A configurational perspective of branding capabilities development in emerging economies: The case of the Chinese cellular phone industry

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Keywords

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Abstract

The purpose of this research is to develop a configurational framework and analyse the branding capabilities of the firms engaged in competition in the changing environments of emerging economies. Specifically, we develop four archetypes of global competition in which we identify the particular types of branding capabilities for both multinational corporations (MNCs) and local firms to create competitive advantages. Specific propositions associated with each archetype are put forth and evidenced by data from the multiple players in the Chinese cellular phone industry over the past 18 years.

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DYNAMIC COMPETITION BETWEEN LOCAL FIRMS AND MNCs: NEED FOR A CONFIGURATIONAL APPROACH

When the world's markets converge with globalisation, firms are competing within and beyond national boundaries. In a global market, the multinational corporations (MNCs) from developed economies enter emerging economies, and local firms compete within or outside their domestic markets.[1] Research on emerging economies has increasingly gained attention of researchers because the unique political, economic and institutional factors in these economies generate interesting research questions and provide rich contexts for theory development and theory testing.[2,3] However, previous research in this domain tends to focus on MNCs with a static view of global competition.[4–6] Research with a focus on the dynamics of global competition is needed in order to address the following three questions: First, what are the competitive advantages of MNCs that give rise to their market dominance when first entering emerging economies? Secondly, how do local firms develop and

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reconfigure their capabilities to compete with financial and marketing juggernauts like MNCs? Thirdly, how do MNCs and local firms learn from each other and develop their capabilities in response to rapid market and institution changes in emerging economies?

To address these questions, this research intends to develop a conceptual framework and analyse the branding capabilities of the firms engaged in competition in the changing environments of emerging economies. To the best of our knowledge, this is one of the first endeavours to integrate research from strategic management, emerging economies and brand management into one overarching framework. The conceptual framework developed in this paper can contribute to the international marketing and brand management literature in two ways. First, our configurational framework incorporates concepts from research on capability differentials,[7] dynamic capabilities[8,9] and branding strategies.[10–13] More specifically, it enables future researchers and brand managers to identify the unique branding capabilities of MNCs and local firms in the complex and fast changing market conditions in emerging economies. It also develops important insights for local and global firms in leveraging their unique and existing branding capabilities. More importantly, it provides directions for firms to reconfigure their branding capabilities to improve performance in global competition.

Secondly, our research enriches current understanding of the complexity of global competition in China. The past decade has witnessed the Chinese government's efforts to eliminate barriers to a free market and open the door to foreign firms as well as domestic private investors. With its entry into the World Trade Organization (WTO) in 2001, the Chinese government accelerated the marketization[13] of its economy by eliminating regulatory policy and rules formulated to protect the national economy in industries such as banking, auto manufacturing and telecommunications. These dramatic changes in the institutional and regulatory environments in China provide researchers with a rich context to study the dynamic processes of global competition between MNCs and local firms. However, previous research has either focussed on MNCs' strategies in China without taking the evolution of local firms into consideration,[14] or examined Chinese firms' strategies in a particular function area (eg market-orientation[15]) without addressing how firms evolve and reconfigure their capabilities in response to market changes.[16] Therefore, the configurational framework in this research may help unravel the dynamic process of global competition between MNCs and local firms in emerging economies such as China.

This paper is structured as follows. First, we differentiate four types of branding capabilities. We then develop the configurational framework of branding capabilities development in emerging economies. Next, we define and conceptualise each of the four archetypes of global competition resulting from the framework, put forth specific propositions and provide supporting data from the Chinese cellular phone industry. Lastly, we discuss the implications of our research and future research directions.

A TYPOLOGY OF BRANDING CAPABILITIES

Capabilities refer to both what firms 'have' and what firms 'do'.[17] What firms have can be defined as a firm's existing possessions and assets. What firms do indicates a firm's ability to create, coordinate and use assets in relation to competition and the changing market environments.[18–22] Branding capabilities are associated with a dynamic process of creating and growing brand value in the firm.[23] Limited research on the relationship between brand management and firms' dyamic capabilities[24] suggests that a firm's dynamic branding capabilities can be sources of 'sustainable' competitive advantage because they are not easy to replicate, imitate or learn. In this paper, we focus on the analysis of *branding capabilities* of both MNCs and local firms in a global competition context with a more recent view that branding capabilities can provide an overarching framework to understand the competitive advantages of MNCs and local firms in emerging economies.[25,26]

In this section, we introduce a typology of branding capabilities based on which we develop our propositions (see Table 1). There is little existing research providing an integrative framework to understand a firm's branding capabilities as a dynamic process. In this study, we propose that a firm's branding capabilities can be understood along two dimensions: external-driven and internal-related.

First, a firm needs to grow and configure capabilities to match the external environment in order to attain sustainable competitive advantage.[27] Generally speaking, a firm perform in two types of external environments: task environment and institutional environment, which, respectively, stimulate a firm's growth in market-driven (matching task environment) and institution-driven branding capabilities.[28] Market-driven branding capabilities refer to a firm's assets, skills or knowledge of dealing with the major stakeholders (eg competitors, suppliers, employees and customers) in the market. In contrast, institution-driven branding capabilities are associated with a firm's abilities to address the constraints posed by the institutional environment, such as regulatory policy, political rules, economic constraints (eg import quotas) or social norms embedded in culture and ideology.[29,30] The external-driven dimension allows us to capture the dynamic process of developing and configuring brand

Table 1 Four types of branding capabilities

External-driven	Internal-related	
	Asset-related (What the firm 'has')	**Knowledge-related (What the firm 'does')**
Market-driven	I: Positional • Reputation • Brand equity • Technical standards • Manufacturing facilities	II: Functional • Knowledge of key stakeholders (eg distributors, employees, customers and suppliers) • Distribution network • R&D skills • Brand management skills • Marketing skills
Institution-driven	III: Regulatory • Government regulatory policy • Import quotas • Patent and property rights • Operating licenses	IV: Cultural • Understanding of the implication of policy change on market conditions • Understanding of local culture • Ability to innovate, adapt or change

capabilities in a competitive framework, which has been understudied by previous research.[31,32] In addition, in emerging economies where social, institutional and market changes take place rapidly, this dimension is particularly important in defining a firm's branding capabilities.

Secondly, along the internal-related dimension, a firm's branding capabilities can be further categorised into asset-related and knowledge-related capabilities. This dimension has been well studied in previous research.[33–35] Specifically, asset-related capabilities are associated with what the firm 'has', that is, its possession of particular factors, capital or organisational skills, whereas knowledge-related capabilities, which are more dynamic than asset-related capabilities, refer to what the firm 'does'.[36]

Firms develop their branding capabilities and address their differences along the two dimensions (ie external and internal) which helps us to establish a typology of the branding capabilities of the firm. We assume that a particular type of branding capabilities is primarily associated with specific internal and external conditions. Here, we briefly define each type of branding capabilities as follows.

I. Positional branding capabilities: Market-driven/asset-related

Positional branding capabilities are classified as an asset and something that a firm 'has'.[37] Typical positional branding capabilities result from firms' prior performance, endeavours, decisions and circumstances which are fundamentally associated with market conditions. Examples of positional capabilities include reputation, brand equity, technical standards, brand equity and manufacturing facilities.[38,39]

II. Functional branding capabilities: Market-driven/knowledge-related

Functional branding capabilities result from the effective use of the skills and expertise of the firm.[40] Therefore, they are more dynamic and harder to be replicated or imitated.[41] This enables firms to attain and maintain competitive advantage. Functional branding capabilities are something that a firm 'does' and are associated with the market rather than the institutional environment.[42] Examples of functional capabilities include a firm's knowledge of the distributors, employees, customers and suppliers, a firm's distribution network, a firm's research and development (R&D) skills, brand management expertise and marketing techniques such as promotion and advertising.

III. Regulatory branding capabilities: Institution-driven/asset-related

Regulatory branding capabilities refer to a firm's capabilities associated with the government protection, regulation and legal protection.[43,44] They are also asset-related but different from positional branding capabilities because of their direct relation with the institutional environment (ie government policies) rather than the growth of market conditions (ie market development, competition and consumer needs). As a result, regulatory capabilities are more evident in emerging economies because the formal rules, import quotas or regulatory policy in these economies are set up to foster local firms' competitive advantage. For example, the Japanese government protected its local firms from competition with foreign firms through establishing high barriers of entry enforced by the Ministry of International Trade and Industry (MITI).[45] Typical examples of regulatory branding capabilities consist of import quotas imposed by the local government, patents and property rights, legally protected trade name and logo, operating licenses and preferential taxation policy to local firms.

IV. Cultural branding capabilities: Institution-driven/knowledge-related

Cultural branding capabilities reside in the fourth quadrant of knowledge-related and institution-driven capabilities. Cultural branding capabilities are contingent upon the aptitudes and abilities of the firm.[46] In this framework, the first component of the cultural branding capabilities is related to a firm's understanding of the market changes in policy, social norms and ideology. For example, local firms have the innate advantages over MNCs of knowing their domestic customers. The second component of cultural branding capabilities refers to a firm's ability and propensity to innovate, adapt or change more quickly than its competitors. Research in entrepreneurship provides substantive examples that a firm's cultural capabilities of being proactive and taking risks are particularly important in the emerging economics.[47]

It is important to note that these four types of branding capabilities may be complementary as they are nested or interconnected by local and structural networks.[48–52] For example, positional capabilities enable a firm to realise economies of scale, which will contribute to a firm's functional capabilities such as R&D skills. Similarly, regulatory capabilities will be helpful for a firm to grow positional capabilities over time and build up its reputation, which in return will help the firm to establish its relationship with different stakeholders (ie functional capabilities). Further, within each type of branding capabilities, different components may complement each other. For example, a firm's R&D skills and marketing skills are supplementary and thus enhance its overall functional capabilities.[53]

A CONFIGURATIONAL FRAMEWORK TO UNDERSTAND COMPETITION IN EMERGING ECONOMIES

In the next section, we develop a configurational framework in emerging economies building on the proposed typology of branding capabilities. In this framework (see Table 2), we propose that a firm's competitive advantage regarding particular types of branding capabilities is determined by their coalignment with the market and institutional environment.[54,55] As rapid changes in the market and institutional constraints become the hallmarks of emerging economies, this framework provides a dynamic, holistic and comparative perspective to understand the competition between MNCs and local firms. While most extant literature on the topic mainly focuses on MNCs,[56] little research has addressed how local firms cope with the entry and competition of MNCs, how they leverage their existing branding capabilities (eg regulatory and cultural capabilities) and how they acquire, develop, or reconfigure new branding capabilities (eg functional and positional capabilities). In addition, no research has addressed how external environments inhibit or facilitate the reconfiguration of certain types of branding capabilities in MNCs or local firms.

Accordingly, we use the concept of configurations (or gestalts, archetypes[57]) to integrate the four types of branding capabilities and parameters of environment in one framework. As posited,[58] configurations are 'commonly occurring clusters of attributes or relationships…that are internally cohesive'. We employ the configurational framework to identify congruent or dominant patterns of competition between MNCs and local firms in different coalignments of external environments. As specified in Table 2, we propose four archetypes that are useful to understand the coalignment

Table 2 A configurational framework of branding capabilities in emerging economies: Four archetypes

Task/market environment	Institutional environment - regulations			
	High		**Low**	
Stable Homogeneous	Archetype 1: Leverage of regulatory capabilities		Archetype 2: Dominance of positional capabilities	
Munificent	MNC: *Positional* *Functional* (standardisation; brand equity; R&D)	Local: *Regulatory* *Functional* (regulation enabling access to MNC's functional capabilities)	MNC: *Positional* *Functional* (standardisation; brand equity; R&D)	Local: *Functional* *Cultural* (distribution network)
Dynamic Heterogeneous	Archetype 3: Positional vis-à-vis cultural capabilities		Archetype 4: Dominance of functional capabilities	
Scarce	MNC: *Cultural* *Positional* *Functional* (excelling in brand equity, brand management skills; catch-up on distribution and localisation)	Local: *Cultural* *Regulatory* *Positional* *Functional* (leveraging the role of culture insider; gaining access to MNC's functional capabilities; catch-up on R&D and brand management skills)	MNC: *Functional* *Cultural* *Positional* (excelling in R&D, brand management skills; catch-up on distribution and localisation)	Local: *Functional* *Cultural* *Positional* (Catch-up on R&D, brand management skills)

between different types of branding capabilities and the two types of environments (ie task and institutional). In each archetype, firms may configure the branding capabilities based on their strengths related to external market and institutional conditions in order to defeat competitors. For example, in emerging economies, local firms' dependence on regulatory capabilities may decrease when the institutional environment changes over time (ie when the industry is deregulated). Similarly, firms may evolve across archetypes when environmental conditions change.

Task or market environment is characterised by munificence, complexity and dynamism.[59] Munificence concerns the growth rate of the industry with industries with higher growth rate labelled as high munificence. Complexity/heterogeneity relates to the presence of dissimilar elements in the market such as firms' ownership structure, management styles and product differentiation. Dynamism centres on changes in the behaviours of suppliers, customers and competitors. Conditions in task/market environment have important implications for a firm's performance on various branding capabilities.[60–63] For example, it was found that asset-related capabilities gave rise to a firm's superior performance in a stable environment, whereas knowledge-based capabilities were more valuable in a dynamic and uncertain environment.[64] Similarly, technological capabilities and marketing capabilities may be complementary only in a turbulent environment.[65]

In mature markets, the task/market environment is the major source of threats or opportunities to any firm. However, in emerging economies, the institutional environment can overshadow the task environment to pose challenges for firms, especially MNCs.[66] For example, inconsistent government policies and ambiguous property rights were found to be the major barriers for MNCs' entry and establishment in China.[67] Meanwhile, these regulations and policies were reported to give instant advantages to local firms so that they may collaborate with MNCs to gain access to their functional capabilities.[68] Nevertheless, these institutions in emerging economies evolve over time due to internal and external pressures. For example, governments sometimes need to deregulate particular industries in emerging economies to meet specific requirements of international protocol. Researchers characterise these emerging economies as transitional because of unpredicted changes related to such institutions.[69–71] Therefore, to understand global competition between MNCs and local firms in emerging economies, we include another dimension—institutional environment, which is characterised by being either highly regulated or deregulated.

Within the parameters of the task and institutional environment, we propose the following four archetypes in which the distinctive branding capabilities of both MNCs and local firms are identified. We then illustrate examples of each archetype with evidence from multiple players in the Chinese cellular phone industry. We hope the case study within a single industry at its different development stages may provide ample evidence supporting our archetypes and provide conceptual tools for future studies.

FOUR ARCHETYPES OF GLOBAL COMPETITION AND PROPOSITIONS

Archetype 1: Leverage of regulatory capabilities/high regulation and stable market

As illustrated in Table 2, Archetype 1 is defined by a configuration of a highly regulated industry within a stable, less complex and high-growth market environment. In this case, we propose that regulatory branding capabilities will play a key role for local firms to compete with MNCs. Extant literature in emerging economies has demonstrated that local governments would step up protective policies to develop their own high-tech industries or protect local economies.[72–74] Accordingly, local firms may benefit from less tax burden with the protection provided by preferential taxation policy. Therefore, local firms have a more efficient cost structure compared to MNCs. Similarly, local governments may implement special grants to support local firms' R&D activities. For instance, operating licenses and import quotas are common methods that local governments use to ward off MNCs and protect local firms in competition.

Further, local firms' history in the local market grants them an established distribution network, an important lead of functional capabilities over MNCs, as it takes some time for MNCs to develop their own network and logistic system. Therefore, functional capabilities (ie distribution network) complement local firms' regulatory capabilities, which are empowered by the highly regulated institutional environment to grow and develop their branding capabilities.

On the other hand, in an emerging market where the growth rate is high, MNCs only need to extend their existing positional and functional capabilities, well established in home or foreign markets, to the new market.[75] This may compensate for MNCs' lack of regulatory capabilities which are evident for local firms in the emerging market. For example, the R&D skills help MNCs to become technically sophisticated and offer high value-added products. MNCs' established brand equity can help them claim higher profit margin. Marketing skills allow MNCs to promote new products efficiently to local consumers. Therefore, these positional and functional capabilities can give MNCs an instant advantage of using economies of scale. Additionally, these capabilities, which have been established over time, are not easily imitated by local competitors within a short time frame. Therefore, we present the first proposition as follows:

Proposition 1: *When the market is regulated and characterised by high munificence, less complexity and less dynamism, MNCs are more likely to compete with positional and functional capabilities, whereas local firms are more likely to compete with regulatory and functional capabilities.*

Examples from the Chinese cellular phone industry: Leverage of regulatory capabilities

A supporting example of Archetype 1 comes from local firms who benefited from the Chinese government's protective policy implemented in the national cellular phone industry between 1999 and 2003. To encourage local firms to rival MNCs in this growing high-tech industry, the Ministry of Information Industry of China (MII) introduced the regulatory policy in 1999 that cellular phone manufacturing firms needed to obtain operating licences.[76] Specifically, MII only granted licenses to Chinese manufacturers and stopped giving licenses to MNCs after 1999. MII also required MNCs to export at least 60 per cent of their products to other global markets outside China, whereas it allowed local firms to sell 100 per cent of their products in the domestic market. Therefore, local firms (eg Changhong, Panda, Haier, Konka) were able to rely on regulatory capabilities to establish their competitive advantages in a munificent and high-growth environment. Additionally, local handset makers were equipped with their sales skills and well-established distribution channels through national and regional retail chain stores or via the internet, enabling them to further leverage their unique regulatory capabilities.[77] As a result, the market share of local cellular phone brands was less than 3 per cent in 1999 but dramatically, reached 58 per cent by the end of 2003.

In this case, when the market is still lucrative with high growth rate and relatively fewer competitors, MNCs are able to make profits mainly through extending their global strategies and providing standardised products to local consumers. Adaptation to local markets is not necessary for MNCs at this stage. For instance, in the same time period from 1999 to 2003, major global cellular phone manufacturers targeted at homogeneous consumer segments in emerging economies—white-collar class in metropolitan areas such as Beijing, Shanghai and Guangzhou. At this stage, MNCs competed with local firms with their superior brand images (ie advertising, promotion and country of origin) and technological developments.[78] Therefore, MNCs were able to leverage their existing positional (eg brand equity) and functional capabilities (brand management skills, R&D) in the new market without any adaptations. Offering standardised products and marketing campaigns helped them reduce the cost of global branding activities. They simply treated the Chinese market as an extension of their global competition grounds.

Archetype 2: Dominance of positional capabilities/low regulation and stable market

Compared to Archetype 1, Archetype 2 results from a more benign environment for MNCs, because the industry is a deregulated one; therefore, MNCs are able to compete without excessive regulatory constraints. The industry is characterised by its high growth, less complexity[79] and homogeneity (ie similar consumer segments and product offerings). In such a market, the key success factors are the entry timing and the achievement of scale economies. Therefore, MNCs can rely on their existing business models and proven positional capabilities,[80] such as a global reputation, benchmarking technical standards and the existing brand equity in pursuing competitive advantages in emerging economies. Further, MNCs can apply preexisting functional capabilities such as product design, promotion, advertising skills, or supplier relationships that are used in their native markets, to the new emerging economies as in Archetype 1.

For local firms, there are no regulatory capabilities to leverage. Nor do they have equivalent positioning capabilities (ie possessing established brand names and brand equities) to achieve the economy of scale or claim high profit margin. Consequently, the asset-related capabilities such as regulatory and positional capabilities do not make significant contributions to high performance of local firms. Instead, local firms may grow and reconfigure knowledge-related capabilities in the high-growth market. For example, local firms may develop the cultural capabilities by learning from scratch or establishing joint ventures with MNCs. The knowledge acquired through the learning process enables local firms to either imitate MNCs' products or design their own.

Furthermore, local firms are superior to MNCs in terms of their cultural knowledge of various consumer segments. Other firms may utilise their functional capabilities (promotions, market segmentation, pricing skills, supply chain, distribution network and access to regional markets) to differentiate themselves in the market. Thus, our second proposition will be:

Proposition 2: *When the market is deregulated and characterised by high munificence, less complexity and less dynamism, MNCs are more likely to compete with their superior positional and functional capabilities, whereas local firms are more likely to compete with their cultural capabilities and functional capabilities.*

Examples from the Chinese cellular phone industry: Motorola (MNC) vs BIRD (Local)

Archetype 2 can be best exemplified by the Chinese cellular phone market between the late 1980s and 1990s. During this time, the industry was at its initial stage, where there were few competitors. The cellular phone market was dominated by a few global cellular phone manufacturers such as Motorola, Nokia, Ericsson, Philips and Siemens. Among these major MNC players, Motorola mustered almost the entire market share before 1995 (ie 20 million subscribers). The reputation of Motorola in the telecommunications market helped it gain access to local customers easily.[81] Furthermore, since the Chinese market adopted the Total Access Communications Service (TACS) standard, Motorola has dominated the market by supplying both the system equipment and cellular phones using it.[82] Therefore, existing positional capabilities (ie company reputation, brand equity, manufacturing facilities and technical standards) made Motorola more competitive than other MNCs (eg Nokia and Ericsson) who became the followers in the market.

By contrast, BIRD, a premier local mobile phone brand, had very different configurations of branding capabilities. At the stage of market entry, without any in-house R&D skills or prior experiences in the industry, BIRD built up its functional and cultural capabilities to distinguish itself from its competitors. Rather than competing with MNCs head-to-head, BIRD leveraged its understanding of the need for cellular phones in rural markets and small cities (cultural branding capabilities) and focused on a niche market ignored by MNCs. In contrast with the hierarchical distribution systems MNCs adopted at the time, BIRD invested heavily in building a self-service (cost-saving) distribution system, and therefore successfully penetrated into the mass market.[83] For example, BIRD had 28 provincial calling centres, over 1,000 regional service centres and over 50,000 retail stores which blanketed virtually every city and rural area in China. BIRD also had over 200 'mobile service cars' that drove around rural regions to offer more flexible services to customers. BIRD's 'blanket' distribution strategy proved to be effective. In 2003 alone, the company sold 11.2 million cellular phones to the local market and 500,000 to overseas markets.[84]

Archetype 3: Positional *vis-à-vis* cultural capabilities/high regulation and dynamic market

In a less turbulent environment evidenced in Archetypes 1 and 2, it is viable for firms to develop standardised products and primarily compete on their existing positional, functional or regulatory capabilities. However, when markets and industries develop rapidly with much shorter product cycles, a firm's ability to configure dynamic capabilities and address changes becomes crucial to determine its success.[85] In this situation, a firm's cultural branding capabilities increasingly determine the outcome of global competition. Archetypes 3 and 4 exemplify global competition in a turbulent market environment.

In Archetype 3, a turbulent market is first characterised by saturation of a larger number of competitors and product offerings. It is further marked by the low growth rate, heterogeneous consumer segments and unpredictable changes in consumer preference as well as supplier relationships.[86,87] In this market condition, it is hard for a firm to forecast industry trend. To compete successfully, firms need two types of cultural capabilities—the knowledge of local consumer culture and market conditions, and the ability to innovate and change. The more sophisticated knowledge of local consumers and market conditions a firm obtains, the more likely it is to adapt its products accordingly. Therefore, by adapting and reconfiguring their cultural capabilities quickly, firms are able to establish their differentiated competitive advantage.

Local firms are innately advantageous in configuring the cultural capabilities. Compared to MNCs, they have longer history in the market and a more sophisticated understanding of local consumers. Thus, local firms can leverage their cultural capabilities to reconfigure and adapt the functional and positional branding capabilities such as R&D, manufacturing, sales and marketing, and customer service. Further, in a regulated environment as specified in Archetype 3, local firms are empowered with regulatory capabilities. To a certain extent government supports and preferential treatments can shield local firms from global juggernauts like MNCs and allow local firms to recuperate resources necessary to establish and develop other branding capabilities.

In a volatile market, MNCs need to grow their cultural capabilities to reconfigure positional capabilities (eg brand equity, brand reputation) and functional capabilities which by themselves contribute to the high performance of MNCs in a stable, homogeneous and munificent market. The conditions are now challenged by local firms' superior cultural capabilities demonstrated by the customised products and services designed for heterogeneous consumer segments and quick responses to market changes. Additionally, standardised products and services need to be redesigned or localised to address the unique consumer preferences in emerging economies.[88,89] If MNCs do not configure their cultural capabilities and adapt their positional and functional capabilities to local markets, they may easily lose the fight to their local competitors who are protected by industry regulatory policies. To be successful, MNCs need to treat emerging economies as important learning laboratories[90] to reconfigure their branding capabilities by starting joint ventures, licensing, franchising or using local employees and R&D technicians. Therefore, our third proposition will be:

Proposition 3: *When the market is regulated and characterised by low munificence, more complexity and higher dynamism, MNCs are more likely to compete with newly established cultural capabilities and reconfigured positional and functional capabilities, whereas local firms are more likely to compete with configured cultural capabilities, regulatory capabilities and newly established positional and functional capabilities.*

Examples from the Chinese cellular phone industry: Nokia: An MNC with reconfigured branding capabilities

Nokia sets an example of how MNCs reconfigure their branding capabilities to address unique situations in the emerging market. In this case, as the market was inundated with local imitators of Nokia products, Nokia strengthened their cultural capabilities to maintain a competitive advantage. Nokia noticed that Chinese consumers were fashion-oriented but very price sensitive, and their tastes changed rapidly.[91] Beginning in 2004, Nokia had adopted new routines or processes to respond to fast changes in consumer tastes.[92] Rather than manufacturing standardised products as most of the MNCs did in Archetypes 1 and 2, Nokia launched new products such as camera phone, colourful screen, Bluetooth, MP3 and MP4 to feed technology-savvy Chinese consumers. In this case, Nokia provided an example for MNCs operating in a complex and scarce market by reconfiguring its cultural capabilities (ie increased understanding of local customers and willingness to adapt to local market).

When market conditions were complex and turbulent, Nokia reconfigured its functional capabilities by restructuring its distribution networks. For example, Nokia extended its distribution networks to small cities and rural areas. It also flattened the hierarchical distribution system to meet new market conditions.

TCL and others: The local firms with established cultural capabilities

In Archetype 3, where the market is mature, complex and heterogeneous, local firms are more likely to win an upper hand if they respond to market opportunities quickly and provide customised products and services to local consumers. For example, local firms such as Haier and Panda noted that Chinese consumers in metropolitan cities paid a lot of attention to the physical design and ring tones of their handsets. To address this, these firms customised their product offerings by selling handsets with expensive features in bigger cities and handsets with very basic features to less demanding rural consumers. TCL, another local cellular phone manufacturer, focused on a niche market of consumers to whom cellular phones were not just technical products but also symbols of social status, personality and fashion. Based on its research on the upper Chinese market segments such as white-collar business class in metropolitan cities, TCL has been aggressively developing high-end products and experimenting with new product designs. For example, TCL developed the first diamond-encrusted cellular phone to attract the upper market segments with huge success. It sold more than 12 million jewelled handsets in less than two years ($2,400 per unit) and the revenues grew by 263.3 times over the subsequent financial year.[93]

At the same time, the regulatory capabilities also give local firms ample opportunities to recuperate resources to develop positional and functional capabilities. For example, the Chinese government required that handset manufacturers with foreign investment establish R&D centres in China. This protective policy facilitated the technology transfer from MNCs to local firms. Therefore, local firms such as TCL aggressively recruited and lured engineers and technicians formerly working in those R&D centres. This regulation-driven technology transfer restricts MNCs' competitiveness and makes them reluctant to implement the newest R&D knowledge in their local production plants.

Archetype 4: Dominance of cultural and functional capabilities/low regulation and dynamic market

Deregulation in Archetype 4 brings out more complexity and turbulence in the market than Archetype 3. Without government protection and regulations, local firms are stripped of their regulatory capabilities. Both MNCs and local firms competing with their preexisting branding capabilities yet need to outperform and out-innovate each other by either reconfiguring old capabilities or establishing new ones in a complex, low growing and dynamic market. In a market such as this, the pre-existing positional and functional capabilities are no longer the sustainable sources of competitive advantage.[94] Instead, cultural capabilities such as a firm's ability to adapt, change and innovate become the most sustainable elements.[95] Coupled with cultural capabilities, a firm's reconfigured functional capabilities (eg R&D, new brand and product development, and customised or innovative brand management skills) and positional capabilities become the most important factors in determining a firm's success in a complex and turbulent market.

Proposition 4: *When the market is deregulated and characterised by low munificence, more complexity and higher dynamism, both MNCs and local firms are likely to compete with the cultural capabilities and reconfigured functional and positional capabilities.*

Examples from the Chinese cellular phone industry: LM: A local firm competing with strong cultural capabilities and reconfigured functional and positional capabilities

LM (Lenovo Mobile Communication Technology Ltd.) provides an example of how local firms can survive the fierce competition specified in Archetype 4 by capitalising on strong cultural capabilities. LM is a subsidiary of Lenovo Group, a leading global personal computer maker excelling in the manufacturing of desktop computers, laptops, cellular phones, servers and peripherals with approximately $13bn in annual revenue. As a late comer in the cellular phone market, LM seemed to have missed the opportunity of high growth. However, unlike other local firms, LM inherited its strong cultural capabilies (ie an innovative organisation culture), functional capabilities (ie strong R&D capabilities) and positional capabilities from its parent brand Lenovo. Lenovo's accumulated R&D skills in personal computer, internet, personal digital assistants and digital equipment helped fund the R&D research required to upgrade the technology of its cellular phones. When first entering the market, LM abadoned the saturated market of black and white screen cellular phones and quickly spotted opportunities with colour screen phones. When other local firms were busy with the price war, LM focused on out-innovating its competitiors. As a result, in 2004, LM's colour screen phones, developed in house, accounted for over 80 per cent of its total cellular phone products.

LM's strong cultural capabilities were also exemplified by its quick learning and fast knowledge transfer. For example, LM learned from its MNC rivals that shortened product development cycle resulted in faster market turnover and higher profit margins. Therefore, it has strengthened its R&D skills to substantially reduce new product development cycle. LM manufactured the flip phone two years after its rival Motorola. However, the lag shrank to two months when LM introduced its V850 camera phone in October 2004.[96]

Coupled with strong cultural capabilies, LM's reconfigured functional capabilities, especially in the areas of R&D and new product developments, won the company a leading place in the Chinese handset market. By October 2005, LM sold over 1.9 million units and obtained a market share of 6.42 per cent, ranking fourth place in the Chinese market.[97]

Motorola: An MNC competing with strong cultural capabilities and reconfigured functional and positional capabilities

Motorola illustrates how MNCs can lead the competition in Archetype 4 with strong cultural and functional capabilities. After dramatically losing market share to its global and local competitors since 2001, Motorola decided to upgrade its product offerings. It started to reconfigure its functional branding capabilities such as product adaptations and local distribution networks and further strengthen their capabilities in R&D and brand management.

For example, Motorola focused on using innovative technologies in handsets. It first added 3G to its handsets. In 2005, Motorola put MP3 technology and ring tones in all products including the low-end product line. It then introduced fashion phones in 2004 to attract fashion-conscious Chinese consumers.[98] In addition, Motorola's strong cultural capabilities prepared itself to adapt quickly to the market environments and respond to competitors' strategies. With the reconfigured functional capabilities, the firm was able to shorten R&D and product development cycle and aggressively launch new products. In 2004 alone, it developed over 40 new products, ranging from below

$40 to over $800. In the end, Motorola reaped the benefits of its fast response to the market and its innovation in product offering by observing a triple-digit growth rate in the first quarter of 2004 (compared with 2003) in the Asia-Pacific area.[99]

Firms lacking in strong cultural capabilities in Archetype 4

In a deregulated and turbulent market, a lack of the coalignment between environment and branding capabilities can quickly impair a firm's competitiveness. This partly explains the rapid decline of the majority of local firms in the deregulated cellular phone market (between 2004 and 2007) in China. Stripped of regulatory capabilities such as the government's preferential tax policy and import quota, most local firms primarily relied on their preexisting functional and positional capabilities such as extensive distribution network, low price, and low profit margin tactics and localised promotional activities. However, these capabilities were easily imitated and configured by MNCs and other local firms and unable to provide the sustainable competitive advantages for local firms. Instead of establishing sustainable cultural capabilities (innovation and change) and reconfiguring the functional capabilities (eg R&D), most local firms leveraged their existing capabilities by pursuing high market share with a razor-thin profit margin. For example, to persuade distributors to sell their products, most local firms topped up profit margin for distributors by at least 100 per cent higher than that of MNC brands.[100] This aggressive distribution strategy was best described by the industry observers: 'They (the local Chinese handset makers) don't control the technology. They don't control the R&D. They own only a very small piece of the value chain'.[101] The only solution to local firms was to reconfigure the functional capabilities. Otherwise, local firms would gradually lose the market share to MNC brands empowered with innovative products, a superior quality, a wide range of pricing points and an outstanding brand image. That was what happened with Chinese local firms when their market share started to stumble in 2004 (ie 41.3 per cent by 2005 and 25 per cent by 2006). Some local firms (eg Kejian, Panda, South Hi-tech) were even forced out of the competition and transformed themselves into local distributors for the late-coming MNCs from Japan and Korea (ie NEC, Samsung, Panasonic).[102]

From the MNC side, Siemens is an example of how a lack of strong cultural capabilities could hamstring a capable MNC in a complex and deregulated market. Siemens was one of the first few MNCs entering China. In 2001, it ranked as the number three firm with a market share of 13 per cent in the Chinese handset industry.[103] However, its market share fell down rapidly after 2002. This was attributed to Siemens' lack of ability to innovate and to respond to change in a highly competitive market. For example, Siemens was at least six months slower compared to its competitors when introducing new phones. As one of the first few firms introducing colour screen cellular phones, Siemens stepped back from the market immediately after its initial setback. Then, when the colour screen cellular phones were regaining popularity with more innovative features, Siemens decided to jump on the bandwagon, only to find itself too scrambled to lead its competitors in the more advanced colour screen technology. Without reconfiguring its functional capabilities in R&D, Siemens was unable to develop high-margin handsets with innovative features. Lack of reconfiguration in other functional capabilities severely damaged the brand and its market share. For example, quality problems with its low-end products considerably eroded Siemens' reputation and customer trust. In the end, the cellular phone division of Siemens was sold to Acer, a Taiwanese electronics maker in 2005.[104]

IMPORTANT LESSONS FOR MNCS AND LOCAL FIRMS

The main purpose of the paper is to provide a conceptual framework to identify the unique branding capabilities that MNCs and local firms can leverage, establish or reconfigure to obtain competitive advantages. Based on the limited research on this topic and our secondary data from the Chinese cellular phone industry, we identify four archetypes of global competition. These four archetypes are aligned with different market and institution environments. Specifically, when a particular industry in an emerging economy is highly regulated, local firms will be empowered with regulatory capabilities. These regulatory capabilities can shield local firms from the competition of MNCs, enable them to gain access to functional capabilities of MNCs (such as R&D skills, brand management skills) and buy out time and resources to develop their own positional (eg brand name) and functional capabilities (eg R&D skills).

The market environment at the same time, however, determines how much leverage the regulatory capabilities can provide for local firms. As specified in Archetype 1, when the market is benign, local firms can gain competitive advantage with heavy reliance on their regulatory capabilities. MNCs can obtain their competitive edge by relying on their existing positional and functional capabilities established elsewhere (ie home market or other foreign market). In this case, MNCs and local firms can avoid a head-to-head competition because they can focus on different market segments.

As market conditions deteriorate, regulatory capabilities alone cannot grant local firms enough leverage to survive and thrive among the competition. Therefore, as proposed in Archetype 3, local firms need to leverage cultural capabilities (ie their sophisticated understanding of local markets) and provide customised products and services. Additionally, local firms need to configure their functional capabilities by establishing distribution networks and localising their market strategies to reach market segments and captivate market opportunities that MNCs may be unaware of, or ignore. In the meantime, MNCs need to reconfigure their positional and functional capabilities to adapt their products and services to the local market, and to establish the distribution networks in the local market place.

We also propose Archetypes 2 and 4 to address global competition between MNCs and local firms when government regulation is lifted. In this case, local firms are stripped of the regulatory capabilities which can no longer shield them from the competition of MNCs. To a certain extent, global competition takes place on a level playground in terms of privileges and entry barriers. Therefore, sources of competitive advantage for both MNCs and local firms vary depending on the market conditions of the competition. As specified in Archetype 2, when the market is stable, growing and less complex at its embryonic stage, local firms can fully leverage their existing cultural capabilities and functional capabilities to build a brand indigenous to its consumers. At the same time, MNCs can continue leveraging their superior positional and functional capabilities by offering standardised products and relying on a global strategy to approach emerging economies. However, in Archetype 4, when government regulation is absent and the market reaches a mature stage (as in the developed economies), sources of competitive advantage shift to reconfigured cultural capabilities and functional capabilities for both MNCs and local firms combined with the positional capabilities. We propose that firms with abilities to out-innovate and outpace their competitors in terms of responses to market change will win an upper hand in global competition.

In this paper, we illustrate these propositions with supporting data from MNCs and local firms in the Chinese cellular phone industry. Our analysis of the cellular phone industry in China provides several insights for both researchers and practitioners. First, the branding capabilities of firms in the emerging economy should be configured and reconfigured to meet the changing market and institutional environments. This dynamic and evolutionary perspective is crucial for firms. As the branding capabilities that bring a firm initial competitive advantage can be obsolete in changing market and institution environments, the archetypes we develop in the paper can evolve from one to the other. In this case, firms need to be forward looking and maintain strong cultural capabilities (ie willingness and ability to innovate and change) so that the up-to-date positional and functional capabilities can be timely and effectively reconfigured.

Secondly, as the market in emerging economies becomes gradually more dynamic and turbulent, firms who outperform competitors in terms of cultural capabilities and functional capabilities could win an upper hand in global competition. This has important implications for local firms in the emergent economies who aspire to be future MNCs. As indicated by the Chinese cellular phone industry, most local players focus on branding capabilities that gain them temporary advantages over competitors, such as the regulatory capabilities, functional capabilities (eg focused on imitating products and brand strategies of MNCs, distribution) and cultural capabilities (eg understanding of local culture). However, these capabilities will soon lose their sustainability as soon as MNCs configure and reconfigure their cultural, functional and positional capabilities to adapt their brands to the local market. In the end, as prescribed in Archetype 4, what matters most in global competition is a firm's sustainable cultural and functional capabilities. To prepare to become future MNCs, local firms in emerging economies need to take a long-term perspective, cultivate an organisation culture of innovation, nurture strong brand equity and invest heavily in R&D and new product development. Only by focussing on these value-adding activities can local firms successfully expand to overseas markets without carrying the stigma of possessing low quality or being harmed by the negative connotations country of origin.[105]

Thirdly, when entering new markets such as emerging economies, MNCs should avoid an egocentric perspective in their expansion strategies in order not to lose a strong foothold in global competition. As illustrated by the data from the Chinese cellular phone industry, despite the significant gaps in the positional and functional branding capabilities between MNCs and local firms, local firms can quickly establish their cultural capabilities (ability to respond to market changes). In our research context, Chinese firms' capabilities of imitation are outstanding. Therefore, MNCs' initial positional and functional capabilities may not be sustainable without being reconfigured to address local particularities. In this case, coupled with their unique advantage of cultural understanding of domestic market and sometimes protected by the regulatory capabilities, local firms can quickly erode the market share of MNCs. We suggest that MNCs should take a more active approach in the adaptation, localisation and reconfiguration of their capabilities at the early stage of the competition to preempt the loss.

Finally, firms' strategies are influenced not only by their own historical activities but also by practices of their competitors.[105] There are strategic interactions between and coevolution among competitors. A firm's capabilities should constantly be reconfigured because competitors can learn from each other and the branding capabilities can be imitated. However, in this paper, we focus on the external environment as key parameters in the four archetypes of global competition. Future research should also address the role of interactions among competitors in the configuration of the branding capabilities. Furthermore, the proposed four configurations of global competition between MNCs and local firms also need to be tested in other industries. Although our current analysis is focused on different market development stages within one single industry, we hope the framework will provide a comprehensive picture of competition based on firms' branding capabilities and therefore could be used and compared across different industries in emerging economies. A further empirical study will be helpful to test the framework and related propositions. This research area will add a nuanced dimension to our understanding of the dynamic, complex and fast changing nature of global competition.

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