



Contents lists available at ScienceDirect

Journal of International Management

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

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## ARTICLE INFO

### Article history:

Received 9 December 2013

Received in revised form 25 January 2014

Accepted 26 January 2014

Available online xxxx

### Keywords:

Emerging market multinationals

Internationalization motivation typology

Mergers

Acquisitions

## 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

trying to reduce costs and improve efficiency; and MNEs will invest in host countries with strong strategic assets such as technology and management expertise, if they desire to strengthen their assets and capabilities (Alcantara and Mitsuhashi, 2012). However, there is evidence of several overlaps and divergence in interpretations of the categories of the Dunning typology which leads to confusion among IB scholars, researchers at United Nations Conference on Trade and Development (UNCTAD), and MNE CEOs. Three such inconsistencies in *practical use* of the Dunning typology are discussed here as exemplars.

First, while Dunning (1992: 57) includes “cheap and motivated skilled/semi-skilled labor” and “knowledge resources” (e.g., technological capability, management or marketing expertise and organizational skills), as well as the “physical resources” (e.g., minerals, raw materials and agricultural products) in the Resource Seeking category, the UNCTAD (2006: 161) delimits resource-seeking FDI primarily to Natural Resource Seeking.

Second, Dunning (1992: 59) describes two types of Efficiency Seeking: one is “designed to take advantage of differences in the availability and cost of traditional factor endowments”; and the other is “designed to take advantage of the economies of scale and scope and of differences in consumer tastes and supply capabilities”. Arguably, the former could be confounded with Resource Seeking. UNCTAD (2006: 158–161) considers Efficiency Seeking to be primarily related to the exploitation of low-cost labor, which Dunning (1992: 57) includes under the Resource Seeking category.

Third, Dunning (1992: 60) describes the Strategic Asset Seeking motive as “the acquisition of foreign firms to promote long-term strategic objectives and advancing international competitiveness”. Dunning (1992: 61) acknowledges that Efficiency Seeking and Strategic Asset Seeking “cannot easily be separated” from the other two categories which results in overlaps in the Dunning typology and creates ambiguity for scholars. While in his study of stakeholder orientation of MNEs, Crilly (2011) used the research and development (R&D) intensity to differentiate the Strategic Asset Seeking motive from Efficiency Seeking, Market Seeking, or Resource Seeking motives, Birkinshaw (1996) limits the Strategic Asset Seeking investment only to acquisition cases in his study of MNEs in Canada. Rugman (2010:8) calls strategic asset-seeking “only half the story”. While MNEs may want to acquire strategic assets in host countries, “there is no reason to believe that firms in the host countries will want to sell it to them. Therefore, asset-seeking FDI is a weak form of FDI; it is only a partial explanation, since the completion of this strategy lies outside of the control of the home country firm. Frankly, the attention paid to asset-seeking FDI over the last twenty years is probably unjustified; it is very doubtful that much of it actually takes place” (Rugman, 2010:8). Therefore, we offer the following hypothesis:

**Hypothesis 1.** The Dunning typology of international expansion motives lacks adequate precision and consistency in categorization of international expansion motives of MNEs.

## 2.2. Adequacy of the Dunning typology: particular case of EMMs

As highlighted earlier, the Dunning typology is based on Dunning’s (1980) eclectic paradigm also known as the OLI framework (Ownership, Location, and Internalization) which is associated with the notion that DMNs take advantage of their home-based capabilities to exploit opportunities abroad. However, several authors (e.g., Luo and Tung, 2007; Mathews, 2006) suggest that EMMs have a different approach to internationalization than DMNs. For example, Luo and Tung (2007:481) suggest that EMMs “use international expansion as a springboard” to acquire strategic assets through aggressive acquisitions to compete more effectively against DMNs and “reduce their institutional and market constraints at home”. In the same vein, other scholars (Madhok and Keyhani, 2012; Mathews, 2006) suggest that EMMs seek knowledge and capabilities they lack instead of exploiting home developed expertise or technology they are supposed to own based on the OLI paradigm. Mathews (2006) suggested an LLL framework (Linkage, Leverage, and Learning) to explain the EMM pursuit of international expansion in terms of 1) linking with firms in developed countries in order to access knowledge, 2) leveraging resources, and 3) learning organizational capabilities through repeated application of linkage and leverage process. Therefore, we posit that applying the Dunning typology to examine and categorize the international expansion motives of EMMs will result in a *higher degree* of confusion and inconsistency compared to the case of DMNs.

The comparison of the following three surveys conducted by UNCTAD (2006:160) employing the Dunning typology clearly support our argument that the Dunning typology generates inconsistencies in categorizing international expansion motives. The survey reports of 1) the Global survey of developing-country MNEs in 2006 (250 MNEs), 2) the survey of Indian transnational corporations in 2006 (40 MNEs), and 3) the FIAS/MIGA/IFC/CCER survey on China’s outward FDI in 2005 (150 MNEs) are inconsistent with each other suggesting that the Dunning typology does not differentiate among internationalization motives of EMMs precisely enough leading to different interpretations and overlaps. Here we explain three examples of such inconsistencies.

First, market-seeking was cited as the most significant motive of EMMs by 51% of the respondents to the global survey of developing-country MNEs; however, that percentage was much higher in the surveys of the Chinese (85%) and Indian (76%) MNEs. We believe that such a high discrepancy among the three surveys is attributed to different respondents’ *interpretations* of the Market Seeking motive in the case of EMMs.

Second, in the global survey of developing-country MNEs, nearly 22% of all CEOs cited efficiency-seeking as an important strategic motive, but it was unimportant for Chinese CEOs. It seems that Chinese CEOs interpreted efficiency-seeking as a motive for low-wage labor which is abundant in China. On the other hand, Indian CEOs rated efficiency-seeking importance at 3.2 out of 5. The survey suggests that Indian CEOs regard efficiency-seeking as gaining synergies “through the international integration of production and services”, rather than “low-cost” labor or “inputs” (UNCTAD, 2006:160).

Finally, in the global survey of developing-country MNEs, only 14% of the CEOs cited strategic asset-seeking as important, but for 51% of the Chinese CEOs this was the second most important reason after market-seeking. It seems that Chinese CEOs use

strategic asset-seeking FDI to acquire technology, R&D, brands, and organizational skills from developed-countries and generally combine strategic asset-seeking motives with market-seeking or efficiency-seeking motives. On the other hand, Indian CEOs deem strategic asset-seeking as relatively unimportant (2.3 out of 5). It seems that for Indian CEOs, the strategic asset-seeking motive is closely associated and combined with market-seeking (UNCTAD, 2006). Therefore, we offer the following hypothesis:

**Hypothesis 2.** The Dunning typology of international expansion motives raises more ambiguity and overlaps in the classification of EMMs' international expansion motives than those of DMMS.

### 3. Research design

Our research design consists of two phases. In the first phase, we test the two aforementioned hypotheses to assess the adequacy of the Dunning typology. Based upon the results of the first phase and the value chain theoretical framework, we present a modified typology of the international expansion motivations in the second phase and test the adequacy of the suggested modified typology in classifying the international expansion motives of MNEs especially EMMs.

#### 3.1. Sample

We chose international M&As as the setting for this study for three reasons. First, it is important to bear in mind that while most studies have used country-level aggregated FDI data to analyze the strategic intent and geographical distribution of MNE activities – mainly of the DMMS (e.g., Dunning et al., 2006; Flores and Aguilera, 2007; Rugman and Verbeke, 2004; Sethi et al., 2003), it is too difficult to determine the investment motives of MNEs just with country-level FDI data and without considering firm-level characteristics (Ramamurti, 2008; Rugman, 2010). In fact, FDI is not a country-level transaction, rather a firm-level decision, which requires analyses of various firm-specific factors that influence an MNE's strategic motivation and entry-mode (Aharoni, 1966; Barkema and Vermeulen, 1998; Buckley et al., 2007). International M&As are more precise indicators of the actual geographic destination and strategic motivation of cross-border investments by MNEs than aggregated FDI data. Second, international M&As are “the most important FDI vehicle today” (Zander and Zander, 2010:35). According to the World Investment Report (UNCTAD, 2012), the use of cross-border M&As is rising and the use of other modes of FDI is declining. Cross-border M&As rose 53% in 2011 to \$526 billion (UNCTAD, 2012). A significant portion of FDI flows is in the form of international M&As (Gubbi et al., 2010:398). EMMs in particular, extensively choose M&As over other entry modes, such as sales agents or sales subsidiaries (Madhok and Keyhani, 2012). For example, China's outward FDI is “mostly acquisitions in neighboring Asian countries and resource-rich parts of Africa” (Morck et al., 2008:347). Finally, holding entry mode variation constant (limited to M&As) makes it possible to have a better assessment of the adequacy of the typology.

We collected data on all international M&As undertaken by MNEs among the five leading developed economies (USA, Japan, UK, France, and Germany) and five leading emerging economies (China, India, Brazil, Russia, and South Africa). These ten countries were selected based on their leading positions in both FDI inflow and outflow. The M&A data were collected from the Thompson Financial database which has also been used in other studies in the IB literature (e.g., Gubbi et al., 2010). This database provides all relevant details of each M&A, such as the name and nationality of the acquiring and acquired firms, their respective four digit SIC codes, the value of the transaction, and date of completion.

The data collection was conducted in two rounds. The first round included 11,333 international M&As during the period 2002–2008. The second round included 7603 international M&As during the period 2009–2012. We collected the M&As year-wise and country-wise and categorized them in six industry sectors. Fig. 1 illustrates the number of M&As by EMMs and DMMS in our sample in the six industry sectors: 1) business and financial services; 2) industrial, manufacturing, and textiles; 3) oil, gas, and mining; 4) wholesale and retail; 5) agricultural and food products; and 6) construction. These six sectors collectively account for 95% of the global FDI (UNCTAD, 2008).

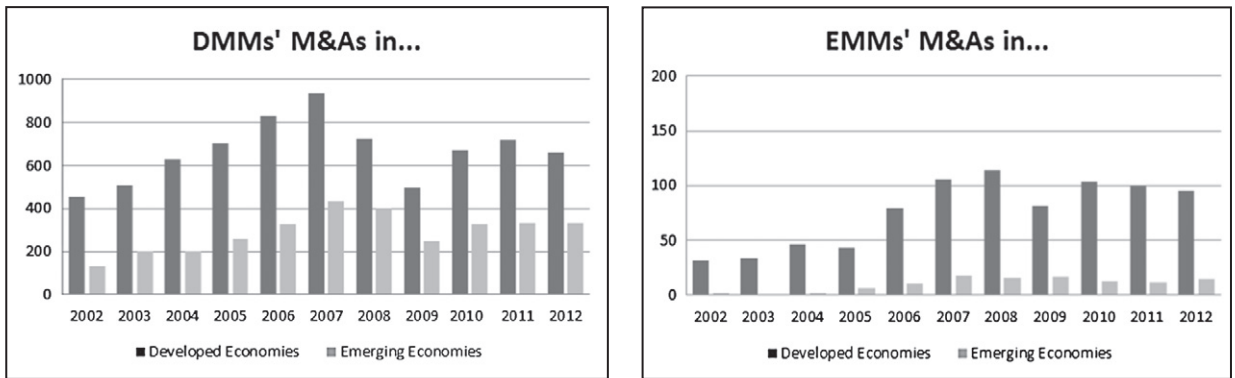
The descriptive data in Fig. 1 suggest that 1) the business and financial services sector accounted for the largest number of M&As, followed by the industrial, manufacturing and textile sectors, wholesale and retail trade sector, oil, gas and mining sectors, agricultural and food products sectors and the construction sector; 2) the trend of cross-border M&As by EMMs steadily increased from 2002, peaking in 2007–2008, dropping in 2009 arguably due to the global recession and beginning to rise in 2010 but still below the 2007–2008 peak with the exception of the wholesale and retail sector which shows a dramatic jump in the 2010–2012 period; 3) in absolute numbers, M&As by DMMS far exceed those by EMMs and most M&As by both DMMS and EMMs are made into developed economies; 4) DMMS steadily increased their M&As into emerging economies, especially from the 2003–2004 period onwards; 5) the comparison of the number of M&As before (2002–2008) and after (2009–2012) the 2008 global recession reveals that although the global recession has resulted in a decline in the average (per year) number of M&As undertaken by DMMS and EMMs, this decline is much more dramatic in the case of DMMS (35%) and less so in the case of EMMs (14%); and 6) while the distribution of M&As across six industry-sectors generally displayed similar patterns within the group of the five developed economies, the industry-sector distribution of M&As exhibited more noticeable differences among the five emerging economies.

3.2. Coding procedure

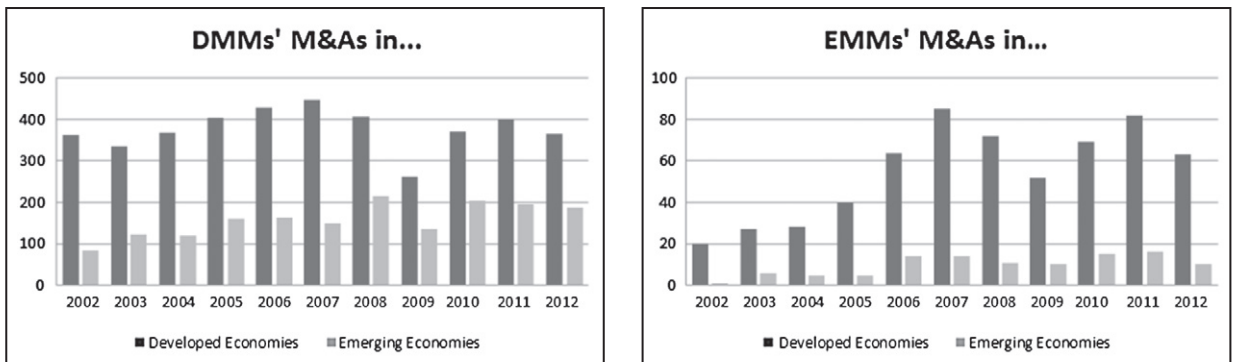
The first round of data collection (11,333 M&As during the 2002–2008 period) was used in the coding process. Among DMMs, American firms undertook the largest number of M&As (5,560), followed by the British (2,452), French (899), German (841), and Japanese (535) firms. Among EMMs, Indian firms made the largest number of M&As (560) followed by Russian (179), Chinese (139), South African (119), and Brazilian (49) firms.

In order to further reduce the sample size to a manageable number for manual coding, we decided to retain all M&As from Russia (179), China (139), South Africa (119), and Brazil (49) in the final sample and randomly include half of the M&As undertaken by Indian MNEs since India had the largest number of M&As (560) among the emerging countries for a total of 766 M&As undertaken by EMMs. Next, we randomly and proportionally selected 766 M&As undertaken by DMMs from the five developed economies. Therefore, the final sample included 766 M&As by EMMs and 766 M&As by DMMs for a total sample size of 1,532 M&As.

**Business and Financial Services Sector**



**Industrial, Manufacturing and Textiles Sector**



**Wholesale and Retail Sector**

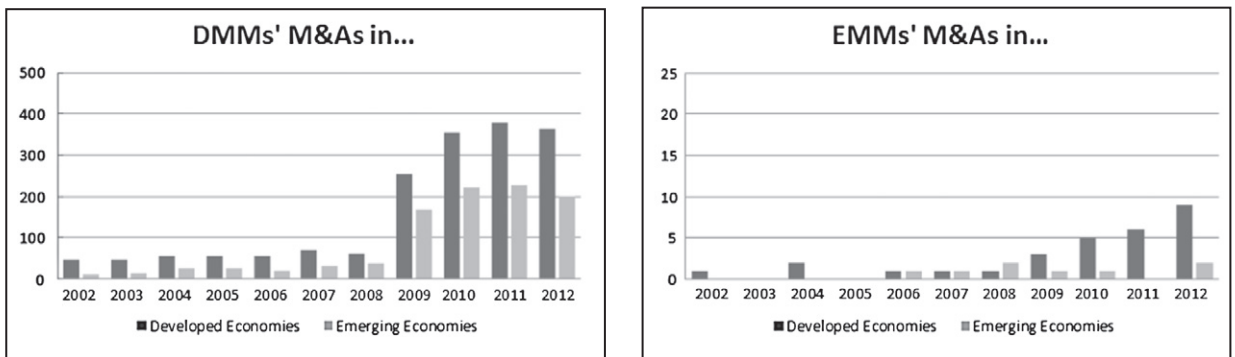
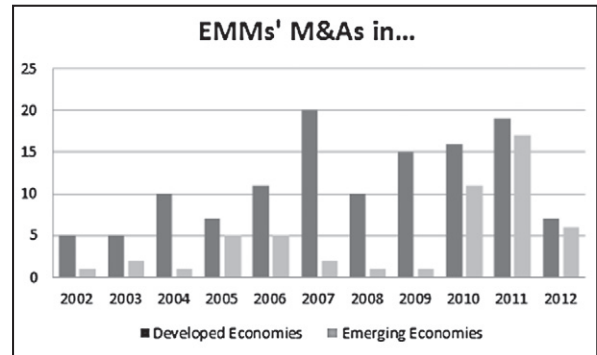
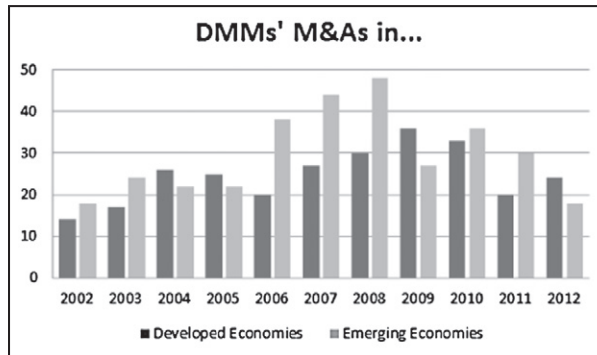
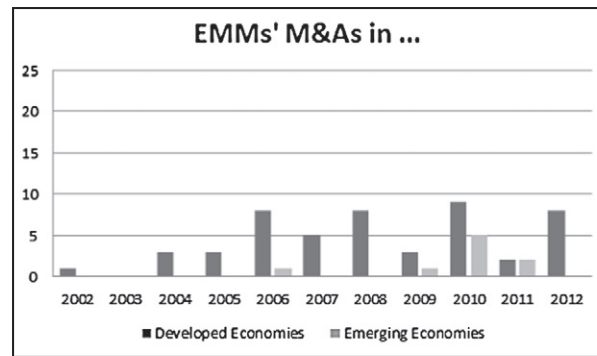
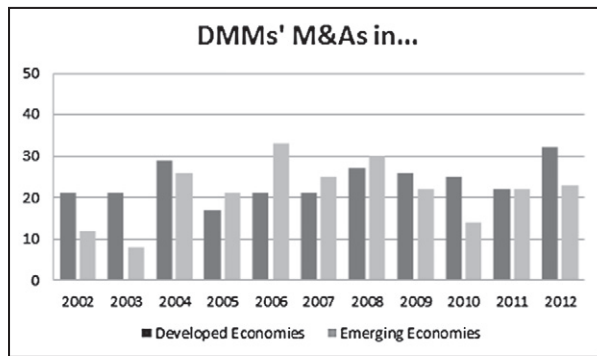


Fig. 1. M&As by DMMs and EMMs in different industrial sectors.

**Oil, Gas and Mining Sector**



**Agriculture and Food Products Sector**



**Construction Sector**

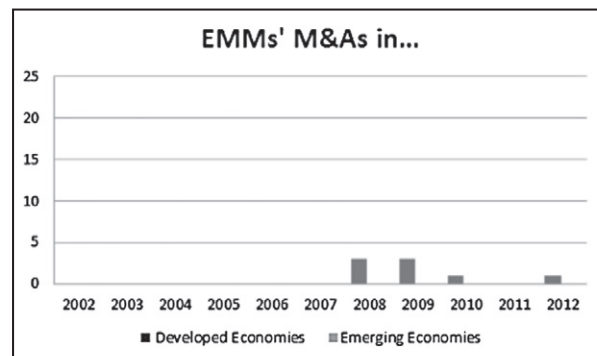
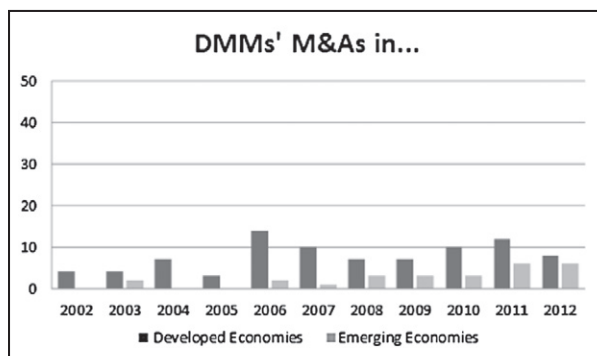


Fig. 1 (continued).

A panel of three coders was asked to categorize the international expansion motives of all 766 DMMs followed by those of 766 EMMs. Consistent with similar studies (Blankson and Strutton, 2011; Fay and Currier, 1994), all three independent coders were senior MBA students with a concentration in international business in an AACSB accredited institution in the mid-Atlantic region. Similar to comparable previous studies (Blankson and Strutton, 2011; Nelson and Paek, 2007), the three coders are originally from the USA, Russia, and China with approximately 9, 7, and 5 years of professional experience in international business. Consistent with similar studies (e.g., Blankson and Strutton, 2011), two of the authors engaged in a pilot coding in order to establish coding guidelines for the panel of coders. Subsequently, the three coders were formally trained individually in a one hour long session with some sample coding practices.

In categorizing the international expansion motives of MNEs, each coder primarily used the M&A description and acquirer and acquired firm information provided by the Thompson Financial database. As a secondary source, coders could use online sources such as the M&A's details ascertained from the websites of respective firms, industry associations, and trade journals; however, whenever such secondary sources were used by one of the coders, they were also shared with other coders so that all three coders had access to identical information. The lead author moderated the information distribution across three coders to maintain their independence.

Using the Dunning typology, each expert coded the internationalization motivations of both DMMs and EMMs independently over three months in order to minimize any undesirable coding fatigue effects. Sometimes coder disagreements can be attributed to coding fatigue, that is, a coder's failure to correctly code the content due to the volume and length of the coding procedure (Marinellie, 2004). In order to minimize coder fatigue and thus maximize intercoder reliability, we scheduled the coding process over a 12 week period as suggested by the literature (Craighead et al., 2007; Neuendorf, 2002). In each week, all coders examined the same subset of M&As.

In order to calculate the intercoder reliability in the qualitative studies, there are several approaches such as percentage agreement (Kassarjian, 1977), Cohen's Kappa (Cohen, 1960), Scott's pi (Scott, 1955), Krippendorff's alpha (Krippendorff and Fleiss, 1978), and Perreault and Leigh's (1989) index; yet no single approach is optimal (Hung et al., 2007). Consistent with similar studies (e.g., Singh and Matsuo, 2004), the percentage agreement method (Kassarjian, 1977) was used to determine the intercoder reliability coefficient in this study because it is the most widely used reliability measure (Hughes and Garrett, 1990; Hung et al., 2007). Furthermore, the percentage agreement is a relatively less complicated method which produces similar results to those of other reliability measures (Hung et al., 2007). In this study, the intercoder reliability is calculated as the "ratio of all coding agreements to the total number of coding decisions" (Kassarjian, 1977:14) made by all three coders. As prescribed by the qualitative analysis literature (Blankson and Strutton, 2011; Hayne et al., 2003; Kirk and Miller, 1986), the first author randomly reexamined the coded materials as a general cross-check and overview before calculating the intercoder reliability.

### 3.3. Phase 1: adequacy test of the Dunning typology

**Hypothesis 1** states that the Dunning typology does not allow precise categorization of international expansion motives of MNEs. Consistent with similar studies in IB (Nelson and Paek, 2007; Ramaswamy et al., 1996), we calculated the intercoder reliability measure (Nunnally, 1978) to test the adequacy of the Dunning typology (Hypothesis 1). The intercoder reliability attained in the case of DMMs was 0.61, which is below the rule-of-thumb threshold of 0.7 (Nunnally, 1978); Therefore, it highlights the difficulty in precisely categorizing M&As using the Dunning typology in the case of DMMs. For the EMMs, the intercoder reliability was even lower at 0.48. Therefore, the evidence provides support for Hypothesis 1.

Since the Dunning typology evolved primarily from the cross-border operations of DMMs, it was expected that the categorization of their international expansion motives would result in a higher agreement among the three independent coders in the case of DMMs than in the case of EMMs. Hypothesis 2 states that the Dunning typology raises more ambiguity and overlaps in the classification of motives of EMMs than of DMMs. The lower intercoder reliability among coders in the case of EMMs (0.48) compared to that of DMMs (0.61) provides support for Hypothesis 2.

The results in the case of EMMs are consistent with the recent literature that calls for modification of IB theoretical frameworks to better explain EMM international expansion motives. There are two extreme views in the literature (Ramamurti, 2012b): one view is that Dunning theories, such as the OLI model, developed principally from studying DMMs, are adequate to explain the behavior of EMMs (Narula, 2006), and the other view is that EMMs should be considered a new species of MNEs that can be understood only through fresh theoretical development (Madhok and Keyhani, 2012; Mathews, 2006). We support the notion that "the truth is somewhere in between and that the real challenge is to discover which aspects of existing theory are universally valid, which aspects are not, and what to do about the latter" (Ramamurti, 2012b:41).

In sum, the results of phase 1 suggest that the Dunning typology does not adequately differentiate among different international expansion motives of MNEs especially from emerging markets. In our view, there are at least two reasons to explain the results in phase 1. First, the Dunning typology, similar to most of the other IB theoretical perspectives, focuses on developed countries. Second, although the eclectic paradigm (OLI), as the underlying theoretical framework of the Dunning typology, emphasizes both country-level variables (L) and firm-specific determinants of FDI (O&I), it is relatively convenient for scholars and practitioners to recognize the country-level determinants of international investments but difficult to identify the firm-level determinants of international investments necessary for the microanalyses of the MNEs' internationalization motivations (Rugman and Verbeke, 2007). In the second phase of this study, we suggest that a clearer firm-level theorization of various international expansion motivations is needed to complement the country-level determinants of international investment motives to extend the theoretical and practical use of the Dunning typology. Since most scholars have focused on the country-level determinants, we suggest the value chain as a firm-level theoretical framework to complement country-level determinants and offer sound theoretical and practical bases for categorizing the international expansions of MNEs.

### 3.4. Phase 2: modifying the typology based on the value chain

The results in phase 1 highlight the need to identify some underlying firm-level principles that can be applied to create a categorization scheme that results in a more consistent typology. We suggest that the Dunning typology needs to be modified since its use results in ambiguous and overlapping categorizations, which do not allow sound analysis of international expansion motives of MNEs especially EMMs.

To avoid overlaps and confusion in the typology, some scholars (e.g., Luo and Tung, 2007; Makino et al., 2002; Wang and Suh, 2009) explicitly or implicitly suggest considering fewer but broader categories. In their springboard perspective, Luo and Tung (2007:487) broadly summarized MNEs' motives as 1) asset-seeking (which includes Resource Seeking, Knowledge Seeking, and Strategic Asset Seeking) and 2) opportunity-seeking (which includes Market Seeking through bypassing trade barriers, escaping from home country institutional or market constraints). In the same vein, Wang and Suh (2009) suggest two major internationalization

approaches namely 1) the asset-exploitation approach (which includes Market Seeking) and 2) the Asset Seeking approach (which includes Resource Seeking, Knowledge Seeking, and Strategic Asset Seeking). Wang and Suh (2009:450) argue that “much of the analysis of firm internationalization can be synthesized within the framework of Asset Exploiting and Asset Seeking”.

While it is true that such a *reductionist* approach may result in a typology with fewer categories which subsequently may reduce the overlaps and confusion as compared to the Dunning typology, we argue that too narrow of a typology may fail to precisely differentiate the MNEs' motives of internationalization and fail to serve as a powerful enough tool to compare and contrast MNEs from both emerging and developing economies operating in different countries. Therefore, we advocate a modified typology with an adequate number of categories to precisely differentiate diverse international motives.

Several recent studies provided some fresh insights on country-level determinants of MNE international expansion, such as the importance of local contexts (Meyer et al., 2011), market liberalization (Kumaraswamy et al., 2012), and different types (obligating, pressuring, and supporting) of home country environment (Cuervo-Cazurra and Genc, 2011) or individual-level determinants, such as personal relationships (Lorenzen and Mudambi, 2012). While we acknowledge the importance of country and industry level determinants, as well as social networks of top management teams, our main focus in modifying the Dunning typology in this study remains at the firm level. We suggest that anchoring a modified typology in a widely accepted firm-level theoretical framework may reduce ambiguities and prevent varying interpretations among scholars as well as practitioners. Since the value chain is a well-established theoretical framework and well recognized in the IB literature (Bozarth et al., 1998; Contractor et al., 2010; Kotabe and Mudambi, 2009; Kotabe et al., 2007; Mudambi, 2008), we expect that by anchoring various categories to the value chain, ambiguities and overlaps can be reduced, if not avoided.

The value chain literature focuses on explaining “how the splitting up and the globalization of the production networks could allow firms from developing countries to access into global industries through becoming part of the value chain” as well as “how firms from developing countries can ‘catch up’ and ‘upgrade’ within global industries” (Pananond, 2013:202). Considering the interlinked global economy in the 21st century, MNEs are now seeking “hitherto untapped advantages through the creation of global value chains where production, logistics, product development and other functions are distributed around the world in terms of considerations of cost (e.g., labor intensive operations being located in low-cost countries) or considerations of knowledge and resources (e.g., locating R&D operations in knowledge-intensive regions)” to exploit international opportunities (Mathews, 2006:15).

The typical MNE value chain consists of three parts: upstream (e.g., input, design.), downstream (e.g., output, marketing, brand management), and midstream (e.g., manufacturing, service). The focal point for identifying the strategic motivation of each M&A is the *acquirer* firm and its position on the product's value chain. Similarly, the position of the *acquired* firm in the value chain also needs to be established. By comparing the relative positions of the acquirer and the acquired firms on the value chain, the strategic motivation of the acquirer can be established more clearly.

Based on the qualitative analysis of phase 1 and phase 2 of our study along with the value chain theoretical framework, we suggest six categories in our modified typology (shown in Fig. 2) 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. Each of these categories is discussed in more detail here and Table 1 provides a summary of the modified typology and representative examples.

### 3.4.1. End-Customer-Market Seeking

While we acknowledge that the host country market potential remains a key country level determinant of End-Customer-Market Seeking, from the firm-level perspective, the primary motive of an acquirer in this category is to ensure guaranteed orders through connecting to the end customers. Herein product or service providers, acquire those firms that ordered from the acquirer. Thus an acquirer may undertake forward integration by acquiring a firm down the value chain, which had been providing services or products to the acquirer, thus ensuring guaranteed orders.

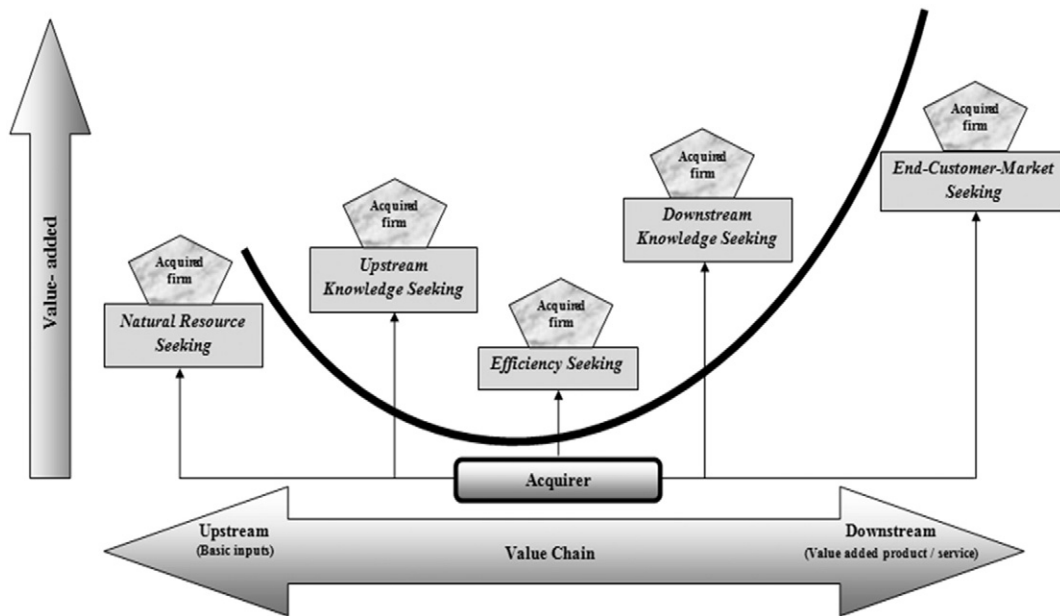
For instance, revenues of software companies totally depend upon the orders from their principals, and with increasing competition, the volume of such orders remains unpredictable. For instance, India's leading IT firm, HCL Technologies, acquired the British consultancy Axon Group to venture into the high-end consulting business and leverage the latter's global presence to win prestigious deals in the USA and Europe. Similarly, the Indian biotechnology company, Ranbaxy, acquired French generic drug company RPG (Sethi et al., 2010).

### 3.4.2. Natural Resource Seeking

While we recognize that rich natural resources in the host country remain a key country-level determinant of Natural Resource Seeking, from the firm specific perspective, this is the category wherein the focal *acquirer* firm, which is at a relatively advanced position in the value chain (e.g., production, assembly), acquires a firm that provides the raw materials for that acquirer's products; e.g., a firm producing aluminum cans acquires a firm that owns a bauxite ore mine.

As we highlighted earlier, the current practice of using the *Resource Seeking* label for both, “physical natural resources” as well as for “intangible knowledge resources” (Dunning, 1992:57) is prone to substantial confusion since the two sets of resources come from different points in the value chain. Consistent with Zaheer and Manrakhan (2001:670), we argue that the Resource Seeking investment is based on the underlying assumption of the “immobility of resources” which could have included intangible assets such as knowledge in the 1980s but not in today's interconnected world. Consequently, we recommend using the label “Natural Resource Seeking” only when the acquired firm provides raw material and is located upstream in the value chain and not for knowledge and intangible resources. A representative example in this category would be the acquisition of the Greater Nile Oil Project in Sudan by the Indian oil company ONGC Videsh in 2002 (Kumar, 2008).





**Fig. 2.** The Smirk of EMMs: The value added level of different international expansions. Note: Global Value Consolidation Seeking and Geopolitical Influence Seeking may occur in the downstream and/or upstream of the value chain with the purpose of enhancing value added for the firm.

### 3.4.3. Knowledge Seeking

While we concede that developed countries with relatively advanced technology and organizational knowledge attract Knowledge Seeking international investments of MNEs from less developed countries, from the firm specific perspective, we suggest that the modified typology needs to distinguish between two types of Knowledge Seeking namely 1) Upstream Knowledge Seeking and 2) Downstream Knowledge Seeking. Mudambi (2008:706) points out that MNEs seek R&D knowledge (basic and applied research and design) from the upstream end and seek marketing knowledge (marketing, advertising and brand management, sales and after-sales service) from the downstream end.

Upstream Knowledge Seeking happens when the focal firm acquires a firm upstream in the value chain to gain access to basic and applied R&D and design commercialization; e.g., a pharmaceutical firm acquires a biotech firm. Downstream Knowledge Seeking happens when the focal firm acquires a firm downstream in the value chain to gain access to the knowledge regarding higher value-added functions such as production and marketing (Cantwell et al., 2004); For instance, in 2008 Biocon, an Indian biotech firm, acquired a majority stake of 70% in AxiCorp GmbH, a German pharmaceutical firm. In other words, firms that acquire entities to gain access to downstream superior technology, management knowhow, or business processes would fall in this category.

DET, the Thai subsidiary of the Taiwan's Delta Electronics Inc., is a representative example of EMMs engaging in both Upstream and Downstream Knowledge Seeking acquisitions. Established in 1988, DET ranks among the largest outward investing firms from Thailand with overseas investment in more than 20 countries (Panand, 2013:212). DET pursued a low cost production strategy in the 1980s and early 1990s. Then it devoted more attention to R&D in the late 1990s, followed by the 2003 Upstream Knowledge Seeking acquisition of a Switzerland-based firm, Ascom Energy System, a key player in the European telecommunication power supplies market (Panand, 2013:213). "After having secured its footing in upstream activities of R&D as well as manufacturing and assembly, DET pushed more toward downstream functions of marketing, distribution and services" (Panand, 2013:214). DET developed a new emphasis on customer relationship management, with customers, such as BhartiInfratel, Alcatel-Lucent, Nokia Siemens Networks, and Ericsson (Panand, 2013:214).

### 3.4.4. Efficiency Seeking

While we acknowledge the country level argument that less developed countries with a relatively low level of labor wages attract efficiency seeking international investments of MNEs from relatively more developed countries, from the firm level perspective, efficiency seeking happens when both the focal acquirer firm and the acquired firm operate approximately at the same position in the value chain. The idea here is to achieve cost reductions through the acquired entity which generally would be located in a low-wage country; For instance, Tata Steel from India acquired Millennium Steel based in Thailand (Kumar, 2008).

In order to avoid the confusing overlaps in the Dunning typology highlighted earlier, we recommend the adoption of UNCTAD's (2006–161) criterion, which considers efficiency seeking to be primarily related to the exploitation of low-cost labor. We do not recommend use of this label for other efficiencies attainable through internalization under a common organizational structure which we discuss next as *Global Value Consolidation Seeking*.

**Table 1**

Modified typology of EMMs internationalization motives.

International expansion motive	Motivation description	Value chain position of acquired firm (relative to the acquirer)	Value creation potential	Representative example
End-Customer Market Seeking	Pursuit of guaranteed orders for the acquirer's products/services	Downstream (forward integration)	High	Acquisition of the British consultancy Axon Group by HCL Technologies, India's leading IT firm
Natural Resource Seeking	Pursuit of guaranteed (and generally less expensive) raw materials for the acquirer's products/services	Upstream (backward integration)	Medium	Acquisition of Sudanese Greater Nile Oil Project by ONGC Videsh, an Indian oil company
Knowledge Seeking	<i>Upstream:</i> Pursuit of R&D knowledge (basic and applied research and design)	Upstream (backward integration)	Medium	Acquisition of Switzerland based firm, Ascrom Energy System, by DET, the Thai subsidiary of the Taiwanese Delta Electronics Inc.
	<i>Downstream:</i> Pursuit of marketing knowledge (marketing, advertising and brand management, sales and after-sales service)	Downstream (forward integration)	High	Acquisition of German pharmaceutical company, AxiCorp GmbH, by Biocon, an Indian biotech company
Efficiency Seeking	Pursuit of cost reduction, generally in low-wage countries	Same	Low	Acquisition of Thai Millennium Steel by Tata Steel, India's leading steel firm
Global Value Consolidation Seeking	Pursuit of global brand recognition through consolidating cost advantages across all activities of the value chain on a global scale	Upstream and downstream	High	Upstream acquisitions of British auto companies of Jaguar and Land Rover as well as downstream acquisitions of British Corus Steel and Singaporean NatSteel by Indian Tata Group (parent corporation of Tata Motors)
Geopolitical Influence Seeking	Pursuit of political objectives of acquirer's home country government	Upstream and/or downstream	Medium	Acquisition of Kazakh oil company, PetroKazakhstan, by China National Petroleum Corporation (CNPC), Chinese state-owned oil and gas corporation

### 3.4.5. Global Value Consolidation Seeking

From the firm specific perspective, M&As in this category may occur in any part of the value chain, upstream and/or downstream from the acquiring firm. The strategic intention of MNEs making such often wide-ranging M&As is to consolidate cost advantages across all activities of the value chain on a global scale and also to seek global brand recognition. Such MNEs enjoy substantial cost-advantages in intermediate products, which thus far they have been supplying to their principals. Before classifying a firm's motive in this category, scholars and practitioners need to consider the value of the transaction, the overall size of the acquirer firm, the role the acquisition would play in the firm's value chain or product range, and the nature of other acquisitions by the acquirer.

From the country specific perspective, firms with the global value consolidation motive usually have a "strong position" in the home market, possess "strong cash flows", and pursue a series of aggressive acquisitions of "poorly performing companies" in the global market (Ramamurti, 2008:419). However, it is important to bear in mind that while MNEs may benefit from cost advantages across all activities and across different geographical locations (Mudambi, 2008), they also face the challenges of "multiple embeddedness" across heterogeneous contexts (Meyer et al., 2011:236). As the number of different local contexts increases as MNEs enter different countries, the dual challenge of penetrating into local networks to access the right knowledge and transferring the acquired knowledge to other MNEs' subsidiaries also increases (Meyer et al., 2011:242).

The Tata Group is the largest private sector steel producer in India with its own iron ore and coal mines. The Tata Group is also among the world's top five medium and heavy truck manufacturers, it is the world's second largest medium and heavy bus manufacturer, it has the largest share of the utility vehicle market, and it has the second largest share of small and mid-size car markets in India. It has a reliable network of ancillary suppliers, nurtured over several decades of leadership in the Indian auto industry. It has acquired Daewoo, as well as the Jaguar and Land Rover brands, and it is collaborating in the Mercedes luxury car project. It thus spans all segments of the auto industry. By acquiring Corus (UK), Millennium (Thailand), and NatSteel (Singapore), it is leveraging immense synergies across all grades of specialty steels with its steel plants in India. In addition, a Tata subsidiary has a substantial presence in the auto finance market. The Tata Group enjoys substantial scale and scope economies on a global scale, along the entire value chain – from raw materials to finished products, as well as in the support activities – entirely in-house (Sethi et al., 2010). Since 2000, the Tata Group has made over 35 international M&As in sectors as varied as tea, coffee, chemicals, steel, automobiles, telecom, IT, consultancy, healthcare, and hotels and thus, has registered its presence as a well-known global brand (Sethi et al., 2010).

While we have used the Tata Group illustratively, several large EMMs are seeking similar global-scale consolidation of value chain activities. The Reliance Industries (oil exploration, refining, and petrochemicals), the Birla Group (aluminum, copper, cement, textiles, chemicals, and fertilizers), and Apollo Hospitals (healthcare) from India; China National Offshore Oil Corporation (CNOOC), China International Trust and Investment Corporation (CITIC), and Lenovo from China; and Embraer of Brazil are examples of EMMs seeking global value consolidation and a stronger global presence.

### 3.4.6. Geopolitical Influence Seeking

From the firm-level perspective, international investments under this category may occur in any part of the value chain, either upstream or downstream from the acquirer firm. Although the value of such international M&As is relatively small in volume and merely signals solidarity, it has the potential to eventually evolve into more commercially profitable ventures that could yield first-mover advantages.

From the country-level perspective, some MNEs pursue international expansion mostly into developing economies, such as Africa and central Asia in the pursuit of political objectives of their governments (Morck et al., 2008). MNEs from emerging countries are more likely to pursue international expansion consistent with their home country government's Geopolitical Influence Seeking motives than MNEs in developed countries. While some of these EMMs pursuing Geopolitical Influence Seeking are state-owned firms, others are private firms with political ties with their home country government.

According to the FIAS/MIGA/IFC/CCER survey (UNCTAD, 2006), several Chinese CEOs mentioned their international expansion being related to the pursuit of political objectives of their government. Apart from the quest to secure long-term supplies of inputs such as oil and gas, they were also expected to complement the Chinese government's parallel and sustained diplomatic moves in Africa, Central Asia, South America, the Caribbean, and West Asia (Taylor and Smith, 2006). In fact, China and India are among the top three sources of FDI into Africa (UNCTAD, 2011).

In particular, China is using aid and investment to forge technical and economic collaborations in order to strengthen its geopolitical influence in Africa, the Middle East, and South America (Morck et al., 2008). As an illustration, China has invested in almost all of the African countries (UNCTAD, 2006). Sometimes, China's investments in African countries, such as Cape Verde and Malawi, barely exceed \$1 million. Such meager amounts reflect more symbolic investments rather than having an economic rationale. This is an exemplar of the motive we call Geopolitical Influence Seeking.

According to the World Investment Report (UNCTAD, 2011: 66), Chinese MNEs also initiated investment in the Central Asian economies of Kazakhstan, Kyrgyzstan, and Tajikistan in 1996. In the 2000s, Chinese MNEs' investment in Central Asian economies has increased dramatically. Chinese firms built two oil and gas pipelines from Kazakhstan and Turkmenistan to China in 2006 and 2009, respectively. In the oil and gas sectors, China National Petroleum Corporation (CNPC) is the only foreign company possessing an onshore exploration contract in Turkmenistan. In nuclear energy, CNPC and the state-owned Kazatomprom formed a joint venture to invest in uranium production in Kazakhstan. In the electricity industry, China's Tebian Electric Apparatus is building power transmission lines in Kyrgyzstan and Tajikistan. Another Chinese company, XD Group, is investing in the electricity infrastructure in Uzbekistan (UNCTAD, 2011: 66).

Recently, Russian MNEs also started investing in Africa (UNCTAD, 2011:67). For example RusAl, the world's largest aluminum producer, established subsidiaries in Guinea, Nigeria, and South Africa. The Russian firms Evraz Group and Severstal acquired South Africa's Highveld Steel and Vanadium and Burkina Faso's High River Gold respectively. Renova Group, a leading Russian asset management company, invested approximately \$1 billion in Southern Africa. In North Africa, Gazprom signed three agreements with the National Oil Corporation (NOC) of the Libyan Arab Jamahiriya (UNCTAD, 2011: 67).

### 3.5. Verification of the modified typology

In order to compare our modified typology with the Dunning typology, we asked the same three coders to use our modified typology and code the same sample of M&As. The results show that using our modified typology instead of the Dunning typology substantially improved the intercoder reliability from 0.6 (phase 1) to 0.75 for the classification of internationalization motivations of DMMs. More importantly, using the modified typology for EMMs' M&As increased the intercoder reliability from 0.48 (phase 1) to 0.79. These results strongly support the usefulness of the proposed modified typology.

## 4. The smirk of EMMs; Institutions, Innovation and Internationalization

Fig. 3 provides a breakdown of the strategic motivations of all the M&As undertaken by EMMs during the period 2002–2008. The bars in the chart indicate the actual numbers (not monetary value) of M&As undertaken by EMMs in our sample. The evidence provided here supports the notion in the recent IB literature that DMMs and EMMs have significant different strategic motives and trends in international expansion (Contractor et al., 2007; Cuervo-Cazurra and Genc, 2008; Guillén and García-Canal, 2009; Kumar and Singh, 2008).

Using the Dunning typology, we found that the prime strategic motivations behind most M&As by DMMs were Market Seeking and Resource Seeking respectively; however, Fig. 3 shows that based on the modified typology, End-Customer-Market Seeking, Knowledge Seeking, and Global-Value-Consolidation Seeking are the top three international expansion motives of EMMs. We think that EMMs' international investment motivations are mostly driven by the 3Is: Institutions, Innovation and Internationalization (Kumar et al., 2013).

### 4.1. Institutions

Institutional asymmetry between home and host countries, such as tax avoidance, sometimes provides similar opportunities for both DMMs and EMMs (Aulakh and Kotabe, 2008; Zattoni et al., 2009) and serves as a motive for international expansion. Tax avoidance, as an international expansion motive, is also driven by institutional differences among countries. Dunning (1992: 61) recognizes this motivation as escape investment, which is intended to circumvent the government's restrictive macroeconomic

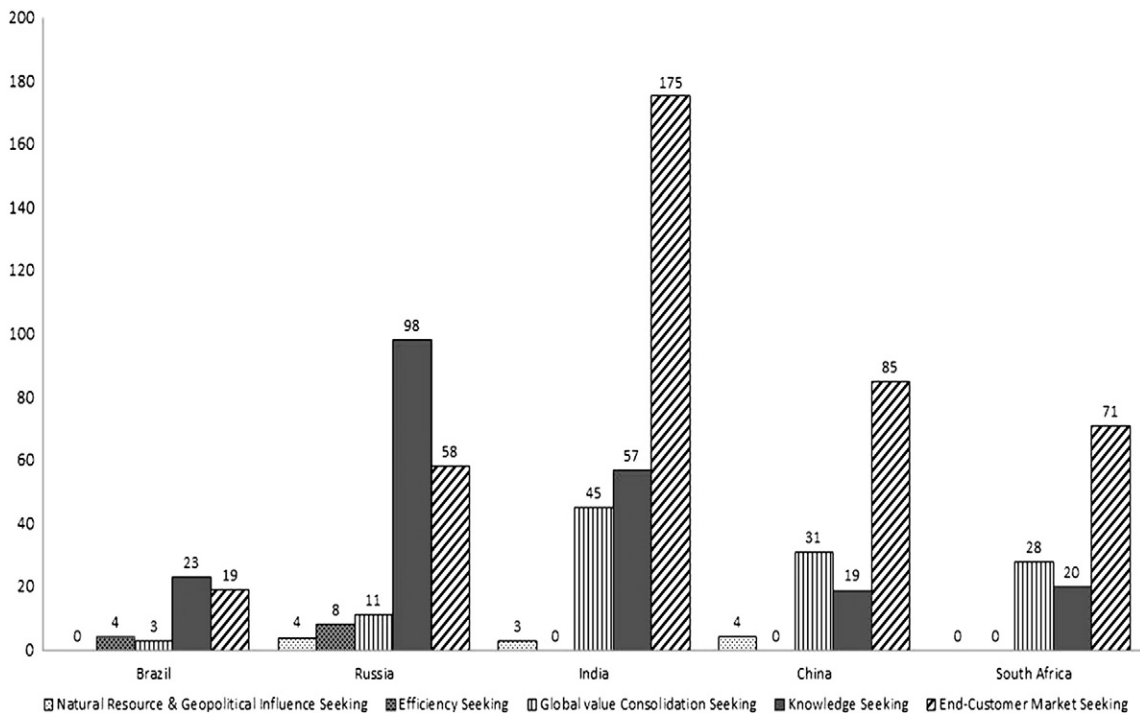


Fig. 3. Classification of internationalization motivations of EMMs.

policies. UNCTAD (2005) also alludes to this motivation when describing round tripping and transshipping. Thus M&As into tax havens such as the Virgin Islands, the Cayman Islands, and the Bahamas are intended to avoid taxation and for routing investments into third countries. For example, India's outward FDI is inordinately large in tax havens such as Mauritius (9.2%), the British Virgin Islands (7.9%), and the Bahamas (2.8%), from where it is channeled into third countries (UNCTAD, 2005). Ozawa's (1992) notion of the "stages of economic development" also links the pattern of FDI to the host country's stage of development.

On the other hand, institutional similarity in terms of poor infrastructure between EMMs' home countries and other emerging countries usually provides EMMs with opportunities to take advantage of their deep knowledge of emerging market customer needs, ability to function in poor institutional environments, and ability to make low-cost products and services (Cuervo-Cazurra and Genc, 2008, 2011; Ramamurti, 2012b). Khanna and Palepu (2006) call EMMs *emerging giants* which capitalize on their knowledge of 1) "local product markets", 2) emerging market resources (e.g., capital), and 3) institutional voids.

#### 4.2. Innovation

Fig. 3 shows that after End-Customer Market Seeking, Knowledge Seeking is the second most important motive of EMMs' internationalization in order to acquire advanced technology (upstream) and/or management and process knowhow (upstream) through undertaking M&As in developed economies (Mudambi, 2008). Fig. 3 illustrates that EMMs recognized the importance of innovation in today's global competition and consequently undertake aggressive Knowledge Seeking M&As to acquire basic R&D as well as process and management innovations. For example, EMMs from countries with large oil reserves such as Russia and Brazil are undertaking M&As in the oil and gas sectors mostly in developed countries for Downstream Knowledge Seeking. A recent study of Brazilian multinationals' approach to innovation also reflects the findings in this study (Fleury et al., 2013).

Global Value Consolidation is the third most popular investment motive of EMMs and enhances MNEs' competitive advantage through "dispersing their creative endeavors, tapping into multiple centers of excellence and coordinating knowledge across geographic space" (Mudambi, 2008:700).

#### 4.3. Internationalization

Global Value Consolidation Seeking is ranked third in Fig. 3. We believe that the main intention behind global value consolidation investment is to benefit from internalization advantages. Some scholars suggest that large scale aggressive M&As by EMMs may enable them to "leapfrog" certain stages of internationalization (Luo and Tung, 2007:490). Indian firms made the largest number of M&As motivated to achieve global value consolidation, followed by those from China and South Africa.

Based on a longitudinal examination Indian EMMs over a period from 2002 to 2009, Singh and Gaur (2013) recently examined firm-level governance structures on the internationalization strategies of EMMs and found that both family ownership and institutional ownership as well as group affiliation positively impacted new foreign investments of Indian EMMs.

#### 4.4. The smirk of EMMs

Based on the findings shown in Fig. 3 and the above discussion on the 3Is, we posit that EMMs may best pursue their value creation goal through international expansion with upstream Knowledge Seeking and End-Customer-Market Seeking motives supplemented by international expansions with downstream Knowledge Seeking and Natural Resource Seeking motives. Fig. 3 illustrates that EMMs rarely pursue pure Efficiency Seeking M&As as defined in our modified typology. While it is understandable that EMMs do not target developed economies due to the obvious high wage differentials, EMMs have little incentive to undertake Efficiency Seeking M&As even into developing economies since they themselves have abundant low-wage labor. However, this might change as wage levels rise in emerging economies, and EMMs might have to look for other lower-cost locations (Sethi et al., 2002). Only EMMs from countries which are deficient in oil and gas resources, such as China and India, are undertaking Natural Resource Seeking M&As all over the globe.

Findings in Fig. 3 reflect the three stage model recently proposed by Kothari et al. (2013). Based on an inductive study of eight EMMs from China and India, the model suggests that during the early years (stage 1), EMMs develop capabilities to survive and grow in their challenging domestic environment. In the second stage, EMMs strategically seek partnership with developed nation companies while simultaneously shifting a significant portion of the work offshore to their low cost centers of productions. We posit that Upstream and Downstream Knowledge Seeking motives would stimulate M&As in the second stage of this model. In the third and final stage, EMMs' capability to find new market niches becomes the dominant strategy for them to enhance their global excellence. We posit that the End-Customer Market Seeking motive would stimulate M&As in the third stage.

Based on the evidence illustrated in Fig. 3, we suggest that the value added creation curve of EMMs' international expansions is a skewed inverted-U shape curve as shown in Fig. 2. Partly similar to the "smile of value creation" (Mudambi, 2007:206) and "smiling curve" of CEO Stan Shih (Bartlett and Ghoshal, 2000) explaining Acer's strategic reorientation of downstream and upstream activities instead of the assembly activities in the middle of its value chain, we refer to the suggested skewed inverted-U shape value curve as the *Smirk of EMMs* which depicts EMMs gradually, but steadily, entering the global competition while some DMMs still fail to take them as serious challengers.

DMMs "are wrong to underestimate, as they often do, the competitive threat" from EMMs (Ramamurti, 2012a:242). Although it may seem that DMMs are still the dominant player in the global market, EMMs with substantial cost advantages and aggressive knowledge and End-Customer Market Seeking, may seriously challenge the DMMs' global market position in a way that DMMs could cede competitive advantage to EMMs (Immelt et al., 2009; Luo and Tung, 2007). In particular, some EMMs seek to expand into those higher value-added products and services, which so far have been the domain of leading DMMs. The Korean chaebols which aggressively undertake purchasing, subcontracting, and monitoring activities on behalf of their principals are an example of such EMMs. As mentioned above, the comparison of the number of M&As before (2002–2008) and after (2009–2012) the 2008 global recession reveals that although the global recession has resulted in a decline in the average (per year) number of M&As undertaken by DMMs and EMMs, this decline is much more dramatic in the case of DMMs (35%) and less so in the case of EMMs (14%).

## 5. Implications and future research

### 5.1. Importance of the modified typology

Consistent with previous arguments in the literature (e.g., Adam, 1983; Harzing, 2000) on the importance of a meaningful typology, we believe that an adequate and precise typology of international investment motivations can be useful to researchers and practitioners as well as policy makers for several reasons. First, typologies in general are fruitful for scholars in reducing the complexity of a phenomenon into a manageable number of groups for a better understanding and explanation of the interrelated characteristics.

Second, a plausible typology would make it easier for scholars to compare and integrate different studies in the field. Luo et al. (2011:190) point out that "our understanding of comparative insights into various international business and management issues for firms from different countries remains incomplete especially when comparing firms from different developing countries". For example Kotabe and Omura (1989) used a typology of sourcing strategies to examine the similarities and differences between European and Japanese MNEs. Therefore, typology development provides a "meaningful methodology for reappraisal, integration, and synthesis" within a field of study (Adam, 1983).

Third, an accurate and meaningful typology can be used by practitioners for prediction (Harzing, 2000). In a study of 328 Taiwanese firms, Makino et al. (2002) found that the firms' international investment motivations had a significant impact on the international location choice. Furthermore, the predictive power of an adequate typology is also important for MNE managers in regard to devising strategies to respond to competitors. EMMs are now building superior firm-specific advantages systematically to penetrate in both developed and developing countries despite stiff competition from DMMs (Cuervo-Cazurra and Genc, 2008). Ramamurti (2012a) lists five competitive advantages of EMMs namely: 1) insight into emerging market customer needs, 2) ultra-low cost production, 3) frugal innovation (coming up with new products quickly and cheaply), 4) operational excellence in adverse environments, and 5) privileged access to resources and markets. Therefore from a strategic competitive position, it is

essential to analyze EMMs' strategic motivations adequately and precisely (Luo and Tung, 2007). Our proposed modified typology will therefore be useful to managers of both DMMs and EMMs to gain better understanding of internationalization motives and processes and formulate counter-strategies. This is particularly important for CEOs of DMMs to understand and respond to the increasing pressure of competition from EMMs.

Finally, a meaningful typology might also assist policy makers especially in the emerging market to craft the right supportive programs to different types of EMMs. The modified typology has important implications for policymakers especially in developing countries seeking to develop competitive strategies not only to attract FDI from DMMs but also EMMs. While developing countries mostly attracted Resource Seeking and Efficiency Seeking FDI in product markets or labor-intensive production tasks during the 1990s, during the 21st century, they will also attract FDI in greater value-added activities as their technological infrastructure improves (Narula, 1996; Sethi et al., 2003). Since promotion programs for attracting FDI require a significant amount of resources and time (Alcantara and Mitsuhashi, 2012), identifying different types of MNEs with different investment motivations may result in more effective promotional programs. Therefore, policy makers may use the modified typology to fine-tune their promotions to provide partially customized incentives and support to different groups of MNEs.

## 5.2. Conclusion and future research

In sum, the Dunning typology has not kept pace with the post Cold War global business environment, which is witnessing a large surge in the cross-border operations of MNEs from emerging economies. EMMs have different strategic motivations and internationalization processes from those of the DMMs (Guillén and García-Canal, 2009; Luo and Tung, 2007; Mathews, 2006); thus, the Dunning typology cannot be applied adequately. Furthermore, there are significant differences in the motives and internationalization of EMMs even among the emerging economies, which require a more fine-grained analysis. We presented some salient strategic motivation differences among EMMs to highlight the efficacy of our modified typology in carrying out more fine-grained analyses, which were not possible hitherto with the Dunning typology. However, these differences are cited merely illustratively to encourage more comprehensive analysis in future research. Future research however is required to further examine the proposed modified typology empirically.

The emergence of EMMs offers an opportunity to “reenergize international business and global strategy research” (Madhok and Keyhani, 2012:38). We cannot agree more with Ramamurti that “since the birth of the IB and strategy fields, there has been no richer opportunity than now to study how firms become MNEs, because the drama is unfolding before our very eyes across the developing world” (Ramamurti, 2012b, p. 46). Therefore, we suggest that studying the motivations of MNEs in emerging markets will provide a richer understanding of internationalization, and we believe the modified typology moves IB research forward.

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