congruence with market capitalism or drawing away from it. Buckley et al. (2018)

have synthesised ideas for future research presenting a retrospective and future research agenda on Chinese outward FDI.

The Content of This Volume

This volume addresses the current internationalisation issues that emerging economy firms encounter taking a standpoint of universal issues associated with the investigated phenomenon as well as taking a Chinese perspective. Methodologically, the approaches used in the studies vary. The volume contains conceptual and empirical chapters, as well as case studies and quantitative analyses.

The volume consists of two parts. The first part focuses on universal issues, which concern the internationalisation of emerging economy firms and is comprised of four chapters. The second part presents the specifics of the Chinese perspective and contains three chapters.

Motivated by the increasing interest for focusing research on addressing the grand challenges of modern society, Chapter 2 of the volume reviews the literature on inclusive innovation from the perspective of multinational firms as focal actors. In this chapter, the concept of inclusive innovation, innovation integrating marginalised groups of people into economic processes, is seen as a solution for otherwise excluded members of our society to be integrated into certain aspects of innovation. BoP markets in emerging economies are the most populous, but also the poorest markets of economically and socially excluded people. While poverty and social inequality are grand challenges for our society, the chapter takes the stand that inclusive innovation initiatives led by multinationals can be a part of a solution for the customers in the BoP markets. Being interested both in fostering innovation and developing new markets, multinational firms seem to have not only an intrinsic motivation but also required resources for the development of inclusive innovation at the BoP.

Chapter 3 focuses on knowledge and behaviour, noting that no one informed the dinosaurs that their thermal insulation could someday be useful for another purpose, yet their feathers developed into wings.

This example describes exaptation, the discovery of new uses for existing traits; complementary to adaptation. The former, which is similar to opportunity recognition, and the latter, which follows environmental demands, are paths of knowledge utilisation. Following the notion of exaptive repurposing of knowledge in the internationalisation process, this chapter illustrates how internationalising emerging economies change the behaviour of firms from adaptive to exaptive, offering a systematic theory to analyse the organisational behaviours in a variety of contexts. The chapter illustrates how a change from developed to emerging locations demands new uses of existing knowledge. This expansion creates further possibilities for additional growths to emerging economies. This process is particularly important since it illustrates how firms from developed economies adopt behaviours similar to ones of emerging economy firms, for instance attempts to cope with political volatility. Such processes can take a long time. Therefore, the chapter suggests that exaptation is an essential concept in understanding organisational learning patterns in emerging economy contexts and those capabilities learned in emerging economies can leverage further organisational capabilities in other emerging economy locations.

Chapter 4 addresses the determinants of value creation by multinational enterprises (MNEs) in relation to the largely neglected research context of BoP markets. These markets exhibit significantly different characteristics compared to the affluent developed or aspirational markets in emerging economies. Dealing with a wide range of diversity within a market where it is difficult to obtain reliable information means that MNEs tend to face challenges upon entering such markets. Yet, the overall latent demand BoP markets possess should not be ignored. Consequently, MNEs have demonstrated their willingness to innovate market-specific approaches to cater to BoP needs. The chapter applies the service-dominant logic in subsistence context and identifies commitment to BoP markets, strategic corporate social responsibility, and service quality as key firm-level determinants of effective service marketing in BoP markets. Furthermore, social trust, technological outreach and performance orientation characteristics in targeted BoP markets appear to be key country-level determinants.