Exploring Multilevel Innovative Ecosystems and the Strategies of EMNEs through Disruptive Global Expansions – The Case of a Chinese MNE

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Abstract:

While researchers have analysed how multinational enterprises (MNEs) cope with the challenges and risks related to undertaking foreign direct investment (FDI), their findings have only led to a partial understanding of the optimal risk involved in the knowledge-intensive entrepreneurship strategies chosen by MNEs at the time of entry, and of the innovative ecosystems in which they operate. Moreover, particularly at the post-entry stage, we still have a limited understanding of how MNEs identify, pre-empt, manage, and mitigate the various knowledge-intensive entrepreneurship risks found in foreign markets over the various stages of their subsidiaries’ life cycles within their innovative ecosystems. We argued that, in host countries characterised by substantial dynamic risks, MNEs are likely to adjust their risk management and mitigation strategies based on the experiences they gain in four distinct phases: pre-entry (when decisions on mode of entry are made), immediate post-entry, current status, and future strategies and plans. Within innovative ecosystems, these dynamics are compounded in emerging market contexts; in particular, those relating to FDI destined to other emerging markets. We contribute to the literature through a unique case study narrative obtained by drawing on multiple triangulated sources of data, including in-depth interviews and archival data, which led to nine key future research directions. We portray how a young Chinese telecommunication MNE had managed and mitigated various risks by understanding and navigating a complex landscape, by developing and exploiting an innovative ecosystem, and by adopting unique and disruptive internationalisation strategies in India.
1. Introduction

When deciding to invest in countries characterised by weak political, commercial, and institutional environments, multinational enterprises (MNEs) are faced with substantial risks. The ability to identify, pre-empt, mitigate, and manage the various risks found in many countries around the world requires a range of capabilities that are exhibited by successful MNEs in their internationalisation strategies (Figueira de Lemos et al. 2011, Kardes et al. 2013). Superior internationalisation strategies are argued to feature elements of deliberate and planned action, as well emergent ones (Mintzberg and Waters 1985). For both kinds of strategies, the level and type of risk will determine the entry mode as well as the nature and quality of the transfer of technology and know-how, which, in turn, is based on the motive underpinning the MNE’s international expansion. Therefore, different entry modes are associated with diverse levels of subsidiary control, resource transfer commitments, and the risk linked to the dissemination of know-how (Hill et al. 1990); all aspects that, in turn, are dependent on several internal and external factors.

The vast literature on entry mode has explored the MNE strategies related to ownership decisions made at the point of entry (Brouthers, 2013). With the aid of institutional theory and transaction cost economics, previous studies have adequately uncovered how MNEs choose their entry mode in order to cope with the challenges and risks linked with undertaking foreign direct investment (FDI). Any understanding of whether the post-entry scenario might change over time is mostly confined to a possible incremental and linear process of increased commitment enacted if the MNE is able to learn more about the foreign host country and adjust its firm-specific advantages to the new market (Johanson and Vahlne, 1977, 2009). Therefore, MNEs are argued to internationalise incrementally based on their ability to learn and adapt over time (Luo and Tung, 2007; Mathews, 2006). Nevertheless, our understanding of this topic is still limited, especially from an emerging market multinational enterprise (EMNE) perspective; we hence identified this as a first research gap.

Further, more recent research has shown that a significant share of Chinese MNEs engages in risky outward FDI of a more explorative nature and linked to them learning as they go along by increasing their absorptive capacity in various ways (Lyles, Li & Van, 2014). Our study is linked to the burgeoning literature on international joint ventures and born global firms (see Cavusgil & Knight, 2015; Cai, Anokhin, Yin & Hatfield, 2016) as well as to how the determinants of outward FDI are correlated to firm-level capabilities, industry dynamics, and
government policies (Lu, Liu & Wang, 2011). In this emerging market context, any focus on internal capabilities and experience can only lead to a limited understanding of why and how MNEs change their behaviours, particularly in risky host environments (Birkinshaw, Morrison & Hulland, 1995). It is therefore important to emphasise that the processes by which MNEs strategize in host countries are driven by a variety of factors, both internal and external, which yield a range of options over time. This aspect also needs unbundling as it is under researched—again, specifically from an EMNE perspective. Hence, we identified this area as a second research gap.

Additionally, and more particularly at the post-entry stage, we have a limited understanding of how MNEs identify, pre-empt, manage, and mitigate the various risks found in foreign markets over the various stages of their subsidiaries’ life-cycles. There is only a limited understanding of how MNEs can behave optimally in those situations in which the external environment changes post entry. We argued that, in host countries characterised by substantial dynamic risks, MNEs are likely to adjust their risk management and mitigation strategies based on the experiences they gain in four distinct phases: pre-entry (when deciding on mode of entry), immediate post-entry, current status, and future strategies and plans. These dynamics are compounded in EMNE contexts, and, in particular, in relation to FDI destined to other emerging markets, which we thus identified as a third research gap, whereby there is a great need to unbundle how EMNEs react in a context in which FDI flows from one emerging country to another.

We thus contribute to the literature through a unique case study narrative developed by drawing on multiple triangulated sources of data, which included in-depth interviews and archival data. We portray how a young Chinese telecommunication MNE had managed and mitigated various risks using its unique and disruptive internationalisation strategies in India. We thus argue that, from the perspective of Chinese MNEs, these ‘risk’ strategies, factors, and elements become more intricate and are compounded not only due to their emerging and inexperienced status, but also due to: their degree of (un)readiness; their liability of foreignness and of outsidership (Zaheer, 1995; Johanson and Vahlne, 2009); their liability of newness and of size (Freeman, Carroll & Hannan, 1983); their liability of Chinese-ness in terms of identity, trust, and quality (see Pereira and Malik, 2018); and being Chinese state-owned firms (Chan and Makino, 2007).
In the following section, we discuss the key literature, develop a theoretical lens, and formulate our two research objectives.

2. Literature, Theoretical Lens, and Research Objectives

We argued that resource dependence theory (RDT) was the appropriate theoretical lens through which we could portray the idiosyncratic risk-mitigating and managing strategies enacted by EMNEs through disruptive global expansions. RDT advocates that firms reduce or minimise their environmental interdependence and uncertainty. In their seminal work on RDT, Pfeffer and Salancik (1978: 1) argued that “to understand the behavior of an organization you must understand the context of that behavior—that is, the ecology of the organization.” Pfeffer and Salancik (1978: 189, 190) further noted that “the organization, through political mechanisms, attempts to create for itself an environment that is better for its interest” and, moreover, that “organizations may use political means to alter the condition of the external economic environment” to their benefit. However, the dynamics of this strategy are still largely under-researched in the context of the risks that firms face in practice.

A relevant strand of the literature that supports RDT is that of the disruptive innovation strategies enacted by EMNEs. We argue that such strategies are a conduit for the reduction of the environmental interdependencies, uncertainties, and risks they face when entering foreign markets. The concept of disruptive innovation was introduced by Christensen and Bower (1996), and further developed by Christensen (1997) with the term ‘Innovator’s Dilemma’, wherein he investigated how and why “great companies pursuing innovation in mainstream markets suffer from market myopia and are overtaken by entrant firms introducing products based on new, disruptive technologies” (Corsi and Di Minin 2014, 78).

Indeed, there is a growing body of literature, built on the concept of disruptive innovation (Christensen 2006), which identifies ‘disruptive innovation from emerging economies’ (Hart and Christensen 2002), ‘innovation at the bottom of the pyramid’ (Prahalad 2012), ‘cost-innovation’ (Zeng and Williamson 2007) and ‘reverse innovation’ (Immelt, Govindarajan & Trimble 2009). We argued that ‘disruptive innovation and strategy’ is a risk that we need to unbundle—particularly in the post entry phase—in order to better understand how EMNEs pre-empt, identify, manage, and mitigate the various ‘disruptive risks’ they encounter in foreign markets over the various stages of their subsidiaries’ life-cycles. This was the main objective of our study.
We chose a Chinese EMNE’s dynamic entry into the complex, volatile, and largely emerging and growing market of India. We found that, apart from experiencing and overcoming its degree of (un)readiness and its liabilities of foreignness, outsidership, newness, and size, our sample EMNE had faced and successfully overcome its liabilities of identity, trust, and quality—as a Chinese firm—by mitigating and managing various commercial and political risks. Our contextual choice of a Chinese EMNE expanding into India also contributes to the limited work on the trade and business occurring between these two fast-emerging markets (Economist 2008, Redburn 2008, Khanna 2009). At any rate, this case takes on even greater importance in view of the political tensions that exist between the two countries (Yuan and Singh Sidhu 2003). The findings of our study further suggest that a particular entry decision and the risks envisaged by a firm cannot be viewed in isolation, but need to be considered in relation to its overall strategies (planned and emergent), which, in all probability, will involve trade-offs, which were portrayed by our sample Chinese EMNE. We utilized the ‘innovation ecosystem’ as a lens through which to investigate how our sample organization had identified, pre-empted, managed, and mitigated the various knowledge-intensive entrepreneurship risks it had encountered in its foreign market over the various stages of its subsidiary’s life-cycle within its innovative ecosystem. An innovative ecosystem is defined as an “…evolving set of actors, activities, and artifacts, and the institutions and relations, including complementary and substitute relations, that are important for the innovative performance of an actor or a population of actors” (Granstrand & Holgersson, 2020, forthcoming).

These are important areas that the extant literature has hitherto not holistically uncovered or unbundled. Indeed, research is lagging on the risk-mitigating and managing idiosyncratic strategies adopted by EMNEs for their disruptive and successful global expansions. Furthermore, such multifarious and complex phenomena can best be investigated through a critical and in-depth case study analysis.

Based on the above rationale and on the gap identified in the literature, our study contributes by investigating—by means of a critical and unique case-study methodology (Yin, 2014; Siggelkow, 2007)—how a Chinese telecommunication EMNE had grown exponentially through its vigorous internationalisation strategies (Luo and Tung 2007). We investigated the evolution of this growth strategy over four distinct phases of the MNE’s eight-year life-cycle: 1) pre-move (due diligence and planned strategy); 2) entry; 3) current challenges; and 4) future plans and strategies (emergent strategy). More specifically, we aimed to achieve the following two research objectives:
RO1. To investigate, through the lens of the ‘eclectic theory of the choice of international entry mode’ and an ‘innovative ecosystem’, how our sample Chinese telecommunication EMNE had overcome various types of commercial and political risks when it had entered India.

RO2. To identify, over the four above phases—and, again, through an ‘innovation ecosystem’ lens—how our sample Chinese EMNE had overcome various types of risks and liabilities by means of several disruptive internationalisation strategies during its exponential growth in India.

The remainder of this paper is structured as follows. Section 3 outlines the research design. Section 4 describes in detail the background information related to our case study of Xiaomi. Section 5 presents the results and a discussion, relating our findings with the previous literature on risks in foreign markets. Finally, Section 6 draws the conclusions.

3. Research Design

Our multiple data set included, as primary data sources, rich in-depth, multilevel and multilocation interviews, and, as secondary data sources, newspaper articles, ad-hoc announcements, and relevant Chinese literature from the China Academic Journals Full-text Database (CJFD), the largest Chinese reference database. This multiple strategy and design ensured the triangulation that we envisaged would lead to the validity and reliability of our findings, thus making them robust (Leech and Onwuegbuzie 2007, Carter et al. 2014).

We designed our multi-phase and evolving enquiry to cover the following four phases of internationalisation: 1) pre-move (due diligence), when the choice of entry mode was made (planned strategy); 2) experience on entry, in terms of the commercial and political risks it envisaged; 3) current challenges, also in terms of the commercial and political risks it faced; and 4) future plans and strategies (emergent strategy). In doing so, we utilised Hill et al.’s (1990) ‘eclectic theory of the choice of international entry mode’ to explore, investigate and critically analyse the success and failure factors and how our sample EMNE both resorted to and mitigated and managed ‘risk’ through its internationalisation strategies.

The ‘eclectic theory of entry mode’ argues that a firm’s choice of entry mode depends on the strategic relationship it envisages between operations in different countries. We positioned and utilised our case study EMNE’s ‘commercial and political risk mitigating and managing strategies’ over the four phases as a narrative through the lens of the nine variables that make up Hill et al.’s (1990) eclectic theory of the choice of international entry mode. These
variables are categorised across three dimensions. The first includes the following three strategic variables; extent of national differences; extent of economies of scale, and global concentration. The second dimension includes four environmental variables: country risk, location familiarity, demand conditions, and volatility of competition. The third dimension includes the remaining two: the value of firm-specific know-how and the tacit nature of know-how.

It is important to note that while Hill’s framework is conceptualised as an entry mode decision model, we adapted it to our context and utilised it to see whether any potential changes to any of the dimensions had led to our sample EMNE to adjust its strategy to cope with the associated risks. In this effort, we designed and drew up two further tables. The first identifies and is aimed at capturing the degree of (un)readiness, liability of foreignness and outsider-ship, liability of newness (age) and of size (smallness), and the liability of Chinese-ness (identity, trust and quality) as a Chinese firm. The second table depicts the disruptive international and innovative strategies.

For the purpose of our study, we approached the Chinese MNE Xiaomi, which had entered India in 2014. Xiaomi had chosen to enter this foreign market with long-term objectives. In early 2016, during the preparatory stage of our study, we made contact with Xiaomi to request information. Between February 2016 and September 2018, the authors conducted ten in-depth interviews with Xiaomi managers from various hierarchical levels and different functional departments to ensure an adequate representation of the firm for our case study analysis (Eisenhardt and Graebner, 2007). Table 1 shows that our interviewees ranged from (1) general managers to managers specifically responsible for internationalization into India, (2) functional departments ranging from strategy to business development, to controlling, to supply chain; and (3) different national cultures—namely, from China and India. Each 75 minute interview followed a semi-structured protocol.

(Insert Table 1 here)

We subjected our data to content analysis (Weber, 1990; Stemler, 2001) wherein we performed a conceptual analysis (Mobley et al., 1979, Block and Stalnaker, 1999). We began by designing three tables (Hill et al., 1990) pertaining to liability/risk levels, disruptive innovation, and internationalisation strategies, all in line with our two research objectives. We then coded the text into manageable content categories by populating the tables with the relevant matching text. When coding, we undertook a process of selective reduction. We did
so by reducing the text to categories consisting of sets of words or phrases, on which we focussed and coded for specific words or patterns indicative of the thematic areas we had identified in the three tables.

As a method of triangulation and to bridge the divide between Western literature and our primary data, we utilised the relevant articles on Xiaomi found in the China Academic Journals Full-text Database (CJFD). This is the largest Chinese reference database collection, with over 64 million papers from 10,375 journals across all science and social science disciplines. We used keywords like “Xiaomi/MI”, “internationalization”, and “international market” to search for the relevant articles, which we used to: 1) supplement the primary data obtained from the interviews; 2) triangulate the evidence from the news and interview data; and 3) integrate the existing research findings from the Chinese literature. Among the results, we identified 19 relevant papers published by core journals in China. We found that, with its unique business model and rapid development, the Xiaomi case had stimulated great interest among the Chinese research community. The existing Chinese research has attempted to examine the Xiaomi case through, for example, its community-based business model (Hao et al., 2017), leadership (Wang and Wan, 2016), corporate strategy (Duan, 2015; Qi, 2017), marketing (Lei and Liu, 2013; Ma, 2014, Xiao, 2015; Li and Dun, 2016; Zhang, 2017), innovation and ecosystem (Dong 2014; Dong and Chen, 2014; Dong and Chen, 2015; Yang and Tao, 2015; Zhu and Yan, 2016; Hong et al., 2018), and internationalization (Liu and Zhu, 2016; Xiao and Tong, 2016; Deng 2018). Identifying the risks associated with Xiaomi’s internationalization in these published Chinese articles was of particular relevance to our study. For example, we found that patent risks posed a great challenge to telecommunication companies like Xiaomi when they entered international markets (Yang and Tao, 2015; Liu and Zhu, 2016).

4. Case description

The case of Xiaomi’s entry mode and experience in India
Xiaomi, in Chinese, stands for ‘little grain of rice’ (starting small but achieving big). In the company’s later branding, “mi” also means “mobile Internet” and implies “mission impossible” (Li 2011). Xiaomi had been founded by seven individuals led by Jun Lei in 2010 in Beijing, China. Six engineers and two designers—formerly from Kingsoft, Microsoft, Motorola, etc.—with extensive industrial experience served as executives. Since its inception, Xiaomi’s aim was to develop high-quality products with low price tags. The company experienced a rapid growth of 183% in unit sales between 2010 and 2015. Currently, they have three major revenue sources: smartphones, (67.4%), the Internet of Things (IoT) and lifestyle products (22.9%), and Internet services (8.8%) (June 30, 2018). In 2018, after eight years of operation, Xiaomi had decided to go public through an IPO. This was not only the fifth largest smartphone brand worldwide, and the top brand in India, but also as an e-commerce company with an Internet of Things platform in consumer product categories connecting with over 100 million smart devices and 190 million MIUI active users (March 2018).

Xiaomi is currently the fastest growing technology company in the world and the youngest to pass the 15US billion revenue mark in seven years. They had entered India through its emerging market internationalisation strategy in July 2014. During this period, the mobile industry in India was witnessing volatility and a mix of complex competition. Hence, Xiaomi’s entry into an enormous market such as that of India came with several commercial and political risks. However, the Indian market was lucrative as, according to the Telecom Regulatory Authority of India (TRAI), it had a total of 1,147 million phone connection subscribers, 1,125 million of whom were wireless connection subscribers, and the number of smartphone users in India was expected to grow by 15.6% to reach 337 million in 2018. As a young Chinese company that had only started off in 2010 in China itself, Xiaomi had thus faced the unparalleled commercial risk of facing competition from three categories of competitors. First there were the well-established global giants such as Apple, Samsung, Nokia, etc.; then there were the other Chinese mobile brands, such as OPPO, Huawei, etc.; and, finally, there were the local mobile companies such as Reliance, Jio, etc. Apart from the competitive risk, Xiaomi had also decided, pre-entry, that its Indian subsidiary would only sell online, as compared to the brick-and-mortar physical spaces on which all of its competitors modelled their strategy—

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i.e., investing in stores. In the words of Mr Jain (the Head of Xiaomi-India) \(^2\) “people labelled us crazy. We didn’t care. We just wanted to experiment”. Thus, Xiaomi had had the cost advantage of not spending millions of dollars on traditional advertising and marketing activities. Often labelled the ‘Apple’ of China, this Chinese brand had used what it called a ‘triathlon’ strategy of dealing in technology, hardware/software and retailing.

Thus, in July 2014, Xiaomi had first tested the Indian market with 10,000 phones; these had sold out within minutes through online platform company Snapchat, its strategic partner. Mr Jain often talks about the reason for the choice of 10,000 phones. It went back to the Xiaomi fan club idea, and Mr Jain has said that, at the time of launch, Xiaomi had had 10,000 Facebook fans in India. Snapchat, its strategic partner and the largest Indian online selling platform at that time, crashed twice that day due to the heaviest internet traffic that they had ever experienced. At this point in time (i.e., 2014), Xiaomi had still been shipping in assembled handsets from China. Such has been the transformation of the company that, in the third quarter of 2014, it had shipped 100,000 handsets and, in the third quarter of 2017, it had sold 9.2 million units, 85% of which had by then been manufactured in India itself. When asked to describe Xiaomi’s business model, Mr Jain has called it a three layered company. First, he calls it a technology company and compares it to Google or Facebook as he claims that Xiaomi has its own operating system and is built over Android. Second, Xiaomi is more than just a mobile manufacturing company. It also deals with both software and hardware and, by using the same technology, it also manufactures televisions, routers, shoes, and fitness bands. Third, Mr Jain also sees Xiaomi as a retail company. He is on record stating “we don’t want to make by only selling phone. We want to monetize our software”. By 2018, Xiaomi had its own online platform called Mi.com, which had become the 8th largest e-commerce platform in the world, the 3rd largest in China, and the 4th largest in India. Mr Jain has said “it’s a unique business model un-paralleled in the world”.

As of the third quarter of 2018, Xiaomi held the majority share of the Indian market. Initially, Xiaomi had entered India with the strategy of only selling online, and has since become India’s number one brand, both in terms of online and store sales. In more recent times, Xiaomi became aware that its online market share was stagnating and thus decided to also take the traditional route of selling its product range in stores. In this respect, Mr Jain has told a very interesting story. One of the largest malls in Bangalore, situated at a premium location, was

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\(^2\) One of the authors attended Mr Jain’s invited talk at the Indian Institute of Management, Bangalore (IIM B) in early 2018. Some excerpts are from that talk.
approached to as the site of Xiaomi’s first physical store. The mall owners, who were unaware of the brand’s value and market position, said that the only place they could offer Xiaomi was in the basement level, as mall’s ground floor space was reserved for premium customers. The mall management then made a deal with the company: if 1,000 customers would visit the Xiaomi store on the day of opening, they would be prepared to relocate it to better premises in the mall. On the day of the store launch, more than 10,000 customers turned up at the same time. The rest is history, as Mr Jain said. By 2018, Xiaomi operated around 500 of its Mi Stores across 40 cities in India and expected to scale this number up to "a few thousand" by the following year in order to maintain its growth pace. It also operated 1,000 service centres across India, claiming to be able to resolve any issues within four hours.

Around the time at which Xiaomi was entering into India, on the 25th of September 2014, the government of India, led by the Prime Minister Mr Modi, launched the ‘Make in India’ initiative. As an emerging country, India’s ruling party government had an overwhelming majority and was promoting the vision of making India into a global manufacturing hub, in line with China’s past policies. It was doing this by opening up the market for manufacturers, both for foreign MNEs and local firms. In early 2015, Xiaomi took advantage of the ‘Make in India’ initiative and began manufacturing its products in India. By 2018, it operated and fully owned six manufacturing plants, thus generating employment for close to 12,000 workers in India, with plans to scale up to 50,000 employees over the next two years. Interestingly, 95% of its employees were women. Those factories had the capacity to manufacture two phones per second in partnership with the Taiwanese electronic manufacturer Foxconn, which also manufactured Apple phones. By doing so, Xiaomi, on the one hand, had cut its manufacturing and operating costs and, on the other hand, was also saving by not spending on any advertising. Xiaomi claimed that these huge savings were being passed on to its customers. Xiaomi was also heavily investing in innovative products through its R&D initiatives in India, and further claimed that it never compromised on quality. Thus, the three key dimensions of capturing customers (i.e., quality, innovativeness, and cost) made Xiaomi one of the best disruptive case-study organizations. This business model had impressed the chairman of the TATA Group, Mr Ratan Tata, so much that he had invested and held a stake in Xiaomi India.

5. Results and Discussion
We present the findings we obtained in relation to the previous literature by systematically going through the four phases and critically assessing how Xiaomi’s internationalisation process confirms and/or deviates from what is hitherto known about risk management and mitigation practices. In doing so, we clearly identify the set of actors, the key activities and artefacts, and the impact of key institutions and relations; these include the complementary and substitute relations that Xiaomi had established as part of its ‘innovation eco-system’ overall and that had been important for its innovative performance as an actor (Granstrand and Holgersson, 2020, forthcoming). Table 1 presents our evidence by means of Hill et al.’s (1990) framework of risk dimensions, albeit adapted to the four phases of the subsidiary’s life-cycle. We extended this framework to show how Xiaomi had overcome various risks following its entry.

(Insert Table 1)

**National Differences**

Hill et al. (1990) argued that the presence of significant national differences between the various host countries in which MNEs are operating will lead to the adoption of a multi-domestic strategy. The reason for this is that consumer tastes and preferences and economic, social, and political conditions will vary widely between such host countries, which will require MNEs to grant greater decision-making autonomy to their various subsidiaries. In terms of risk mitigation in a multi-domestic scenario, MNEs will require a low degree of control over their subsidiaries. This means that MNEs may opt for licensing or joint venture as their preferred modes of entry, which entail lower resource commitments than, for instance, wholly-owned subsidiaries (Delios & Beamish, 1999; Taylor & Zou, 1998).

Despite the significant potential commercial and political risks linked to the differences between China and India (Yuan and Singh Sidhu, 2003), Xiaomi avoided the traditional licensing and joint venture options to account for its unfamiliarity with the Indian business environment. Instead, it initially operated through wholly-owned subsidiaries, albeit only selling handsets shipped from China online. However, the evidence from our case study further shows that, within a year (by 2015), Xiaomi had turned to greenfield investments in
manufacturing as part of the ‘Make in India’ initiative. As of 2018, it operated seven manufacturing units and had also invested heavily in R&D as its innovation strategy.\(^3\)

**Economies of Scale**

Whereas national differences usually incentivize MNEs to follow a multi-domestic strategy, the benefits of economies of scale tend to lead MNEs to choosing global strategies suited to minimize cost structures. In the case of global markets for more standardized products, consumer taste trends and preference convergence enable MNEs to realize significant economies of scale by reconfiguring each production stage of their supply chains and locating activities optimally in the countries in which they accrue the highest added value. The coordination of interdependent global value chains necessitates a high degree of control over its subsidiaries. This more centralised decision making structure is more likely to be achieved via wholly-owned subsidiaries, in order to reduce the risk of forgoing important cost reductions, rather than through licensing agreements or joint ventures, wherein the control function is less effective and it is more difficult to operate in a flexible and agile manner.

In the four years of history in China (2010-2014), Xiaomi had already achieved market leader status, with 12.5\% of market share, narrowly beating Samsung’s 12.1\%\(^4\). Compared to that of India, China’s smart phone market has a much higher adoption rate and, within a short period, the key players in China had experienced market growth and the challenges associated with distribution, marketing, innovation, and operation. This had provided companies like Xiaomi with the experience needed to deal with the Indian market, even though it was only four years of a strategy that led to generating large economies of scale. More specifically, this was true with their ‘triathlon’ market strategy (technology, hardware/software, retailers) and triangulated product strategy (quality, innovation, and cost). Here, the principle underpinning Xiaomi’s internationalization strategy lay again in being disruptive and taking high risks. Particularly, Xiaomi had taken the lessons learned in its domestic market—i.e., underplaying the importance of offline distribution channels in competing for mass markets outside top-tier cities like Beijing and Shanghai—and had invested from the beginning in building the future of physical channels in order to manage the complicated Indian market (Li and Dun 2016).

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\(^3\) https://www.indiatoday.in/technology/news/story/xiaomi-now-has-6-smartphone-manufacturing-plants-in-india-will-also-make-pcbas-locally-1207974-2018-04-09

\(^4\) https://www.techinasia.com/xiaomi-china-top-smartphone-brand-2014-beats-samsung
**Global Concentration**

In oligopolistic industry sectors characterized by a limited number of firms, market share is highly concentrated both in home and host countries. The competition is such that MNEs are highly sensitive to any strategic move that may lead to competitive dynamics, with each MNE needing to anticipate a rival’s response to its own strategic actions. As the MNEs in such sectors engage with their rivals in multiple foreign markets, there is an incentive to respect, to some extent, the rivals’ spheres of influence in specific markets, leading to ‘mutual forbearance’. However, in order to achieve this tacitly regulated competitive environment, each MNE’s strategy needs to be tightly controlled from the centre. With regard to entry mode choices, MNEs operating in these kinds of environments tend to opt for wholly owned subsidiaries to achieve global strategic coordination, rather than for licensing arrangements or joint ventures.

Cui and Jiang (2009) investigated the strategic behaviours in which Chinese firms engage when deciding whether to opt for wholly owned subsidiaries or joint ventures. Their survey of 138 Chinese firms showed that wholly owned subsidiaries are the preferred mode of entry when an MNE follows a global strategy, is faced with high host country competition, and has knowledge-seeking motives for its investment abroad. However, a joint venture mode is preferable when an MNE is investing in high growth host country markets. This means that lower ownership modes of entry may not meet an EMNE’s motive for foreign expansion, such as strategic asset seeking FDI (Luo and Tung, 2007) or escaping weaker home institutional characteristics (Cuervo-Cazurra & Ramamurti, 2014). Therefore, securing ownership control, rather than a minority stake, better suits an EMNE’s motives, which, in turn, are derived from the various constraints it faces at home (Brouthers & Hennart, 2007; Delios & Beamish, 1999).

As indicated above, Xiaomi had faced three categories of competitors, one of which was represented by global players, such as Apple and Samsung. When Xiaomi had first entered India, in 2014, Apple and Samsung had already had a presence in the country for over a decade. Their market shares had peaked and, as competitors, their strategies had been to maintain those levels of market share while, at the same time, attracting newer customers or targeting each other. The types of customers attracted by these high end global giants were a small percentage of the large Indian market. The next set of customers was captured by the second and third category of competitors. These were Xiaomi’s Chinese rivals, such as Oppo and Vivo, and the local Indian brands. These competitors held the major market share represented by the middle and lower income sections of Indian customers. These were the fastest growing customer base,
which Xiaomi intended to target. By being disruptive in its market and product strategy, Xiaomi had held all three categories of competitors busy and engaged while, at the same time, simultaneously pursuing its globalization strategy of entering into developed markets, such as Europe and the US. Please refer to Appendix 1 for Xiaomi’s internationalization timeline.

**Country Risk**

Country risk arises when an MNE perceives the political and/or economic environment of a host country to be unpredictable. On the one hand, the IB literature offers evidence that MNEs prefer to share any risk with joint venture partners, in order to minimize their commitment to a particular host country, and thus any potential related losses (Gatignon & Andersen, 1988; Kim & Hwang, 1992). However, on the other hand, the IB literature has also utilised transaction cost economics to argue that, in those cases in which host country uncertainty increases the incentive for entry modes with increased ownership, control is crucial and preferred in reducing the transaction costs, such as the difficulties involved in searching, negotiating, and monitoring arms-length transactions (Williamson, 1981).

Early work by Root (1987) shows and identifies four types of country risk (political, expropriation, operational limitation, and currency transfer) that can have a significant impact on an MNE’s decision in regard to whether and how to enter a host country. When such risks are high, MNEs prefer to limit their exposure by, again, sharing them with joint venture partners or through licensing agreements, rather than committing to wholly-owned subsidiaries. For example, the risk of expropriation may be lowered if a joint venture partner wields some degree of influence on the host government’s policies or can sway government officials against expropriation (Bradley, 1977). Roy and Oliver (2009) focussed on the level of the executive officers, and on the extent to which they may have concerns over any appropriation and coordination costs, wherein any low institutional quality found in a host country may lead to arbitrary judgments, or may not prevent criminal behaviours. Their findings are consistent with those on the importance for strategy of host country institutions, which may differ between high- and low-tech MNEs (Brouthers & Brouthers, 2001; Delios & Henisz, 2003).

With regard to Xiaomi, we found evidence of political and operational limitation risk. In terms of political risk, there is the implicit mistrust faced by Chinese MNEs investing in India and the less than friendly relationship between the governments of the two countries. In terms of the operational limitation risk, the ‘Made-in-India’ initiative could have represented...
a risk, but was turned into an advantage for Xiaomi due to the gains accrued by moving its manufacturing closer to its Indian customers (Li & Dun 2016).

The study conducted by Puck, Holtbrugge, and Mohr (2009) is one of the few to have investigated the determinants of mode of entry changes from the perspective of transaction costs and institutional theory. They were thus able to identify the specific factors that can either positively or negatively impact the conversion of joint venture into wholly owned subsidiary following the entry of an MNE into China. Based on a survey conducted among the managers of foreign subsidiaries in China, they found that any increase in local knowledge gained by a foreign joint venture partner is positively associated with a shift from joint venture to wholly owned subsidiary. However, perceived external uncertainty, cultural distance, and governmental regulation complexity are negatively associated with the likelihood of converting from a joint venture to a wholly owned subsidiary.

Liu et al. (2016) drew on resource dependence theory to argue that different localization strategies mediate the relationship between environmental risk and subsidiary performance. Based on a sample of Chinese MNEs, they found that industry-level risk reduces the input and marketing localization of Chinese MNEs’ subsidiaries, which, in turn, negatively affects subsidiary performance. However, political risk has no discernible impact on input and marketing localization, but a direct positive impact on Chinese MNEs’ subsidiary performance. Moreover, they found that the localization strategies adopted by state-owned Chinese MNEs are more sensitive to industry risk compared to those adopted by privately owned ones.

**Location familiarity**

The IB literature shows that entry mode decisions are not merely influenced by the level of host country risk, but also by the extent to which it differs from its home country counterpart. When describing any aspect that differs between the home and host countries, the literature refers to ‘psychic distance’. The argument is that an incremental approach to internationalization incentivises MNEs to initially seek foreign markets that are at a short psychic distance from their home ones (see Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 2009). For example, in his CAGE framework, Ghemawat (2001) suggested four significant dimensions of such distance: cultural, administrative, geographic, and economic. Thus, the narrower the perceived distance, the greater the location familiarity. The perceived distance between an MNE’s home and host countries is argued to be determined by
both their psychic distance and by the MNE’s prior experience, if any, in that particular host country.

In terms of mode of entry, the previous literature argues that the greater the psychic distance and the MNE’s experience, the more likely it is that the MNE will prefer joint ventures or licensing agreements over wholly-owned subsidiaries (Anderson and Coughlan, 1987). This enables the MNE to minimize its risk by sharing it and, at the same time, to reduce its resource commitment to the host country. This perspective is embodied in institutional theory coupled with the concept of liability of foreignness (Brouthers & Hennart, 2007; Yang and Tao, 2015). Institutional theory argues that an MNE may need the experience of local partners in those cases in which a particular host country is significantly different, both culturally and institutionally, from its own home one. This would enable the MNE to minimise its liability of foreignness by mimicking the behaviours of its local rivals and by being seen to perform better due to its familiarity with the host country, industry, and consumers. In this scenario, foreign MNEs are strongly incentivised to fit in and play by the local rules of the game (North, 1990) in order to signal their commitment and legitimacy to the host country players, and thus be accepted (DiMaggio & Powell, 1983; Suchman, 1995; Kostova, 1997; Xu & Shenkar, 2002). This, in turn, will increase their chances of survival as a trade-off to choosing entry modes with lower ownership control (Zhao, Luo & Suh, 2004; Xu & Shenkar, 2002; Xu, Pan, & Beamish, 2004). This represents an alternative way in which MNEs adapt to different institutional environments, thus limiting their commercial and political risk.

A large body of literature has investigated the impact of institutional distance on entry mode decisions. For example, Ang, Benischke, and Doh (2015) highlighted the multi-dimensional nature and differential effects of institutional distances, while Hernandez and Nieto (2015) showed how the regulatory distance between the home and host countries had determined whether exports, licensing, or FDI had been chosen by a sample of European firms. They also highlighted that what matters is not the absolute regulatory distance between the home and host countries, but the direction of that distance. For example, in some cases in which the regulatory distances between the home country and two different host ones are the same, the impact can be quite different when the respective host country levels of regulatory development are lower and higher than that of the home country. This is because the former would lead to a lower resource commitment than the latter.
In a related study, Liou, Chao, and Yang (2016) examined the differential effects of formal and informal institutions on EMNE ownership strategies in the context of M&As. When EMNEs are faced with large informal institutional distances, they tend to opt for lower ownership shares due to legitimacy concerns, whereas large formal institutional distances lead them to opt for higher ones. Moreover, the authors showed that an EMNE’s home market size and regulatory institutional quality further explain the differential effects of institutional distances.

In regard to locational familiarity, the evidence for Xiaomi is partly explained by the investment and ownership share to which the TATA group was attracted. This shows the growth potential that the well-known Indian conglomerate had seen in Xiaomi and signals acceptance and legitimacy in the mobile industry. The other aspect is the hiring of Indian human capital, particularly in the form of the head of Xiaomi’s Indian operations, Mr Jain. He was the global vice president of Xiaomi and the managing director of Xiaomi India at the age of 37. He had studied at prestigious Indian educational institutes and had graduated from Delhi’s Indian Institute of Technology and Calcutta’s Indian institute of Management. In 2011, he had given up a four-year stint in McKinsey. He was the only Indian on the board and held 2.3 million shares in the company. In January 2017, he had replaced the previous vice president, Hugo Barro, who had gone on to join Facebook.

**Demand conditions**

In those situations in which an MNE faces uncertainty in regard to the host country demand for its products or services, it will perceive the particular host country as being fraught with greater commercial risk. This, in turn, will lead the MNE to consider entering with limited resource commitments. In industries that are either declining or fast paced and unpredictable, MNEs prefer low risk and resource modes of entry, such as licensing. Klossek, Linke, and Nippa (2012) showed that Chinese MNEs, such as Haier, had been overly optimistic with regard to the potential of selling their products when entering Germany via wholly owned subsidiaries. Haier had essentially expected its products to do well in Germany as they did in China, without considering the need to adjust them to suit the German market. Similar Chinese MNEs that had entered Germany via acquisitions have been argued to have been much more diligent in their feasibility studies than those that had done so via greenfield investments.
Evidence from our study suggests that Xiaomi clearly had come in with limited resources but that it also had had clear strengths in terms of its resources. Their strengths had clearly been their strategy and the experience they had accumulated in China in terms of innovation, cost effectiveness (value for money), and high quality. However, they had not had deep pockets for marketing and advertisement. Further, unlike other players in the market, they had had plans to continue with older models because the lower cost involved in manufacturing and procuring the raw materials needed for them. In a sense, therefore, and as an illustrative example, in 2018, Xiaomi was still selling its 2014 mobile phone model at the same price, but with better software and innovate features, and was making a greater profit margin on its older models. It was thus a win-win situation for both the customer and Xiaomi. In terms of taking advantage of its strategic partners—such as its initial dependence on Snapchat as the online platform on which to sell its products—Xiaomi had adopted the strategy of developing its own online platform Mi.com, thus reducing its dependence on such partners. Here, we can invoke the RDT in regard to how Xiaomi had overcome its temporary lack of resources by relying on strategic alliance partners, which had helped them gain more turnover over time. Another important strength for Xiaomi had been the level of consumer connectivity (i.e., word of mouth) which had replaced more traditional modes of marketing. In terms of its entry into India, Xiaomi had assessed the initial demand by how many potential customers had signed up to its Facebook page from India. This estimation had initially turned out to be quite accurate.

**Competitive conditions**

In situations in which the nature of the host country competition is volatile due to, for example, rapidly changing macroeconomic, technological, consumer, or legal factors, MNEs are incentivised to retain a degree of strategic flexibility. In such volatile conditions, the risk for MNEs is that they may become less able to respond and manoeuvre quickly, especially when they are not familiar or experienced with the host country. This leads to the argument that less resource-committed entry modes—such as licensing, joint ventures, or acquisitions—are preferred to subsidiary whole-ownership. Klossek et al. (2012) showed that Chinese MNEs had entered Germany via acquisitions in order to secure superior technologies quickly and to pre-empt any similar moves by their competitors, which, in turn, had added differentiation and brand benefits to any existing cost advantages. The qualitative findings obtained by Klossek et al. (2012) also confirm the competitive pressures felt by Chinese MNEs in their home market. Since the enactment of the open door policy, the competition in China has been intensified by
both foreign rivals and superior Chinese domestic firms that have benefited from the transfer of know-how via collaborations with the developed country firms that have entered China over time.

The evidence for Xiaomi’s Indian operation shows that the nature of its competition—with regard to macroeconomic, technological, consumer, and legal factors—had been quite stable. Ironically, a source of change had been the efforts made by Xiaomi itself, as it had engaged in innovative disruption via its unique business model in the mobile industry.

**Transaction-specific variables**

At the firm-level, the importance of transaction costs for a MNE’s choice of entry mode has been extensively discussed in the IB literature (e.g., Buckley & Casson, 1976; Rugman, 1981; Hennart, 1982; Hill & Kim, 1988; Teece, 1977, 1981, 1983). Transaction costs are an integral part of internalization theory, which highlights the importance of firm-specific advantages that, in the face of market imperfections, lead to entry modes that are based on the whole ownership of subsidiaries or arrangements in which the MNEs are majority owners. The argument is that, in host countries characterised by significant commercial risk, entry modes such as licensing increase the chances of the unauthorized dissemination of an MNE’s firm-specific advantage as a result of any opportunistic behaviours enacted by its licensing partner.

A similar argument can be made for joint venture partners. The leaking of sensitive information relating to proprietary technology or other know-how will result in a reduction of the profits accrued because of the related firm-specific advantage. Thus, there is a trade-off between the increased costs linked to searching, negotiating, drafting, monitoring, and enforcing complex and lengthy contracts and the likelihood of partner firms engaging in opportunistic behaviours in riskier host country environments (Williamson, 1985). Indeed, property rights theory argues that any contract will always be incomplete (Grossman & Hart, 1986) and that profit streams can therefore hardly be fully protected by contracts when MNEs are faced with unexpected contingencies in risky environments.

Thus, the higher the value of the firm-specific advantage that is being transferred to a host country, the higher the incentive for partner firms to engage in opportunistic behaviours and the greater the potential loss to MNEs should this occur. In such situations, according to
internalization theory based on transaction cost logic, MNEs prefer to establish wholly-owned subsidiaries.

The evidence we gathered for Xiaomi would support this view, as the company had grown organically and had invested in establishing its own manufacturing plants and R&D centres in order to keep control of quality, innovation, and costs. The evidence further provides information in regard to design and brand name control. For example, key Chinese staff members had been relocated to India to support setting up the construction of and production in the Indian factories in order to ensure that the quality of the products would be maintained. In terms of firm-specific advantages, most of Xiaomi’s telecom related aspects had been patented.

A related firm-level issue pertains to the nature of a firm-specific advantage, which adds another dimension to the transaction costs. If a transfer of know-how is of a broadly tacit and complex nature, as is the case for high technology intensive MNEs, then it is more difficult to find a licensing partner with the absorptive capacity suited to implement any complex agreements. In addition, the drafting of contracts based on the transfer of tacit knowledge is particularly difficult to articulate. This means that the returns on licensing agreements (i.e., royalties) may be limited by absorptive capacity issues, whereby a licensee is incapable to maximize the rents accrued from the transfer of firm-specific assets.

Thus, the higher the level and complexity of the tacit knowledge that is being transferred, the more likely is an MNE to opt for entry modes that involve high control and resource commitments (Hitt, Ireland, & Lee, 2000; Puck et al., 2009). This will enable the MNE to maximize the profits accrued from the exploitation of its technology and know-how. In organizational terms, this enhances the MNE’s ability to better structure and coordinate and allocate resources efficiently to the parent-subsidiary relationship, particularly during times of institutional or reform changes (Dau 2018).

The evidence for Xiaomi shows that a complex business model is not amenable to either licensing or joint ventures because it involves a high degree of engagement and integration of activities; this, in turn, requires knowledge exchange and learning, which takes time. Although the transfer of tacit knowledge had involved high costs in relation to the need to train and cultivate the Xiaomi mind-set in the domestic teams, it had nevertheless been viewed as worthwhile in India because of the substantial market potential.
6. Conclusions and Reflections

We had set out to portray how a young Chinese telecommunication MNE had managed and mitigated various risks by understanding and manoeuvring a complex landscape, developing and exploiting an innovative ecosystem, and using its unique and disruptive internationalisation strategies in India. We did so by specifically identifying—through an ‘innovation ecosystem’ lens—the key set of actors, activities, and artefacts, and the impact and influence of key institutions and relations, which included complementary and substitute relations—all of which had been important for the innovative performance of Xiaomi as a case study organisation (Granstrand & Holgersson, 2020, forthcoming). In closing, we summarise our contributions through two key lenses (Tables 3 and 4). In doing so, we develop nine relevant and key future research directions (FRDs), useful for both future scholars as well as practitioners.

To begin with, the concept of Liability of foreignness was originally conceived as the unfamiliarity of MNEs with the different environments faced in host countries (Zaheer, 1995). However, this concept has undergone several extensions to incorporate the various characteristics of MNEs that could potentially be thought of liabilities. Table 3 applies this to the case of Xiaomi in offering specific evidence for the liabilities of: foreignness and outsider-ship; newness (age) and size (smallness); and Chinese-ness, a new term that needs further elaboration through future research.

As evidenced through Table 3, the case of Xiaomi shows that the company had been fearless and had made plans tailored more to success and a positive mind-set—rather than to fear or negative mind-set—when entering a new market such as India. The respondents in our study categorically stated that they had not perceived these liabilities as such. Instead, our Chinese respondents went to the extent of saying that these aspects were customary and normal when doing business abroad. However, when probed further, as evidenced from Table 3, we found that although a lot of due diligence had been conducted, Xiaomi had been agile and risk seeking when it had entered India. We argue that ours is a unique case of a company achieving a structure and conduct which had taken into account both planned and emergent strategies while internationalising in a way that had overcome many of the commercial and political so-called risks. Overall, what stands out from the evidence is the liability of Chinese-ness—i.e., of the identity, trust, and quality of a Chinese firm. Very intelligently, Xiaomi had portrayed and marketed itself as an Indian company. It had gone to the extent of subscribing to the ‘Make-in-India’ movement and of playing to nationalistic sentiments in terms of customer psychology.
Coupled with low cost, high quality, and innovative products, this seems to have worked in the context of internationalising into India. However, it would be interesting to see what Xiaomi will do should it decide to expand into Europe and North America, as these are mature markets and the risk and uncertainty associated with them will be different. In this regards, the last column of Table 3 lists five key future research directions (FRDs 1-5).

(Insert Table 3)

(Insert Table 4)

Furthermore, as evidenced in Table 4, at the point at which we gathered our data, Xiaomi’s disruptive innovation and internationalisation strategies had been successful from the perspective of overcoming both commercial and political risks. In relation to innovation as disruption and as an internationalisation strategy, the case of Xiaomi could help develop four strands of the literature. First, there is ample evidence that Xiaomi, as an EMNE, had been largely successful in utilising disruptive innovation as a case from an emerging economy (Hart & Christensen, 2002). However, was its entry and internationalisation into another emerging country—i.e., India—a unique case? Can the experiences and learnings from India be translated and transferred to its other simultaneous internationalisation plans and strategies in Europe and the US? (see Appendix 1 for this). Second, and of great importance, did Xiaomi deliberately adopt the strategy of targeting customers in India through the design of innovative products for a huge segment of customers ‘at the bottom of the pyramid’ (Prahalad, 2012)? Our evidence shows how Xiaomi’s future plans include further penetration into rural India. Third, and very much related to the second point, is cost-innovation (Zeng & Williamson, 2007). We saw how Xiaomi had prepared several plans and had made several decisions aimed at reducing its manufacturing costs, thus generating savings that they could then pass on to their customers. Of note, in terms of evidence and examples of ‘cost-innovation’, were their decisions to: predominantly sell online; forgo advertisements and fancy marketing; manufacture locally through the ‘Make in India’ initiative; invest in R&D in India; and continue to manufacture and sell older models. Fourth, and looking at the future, is this now an instance of ‘reverse innovation’ (Immelt, Govindarajan, & Trimble, 2009)? Xiaomi wanted us to believe that this is the case. They gave us various examples, such as those of ‘full screen’ mobiles; innovative apps, and greater battery life. This gives rise to the four key future research directions (FRDs 6-9) presented in Table 4, last column.
In conclusion, Xiaomi had been able to operate its subsidiaries successfully in the face of the dual pressure of requiring its subsidiaries to conform both to its global structure, strategy, and standards to achieve internal legitimacy, and to the risky host country environment in order to reduce its liability of foreignness. In the context of foreign emerging markets, where differences can be more significant and thus create enormous challenges and risks, the successful overcoming of this dual pressure is of particular importance (Nachum 2003). These challenges and risks can be amplified in those cases in which the bounded rationality of managers leads to efforts to impose a particular MNE corporate identity in host countries, which can give rise to uncertainty and provoke local stakeholder hostility. It will be interesting to follow Xiaomi’s unique case over time, especially to see whether and to what extent its strategies will be replicated and what any newer firms learn from them.
References


Table 1 - Interview respondents

<table>
<thead>
<tr>
<th>Code</th>
<th>Title</th>
<th>Time joining Xiaomi</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>VP and Co-Founder</td>
<td>2011</td>
</tr>
<tr>
<td>C2</td>
<td>Director for Quality Control</td>
<td>2012</td>
</tr>
<tr>
<td>C3</td>
<td>Director for Supply Chain</td>
<td>2016</td>
</tr>
<tr>
<td>C4</td>
<td>Ecosystem &amp; Party Building</td>
<td>2015</td>
</tr>
<tr>
<td>C5</td>
<td>Advisor to MI Ecosystem Academy</td>
<td>2015</td>
</tr>
<tr>
<td>C6</td>
<td>Member of MI Ecosystem &amp; Founder of ZhiMi</td>
<td>2015</td>
</tr>
<tr>
<td>C7</td>
<td>Xiaomi Regional Distributor in Italy</td>
<td>2018</td>
</tr>
<tr>
<td>C8</td>
<td>Xiaomi Strategy Director India</td>
<td>2015</td>
</tr>
<tr>
<td>C9</td>
<td>Xiaomi Regional Distributor India</td>
<td>2016</td>
</tr>
<tr>
<td>C10</td>
<td>Xiaomi Senior Marketing Manager India</td>
<td>2016</td>
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</table>
Table 2 - Evidence based on Hill et al’s (1990) framework of risk dimensions over the four phases

<table>
<thead>
<tr>
<th>Evidence of Hill et al (1990)’s ‘eclectic theory of the choice of international entry mode’ variables</th>
<th>Pre-entry</th>
<th>Post-entry</th>
<th>Strategic variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-move (due diligence) when it came to its choice of entry modes (planned strategy)</td>
<td>Experience on entry in terms of commercial and political risks they envisaged</td>
<td>Current challenges, also in terms of commercial and political risks they face</td>
<td>Future plans and strategies (emergent strategy)</td>
</tr>
<tr>
<td>Evidence of Hill et al (1990)’s ‘eclectic theory of the choice of international entry mode’ variables</td>
<td>Pre-move (due diligence) when it came to its choice of entry modes (planned strategy)</td>
<td>Experience on entry in terms of commercial and political risks they envisaged</td>
<td>Current challenges, also in terms of commercial and political risks they face</td>
</tr>
</tbody>
</table>

### Strategic variables

<table>
<thead>
<tr>
<th>The extent of National Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>India was only going to be risky. The market is volatile and customers are somewhat choosy. But we had a strategy and hope it would work for us (C8)</td>
</tr>
<tr>
<td>The Indian government had no propaganda in terms of this issue, and the people did not dare to neither. I even asked the Indians, whether this kind of tense problems would affect our business. The elite of India told me that there would have problems if you did not have business with Indians. The bigger the business is the less risk it will be. Their answers surprised me, and I really appreciated their attitudes. So why do our people always like to promote those political things? (C1)</td>
</tr>
<tr>
<td>In fact, it is because we only have one way to go, which is &quot;cost-effectiveness&quot;, because there is blockage of all other ways by imperialism. When I was sharing the experiences in China, I always said that if I wanted to do Branding, the imperialism would come to block you; if you wanted to do something related to resources, it was monopoly of imperialism; and if we wanted to do the technology, they came to block you. Therefore, by innovating, cost-effective is our only way. (C1)</td>
</tr>
<tr>
<td>The strategy of our internationalization is: First, we must go abroad, and we hope that one day, our overseas sales will be the same as domestic sales. Therefore, we go to the emerging countries first, where the developing of the economy is relatively slow, but with a large population, such as India and Russia. Then, we go to European market. Thirdly, we will enter the United States market. We believe that these three steps are more suitable for us, as the regulation of business environment is good in the United States and we have to be ready in all aspects before entering the United States. (C1)</td>
</tr>
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</table>

When Xiaomi decided to enter India first, our India head Mr Jain was the only
| **The extent of Economies of Scale** | Generally, I think Xiaomi is a typical example of a Chinese brand company going to overseas. Firstly, we got a good chance to catch up with the industry; secondly, the rise of the Internet; last but not the least, our marketing strategy is related to national “Belt and Road” policy and has a certain relationship with the developing plan of the government-led overseas. (C1)

You see, we had the Chinese experience of targeting the right category of customers. Cost and product were key. (C10) | Their production happens locally in India. In fact, their production capacity is very strong, and their industrial chain is evolving. Therefore, we will ship the electronic components and the motherboard to India, and affixed in Indian factories. Otherwise, we will be imposed more than 10% tax. (C2)

We have two ways now. The first method called SKD. Namely, we have finished setting components on the main board, and then transport the boards and materials, which are relatively simple, and by the end, ship all these things to the local assembly. We set up the factories in India by

However, the Indian factories are still not capable to affix the components on our motherboard. (C2)

We are growing exponentially in India. We are learning too. We have six manufacturing centres now. We also have a great line-up of products that are innovative and cost effective and our positioning in the market is strategic. (C9) | We need to sustain this growth. We have plans for the future, bred on our existing strategies of product and cost. Remember we are risk takers and fast learner. (C8) |
| Environmental variables | cooperating with Foxconn, with nearly 4 million outputs per month. (C2) | Global Concentration: (one eco-chain company) I think the easiest way is to follow Xiaomi, but at the same time, we also need open up our own channels. Because in overseas, like Amazon, Costco, and many other channels of Japan and South Korea are all very interested in our products, we can choose the relatively independent channels, or the channels that Xiaomi is already been familiar with. (C6)

We knew our position and our strengths and weaknesses vis-à-vis our competitors, but then we had a plan and were confident but also aware of the risks. (C9) |
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<td></td>
<td>We shook up the market and competition. We just entered at the right time I guess. Call it luck or call it karma. We are in India and we will keep getting success (C8)</td>
<td>After three years, we accounted for 31% of Indian market; it may be higher now. In addition, countries like Russia and Indonesia, we got the first and second place in the market. Until now, we have just entered the 84th country, and we are the top 5 in 15 countries; moreover, we are the fourth brand in the European market, and it seems that we have risen ten times in the first quarter, which is extremely fast. (C1)</td>
</tr>
<tr>
<td></td>
<td>Yes, (one eco-chain company) we will launch several products abroad this year (2018). We believe that overseas revenue must exceed 50% to justify an international large company. (C6)</td>
<td>India is a great place for us to be operating. We manufacture here, have a good reputation, are affordable, and plan diverse products that are “smart” technologically. We will continue to grow here (C10)</td>
</tr>
<tr>
<td>Country Risk</td>
<td>I think, on the one hand, our products must be good. You have checked our projects. Do you not think that the product is very interesting, useful and very cheap? In fact, this is a high standard, which is to be good, cheap, and interesting at same time. On the other hand, I think is because of our engineering culture and the fans culture. Before we launched our product, we were developing our English forums. These forums are all different, established and managed by our fans. Namely, they have already known well about Xiaomi in the forum before we launch the product, which is an important premise for us. (C1)</td>
<td>(“The Sino-Indian border conflict”) it (cannot be) called conflicts, just little frictions. Nevertheless, why the domestic media magnified this news? It was because of his political appeals. (C1)</td>
</tr>
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<tr>
<td>Location Familiarity</td>
<td>We only use it in India (choose the right local people to manage the local market). At present, for other countries, we dispatch the employees there to work and cooperate with local</td>
<td>However, we did not do it well last year (2017) and felt that the methodology that we chose was not right. Finally, we found a person to develop the Indian market, who graduated from</td>
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</table>
companies. This is very difficult i.e. to find a universal way to use in all countries. The relationship is very complicated. Case by case. (C1)

I think, because it is very simple, one is the fund and resource requirement; and the other reason is speed. If Xiaomi wants to enter the local markets as soon as possible, it is definitely easier to rely on local agent. (C7)

university and practiced in the United States, but grew up in Brazil, and knew about the mobile phone industry in China. (C1)

Yes, after operating one year, we found that we should use the Indenisation management to explore the Indian market, as the Indians know best of India. (C1)

There is no “an Indian team”, while, every team has Indians. In my quality control office, there is a Chinese staff, who has stayed in India for two and a half years. I transferred him back, because he knows India better than we do. Last time, I also recommended a course to the company to learn about Indian culture, such as why Indians like to make promises, why Indians are particularly strict on the concept of hierarchy. After you learn about their culture, we can avoid many misunderstandings when we communicate with them on the daily basis. In fact, we
<table>
<thead>
<tr>
<th>Demand Conditions</th>
<th>For most markets, our people promoted so fast (meaning that Xiaomi’s own staffs have expanded the market very successfully before employing the local people. (C1)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>We also encountered a relatively strange phenomenon, that users will take our mobile phone apart to study. In the Indian market, I took the data of Samsung, OPPO, and Xiaomi, and found that users were more curious about our internal structure than other brands. (C2)</td>
</tr>
<tr>
<td></td>
<td>We have a product definition team, consisting of Indians residing in China with us, and they are responsible for product development for Indian market. For instance, Indians like taking photos; we have invited many Indians to do the camera testing when we are designing the new camera. (C2)</td>
</tr>
<tr>
<td></td>
<td>We invest in marketing for the local stores by using Facebook or promotions. Therefore, marketing from Xiaomi and from ours is in parallel and sometimes (could be) reinforced. However, ours are more</td>
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<td>At present, it (marketing) is not enough. I think that because Italy is very big, you are not big enough now, so it (may be) strengthened in the future. (C7)</td>
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<td>Another major risk is that their products are not fast enough to enter Italy. Just say that they want the European standard, the European standard is more troublesome, and all products must be European standard, so we only have more than one hundred products. There are so many products, there are three or four thousand products, and we can only sell more than one hundred now, so I think that if they are too slow, it will be a headache. (C7)</td>
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<td>The Indian market is huge and many areas in India are untapped. Hence as a company we are positive and have long-term plans to stay here, to serve our customers and be successful (C8)</td>
</tr>
<tr>
<td>Competitive Conditions</td>
<td>specific for the storefront. (C7)</td>
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Besides mobile phone, Xiaomi also provides “Mi-Home” products. The enhanced product variety alleviates the competition.

I think there are three kinds of ties. The first is the bond of equity. Of course, the equity bond is not only the financial investment, but also our time and workers, which embodies the multiple types of investments of Xiaomi. The second is the bond of resources. For example, now Xiaomi Net and Mi Home mainly contribute the income of many associate companies. The third is the value bond. Just like, we have to open a CEOs conference every quarter, which is an invisible bond as well. (C5)

If I followed Apple or Samsung, it meant that all my things might as same as Apple and Samsung, which were very difficult and costly. For example, my battery is more efficient than Samsung. Namely, the charge and discharge times of Samsung batteries are higher than Mi. However, if I made the same require as Samsung is, installing the Samsung’s battery in my phone, then it may behave differently. Moreover, the problems related to safety regulations, every month we will communicate with the boss, to explain that what problems we have encountered in the battery. (C2)
supermarket, rather than opening their own storefront. I guess the main reason is the lack of varieties. Therefore, it is less likely for OPPO to have their own storefront. (C7)

consumers to charge fees to get free mobile phones. Their production done locally in Indian. In fact, their production capacity is very strong, and their industrial chain being built. We also analyse why it does not enter the production of smartphone at once. We reckon that the manufacturing threshold of the smart machines is still high for them. For example, currently, the Indian factories are still not capable to affix the components on our motherboard. (C2)

| Transaction variables | Value of Firm-Specific Know-how | We control the design and the brand name and the local Indian companies are in charge of the sales channels. We sent many Chinese staff to support the construction and production in Indian factories in order to control the quality of our products. (C2) | Their (Indian) production happens locally in India. In fact, their production capacity is very strong, and their industrial chain being built. We also analyse why it does not enter the production of smartphone at once. We reckon that the manufacturing threshold of the smart machines is still high for them. For example, currently, the Indian factories are still not capable to affix the components on our motherboard. (C2) | We have paid great attention to patents when we are doing the ecological chain. Because sometimes, the price of some materials are not only determined by the technologies, but also determined by the patents. Therefore, we need to check, the patent owner, as it also related with the cost. However, as we are developing rapidly, and the ideas and requirements that people give to us are becoming more and more, higher and higher; so probably we did not manage it |

<p>| On the one hand, you will find so many new creative products in Mi Home; and our products will surprise you. On the other hand, is about our high efficiency. (C3) | We control the design and the brand name and the local Indian companies are in charge of the sales channels. We sent many Chinese staff to support the construction and production in Indian factories in order to control the quality of our products. (C2) | Their (Indian) production happens locally in India. In fact, their production capacity is very strong, and their industrial chain being built. We also analyse why it does not enter the production of smartphone at once. We reckon that the manufacturing threshold of the smart machines is still high for them. For example, currently, the Indian factories are still not capable to affix the components on our motherboard. (C2) | We have paid great attention to patents when we are doing the ecological chain. Because sometimes, the price of some materials are not only determined by the technologies, but also determined by the patents. Therefore, we need to check, the patent owner, as it also related with the cost. However, as we are developing rapidly, and the ideas and requirements that people give to us are becoming more and more, higher and higher; so probably we did not manage it |</p>
<table>
<thead>
<tr>
<th>Tacit Nature of Know-how</th>
<th>The interesting thing is, before we thought it might be relatively easier for us to enter the developing countries; (C1) Today, we still have not seen the realizable benefits that big data contributes to us. However, what we know are about two points. First, by mining the big data, it is easier and more accurate for Xiaomi to open stores abroad, and to decide which market is the best option for us to enter. However, in the past, companies only could go to the destination markets to do R&amp;D to make the decisions, which was extremely difficult and wasting, like TCL, who spent billions yuan in practicing to launch overseas. Nowadays, as long as your things are cheap and good, like our IoT devices bought all over the world; whether you go that market or not, it will be passed to the world. We can clearly see in the background that the state of our equipment in each region. For instance, from the background data, we found that the density and statement</th>
<th>However, after we entered Europe, we were surprised that it was not difficult as we expected. Our model performs very well in mature economies because the mature users there can understand the advantages of our products and accept our cost-effective conception; while, our Chinese people even had the bias on our “cost-effective”. (C1) First thing first is to ensure that they produce in accordance with our standards. In addition, there are several people in the Indian factory, who are the Chinese staff of Xiaomi, the Indian staff of Xiaomi, and the Foxconn staff in India. The main role of the Chinese staff is to manage the Indian employees, to monitor the producing, so that the Indian employees can implement our standards better, and to report in time if there is any abnormality. At the same time, we help the people of Foxconn in India to find out the problem and help them to solve it, in order to improve the efficiency. Accordingly, our output (can be) guaranteed as well. (C2) The patent is essentially balanced. For example, you have the patent of Xiaomi, and I have it as well. If you sue me, then I also can sue you. (C1) Later on, most countries will prefer to buy patents. Of course, we will innovate by ourselves, but the amount you buy will be larger than the amount you innovate. In fact, this is the truth. (C1) We have trained their people (Indian staffs) so that they are capable to cooperate with us. (C2). Each of our eco-chain companies will have two contacts: we call it as “double contact system”. The first contact is the contact person of the product; we will help them to evaluate its products that will enter Xiaomi’s channel. In addition, the second is the contact person of the company, who will help them to manage the long-term development of their companies; thus, these two persons are playing different roles. BTY, the contact persons mentioned here are the employees of Xiaomi Company. Namely, we will dispatch two employees to attach each ecological chain company. Therefore, Xiaomi has &quot;dual identity&quot;-- a very well. On this aspect, we still need improve. (C3) From the long term, we hope that 60-70% that we can achieve in overseas markets, which will be a huge market for us as well. (C1) Currently, we are still trying to achieve hardware realization; it is not particularly clear. However, for the mobile phone and MIUI are relatively clear, and we are still exploring the Internet realization of IoT products. Moreover, we think it will be valuable in the future time, as it is full of the behavioural data. (C5)</th>
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of our equipment in Vietnam is quite high and positive, so we decided to enter Vietnam. Alternatively, we want to know if we can open a store in Spain or in Paris, we will open the background system to check the big data. Although the big data does not directly give you cash, it greatly reduces your decision-making costs and improves the efficiency of your globalization process. (C1)

channel platform provider and an investor. (C3)
Table 3 - Evidence of how Xiaomi overcame types of Risk and Liability, over the four phases

<table>
<thead>
<tr>
<th>Evidence of how Xiaomi overcame types of Risk and Liability</th>
<th>Pre-move (due diligence) when it came to its choice of entry modes (planned strategy)</th>
<th>Experience on entry in terms of commercial and political risks they envisaged</th>
<th>Current challenges, also in terms of commercial and political risks they face</th>
<th>Future plans and strategies (emergent strategy)</th>
<th>Future research directions (FRDs)</th>
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<tr>
<td>Liability of foreignness and outsider-ship</td>
<td>Over-estimate the barriers for entry. Little difficulty in laws and regulations, because we operate as local companies. (C7)</td>
<td>After we entered Europe, we were surprised that it was not difficult as we expected. Our model performs very well in mature economies because the mature users there can understand the advantages of our products and accept our cost-effective conception; while, our Chinese people even had the bias on our “cost-effective”. (C1)</td>
<td>We were the initial disruptors and risk takers in 2-014. We are aware there could be other Xiaomi’s in the future. However, we will continue our growth trajectory. (C10)</td>
<td>As we go deeper into this large and complex Indian market, we are still learning. We have invested heavily and locally and seen as Indian now rather than Chinese. When you have the TATA’s backing you, there is nothing to fear (C8)</td>
<td>FRD-1: Emerging market firms and emerging country multinationals i.e. (EMNCs) face different challenges when it comes to liabilities of foreignness and outsider-ship, and they respond differently too, which in future needs more unbundling.</td>
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<td>Degree of (un)readiness</td>
<td>Chinese brands like Xiaomi had accumulated some end customers through online channels and some of them are illegal such as Global Easy Buy. With their communities, they would have some idea about where the</td>
<td>We invest in marketing for the local stores by using Facebook or promotions. Therefore, marketing from Xiaomi and from ours is in parallel and sometimes (could be) reinforced. Nevertheless, ours are more specific for the storefront. (C7)</td>
<td>Overall, Xiaomi’s marketing reach and penetration are too restrained. Xiaomi does not have countrywide advertising and it is not reasonable to follow KFC-approach to rely on offline stores for marketing communication. (C7)</td>
<td>We have to be agile and nimble. Also we have to be ready for an emergent situation in the future. However, we are confident that we can overcome challenges. It is within our DNA and culture. (C9)</td>
<td>FRD-2: The extent of readiness or (un)readiness by Emerging market firms and emerging country multinationals (EMNCs) by portraying greater agility, nimbleness and resilience needs</td>
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<td><strong>Liability of newness (age)</strong></td>
<td>I wanted to do Branding, the imperialism would come to block you; if you wanted to do something related to resources, it was monopoly of imperialism; and if we wanted to do the technology, they came to block you. (C1)</td>
<td>Xiaomi’s strategy is price leadership. Within the same product categories, Xiaomi products are always cheaper than the others are. In addition, many websites have many comments saying that Xiaomi products are good. As you may know, Xiaomi invests a lot on social media as they do in China, although it does not spend much money to do the advertisement abroad. (C7)</td>
<td>You can see that we have overcome the age-factor. We grew massively in 4 years in China and the next four years we achieved the same degree of success in India. At Xiaomi they say, age does not matter (C10)</td>
<td>FRD-3: Evidence from this case portrays that emerging market firms and emerging country multinationals (EMNCs) are fearless and are more risk taking over coming the liability of newness as compared to other firms, this needs to be further probed through future research.</td>
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<td><strong>Liability of size (smallness)</strong></td>
<td>Xiaomi as a platform provider, of course, we will share the profit. In addition, many products of associate companies in eco-chain</td>
<td>Yes, we were small but not anymore. We are now big both in terms of size but also in terms of confidence. (C8)</td>
<td>However, after it reached a certain level, Xiaomi also contributed its power to the system; just like the sections of bullet train behind,</td>
<td>FRD-4: The liability of size or smallness of modern emerging market firms and emerging country multinationals</td>
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customers are from and based on these existing purchasing records, they chose which market to entre, rather than making decisions based on dedicated marketing research. (C7)

Patent risk, they will not let you sell it if it involves patent risks. Mobile phones do not have such risks. Xiaomi is getting more and more standardized, and more and more international. (C7)

more research and studies, in future.
will bring other benefits to Xiaomi as well in another situation. For example, some products only have 1/3 of Xiaomi users, 1/3 are other Android users, and 1/3 are Apple users. That is to say, sometimes, the eco-chain companies will bring new users to Xiaomi. Many people may not use Xiaomi mobile phones, but they may buy our rice cookers. We use a metaphor called "bullet train" to describe our relationship. The development of the company in the past, like a traditional train, which is a "trailer mode". Namely, you have many carriages hanging behind you, and you cannot pull it when you hang it to a certain degree. However, Xiaomi is in a different way. Xiaomi still acts as a locomotive, like the position of our mobile which have the engines in each section and provide the power to locomotive as well. Therefore, we call it "bullet train mode". Namely, Xiaomi is their locomotive, and the ecological chain enterprises are the carriages in the back, which also contribute their power (their own users) to Xiaomi. In general, we are building a virtuous cycle, which aims to help each other. Many products of Xiaomi are very good, and many users buy them; after using it, they want to see if there are any other new products; then, some people will buy it again; by the end, we will have user viscosity, and form a relatively benign cycle. (C4)

Xiaomi India is now big. See our sales. See our growth. See our future product line... (C10)

business model and size was not an issue when we entered and it is not now. (C9)

(EMNCs) seems to be overcome faster and more innovatively, which again in future needs more evidence through future research.
<table>
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<th>Phone, which is pulled in front; but, we have around 50 associate companies in the ecological chain, which are dependent on Xiaomi in the early days (C4)</th>
<th>Liability of Chinese-ness (identity, trust and quality), as a Chinese firm (see Pereira and Malik, 2018 on MNC identity and liability)</th>
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<tr>
<td>I wanted to do Branding, the imperialism would come to block you; if you wanted to do something related to resources, it was monopoly of imperialism; and if we wanted to do the technology, they came to block you. (C1)</td>
<td>Some cultural obstacles that we found when we were promoting our products in home market at the beginning. In Europe, when we were doing the road show, although we had not made 100% effort, I believed all these investors thought that Xiaomi was a mature company. (C1)</td>
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<td>Huawei is leading. Now everyone thinks that Huawei is a very good mobile phone brand, kind of mid-to-high end, so even though it is a Chinese mobile phone, Italians will not have bias. As for the other Chinese brands, they are not as mature as Huawei. Xiaomi has fostered its own fans (in the local markets) and perceived as cost-effective, good products and not expensive. The rest, OPPO and VIVO are not yet recognized. (C7)</td>
<td>Another remarkable thing is the internationalization of Xiaomi. Because most Chinese MNEs just do OEM work overseas, while just few companies go out directly. For instance, the famous giant company Haier; you could not find any products of Haier in the United States. Until recent years, I have just seen their brand name in the USA market. However, Haier has done this for 30 years, but for Xiaomi, we just want to spend three years doing OEM. (C1)</td>
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<td>FRD- 5: This new category of liability encompassing identity, trust and quality is seen as a myth and stereotyping by emerging market firms and emerging country multinationals (EMNCs). In future, more research is required, especially micro-foundational and in-depth critical analysis to unbundle and unearth how this plays out.</td>
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### Table 4 – Xiaomi’s disruptive innovation and strategies

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<tr>
<th>Evidence of Xiaomi disruptive innovation strategies</th>
<th>Pre-move (due diligence) when it came to its choice of entry modes (planned strategy)</th>
<th>Experience on entry in terms of commercial and political risks they envisaged</th>
<th>Current challenges, also in terms of commercial and political risks they face</th>
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<th>Future research directions (FRDs)</th>
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<tr>
<td><strong>Disruptive innovation from emerging economies</strong></td>
<td>Before we launched our product, we were developing our English forums. These forums are different and are established and managed by our fans. Namely, they have already known well about Xiaomi in the forum before we launch the product, which is an important premise for us. (C1)</td>
<td>We entered India as a Chinese company that was innovative and successful within a short span of four years in China. We were risk takers and disruptive to the traditional players and we thought yes, just maybe we could replicate this model in India. It did work for us. Of course, we had to adapt the Chinese model to the Indian context, but then we had strategies to do this. (C9)</td>
<td>See in India, we often talk of Jugaad as a concept being innovative and indigenous. I remember reading ‘Jugaad Innovation’ and thinking hey there are many companies in India that have been doing this as a way of life in India. So what Xiaomi is doing in India is actually Jugaad innovation or frugal innovation. See for example, why should we spend those precious dollars on advertisements? Why should not we manufacture in India? Why should not we use word of mouth as our best advertisement strategy? This comes to us naturally. (C8)</td>
<td>The future is innovation and emerging countries will drive this innovation. At Xiaomi, our basic aim is that we want to deliver tech products to the masses at affordable prices, at the same quality and in fact more innovative products and in doing so we will grow as a company. (C10)</td>
<td>FRD-6: Emerging market firms and emerging country multinationals (EMNCs) have for long believed to lead through disruptive innovation, but research here is still evolving, hence a need for more research in this area.</td>
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<tr>
<td><strong>Innovation at the bottom of the pyramid</strong></td>
<td>Instead of focusing on variety, Xiaomi adopts “single item explosion” to reduce the unit cost. Our ecological chain is</td>
<td>The Xiaomi principle to target the lower income groups with innovative products in indeed a win-win.</td>
<td>Well, once there are newer entrants to this market, competition will grow, but then we are expanding our</td>
<td>In the future, the challenge is not for us but for our competitors. (C8)</td>
<td>FRD-7: For a long time ‘innovation’ leading to ‘fortune’ at the bottom of the pyramid in terms of emerging market.</td>
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<td><strong>(Prahalad, 2012)</strong></td>
<td>actually called &quot;Xiaomi 2.0 mode.&quot; You should have seen the picture of &quot;Triathlon&quot;, which elaborates why Xiaomi can make the product so cheap. Namely, there is a strong New Retail system to support us; the profit of Hardware is less, but my Internet service can make desirable profit in long-term period. And my new retail mode can bring extra flow to serve my online business. In doing so, &quot;Triathlon&quot; is a mutual supporting mode. (C6)</td>
<td>Why should not tech and smart products not be available to the lower strata of our society? (C9)</td>
<td>Why should not tech and smart products not be available to the lower strata of our society? (C9)</td>
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<td><strong>Cost-innovation</strong> (Zeng &amp; Williamson, 2007)</td>
<td>We found that the cost of producing socks was only 5 Yuan but sold for 100 Yuan. After visiting distributor, retailer, and shopping malls, I realized that no one earned desirable profit. That is why we want to have profound change to commercial retail efficiency in China by establishing the shortest channel, which is “Xiaomi network” in the middle of its own e-commerce from factory to consumers. (C6)</td>
<td>We entered India with a cost strategy, which was successful in China, so we were confident this would work in India...eventually. There was a gap we took advantage of it. Our next target is Europe and the US. (C9)</td>
<td>Xiaomi has a current policy of not making more than 5 percent profit margin as compared with an industry average of 20 or even 30 percent. Why should we make more from less, when we can make more from more and everybody gains? (C8)</td>
<td>Xiaomi will continue to pursue these cost innovative disruptions across the globe. This is the future. We (may be) accused for a cost war of the race to the bottom, but hey, that is our business model and it is working for all our stakeholders. (C10)</td>
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<td>FRD-8: Emerging market firms and emerging country multinationals (EMNCs) has been researched, but it seems that now other developed country firms may be learning from their counterparts, something that still needs more unbundling through future research.</td>
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We are relying on the high efficiency to reduce our entire cost, rather than paying a low price for innovative materials. (C1)

| Reverse innovation | In our industry, when suppliers have innovation, they are mostly willing to choose Xiaomi. Because Xiaomi has the most influence in the entire market. For example, we released a full-screen mobile phone on October 25 of 2016, and then, all other competitors followed us in 2017. In another word, consumers under our leadership accept many new technologies, so suppliers are very willing to cooperate with us. (C3) | I hope we Xiaomi are trendsetters, just as Ryan Air was for the low cost airlines. However, the difference with us is that we are giving greater quality, more innovative products for less. Imagine flying British Airways Business Class at the cost of Ryan Air...that is what we are. (C8) | This Xiaomi business model is the first of its kind globally. Historically you see replication will happen eventually or maybe a newer model will emerge, but then until the time our model works, we plan to grow. (C9) | Our future strategies are to expand globally. We may seem to be aggressive and brash, but then we are first movers and emerging countries have a drive to lead in innovation. (C10) For instance, we worked with Sharp to be the first one to develop the full screen, resulting many patents registered. (C1) | FRD- 9: Emerging market firms and emerging country multinationals (EMNCs) have for years found novel and sustainable ways of portraying innovation, which has led to either its head office or foreign developed country partners and competitors beginning to follow them, known as reverse innovation or transfer of knowledge. More modern firms and newer contexts needs research to pursue more fine-grained nuanced explanations and evidence in future. |

(Immelt, Govindarajan & Trimble, 2009)