

**COMMENTARY: EMERGING MULTINATIONAL BUSINESS ENTERPRISES  
AND DEVELOPMENT OF DYNAMIC GOVERNANCE CAPABILITIES**

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Multinational companies from emerging markets are one of the most topical themes in today's international business research and the present volume is a very timely result of contemporary research efforts. Research on these companies tends to focus on characteristics, which differentiate MNEs from emerging markets from those from mature, focusing on dimensions such as scale and nature of firm-specific advantages, country-of-origin effects, and features of internationalization processes and paths (Ramamurti, 2012; Cuervo-Cazurra, 2012; Ghemawat, 2007). With this note, we will call for more attention to the role of governance capabilities.

To internationalize successfully is to face and overcome liabilities of foreignness and liabilities of outsidership (Hymer, 1976; Johanson & Vahlne, 2009). Multinational Business Enterprises (MBEs) whether from emerging or mature economies need to exploit opportunities of entrepreneurship, market exchange and networking activities to compensate for these liabilities (Vahlne & Johanson, 2014). Mature Multinational Business Enterprises' (MMBEs') internationalization typically began exploitatively (Prange & Verdier, 2011). Sales were accomplished in the early stage, often by middlemen knowing the institutional and business cultural characteristics of the respective markets, which was later followed by more committing modes of operation, often owned subsidiaries (Johanson & Vahlne, 1977). Emerging Multinational Business Enterprises' (EMBEs') possession and development of competitive advantages, on the other hand, is the object of some dispute in the literature with contributions ranging from EMBEs not having competitive advantages to having them, through having qualitatively different advantages, and with particular focus on activities aimed at acquiring or augmenting them (Rugman, 2009; Cuervo-Cazurra and Genc, 2008; Mathews, 2002; Luo and Tung, 2007; Wu et al., 2021).

Viewed from a dynamic perspective, both the size and composition of firms' advantages change over time as a result of firm-level learning and network-level trust building activities (Sandén & Vahlne, 1976; Vahlne & Johanson, 2017). Generalizing, most research on EMBEs have focused on the sort of advantages (and disadvantages) behind the immediate competitiveness in the foreign market such as technology, access to cheap inputs and the like. IB scholars have spent less effort on the governance dimension, impacting on the somewhat longer-term competitiveness and the ability to develop new or improved competitive advantages. With the term governance we refer here particularly to the international dimension, i.e., how the firm organizes, controls and operates its geographically dispersed portfolio of assets.

EMBEs often have relatively limited internationalization experience and are constrained with respect to a number of relevant resources (Kim, Wu, Schuler & Hoskisson, 2020). Particularly the capability to govern internationally dispersed activities is difficult and time consuming to build and cannot easily be acquired from outside the firm (Narula, Asmussen, Chi & Kundu, 2019). We propose that more attention should be paid to EMBEs' abilities to gradually build governance capabilities to secure a suitable operation for international business, i.e. structural governance mode (internalization, market, hybrid), and effective management and coordination of foreign and domestic activities, i.e. managerial governance (Verbeke & Fariborzi, 2019). The purpose of this little note is to push for more research on the development of governance capabilities, thereby relying upon a process perspective (Vahlne & Johanson, 2002; Wu, Wood & Khan, 2021)

The Uppsala model asserts that the speed of internationalization, choice of target countries, and resource commitments are all determined by the possibility of identifying and capturing opportunities within a particular context of time and place, which is closely connected to firm-level learning and network-level trust building. The trust building is time-

consuming, as trust is an outcome of trial-and-error processes (Morgan & Hunt, 1994; Nahapiet & Ghoshal, 1998), whereas learning could be relatively quick (Meyer & Thaijongrak, 2013; Aharoni, 2014).

Governance and coordination are critical dimensions of successful international business. How to perform and change coordination systems are capabilities necessary to develop. The case of the acquisition of the Swedish Volvo Car Corporation (VCC) by Chinese Zhejiang Geely Holding Group (ZGH) from the Ford Motor Company in 2010, a “spring-board” example, offers some interesting insights (Vahlne, Ivarsson & Johanson, 2011). For the first two years after the acquisition, the new owner did, as far as we know, very little to affect its acquired company, apart from making it possible to exploit financial resources to allow for development of new auto models. There was hardly any transfer of knowledge. Thereafter methods for inter-organizational learning, creation and trust building were institutionalized. Most important perhaps, was the establishment of the joint venture China Europe Vehicle Technology (CEVT) between Geely Auto, the Chinese subsidiary of ZGH, and VCC in 2013, in which Swedish and Chinese engineers worked closely together to develop new platforms and models. It seems that this model for transfer and development of knowledge has been successful so far. We do not know whether it was the restraint of ZGH to try to manage VCC, but instead be patient, avoiding to make VCC employees perceive “interference” from an unexperienced owner before a certain level of trust was established. Instead, ZGH representatives interacted with senior management of VCC and attended VCC board meetings, which permitted ZGH gradually to develop, and continue to develop, insights and capabilities useful for governance and coordination. No doubt, a capability such as the ability to coordinate successfully, relies to a large extent on tacit knowledge and such knowledge is mainly built from experience (Teece, 2007). This is the point we want to make

in this little comment: developing capabilities useful for structural and managerial governance is as critical as capabilities to act in the market.

Do the conditions of country of origin really set EMBEs apart from MMBEs where governance capabilities are concerned? Yes. MMBEs have existed as a phenomenon for some 150 years, appearing on the scene after the industrial revolution. Since then, experiences from governing and coordinating MBEs have been assembled and disseminated between managers of MMBEs and IB researchers have published and written books for students at business school. The case studies underlying Bartlett and Ghoshal's (1989) "Managing across borders – The transnational solution" demonstrates that managing an MBE, exploiting several technologies, being active in many parts of the world with different institutional, economic and cultural contexts, is a matter of managing under extreme complexity.

The process of developing the intellectual capital of the firm is dependent on the development of social capital: the development processes are interdependent (Nahapiet & Ghoshal, 1998). Trust is an ingredient of social capital and it is especially important in contexts characterized by uncertainty (Wu & Vahlne, 2020). Knowledge development is an example of such a context (Arvidsson & Melander, 2020). Trust matters on several organizational levels: organization, network and individual; and the level of trust at each level affects the level of trust at other levels. Interpersonal *guanxi* between individuals acting as boundary-spanners impacts on the level of inter-firm trust (Wu & Ang, 2020). Equally important, these processes are undergirded by organizational processes: knowledge development and commitment building, embedded in a suitable corporate culture and initiated by entrepreneurial decision making and actions (Teece, 2007, 2012). We believe that bringing together firm-level knowledge development and network-level trust building into a more comprehensive analysis of the dynamic evolution of EMBEs' governance

capabilities, and their coordination capabilities in particular, is a both promising and pressing research agenda.

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