

# Toward an integrated theory of multinational evolution: The evidence of Chinese multinational enterprises as latecomers

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## Abstract

This paper seeks to address the fundamental question of how much we can modify and enhance the ownership–location–internalization (OLI) Model of multinational enterprise (MNE) formation to reflect the new evidence of MNE latecomers from the developing countries. The evidence of three longitudinal cases from China suggests that the traditional OLI and the newly proposed linkage–leverage–learning (LLL) Model of MNE formation can be readily integrated within a content–process framework of MNE evolution so as to better explain all types of MNE from both the developed and the developing countries.

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## 1. Introduction

Despite the consensus that multinational enterprises (MNE) have been the primary driver behind the trend toward globalization (Dicken, 2007), the continuing debate over the uniqueness of multinational enterprise (MNE) from the developing countries is entering into a new phase in the context of globalization (Li, 2003; Mathews, 2006). Specifically, the extant MNE theories, including the Ownership–Location–Internalization (OLI) Model, are questioned concerning not only their relevance for MNE latecomers from the developing countries but also their validity for any MNE in the context of globalization (Coviello, 2006). The OLI Model has been particularly

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challenged by a growing body of research on MNE latecomers from the developing countries in East Asia (Li, 1994, 2003; Mathews, 2002, 2006; Yeung, 1994). However, the recent challenges may be biased with too much criticism of the OLI Model's limitations but too little appreciation of its strengths, especially with respect to the roles of ownership advantage and internalization mode. Hence, a more balanced perspective is required to explain all types of MNE.

To shed new light on the ongoing debate over whether or not the OLI Model is outdated so as to be modified or even replaced by new models, this paper builds on the recent studies on MNE latecomers from East Asia to address the essential question of how much we can modify and enhance the OLI Model, especially with a more balanced approach. I focus on this issue due to three reasons. First, I doubt if the OLI Model is readily applicable to MNE latecomers from the developing countries because it fails to explain how MNE latecomers from the developing countries achieve initial competitive advantages, and how MNE latecomers catch up with MNE early-movers over time. Second, I am concerned if the OLI Model is still relevant to any MNE in the future because it fails to explain the strategic implications of globalization and strategic alliance for MNE evolution. Third, it is desirable to adopt a balanced perspective concerning the limitations and strengths of the OLI Model, and it is also plausible to integrate the OLI Model with the new alternative models as complementary elements of a holistic framework.

Adopting the method of multi-site longitudinal case study with a focus on the evolution of MNE latecomers from China, I seek to make two major contributions: (1) to modify the OLI Model so as to be applicable to MNE latecomers, and (2) to enhance the OLI Model so as to be relevant to all MNEs in the future. This paper is part of a growing trend to analyze organizational phenomena from a holistic, dynamic and dialectical perspective (Lado et al., 2006; Lewis, 2000; Li, 1998, 2005; Poole and Van de Ven, 1989; Quinn and Cameron, 1988). The rest of this paper is organized as follows. First, I introduce a framework to modify and enhance the OLI Model. Second, I provide the evidence of three case studies from China. Third, I discuss the implications of the case evidence. Finally, I conclude by suggesting the direction of future research.

## **2. The OLI Model and MNE latecomers**

### *2.1. A critique of the extant MNE theories*

The mainstream MNE research has traditionally focused on large established MNE from the developed countries, thus MNE early-movers (e.g., Buckley and Casson, 1976; Caves, 1982; Dunning, 1981, 1995). From the perspective that MNE latecomers from the developing countries may differ categorically from MNE early-movers, some scholars have examined the former as a distinctive category from the latter, thus verifying the assumed universality of the extant MNE theories (e.g., Giddy and Young, 1982; Lall, 1983; Lecraw, 1993; Tolentino, 1993; Ulgado et al., 1994; Wells, 1983; Yeung, 1994). However, there is little consensus except the agreement that MNE latecomers tend to differ from MNE early-movers, especially at the early stage of MNE evolution in the process of internationalization (Dunning, 2006; Hoesel, 1999; Li, 1994, 2003; Mathews, 2002, 2006; Narula, 2006; Yeung, 1994). I take issue with the claim of no fundamental differences between incumbents and newcomers because this view dismisses the need to modify or enhance the OLI Model (e.g., Narula, 2006).

The doubt about the universal validity of the extant MNE theories is not confined to the “unconventional” MNE latecomers from the developing countries. More scholars have begun to question the validity of the extant MNE theories regarding MNEs from the developed countries, especially those small “born-global” new ventures (e.g., Andersen, 1993; Coviello, 2006; Hill

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