Host countries' level of development and internationalization from emerging markets:

A typology of firm strategies

Abstract

Host countries' level of development affects internationalization from emerging markets. The challenges and opportunities firms face, the resources and assets they need, and ultimately how they internationalize are shaped by whether firms internationalize to developing or developed countries, and whether they operate within a single or across multiple levels of host country development. I propose a typology of firm strategies to deal with different host location types. Local optimization happens when firms seek out less competitive markets in similar and lower income countries, managing institutional and infrastructural challenges through collective action. Firms seeking global consolidation manage their limited capabilities and legitimacy through mergers and acquisitions as they springboard from low to high income host locations. Suppliers in global value chains and the customer-facing partners of advanced multinationals in low income countries are arbitrageurs between high and low income countries. They use brokering to avoid head-on competition with advanced multinationals, but to grow, firms must retain their primary relationships while developing non-competing relationships. Niche filling involves firms targeting knowledge-intensive offerings at lucrative high income markets, managing their smaller resource base vis-à-vis competitors through non-equity or digitally-enabled modes of internationalization. Firms can simultaneously use different strategies for different types of foreign markets.

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Implicit in the very term "emerging market multinational corporation" (EMNC) is the idea that it is useful to categorize a certain type of firm with reference to the level of development of its home country. In this paper, I argue that paying more attention to host countries, and specifically the levels of development of host locations, is also important. For example, the Shanghai Fosun Pharmaceutical group is present in high income countries like the USA and Europe, in countries like Peru, Brazil and South Africa with a similar level of development to China, and also in various poorer African countries like Cote d'Ivoire, Ghana and Kenya. It is likely that the different host locations present very different challenges and require different types of resources and assets from the EMNC.

The level of development of a host country and therefore its level of economic sophistication offer both opportunities and challenges. EMNCs have a competitive advantage in least developed countries (Cuervo-Cazurra & Genc, 2008), but they must deal with institutional and infrastructural challenges there. They frequently deal with these challenges by forming networks (Chipp, Wocke, Strandberg & Chiba, 2019). In contrast, EMNCs in high income countries must upgrade to survive in bigger, more competitive markets (Luo & Tung, 2007), and mergers and acquisitions (M&As) are often an important strategy (Elia & Santangelo, 2017; Gammeltoft & Hobdari, 2017).

Moreover, as the example of Shanghai Fosun Pharmaceutical suggests, firms do not necessarily opt for one or the other type of host location. Instead, they can choose to operate in a range of different host locations. I propose a typology of firms' internationalization strategies based on two axes. First, whether firms go to high income host countries with more buying power and greater opportunities for learning, but also more challenging competitors, or to countries at similar or lower levels of development, and where firms may have a competitive advantage vis-à-vis local firms, but need to deal with institutional and infrastructural challenges. The second axis deals with whether internationalization involves connecting operations across countries at different levels of development, or whether firms specialize in host countries at a given level of development, whether lower or higher. I suggest that there are different requirements for success in host locations at different levels of development, that different assets and resources are needed in each type of location, and that those result in different internationalization strategies. I offer propositions around these elements.

In this paper, I consider only what has been termed the motive to “sell more” (Cuervo-Cazurra, Narula & Un, 2015), i.e. market-seeking internationalization. Thus I theorize firms’ search for bigger markets abroad, and for further conceptual clarity also exclude state-owned enterprises. I often refer to firms rather than to EMNCs. This is for two reasons. First, I am theorizing firms’ internationalization strategies rather than the types of firms. Indeed, I suggest that a given firm can choose to pursue multiple strategies simultaneously: What matters is where the firm seeks to internationalize. Second, some of the internationalization strategies involve low commitment modes. The firms pursuing them may be multinational corporations as historically defined – with the ownership of cross-border assets as a means of control (Narula, Asmussen, Chi & Kundu, 2019) – but they need not be.

Because a country’s level of development is multi-dimensional, involving economic, human, institutional and other resources, it is hard to precisely define the concept. Meyer and Grosse (2019) explain and use the categorization of the World Bank, which is based on income level: low, lower middle, upper middle and high income countries. I follow their categorization, but combine low income and lower middle income countries into a single “low” category. This allows me to extend Prahalad’s (2004) metaphor of an economic “pyramid” and present the global economy in a stylized way as a three-tiered pyramid consisting of high, middle and low income countries.

As their name suggests, middle income countries like Brazil, Mexico, Thailand and Turkey find themselves in the middle of the global economic hierarchy. Firms from those countries differ from their counterparts from high income countries in that they can seek their fortunes by venturing to host countries at a lower, similar and/or higher level of development compared to their home country. Where they go in that economic hierarchy, I suggest, will affect how they internationalize.

Local optimization involves going to countries at lower and similar levels of development. Global consolidation takes place when firms first go to those countries, but then use the capabilities developed there to go to high income countries. Brokering happens when firms are located in low income countries, from where they act as bridges between low and high income countries, while niche filling involves venturing into high income economies with a niche product or service, typically through a digital or non-equity offering. Each case presents different challenges in the host country, with different assets and resources needed to support firms' internationalization.

The rest of the paper is organized as follows. First, I give the theoretical background of why I focus on host country level of development, and explain that the internationalization of firms from middle income countries can be understood as a strategic decision to specialize in internationalizing to countries at a certain level of development (low/similar or high), or across levels of development. I then present the four internationalization strategies constituting the typology: Local optimization, global consolidation, brokering and niche filling. I conclude with discussing the implications of the types of internationalization strategies for the study of internationalization from middle income countries.

1. Theoretical background

The aim of theorizing is to distill the complexity of the empirical world into a set of generalizable observations to guide decision making and reasoning. In this paper, I argue that there is a systematic relationship between the levels of economic development of host countries and how firms from middle income countries internationalize to those locations. I therefore consider the levels of development of host locations useful to guide the development of internationalization strategies.

Even though emerging market MNCs are defined with reference to the level of development of their home countries, the level of development of the host countries to which they go has received little explicit scholarly attention. Indeed, when scholars (e.g. Amal, Baffour Awuah, Raboch & Andersson, 2013; Madhok & Keyhani, 2012) compare and contrast EMNCs and advanced multinational corporations (AMNCs), they implicitly also suggest that the differences between EMNCs and AMNCs are greater than the differences between EMNCs, e.g. those from different home countries or different industries.

This is a bold suggestion, given the considerable heterogeneity characterizing EMNCs (Gammeltoft, Barnard & Madhok, 2010; Hoskisson, Wright, Filatotchev & Peng, 2013). EMNCs encompass a very heterogeneous group of companies originating from and operating in very diverse contexts. Studies have sought to further categorize EMNCs and their actions, often on the basis of their home locations and by extension their history and culture, whether Latin America (Aguilera, Ciravegna, Cuervo-Cazurra, & Gonzalez-Perez, 2017), India (Kumas, 2008) or China (Ramamurti & Hillemann, 2018). EMNCs have also been defined in terms of their relationship with the global economy, specifically global value chains (Azmeh & Nadvi, 2014; Pananond, 2013).

EMNCs frequently present challenges to extant theory. An evolutionary view of the MNC is key to the field of international business, typified by the highly influential Johanson and Vahlne (1977; 1990) stages of internationalization approach. But EMNCs seem to have too few capabilities to satisfactorily explain their internationalization into advanced economies (Madhok & Keyhani, 2012). Although important scholars of EMNCs (e.g. Luo & Tung, 2007; Ramamurti, 2012) concur that EMNCs are evolving, they suggest that the international expansion of EMNCs may be best understood with reference to their increased domestic competitiveness rather than in terms of a sequence of locations. Cuervo-Cazurra (2011) goes further and suggests a non-sequential model of EMNC internationalization.

Another question that has been puzzling scholars relates to how distance functions for EMNCs. Conti, Parente and de Vasconcelos (2016) examine instances “when distance does not matter”, the title of their paper on Latin American MNCs, while a review paper on cultural distance (Beugelsdijk, Kostova, Kunst, Spadafora & van Essen, 2018) finds that distance effects on performance are nonsignificant for EMNCs. They speculate that differences in the level of development of host locations may be relevant, e.g. competitive environments with potential for technological upgrading versus countries with weak institutions or even “failed” states. These differences have resulted in a longstanding debate about whether or not EMNCs require the development of new theory (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2010; Narula, 2006; Ramamurti, 2012).

Hernandez and Guillén (2018:30) contend that making a contribution to that debate requires “making appropriate comparisons across firms from emerging and developed markets to disentangle what is unique about ‘‘emerging’’ markets from what is simply driven by differences in firm or country experience.” One such a unique element has to do with the fact that EMNCs originate not simply from the lower end of, but in fact in the middle of the global economic hierarchy. This means that EMNCs can decide to internationalize to countries with a lower, similar or higher income level compared to their home country. Countries that are closer to EMNCs in terms of cultural or geographical distance, especially if they are low income countries with fewer competitors, are relatively easier to go to. But high income countries offer the lure of greater markets. That tension shapes the internationalization of firms from middle income countries.

Essentially, EMNCs need to weigh up their familiarity with proximate countries that tend to have a lower or similar income level compared to their home country against the lure of the markets in high income countries. They can decide to operate either in countries with a lower/similar income level compared to the home country, or in high income countries, but they can also decide to straddle those two worlds, seeking to find value across countries at different levels of development. This provides a framework within which the internationalization strategies of EMNCs can be considered – see Table 1.

[Table 1 about here]

Data from sources like OSIRIS and the World Investment Reports suggest that EMNCs almost always originate in middle income countries. The frequently given examples of EMNCs (e.g. the Russian oil and gas firm Gazprom and its Brazilian counterpart Petrobras, the Turkish industrial conglomerate Koç Holdings, the Indian information technology firm Wipro etc.) as well as the typical home countries discussed (Brazil, Malaysia, Mexico, South Africa, Thailand etc.) all suggest that being from middle income countries is definitional for EMNCs (Luiz, 2018; Ramamurti & Singh, 2009). A 2018 chapter that I wrote with Onaji-Benson built on the few prior studies (Cuervo-Cazurra & Genc, 2008; Hoskisson, Wright, Filatotchev & Peng, 2013; Jain, Lahiri & Hausknecht, 2013) that did not conceptualize the global economy in a binary fashion (developed/developing; emerging/advanced), but rather as three-tiered. EMNCs find themselves in the middle of the pyramid constituting the “global economic hierarchy” (Barnard & Onaji-Benson, 2018).

EMNCs originate from countries that are characterized by institutional weakness, although not as severe as seen in low income countries (Cuervo-Cazurra & Genc, 2008). They can try to survive in the more competitive high income countries and benefit from the bigger markets there. But for a firm from a middle-income country, the markets of low income countries are also of potential interest – and their competitive position likely much stronger. This means that when EMNCs internationalize, the very different types of host countries are likely to pose different challenges, require different assets and resources, and different internationalization strategies.

In their expansive study of EMNCs, Ramamurti and Singh (2009) highlight the importance of the internationalization strategy of “local optimizer firms”, EMNCs that access opportunities in countries from the region at lower or similar levels of income. They also highlight the importance of “global consolidator firms”, EMNCs that use the capabilities they have developed in proximate countries to enter high income countries, for example Mexico’s telecommunications company América Móvil or

India’s Tata Steel. The first internationalizes to countries at a lower or similar level of development, but the latter springboards (Luo & Tung, 2007) across levels of development to high income countries.

Another set of firms from middle income countries that operate across levels of development engage in what I term brokering. They locate themselves in low income countries from where they connect low and high income countries. This group includes the low cost providers documented by Ramamurti and Singh (2009) that act as arbitrageurs between the greater demand in high income countries and the lower production costs in low income countries, often as low-cost suppliers in global value chains e.g. Foxconn or Yue Yuen (Gereffi, 2014). But brokering can also take place on the demand side. The customer-facing distributors of the offerings of AMNCs from high income countries into logistically often-challenging low income countries also internationalize by brokering between high and low income countries (Yaprak & Karademir, 2011).

Kotabe and Kothari (2016) emphasize the importance of EMNCs finding a market niche to compete effectively in high income countries. I want to go further and suggest that finding and filling a niche is definitional for firms from middle income countries that seek to compete primarily in high income markets – they cannot otherwise develop adequate capabilities to effectively compete in those technologically advanced countries.

Figure 1 provides an overview of the stylized global economic hierarchy. I indicate the possible internationalization strategies of firms from middle income countries on the figure, and it is clear that some strategies involve internationalization across different levels of development (brokering, global consolidation) while others involve more specialization at a given level of development (local optimization, niche filling).

[Figure 1 about here]

In this paper, I present and explain the four internationalization strategies according to the level of development of host country locations, and whether or not firms operate across countries at different levels of development. I explain *requirements for success* in the host location, the *assets and resources* required for internationalization, and *how* EMNCs internationalize for each internationalization strategy.

I anchor my arguments in prior literature, mostly in international business, but also adjacent literatures such as international entrepreneurship and economic geography, and provide examples where appropriate. Some of the internationalization strategies (e.g. global consolidation) are better represented in the literature than others (e.g. niche filling). For the sake of an overarching view, I discuss all four strategies, so that my discussion sometimes reiterates well-established relationships. Where theorizing is still diffuse, I elaborate. The relative attention given to a given internationalization strategy is therefore not a function of its relative importance, whether theoretically or in practice, but rather informed by how well it has previously been theorized.

2. Local optimization

Given that EMNCs tend to have fewer resources than their AMNC counterparts (Ramamurti, 2016), it is hardly surprising that Rugman's regionalization argument holds (Li & Oh, 2016). Many EMNCs seek to go to countries that are relatively close to them and where there are historical and cultural ties. Such local optimization takes place when EMNCs go to low or middle income countries that are geographically and culturally close to them. This is informed by firms seeking comparable contexts in which to exploit the products and production processes that were developed for their own, less developed country (Ramamurti, 2009).

This strategy has been quite well documented, and firms following this strategy largely follow the incremental pattern of internationalization first identified by Johanson and Vahlne (1977; 1990). This is the case for countries as diverse as Thailand, even given its strong reliance on global value chains (Pananond, 2013), South Africa (Barnard & Luiz, 2018), Mexico (Cuervo-Cazurra & Montoya, 2018) and Brazil (Fleury & Fleury, 2011). In fact, the historically Portuguese colonies in Africa (Mozambique and

Angola) are for a number of industries more important host locations for Brazilian MNCs than Asian markets, suggesting that not only geographical but also cultural proximity matters for this internationalization strategy.

Some EMNCs that follow a local optimization strategy do eventually internationalize into other regions, and even into high income countries, at which point they are described as global consolidators (Ramamurti, 2009). But it frequently happens that they do not “graduate” from a local optimization strategy. Most MNCs from middle income countries are likely to pursue local optimization as their only strategy, i.e. they will internationalize to countries with a similar or lower income level than the EMNC’s home country and in their home region, or if not a region that is geographically, at least to one that is culturally close.

2.1 Host country requirements: Overcoming the institutional and infrastructural challenges of lower income host countries

Although EMNCs are better able to deal with weaker institutions than AMNCs when they go to lower income countries with weak institutions (Cuervo-Cazurra & Genc, 2008), it is important to note that EMNCs do not "prefer" bad institutions. Indeed, Aleksynska and Havrylchyk (2013) find that only natural resource seeking is unaffected by the quality of destination country institutions. Thus even though local optimization per definition involves seeking to exploit experience operating under difficult conditions (Ramamurti, 2009), EMNCs seek as far as possible to go to countries with a similar level of institutional quality, and often, income level.

However, this is not always possible. Consider the case of the South African retailer Shoprite that Onaji-Benson and I documented: Its initial entry was into relatively stable African countries like Botswana, Namibia and Mauritius with a similar level of income to South Africa. But once Shoprite had entered those markets and sought to expand further, they needed to enter much riskier and lower income markets like Angola, Nigeria and the Democratic Republic of Congo (Barnard & Onaji-Benson, 2018).

The key consideration for EMNCs pursuing a local optimization strategy is therefore how to reduce the risks associated with host countries that are institutionally and infrastructurally challenging. Thus their internationalization is centrally concerned with how to overcome institutional "voids" (Khanna, Palepu & Sinha, 2005; Gao, Zuzul, Jones & Khanna, 2017), using the vivid term that captures what Luo and Wang (2012) term “institutional hardship” in the host environment. Internationalization into these low and even middle income countries is shaped by how EMNCs deal with the "voids" they encounter.

Given this clear stream of literature, I propose:

> Proposition 1a: When pursuing a local optimization strategy, the main host country challenge relates to the institutional and infrastructural challenges of the host country.

2.2 Assets and resources required: Deploying capabilities while acknowledging local preferences

In many ways, EMNCs that seek to profit from markets in countries at a similar or lower level of development are comparable to the examples of MNC internationalization that were documented by the early international business scholars, e.g. Dunning in his 1958 book where he described the United States' investment into the torpid post-war manufacturing sector of the United Kingdom (1958/2006), and Penrose in her study of General Motors in Australia (Penrose, 1956). Indeed, scholars have pointed out that the apparent distinction between EMNCs and AMNCs relates more to the scope and extent of their internationalization than to inherent differences between the two types (Hernandez & Guillén, 2018; Ramamurti, 2016).

A key insight of the work of Dunning (1958/2006), Penrose (1956) and later followers is that the foreign entrant typically operates more efficiently than local firms. This provides an advantage – at least initially, until and to the extent that upgrading happens – to MNCs in economically and technologically less advanced host economies. Although EMNCs tend to lag their counterparts from high income countries (Awate, Larsen & Mudambi, 2015), their origins in middle income countries mean that they are typically at least as efficient, and often more efficient than competitor firms in other middle income and low income countries.

But local optimization requires taking seriously local preferences, and EMNCs following a local optimization strategy often overestimate their capabilities in dealing with those. In 2002, South African Breweries had to leave Kenya, having underestimated loyalty to the local beer (Wood, 2015). Fifteen years later, an East African executive commented favorably about the capabilities of a South African food producer that was forced to leave the market, but nonetheless concluded that “You can’t serve people with arrogance” (Barnard & Osakwe, 2020).

Thus for local optimization, most of the organizational assets and resources are likely to be in place, but EMNCs need to be careful to not dismiss local preferences as ill-informed. This leads me to propose:

> Proposition 1b: Firms pursuing a local optimization strategy tend to already possess most of the organizational assets and resources needed in the host location, but may be inadequately attuned to local preferences.

2.3 How internationalization takes place: Collective action with various actors

Firms pursuing a local optimization strategy come from a wide range of home countries and go to an even wider range of host environments. But although they use a variety of strategies to internationalize, some form of collective action is a key shared characteristic of the different approaches.

In the case of Chinese EMNCs, the very substantial role of government is well-known, and it is especially marked for foreign direct investment (FDI) into lower income countries (Lu, Liu, Wright & Filatotchev, 2014). There are numerous examples of collaborations between government and private FDI: major Chinese infrastructure investments in Africa (roads, railways and ports) aim to facilitate the export of natural resources (Kaplinsky & Morris, 2009) and government-led economic cooperation co-occurs with FDI, especially in the more indebted African countries (Sanfilippo, 2010).

China is not typical; no other country can match its size and financial resource base. But the need for collective action does not need to be met by a single powerful actor. Joint ventures, whether greenfield or partial acquisition, are frequently used to facilitate local optimization strategies (Ramamurti & Singh, 2009). In Turkey, when considering equity-based entry, joint ventures were increasingly preferred over wholly-owned ventures the less developed a host country (Demirbag, Tatoglu & Glaister, 2009), while Gaffney, Karst and Clampit (2016) also find that EMNCs prefer lower equity modes in less developed contexts.

Business groups represent another form of collective action. Most of the scholarship on business groups focuses on their intra-national performance (see the review by Carney, Gedajlovic, Heugens, Van Essen & Van Oosterhout, 2011), and evidence suggests that they play a positive role when there are weak financial and labor market institutions. They can also play a non-trivial role in supporting internationalization (Becker-Ritterspach & Bruche, 2012; Yiu, Ng & Ma, 2013), essentially because the group compensates for shortcomings in the host institutional environment (Kim & Song, 2017).

Boddewyn and Doh (2011) document partnerships between MNCs, NGOs and governments that provide what they term "collective goods" that are essential for the functioning of MNC operations, e.g. transportation, healthcare and worker training. Especially in low income countries, such collective goods are absent, and "partnerships will typically include multiple partners from multiple sectors, to compensate for institutional gaps and substitute for missing market actors" (Rivera-Santos, Rufin & Kolk, 2012:1721). For local optimization, those partnerships are often critical.

Finally, Chipp, Wocke, Strandberg and Chiba (2019) argue although the internationalization literature is dominated by an atomistic view of the single MNC, a loose network may be better able to collectively deal with locational challenges of the least developed locations. Like Rivera-Santos, Rufin and Kolk (2012), they point out that the loose network can include governments and local communities, but they conceptualize the network primarily as a network of firms. They give the example of the South African MNC Imperial Logistics that establishes operations – sometimes classifiable as wholly-owned subsidiaries – in the key locations where it operates. But its internationalization also encompasses contractual relationships with other MNCs where its role as a logistics provider can technically be described as that of a service provider.

Given the importance of various forms of collective action to overcome institutional weakness, I propose:

> Proposition 1c: To overcome institutional weakness, firms pursing a local optimization strategy enter host locations collectively, working with partners that are both private and public, formal and informal, and cross-sectoral.

3. Global consolidation

Another internationalization strategy of EMNCs involves global consolidation, following the term used by Ramamurti and Singh (2009). A global consolidation strategy has been pursued by EMNCs like the Mexican construction firm Cemex, Chinese firms like the consumer appliance firm Haier and automotive component manufacturer Wanxiang, and the Indian aluminum and copper manufacturer Hindalco. To consider a global consolidation strategy, EMNCs need to have been successful enough in low income countries for them to consider expanding into high income countries. But the shift from operating within countries at a similar or lower level of development to operating across low and high income countries presents a different set of challenges.

This strategy has attracted scholarly attention for at least a decade (e.g. Aybar & Ficici, 2009; Giuliani, Gorgoni, Günther & Rabellotti, 2014; Kotabe & Kothari, 2016). Many of the propositions have in fact been quantitatively tested, and I include them primarily to enable systematic comparison with the other internationalization strategies.

3.1 Host country requirements: Legitimacy in a well-developed, sophisticated market

EMNCs pursuing a global consolidation strategy often need to contend with perceptions that they have an inadequate or at least inappropriate resource base to succeed in a high income country. Barnard (2014:211) cites the skeptical analyst who responded to South African Breweries' acquisition of the US brewer Miller with concern about "the leopard changing its spots from a very capable emerging market player to a player with a big chunk of underperforming developed assets", while Pant and Ramachandran (2012) demonstrate how Indian software companies in the US had to engage in extensive legitimization activities.

Legitimacy has been defined as a "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate" (Suchman, 1995: 574) within a given context, and it is hardly surprising that much work on EMNCs – especially those venturing into high income countries – has focused on their lack of legitimacy. Scholars have theorized the legitimization strategies of EMNCs (Ahlstrom, Bruton & Yeh, 2008; Bangara, Freeman & Schroder, 2012). Indeed, there is general agreement that legitimization, a complex and multifaceted process, is needed for global consolidation to succeed (Yamakawa, Peng & Deeds, 2008). This leads me to propose:

> Proposition 2a: When pursuing a global consolidation strategy, the main host country challenge stems from the need to develop legitimacy in an economically and technologically sophisticated high income host country.

3.2 Assets and resources required: Accelerated capability acquisition across the firm

Scholars have long grappled with understanding how EMNCs secure the resources needed to successfully internationalize to high income countries. The Mathews (2006) "learning, linkages and leveraging" model, further clarified by him in 2017, suggested that "dragon multinationals" did not rely on their own resources to internationalize, but essentially flipped the relationship, using internationalization to acquire the needed resources. Narula (2006) contested this view, arguing that firms need some ownership advantages to internationalize. Rugman, Nguyen and Wei (2016) concurred that the firm-specific advantages of most Chinese MNCs – and consequently, their performance in advanced economies – are limited.

Luo and Tung (2007; 2018) propose somewhat of a compromise position with their "springboarding" approach. They acknowledge that EMNCs have both advantages and disadvantages, and argue that internationalizing to more developed contexts represents a strategic choice in order to better equip those EMNCs for global competition. Along similar lines, Madhok and Keyhani (2012) use the metaphor of entrepreneurship to argue that as in the case of entrepreneurs, the ambitions of EMNCs may outstrip their initial capabilities and resources.

Global consolidation seems to be a particularly viable strategy in mature, “mid-tech” industries (Ramamurti & Singh, 2009). In those industries, R&D is less important than production and project management capabilities. Scholars like Tan (2017) on Chinese global consolidators such as Lenovo, ZTE and TCL Communication and Bakir and Acur (2016) on the Turkish food manufacturer Ylildiz Holdings suggest that successful global consolidators have accumulated those kinds of capabilities. This largely case-based evidence mirrors what has been found in quantitative studies of, for example, returns from M&As: Although Aybar and Ficici in 2009 found that most forays of EMNCs into advanced economies destroyed value, subsequent studies in general suggest that they do add value (Lebedev, Peng, Xie & Stevens, 2015).

This does not mean that the issue of EMNCs’ generally less advanced capability base is no longer relevant for a global consolidation strategy. On the contrary, it seems that the importance of capabilities is now more generally understood (Gammeltoft & Hobdari, 2017; Zahra, Abdelgawad, & Tsang, 2011). In addition to the very real challenges of and limitations to their actual resource base, global consolidators need to acquire “perceived” resources in the form of legitimacy if they are to effectively compete in high income countries. This leads me to propose:

Proposition 2b: Firms pursuing a global consolidation strategy need to expand and upgrade their organizational assets and resources in a high income host location, including their legitimacy in that location.

3.3 How internationalization takes place: The importance of mergers and acquisitions

Global consolidation often takes place through M&As that provide EMNCs "springboards" (Luo & Tung, 2007; 2017) from which they can address the challenges presented by high income target markets. Although the consensus among scholars is that cross-border M&As provide EMNCs with the best opportunity to bolster both their actual and their perceived resources (Deng, 2009; Lebedev, Peng, Xie & Stevens, 2015; Madhok & Keyhani, 2012; Ramamurti & Singh, 2009), there is also concern about seeing M&As as a silver bullet.

Stucchi (2012) shows that there needs to be a strategic fit between firm’s resources and their M&A strategy; Rabbiosi, Elia and Bertoni (2012) use a learning perspective to explain why EMNCs pursue an incremental strategy of increasing acquisitions in advanced economies; and Buckley, Elia and Kafouros (2014) link the performance of EMNCs M&As to them having more experience in acquisitions (rather than other entry modes) into developed (rather than developing) countries. In other words, entering into appropriate M&As is itself a firm-specific capability, and one that can be developed over time.

But EMNCs often have access to "patient capital" (Kotabe & Kothari, 2016:737), and "purchasing" knowledge has been found to be an accessible strategy for EMNCs wishing to benefit from presence in high income countries (Barnard, 2010). This leads me to propose:

Proposition 2c: To gain legitimacy and access to resources and assets, firms pursing a global optimization strategy use mergers and acquisitions to enter high income host countries.

4. Brokering

Like firms pursuing a global consolidation strategy, brokering involves engaging across levels of development: Firms with a brokering strategy operate *in* low income locations, but *for* MNCs from high income countries. Thus those firms "translate" the conditions and requirements of the one for the other to secure a competitive advantage. This means that firms need to effectively navigate the weak infrastructure and institutions of the locations where they operate on behalf of counterparts that have substantially more resources and bargaining power than them.

4.1 Host country requirements: Understanding both upstream and downstream conditions

Two types of firms from middle income countries typically engage in brokering. Although they may at first appear dissimilar, both function on the basis of an understanding of economic activity in both high and low income countries.

The first type is what Ramamurti and Singh (2009) term "low cost providers". Low cost providers are typically manufacturers and embedded in global value chains (Ernst & Kim, 2002; Mudambi, 2008; Pananond, 2013; Pietrobelli & Saliola, 2008). Panamond (2013; 2015) theorizes Thai MNCs under this type, and Gereffi (2013) mentions the Chinese firms Foxconn, Yue Yuen and Li & Fung in his work on global value chains. These firms act as arbitrageurs between the greater demand in high income countries and the lower production costs in low income countries.

A second important form of brokerage takes place when firms from middle income countries act as the customer-facing distributors of the offerings of AMNCs from high income countries into logistically often-challenging low income countries. This type of relationship seems to occur when AMNCs "outsource" the entrepreneurial regional headquarters role to EMNCs (Barnard & Onaji-Benson, 2019). In their study of Turkish MNCs, Yaprak and Karademir (2011) use the term "facilitating agents" for those firms that help AMNCs to expand beyond Turkey into the wider region.

Brokering is often a viable strategy in the manufacturing sector, whether firms act as producers for clients in high income countries, or as partners who can handle the logistical and other challenges for AMNCs in low income countries. In both cases, brokering involves connecting the expectations of two very different worlds, leading me to propose:

> Proposition 3a: When pursuing a brokering strategy, the main host country challenge lies in the tension between the economic and technological sophistication of the high income home country of

its brokerage counterpart and the institutional and infrastructural challenges of the low income host country.

4.2 Assets and resources required: The importance of social capital

Global value chains are governed through "lead firms", typically AMNCs, and other firms in global value chains tend to have little bargaining power (Lee & Gereffi, 2015). Indeed, firms from less developed countries in global value chains are typically found where value-added is lowest (Mudambi, 2007; 2008) and although upgrading is possible (Kumaraswamy, Mudambi, Saranga & Tripathy, 2012), it implicitly challenges the brokerage relationship. In their study of Argentina, McDermott and Corredeira (2010) suggest that suppliers face a "glass ceiling" when they seek to upgrade, and for some firms, downgrading "becomes a business strategy" (Barrientos, Gereffi & Rossi, 2011:333). Those firms choose to accept their limited role in the value chain, rather than place at risk the relationship with the lead firm.

In turn, customer-facing brokers are effective because they understand local cultural dynamics (Yaprak & Karademir, 2011) and can interpret local conditions and opportunities for the AMNC. The competitive advantage of the South African MNC Barloworld lies in its ability to provide sales, distribution and after-sales support in various low income countries with challenging institutions and infrastructure, e.g. Angola, Mozambique and Zambia (Barnard & Onaji-Benson, 2019). Similarly, Turkish MNCs (Yaprak & Karademir, 2011) are seen as well-equipped to act as partners of AMNCs in central Asia because of historical ties, cultural similarities and geographical proximity to central Asian countries.

Thus brokers use fairly straightforward capabilities to fulfil their obligations in terms of manufacturing or sales. But although the assets and resources required may appear to be quite basic, I want to suggest that those assets and resources are not the critical ones. Instead, the critical assets and resources required by brokers relate to their relationships, i.e. their social capital.

The notion of brokerage originates from social network theory, and a social capital perspective (Burt, 2000) is helpful. Brokers have access to disconnected but potentially complementary sources of information and stand to realize substantial benefits where they connect previously disconnected parties (Burt, 1997). Scholarship has shifted from an initial emphasis on the importance of finding and exploiting the "structural holes" in networks where value is typically situated (Burt, 2004; Krackhardt, 1995) to one that recognizes the importance of "closure" in networks in order to realize such value (Burt, 2017; Hayter, 2016). Identifying groups that are otherwise, using Burt's (2000) image, "buffered" from each other and then connecting them is a central task of brokerage.

Few studies explicitly conceptualize the actions of firms as brokerage (see Barnard & Rosen, 2016 for an exception). But although the concept is typically associated with individual-level actions, numerous studies suggest the importance of some sort of brokerage for firms engaging in international business, especially firms from low income countries.

Social capital - *whom* you know rather than what you know – is central for these firms. Saxenian (2007) described Argonauts who would use prior work experience in a company to identify ways in which they could become a provider for it, whereas the literature on the evolution of original equipment manufacturers (OEMs) to ODMs, original design manufacturers (Fan, 2006; Sachwald, 2001) pointed out how firms used their relationship with a lead firm to facilitate the development of the capabilities to migrate upwards in the value chain.

Trust is important in brokerage. Even though relationships in global value chains are governed by formal mechanisms such as service level agreements and other types of contracts, production processes and even the eventual offering are co-mingled. Later work on OEMs (Dahlquist & Griffith, 2014; Ghosh & John, 2009) suggests that a core issue in managing these "multidyadic" relationships – OEMs have relationships with both clients and component suppliers – is whether differentiation in the offerings of the different parties, e.g. through branding, is seen as beneficial or opportunistic. In studies of brokers, the importance of trust and relationships is repeatedly stated. Trust emerged as central for the firm that used socially responsible North American investment funds to develop affordable housing in Southern Africa (Barnard & Rosen, 2016), whereas Yaprak and Karademir (2011) highlight embeddedness and, once again, trust. This leads me to propose:

> Proposition 3b: Firms pursuing a brokering strategy need to maintain trusting relationships with their brokerage counterparts while finding ways to exert power in those relationships.

4.3 How internationalization takes place: The development of multiple relationships

There can be little doubt that firms that pursue a brokering strategy are fundamentally international in their orientation. But their internationalization is unlike what has been previously documented.

When firms engage in a brokering strategy, they tend to act on behalf of, or on the instruction of their more powerful AMNC partners. This implies that the decision about whether and where to internationalize often does not really lie with brokers themselves. For those firms, their process of "internationalization" is often determined by where the lead firm would like them to locate – if they are even expected to expand beyond their original low-cost location (Pananond, 2015). The fundamental challenge that they need to address in order to expand is how to meet the needs of the typically better developed and more powerful AMNC with whom they are engaged in a brokerage relationship, but at the same time, to retain control over their strategic choices.

Not all firms participating in global value chains are themselves MNCs. In fact, non-equity modes of internationalization predominate in global value chains. Suppliers from low and middle income countries tend to find themselves governed either through interfirm control (where there is dependent integration) or sometimes interfirm partnership (characterized by joint development) arrangements (Yeung & Coe, 2015). "Contract manufacturers" (Raj-Reichert, 2015) do have ownership and operations across multiple countries, but the relationship with the AMNC remains central.

A similar logic is evident when considering customer-focused brokers. They tend to resemble 'typical' MNCs in that they have subsidiaries in multiple countries. This is because part of what they offer AMNCs is that they will on behalf of the AMNC engage directly with what is often perceived as riskier destinations. But it makes little sense to theorize the distribution-focused EMNCs' selection of locations as if it is the choice of the brokering EMNCs: they operate where the AMNC is keen to have a presence.

Whether in a global value chain or as a customer-facing distributor, when a single-country firm from a middle income country pursuing a brokering strategy with a lead AMNC wants to grow, its central challenge is how to ensure that it retains the relationship with what is essentially its economic raison d'être, but at the same time move beyond it.

There is evidence that such firms are able to do that by ensuring that they are brokers for not just one AMNC, but for multiple. The multinational contract manufacturers in global value chains have been found to gain power by providing not only to the original industry of the lead firm, but also to unrelated industries (Raj-Reichert, 2015). Working with Onaji-Benson, I found the same for customer-facing brokers: Because Barloworld distributes for various AMNCs (Barnard & Onaji-Benson, 2019), its vulnerability with regards to a single lead AMNC is reduced. It does however seem critical for the multiple relationships to be with non-competing AMNCs.

This leads me to propose:

> Proposition 3c: To safeguard their relationships and thus social capital, firms pursing a brokering strategy internationalize by developing ties to multiple but non-competing advanced MNCs

5. Niche filling

The final internationalization strategy involves niche filling by knowledge-intensive firms from middle income countries that seek out the more lucrative markets of high income countries. Ramamurti and Singh (2009) speak of "global first movers", with examples including the aerospace firm Embraer from Brazil, the Chinese electronics firm Lenovo, and the Indian pharmaceutical firm Dr Reddy. In populous countries like Brazil, China and India, it may be possible for these firms to become global in terms of their footprint. But in most middle income countries, it is an overstatement to argue that such firms are global first movers.

Instead, firms seek to access especially the lucrative markets from high income countries, rather than globally, because this is where they can get the greatest returns. They tend to operate in the services sector (and frequently the information and communications technology or ICT sector) where they seek out niche markets (Kotabe & Kothari, 2016). Indeed, they are often digital businesses themselves, or use low commitment, non-equity modes of internationalization (Barnard & Onaji-Benson, 2019). In terms of their offering, these firms are indeed knowledge-intensive, but they are not necessarily first movers. Where they are, it tends to be in terms of a very specific and quite focused niche, requiring an equally narrow set of capabilities.

5.1 Host country requirements: Frontier technology in a technologically sophisticated market

When firms that originate from middle income countries seek to compete with a knowledge-intensive offering in high income countries, they tend to use a niche filling strategy. Because they compete directly against firms from high income countries, the central host country challenge they face is how to match the capabilities and expertise of competitors that could benefit from more munificent country conditions.

Like global consolidators, firms pursuing a niche filling strategy suffer from a liability of origin (Ramachandran & Pant, 2010). Following empirical analysis of an online setting that included providers from countries at different levels of development, Reuber and Fischer (2011) caution that country-of-origin effects can be consequential, and that managers should be mindful of “disclosing any potentially stigmatizing information” (2011:37). For firms from middle income countries, simply where they come from is potentially stigmatizing. But firms that seek to find and fill niches also suffer from a liability of smallness (Aldrich & Auster, 1986). They are therefore unlikely to be seen as particularly desirable employers, and will seldom be able to access the best capabilities in high income countries.

If anything, the host country challenges experienced by firms pursuing a niche filling strategy are likely to be more severe than what is experienced by firms seeking global consolidation. They are likely to have a smaller resource base, and are not trying to compete in mature industries like beer (the Belgian-headquartered but middle income country originated AB InBev) or construction (Mexico's Cemex), but with more knowledge-intensive offerings. Thus their challenge is not only to establish their legitimacy, but also to keep up with fast-moving technological advances. I therefore suggest a similar but broader proposition as for global consolidator firms:

> Proposition 4a: When pursuing a niche filling strategy, the main host country challenge relates to the economic and technological sophistication of the high income host country.

5.2 Assets and resources required: Cutting-edge technology

Firms must inevitably deal with scarce managerial resources (Penrose, 1959/2009), but I argue that this challenge is particularly severe when firms from middle income countries seek to compete in technologically advanced countries on the basis of a knowledge-intensive offering.

I do not think it is coincidental that the examples of technologically advanced firms tend to come from the larger middle income countries, e.g. the aircraft manufacturer Embraer from Brazil or generic pharmaceutical manufacturers Sun Pharma, Cipla and Dr Reddy's from India. Firms with larger home countries have a greater absolute number of skilled people they can draw on, even when the educational infrastructure is uneven. But in middle income countries with smaller populations, firms that seek to compete with a knowledge-intensive offering find it harder to cushion themselves against dysfunction in the educational infrastructure.

Those firms can secure the best of human resources in their middle income home country because their insider knowledge about their home country allows them to identify from which schools/universities to recruit. Especially where they have substantial sales in strong foreign currencies, they can offer very competitive salaries in their home country (Barnard & Onaji-Benson, 2019). But limitations in the skills base limit them if they try to scale, and more so the smaller the home country. Moreover, once those firms need to pay salaries abroad where their costs are in the same currency as their revenues, sustaining premium salaries becomes hard.

Migration can play a critical role. First, returning entrepreneurs often bring back the capabilities to develop firms that can identify and fill niches in the first place (Kenney, Breznitz & Murphree, 2013). But even for internationalization, migrants can play an important role. Highly skilled emigrants who have left their (often turbulent and economically struggling) home countries for high income countries are also important sources of human capital for home country firms in a shared host country (Barnard, 2014).

Finding and filling a niche is essential to deal with the complexity of capabilities needed; a niche enables firms to use the least possible resources while nonetheless presenting a technologically cutting-edge offering. For example, the South African developer Derivco develops online games and Envirovision provides scanning software to monitor plantations for fire outbreaks (Barnard & Onaji-Benson, 2019).

In all, the evidence is that niche filling need to be extremely prudent and strategic in their use of asset and resources, leading me to propose:

> Proposition 4b: Firms pursuing a niche filling strategy need to have a focused offering at a technology frontier that can be monetized in a technologically advanced host country with a small human resource base.

5.3 How internationalization takes place: Limiting the skills required abroad

Because they need to work prudently with capabilities, to succeed with a niche filling strategy firms must internationalize in such a way that most of their needed capabilities can be sourced from the home country. In fact, limiting the capabilities required abroad is a decisive factor in shaping how the internationalization of firms pursuing a niche filling strategy takes place. Two approaches seem especially prevalent. The first involves non-equity modes of internationalization, and the second digital offerings.

Given the need to manage their limited resource base, one way for firms to pursue a niche filling strategy is to use low commitment modes of internationalization. The United Nations Conference in Trade and Development (UNCTAD) already in 2011 highlighted the rapid growth of non-equity modes of internationalization, and pointed out that lower income countries benefited more from related employment and exports than high income countries. The 2011 UNCTAD report ascribes the growth of non-equity modes of internationalization to four factors: reduced resource requirements, lower risk exposure, increased flexibility, and the ability to carry out non-core activities in lower cost locations. Of the four considerations, arguably only the last one would not appeal to firms from middle income countries pursuing a niche filling strategy.

Although the UNCTAD report emphasized global value chains where firms from lower income countries provide under contracts initiated by AMNCs, there is increasingly evidence that firms from middle income countries can also pursue a niche filling strategy that does not reflect the traditional logic of value chains. Manning (2013) points out the emergence of clusters of knowledge service firms from outside of high income countries where firms realize returns from specialized services across industries and counties. In outsourcing relationships (see Pisani & Ricart, 2016, for a review) providers from middle income countries increasingly offer more complex, value-adding services.

What differentiates a niche filling strategy from that of brokering is the relative independence of firms, enabled by the active modularization of their offerings (Manning, 2013). Firms often take advantage of the fragmentation of global value chains to identify and fill niches, but value chains do not represent a strategic focus for them. Instead, the fragmented value chain creates opportunities for them to enter the global economy with high technology, knowledge-intensive offerings (Hill & Mudambi, 2010).

Another approach involves the digitization of their offerings. Digital businesses can be created and delivered from more-or-less any location in the world (Watson IV, Weaven, Perkins, Sardana & Palmatier, 2018). A key characteristic is that they "can reach foreign markets with limited assets and small numbers of employees overseas" (UNCTAD, 2017: 31). Although UNCTAD comments on AMNCs, and indeed expresses concern about the potential exclusion of lower income countries from the digital economy, the logic of digital offerings also applies to smaller firms from lower income countries. Moreover, Chakravorti, Tunnard and Chaturvedi (2015) document middle income countries like Indonesia, Mexico and Turkey as countries with substantial digital potential. There may be many more examples: The digital firms of middle income countries are often not captured in databases of internationally-active firms because they conduct most activities in their home country, even though they reach an international audience, typically (but because of the low marginal cost of expansion, not always) in higher income countries.

This leads to the following proposition:

> Proposition 4c: To minimize the need for skilled resources, firms pursing a niche filling strategy enter high income host countries in ways that explicitly seek to limit the human resources required abroad such as through non-equity modes or digital offerings.

6. The co-occurrence of different internationalization strategies

Table 2 summarizes all the propositions and show how they relate to each other.

[Table 2 about here]

These strategies are not mutually exclusive, and neither do they map onto specific firm types. For example, when an EMNC decides to pursue a strategy of global consolidation, the conditions in its less developed host locations do not change. The firm decides to take on an additional challenge – legitimization and capability upgrading in a high income country – but it still has to contend with the different resources needed and best ways to internationalize into low income countries. Kotabe and Kothari (2016) document EMNCs achieving competitiveness in high income countries by combining a focus on niches (for finding opportunities in those high income countries) with brokerage (for competitively producing the goods in low income countries).

Ramamurti and Singh had already in 2009 pointed out that the generic internationalization strategies that they had identified were not mutually exclusive. They suggested:

> Pursuing multiple generic strategies *simultaneously* [their italics] may be difficult, but sometimes it can yield positive synergies, provided the contradictions among the strategies are recognized and managed carefully (2009:154)

The key argument in this paper is that firms from middle income countries respond to the conditions of the varied host countries into which they venture. Internationalization strategies can be identified on the basis of the level of development of host countries (similar/low or high) and also by whether firms seek to specialize in operating within a certain level of development (either low/similar or high), or whether they seek to operate across levels. This implies that to the extent that it is present in host locations at different levels of development, a firm may actually need to use different internationalization strategies at the same time. I therefore propose:

> Proposition 4: The level of development of the host location informs the internationalization of firms from middle income countries so that firms with a presence in countries at differing levels of development will at the same time employ a range of different internationalization strategies.

In the next section, I discuss some of the implications of this paper.

7. Discussion

This paper provides a typology to make sense of the diversity of internationalization strategies of firms from middle income countries. Not all of these firms – especially not when they pursue brokering or niche filling as strategies – resemble traditional multinationals with ownership, operations and control across borders, but most do. There is already a fairly substantial body of scholarship on EMNCs, but questions remain about aspects like the apparently non-sequential pattern of EMNC internationalization (Cuervo-Cazurra, 2011; Luo & Tung, 2007; Ramamurti, 2012) and apparently lesser importance of distance (Beugelsdijk et al, 2018; Conti, Parente & de Vasconcelos, 2016). I suggest that a useful way to advance the conversation is by systematically examining the diversity of internationalization strategies in the light of the diversity of locations to which EMNCs internationalize.

Although I believe that the typology may be useful to better understand internationalization from middle income countries, it cannot stand alone. Considering the host country income level (and associated level of development) as well as whether or not EMNCs seek to operate across levels of development need to be considered alongside previously documented drivers of internationalization. How the different elements interact are important areas for additional research. I have examined only one type of motive – market-seeking. What about the others? What would spur certain EMNCs to not remain local optimizers, but instead pursue a strategy of global consolidation? What are the various types of relationships that need nurturing for firms that pursue a brokering strategy to succeed and grow?

Although many questions remain, I think that the typology can help reconcile some apparent contradictions in the study of EMNCs and other internationalizing firms from middle income countries. In the rest of this section I highlight the typology through an example, explain why I emphasized the "middleness" of firms from middle income countries with a discussion on distance, and finally reflect on multinational corporations and how relevant they are in (the study of) the internationalization of firms from middle income countries.

7.1 The case of Discovery

The South Africa financial services group Discovery was founded as a medical insurance provider in 1992. It has innovated insurance by introducing dynamic pricing for insured risk through its Vitality offering that tracks and incentivizes responsible behavior, e.g. healthy eating, regular exercise and medical check-ups. Data gathered through Vitality programs are used to more accurately assess and price insurance risks (Discovery, 2020a; Porter, Kramer & Sesia, 2014/2018). In South Africa, Vitality encompasses various forms of insurance, e.g. medical, life and motor. Internationally, Discovery focuses on medical and life insurance.

Discovery is aggressively internationalizing, but it may appear as if there is no systematic process underlying its internationalization. Its first foray internationally was to the United Kingdom in 2004, in a joint venture (JV) with Prudential. Over the course of the decade, Discovery increased its holdings there, until it in 2014 became full owner. In 2009 Discovery entered China through a 20% share in a leading Chinese medical insurer, Ping An Health, increased to 25% in 2014. In 2013, it set up a 50/50 JV with the AIA group, starting operations in Singapore, and using that JV to expand to other countries in wider Asia, e.g. Korea, Hong Kong and Australia. In 2014 it signed licensing agreements with Generali to introduce Vitality to Europe and with John Hancock for the US and Canada, and in 2016, with Sumitomo Life in Japan (Discovery, 2020b).

A precondition for Discovery is the existence of an insurance industry in a host country. This means that Discovery is not interested going to low income countries. Instead, it seeks out countries at a similar (China) or higher level of development compared to South Africa.

Attracted by the large market in China, Discovery timed its entry into China to follow government reforms to the healthcare system. Discovery has been actively working to further develop that sector, and it pursues a local optimization strategy in China. It did not enter on its own, but has a 25% share in the second-largest Chinese medical insurance company, and it works closely with Ping An in every aspect of its business. This includes using the Ping An agent network to sell policies to the mid-tier market, and developing a dedicated cancer protection policy, given the restrictions and high cost of foreign-manufactured cancer drugs. The partnership also involves negotiating with the Chinese government, for example about offering tax benefits to individuals who buy private health insurance.

Market-seeking is not the primary motive for the full ownership of its UK. Instead, given concerns about large-scale corruption by the state in South Africa, Discovery preempted the possible threat of failure in the "load carrying capacity" of its home economy (to use the metaphor of Barnard & Luiz, 2018) to set up the UK as a "second home market" (Smith, 2014). This is a reminder that although my paper focuses on the most common motive for internationalization, market seeking, other motives for internationalization (Cuervo-Cazurra & Narula, 2015) also matter, and may result in different patterns of internationalization.

Discovery's other investments are into high income countries, and in those economies, it pursues a niche filling strategy by focusing on Vitality, its program that incentivizes healthy behavior. In its home country, a vast network of Vitality partner companies (e.g. gyms, restaurants and grocery stores) track and reward members for the foods they eat and the activities in which they engage. But developing that dense network requires extensive resources.

Thus Discovery often enters high income countries by licensing Vitality to other insurers. Not only does licensing limit the need for Discovery to set up and staff subsidiaries in expensive locations like mainland Europe and North America, but it also means that it can tap into the existing policy portfolios of its partners. Licensing allows Discovery to keep current its sophisticated technological offering and reduce the need for expensive human resources. Discovery can use the local knowledge and networks of its partners to help it realize the value of its intellectual property, not only how to dynamically price insured risk, but also how to ensure that the risk portfolio is improving.

Discovery also has a 50/50 JV with AIA in developed Asia through which it is entering multiple countries, including Singapore, Hong Kong, South Korea and others. Although this may appear to be quite a different internationalization strategy compared to licensing, Discovery's approach to entering high income countries is still shaped by efforts to overcome the limitations imposed by scarce human resources. A JV partner in Asia is helpful to overcome non-trivial institutional and cultural differences, to access large portfolios of insured people, and to accelerate the rate at which Discovery can enter foreign countries. Having found a well-suited JV partner, it is using that single relationship to enter multiple countries.

7.2 "Middleness", distance and EMNC internationalization

Although I emphasize early in the paper the distinctiveness of originating from the middle of the global economic hierarchy, the typology of internationalization strategies that I present suggests that there is little difference going to a low income versus a middle income country. Why this apparent discrepancy?

The first reason is empirical. MNCs are also starting to originate from low income countries (Ibeh et al, 2018). Little is known about those “nascent MNCs”, but current EMNCs may well differ in numerous ways from the next wave of “emerging” MNCs. In particular, nascent MNCs come from countries at the bottom of the global economic hierarchy, and how they internationalize is likely to differ from that of the MNCs from middle income countries. Understanding if and how that is the case is an area for future research.

The more important reason relates to distance and how it matters for EMNCs. A key consideration is what is meant with “distance”. When Johanson and Vahlne (1977) first theorized distance, they included differences in language, education, business practices, culture, and industrial level of development. Over time, however, distance has become a narrower construct. Kogut and Singh (1988) sought to operationalize cultural dimensions. In their meta-analysis of cultural distance, Beugelsdijk et al (2018:93) focused on culturally and/or geographically distance (and found an insignificant effect of distance on the performance of EMNCs). Håkanson and Ambos (2010) in their work on psychic distance pointed out that psychic distance is a perceptual measure, although the geographical distance from a location seemed to be a particularly important driver. In turn, in defining local optimizer firms, Ramamurti (2009) proposed an understanding of distance that is almost entirely based on level of development: other emerging markets with “underdeveloped ‘hard’ and ‘soft’ infrastructures” (2009:413).

A realistic assumption is that EMNCs wish to internationalize to countries that are as proximate as possible to their home country. However, the heterogeneity of potential host countries is likely to require of them to consider the distance from host locations along multiple dimensions, e.g. cultural, geographic, level of development and perhaps others. Both low and middle income countries provide EMNCs the opportunity to exploit capabilities that were developed under and are suitable for conditions of institutional and infrastructural underdevelopment. It is possible that some host locations are proximate in terms of geography, culture and income level – but it is more likely that trade-offs will need to be made. How those trade-offs are made is an important area for future research. However, I want to suggest that considering the level of development of the host location alongside other distance dimensions is likely to improve the robustness of research on EMNCs.

7.3 Multinational corporations and internationalization

When Johanson and Vahlne (1977) first conceptualized internationalization as an evolutionary process, the transition from exports to the establishment of a subsidiary in a host country was interpreted as evidence of increased commitment. But their emphasis has long shifted towards "relationship commitment" (Johanson & Vahlne, 2006; 2009) with a de-emphasis on the specific form of cross-border business. However, many scholars of firms from emerging markets that conduct business internationally seem to still emphasize MNCs as exemplars of the most "committed" business relationships.

Firms that pursue local optimization and especially global consolidation strategies are almost all MNCs; firms pursing brokering and niche filling strategies not always. However, the absence of a subsidiary in a foreign country should not be interpreted as implying that there is limited commitment to or control over operations.

Brokering from middle income countries involves connecting economic activity between high and low income countries. In a sense, it is immaterial to their internationalization whether or not brokering firms themselves have subsidiaries in foreign countries. A provider of low cost manufacturing for a firm in a high income country is a participant in a global value chain – exposed to the various challenges and opportunities presented by international business – even when the firm itself is fully domestic.

If firms seek to grow on the basis of a brokering strategy, the limited available evidence suggests that they are best served by entering into brokering with multiple but non-competing relationships (Barnard & Onaji-Benson, 2019; Raj-Reichert, 2015). Such complementary relationships could be found domestically, but internationalization could also be a way of building those non-competing relationships. Future research could examine the extent of and effectiveness of such self-initiated internationalization. It also raises sequencing questions: Do firms seek out new brokerage relationships first, or do they seek them out to support entry into potential new host locations?

In turn, non- or low equity modes of internationalization seem to make more sense when considering firms with a niche filling strategy. Rugman argued that information is the “oil which lubricates the engine of the MNE” (1980:368). With the profound changes in ICT since then, information can flow effectively even when non-equity modes of internationalization are used. In fact, it has been noted that non-equity modes of internationalization generally are likely to assume increasing importance as the increased digitization of the economy results in smaller firms that are increasingly organized through contracts rather than hierarchies (Birkinshaw, 2018).

When firms pursuing a niche filling strategy originate from potentially stigmatized economically less successful home countries, whether they deliver their offering digitally or through contractual agreements, it is both easy and in their interest (Reuber & Fischer, 2011) for them to hide their national identity. Evidence suggests that even if they do not actively hide their origins, they do not seek to advertise their nationality either (Barnard & Onaji-Benson, 2019). A practical question about these firms therefore relates to how to empirically identify them – but this question also has real theoretical importance.

Given their knowledge-intensive offerings, niche provider firms are likely to be economically and technologically important firms in their home country. For example, the Silicon Valley headquartered, but South Africa-founded firm Clickatell was highlighted in an industry report (Endeavor Insight, 2018) for its strong mentoring, investment and employment links to other firms in the Cape Town/Stellenbosch region. Yet it cannot be found in databases of internationalized South African firms. A key challenge for the field of international business – and not only for scholars of emerging markets –

has to be to find ways to systematically document and theorize the actions of firms that internationalize with only a very small physical footprint in another country.

8. **Conclusion**

When scholars like Dunning (1958/2006) and Penrose (1956/2009) started studying international business, the world was emerging from not only a world war, but a related period of deglobalization (Ritschl & Straumann, 2010). Expanding abroad was a conscious and consequential choice. Even though globalization is currently under attack, economic integration remains the norm (Kobrin, 2017). For many firms, internationalization is a given. Because firms grapple with different types of issues than previously documented, scholars need to interrogate internationalization in different ways. I hope that the theorizing in this paper contributes to that process.

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Table 1: Internationalization strategies of firms from emerging markets

Host location			
	High income countries	Niche filling	Global consolidation
	Low/similar income countries	Local optimization	Brokering
		To *either* low/similar or high income countries	***Across* low/similar and high income countries**
		Internationalization process	

Table 2: Summary of propositions

	Local optimization	**Global consolidation**	**Brokering**	**Niche filling**
Description of the internationalization strategy	Firms go to countries at similar and lower levels of development that are often geographically and culturally close.	Firms go to countries at lower levels of development first, and use the capabilities developed there to go to high income countries.	Firms act as bridges between low and high income countries, whether as suppliers in global value chains or as the customer-facing partners of advanced MNCs.	Firms venture into high income economies, often through digital or non-equity offerings.
Host country challenges	Proposition 1a: When pursuing a local optimization strategy, the main host country challenge relates to the institutional and infrastructural challenges of the host country.	Proposition 2a: When pursuing a global consolidation strategy, the main host country challenge stems from the need to develop legitimacy in an economically and technologically sophisticated high income host country.	Proposition 3a: When pursuing a brokering strategy, the main host country challenge lies in the tension between the economic and technological sophistication of the high income home country of its brokerage counterpart and the institutional and infrastructural challenges of the low income host country.	Proposition 4a: When pursuing a niche filling strategy, the main host country challenge relates to the economic and technological sophistication of the high income host country.
Firm assets and resources	Proposition 1b: Firms pursuing a local optimization strategy tend to already possess most of the organizational assets and resources needed in the host location, but may be inadequately attuned to local preferences.	Proposition 2b: Firms pursuing a global consolidation strategy need to expand and upgrade their organizational assets and resources in a high income host location, including their legitimacy in that location.	Proposition 3b: Firms pursuing a brokering strategy need to maintain trusting relationships with their brokerage counterparts while finding ways to exert power in those relationships.	Proposition 4b: Firms pursuing a niche filling strategy need to have a focused offering at a technology frontier that can be monetized in a technologically advanced host country with a small human resource base.

	Local optimization	**Global consolidation**	**Brokering**	**Niche filling**
How internationalization take place	Proposition 1c: To overcome institutional weakness, firms pursing a local optimization strategy enter host locations collectively, working with partners that are both private and public, formal and informal, and cross-sectoral.	Proposition 2c: To gain legitimacy and access to resources and assets, firms pursing a global optimization strategy use mergers and acquisitions to enter high income host countries.	Proposition 3c: To safeguard their relationships and thus social capital, firms pursing a brokering strategy internationalize by developing ties to multiple but non-competing advanced MNCs	Proposition 4c: To minimize the need for skilled resources, firms pursing a niche filling strategy enter high income host countries in ways that explicitly seek to limit the human resources required abroad such as through non-equity modes or digital offerings.
	Proposition 4: The level of development of the host location informs the internationalization of firms from middle income countries so that firms with a presence in countries at differing levels of development will at the same time employ a range of different internationalization strategies.			

Figure 1: Strategies of firms from emerging markets in the global economic hierarchy