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The turtle–hare race story revisited: Social capital and resource accumulation for firms from emerging economies

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Abstract How can firms from emerging economies, given their internal resource constraints, compete effectively with established multinational enterprises (MNEs) in home markets and gain capabilities for international expansion? We develop an integrative view of resources by incorporating network-based social capital theories and articulate that the depth and nature of emerging economy firms' external social capital determine the direction and magnitude of resource exchanges with their business partners, and thus their effectiveness in accumulating critical internal resources. Throughout the development of our theoretical framework, we have also relied on empirical evidences from various business sources, including the cases on Lenovo and Shanghai Automotive Industry Corporation (SAIC). We conclude with scholarly and practical implications and future research avenues.

Keywords Emerging economies · Social capital · Relational embeddedness · Structural embeddedness · Resource accumulation

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Many people have heard of the turtle–hare race story and how the slow turtle won the race against the fast but slacking hare. A question arises here: "Could the turtle, with an obviously weaker running capability, still have won the race had the hare not napped?" The obvious answer would be "never". There are two underlying assumptions behind this answer. First, the race would always take place under normal conditions. Second, the hare's capabilities could not be substituted with alternatives by the turtle. What if the race were held in the marsh where the turtle could make full use of his alternative amphibious capability? What if the turtle could count on certain external assistance to outrace the hare? Or, for our research purpose, what if resource-constrained firms from emerging economies, the "turtles", could rely on the indigenous environment and external resources to overcome their internal deficiencies when competing with established multinational firms, the "hares"? Questions such as these, which challenge key assumptions of competition and pose significant importance to international business research, have been largely ignored (Dunning, 2006; Narula, 2006; Mathews, 2006).[1]

Similar blind spots appear to exist in resource-based strategic management research. A fundamental tenet of the resource-based view (RBV) is that firms' resources (including capabilities) are key determinants of competitive outcomes (Rumelt, 1984; Wernerfelt, 1984). RBV emphasizes, in particular, that firms need valuable, rare, inimitable, and non-substitutable resources to achieve sustained competitive advantages (Barney, 1991; Peng, 2001). Despite its theoretical contributions to strategic management, the RBV (including its extended versions such as dynamic capabilities, dynamic RBV) is focused on a firm's internal resources to the extent that external *social capital* such as business networks are all but overlooked (Helfat & Peteraf, 2003; Hoopes, Madsen & Walker, 2003). As Peng (2003, p.283) points out, "the traditional notion of 'resources' and 'capabilities' as found in the resource-based literature...is independent of networks and relationships".

Social capital is defined in many different ways in the literature. We adopt the definition that social capital is "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition" (Bourdieu, 1986: 248; 1980).

While strategic management scholars have recently begun adopting social capital perspectives to examine value-generating resources beyond the firms' boundaries (e.g., Das & Teng, 2000; Dyer & Singh, 1998; Eisenhardt & Schoonhoven, 1996; Nahapiet & Ghoshal, 1998), they have focused on the developed economy contexts and neglected studying emerging economy (EE) firms which are typically resource-constrained (Hitt, Li, & Worthington, 2005; Uhlenbruck, Meyer, & Hitt, 2003). The lack of systemic investigation notwithstanding, many scholars seem to believe that EE firms face insurmountable challenges to gain competitive edges or even to survive due to deficiencies in internal resources (Barney & Arikan, 2001; Hoopes et al., 2003; Thomke & Kuemmerle, 2002).

[1] The story also implies that one can defeat a stronger opponent through unyielding perseverance, which is not our focus here.

Despite this popular wisdom, it is not hard to notice the anecdotal evidence of successful EE firms (Bartlett & Ghoshal, 2000; Child & Rodrigues, 2005; Dawar & Frost, 1999; Mathews, 2006). Some of these firms are on the verge of becoming truly global competitors.

This paper is motivated by the thinking that social capital theories, with their focus on social resources and relations, may enable us to explain the ways that EE firms have endeavored to achieve national and global competitiveness. With few exceptions (Li, 2007; Wang & Nicholas, 2007; Wright, Filatotchev, Hoskisson, & Peng, 2005), scholars have not paid pointed attention to the roles of external social capital in overcoming EE firms' disadvantages as late movers in the global economy. Our research questions are: Can external social capital substitute for internal resources to help EE firms to strive for competitiveness in their indigenous environment? If so, what are the necessary conditions for these firms to build and leverage external social capital to their advantages?

We focus on EE firms' indigenous or home country competitiveness for two reasons. First, emerging economies have become major strategic destinations for direct investments from MNEs based in developed economies (Luo, 1997; Yang, Jiang, Kang, & Ke, 2008). Gaining competitive advantages in their indigenous markets helps pave the way for EE firms to launch international expansion and cope with challenges in the global arena (Hitt et al., 2005; Yamakawa, Peng, & Deeds, 2008). Second, indigenous environments bear natural opportunities for EE firms to leverage their external social capital, and thus, serve as a rich context to articulate our essential arguments.

In the following, we first integrate external social capital into the RBV logic. We show that such an integrative approach enables the development of an augmented resource-based framework, which captures internal and external resource stocks, resource flows, and resource accumulating mechanisms. Then, we apply the framework to explaining how EE firms may rely on external social capital to initially offset the deficiency of internal resources and subsequently foster resource development in the face of established multinational enterprises (MNEs).

Theoretical framework

Social capital theories shed light on network resources, which are inadequately addressed in the dominant RBV-based research (Gulati, Nohria, & Zaheer, 2000; Li, 2007). We do not intend to discount the unique contributions of RBV but suggest that social capital theories, especially those based on the social network approach, can be an important and useful complement given RBV's emphasis on resources within firm boundaries in the form of physical, human, and organizational capital (Barney, 1991). As detailed later, the network-based theories of social capital stress that a firm's relational network extends its accessible resource base, enhancing its competitiveness and chances for survival (Baum, Calabrese, & Silverman, 2000; Li, 2007; Silverman & Baum, 2001). Two interrelated views feature the relevant literature. The relational view focuses on a firm's ability to leverage dyadic inter-firm relationships to gain relation-specific "rents" (Dyer & Singh, 1998; Kale, Dyer, & Singh, 2002; Kale, Singh, & Perlmutter, 2000). In

comparison, the structural view emphasizes the importance of a firm's relative position within an overall social network structure, enabling it to obtain information benefits (Burt, 1992; Coleman, 1988; Uzzi, 1997; Walker, Kogut, & Shan, 1997). In this section, we draw upon both the relational view and the structural view, among others, to construct a theoretical framework to explain how EE firms leverage external social capital to accumulate valuable resources.

Conceptualization of social capital

The original concept of social capital may be traced to Durkheim's (1984 [1983]) theory of social integration. The recent notion of social capital, rooted in anthropology and sociology, has been developed and popularized by a number of scholars with a variety of emphases. It is beyond the scope of this paper to fully address the vast amount of social capital literature. In the subsequent paragraphs, we introduce briefly the main strands of thoughts about social capital such as the institutional perspective, the synergy approach, and the network-based theories.

The institutional perspective of social capital stresses the importance of interpersonal relationships in the absence of formal institutions in a society. Bourdieu (1980, 1986) elaborated on the benefits accruing to individuals by virtue of participation in groups and on the deliberate construction of sociability for creating institutionalized cultural capital. Putnam (1993; 1995) extended the concept from an individual asset to a feature of communities and even nations. Economists subscribing to the institutional perspective suggest that the unavailability of formal mechanisms for the reliable enforcement of contracts increases organizational reliance on interpersonal trust and social relationships for facilitating economic activity (Collier & Gunning, 1999; Knack & Keefer, 1997). Specifically, underdeveloped institutions and high levels of uncertainty in emerging economies increase the need for firms to build reliable relationships beyond the limited scope of family, clan, or local community (Nooteboom, 2007).

The synergy approach of social capital suggests that state–society synergy stimulates formation of social capital that can be a catalyst for economic growth (Evans, 1996). Scholars argue that synergistic relations based on complementary actions by the government and citizens mutually support synergy based on ties that cross the public–private divide. Schiff defined social capital more broadly as the set of elements of the social structure that affect the synergy among people and are inputs of the production and/or utility function (Schiff, 1992: 161).

Network-based theories regard social capital as resources embedded in network relations. Lin, for example, focuses on the relational aspect of networks and perceives the use of interpersonal relations as social capital, in particular in one's career advancement (Lin, Ensel, & Vaughn, 1981; Lin, 2001). By contrast, Burt and Coleman emphasize the structural aspect of networks. Burt argues that social capital is mainly a function of structural holes existing in loosely connected social networks of friends, colleagues, and general contacts through which you obtain information and seek opportunities (Burt 1992, 2000) whereas Coleman stresses the importance of forming dense networks to foster interpersonal cooperation (Coleman, 1988, 1990).

In this paper, we examine resource accumulation in EE firms through the lens of network based theories. We believe that the network based view of social capital has

its advantages as it explicitly addresses both the content and the structure of social relationships and is contextually richer and finer-grained than other notions of social capital. In addition, whereas many social capital perspectives tend to focus on the positive consequences of sociability while putting aside its less attractive features or liabilities (Portes, 1998; Roger, Leengers, & Gabbay, 1999), the social network based theories allow us to have a more balanced and scientific view of social capital, as can be illustrated by our theoretical framework and corresponding empirical evidence.

Network-based social capital and integrative view of resources

Extending the classification of a firm's internal resources (Barney, 1991), Adler and Kwon (2002) make the distinction between conceiving of social capital as focused on firms' external social relations and on internal social ties within collectivities. As noted earlier, we focus on external social relations. In particular, we subscribe to a three dimensional construct of external social capital, which consists of social resources, strength of social ties, and network structure (Seibert, Kraimer, & Liden, 2001).

Social resources At the individual level, Lin et al., (1981) define social resources as "the wealth, status, power as well as social ties of those persons [or alters] who are directly or indirectly linked to the individual [or ego]". Just as other scholars such as Gulati (1998), we apply this concept at the firm level to refer to external resources owned by the economic and social actors with which a focal firm has direct or indirect ties.

Strength of social ties It is an indicator of frequency, magnitude, and time span of information exchange between social actors. Granovetter (1973) distinguishes strong from weak ties. He suggests that strong ties foster trust and fine-grained information exchange. Weak ties are often bridges between densely interconnected social cliques, providing sources of unique information and resources (Uzzi, 1997). An inter-firm relationship embodies specific relational capital, namely critical resources embedded in a specific dyadic relation (Dyer & Singh, 1998; Kale et al., 2000), which facilitates a firm's access to actual resources such as technology, or to virtual resources such as social status. The dimension gives rise to the term, "relational embeddedness", which describes the strength of ego-networked direct ties (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004; Granovetter, 1992; Gulati, 1998; Uzzi & Lancaster, 2003).

Network structure It mainly reflects the density of ties among the direct contacts of the focal firm. Two competing views attempt to explain the pattern and impact of social network structures. "Network Closure" stresses the role of densely connected ties in promoting trust and cooperation (Coleman, 1988, 1990). "Structural hole theory" argues that "network closure" could be a source of rigidity that hinders the coordination of complex organizational tasks (Burt, 1992). Firms embedded in sparsely connected networks enjoy efficiency and brokerage advantages based on their ability to arbitrage non-redundant information exchanges (Burt, 1997; Gargiulo & Benassi, 2000). "Structural embeddedness" has come to be the term for describing

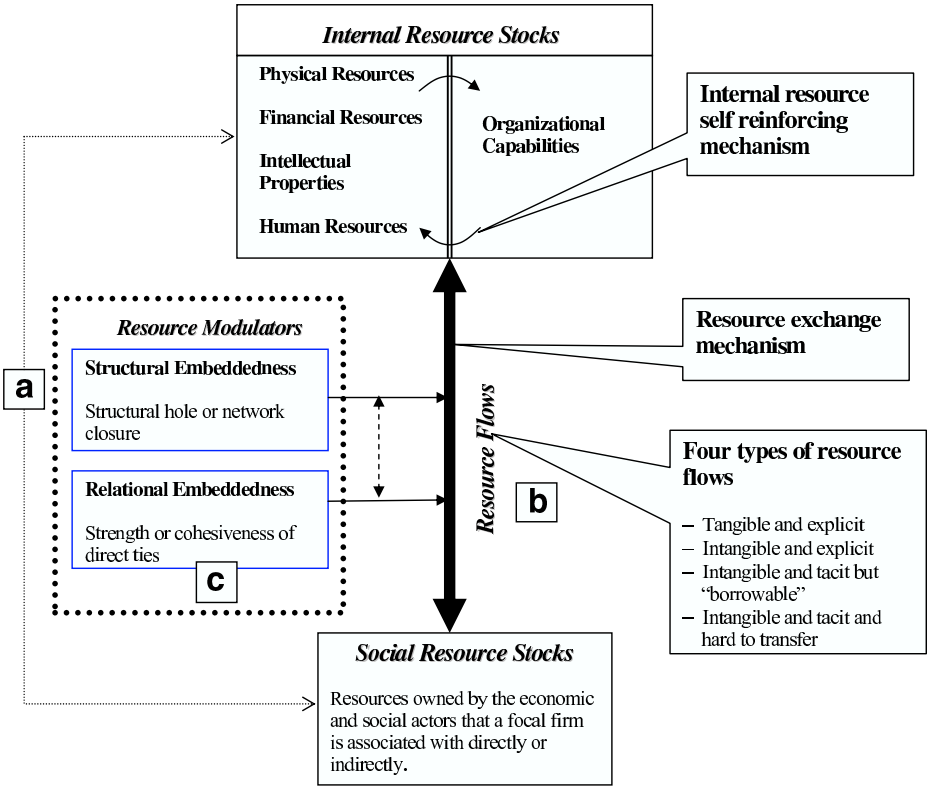

Figure 1 An integrative view of resources

the social network structure in which a focal firm is embedded (Granovetter, 1992; Gulati, 1998).

In the following, we discuss the individual components of our framework as illustrated in Figure 1, thus further highlighting how to incorporate the concept of external social capital in developing our integrative view of resources. Scholars have developed a number of typologies to classify firm resources (Ahuja, 2000; Amit & Schoemaker, 1993; Barney, 1991; Brush, Greene, & Hart, 2001; Coleman, 1988; Dess & Picken, 1999; Kale et al., 2000). These typologies generally capture resource stocks, but neglect other important resource aspects, in particular the resource flows and resource accumulating mechanisms that are needed.

We propose an inclusive resource system consisting of three elements: resource stocks (internal and external), resource flows, and resource modulators.

Resource stocks are the cumulative amount of resources that a firm owns or to which it has the right of usufruct at a certain point in time. Based on the state of the literature, we classify resource stocks into physical resources, financial resources, intellectual properties, human resources, organizational capabilities, and social resources. The first two types of resource stocks are simple, tangible and explicit whereas the latter four types are complex, intangible, and tacit (Brush et al., 2001). Physical resources include plant, equipment and inventories. Financial resources

include assets like cash and securities. Intellectual properties refer to intangible but explicit (or codified) resources like patents, trademarks and procedures. Human resources are the employees who work for the firm, and encompass intangible individual characteristics such as knowledge, skills, experience and imagination (Burt, 1997; Brush et al., 2001; Spender, 1996). Organizational capabilities include leadership, culture, routines, firm reputation and brand image (Amit & Schoemaker, 1993; Youndt, Subramaniam & Snell, 2004). Social resources are the external resource stocks to which the focal firm has access. (See our classification of resources exhibited in Figure 1a.) Resource flows add to or subtract from resource stocks.

Resource flows (Described in Figure 1b) This concept refers to the resource exchange between a focal firm and its associated economic and social actors. Such flows consist of goods, personnel, information and knowledge. We propose the following four distinct types of resource flows. The first is the flow of tangible and explicit resources. The flow occurs, for example, when a focal firm receives a truckload of components from a supplier and remits payment. Typically this kind of resource flow travels both ways and is equally beneficial to both partners because it is usually based on arms-length transactions. The second is the flow of intangible but largely explicit or codified resources such as information and documented know-how (e.g., procedures, engineering drawings). For example, a focal firm may acquire cash flow management procedures by acting as a dealer for a well-established finished goods supplier. Such a resource flow is often asymmetrical between partners due to unequal availability of valuable information and know-how, as well as different levels of motivation and desire to access each other's resources (Rowley, Behrens & Krackhardt, 2000). The third is the flow of intangible, tacit but "borrowable" resources. A focal firm may obtain social legitimacy and increased social status by maintaining a business relationship with a prestigious partner (Inkpen, 2001; Podolny, 2001; Stuart, 2000). Except for partnerships between equally prestigious firms, this kind of intangible resource generally flows one-way. The fourth is the intangible and tacit resource flows, which are comprised of organizational routines, leadership, culture, etc. These resources may have been developed over time, and thus cannot be easily absorbed and transplanted due to time compression diseconomies (Dierickx & Cool, 1989). For example, a U.S. company may have to establish multiple equity joint ventures and lasting personnel exchanges in order to learn teamwork routines from its Japanese partners. The flow tends to be minimal and slow, and may be realized only through value chain partnerships or quasi-integration (Kanter, 1994; Subramani & Venkatraman, 2003).

Resource modulators are forms of social capital, which might not be directly quantifiable but tend to modulate resource flows between a focal firm and its associated economic and social actors. Consequently, resource modulators affect the change of a focal firm's resource stocks. We identify two resource modulators, namely (1) relational embeddedness, the strength or cohesiveness of a focal firm's direct ties with its associated actors, and (2) structural embeddedness, the social network structure in which a focal firm is embedded. The two resource modulators affect the resource flows both separately and jointly between a focal firm and its directly associated actors (Tsai & Ghoshal, 1998). Under favorable or unfavorable

network conditions, resource flows are modulated to the advantage or disadvantage of the focal firm. Our delineation of the effects of the two resource modulators is displayed in Figure 1c.

Having explained resource stocks, resource flows, and resource modulators, let us turn our attention to two key resource accumulation mechanisms in the framework: the "internal resource self-reinforcing mechanism" and the "resource exchange mechanism". Extensively addressed in the resource-based literature, the "internal resource self-reinforcing mechanism" attempts to explain how organizational capabilities determine whether and how resources are effectively deployed, combined and utilized to generate additional resources of value.

The "resource exchange mechanism" examines the resource exchange between the focal firm and its associated economic and social actors, focusing on the roles and characteristics of these actors. Technological cooperation with an innovative market leader may help improve product quality, resulting in a net resource inflow. On the other hand, formation of a long-term contract with an inferior supplier may lead to the erosion of technological advantage, causing a net resource outflow. Clearly, a focal firm's relational and structural embeddedness influences the direction and magnitude of various resource flows. Advantageous resource accumulation results from successful implementation of the above-mentioned mechanisms.

In summary, our framework provides a theoretical foundation for addressing the issue of how EE firms may leverage external social capital to accumulate valuable resources and strive for competitiveness. Table 1 compares our integrative view of resources with received theories.

Table 1 Received theories versus integrative view.

	Resource based view (RBV)	Social capital theories (firm level)		Integrative view
		Relational View	Structural View	
Intellectual heritage	Economic theory of firm growth	Dyadic social relations, RBV, and transaction cost theory	Structures of social relations	Social capital theories and RBV
Theoretical focus	Firm performance heterogeneity and sustainable competitive advantages	Sustainable relational rents, i.e., value creation and preservation based on interfirm linkages	Information flow, cooperative norms, and firm success	Resource exchange and resource accumulation
Locus of resources of primary interest	Internal (i.e., firm-specific)	Interfirm dyadic relations and relational embeddedness	Network structures and structural embeddedness	Network structure: Relational and structural embeddedness
Primary types of resources	Firm specific resources that are valuable, rare, inimitable, non-substitutable, inelastic in supply	Resources embedded in relational ties that are valuable, rare, inimitable, & non-substitutable.	Resources embedded in the position within the social structure	A holistic resource system

Emerging economy firms and resource accumulation

Emerging economy firms

Emerging economies, defined as "low income and rapid growth economies" (Hoskisson, Eden, Lau, & Wright, 2000), are considerably different than developed economies. Khanna and Palepu (1997) point out that in an emerging economy the capital market tends to be underdeveloped, the labor market lacks management talent, the product market has limited enforcement of liability laws, and government restrictions are prevalent. Other scholars stress that most emerging economies may be called network society (Wellman, Chen, & Weizhen, 2002) where social relations and long term orientation are highly valued (Peng & Heath, 1996; Zhou & Li, 2007), and the boundary between government and business is blurred. The success of economic development in Korea, Singapore, and Taiwan has partly been attributed to these network related characteristics (Amsden, 1989; Amsden & Chu, 2003; Hock, 1996). The above suggests that an emerging economy poses both challenges and opportunities for EE firms.

In terms of challenges, most EE firms lack non location-bound resources such as capital, intellectual properties, and organizational routines relative to established MNEs (Ghemawat, 2001; Hitt et al., 2005), despite the significant organizational heterogeneity among state-owned enterprises (SOEs), privatized firms and other incumbent firms (Wright et al., 2005). While SOEs are viewed by some to be resource abundant (Tan & Litschert, 1994), others argue more convincingly that market transitions have revealed SOEs' deficiencies in most types of capabilities (Nolan, 2001; Peng, 2001).

EE firms, however, often enjoy some location-bound advantages (e.g., local market knowledge, access to distribution channels, strong relations with government agencies, ethnic bonds) derived from their indigenous social capital, which is not readily available to established MNEs from developed countries due to cultural and institutional barriers (Child & Rodrigues, 2005; Hitt et al., 2005). For EE firms, such location-bound advantages often compensate for the lack of internal resources and play a critical role in their coopetition with established MNEs (Bartlett & Ghoshal, 2000; Dawar & Frost, 1999; Redding, 1996). The alliance between Haier, the top Chinese home appliance maker and Japan's Sanyo in early 1990s is a good example (Yang et al., 2008). Facing insurmountable financial burden for breaking into the notoriously close-knit Japanese distribution channels, Haier sought to use Sanyo's network of dealers. But what could Haier offer Sanyo in exchange? Recognizing that its most valuable resources in Sanyo's eyes were the integrated distribution and service network it had been trying to build across China, Haier agreed to open its Chinese distribution network to Sanyo's products in exchange for its access to Sanyo's network of dealers in Japan (Paine, 1998).

Although economic historians, institutional theorists, and area researchers note the importance of social capital in emerging economies (Amsden, 1989; Hamilton, 1996; Gold, Guthrie & Wank, 2002; Menkhoff & Gerke, 2002), they emphasize indigenous social capital to the exclusion of the relationships between EE firms and established MNEs. International business and strategy researchers, on the other

hand, tend to focus on the cost advantages of EE firms (associated with labor, raw materials, economies of scale), and more recently, interfirm learning (Li & Atuahene-Gima, 2002; Steensma & Lyles, 2000; Hitt et al., 2005). In general, the above mentioned scholars have paid much less attention to the role of network structure aspect of social capital in the development of capabilities and competitive advantages.

In this paper, we bring to the forefront the rationale of specific social capital conditions and their roles in resource accumulation for EE firms. In particular, we attach great importance to the ties (or relationships) between EE firms and resource-abundant MNEs. Dunning (1993, p.82) and Porter (1986) articulate that participation of resource abundant MNEs in international markets varies greatly. In emerging economies, upstream oriented MNEs mainly invest to get access to unskilled labor and natural resources while downstream oriented MNEs seek to establish a foothold in new markets that require host country specific capabilities. Recent research by Chen, Chen and Ku (2004) shows that while human resources are available to MNEs in emerging economies without much networking, social and intellectual resources are costly to develop and can only be mobilized by social ties, in particular for downstream oriented MNEs. Therefore, EE firms with location-bound (indigenous) social capital are more likely to forge and sustain ties with established MNEs because location-bound social capital is hard to internalize or may change dramatically if MNEs attempt to initiate hostile takeovers. Ties with established MNEs, along with social relationships with indigenous stakeholders, provide EE firms with a viable strategy to accumulate resources to their advantages (Wellman, 1988; Wright et al., 2005).

Relational embeddedness and resource exchanges with MNEs

As mentioned earlier, relational embeddedness refers to the strength of a focal firm's direct ties with its partners. Hansen (1999) found that weak ties tend to facilitate the search for useful yet simple knowledge from non-traditional sources. However, their weakness impedes the transfer of complex knowledge or resources, which tends to require stronger ties between partners. Considering the four resource flows noted earlier, we argue that strong ties can foster the exchange of intangible and tacit forms of resources while weak ties may be more suitable for transferring tangible and explicit forms of resources (also see Peng & Zhou, 2005).

We have elaborated that access to location-bound social capital may enable an EE firm to forge ties with established MNEs from developed countries. Given that such social capital is typically developed and maintained in a historical and idiosyncratic context for the EE firm (Bourdieu, 1986; Nahapiet & Ghoshal, 1998), it is difficult to be unfairly appropriated by its resource abundant MNE partners. Ties with MNEs with minimal value appropriation concerns are beneficial to the EE firm. In addition to tangible and explicit resource exchanges or "common benefits", the EE firm may receive "private benefits", or unilateral learning, which it can apply to its operations outside the scope of the partnership (Khanna, Gulati, & Nohria, 1998).

We suggest that an EE firm can leverage the strength of its ties with MNE partners as a specific resource accumulation strategy. The net resource inflow from

an MNE partner depends on the strength of the tie between the EE firm and the MNE. When the tie is weak, such as in arm's length relationships, the net inflow of the MNE partner's resources to the EE firm is small. When the tie is stronger such as in the case of R&D alliances and joint ventures, the net resource inflow is larger. The EE firm may acquire less tangible but explicit (codified) resources from the MNE partner over time. Such situations often result from alliances between Western MNEs and their East Asian partners. Western MNEs want to pursue market penetration and outsourcing while East Asian companies want to increase technical and managerial expertise (Hamel, Doz, & Prahalad, 1989; Williamson, 1997; Wilson & Williamson, 2003).

The rise of Lenovo, the No. 3 global PC manufacturer, helps illustrate our arguments here.[2] Founded with about US$ 25,000 in 1984, Lenovo (formerly Legend) has emerged as a market leader in China with a market share of 30% in 2003. Its subsequent acquisition of IBM PC division for US$ 1.25 billion shocked the global business community (Liu, 2007).

The success of Lenovo may be in part attributed to its practice of forging relatively strong ties (exclusive dealerships, R&D and marketing alliances, joint ventures) with established MNEs in China such as IBM, Toshiba, Sun Microsystems, Siemens AG, among others (Data Securities Corporation, 2003).[3] One of Lenovo's major appeals to these MNEs was its connections with the Chinese Academy of Sciences (CAS), a major research powerhouse in China where most of its founding members had worked as engineers. The accumulation of these strong business ties has allowed Lenovo to amass resources in a variety of forms (e.g., technology, marketing skills, and management routines) (Liu & Liang, 2002). Similarly, the case studies of Yan and Duan (2003) reveal that U.S. multinational partners' resource contributions in U.S.-Chinese equity-based joint ventures include managerial know-how, product and manufacturing technologies while Chinese partners' resource contributions encompass expertise in local marketing and distribution, general local contacts and political influence. The above cases are consistent with findings in another emerging economy, India, which show that greater joint venture ownership by MNEs allows the Indian partner to build stronger capabilities for internationalization (Elango & Pattnaik, 2007).

In sum, an EE firm is likely to receive additional valuable information and document-based know-how at minimal cost from a strong tie with a resource abundant MNE because the MNE partner needs to share pertinent information and knowledge with the EE firm to facilitate the collaboration. Joined with this natural propensity (for the MNE to share relevant knowledge), is the likelihood that the EE firm has major incentives to learn from its MNE partner (Hitt et al., 2005; Mathews, 2002). Moreover, the international reputation of the established MNE partner helps

[2] A detailed list of facts about Lenovo as well as their sources is listed in Appendix A, posted online at: http://www.utdallas.edu/~zlin.

[3] Interestingly, Lenovo forged very few business ties with indigenous PC manufacturers. This is sensible because the association with less advanced and less innovative partners would not increase or, perhaps, even decrease its net inflow of resources.

enhance the EE firm's social legitimacy (Stuart, 2000) and ability to form new ties, which opens access to new social resources. Thus:

Proposition 1 For emerging economy firms, the stronger their ties with resource abundant MNE partners, the greater the inflow of intangible and tacit resources such as organizational capabilities and intellectual properties as well as the increase of social resources.

MNEs may pursue upstream or downstream activities in emerging markets. Rugman and Verbeke (2004) suggest that for downstream FDIs where the MNE motive is to derive a benefit from its non location-bound resources such as its brand, the resource commitments made to attract potential foreign customers are one-sided; the MNE invests its resources up-front whereas the potential customers do not. Thus, to ensure success, downstream value-chain oriented MNEs face a somewhat uphill challenge, which necessitates greater resource commitments.

We extend this point and argue that local (EE) firms would likely receive more information and knowledge from downstream value-chain oriented MNE partners because the MNE partners often need to collaborate with or even depend on EE firms for assistance in order to manage a series of downstream activities oriented towards local customers. Indeed, Li and Atuahene-Gima (2002) show that Chinese technology ventures develop their marketing and technological capabilities by learning from foreign entrants through downstream alliances (i.e., focusing on marketing of foreign entrants' products in China). In the case of Lenovo, it has formed few business ties with upstream value-chain oriented MNE partners. Its remarkable growth under trivial government protection has, in part, resulted from primarily leveraging its ties with downstream value-chain oriented global players such as IBM, HP and Toshiba that entered the Chinese market in the late 1980s. With a severe shortage of resources and capabilities, Lenovo decided to serve as an authorized dealer of noted MNEs such as IBM and HP in China in the mid/late 1980s. Mr. Chuanzhi Liu, Lenovo's chairman, acknowledges that Lenovo has learned sales channel management and financial control from HP; strategy formulation from IBM, Intel, and Microsoft; and other competencies from other global players. In the course of being the value-added dealer (or reseller) of worldwide renowned manufacturers, Lenovo dramatically increased its human resources and organizational capabilities (Liu & Liang, 2002). Other recent studies of joint ventures between Chinese firms and Western multi-nationals seeking to enter the Chinese market also support our argument that ties to downstream value-chain oriented MNEs catalyze the transfer of manufacturing technologies, product designs, marketing skills and other Western management practices to emerging market partners (Wilson, Chen, & Erakovic, 2006).

Research in other emerging economies similarly finds that ties to downstream oriented MNEs are important for the inflow of critical resources to local firms. For example, Sulzon Energy Ltd, an Indian maker of wind turbines, obtained critical technology through its partnership with Sudwind, a German turbine firm because the latter was eager to penetrate the Indian market (a downstream oriented activity) (Karmali & Stone, 2006).

Upstream oriented MNEs, on the other hand, have their primary marketing and sales activities concentrated in their home countries or other markets. Hence,

compared with downstream oriented MNEs (e.g., IBM and Compaq), upstream oriented MNEs (e.g., Liz Claiborne and Nike) mainly outsource their production to emerging markets and do not need much help from the local partners to deal with the local distributors and consumers. Such MNE-supplier relationships tend to be footloose and are less likely to contribute substantively to the inflow of intangible and tacit resources for EE firms. Drawing on this discussion, we put forth:

Proposition 2 For emerging economy firms, their ties with upstream value-chain oriented MNE partners generate less inflow of intangible and tacit resources such as organizational capabilities, and intellectual properties compared with their ties with downstream value-chain oriented MNE partners.

When the tie between an EE firm and an MNE is very strong, such as in the case of multiple joint ventures or quasi-integration, the EE firm may also gain access to an MNE partner's most intangible and tacit resources, such as teamwork skills, project management routines. However, the EE firm will likely lose opportunities to develop its distinctive resources and capabilities. Either it may rely too heavily on its MNE partner or its unique resources may become vulnerable to an inquisitive MNE partner. Generally the EE firm is not able to maintain its structural autonomy when the relationship becomes too close (Burt, 1992). We see the principle at work in the strong relationships between Toyota and many of its suppliers. Most suppliers rely on Toyota for steady business and technical support. However, few of them have been able to develop innovative products independent of Toyota.

The slow fall of Shanghai Automotive Industry Corporation (SAIC) from its leading position in the Chinese automotive market further illustrates this point.[4] In 1996, SAIC generated over RMB 65 billion (US$ 7.8 billion) in revenues, and 52% of Chinese market share through Shanghai Volkswagen, a 50–50 joint venture between SAIC and Volkswagen (VW) (Zhao, Anand & Mitchell, 2005). However, Shanghai VW's market share plunged to a historical low of 16% in 2004, following a downward trend that started in 2001 (Farhoomand & Tao, 2005).

Since China's accession to the World Trade Organization (WTO) in 2001, all the global automotive firms (e.g., GM, Toyota, DaimlerChrysler, Honda, Hyundai) have intensified their efforts in expanding the Chinese market, mostly through joint ventures with Chinese automotive manufacturers (Farhoomand & Tao, 2005). Unfortunately, SAIC was not adequately prepared for these serious challenges. Despite a large market share, SAIC's main product (until recently) was Santana, a low end model initially marketed in Brazil by Volkswagen, which lost its appeal to the Chinese consumers with increased disposable income. Due to its almost exclusive decade-long dependence on VW's outdated technologies (prior to the joint venture with GM), SAIC failed to develop any unique know-how and broad managerial expertise. The over-reliance on a particularly strong business tie with an MNE partner not only hindered SAIC's ability to create its own brand but also

[4] A detailed list of facts about SAIC as well as their sources is listed in Appendix B, posted online at: http://www.utdallas.edu/~zlin.

limited its capacity to launch innovative products. The SAIC case effectively demonstrates the possible detrimental effects associated with external social capital (Portes, 1998; Roger, Leengers, & Gabbay, 1999). Accordingly, we reason that:

Proposition 3 For emerging economy firms, the stronger their ties with resource abundant MNE partners, the lower their self-developed intangible and tacit resources such as organizational capabilities and intellectual properties.

An EE firm is likely to realize optimal net resource increase when it forges a moderately strong tie with an MNE partner. This degree of tying helps the EE firm gain access to less tangible but codified or "borrowable" MNE resources. Although the resources exchanged at this level of strength are not the most intangible, they may require years of experience to develop, thus, they are of substantial value to the EE firm and can be critical for its survival (Hitt et al., 2005; Mathews, 2002). At the same time, the moderate strength helps foster the EE firm's own resource development and prevent dilution of its unique or idiosyncratic resources, including social capital. Moderately strong ties leave the door open for the EE firm to explore cooperative opportunities with other established MNEs. This is also shown in Lenovo's ties with its MNE partners. Notably, majority of these business ties are value-added dealerships, marketing service agreements, R&D agreements and software development agreements. There are very few ties based on significant equity contribution. Therefore, the strength of Lenovo's ties with the MNEs is mostly moderate. Lenovo has amassed a variety of technology, marketing and management resources as a result of developing so many moderate-strength business ties with these resource-abundant MNEs. The manifold points of contact positioned Lenovo to develop its own intellectual properties including voice-recognition software and graphics pad technology. In the relationship-embedding process, Lenovo increased its reputation, brand recognition, and management techniques (Rukstad, Chen, Qin, Ye, & Yin, 2001). Developing moderately strong ties with a number of MNE partners facilitated substantial net inflow of intangible and tacit resources while protecting Lenovo's idiosyncratic resources and capabilities from leaking to its partners. Thus:

Proposition 4 For emerging economy firms, the increase of intangible and tacit resources such as organizational capabilities and intellectual properties as well as social resources has an inverted U-shaped relationship with the strength of their ties with resource abundant MNE partners.

Structural embeddedness and resource exchanges with MNEs

Wellman (1988) noted that ties link network members both directly and indirectly, therefore, they must be defined within the context of larger network structures. Network structures play a key role in moderating social interactions and information flows among network members. A focal firm's network structure (i.e., structural embeddedness) is determined by the density of the ties among its directly associated actors, excluding the focal firm itself.

Although there is disagreement over whether optimal benefits result from densely or sparsely connected partner networks (Burt, 1992; Coleman, 1988, 1990), we believe that it is desirable for an EE firm to form ties with MNE partners who have "structural holes" among themselves (i.e., the MNE partners are sparsely connected with each other). Structural holes often exist when MNEs compete in unfamiliar emerging markets for market foothold and competitive advantages. They also exist when MNEs have institutional and/or cultural barriers among themselves. Because of such "structural holes", an EE firm may also gain certain advantages by exploiting tensions among various MNE partners (Gulati, 1998). The existence of structural holes extends the scope of resources exchanged between the EE firm and its MNE partners to include the information and knowledge not related to the specific cooperation between them. We may say that this extra resource inflow occurs due to the "spillover" effects.

Where the EE firm's MNE partners focus on the same or closely related industry, however, which is common in emerging economies, the information and knowledge spillover due to the structural holes among these MNE partners may be repetitive and redundant. Although Burt (1992) stresses the disadvantages of information redundancy, leading knowledge management scholars such as Nonaka (1991) articulate that redundancy helps facilitate the transfer of tacit knowledge by creating common cognitive ground among employees. For an EE firm, we believe that a certain level of information and knowledge redundancy is valuable because it helps solidify its knowledge base and validate the reliability of information from different MNE partners. Furthermore, repetitiveness fosters absorption and application of new knowledge.

The connections among Lenovo's MNE partners in China were relatively sparse due to the potential tension among them to gain a foothold in the Chinese market during the early stage of China's economic transformation in 1980s. By contrast, Depner (2005) found that SAIC transferred some Chinese personnel originally trained in the Shanghai VW joint venture to the Shanghai GM joint venture. This transfer unexpectedly created strong information flows between GM and VW, which significantly reduced the structural holes among SAIC's MNE partners (i.e., VW and GM), and limited the knowledge "spillover" benefits for SAIC. The above suggests:

Proposition 5 For emerging economy firms, the greater the structural holes among their MNE partners, the more effective the absorption of intangible and tacit resources such as organizational capabilities and intellectual properties from these MNE partners.

The "spillover" effects of the structural holes among the MNE partners depend upon the strength of the EE firm's ties with them. When the ties are weak, there will be little "spillover" effect because the number of contacts embedded in the ties is few and the interactions between the firms are infrequent. When the ties are stronger, the "spillover" effects increase because of more frequent interactions and more intensive managerial networking between the firms (Luo, 2003; Peng & Zhou, 2005). However, the "spillover" effects will diminish when the degree of strength extends beyond a threshold. Very strong ties with multiple MNE partners may lead to an inflow of extra resources from one partner offset by an outflow of the same or similar resources to other partners because of dense interactions between the EE firm and its MNE partners. Since network ties are often transitive (Wellman, 1988), very strong ties with

multiple MNE partners may help these partners to become directly linked. Such a result diminishes the number of structural holes, and consequently the benefits that result from them. This line of argument resonates with the suggestion that the interaction between structural and relational embeddedness has an important impact on focal firm performance (Rowley et al., 2000). Indeed, Lenovo's capacity to absorb various resources has been attributed to its various moderate ties with its MNE partners and the spillover effects of their structural holes. Hence the following proposition:

Proposition 6 For emerging economy firms, the greatest "spillover" effect of structural holes among their MNE partners embodied in the absorption of intangible and tacit resources occurs when their ties with these MNEs are moderately strong.

An EE firm also tends to bridge the structural holes between its MNE partners and local stakeholders such as distributors, suppliers, research institutions, government agencies, and labor unions. Such structural holes exist for several reasons, including institutional and/or cultural barriers across national boundaries as well as the EE firm's preexisting network advantages. Charoen Pokphand (CP), a Thailand-based agri-business firm, took advantage of its familiarity with Asian business cultures, and leveraged structural holes in Asian markets to achieve its competitiveness over Cargill, a U.S. agri-business powerhouse (Wilson & Williamson, 2003).

Lenovo was able to position itself as a bridging tie between its global partners and local stakeholders, especially distributors. The company established a comprehensive distribution network with the aid of the technology and legitimacy that it gained from cooperating with the well-known global firms. It developed its idiosyncratic distribution channel monitoring routines.

In 2001, it sold 2.8 million PCs through an effective network of over 300 franchisees and 3,000 independent dealers in China. Its account receivables were only 0.05% of total sales, which was unparalleled by even the best practice among the worldwide leading PC makers (Liu & Liang, 2002). The difficulties for the global firms to establish close ties with local distributors were formidable due to the idiosyncratic environment that the global firms were unfamiliar with.

Unlike the structural holes among the MNE partners, the structural holes between an EE firm's MNE partners and its local stakeholders primarily generate the benefits of information diversity rather than the benefits of information richness (due to repetitiveness). Organizational characteristics, economic and social orientations, and sources of information vary more substantially between the MNE partners and the EE firm's local stakeholders than among the MNE partners (Koka & Prescott, 2002).

The diversity of the information helps the EE firm to utilize information and knowledge from MNE partners creatively, and consequently develop its unique resources. Baum et al. (2000) found that a diverse network is efficient and improves the performance of focal firms. The structural holes between Lenovo's MNE partners and local partners transformed Lenovo into an information hub. The company received disparate valuable information regarding customer demand, technological appropriateness, and market opportunities. Lenovo successfully assimilated the data and transformed it into innovative solutions to meet local market demand (e.g., Internet preloaded PC) and to suit local management (e.g., distribution channel control).

Equally important, the structural holes create arbitrage positions for the EE firm to exploit. As a result, the EE firm can maintain the long-term strategic importance of its tie with each of its MNE partners (Walker et al., 1997). In the case of Lenovo, the structural holes between the established MNEs and local distributors (and other stakeholders) deterred the MNE partners from terminating cooperation with Lenovo in fear of losing opportunities in the Chinese market. From the viewpoint of global strategy, the global players would rather co-opt Lenovo as a local strategic partner and rely on Lenovo's local expertise and network than compete with it in the long run (Rukstad et al., 2001). Finally, Lenovo's distribution channel management routines embedded in the indigenous environment are unique and hard to imitate or duplicate. This provided a significant lever for Lenovo to maintain a stable tie with each of its global partners.

In addition, the structural holes between an EE firm's MNE partners and its indigenous stakeholders may give the EE firm an upper hand in recruiting local talents, especially when it has significantly enhanced its reputation and other resources. The existence of these structural holes may also be an important reason for which some locally hired managers choose to leave the resource-abundant MNEs and work for the growing EE firm, in particular, when they are dissatisfied with their salaries and have feelings of inequity (Cyr & Schneider, 1996).

Lenovo has protected its idiosyncratic resources, including external social capital, from significantly accruing to MNEs. At the same time, it has employed indigenous top-notch human resources. This ingenious combination helped Lenovo to establish and sustain competitive advantages. In sum, the structural holes between an EE firm's MNE partners and its local stakeholders such as distributors and suppliers may facilitate the establishment of the EE firm's unique organizational capabilities as well as increase of valuable human resources.

Proposition 7 For emerging economy firms, the greater the structural holes among their MNE partners and other stakeholders, the greater the increase of self-developed organizational capabilities and human resources.

Discussion

An important implication of the turtle–hare race story is that the turtle needs to resort to external conditions to increase his chance to outrace the hare. Most emerging economies lack reliable formal institutions in the form of legal and judicial systems, for example. Scholars subscribing to the institutional approach note that social capital may compensate for institutional weakness (Easterly, Ritzen, & Woolcock, 2006; Woolcock, 1998). Social capital can enhance interpersonal trust and promote shared norms and values of conduct that go beyond established institutions (Nooteboom, 2007), and thus is particularly important for EE firms. The much reported importance of personal connections or *guanxi* (Bian, 1997; Bian & Ang, 1997), kinship networks (Peng, 2004), and large networks of primarily state-owned enterprises referred to as *qiye jituan* (Keister, 2001) in China as well as the presence of conglomerates in other emerging economies (Khanna & Palepu, 1997) suggests

that institutional frameworks in emerging economies tend to create an environment representing a "marsh" in which the rules of the game exist in favor of the indigenous "turtles". The "turtles" that have historically made efforts in building external social capital are more capable of accumulating valuable resources and creating unique capabilities needed for competing with established MNEs (Child & Rodrigues, 2005).

External social capital is critical for the survival and growth of EE firms. Given their resource constraints, EE firms have the necessary motivation to pursue long term cooperation with appropriate MNEs in order to grow their internal resources (Mathews, 2002; Hitt et al., 2005). They are often extremely flexible in working with MNEs to maintain these vital connections. On the other hand, it is important for EE firms to understand the potential negative consequences if they rely too much on certain aspects of social capital.

Although MNEs may, in principle, devote efforts to developing external social capital in the EE context, they confront the normative pressure for being isomorphic with their global practice in favor of leveraging internal resources and capabilities (Peng, 2003). Moreover, the superior resources of MNEs often translate into positional advantage that decreases dependence on external social capital (Dobrev & Carroll, 2003). Burt (1992, 1997) has stressed repeatedly that the structural hole between two groups of actors does not mean that the actors are unaware of each other. Rather, the actors are so focused on their own activities that they do not attend to the activities of actors in other groups. MNEs appear to focus more on internal operations than do EE firms (Park, Chen, & Gallagher, 2002). Even the few MNEs who have hired a Vice President of Strategic Alliances often pay attention only to their most important alliances (Kale et al., 2002).

Established MNEs—often handicapped by internal organizational complexity and bureaucratic control systems—are typically ill prepared to leverage external social capital as effectively as EE firms who tend to exhibit a higher level of entrepreneurship (Hannan, Polos, & Carroll, 2003; Narula, 2006). Burt (2000: 355) notes that:

> Entrepreneurs are...skilled in building the interpersonal bridges that span structural holes. They monitor information more effectively than bureaucratic control. They move information faster, and to more people, than memos. They are more responsive than a bureaucracy, easily shifting network time and energy from one solution to another.

Furthermore, typical MNEs have multiple business lines. Therefore, they may benefit most when they forge very strong ties with their partners as long as the parties do not have substantial overlap of business scope. Unlike established MNEs, EE firms often cannot avoid business overlap with MNE partners. Resource abundant MNEs may also value a weak tie substantially because of the novel information that the weak tie might bring. EE firms, however, require more than useful information to achieve effective learning because of the lack of capacity to explore and integrate information (Hitt et al., 2005). Thus, they will be less capable to exploit weak ties with MNE partners. Overall, our discussion indicates that EE firms tend to gain most benefits when they forge ties of moderate strength with MNE partners, a rather unique strategy for them.

Just as a turtle may outrun a hare under certain circumstances, we believe that the above-mentioned strategy may work well for EE firms to compete with established MNEs if three conditions are satisfied. First, EE firms have unique external social capital instead of just a technological component or patent as emphasized by Alvarez and Barney (2001). Second, key executives of EE firms are highly motivated learners. Through business ties with MNE partners, they make extra efforts to learn beyond the scope of on-going cooperative projects. Although the resource accumulation mechanisms that we have proposed are applicable to any EE firms, those with stronger motivation and capacities for learning will accumulate resources more effectively (Hitt et al., 2005). Our case examples show that Lenovo has been more adept at learning from MNEs than SAIC. Third, institutional and/or cultural barriers create structural holes among the EE firm's resource-abundant MNE partners and/or between the MNEs and the EE firm's indigenous stakeholders. The Lenovo example clearly illustrates that institutional and cultural barriers help generate valuable brokerage opportunities.

This paper offers important practical implications. EE firms can enhance their resources by forming a properly configured social network that helps to alleviate resource appropriation risks by MNE partners. Despite the merits of the external social capital based strategy, EE firms should be aware of the challenges and limits. Resources acquired through moderately strong ties with MNEs are valuable only to the extent that they enable EE firms to move toward competitive parity with established MNEs. In order to establish and sustain competitive advantages, EE firms must leverage external social capital rapidly and efficiently to develop, deploy, and upgrade their own unique capabilities (Luo, 2000). Change in institutional and cultural environments can quickly erode EE firms' otherwise valuable and unique external social capital (Peng, 2003).

Conclusion

This paper makes two theoretical contributions to the resource-based literature in strategic management. First, an integrative view of resources is developed that delineates a firm's resource stocks, flows, and accumulation mechanisms by employing network-based social capital theories and resource-based logics. Because the framework presents a balanced view of both internal and external resources and of resource exchanges across firm boundaries, it can be applied to investigating both the resource-based rationale of strategic alliances and how EE firms may enhance their resources and capabilities to strive for strategic competitiveness.

Second, we have outlined resource accumulation strategies for EE firms, which are based on leveraging external social capital. Specifically, we focus on various resource exchanges between EE firms and their MNE partners. We propose that EE firms will realize optimal accumulation of intangible and tacit resources such as organizational capabilities and intellectual properties when they establish and maintain moderately strong ties with MNE partners. In addition, we articulate that structural holes among an EE firm's MNE partners as well as between its MNE partners and indigenous stakeholders such as distributors will foster the absorption of acquired knowledge and self development of unique and sustainable resources.

This paper sets the direction for further extension of research on EE firms along several avenues. First, theoretical development is needed to address how and in which contexts specific ties and network structures are initiated. EE firms need to know when and how to build critical business ties. Second, scholars need to systematically examine how various types of moderately strong ties (e.g., R&D alliances vs. marketing joint ventures; downstream vs. upstream alliances) and network structures may aid EE firms' resource accumulation differently. Third, it is important to explicitly capture the impact of environmental differences (e.g., institutions, culture) on EE firms' resource flows and accumulation (Guisinger, 2001; Narula, 2006; Peng, 2001, 2003). EE firms need to understand to what an extent they may capitalize on the institutional and cultural barriers.

To revisit the turtle–hare race story, it is not enough to just know that there are viable strategies and external assistance available for the turtle to outrun the hare under altered circumstances. It is essential to understand how a specific strategy may be crafted and adapted to the changing environments so that the turtle can repeat and sustain its success in racing.

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