



The growth of the firm in (and out of) emerging economies

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Abstract Starting with Peng and Heath (*Academy of Management Review*, 21: 492–528, 1996), the growth of the firm in emerging economies (EE) has received increasing attention in the literature in the last two decades. This line of research has not only extended our knowledge on firms' strategic choices to the context of EE, but also proposed new perspectives on the growth of the firm. Leveraging prior research, this article focuses on three major modes for firm growth—organic, acquisitive, and network-based. For each mode, we identify new themes and insights emerging from the last two decades of research. They center on (1) compositional capabilities and frugal innovations for organic growth, (2) business groups and cross-border acquisitions for acquisitive growth, and (3) network capitalism and institutional transitions for

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network-based growth. Overall, we not only identify new themes and insights, but also outline important yet unresolved debates as future research directions.

Keywords Growth of the firm · Emerging economies · Organic growth · Acquisitive growth · Network-based growth · Frugal innovations · Mergers and acquisitions · Network capitalism · Institutional transitions

How do firms in emerging economies (EE) grow? Inspired by Edith Penrose's (1959) *The Theory of the Growth of the Firm*, the first paper in the management literature on the growth of the firm in EE, "The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choices" (Peng & Heath, 1996), appeared over two decades ago in the *Academy of Management Review*. The last two decades have witnessed not only rising corporate interest in EE, but also growing scholarly enthusiasm in this area (see reviews by Hoskisson, Eden, Lau, & Wright, 2000; Hoskisson, Wright, Filatotchev, & Peng, 2013; Lu, Ma, Taska, & Wang, 2017; Luo & Tung, 2007, 2018; Meyer & Peng, 2005, 2016; Peng, 2003, 2018; Wright, Filatotchev, Hoskisson, & Peng, 2005; Xu & Meyer, 2013; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008; Young, Tsai, Wang, Liu, & Ahlstrom, 2014).

As a research area, the growth of the firm continues to attract scholarly attention (Eshima & Anderson, 2017; Hutzschenreuter, Voll, & Verbeke, 2011; Lockett, Wiklund, Davidson, & Girma, 2011; Tan & Mahoney, 2007; Tseng, Tansuhaj, Hallagan, & McCullough, 2007). In EE, the institutional transitions have facilitated the impressive growth of firms of all types—incumbents and start-ups within EE as well as new multinationals coming out of these economies. Despite our vastly expanded knowledge base, reviews of the literature on the growth of the firm have little coverage on the growth of the firm in EE (Geroski, 2005; McKelvie & Wiklund, 2010; Nason & Wiklund, 2018; Rugman & Verbeke, 2002; Shepherd & Wiklund, 2009). As a result, interesting but underexplored questions arise: What have we learned in the last two decades on the growth of the firm in (and out of) EE? Where is the continuity from Penrose (1959) and Peng and Heath (1996)? Where is the change? What are the new themes and insights that were not available when this literature started over two decades ago? Finally, what are the leading unresolved debates that can serve as future research directions for aspiring scholars?

Endeavoring to address these important questions, we first follow Penrose (1959) and Peng and Heath (1996) to develop a comprehensive framework that covers three major modes of growth—organic, acquisitive, and network-based. For each mode, we identify new themes, insights, and debates. They center on (1) compositional capabilities and frugal innovations for organic growth, (2) business groups and cross-border acquisitions for acquisitive growth, and (3) network capitalism and institutional transitions for network-based growth.

The growth of the firm: Modes and organizational forms

According to Penrose's (1959) definition, growth is the expansion of revenue, assets, and ultimately profits of a firm. Historically, research on the growth of the firm has not

been developed with the experience of firms in EE in mind (Peng, Bruton, Stan, & Huang, 2016; Young et al., 2014). Synthesizing and extending Penrose's (1959) influential theory of the growth of the firm,¹ Peng and Heath (1996: 499) suggested a comprehensive, three-strategic-choice model. These strategic choices are: (1) organic growth, (2) acquisitive growth, and (3) network-based growth. Each strategic choice is underpinned by a mode of organizing and a set of prerequisites (Table 1). At the broadest level, firms in EE and developed economies (DE) grow via these three basic modes. However, there is considerable debate on how unique is the growth of the firm in EE vis-à-vis in DE—as discussed extensively in our coverage of each of the three modes.

While insightful, Peng and Heath (1996: 516) have not adequately covered the tremendous organizational diversity in EE. Instead, that early article only focuses on the growth of one particular type of incumbent firms: state-owned enterprises (SOEs). In an effort to broaden the scope of this research, Peng (2003: 283) and Meyer and Peng (2005: 601) argued that work on the growth of the firm in EE needs to deal with incumbents (business groups, SOEs, and privatized firms) and start-ups alike. Wright et al. (2005) suggested that by the early 2000s, some firms from EE had begun internationalizing, but the literature up to that point was limited. In the decade since the publication of Wright et al. (2005), research on the growth of new multinationals from EE—in short, emerging multinationals—has rapidly proliferated. In other words, emerging multinationals have become a new organizational form in this literature (Lu et al., 2017; Luo & Tung, 2018; Peng, 2012).

Identifying the continuity and change as this literature progresses, our article endeavors to go above and beyond earlier work in at least three significant ways. First, following Peng and Heath (1996), we focus on the growth of the firm that is directly inspired by Penrose (1959), as opposed to the broader strategy research reviewed by Hoskisson et al. (2000), Meyer and Peng (2016), Wright et al. (2005), and Xu and Meyer (2013). Specifically, we draw on Penrose's (1959) ideas to concentrate on the three most strategic *modes* of growth (see also McKelvie & Wiklund, 2010). Second, broadening the scope of the literature under review, we cover all three major organizational forms: (1) incumbents (including business groups, SOEs, and privatized firms), (2) start-ups, and (3) emerging multinationals from EE. In comparison, Carney, Gedajlovic, Huegens, van Essen, and van Oosterhout (2011), Khanna and Rivkin (2001), and Yiu, Lu, Bruton, and Hoskisson (2007) only discussed business groups. Bruton, Peng, Ahlstrom, Stan, and Xu (2015), Peng et al. (2016), and Peng and Heath (1996) only dealt with SOEs. Peng (2003) and Meyer and Peng (2005) covered both incumbents and start-ups but not emerging multinationals. Hoskisson et al. (2013), Lu et al. (2017), Luo and Tung (2007, 2018), and Peng (2012) focused exclusively on emerging multinationals. Our comprehensive coverage thus stays close to Penrose's (1959) theory, which not only

¹ According to Peng and Heath (1996: 498), Penrose's (1959) theory and related work up to the early 1990s can be summarized by five propositions: "(1) Firm growth is driven by the strategic choice for growth adopted by top management teams. (2) The firm is considered to be a collection of resources, which include physical and human resources as well as organizational routines. (3) The existence of excess resources is a precondition for such growth. The principal motivation for growth is the desire to fully employ underutilized resources. (4) The firm has three basic strategic choices for growth: (a) undertake generic expansion, (b) conduct mergers and acquisitions, and/or (c) develop interorganizational relationships, which correspond to hierarchy, market, and hybrid modes of organizing, respectively. (5) The growth of the firm is limited by two constraints: (a) its capability to articulate and codify its organizational routines and transmit this information to its members and (b) its ability to overcome transaction cost and bureaucratic cost problems incurred in the course of growth."

Table 1 The growth of the firm: A comprehensive model

Strategic choice	Mode of organizing	Prerequisites
Organic growth	Hierarchy	Capable managers
Acquisitive growth	Market	Functioning strategic factor markets
Network-based growth	Hybrid	Trust and mutual understanding

Source: Adapted from Peng and Heath (1996: 499)

deals with incumbents and start-ups, but also explicitly covers multinationals (Rugman & Verbeke, 2002). Such a comprehensive approach is generally appreciated as a strength in EE research (Keister, 2009: 719; Kostova & Hult, 2016: 28; Xu, Lu, & Gu, 2014: 517). Finally, we offer a geographic coverage that is broader than earlier work focusing on specific contexts such as Africa (Zoogah, Peng, & Woldu, 2015), Asia (Carney, 2013), Central and Eastern Europe (Meyer & Peng, 2005), and Latin America (Vassolo, De Castro, & Gomez-Mejia, 2011). In summary, we link theory and context with organizational forms.

Defining emerging economies

The list of “emerging economies” (which is often used interchangeably with “emerging markets”) “is not *a priori* defined” (Kostova & Hult, 2016: 26). Two definitions have emerged. First, Hoskisson et al. (2000: 249) defined EE as “low-income, rapid-growth countries using economic liberalization as their primary engine of growth.” With a list of 64 countries, this can be viewed as a “positive list” approach.² Given there are some 200 countries in the world, of which about 30 are generally considered DE, over 100 countries are left out. According to Hoskisson et al. (2000), these over 100 countries can probably still be considered developing economies, but *not* EE. However, it is not clear why 64 countries belong to the enviable list of EE and why over 100 cannot join the list (Hoskisson et al., 2000). Given the obviously dynamic nature of economic transitions, it is theoretically possible for some countries to join the selective list of EE, for other countries to drop out of this list, and for another group of current EE to “upgrade” to become DE.³ Neither Hoskisson et al. (2000) nor other scholars have figured out how such mechanisms work.

² These 64 EE are: Albania, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, Chile, China, Colombia, Cote d’Ivoire, Croatia, Czech Republic, Ecuador, Egypt, Estonia, Georgia, Ghana, Greece, Hungary, India, Indonesia, Israel, Jamaica, Jordan, Kazakhstan, Kenya, Korea, Kyrgyzstan, Latvia, Lithuania, Macedonia, Malaysia, Mauritius, Mexico, Moldova, Morocco, Nigeria, Pakistan, Peru, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Slovakia, Slovenia, South Africa, Sri Lanka, Taiwan, Tajikistan, Thailand, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Ukraine, Uzbekistan, Venezuela, and Zimbabwe.

³ For example, if membership in the European Union (EU) is regarded as attaining the status of DE (Kostova & Hult, 2016: 27), 11 of the 64 countries on Hoskisson et al.’s (2000) list of EE have now become EU members: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. In addition, two EU members as of 2000 are also on Hoskisson et al.’s (2000) original list of EE: Greece and Portugal (p. 250). It is not clear, according to Hoskisson et al. (2000) and related later work (Hoskisson et al., 2013), whether these 11 new EU members as well as Greece and Portugal should now be considered DE or still be considered EE.

A second definition of EE is to suggest that this term is simply the new incarnation of an older term “developing economies” and the two can be used interchangeably. Using a “negative list” approach, Cuervo-Cazurra and Ramamurti (2014: 3) defined EE as “all countries except the 28 that the International Monetary Fund classified in 2000 as ‘developed economies.’” They then provided a footnote naming the specific 28 countries,⁴ implying *all* the other some 170 countries can be viewed as EE. As a strength, this definition is simpler and avoids the challenges associated with “what’s in and what’s out” as found from the first definition suggested by Hoskisson et al. (2000). As a weakness, this definition overlooks the heterogeneity of EE, which has long been noted (Hoskisson et al., 2000: 259; Kostova & Hult, 2016: 25).

Arguing that “it is time to move beyond a simple dichotomy that divides the world into emerging and developed economies,” Hoskisson et al. (2013: 1316) offered a new typology of EE along two dimensions: (1) market institutions and (2) infrastructure and factor market development. They divided the population of EE into five groups (four quadrants of a 2×2 plus one group in the middle). One group is labeled “traditional EE” (weak on both dimensions), one is labeled “newly DE” (strong on both dimensions), and the other three are labeled “mid-range EE.” While the typology is rich, Hoskisson et al.’s (2013: 1301) empirical exploration continues to limit itself to the list from Hoskisson et al. (2000). Thus, the problems associated with the first definition persist.

Most authors have used the term “EE” loosely, without specifying which definition they follow. Major reviews by Meyer and Peng (2016), Wright et al. (2005), and Xu and Meyer (2013) have not generated any new lists of these countries. Our review of the literature—and active participation in EE research in the last two decades—leads us to be sympathetic to the second definition suggested by Cuervo-Cazurra and Ramamurti (2014), due to its parsimony and inclusiveness—despite its shortcomings noted by Hoskisson et al. (2013) and Kostova and Hult (2016). Therefore, for the purposes of this article, we follow Cuervo-Cazurra and Ramamurti (2014) to simply define EE as *non-developed* economies.

Regardless of the labels and definitions, there is no doubt that tremendous growth of the firm has taken place throughout EE. Following Penrose (1959) and Peng and Heath (1996), next we focus on each major mode of growth—starting with organic growth.

Organic growth

According to Penrose (1959), organic growth crucially depends on a cadre of capable managers to develop and deploy resources that can underpin such growth. Throughout EE, in the beginning, such managers—and entrepreneurs in the case of start-ups—may not have a great deal of conventionally valued capabilities, and the firms they lead may lack valuable resources (Peng & Heath, 1996; Tan & Peng, 2003). But they make up the resource disadvantage with their *resourcefulness*—that is, doing more with less (Peng, 2001; Radjou & Prabhu, 2015). One key is the versatility of resources (Nason &

⁴ These 28 DE are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, the United Kingdom, and the United States.

Wiklund, 2018). Overall, EE firms pursuing organic growth have revealed two relatively new themes: (1) compositional capabilities and (2) frugal innovations (see Fig. 1).

Compositional capabilities

Internally, at least when economic transitions are taking off, EE firms only possess ordinary resource bases that have difficulty in generating core competencies, proprietary technologies, or market power (Chittoor, Sarkar, Ray, & Aulakh, 2009; Luo, Sun, & Wang, 2011). According to the resource-based view, a lack of resource advantages typically deprives firms of opportunities to grow and compete successfully (Barney, 2001). Yet ample evidence has shown that some EE firms have accomplished extraordinary growth (Cuervo-Cazurra & Dau, 2009; Dixon, Meyer, & Day, 2010).

How can some EE firms possessing only ordinary resources achieve extraordinary growth? A new perspective suggests that the key lies in composition (Luo & Child, 2015). To compose is to “put something together” (Burton, 2015: 414). Composition means “creatively assembling and integrating the open and generic resources EE firms possess or purchase,” and compositional capability refers to “the extent to which a firm is able to synthesize and integrate disparate resources, including the open resources available” (Luo & Child, 2015: 389).

EE firms are often able to cater to local market requirements by creatively and speedily combining available resources, which, considered separately, are not advantageous per se. Nonetheless the composition of multiple resources, such as products, capital, services, and brainpower, may create growth opportunities (Mathews, 2006). Therefore, the organic growth of EE firms is largely fueled by such compositional processes, from which EE firms offer a quick, valuable response to markets and develop a level of superiority out of synergistic combinations. For example, WeChat, a messaging service provided by Chinese firm Tencent, offers combined Internet services, including text messaging, instant group chats, online media, free video calls,

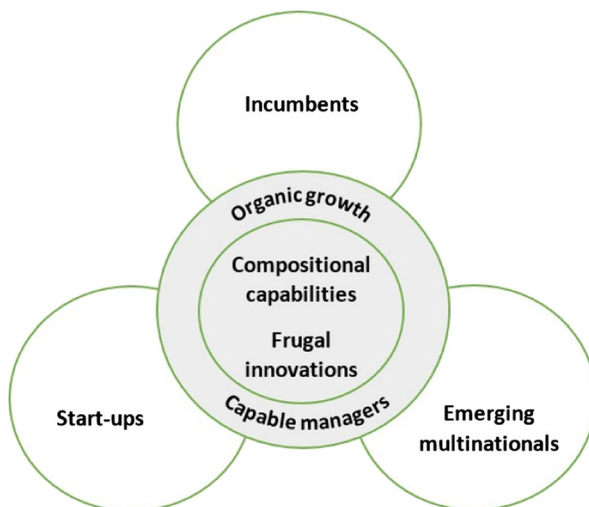


Fig. 1 Organic growth

sharing of large multimedia files, and e-commerce purchase, all of which are integrated across computers, smartphones, and tablets (*Economist*, 2016). While each of these services is ordinary, combining a multitude of offerings has paved the way for the extraordinary success of Tencent.⁵

Furthermore, equipped with operational flexibility, market intelligence, and opportunity-seeking ambitions, EE firms tend to leverage their constrained internal resources, recombine available assets, and capitalize on market needs (Filatotchev, Liu, Buck, & Wright, 2009). They not only create novel products that have equivalent functions of those produced by Western firms, but also do so at extremely affordable prices (Luo et al., 2011). Such compositional capabilities are not only useful domestically in EE, but also helpful overseas (Luo & Bu, 2018; Luo & Tung, 2007, 2018; Yamakawa, Khavul, Peng, & Deeds, 2013).

In comparison with DE multinationals, EE multinationals often lack world-class capabilities in management, technology, and brands (Peng, 2012; Ramamurti & Hillemann, 2018). Yet, they leverage their unique capabilities, which “may not be at the cutting edge, but may nevertheless possess *comparative* advantage relative to the capabilities of their more experienced global rivals” (Peng, 2012: 100; see also Cuervo-Cazurra & Genc, 2008; Mathews, 2006, 2017; Sun, Peng, Ren, & Yan, 2012; Young et al., 2014). From a Penrosian perspective, having excellent managers is a must behind organic growth. For example, when working overseas, Chinese expatriates are not known to possess better education, stronger English fluency, or more worldly experience than their peers from DE multinationals (Peng, 2012). However, Chinese expatriates may have some comparative advantages such as lower cost, higher productivity, more willingness to work hard, and a stronger sense of discipline (Rui, Zhang, & Shipman, 2017).⁶ Leveraging such a cadre of excellent (although not world-class) managers—a prerequisite for organic growth noted by Penrose (1959) and Peng and Heath (1996)—is an important manifestation of emerging multinationals’ compositional capabilities as they embark on their organic growth overseas.

Frugal innovations

Another important theme in the literature on organic growth of EE firms is frugal innovation—“making ingenious use of existing resources and technologies rather than pushing the technology frontiers” (Prabhu & Jain, 2015: 845). For instance, Indian firms are particularly identified as frugal (*jugaad*) innovators. Their organic growth builds on the proficiency at “doing more with less” and integrating low cost with increased value or convenience to customers (Radjou & Prabhu, 2015).

Frugal innovations often start with an imitation strategy. Primarily because the lax regulatory and legal institutions do not encourage or support breakthrough innovations, EE firms often start off as imitators and simply adapt existing technologies and products (Chittoor et al., 2009; Mathews, 2006). Through reverse engineering and/or mimicking incumbents’ offerings, some EE firms have thrived and expanded their

⁵ In August 2017, Tencent had over 200 million users and enjoyed a market value exceeding US\$400 billion, becoming the second Asian company (after Alibaba) to reach such a high level.

⁶ For example, one Chinese expatriate said that “We were not allowed to switch off our mobile phones because we were required to provide 24/7 services to our customers. This is definitely not possible for DMNCs [multinationals from DE] in this market” (Rui et al., 2017: 132).

market share. In fact, in the EE context—at least initially—greater returns are likely channeled to imitators as opposed to innovators (Luo & Child, 2015). Therefore, imitation is likely a stepping stone for EE firms' organic growth.

While imitation does not necessarily entail a negative connotation, *shanzhai* strategy does. *Shanzhai*, derived from the Chinese context, refers to copycats that grow by illicitly and illegitimately infringing on other firms' intellectual property rights (IPR) (Rong, Liu, & Shi, 2011). A *shanzhai* strategy may facilitate growth initially. However, the “low-hanging fruits” may eventually disappear as legal systems and IPR safeguards are gradually established in EE (Chittoor et al., 2009; Peng, Ahlstrom, Carraher, & Shi, 2017a, 2017b). Moreover, in the long run, as consumers' purchasing power and brand awareness increase, the low-end, low-quality, and cheap products made under a *shanzhai* strategy may lose appeal.

Overall, despite possessing only ordinary resources, EE firms may grow organically via skillfully integrating resources or producing affordable alternatives with comparable functions. Such growth derived from compositional processes and frugal innovations is built upon their deep knowledge of the mass market and the huge demand. In addition, their underdeveloped home institutions may also lead some (although not all) EE firms to pursue an imitation (or *shanzhai*) strategy, which facilitate growth in the short term. Whether a *shanzhai* strategy is sustainable in the long run is the subject of one of the two debates—discussed next.

Two debates on organic growth

The development of research on EE firms' organic growth has revealed new insights—such as compositional capabilities and frugal innovations—that are not available when this research took off two decades ago. Two debates have emerged.

Debate 1: How unique is EE firms' organic growth strategy? A number of scholars have argued that the growth of the firm in EE is unique (Mathews, 2006; Peng & Heath, 1996). For instance, Luo and Child (2015: 380) proposed that EE firms are savvy in *distinctively* composing ordinary resources, and thus charting a *unique* developmental path for growth. They advanced a new perspective—the composition-based view—in explicating the growth of EE firms. Essentially, this view focuses on how EE firms with ordinary resources accomplish extraordinary outcomes via compositional capabilities (Luo & Bu, 2018; Luo & Child, 2015).

In contrast, another stream of research contends that firms in EE generally follow the growth path of those in DE, and that EE firms' strategies are well predicted by established theories such as the growth of the firm proposed by Penrose (1959). The only difference between EE and DE firms is a matter of developmental stage and a matter of degree. For example, Burton (2015: 414) suggested that Luo and Child's (2015) composition-based view is similar to Kogut and Zander's (1992) combination theory of the firm. Commenting on some Chinese firms' *shanzhai* (or broadly, imitation) strategy centered on IPR violation, Peng et al. (2017a, 2017b) suggested that from a historical standpoint, this is *not* unique. American firms did something very similar in the nineteenth century, and most of today's DE had numerous firms engaging in a strategy of growth centered on IPR violation at one point in their history.

At the heart of the debate is the impact of institutions—a topic that will appear when we discuss acquisitive and network-based growth as well. Since the 1990s, a theme that had not been found in the DE-based literature between Penrose (1959) and that time is that research on firm growth in EE cannot ignore the role of institutions (Boisot & Child, 1996; Nee, 1992; Peng & Heath, 1996; Stark, 1996; Walder, 1995). This theme has given rise to a new perspective: the institution-based view (Meyer & Peng, 2016). This view argues that firm behavior such as an organic growth strategy is driven (in part) by the institutional frameworks in which firms are embedded (Peng, Wang, & Jiang, 2008; Peng, Sun, Pinkham, & Chen, 2009; Young et al., 2014). From a relatively simple and uncontroversial proposition that “institutions matter,” there is considerable debate on *how* institutions matter (Chacar, Newbury, & Vissa, 2010; Gao, Murray, Kotabe, & Lu, 2010; Gaur, Kumar, & Singh, 2014; Pinkham & Peng, 2017; Xia & Walker, 2015).

While this debate is hardly resolved regarding the growth of incumbents and start-ups from EE, the rise of multinationals from EE has intensified this debate (Buckley et al., 2007, 2018; Hernandez & Guillén, 2018; Peng, 2012; Ramamurti & Hillemann, 2018). On the one hand, a flurry of papers has proposed that the rise of emerging multinationals necessitates the development of new theories to understand this new breed of multinationals and their distinctive patterns of growth (Luo & Tung, 2007, 2018; Mathews, 2006, 2017). On the other hand, a number of papers argue otherwise (Buckley et al., 2007, 2018; Child & Rodrigues, 2005; Ramamurti, 2012). The debate on the role of institutions—often, home-country institutions—has been carried on to the international context (Lu et al., 2017; Marano, Arregle, Hitt, Spadafora, & van Essen, 2016; Sun, Peng, & Tan, 2017; Weng & Peng, 2018; Zhu, Ma, Sauerwald, & Peng, 2018). One school of thought argues that imperfections of home-country institutions in EE—often known as institutional voids (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Khanna & Palepu, 1997)—typically have a negative impact, suppressing firms’ organic growth (Buckley et al., 2007; Chari & David, 2012; Hermelo & Vassolo, 2010) and sometimes driving them to “escape” from EE (Witt & Lewin, 2007; Yamakawa, Peng, & Deeds, 2008). Another school of thought suggests that at least some home-country institutions in EE, such as government support (Hung & Tseng, 2017; Xia, Ma, Lu, & Yiu, 2014) and market-supporting institutions at the regional level (Sun et al., 2017), may be beneficial for emerging multinationals’ overseas drive. Overall, the debate about the role of institutions continues to rage in the area of organic growth of EE firms.

Debate 2: Can EE firms develop innovation capabilities? An important fuel behind organic growth is the development of fungible resources such as innovation capabilities (Penrose, 1959). While many EE firms have engaged in imitation, can EE firms “graduate” from the imitation phase and become world-class innovation pioneers of the future (Ahlstrom, 2010; Chittoor et al., 2009)? One view suggests that given institutional voids permeating EE, most EE firms—at least initially—have neither motivation nor ability to develop innovation capabilities (Kim, 1997; Rong et al., 2011). For example, among such constraints, state ownership may constrain EE firms’ efforts to embark on an innovation journey (Musacchio & Lazzarini, 2014). A larger institutional environment of not respecting IPR is likely to reduce EE firms’ incentive to devote resources to innovations. Thanks to this legacy and imprinting of not paying

attention to innovations, transitioning from an imitation to an innovation strategy will not be easy (Kriauciunas & Kale, 2006).

Clearly some EE firms have been sufficiently motivated to innovate. Particularly successful are some of their “frugal innovations” ranging from Tata’s Nano to Xiaomi’s smartphones. The other side of the debate argues that as institutional transitions progress, institutional imperfections are becoming less of a burden, and more market-based institutions are put in place that would incentivize EE firms to embark on an innovation strategy (Ahlstrom, 2010; Peng et al., 2017a, 2017b). State ownership in and of itself may not necessarily be a constraint on innovations (Bruton et al., 2015; Peng et al., 2016). Instead, *minority* state ownership may be “an optimal structure for innovation development” in EE (Zhou, Gao, & Zhao, 2017: 375; see also Inoue, Lazzarini, & Musacchio, 2013). *Shanzhai* of course is an extreme and illegitimate imitation strategy. Even firms involved in such IPR violation are aware of the rapidly evolving institutional transitions toward better IPR protection throughout some EE (Khoury & Peng, 2011). Although a “copycat” strategy may be viable in the short run (Chittoor et al., 2009; Luo et al., 2011), in the long run such a strategy may become “obsolete” as institutional transitions progress (Peng et al., 2017b: 31). However, how long the process unfolds remains to be debated in future research.

Acquisitive growth

Often labeled mergers and acquisitions (M&As), acquisitive growth is “a means of obtaining the productive services and knowledge that are necessary for a firm to establish itself in a new field” (Penrose, 1959: 126). The main advantage of acquisitive growth compared to organic growth is the ability to purchase relatively quickly what Penrose (1959) would call a “bundle” of resources (which are often firm-specific, such as tacit knowledge). This advantage often prompts EE firms to pursue acquisitions—domestically and internationally (in both EE and DE) (Lebedev, Peng, Xie, & Stevens, 2015). Shown in Fig. 2, we focus on two important features of acquisitive growth of EE firms suggested by the literature: (1) business groups and (2) cross-border acquisitions.

Business groups

According to Peng and Heath (1996: 498), “the growth of the firm is limited by two constraints: (a) its capability to articulate and codify its organizational routines and transmit this information to its members, and (b) its ability to overcome transaction cost and bureaucratic cost problems incurred in the course of growth.” The literature on EE firms’ acquisitive growth shows an especially important role of transaction costs (TC) as a key driver affecting acquisitive growth pursued by EE firms as compared to DE firms. In comparison with TC in DE, TC in EE are typically higher due to underdeveloped market-supporting institutions—in other words, the presence of institutional voids (Doh et al., 2017; Khanna & Palepu, 1997). Poor property rights protection, information asymmetry, weak legal mechanisms, and a lack of transparency in financial markets all increase TC in EE (Brouthers, 2002; Meyer, 2001; Young et al., 2014).

The presence of institutional voids has led many EE firms to pursue acquisitive growth differently from their DE counterparts (Greve & Zhang, 2017; Gubbi, Aulakh,

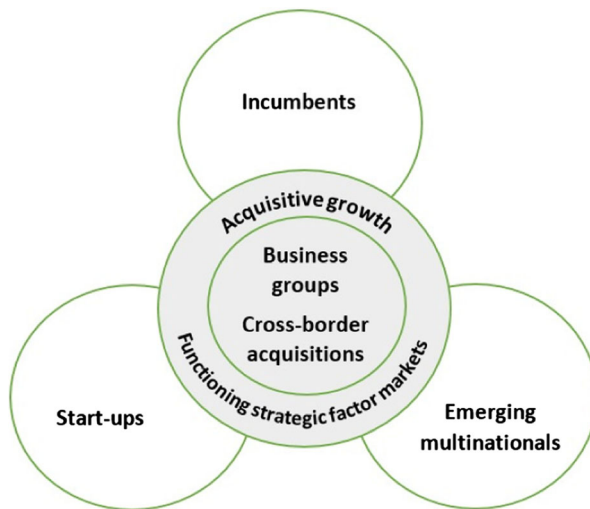


Fig. 2 Acquisitive growth

Ray, Sarkar, & Chittoor, 2010; Li & Qian, 2013; Zhu & Zhu, 2016). Specifically, acquisitive growth in the form of unrelated diversification—typical of business groups—has been shown to be significantly more widespread and successful in EE as compared to DE (Peng, Lee, & Wang, 2005). Business groups are defined as “confederations of legally independent firms” (Khanna & Rivkin, 2001: 45). Business groups typically operate in diverse industries and are characterized by a common dominant owner. Business group benefits tend to increase after achieving a threshold level of unrelated diversification (Khanna & Palepu, 2000a). Among the main factors explaining the prevalence of acquisitive growth through unrelated diversification in the form of business groups in EE, scholars have noted the ability of business groups to replicate the functions of institutions that are often missing in EE (Carney et al., 2011; Khanna & Rivkin, 2001; Yiu et al., 2007). In addition, business groups allow for coordinated action and pooling of resources (Lu & Ma, 2008). Overall, business group affiliation has been shown to bring performance benefits to EE firms (Carney et al., 2011; Khanna & Palepu, 2000b; Peng et al., 2005; Yiu et al., 2007).

Recent research provides new insights on business groups in EE. Manikandan and Ramachandran (2015) reported that as institutions improve, so do growth opportunities for firms affiliated with business groups. Acquisitive growth undertaken by business groups may expand the productive opportunity set, thus potentially allowing for an increase in future growth (Lockett et al., 2011). Chittoor, Kale, and Puranam (2015) found that the benefits of business group affiliation may be complemented by external institutions such as capital markets.

Other recent studies suggest that business group affiliation may explain why some EE firms acquire, but others do not in an international context. For example, Ayyagari, Dau, and Spencer (2015) found that firms affiliated with business groups in India are more likely to respond to foreign multinationals’ entry in their industry by increasing M&As. Gubbi, Aulakh, and Ray (2015) reported that Indian firms affiliated with a business group may be more interested in international expansion via acquisitive

growth. Such M&As are part of the next major area of research on acquisitive growth, to which we turn next.

Cross-border acquisitions

Cross-border acquisitions by EE firms—because of their newness and novelty—have attracted significant attention (Lebedev et al., 2015). Two (relatively) unique features have been noted: (1) paying higher acquisition premiums and (2) granting target firm autonomy.

EE acquirers tend to bid higher for target firms—especially those in DE (Hope, Thomas, & Vyas, 2011). Penrose notes that for the acquirer, the target should be “worth more than the full value of the target to its existing owners” (1959: 194). For EE firms suffering from latecomer disadvantages on the global market, cross-border acquisitive growth may be a way to acquire resources (such as brands and technology) and gain access to valuable knowledge. Given that these valuable resources are often not available at home, EE acquirers are more likely to find these assets attractive. Therefore, they are more willing to pay higher premiums (Deng, 2013; Yamakawa et al., 2008, 2013). However, value-destroying factors (such as hubris or national pride) behind the relatively higher premiums paid by EE acquirers for DE targets have also been cautioned (Chen & Young, 2010; Hope et al., 2011).

Acquisitive growth, according to Penrose (1959), requires “adequate management” for successful post-acquisition integration. Research has highlighted the importance of successful post-acquisition integration for value creation (Zhu et al., 2018). Interestingly, EE acquirers often prefer to grant significant autonomy to target firms post-acquisition, rather than imposing their own systems, rules, and routines (Knoerich, 2016; Wang, Luo, Lu, Sun, & Maksimov, 2014). One explanation for this trend may be that EE firms simply lack managerial skills and expertise to successfully integrate target firms (Peng, 2012). Another explanation may be that EE firms face higher internal TC such as policing and enforcement costs (Peng et al., 2005), which would be increased even further by not granting such autonomy to target firms. However, another possible explanation is that granting target firms significant autonomy may be an effective mechanism for EE acquirers to overcome target resistance, reduce incentive loss from the acquisition, and motivate targets’ managers and employees (Lebedev et al., 2015; Zhu et al., 2018). Given that EE acquirers often suffer from the liability of foreignness and a negative country-of-origin effect (Li, Xia, & Lin, 2017; Meyer, Ding, Li, & Zhang, 2014), such target autonomy may result in less conflict and more value creation.

Two debates on acquisitive growth

Debate 3⁷: Is government affiliation beneficial for or detrimental to acquisitive growth of EE firms? Acquisitions backed up by EE firms’ home-country governments—either in the form of state ownership or political ties—may result in overbidding and value destruction (Guo, Clougherty, & Duso, 2016). This is because both state ownership and political ties in EE firms’ home countries may create a lack of trust in

⁷ To enhance the clarity of our presentation, we number the new debates in this section and the next section following the number of the first two debates in the previous section.

host countries, exacerbate the liability of foreignness, and result in more pressure from the host-country institutional environment (Globerman & Shapiro, 2009; Meyer et al., 2014).

However, other studies report that state-owned or politically-connected EE acquirers can adapt their strategy abroad to conform to institutional pressures in host countries (Bruton et al., 2015; Cui & Jiang, 2010; Li et al., 2017; Meyer et al., 2014; Xia et al., 2014). According to some scholars, government affiliation may be more beneficial for acquisition value creation in host countries with less developed institutional environments (Brockman, Rui, & Zou, 2013; Li, Peng, & Macaulay, 2013; Shapiro, Vecino, & Li, 2018; Tsang & Yip, 2007). Thus, the debate on whether government affiliation is beneficial for or detrimental to EE firms' acquisitive growth remains unresolved.

Debate 4: What drives the performance of EE firms' cross-border acquisitions? The performance of cross-border acquisitions in general is not awe-inspiring, and the drivers behind good or bad performance are not clear (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). Likewise, evidence on the performance of EE cross-border acquisitions remains mixed (Lebedev et al., 2015; Zhu & Zhu, 2016). For example, while Aybar and Ficici (2009) reported value destruction for most cross-border acquisitions undertaken by emerging multinationals, Buckley, Elia, and Kafouros (2014) reported that such acquisitions by emerging multinationals often enhance performance.

Consider the experience of Chinese acquirers—the largest and most visible group of EE multinationals. Approximately since 2000, they started showing up in various host economies (Peng, 2012). The initial shock and resistance in host countries, especially in DE, were tremendous (Globerman & Shapiro, 2009). Interestingly, after a decade, many target firms in DE—despite having other choices—*prefer* to be taken over by Chinese acquirers, which have developed a reputation of being benevolent owners that generally embark on the “high road” (granting targets a great deal of autonomy) (Knoerich, 2016). For example, in 2017, Syngenta rejected a similar offer from Monsanto, and chose to be acquired by ChemChina in a \$43 billion deal—the biggest cross-border acquisition by a Chinese firm. One of Syngenta's justifications was its autonomy that ChemChina would respect, but that Monsanto probably would not (*Fortune*, 2017).

Anecdotal evidence aside, empirical research has documented the improvement of Chinese acquirers' performance over time. Earlier studies by Aybar and Ficici (2009) and Chen and Young (2010) reported disappointing results, which have influenced the earlier pessimistic predictions that Chinese acquirers are “unlikely” to perform well in their overseas forays (Peng, 2012: 101). However, more recent research has found that Chinese acquirers outperform Anglo-Saxon, Continental European, and Confucian (Asian excluding Chinese) acquirers (McCarthy, Dolfsma, & Weitzel, 2016). Predicting that Chinese acquirers would have the *worst* performance, McCarthy et al. (2016: 235) were surprised by their own “stunning” findings. Calling their own findings an “enigma,” McCarthy et al. (2016: 221) struggled to come up with plausible explanations, and could only conclude that Chinese acquirers are “different.” What has led to the surprising turnaround of such EE acquirers' performance—and whether these findings can be replicated elsewhere—is likely to be debated in the future (Young, 2016).

In addition to these two more focused debates, a persistent and broad debate—typical of many areas of EE research—is whether EE firms’ acquisitive growth is really unique (Gaur et al., 2014; Lebedev et al., 2015; Zhu & Zhu, 2016). On the one hand, a variety of factors seem to distinguish acquisitive growth of EE firms, such as overbidding for targets due to “national pride” (Hope et al., 2011), granting targets significant autonomy (Wang et al., 2014), lacking legitimacy in the eyes of host-country stakeholders (Marano, Tashman, & Kostova, 2017; Stevens, Xie, & Peng, 2016), and enjoying or suffering from the “tricky” role of government ownership and political connections (Li et al., 2017; Meyer et al., 2014). On the other hand, there are also some fundamental similarities between EE and DE firms’ cross-border acquisitions (Peng, 2012; Ramamurti, 2012). Thus, whether acquisitive growth of EE firms is indeed unique remains an ongoing debate.

Network-based growth

Identified by Peng and Heath (1996) as a leading strategy of firm growth in EE, developing interorganizational relationships and networks—in short, network-based growth—has attracted significant research attention. Being neither organic nor acquisitive growth, network-based growth is *outside* the scope of Penrose’s (1959) original theory. It has been theoretically deduced by Peng and Heath (1996) as a hybrid form of growth whose articulation requires careful attention paid to the underlying role of institutional frameworks. These insights have ultimately given rise to the institution-based view (Meyer & Peng, 2005, 2016; Peng et al., 2008, 2009). Shown in Fig. 3, two broad themes have emerged: (1) network capitalism and (2) institutional transitions.

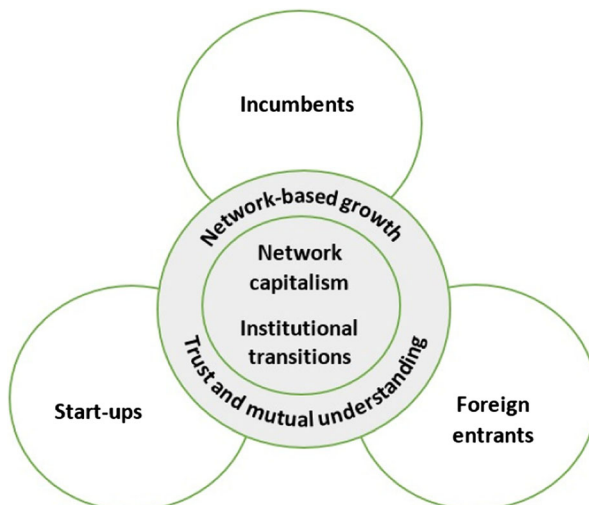


Fig. 3 Network-based growth

Network capitalism

In the last two decades, strong economic growth has taken place throughout EE. It is long established that strong economic growth can hardly occur in poorly regulated economies (North, 1990). Given EE's generally lackluster formal market-supporting institutions (Khanna & Palepu, 1997), scholars who are especially impressed by China are puzzled: "How can China be achieving rapid rates of growth, while retaining such an institutional order?" (Boisot & Child, 1996: 607). Scholars interested in Russia, Hungary, and other EE have raised similar questions (Puffer & McCarthy, 2007; Stark, 1996). Since it is the growth of the firm, in the aggregate, that leads to the growth of the economy (Ahlstrom, 2010), scholars have endeavored to provide firm-level answers to address this intriguing puzzle. A partial answer may lie in the interpersonal networks cultivated by managers, which serve as informal substitutes for formal institutional support (Boisot & Child, 1996; Nee, 1992; Puffer & McCarthy, 2007; Stark, 1996; Walder, 1995). Specifically, micro, interpersonal relationships among managers are translated into a macro, interorganizational strategy of relying on networks and alliances to grow the firm, thus leading to a micro-macro link (Batjargal et al., 2013; Luo & Chung, 2005; Peng & Luo, 2000; Wu & Leung, 2005). In the aggregate, such growth of the firm "gives rise to a distinct institutional form—network capitalism" (Boisot & Child, 1996: 600; see also Puffer & McCarthy, 2007; Stark, 1996).

For incumbents, managers' interpersonal ties with managers at other firms have been shown to facilitate growth during institutional transitions (Acquaah, 2007; Opper, Nee, & Holm, 2017; Peng & Luo, 2000). Managers' ties with officials and bureaucrats also contribute toward better firm performance (Luo & Chung, 2005; Puffer & McCarthy, 2007; Stark, 1996; Walder, 1995).

For start-ups, developing and maintaining relationships and networks is often a must (Ahlstrom & Bruton, 2006; Batjargal et al., 2013; Zhang & Li, 2010). For EE undergoing institutional transitions, relationships and networks can be especially useful for start-ups in their quest for survival and growth in a rapidly changing and uncertain environment (Hiatt & Sine, 2014; Puffer, McCarthy, & Boisot, 2010; Vissa & Chacar, 2009; Zhao & Lu, 2016).

Foreign entrants in EE are also active in engaging in network-based growth by building and leveraging ties with other firms as well as stakeholders such as customers and officials (Hitt, Dacin, Levitas, Arregle, & Borza, 2000; Li, Poppo, & Zhou, 2008; Luo & Peng, 1999; Meyer, Estrin, Bhaumik, & Peng, 2009; Shi, Sun, & Peng, 2012; Shi, Sun, Pinkham, & Peng, 2014; Steensma & Lyles, 2000). The capability to become embedded in the local social networks—in essence, "going native"—may be especially important for base-of-the-pyramid (BoP) markets where the informal economy is prevalent (London & Hart, 2004). In summary, firms in poorly developed institutional environments typical of EE—ranging from struggling domestic start-ups and incumbents to globally experienced foreign entrants—stand to grow significantly by developing and leveraging network strategies (Peng & Heath, 1996; Puffer, McCarthy, Jaeger, & Dunlap, 2013).

Overall, two decades of research on network capitalism have substantiated the claim first made by Peng and Heath (1996) that relationships and networks—substituting for underdeveloped formal institutions—play an important role behind the growth of various firms throughout EE.

Institutional transitions

Institutional transitions refer to “fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players” (Peng, 2003: 275). These transitions in some EE have made it challenging to “play the new game,” because “the new rules are not completely known” (Peng, 2003: 283). Due to its hybrid nature, network-based growth enjoys a great deal of flexibility, but it also suffers from a lack of specificity regarding the rights and responsibilities of related parties (Peng, 1997). This can cause the original trust and mutual understanding—a prerequisite for network-based growth—to erode. Specifically, “trust between network members may be easily exploited if there are divergent economic interests, especially when the enforcement regime is weak” (Peng & Heath, 1996: 518).

Despite the generally positive attributes associated with network-based growth first noted by Peng and Heath (1996), it is important to note that managerial networks and ties are not always helpful. Originally helpful managerial networks and ties may become unhelpful or even damaging as institutional transitions progress (Siegel, 2007; Sun, Mellahi, & Thun, 2010). For example, in China, Li et al. (2008) reported that managerial ties do not have a linear relationship with firm performance, and Sun et al. (2010: 1161) found that political ties may have “declining, and even negative, value” as transitions proceed. Similarly, in South Korea, Siegel (2007) revealed that as market-supporting institutions develop over time, the benefits of political ties may diminish, and long-lasting ties developed by early entrants may even become a liability beyond a certain point (for example, when officials with whom political ties are built are out of power). Overall, it is possible that the limits of network-based growth may be reached at some point (Peng & Heath, 1996: 518). How network-based growth unfolds and reaches its limits as institutional transitions evolve is both interesting and unsettling—leading to one of the two debates detailed next.

Two debates on network-based growth

Debate 5: How will network capitalism and institutional transitions evolve? This debate deals with the *transient* nature of network capitalism and institutional transitions (Boisot & Child, 1996; Peng & Zhou, 2005). By definition, institutional transitions are not likely to be a permanent state (Keister, 2009; Peng, 2003). A major group of EE is simply called “transition economies,” which are typically formerly socialist countries in East Asia and Central and Eastern Europe, “transitioning from one well-defined political and economic system to another” (Kostova & Hult, 2016: 25). While economists began debating “are the transitions over?” almost immediately after the transitions started (Lavigne, 1996), management scholars have debated whether certain prominent strategic choices—such as a propensity to engage in network-based growth—will be phased out or will persist (Peng, 2003; Peng & Zhou, 2005; Peterson, 2016; Puffer et al., 2013).

Peng (2003: 285) argued that during the early phase of institutional transitions, firms are more likely to engage in network-based growth by competing based on networks and relationships, while during the late phase of transitions they are more likely to compete based on competitive resources and capabilities. A refutable prediction from Peng (2003) is that the role of networks and ties—especially political connections—

will *decline* as market institutions emerge. Supportive evidence comes from Chari and David (2012), Guthrie (1998), Opper et al. (2017), Peng and Luo (2000), and Sun et al. (2010). “Quite clearly,” according to Opper et al. (2017: 1521), “government *guanxi* [connections] is no longer needed to ‘grease the wheels’ as it has been in earlier periods of China’s transitions.” However, non-supportive evidence is also extensive. Refuting Guthrie’s (1998) claim that *guanxi*’s significance in China is declining, Yang (2002: 459) argued that *guanxi* may decline in some domains, but may “find new areas to flourish.” She suggested that the premature declaration of the demise of *guanxi* is embedded in the “the teleology of modernization theory and neo-liberal discourse” (Yang, 2002: 459). Recently, Haveman, Jia, Shi, and Wang’s (2017: 67) longitudinal work (based on data during 1992–2007) reports that—contrary to Guthrie’s (1998) and Peng’s (2003) claim—political ties between managers and officials *increasingly* improve firm performance as institutional transitions proceed.

Given that product market competition has increased throughout EE, a growth strategy solely (or primarily) based on (political) networks and ties is not likely to be realistic (Chari & David, 2012; Hermelo & Vassolo, 2010). However, the performance-enhancing benefits of political ties may not decline at a rate predicted by Guthrie (1998), Opper et al. (2017), and Peng (2003)—if their benefits decline at all. Theoretically, this seems to point to a case of market-political *ambidexterity*, which refers to “dynamic capabilities to manage influences from both markets and governments simultaneously” (Li et al., 2013: 206). To effectively manage the growth of the firm, managers need to be capable *both* competitively and politically (Guo, Huy, & Xiao, 2017). Overall, given the obvious varieties of capitalism (Berry, Guillén, & Hendi, 2014; Carney, Gedajlovic, & Yang, 2009; Hall & Soskice, 2001; Musacchio & Lazzarini, 2014), will “network capitalism” in EE indeed become “market capitalism”? How network-based growth strategy evolves during institutional transitions will continue to be debated.

Debate 6: How unique are business networks in EE? This debate is part of the larger debate on how unique the growth of the EE firm is. In the area of network-based growth, a long-standing debate is on the *uniqueness* of business networks in EE (such as *guanxi* in China) (Young, Bruton, Ahlstrom, & Rubanik, 2011). Arguing that standard network predictions on the value of brokerage (Burt, 1992) may *not* apply in the EE context, in Taiwan, Ma, Huang, and Shenkar (2011) found that networks rich in structural holes *weaken* managers’ ability to identify opportunities. In China, Xiao and Tsui (2007) reported that managers occupying structural hole positions—typically an enviable position in the West (Burt, 1992)—do *not* have better career accomplishments and their firms do not perform better. Also in China, Lin, Peng, Yang, and Sun (2009) revealed that—contrary to standard (US-centric) network predictions (Burt, 1992)—centrally located firms are more likely to acquire alliance partners. In contrast, in the United States, Lin et al. (2009) and Yang, Lin, and Peng (2011) found evidence to support Burt (1992) in that centrally located firms are less likely to acquire alliance partners and are more likely to enjoy the benefits from alliance networks without the burden associated with acquisitions.

The other side of the debate makes the case for “the universality of a structural approach to social capital” (Sorenson, 2017: 275). Scholars invoking this perspective point out greater career and organizational success for EE managers who enjoy network

benefits. In India, Vissa and Chacar (2009) identified higher performance from entrepreneurs with large, open networks rich in structural holes. In Russia, Batjargal et al. (2013) claimed that entrepreneurs benefit from their networks' structural holes. In China, Shi et al. (2012, 2014) revealed that local partners' higher degrees of brokerage are sought after by eager foreign entrants. Burt and Burzynska (2017: 221) reported that "the broker networks associated with business success in the West are also associated with success in China," and that "the trust correlates of closed networks in the West are similarly correlated in China." However, even Burt and Burzynska's (2017) findings can be viewed as "the glass half empty," suggesting substantial differences between Chinese (and EE) networks and Western networks (Sorenson, 2017: 275). Thus, the debate rages on.

Discussion

Contributions

Overall, three contributions emerge. First, on the occasion of the 20th anniversary of the first major article on the growth of the firm in EE (Peng & Heath, 1996) that is directly inspired by Penrose (1959), we have comprehensively surveyed the expansion of this thriving literature, with a focus on new themes, insights, and debates. Despite the obvious growth of the EE literature (and the rising importance of EE in the world economy) in the last two decades, reviews of research on the growth of the firm (Geroski, 2005; McKelvie & Wiklund, 2010; Nason & Wiklund, 2018; Rugman & Verbeke, 2002; Shepherd & Wiklund, 2009) have little coverage of such development. Identifying this gap and taking one of the first steps to start filling this gap thus constitutes our first contribution.

Overall, a great deal of continuity and change has been found. In terms of *continuity*, the literature on the growth of the firm in (and out of) EE has supported Penrose's (1959) fundamental insights regarding the basic contours and modes of growth. In DE, research on the growth of the firm has generated some confusion (Geroski, 2005: 135) and "supportive, but not robust empirical effect" (Tan & Mahoney, 2007: 260). Strong support from two decades of research on EE firms helps strengthen the foundation of Penrose's (1959) theory. At the same time, in terms of *change*, the recent literature has also substantiated the case first made by Peng and Heath (1996) that Penrose's theory needs to be expanded in order to remain relevant. Incorporating a crucial and previously underexplored institutional dimension has proven to be especially fruitful (Meyer & Peng, 2016). Such an institution-based view has led to the identification of network-based growth that—as a hybrid—is neither organic nor acquisitive. This addition has significantly enriched the growth of the firm literature. Historically, theories of the growth of the firm such as Penrose's (1959) have emerged without any consideration of the EE environment (Peng et al., 2016; Young et al., 2014). This is not a criticism for Penrose, but an opportunity for later generations of scholars to take advantage of (Lockett et al., 2011: 66). Clearly, scholars working on EE have capitalized on this opportunity and propelled the research pioneered by Penrose to new heights.

Second, our review allows us to evaluate the validity of some predictions made two decades ago. Peng and Heath's (1996: 517) most influential claim is that in EE,

network-based growth would be a “predominant strategy.” This is indeed supported by substantial research on such a strategy, with interesting insights such as network capitalism (Boisot & Child, 1996) and institutional voids (Khanna & Palepu, 1997) now becoming important components of the mainstream management lexicon. The literature in the last two decades is characterized by a great deal of continuity from Peng and Heath (1996).

In addition, Peng and Heath (1996: 492) also predicted that “neither generic expansion nor acquisitions, two traditional strategies for growth found in the West, are viable.” We find that this prediction has been *refuted*. Understanding why Peng and Heath’s (1996) prediction regarding organic and acquisitive growth is refuted is interesting. Drawing from Penrose (1959), Peng and Heath (1996) argued that a lack of cadre of capable managers and other crucial resources makes organic growth not viable. We now know that a lack of crucial resources can be overcome via compositional capabilities and frugal innovations, as well as via business groups and cross-border acquisitions. Peng and Heath (1996) also complained about a lack of functioning strategic factor markets that would make acquisitive growth challenging, if not impossible. There is no doubt that M&As—both in and out of EE—have been growing by leaps and bounds (Lebedev et al., 2015; Xie, Reddy, & Liang, 2017; Zhu & Zhu, 2016). In other words, strategic factor markets, despite with imperfections and voids, seem to function in EE and (when EE acquirers go abroad) outside of EE (Kim, Hoskisson, & Lee, 2015; Li & Qian, 2013). When Peng and Heath (1996) started their research in the early 1990s, the two institutional conditions of lacking capable managers and lacking strategic factor markets were largely accurate in “planned economies in transition” (per their title), resulting in their reasoning that two of Penrose’s major modes of growth—organic and acquisitive—would be difficult. Clearly, today’s EE are different from those more than 20 years ago. Today’s EE are blessed by more capable managers, stronger compositional capabilities, and strengthening strategic factor markets for M&As. As a result, each of the three major modes of growth is thriving in (and out of) EE. In summary, to the same extent that Penrose’s (1959) work needs updating (Lockett et al., 2011), Peng and Heath’s (1996) research also needs to be updated.

Finally, our review has highlighted the importance of paying attention to theory, context, and organizational forms *simultaneously* (Kostova & Hult, 2016). Linking theory to context has always been a hallmark in EE research (Hoskisson et al., 2000; Keister, 2009; Wright et al., 2005; Xu & Meyer, 2013). Like most scholars developing theories of the firm, Penrose (1959), because of her background in DE, has not paid sufficient attention to context. Since the 1990s, scholars led by Peng and Heath (1996) have made and substantiated the case that a better understanding of the growth of the firm *must* take into account the institutional context.

Linking theory and context with organizational forms is another challenging but rewarding dimension. It is gratifying to see contributions such as frugal innovation (Radjou & Prabhu, 2015), institutional voids (Khanna & Palepu, 1997), and network capitalism (Boisot & Child, 1996) have already become examples of “reverse innovation” in academia—from EE to DE. Insights such as compositional capability (Luo & Child, 2015) have the potential to do so. All these contributions stem from simultaneous attention to theory, context, and organizational forms: Boisot and Child (1996) and Khanna and Palepu (1997) focused on larger incumbents, and Luo and Child (2015) and Radjou and Prabhu (2015) dealt with smaller entrepreneurial firms.

Constantly developing and testing theories in different contexts with different organizational forms can help us avoid “broad generalizations, simplifications, and categorizations,” which ultimately may make our research “lose rigor and relevancy” (Kostova & Hult, 2016: 27). This is not only imperative for research in EE, but also in all parts of the world (Tsui, 2007).

Limitations and future research directions

From a tiny creek of a handful of articles two decades ago, research on the growth of the firm in (and out of) EE has mushroomed into a thriving stream now with hundreds of articles (Peng, 2018). As a result, a limitation of our review is that we have only selectively reviewed work that is most relevant to Penrose (1959) and Peng and Heath (1996). Scholars interested in the broader strategy research in EE can consult reviews by Hoskisson et al. (2000), Meyer and Peng (2016), Wright et al. (2005), and Xu and Meyer (2013). In terms of future research directions, clearly the six debates (summarized in Table 2) will capture intense interest in the future.

Going forward, six additional areas offer promising new directions. First, scholars interested in EE need to have the aspiration to contribute to the broader *theoretical* literature with implications beyond EE. One example is Peng et al.’s (2008, 2009) endeavors to propel the institution-based view—largely inspired by work on the growth of the firm in EE—to become one leg of the “strategy tripod” (the other two legs being the industry-based and resource-based views). Another example is Burt and Burzynska’s (2017) efforts to leverage their Chinese data to probe deeper into the origins of networks, with a view toward further developing theory beyond the EE context. Focusing on critical events especially during managers’ early career (such as social banquet contacts), Bian (2017) and Burt and Burzynska (2017) argued that such event contacts are overlooked in standard network theory developed in DE, and that such event contacts may be at the core of social networks in the West as well.

Second, scholars interested in EE can foster mutual learning from a *methodological* standpoint. In China, Opper et al. (2017) have built on Peng and Luo’s (2000) survey instrument and have gone above and beyond it by adding a new behavioral dimension of CEO risk aversion in research on network-based growth. In Ghana, Acquah (2007), instead of replicating work done in DE, has replicated Peng and Luo’s (2000) research in China on managerial and political ties. In the African context, Acquah (2007) has identified an important network dimension not found in the earlier work: the importance of ties to community leaders. In Russia and Poland, Bruton, Lau, and Obloj (2014) have translated and deployed a survey questionnaire on entrepreneurs

Table 2 Six debates as future research directions

Organic growth	Acquisitive growth	Network-based growth
1. How unique is EE firms’ organic growth strategy?	3. Is government affiliation beneficial for or detrimental to EE firms’ acquisitive growth?	5. How will network capitalism and institutional transitions evolve?
2. Can EE firms develop innovation capability?	4. What drives the performance of EE firms’ cross-border acquisitions?	6. How unique are business networks in EE?

that has initially been developed in China. Given relatively common institutional contexts throughout EE, such “South-South diffusion of innovation” in research methodology, instead of always relying on instruments developed in DE, needs to be applauded and encouraged (Tsui, 2007).

Third, while we have covered organizational forms as if they stand alone, future work needs to probe the interaction and coevolution of multiple organizational forms in (and out of) EE (Xu et al., 2014). Mutlu, Wu, Peng, and Lin (2015) focused on three rounds of competitive interaction between a multinational and a local firm in EE, ending with the local firm becoming a new multinational in the last round. We predict the growth of such research, which takes on a *competitive dynamics* flavor (Kwok, Sharma, Gaur, & Ueno, 2018; Naruzzaman, Singh, & Pattnaik, 2018; Saranga, Schotter, & Mudambi, 2018; Taub, Karna, & Sonderegger, 2018).

A fourth area is to focus on some new organizational forms that had not even existed two decades ago. Case in point: emerging multinationals from EE (Chadee, Sharma, & Roxas, 2017; Lu, Li, Wu, & Huang, 2018; Tian, 2017; Ray, Ray, & Kumar, 2017; Shapiro et al., 2018). Another case in point: the growth of e-commerce firms such as Alibaba. It will be fascinating to explore how new technology impacts the growth of the firm, not only in EE but also worldwide.

Fifth, the quality of growth in EE—both at the firm level and at the economy level—needs to be addressed. Following the trail first blazed by Peng and Heath (1996), most research on firm growth in EE has focused on the positive aspects. However, institutional voids can also spur corruption (Cuervo-Cazurra, 2016) and incentivize firms to grow into areas to capture rents rather than productive growth (Zhou & Peng, 2012). Not all paths to firm growth are equal. There is high-quality growth in the sense of Penrose (1959) and Peng and Heath (1996), but there is also low-quality growth in the sense of becoming bigger and better at rent-seeking rather than becoming more market-competitive. Such growth may take place in some EE contexts, but skills underpinning such growth at home are less likely to be helpful when EE firms compete globally, especially in DE. Preferential treatment at home obtained through corruption may also reduce incentive for EE firms to grow internationally (Lee & Weng, 2013). There is an argument, mostly made by economists and political scientists, that the growth of EE, despite its magnitude, may be a “bubble” that is not sustainable (Pei, 2016). Management scholars need to conduct additional, rigorous research on such negative aspects of the growth of the firm in EE.

Finally, as economic growth rates of EE slow down, the growth of firms in (and out of) EE may slow down. In this “new normal” (slow-growth) environment, while some firms continue to grow, some may need to downsize, resulting in the *shrinking*—not growth—of the firm. The literature that we have reviewed has been conspicuously silent on the shrinking of the firm. How firms in (and out of) EE cope with such slowdown is certainly worthy of further investigations.

Conclusion

Although Penrose’s (1959) theory is one of the most influential theories of firm growth, prior to Peng and Heath (1996) little work had extended such research to EE. Over two decades ago, Peng and Heath (1996: 521) concluded by arguing that “a theory of the

growth of the firm is not complete” without taking the experience of EE firms into account. Given the significantly expanded importance of EE, today this conclusion is even more important and more relevant. Therefore, we conclude by claiming that the literature on the growth of the firm in EE will grow to become more enduring, more expansive, and more influential over the next two decades.

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