



The Smirk of Emerging Market Firms: A Modification of the Dunning's Typology of Internationalization Motivations



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ABSTRACT

In the past two decades, emerging market multinationals (EMMs) have been trying to *catch up* with developed market multinationals (DMMs) and are increasingly making their presence felt on the global competitive landscape. It is essential for DMMs to monitor the strategies and geographical footprint of EMM operations more closely, or DMMs could cede competitive advantage to EMMs. In this study, we evaluate the adequacy of the Dunning typology of multinational enterprise (MNE) internationalization motivations in classifying the international investment motives of EMMs and DMMs. While recognizing the importance of country-level determinants of international expansions, we focus on a firm-level theoretical framework (the value chain) to present a modified typology of the international investment motivations consisting of six categories namely: 1) End-Customer-Market Seeking, 2) Natural Resource Seeking, 3) Downstream and Upstream Knowledge Seeking, 4) Efficiency Seeking, 5) Global Value Consolidation Seeking, and 6) Geopolitical Influence Seeking. We discuss the implications of the modified typology as well as future research directions.

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1. Introduction

The internationalization process and location of multinational enterprises (MNEs) lie at the core of the academic discourse in international business (IB) research (Eden and Lenway, 2001; Mudambi, 2008). Such studies have straddled several theoretical traditions such as trade theory, industrial organization economics (Hymer, 1976), the internationalization process model (Johanson and Vahlne, 1977), and the eclectic paradigm (Dunning, 1988). Traditionally IB research has focused primarily on MNEs from developed markets because developed market multinationals (DMMs) dominated IB in the latter half of the 20th century (e.g., Gray and McDermott, 1988); however, over the past two decades, emerging economies such as China, India, Brazil, Russia, and South Africa (BRICS) have registered rapid economic growth (Luo et al., 2011). Emerging markets accounted for “25% of global FDI flows in 2010, compared to only 6% in 2001” (Ramamurti, 2012b: 42). Outward foreign direct investment (FDI) from BRICS now almost equals their FDI inflows, and many EMMs from BRICS already rank among *The Fortune Global 500* companies (Sethi et al., 2010). In fact, several EMMs are undertaking extensive mergers and acquisitions (M&As) across the globe, and the majority of those are in developed economies (Morck et al., 2008). EMMs are aggressively trying to *catch up* with DMMs and increasingly making their presence felt in the global competitive landscape (Kumaraswamy et al., 2012; Lorenzen and Mudambi, 2012). Since EMMs enjoy substantial cost advantages, it is essential for DMMs to monitor the strategies and geographical footprint of EMM operations more closely, or DMMs could end up ceding competitive advantage to EMMs (Luo and Tung, 2007; Ramamurti, 2012a).

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Within IB research, the [Dunning \(1992\)](#) typology has primarily been used to study MNE motivations for international expansion. The Dunning typology includes four categories: *Market Seeking*, *Resource Seeking*, *Efficiency Seeking*, or *Strategic Asset Seeking*. The Dunning typology mostly describes the international expansion motivations of DMMs since this typology was devised during an era when DMMs dominated foreign direct investments. In regards to EMMs, there is empirical evidence that the strategic motives and destinations of international expansion by EMMs are in many respects different from those of the DMMs (e.g., [Cuervo-Cazurra and Genc, 2008](#); [Gammeltoft et al., 2010](#); [Gaur and Kumar, 2009](#); [Guillén and García-Canal, 2009](#); [Sethi et al., 2003](#)). Therefore, it is not known whether the Dunning typology is adequate to explain new trends in IB especially in the case of EMMs.

[Morck et al. \(2008\)](#) point out that the eclectic paradigm ([Dunning, 1980](#)) does not explain the FDI outflow of Chinese MNEs and call for modification of the existing theories and frameworks to explain EMMs' international expansion. In the same vein, [Mathews \(2006\)](#) argues that the internationalization practices of EMMs challenge the eclectic paradigm as the theoretical foundation of the Dunning typology and calls for further examination of EMMs' internationalization motives. Similarly, [Ramamurti](#) emphasizes that IB models of the internationalization “seem particularly in need of refinement and extension to incorporate the case of EMMs” ([Ramamurti, 2012b](#), p. 46).

We believe that there is a need to have a more precise delineation of the motivations for international expansion. While other typologies in the IB field, such as the [Bartlett and Ghoshal](#) typology of MNCs, have been empirically investigated and modified ([Harzing, 2000](#)), very few studies in the IB literature have tried to test and modify (if necessary) the Dunning typology. One example of such a modification is the study of [Zaheer and Manrakan \(2001\)](#) who discussed how remote electronic access may affect the Dunning typology and its underlying assumptions and provided a series of propositions. We posit that the Dunning typology needs reexamination, not just to remove the existing ambiguities but also to cover the often differing strategic motivations of international expansion undertaken by EMMs compared to DMMs. In particular, we are interested to find answers to the following research question: To what extent does the Dunning typology adequately capture and differentiate the internationalization motivations of DMMs as well as those of EMMs?

The remainder of this paper is structured as follows. In the next section, we examine the international expansion motive literature and supplement our review with the findings from three CEO surveys about the strategic motivations of EMMs ([UNCTAD, 2006](#)) to discuss the adequacy of the Dunning typology. In the third section, we present our methodology which consists of two phases. In the first phase, we examine a subsample of our overall sample of 18,936 M&As undertaken by MNEs from the five leading developed economies (USA, UK, France, Germany, and Japan) and the five leading emerging economies (China, India, Brazil, Russia, and South Africa) during the period between 2002 and 2012. Choosing M&As as the setting of this study is partially a response to several research calls (e.g., [Buckley, 2002](#); [Gubbi et al., 2010](#); [Madhok and Keyhani, 2012](#)) to go beyond country level FDI and examine M&As especially in the context of emerging countries such as India and China.

In the second phase, we employ the results of the first phase as well as the value chain theoretical framework to modify the Dunning typology of international expansion motivations with six categories: 1) End-Customer-Market Seeking, 2) Natural Resource Seeking, 3) Downstream and Upstream Knowledge Seeking, 4) Efficiency Seeking, 5) Global Value Consolidation Seeking, and 6) Geopolitical Influence Seeking. In the fourth section, we discuss the differences between the internationalization motivations of DMMs and EMMs using our modified typology of international expansion motives. We conclude by presenting how our modified typology contributes to both theory and practice.

2. International expansion motives

The early IB literature focused upon providing a theoretical rationale for cross-border production and FDI primarily through the industrial organization economics and employed constructs, such as internalization ([Hymer, 1960](#); [Kindleberger, 1969](#)), firm-specific competitive advantages ([Buckley and Casson, 1976](#)), risk diversification ([Rugman, 1979](#)), product-life-cycle theory ([Vernon, 1966](#)), and the eclectic paradigm ([Dunning, 1980](#)). On the other hand, the Uppsala Model analyzed the internationalization process and posited that MNEs generally adopt an incremental approach by starting with smaller investments closer to the home country ([Johanson and Vahlne, 1977](#); [Johanson and Wiedersheim Paul, 1975](#)). [Zaheer \(1995\)](#) advanced the liability of foreignness notion to highlight the MNE subsidiary's disadvantages in the host country. Researchers studied various country determinants, such as economic and political stability, host government policies, market size, gross domestic product (GDP), cultural distance, tax rates, wages, corruption, and production and transportation costs ([Nigh, 1985](#); [Sethi et al., 2003](#)), affecting MNEs' international expansion decisions.

2.1. Adequacy of the Dunning typology in the 21st century

The Dunning typology was primarily developed during the Cold War era while the capitalist democracies readily welcomed FDI and much of the rest of the world was hostile to it.

Based on the eclectic paradigm, [Dunning \(1980\)](#) suggested three advantages of outward FDI: 1) Ownership (advantages resulting from the home country that can be exploited abroad), 2) Location (advantages resulting from the host country's characteristics such as natural resources and low-wage labor), and 3) Internalization (advantages resulting from conducting economic activities within the firm rather than through the market). Therefore, MNEs will make investments in host countries with abundant natural resources if they desire to control needed resources; they will invest in host countries with a significant market size if they seek new or larger markets; they will make investments in host countries with low production costs, if they are

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