

# PEOPLE MANAGEMENT AND INNOVATION IN EMERGING MARKET MULTINATIONALS: A COMPETENCY-BASED FRAMEWORK

## *Abstract*

As the internationalization process dictates the existence of cross-country networks it is essential to explore avenues that allow emerging market multinationals (EMNCs) to share and receive knowledge that can benefit them locally and globally. In this manuscript we explore this conundrum by addressing the significance of creating a global mindset in individuals and across the MNC. In the manuscript we articulate the mechanisms that influence global managers' abilities to engage effectively with other global managers across borders. We argued that global managers engage in reciprocal learning processes to obtain new, innovative knowledge about other countries' environments and business practices. We furthermore suggest that the effectiveness of new knowledge creation is dependent upon the appropriate input, throughput, and output competencies of those involved in the reciprocal learning process. Proper people management plays a crucial role in fostering an environment where employees' commitment will lead to organisational innovation. Propositions foreshadowing in the new, innovative knowledge creation process across cultural and personal levels are articulated.

**Key Terms:** Emerging market multinationals, global manager, competency-based perspective, capabilities, performance innovation, reciprocal learning

## **PEOPLE MANAGEMENT AND INNOVATION IN EMERGING MARKET MULTINATIONALS: A COMPETENCY-BASED FRAMEWORK**

Companies in changing environments need to predict changes and react to them (Eriksson, 2014; Makkonen, Pohjola, Olkkonen & Koponen, 2014). The ability to do this methodically has been denoted as dynamic capability (Eriksson, 2014; Teece, Pisano & Shuen, 1997). Dynamic capabilities have been defined as the capacity to replenish competencies so as to aspiring to congruence with the changing business environment by adapting, integrating, and reconfiguring internal and external organisational knowledge and skills, resources and well-designed competencies (Teece et al., 1997). The crucial aim of the dynamic capabilities approach then becomes an ability to explain the competitive advantage of firms over time (Eriksson, 2014; Teece & Pisano, 1994). Dynamic capabilities essentially are the forerunner to organisational and strategic practice by which managers alter their resource base that has been acquired and led them to generate new value-creating strategies (Grant, 1996).

According to Ambrosini and Bowman (2012), the term capability refers to the ability of management to perform actions and tasks successfully. It is usually based on the practising of specific skills, also known as competencies, over a period of time. Capabilities can be employee-specific or firm-specific. Dynamic capabilities allow managers to adopt progressions and amalgamation of developments that are most suited to their existing conditions, the changes needed and the resource available (Daniel, Ward & Franken, 2014). In this context, organisational ambidexterity is a valuable concept for MNCs and EMNCs alike to understand. Organisational ambidexterity is broadly defined as the ability to simultaneously pursue both incremental and discontinuous innovation (exploration and exploitation) and change resulting from hosting multiple contradictory structures and processes within the same firm (O'Reilly

& Tushman, 2004). Put differently, organisations need to have the right type of management in place that has the ability to efficiently deal with today's and tomorrow's changing demands of the global business world. It could be conjectured then that knowledge attainment and absorption are key elements in organisational ambidexterity.

Eriksson (2014) identified four knowledge processes as crucial elements of dynamic capabilities: accumulation, integration, utilisation and reconfiguration. Knowledge accumulation itself could contain two different objectives: the replication of existing knowledge or its renewal (Eriksson, 2014). Combined, the research by Eriksson (2014) and Kale and Singh (2007) verify that both internal and external sources of knowledge are vital for dynamic capabilities. Dynamic capabilities however are much more than accumulated knowledge. Knowledge integration entails combining various resources, typically connecting new knowledge with the existing knowledge base (Eriksson, 2014). An organisation that has mastered ambidexterity is in a good position to succeed in a hypercompetitive (Collings, Scullion & Morley, 2007) business world.

An organisation's ability to act ambidextrously is an important characteristic for a victorious company in the 21<sup>st</sup> century, as is the organisation's absorptive capacity. Absorptive capacity is another source of competitive advantage and plays a central role in an organisation's ability to develop capabilities through innovation and fostering knowledge creation ability (Cohen & Levinthal, 1990). Absorptive capacity is relevant to EMNCs in that it completes the sequence and links capabilities back to the organisation's strategic capabilities. According to Cepeda, Navarro and Jimenez (2012) an organisation's absorptive capacity involves engaging in new practices and the fact that employees need to adapt to new situations. Camisón and Forés (2011) on the other hand, describe absorptive capacity as the diffusion of shared competences that is neither easy nor direct and that it requires an organisation's internal learning effort to better

absorb localised knowledge spill overs. The fundamental premise of absorptive capacity is that the EMNC will be more flexible and innovative in the market through obtaining and applying external knowledge (Zahra & George, 2002).

Contemporary shift from the economics of knowledge towards economics of creativity increases the importance of innovative activities within a firm and its environment (Hamel, 2011). Innovative activities reflect a desire of an organisation to take advantage of unused potential (Kyläheiko et al., 2011). For EMNCs and MNCs alike, the context is a global one, and not one solely pocketed as emerging or developed. This means that innovation efforts must span across borders. We thus argue that innovation has no limits and that innovation can have a positive impact on performance (DeLeede & Looise, 2005). We further argue that EMNCs seems to lack management advantages (Madhok & Keyhani, 2012), which means that management has traditionally not been considered to be the source of extraordinary rents leading to a competitive advantage. Due to this reasoning we specify that EMNC managers have the potential to contribute to innovation but that alone they cannot manage doing so. A reciprocal effort in liaison with developed market managers is needed.

Numerous authors have argued that an innovation strategy, or being innovative, could be the key to a successful entry into new markets (Protogerou, Caloghurou & Lioukas, 2008; Zahra, Ireland & Hitt, 2000). From a HRM perspective, it can be argued that certain sets of HRM practices can lead to innovative behavior (Shipton, West, Dawson, Birdi & Patterson, 2006; Jimenez-Jimenez & Sanz-Valle 2005), although causality of HRM practices and innovation has not been able to be established empirically. While some research may call for open-mindedness, acceptance, and ultimately the embracement of individuals and their respective cultures, this manuscript resonates with this theme but in the context of innovation taking place in the form of a

learning mechanism as it would occur by sharing knowledge across national borders by means of global managers. Innovation in this instance speaks to the creation of new knowledge across borders (Zhou, Hong & Liu, 2013) which are bound by personal and cultural characteristics, from which EMNCs can benefit and thus gain a competitive advantage (Goldstein & Shaw, 2007).

According to Pandza et al. (2003) “the process of how a firm acquires its capabilities cannot be separated from how it acquires its knowledge” (p. 1028). New knowledge creation is arguably positive for organisational performance (Scarborough, 2003). For effective knowledge creation processes to take place HRM practices must be aligned such that these practices enable and encourage cross-border learning. Only then will innovation have the best chance of taking place. We herein explore some of the conditions under which innovation is likely to happen. We therewith argue that an innovative process is reliant upon the collection of culturally entrenched and personally exercised meanings found in EMNC locations in which a manager’s experience within their existing networks plays a significant role (Cohen & Levinthal, 1990; Hou, Li & Priem, 2013).

Extant global literature appears to underline the importance of managing a global environment by means of its human resources, yet neglects to succinctly address the role of global managers as knowledge creating/sharing ringleaders. While the fact that there is value associated with creating new or sharing existing knowledge is not necessarily a novel thought, this manuscript takes the opportunity to better understand the mechanisms behind enabling cross-border knowledge flows, and thus the potential for innovation to happen, to and from a global manager’s organisational units in EMNCs. The assumption is that creating new knowledge starts out by evaluating the current

headquarter (HQ) and subsidiary linkages, which span across national borders (Kang & Kang, 2009).

It would appear that the goal for EMNCs is to seek opportunities in knowledge exchanges (Collins & Smith, 2006) which enables them to become more creative and innovative and at the same time flexible in their business operating endeavors. In this manuscript, we pose the question ‘to what extent are EMNCs able to enrich or modify their existing knowledge about global business to ensure innovation and competitiveness against other EMNC and MNC giants?’ More precisely, ‘what are the mechanisms influencing this process?’ Setting the cornerstone for these questions is the competency-based perspective.

The competency-based perspective argues for the ability of organisations to create firm-specific competencies leading to a sustained competitive advantage in the global marketplace (Barney, Ketchen & Wright, 2011; Lado & Wilson, 1994). Competencies are arguably best generated when EMNCs seek inputs from external - MNC managers whose expertise may help complement or augment existing local [EMC] knowledge and through that it sparks innovative behavior (Lopez-Cabrales, Perez-Luno & Cabrera, 2009) MNCs would benefit from this process also. In this manuscript we therefore argue for a reciprocal learning process in creating new knowledge whereby elements of inputs and throughputs of the competency-based perspective are juxtaposed to create the best possible business outcome. The result of such an endeavor is the gradual formation of what one would hope to be a sustainable global mindset encapsulated by EMNCs.

The manuscript progresses as follows: First, the significance of building a global mindset with the support of global managers in EMNCs is explored. Second, the competency-based perspective on global organisational management in conjunction with

the idea of reciprocal managerial learning process is introduced. Third, the manuscript articulates the impact different cultural and personal differences may have on the development of “new” knowledge across EMNCs. Finally, propositions for global managers are offered.

### **THE SIGNIFICANCE OF GLOBAL MANAGERIAL MINDSET IN EMERGING MARKET MULTINATIONALS**

Multinational corporations (MNCs) typically originate from the world’s top five economies. However, a growing number of MNCs are emanating from emerging economies (Ramamurti, 2004). These “new” MNCs come from emerging markets such as Brazil, Mexico, China, India, and Turkey and have been termed EMNCs. These organisations are rapidly increasing in importance (Goldstein 2008; Mathews, 2006; Lou & Tung, 2007) and their contemporary internationalization- in terms of rising ratios of sales, assets, and employment abroad- is said to be one of the notable outcomes of globalisation (Bonaglia, Goldstein & Mathews, 2007). This trend in the expansion of EMNCs reflects a fundamental shift in how international business is conducted. Emerging economies are now increasingly investing in not only less developed economies but also in developed economies. The expansion is so formidable in Indian and Chinese EMNCs that the Indian economy is expected to be close to that of the USA by 2050 and China is forecasted to overtake the US economy by the year 2025, thus becoming the world’s largest economy (Goldstein, 2008). It is apparent that EMNCs are no longer inexperienced firms, lagging behind their developed world competitors. They are instead a central part of global competition (Mathews, 2006).

The development of a global mindset within individuals and therefore EMNCs would thus speak to an orientation to the global marketplace that enables global managers to not only identify but act upon market opportunities. With the help of more

advanced and sophisticated methods of analysis it is consequently also possible to take diverse perspectives and achieve more efficient means of developing, disseminating, and implementing new knowledge (Gupta & Govindarajan, 2004; Maznevski & Lane, 2004). Global managers inherently present a platform for the development and cultivation of a global mindset (Moeller & Harvey, 2011) but the extent to which they [global managers] may be utilized in this process has yet to be explored.

An additional layer of complexity is created with the realization that EMNCs operate/are engulfed in what is known as a hypercompetitive marketplace (Collings et al., 2007). The hypercompetitive business world-characterized by its rapid, intense, and often unexpected movements leaves much room for interpretation for organisations in their constant striving for a global mindset and thus global competitive advantage (Maznevski & Lane, 2004). This manuscript argues that a plethora of new knowledge may be acquired from a previously untapped source that being the relationship (i.e., reciprocity) amongst global managers in EMNCs. The quandary is that the EMNC may be poorly armed to meet future challenges if they do not allow global managers to expand and implement “new” knowledge (Carmona-Lavado et al., 2009), which this manuscript argues should stem from other global managers in a reciprocal fashion. The difficulties in acquiring this multiplicity of skills and competencies may be one of the paramount challenges for the EMNCs (Moeller & Harvey, 2011), and in particular the EMNC to overcome.

### **A COMPETENCY-BASED PERSPECTIVE ON GLOBAL PEOPLE MANAGEMENT**

A competency-based view of the relationship between organisational change and development assumes that employee, managerial, and leadership competencies, as well as organisational and technological competencies, operate interdependently creating



complementary, firm-specific competencies that can produce a sustained competitive advantage in the global marketplace (Lado & Wilson, 1994). A competency-based theory perspective explicitly addresses management's and thus the organisation's ability to change the organisations cultural and structural components; this it does by acknowledging that the collective set of competencies within the organisation is best comprised of multiple perspectives. The manuscript argues that organisations in emerging markets may find value in tapping into knowledge obtained from organisations in developed markets and vice versa in order to form new competencies.

The assessment of organisational competencies centers on three primary competencies: 1.) *input competencies*– input to the organisation that differentiates it from other organisations (e.g., personnel, capital and existing relationships); 2.) *throughputs*– the unique transformational competency of the organisation to effectively/efficiently modify inputs (i.e., manufacturing, marketing, and managerial processes that complete the product and/or service for the consumer; and 3.) *outputs*– the unique product/service elements to meet the consumers wants/needs. The assumption is that the input-throughput-output process is complex and that the additional cross-cultural layer at play, the complexity may quickly lead to a competitive disadvantage if not managed properly. Inputs (i.e., managers) are the primary and most essential components in creating and replenishing a mix that is competitive globally.

Throughputs, or the process by which the organisation transforms its inputs to create outputs, would appear to be the most influential phase in that it has the potential to deplete competencies. The manuscript suggests that it is the renewal of competencies in the throughput phrase that enables organisations to establish a competitive advantage. It should be recognized that these stocks of competencies can be depleted as well as enhanced through judicious efforts on the part of management. This renewal suggests

that an organisation can discover as well as expand the repertoire of new competencies that can be used to enhance the performance of the organisation (Sanchez, Heene & Thomas, 1996). Output competencies have the potential to indirectly influence input and subsequent throughput competencies through what one may term a feedback loop of global organisational competencies.

The general idea is to suggest that acquiring organisational competencies occurs through learning *not only* with knowledge exchanges (Collins & Smith, 2006) amongst individuals within domestic national and corporate cultures but *across* national and corporate cultures as well (Aragón-Correa, García-Morales & Crodón-Pozo, 2007). To expand on this notion further, the focus is on EMNCs building “new” knowledge by engaging in knowledge sharing mechanisms with developed market MNCs. This could help accelerate the learning process in EMs and allow them to become global players at a quicker pace.

Reciprocity in the developing “new” competencies may be used as a strategic tool in the organisational knowledge creation and transfer process, and may result in a competitive organisational learning environment (see Harvey, McIntyre, Heames & Moeller, 2009). Reciprocity takes the form of a dyadic exchange of information between emerging and developed market personnel (see Gonzales & Thompson, 1998). Information exchanges could not only facilitate learning but ultimately result in a sustained competitive advantage (Barney et al., 2011). This is important because continuous learning is essential in a hypercompetitive marketplace. Reciprocity creates mutual benefits for EM and DM (see Chandler & Kram, 2005). Smith and colleagues (2005) suggest that when individuals who hold different levels and kinds of knowledge begin to combine ideas, potential knowledge is created. A competency-based theory perspective is analogous to the resource-based view in that it contends that existing

resources and capabilities arise out of past investments. However the competency based theory takes a step further by addressing cultural and structural mechanisms and acknowledging that the organisations collective set of competencies is made up of multiple perspectives.

Due to the nature of any business function one should consider political competency when examining the willingness/ability of managers to learn in different organisational and cultural contexts (Harvey & Novicevic, 2002). There is also the argument that political skill is a learned capability that can be used in cross cultural learning and transmission of knowledge from one organisation to another (Ferris, Perrewe, Anthony & Gilmore, 2001). Political management is more difficult in a context given the assumption that both internal (organisational) and external (macro culture) impact learning and knowledge sharing in global organisations (Harvey, Griffith, Kiessling & Moeller, 2011).

In times of organisational change (i.e. episodic or continuous), managers need to re-examine which competency set has the potential to provide enduring firm heterogeneity and improved organisational performance (Barney, 2001). Oliver (1997) claims that the context of human and technological resource decisions (i.e., particularly during cultural and structural change) influences this competency selection process profoundly. Therefore, the managers' strategic choices of organisation competencies that need to be developed/acquired will depend on the managers' collective competencies to enact appropriate cultural enablers and to suppress structural inhibitors to support leader's decision processes and at the same time improve the performance of the organisation (Blyer & Coff, 2002).

The renewal of managerial competency set is crucial to insure maximum utilization and innovation of the organisation's existing resources during the ongoing

change in cultural norms and structural interdependencies in work processes and employee involvement (Wright & McMahan, 1992). Oliver (1997) highlights this assumption, “as rent-producing resources develop over time, their optimization is a function of the political and cultural willingness of organisation managers and employees to commit to the use of these resources” (p. 706). Developing new competencies faster/better than global competitors becomes the means to effectively compete in time-based markets. Building new competencies provides the means to sustain an organisation’s competitive edge (Harvey, Griffith, Kiessling & Moeller, 2011).

The combining of resource-based and organisational competencies theories into a competency-based perspective of organisational change reveals the need for a complementary fit between a organisation changing its resource structure and its cultural and political context. In this perspective, a organisation possesses both resource capital and institutional capital, with managerial capital as the critical “linking-pin” between them. Oliver (1997) defines institutional capital as the “organisation’s capability to support value-enhancing assets and competencies” (p. 709). Managerial skills and competencies, when transformed into managerial capital, will likely influence organisational performance by allowing for differentiated management of two types of factors. One type enhances institutional capital (i.e., designing incentive systems for change, securing cultural and political support for change, promoting teamwork, hiring selectively and training intensively) (Kostopoulos & Bozionelos, 2011). The other type depletes institutional capital (i.e., emerging stagnant subcultures, accentuating attention to lax competitor/customer responsiveness, benchmarking obsolete core resource practices, influencing employee buy-in on the key resource use). In summary, the key implication of institutional competency-based perspective is that organisational

performance will depend primarily on the organisation effectiveness in transforming/converting managerial competency set into managerial capital that insures a complementary fit between its resource capital and institutional capital during the change process.

### **IMPACT OF PERSONAL AND CULTURAL CONTINGENCIES LINKED TO INNOVATION IN EMERGING MARKETS MULTINATIONALS**

The purpose of this manuscript is to propose the contingencies/mechanisms in creating new knowledge and becoming more innovative as would be expected in the reciprocal relationship between emerging and developed market managers. Cross-border knowledge exchanges are subsequently creating value if, and only if, the boundaries between developed and emerging market organisations are managed in such a way as to enable both entities to gain tangible and intangible assets, reciprocally. The exchange of such values/assets calls for an analysis of the competencies each organisation holds from an input, throughput, and output perspective. Subsequently, firms' competitiveness varies with different environments that facilitate or conduct their superior performance (Ferreira, 2002).

The competency-based perspective has shed light on the process of developing potentially new competencies using reciprocity between EMNCs and MNCs as a means to achieve a competitive advantage faster/better than their rivals. This section now addresses the implications of the input-throughput-output competency development process, noting propositions, which may be, tested empirically in future studies.

#### **Input Competency**

This section discusses inputs from three perspectives: personnel, capital, and existing relationships. The personnel input component revolves around the hiring of not only local, emerging market talent (Bartlett & Ghoshal, 2000; Lou & Tung, 2007) but

global talent. Identifying and recruiting the best possible person for the best possible position at an optimal time is merely improbable, though the notion sets the foundation for the utility known as the geocentric staffing approach (see Perlmutter, 1969). The geocentric staffing approach posits that the most qualified employees are chosen irrespective of their nationality (Isidor, Schwens & Kabst, 2011). Inpatriate managers (i.e., host and third country nationals transferred to the home country of the organisation on a semi-permanent to permanent basis who serve as a linking-pin (Harvey, 1997) and third country nationals (i.e., short-term foreign consultants) represent a potential pool of candidates who have the ability to assist in developing strategies contextualized to the emerging markets/market clusters (Harvey, 1997, Reiche, Kraimer & Harzing 2008).

It has been suggested that the viability of EMNCs depends upon the successful identification, recruitment, and retention of talented local staff, which help to assure quality across a wide range of products (Economist, 2011). EMNCs have experienced success in part due to a successful local talent recruitment process, but are quickly approaching a juncture at which they will have to decide whether their global success continues to rely solely upon their competencies which they have acquired through their (local) talent/experiences or will they look beyond its immediate surroundings and allow for a diverse set of approaches to influence the continuous development of their business competencies.

The pattern by which global talent has been transferred in the past rests predominantly on a 'one-way' approach in which transfers occur from emerging to the more developed markets/countries (see Moeller & Harvey, 2011). However, with the emergence of EMNCs (Mathews, 2006), it is becoming increasingly viable to endorse, for example, inpatriate talent from developed countries and incorporate newly acquired knowledge in EMNCs. Based on this argument, the manuscript proposes the following:

**Proposition 1:** EMNC performance benefits from hiring managers from developed countries, such as inpatriates and third country nationals, who can help to enhance knowledge and knowledge flows at EMNC HQ.

EMNCs typically emanate from countries with considerable domestic institutional deterrents that include a lack of legal protection, political hazards and corruption (Lou & Tung, 2007). Nonetheless, economic transformations such as the liberalisation of capital movements and political reforms such as the Indian government's management of the Rupee (Amsden, 2002) are occurring and even though they are imperfect (Lou and Tung 2007), they have in general advanced the expansion and globalisation of the EMNCs. The concept of the liability of foreignness (LOF) argues entrant organisations such as EMNCs to be disadvantaged vis-à-vis local organisations (i.e., MNCs) due to two key factors: foreign exchange risks and unfamiliarity with the business conditions of the overseas market (Hymer, 1960). As such, capital inputs may refer to the proper financial management of operations.

Of equal importance to the perpetuation of EMNC giants is the management of other capital inputs. These critical inputs may take the form of technologies, brands/branding, consumer bases, distribution channels, managerial expertise (see personnel inputs) and other know-how (Lou & Tung, 2007). Capital inputs are critical for EMNCs, but greater emphasis must be placed on the management of these inputs from the EMNC perspective. The manuscript proposes the following:

**Proposition 2:** EMNC performance benefits from managing capital inputs across borders.

The relationship component argues for the importance of managing networks across borders. This means EMNCs will benefit from the exchange of tangible and intangible assets provided through the interaction between managers in EMNCs and

MNCs. Prior research in this domain advocates the importance of appropriately managing a supply chain to achieve desired outcomes such as new product development or innovation concerning strategies for managing inter/intra-organisational initiatives (see Rampersad, Quester & Troshani, 2010). In other words, knowledge about how to best create supply chain networks could help improve the standing of EMNCs in their respective countries and beyond. At the same time, however, EMNCs must be aware of the risks involved in engaging with supply chains/suppliers (outsourcing) networks across borders (Trkman & McCormack, 2009). For example, one of the most compelling risks to the EMNC is the loss of the skills that they outsource and the subsequent dependence on the supplier (Gupta et al., 2009). This could create unanticipated costs (Leahy & Montagna, 2008) putting EMNCs at a further disadvantage. The manuscript proposes the following:

**Proposition 3:** EMNC performance benefits from better managing networks across borders.

### **Throughput Competency**

When referring to throughput, we refer to the capability to take inputs (i.e., personnel, capital, networks) to establish new lines of thinking. The idea is to learn through the exchange (i.e., reciprocation) of these inputs across EMNCs and MNCs. The throughput of competencies is where most of the inspiration, creativity, innovation, and generally speaking, influence can be gained by both entities. Different types of knowledge exist from the perspective of innovation: individual (Foss, 2010), firm (Carmona-Lavado et al., 2009) alliances (Heimeriks & Duysters, 2007) and network knowledge (Perry-Smith & Shalley, 2003). The process of reciprocal learning, however, can easily be limited by managers' perceptions of the other individuals and their



competencies. Specifically, we refer to the influence of psychic distance, political skill, and general cross-cultural competence.

Psychic distance may influence the depletion or revamping of competencies through a preconceived notion that the manager at the EMNC carries of the other manager's culture and as such their competency to contribute to new knowledge creation. Stated differently, the degree to which EMNC and MNC managers are willing to modify their existing competencies, based on the assets gained from the other entity/individual largely depends on the perceptions, which the organisation holds of the other organisation's members. The concept of psychic distance, defined as the subjectively perceived distance to a given foreign country (Dow 2000), can present a limitation to a fluent exchange of tangible as well as intangible assets in the process of [EMNCs] becoming a global player. The reason for this limitation is that the manager's (i.e., perceiver's) knowledge and understanding of another culture may interfere with the ability to incorporate newly acquired information (Villar, Alegre & Pla-Barber, 2014).

Beckerman (1956), when first introducing psychic distance, considered that psychic closeness, would affect a country's trade flows. This perspective maintains that it is easier to develop, maintain, and reap economic benefits from relationships with partners from countries similar to their own. The notion is that similar business practices, cultural and legal compatibility, and a shared language should instinctively support an effective working relationship. During the ensuing years a number of studies have extended and refined the original notion of psychic distance (i.e., Johanson & Vahlne, 2009).

One of the most prevailing representations of psychic distance has been the effort of Kogut and Singh (1998) who depict psychic distance with a single measure of cultural distance. Their dominant framework appears in numerous international business

studies and encapsulates country differences in the cultural dimensions defined by Hofstede (1980). Notwithstanding, this is largely a one-dimensional representation and has recently been characterized as an over simplification that is not easily operationalized (Dow, 2000; Dow & Karunaratna, 2006; Håkanson & Ambos, 2011; Sousa & Bradley, 2009). Psychic distance has more recently been characterized by scholars as a multidimensional paradigm which includes not only culture but also institutional and organisational distance (Sousa & Bradley, 2009) or cultural, economic and geographical distance (Håkanson & Ambos, 2011), which are along the lines originally intended by Beckerman (1956).

The manuscript posits that the argument that psychic distance is crucial for orientation to the global marketplace and vital for a global mindset (Gupta & Govindarajan, 2004). If a manager has a global mindset, she/he will be able to identify issues that marketers from other organisations are unable to recognize and to act upon (Maznevski & Lane, 2004). This could be one of the important keys to long-term competitive advantage in the global marketplace (Levy, Beechler, Taylor et al., 2007). Devising programs that would develop a global mindset in managers has been called the biggest challenge that looms in the new millennium for both MNCs and EMNCs. Fittingly, if the EMNCs management team has a global mindset informed by an awareness of psychic distance, the organisation will have a source of strategic competency that will be able to capitalize on global diversity.

Håkanson and Ambos (2011) demonstrate that geographical proximity and economic factors are extremely powerful antecedents of perceived psychic distance. Additionally, they challenge the assumption that psychic distance between two countries is symmetrical; that is, the perceived distances from A to B and from B to A is not necessarily equal. These specific implications relate to certain aspects of cultural

distance, geographical distance, language and symmetrical distance. These specific implications are likely to influence the cohesiveness differently amongst the EMNC's global team and must be considered. As such, a tangential objective in this manuscript is to advance the operationalization of psychic distance by integrating all the relevant influences that form the perceptions of the manager's psychic distance from the EMNC perspective.

Sousa and Bradley (2009) argue that it is the perceptions of managers that are important and that influence their decisions as to whether or not to undertake business overseas and what product, promotion, pricing and distribution strategies to implement. Thus, the manuscript considers managers' perceptual measures of psychic distance are, therefore, a more reliable and valid indicator of psychic distance than objective or secondary source indicators (Dow & Larimo, 2009; Håkanson & Ambos, 2011; Sousa & Bradley, 2009) and thus assist in operationalization of the concept. Based on these arguments, the manuscript proposes the following:

**Proposition 4:** EMNC performance benefits from an enhanced understanding of the psychic distance experienced by EMNC managers.

Similarly, organisations must provide adequate cross-cultural competence training to allow for knowledge to be exchanged, received, and incorporated effectively and efficiently. Sheth and Sisodia (2006) among others indicate that discipline is deteriorating in the form of losing efficiency and thus effectiveness. The general inclination is to say that appears to be doing "less with more", while other disciplines have effectively/efficiently used their resources and created "more with less" (Sheth & Sisodia, 2006). In another call for the importance of reciprocation in creating new knowledge, reciprocal learning between EMNCs and MNCs may present a step towards identifying gaps and allowing for more creative solutions, innovations, and meeting expectations full circle.

Moreover, in this context an enhanced service to the EMNC's global customer base appears to be a result of instilling greater levels of cross-cultural competency in the EMNCs workforce. Today, the conceptualization of service, or a service-dominant logic is the result of a change in perspective from the traditional good-centered dominant logic to a logic that advocates that the value of a good is a combination of the tangible and intangible contributions, which the producer and its customers alike make (Lusch, Vargo & O'Brien, 2006). The objectives of this manuscript draw upon these intangible contributions, or so-called operant resources, and suggest that these resources may come in the form of trust and other knowledge associated with mixes. Before EMNCs and MNCs managers may benefit from each other reciprocally, cross-cultural competence training must be provided such that it enables the bridge for trust to be built. To support this notion the manuscript draws upon Penrose (1959) and Zimmermann (1951) who propose operant resource as the primary unit of exchange among organisations and that in which learning occurs via exchange of information.

The majority of newly globalised EMNCs have had limited international exposure (Mathews, 2006) and as a consequence, they often have poor levels of cross-cultural (functional) expertise (Thite, Wilkinson & Shah, 2011). Cultural (functional) competence is defined as a set of congruent behaviors, attitudes, and policies that enable people to work effectively in cross-cultural situations (see Egan & Bentick, 2009). Moreover, organisations with cross-cultural competence tend to possess distinctive competencies and they tend to have characteristically managerial vision and proactive organisational culture for developing particular resources aimed at achieving company goals in foreign markets (Knight & Kim, 2009). In addition, it is suggested that cross-cultural competence is likely to give rise to certain processes, practices, and decision-making activities associated with targeting new markets abroad (Mort & Weerawardena,

2006). This enables managers to create specific - strategies and to adapt their various strategies such as market positioning, forming partnerships, and locating distributors more effectively (Knight & Kim, 2009). As a result, EMNCs need to have global managers in place who are culturally competent in order to reach and serve international customers more effectively.

Educating personnel in the cross-cultural competency area of extreme necessity because service-dominant logic as Ballantyne and Varey (2008) argue, is a crucial component in the literature as far as the utility/use for consumers is concerned. The service-dominant logic perspective suggests that operant resources in conjunction with operand resources (i.e., end products/good/or in our case outputs) enable organisations to gain a sustainable competitive advantage (Constantin & Lusch, 1994; Madhavaram & Hunt, 2008).

The logic is as follows, the better the relationship between the managers across borders, the greater the likelihood that these will learn from one another, and assuming the incorporation of new ideas occurs, the consumers will eventually benefit from the reciprocal exchanges of knowledge. Based on these arguments, the manuscript proposes the following:

**Proposition 5:** EMNC performance benefits from cross-cultural competency learning opportunities for EMNC managers.

### **Output Competency**

The success of EMNCs creating “new” knowledge and implementing it accordingly is determined by the process of re-organising/re-conceptualizing previous competencies. This process of re-conceptualizing is to a large extent based on the experiences gained from the process in the first place (i.e., input-throughput stages). Reciprocation, as the term insinuates, is a constant process of questioning current

practices and seeking avenues for improvement of such. A proper feedback mechanism is needed/recommended to guarantee the realization of “new”, enriched competencies to compete better globally. The output competency is thus a byproduct of managing inputs and throughputs, but should not be overlooked as less important than the input and throughput competencies. The output competency stage, in fact, represents a pivoting point in whether or not the implementation of certain input and throughput has been a worthwhile effort. Outputs competencies have the potential to indirectly influence EMNC performance, as it is guided by the initial successes of input and throughput competencies. Based on these arguments, the manuscript proposes the following:

**Proposition 6:** Output competencies have an indirect effect on the success of EMNC performance.

### SUMMARY/CONCLUSION

The contributions of the manuscript are multifold. Primarily, the manuscript has expanded the competency-based perspective by suggesting that reciprocal efforts in knowledge sharing across networks and individuals within these networks. This has led to the formation of a coherent meaning of global knowledge creation and sharing efforts across emerging and developed market contexts. Secondly, this manuscript has proposed that capitalizing on innovative behavior such as can be achieved by better linking emerging and developed market networks can lead to a global mindset in individuals and arguably a globally competitive advantage for MNCs.

The manuscript sets the premise by indicating that there is value in the form of new knowledge creation to be gained if a process of sharing knowledge (reciprocally) across borders. The implications of this research are tied to practice mostly in that the adaptation of existing principles relative to people management in EMNCs need to be challenged in order to compete with the innovative behaviors exhibited in developed

market MNCs. Through concrete actions proposed within the six propositions, EMNCs can become a major global albeit potentially being late-comers to the global marketplace. In order to succeed in this hypercompetitive global environment, EMNCs must showcase an enthusiasm and curiosity about applying new knowledge to different contexts.

Specifically, the manuscript examined several factors that may influence the ability of EMNCs to ascend the value curve in international markets and to create a global mindset, those being individuals who: 1.) have over time obtained experience out of the EMNCs domain; 2.) have the ability to manage capital and networks across borders; 3.) are aware of psychic distance and its effect on transactions; 4.) have attained a certain level of cross-cultural competency; and 5.) are able to transpose these aforementioned specifications to assess and re-assess outcomes thereby achieving what is known as a global mindset.

The predicated future competitive role of EMCs is thus intrinsically linked to the EMNC's ability to hire, train and retain the best possible personnel to manage its global function. In conclusion, it is equally important to hire global managers who have the cultural and personal characteristics and who may be able to contribute to the creation, development, and sustainability of a global mindset. As a result, innovation in how knowledge is created and transferred is the foundation for allowing a global mindset to be formed.

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