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REVIEW ARTICLE

Developed country MNEs investing in developing economies: Progress and prospect

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Abstract

This study reviews research from 1970 through 2016 on developed country multinational enterprises (DMNEs) entering and competing in developing economies. To identify the current state of knowledge of this research and push it further, we review the literature using bibliometric and qualitative content analyses covering leading journals and books. We articulate frontier issues that are understudied yet critical to both theorization and practice of DMNEs in developing economies. We discuss the findings and conclusions from prior research along five key areas: (1) entering developing economies, (2) organizing local activities, (3) managing alliances and joint ventures, (4) competing in dynamic environments, and (5) dealing with institutions, governments and society. We offer prospective insights into future agenda that have important implications for MNE strategies and decisions, and propose frontier directions that encompass strategic localization, reverse transfer and adaptation, co-evolution with local business ecosystems, reorganizing and restructuring, and strategic responses to institutional and market complexity.

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INTRODUCTION

Developed country multinational enterprises (DMNEs) have been keenly entering, competing and operating in developing economies since World War II, and especially over the past four decades as those economies have grown. The unparalleled and continued growth of developing economies has revolutionized the global business landscape, generating massive opportunities along with a myriad of challenges facing DMNEs. To many of these DMNEs, developing economies are pivotal to their global success and sustained development (UNCTAD, 2017) as they pursue a multitude of strategic and economic motives (Beamish, 1993; Buckley, Clegg, & Tan, 2003; Luo & Peng, 1999; Makino, Beamish, & Zhao, 2004; Meyer, 2004; Tung, 1982). Correspondingly, international business (IB) scholars have shed considerable light regarding how DMNEs invest and compete in developing economies, producing over 692 articles published in leading IB and management journals during the last half-century, according to our survey.

We review the literature on DMNEs entering developing economies (emerging economies included), covering publications of 47 years from 1970 to 2016, for several purposes. First, despite a long and growing interest by the IB scholarly community in the process by which DMNEs enter developing economies, our cumulative understanding of this domain is highly fragmented, with no systematic review performed thus far. There is a calling for s*ynthesized* knowledge at a higher, broader and more collective level that provides a fuller picture of theorization and findings in this field. Second, a diversity of studied topics, mixed evidence, and various perspectives compel and inspire us to offer an *integrative* survey of the literature so as to identify conclusions, consensus, controversies and caveats. Third, the IB scholarly community has tackled a myriad of issues in this field from various lenses such as strategic management, organizational behavior, entrepreneurship, marketing, and human resources, among others, warranting a *holistic* illumination of prevalent themes and subthemes alongside with discussions of impactful views, logic, and conclusions under each theme and subtheme. Fourth, we need a dynamic or *evolving* view. Developing economies have been undergoing fundamental changes in macroeconomic, institutional and industrial environments, compelling many DMNEs to undertake organizational and strategic transformation. DMNEs have adopted such strategies as reverse innovation, increased localization, competence renewal, and restructuring. Some scholars (e.g., Luo, 2007a) have described the transformation of DMNEs investing in developing economies from being "foreign investors" to "strategic insiders." Last, we intend to push the *frontier* forward by offering our own views and suggestions. We are generally optimistic toward these future prospects given the abundance of important and interesting issues that merit further exploration.

Using qualitative content analysis, our review surveys 692 articles from 14 leading IB and management journals and 21 highly-cited books published between 1970 and 2016. We follow the definition and list of "developed countries" (home countries of DMNEs) and "developing economies" (host countries of DMNEs) provided by the International Monetary Fund (IMF). We adopted a dynamic view in identifying whether a country is developed or developing based on the country's development level in a focal year.[1] Our review incorporates both established and nascent DMNEs as well as small, medium and large-sized DMNEs. Our content analysis elaborates the evolution of literature and encapsulates five major themes including: (1) FDI and entry strategies, (2) organizing and managing local activities, (3) building and managing international joint ventures or cooperative alliances, (4) competing, operating and localizing in developing economies, and (5) dealing with institutions, governments and society.

REVIEW PROCESS

Our review covers articles from high-impact journals and books. We systematically searched for relevant articles in 14 leading journals, including six top management journals – *Academy of Management Review* (*AMR*), *Academy of Management Journal* (*AMJ*), *Administrative Science Quarterly* (*ASQ*), *Strategic Management Journal* (*SMJ*), *Organization Science* (*OS*), and *Journal of International Business Studies* (*JIBS*); five elite IB-focused journals – *Journal of World Business* (*JWB*), *Global Strategy Journal* (*GSJ*), *Journal of International Management* (*JIM*), *Management International Review* (*MIR*), and *International Business Review* (*IBR*); and three impactful management practice journals – *Harvard Business Review* (*HBR*), *California Management Review* (*CMR*), and *MIT Sloan Management Review* (*SMR*). These 14 journals have been used in previously published reviews in the IB and management literature (Bruton & Lau, 2008; DuBois & Reeb, 2000; Gomez-Mejia & Balkin, 1992; Griffith, Tamer Cavusgil, & Xu, 2008; Judge, Cable, Colbert, & Rynes, 2007; Podsakoff, MacKenzie, Bachrach, & Podsakoff, 2005; Tüselmann, Sinkovics, & Pishchulov, 2016; Werner, 2002; Xu & Meyer, 2013). Our review also incorporates impactful articles beyond the 14 selected journals and is extended to such journals as *Journal of Management*, *Journal of Management Studies*, and *Journal of Operations Management*. Finally, we include the 21 most cited books on DMNEs in developing economies.

Our review spans 47 years, 1970 to 2016. We chose 1970 as the starting point as it is the year in which *JIBS* was launched, when IB scholars began to examine many aspects of developing – and less developed – economies. We proceeded in two stages. First, we identified keywords by looking at extant literature reviews, then we searched our target publications with those keywords using the

ABI/INFORM and EBSCO databases[2]. These steps yielded a final sample of 692 articles. Following prior studies (Bruton & Lau, 2008; Colquitt & Zapata-Phelan, 2007; Roth & Kostova, 2003; Xu & Meyer, 2013), we used both bibliometric methods and content analysis to review those articles. The bibliometric method (Ramos-Rodríguez & Ruíz-Navarro, 2004) has been used to conduct statistical and descriptive analyses of patterns that appear in publications, while content analysis has been used to identify prevalent research themes and sub-themes. The goal is to synthesize cumulative and collective insights in order to form a comprehensive picture of the research on DMNEs entering developing economies.

BIBLIOMETRIC FINDINGS

Journal and Year Distribution

Figure 1 displays the number of articles published on DMNEs entering developing economies. *JWB* with 157 articles and *JIBS* with 126 have the highest number by some margin among the top journals we surveyed. Figure 2 shows the distribution of publications year on year, clearly showing an upward trend. Our bibliometric results are similar to those of previous research in that we find three distinct phases. Research on developing economies was in an embryonic phase from 1970 to 1997 with 189 publications. In the second phase, 1998–2007, there were 196 articles, a 4% increase. In the third and current phase beginning in 2008, the number of articles markedly increased, to date 307, nearly 50% of the total sample. There was a small dip in 2010, but that there have been since more than 20 articles per year shows continued interest in this line of research.

Theories Used

The distinctive social, institutional, and economic nature of developing economies offers researchers an opportunity to extend and test existing theories. Table 1 shows theories used or developed in the studies we identified. Chief among them are the institution-based view and the resource-based view (including the knowledge-based view and dynamic capabilities). Also often used are FDI theory (including the liability of foreignness), organizational learning theory, transaction cost economics (TCE), social capital theory, internalization theory, and cultural theory (e.g., cultural distance). Our review shows that earlier studies used extensively TCE (e.g., Choi, Lee, & Kim, 1999; Delios & Henisz, 2000; Hoskisson, Lorraine, Lau, & Wright, 2000; Sohn, 1994), international trade theories (e.g., Lecraw, 1984; Murtha & Lenway, 1994; Swannack-Nunn, 1978), and conventional IB theories such as the eclectic paradigm (e.g., Makino & Delios, 1996; Pan & Chi, 1999; Schroath, Hu, & Chen, 1993). Later, as developing economies, and emerging economies in particular, became more important for DMNEs, more studies have used institutional theory and the institution-based view (e.g., Husted & Allen, 2006; Meyer, Estrin, Bhaumik, & Peng, 2009; Peng, 2003; Rodriguez, Uhlenbruck, & Eden, 2005), the resource-based view (e.g., Douma,

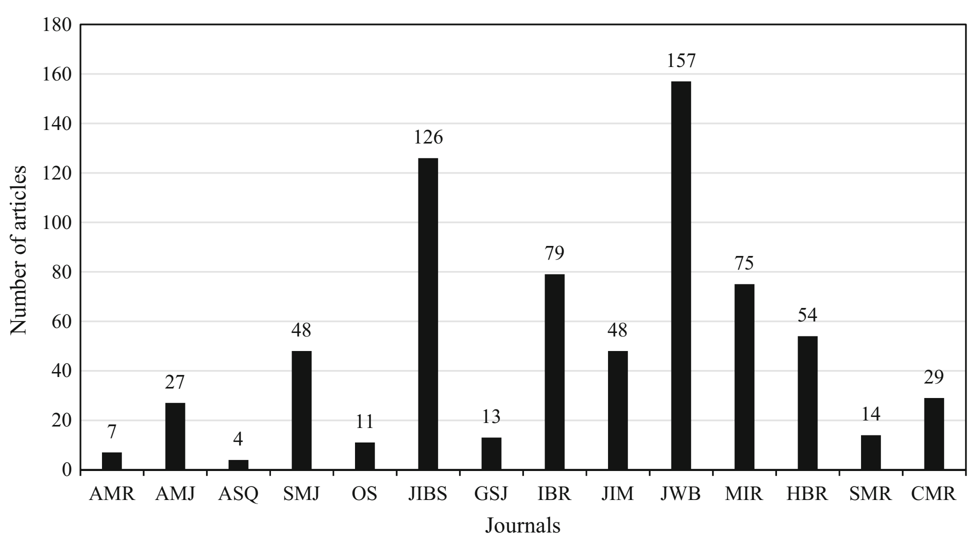

Figure 1 Distribution of articles across journals (1970–2016).

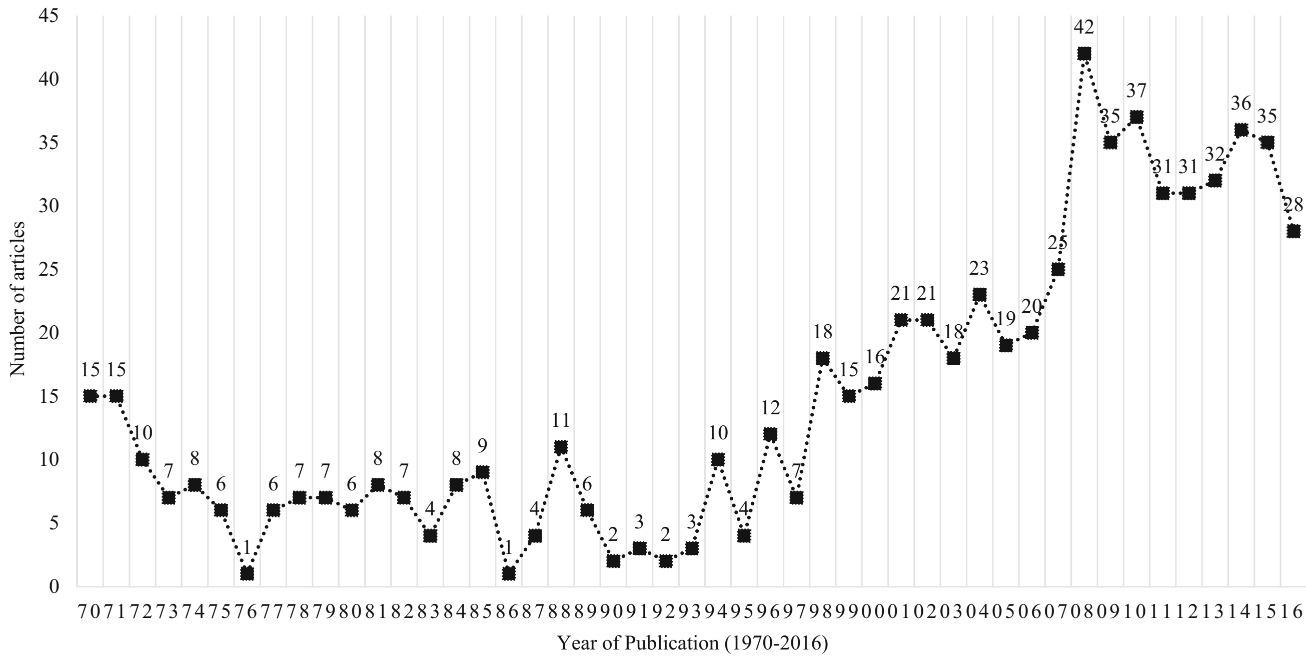

Figure 2 Number of articles year on year (1970–2016).

Table 1 Theories used (1970–2016)

Theory	Total number	Percentage (%)
Institution theory/institution-based view	60	8.48
RBV/KBV/dynamic capabilities	48	6.78
FDI theory (e.g., liability of foreignness)	30	4.24
Organizational learning theory	28	3.96
TCE	28	3.96
Social capital/Guanxi perspective	27	3.81
MNE theory (e.g., monopolistic advantage, internalization theory)	25	3.53
Cultural/Cultural distance theory	23	3.28
International trade (e.g., comparative advantage)	17	2.43
Network/alliance theory	16	2.26
OLI model/eclectic paradigm	11	1.55
Uppsala model	10	1.41
Agency theory	10	1.41
Contingency theory	9	1.27
Organization ecology theory	8	1.13
Resource dependence theory	7	1.00
Real option theory	5	0.71
Other theories	47	6.70
Literature review/no specific theory	298	42.51
Total	707	100

George, & Kabir, 2006; Luo, 2002a; Meyer & Peng, 2005; Tsang, 2002), and organizational learning theory (e.g., Dhanaraj, Lyles, Steensma, & Tihanyi, 2004; Hitt, Dacin, Levitas, Arregle, & Borza, 2000) to examine the important role of institutions and capabilities in developing economies. Recent research has increasingly used theories from other fields such as relational ties from sociology (e.g., Chen, Chittoor, & Vissa, 2015; Li, Poppo, & Zhou, 2010; Sun, Mellahi, & Thun, 2010), real option theory from finance (e.g., Belderbos & Zou, 2009; Tong, Reuer, & Peng, 2008), and ecological perspectives from biology (e.g., Kuilman & Li, 2006; Zhou & Li, 2008).

We identified a number of theoretical contributions and, borrowing from Colquitt & Zapata-Phelan (2007), classified them according to whether they were *theory building*, *extending*, or *testing*. *Theory building* articles advance novel theories or frameworks, new constructs and relationships that are complete departures from extant theory. *Theory extending* articles contextualize extant theory, introduce new concepts, new moderators or new empirical settings. *Theory testing* articles examine extant theory in new empirical contexts or draw on extant theory to validate propositions. Only 54 of the articles in our sample can be classified as *theory building,* a mere 8%. *Theory extending* articles account for 37% ($n = 259$), an indication that the development of novel theories and perspectives on DMNEs in developing economies still falls short. Finally, *theory testing* articles ($n = 379$) dominate at 55%. Nearly 25% ($n = 94$) of those articles adopted a single theory, and 10% ($n = 38$) integrated two or more. Figure 3 shows changes in this regard over the past 47 years.

Developing Economies Studied

Table 2 shows which countries were studied over time. The results reveal that China is the most popular research context. Since 1995, there have been 217 studies on China, nearly a third of our total sample. The number of articles focusing on China correlates strongly with its rapid economic growth and pro-market reforms of the past two decades. After China, Central and Eastern European (CEE) countries are most often studied. Starting in 2010, research on DMNEs entering India and other Asian countries, Latin America, Africa, and the Middle East has intensified. There is also a sizable number of studies ($n = 163$) that examine multiple developing economies or use them as a general context (i.e. "developing economies in general").

Methods Used

Table 3 provides a summary of the research methods and data sources used. The main method employed is quantitative, based mostly on surveys as the primary data source. Most likely this is due to the difficulty of obtaining valid archival data in many developing economies with low information transparency, especially in early years. Data availability has significantly improved in recent years. Among the 231 studies using archival data, 128 were published in the last 11 years (2006–2016). Regression analysis ($n = 253$) is the most commonly used statistical method, amounting to 71% of the 357 quantitative articles. Qualitative research is less common. Of the 692 articles in our sample, 163 (23.5%) were case or field studies, and 169 (24.4%) were theoretical or descriptive. Qualitative methods were used to generate new theories, test existing ones, and identify new phenomena (e.g., Cuervo-Cazurra, Andersson, Brannen, Nielsen, & Reuber, 2016; Eisenhardt & Graebner, 2007; Welch, et al., 2011).

CONTENT ANALYSIS

Literature Overview and Evolution

Research on DMNE investment in developing economies has evolved over the past four decades.

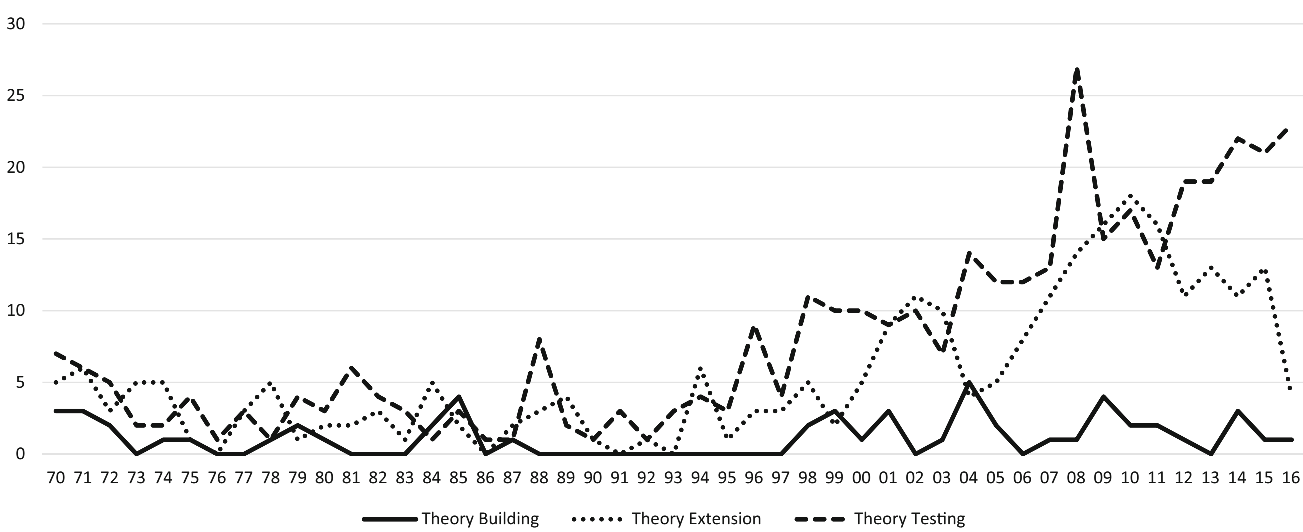

Figure 3 Theory development trend over time (1970–2016).

Table 2 Regions, countries and territories studied (1970–2016)

Country/region	1970–1974	1975–1979	1980–1984	1985–1989	1990–1994	1995–1999	2000–2004	2005–2009	2010–2016	Total
China	0	1	1	6	5	24	44	59	90	230
India	6	0	1	0	0	4	1	9	20	41
Brazil	3	0	0	0	0	0	2	3	7	15
Russia	1	0	0	0	1	1	9	4	4	20
Asia (except China and India)	2	1	3	2	4	6	2	8	13	41
CEE countries	4	1	3	4	1	5	17	16	24	75
Latin America	11	3	6	0	5	1	9	10	9	54
Africa and Middle East	2	4	5	4	2	3	0	2	22	44
Multiple developing economies	29	18	15	16	6	16	24	40	55	219
Total	58	28	34	32	24	60	108	151	244	

Studies carried out in the 1970s and 1980s focused on the opening of Third World countries to Western investment (Das, 1981; Fagre & Wells, 1982; Root & Ahmed, 1978; Stoutjesdijk, 1970; Wright, 1984). Since the 1990s, there has been increased attention paid to emerging economies. In addition to the economic, social and political environment considered earlier, scholars have increasingly looked at the informal and formal institutions that characterize emerging economies (e.g., Meyer et al., 2009; Peng, 2003; Peng, Wang, & Jiang, 2008; Xu & Meyer, 2013). That work is reflective of the multiple, sometimes conflicting, institutions with which DMNEs must engage (Meyer & Peng, 2016; Stevens, Xie, & Peng, 2016). More recent studies examine the competitive landscape in developing and emerging economies and the role it plays in the DMNE global value chain and business ecosystem worldwide (Chang & Xu, 2008; Luo, 2007a; Luo & Zhao, 2004; Rangan & Drummond, 2004). FDI inflows into developing economies have increased local competition. That may have a negative impact on local firms, but at the same time local firms have benefited from positive spillovers (Chang & Xu, 2008; Spencer, 2008; Zhang, Li, Li, & Zhou, 2010). Moreover, DMNEs are seeing their operations in developing economies as crucial to increasing their global competitiveness (Immelt, Govindarajan, & Trimble, 2009; Santangelo, Meyer, & Jindra, 2016). Thus, it is important for DMNEs to integrate their activities in developing economies into their global value chains to enhance operational efficiency, capitalize on market opportunities, and stimulate innovation.

In line with the above trends, the motivation for FDI in developing economies has fundamentally changed, mainly because of fast economic growth, a rapid rise in the number of middle-income consumers, and market transformation. For instance, FDI inflows toward less developed countries in the 1970s and 1980s were primarily motivated by the search for low-cost labor and natural resources. The products made by DMNEs in developing economies were not intended for the local market but for export to countries where costs were substantially higher (Dunning, 1998; Kumar, 1994; Leontiades, 1971). In addition to pointing to efficiency-seeking FDI in search of lower production costs, the IB literature emphasized the asset-exploitation motive of DMNEs that invested in less-developed countries to exploit firm-specific advantages such as technology and knowledge (Aydin &

Table 3 Research methods and data sources

	Primary (survey)	Secondary (archival)	Other	Total
Quantitative	193	164	0	357
Quantitative statistic method				
Regression analysis (OLS, logistic regression, multilevel model, etc.)	127	126		
Structural equation modeling (SEM)	18	2		
Event history analysis (survival analysis)	3	18		
Variance and covariance analysis (ANOVA, ANCOVA, MANCOVA, etc.)	24	8		
Other statistical method	21	10		
Lab/experiment	3	0	0	3
Case/field study	99	48	16	163
Descriptive/theoretical analysis	1	19	149	169
Total	296	231	165	692

Terpstra, 1981; Caves, 1971; Hymer, 1976; Makino, Lau, & Yeh, 2002). Following the unprecedented rise of emerging economies beginning in the 1990s, an increasing number of studies have investigated the market-seeking and asset-seeking motives of DMNEs (e.g., Dong, Buckley, & Mirza, 1997). With their home markets and those of other developed countries becoming saturated, DMNEs have increasingly turned to emerging economies to seek opportunities for market growth (London & Hart, 2004; Luo, 2003). They have especially tried to acquire strategic assets and to coordinate the complementary assets owned by local firms in emerging economies (Luo, 2002a; Makino et al., 2002), and to bring innovative products developed in emerging economies to wealthier countries through reverse innovation and reverse transfer (Govindarajan & Ramamurti, 2011; Winter & Govindarajan, 2015).

The body of work we consider rich addresses fundamental features of developing economies where DMNEs invest. Those economies tend to have higher levels of environmental volatility, governmental intervention, and political instability than developed countries (Beamish, 1987; Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004; Luo, 2007b; Murtha & Lenway, 1994; Uhlenbruck & De Castro, 2000). DMNEs need to cope with those realities and to adapt their "home" strategies to be able to deal with institutional voids caused by a lack of specialized intermediaries, limited IPR protection, weak public services, and different regulatory systems (Khanna & Palepu, 1997; Khanna, Palepu, & Sinha, 2005). Informal or unregistered businesses can account for as much as half of the economic activities in developing economies and those businesses provide a livelihood for billions of people (La Porta & Shleifer, 2014; Webb, Tihanyi, Ireland, & Sirmon, 2009). The challenges posed by informal sector businesses may increase legitimacy building costs for DMNEs: for example, they might develop new products in order to distinguish themselves (McCann & Bahl, 2017). Local businesses in developing economies are also often characterized by complex corporate governance arrangements, for example business groups, that help fill institutional voids by facilitating the sharing of critical resources, information and experience among group members (Carney, Van Essen, Estrin, & Shapiro, 2017; Khanna & Palepu, 2000; Khanna & Yafeh, 2007). State-owned companies, family firms, and cross-shareholdings are pervasive features in developing economies, all of which raise the complexity of corporate governance and agency costs (Claessens & Yurtoglu, 2013). The bottom-of-the-pyramid with some four billion under-served inhabitants represents not only a largely untapped market segment for DMNEs but should also be a focal point of social entrepreneurship and social responsibility for them (Prahalad & Hart, 2002).

Extant research shows large regional diversity among developing economies. Central and Eastern Europe (CEE) and China are major economies in which there have been noteworthy pro-market reforms, although their paces and paths have differed greatly (Hitt et al., 2004; Peng, 2000). The CEE bloc is unique in its radical industrial privatization and democratic reforms, so much so that they have been called "shock therapy" or "big-bang" reforms, and have resulted in domestic industries being decimated by foreign entrants (Brouthers & Bamossy, 1997; Buck, Filatotchev, Nolan, & Wright, 2000; Meyer & Peng, 2005; White & Linden, 2002). In contrast, China's "gradualist" and "go-slow" approach to reform, which has not meant significant democratization or privatizations, has all the same allowed managers to make and implement appropriate strategic and organizational changes (Buck et al., 2000; White & Linden, 2002). Developing economies also differ in population, historical background, natural resource endowments, infrastructure, political regimes, macroeconomic environment, and market size, with the result being huge differences in their level of competitiveness (Schwab, 2017). For example, Latin America and Africa offer good prospects in agriculture, minerals, and food and beverages, while information technology and IT-enabled services are competitive industries in India and the Philippines (UNCTAD, 2017). While many large, fast-growing emerging economies, such as those of China, Russia, India, and Brazil, have become top FDI destinations, FDI flows to smaller, slow-growing, structurally-weak developing economies have declined, particularly due to their limited market opportunities and slow economic growth (UNCTAD, 2017). This is not to say that economic transition has occurred at the same pace across large emerging economies. Even within China and India. pro-market reforms did not proceed at the same pace in all regions, and that has led to significant heterogeneity in subnational institutions (Banalieva, Eddleston, & Zellweger, 2015; Chan, Makino, & Isobe, 2010; Ma, Tong, & Fitza, 2013; Shi, Sun, Yan, & Zhu, 2017).

We also see from our review that FDI policies have evolved in developing economies. In the 1960s and 1970s, in order to support the development of indigenous firms, the governments of many developing economies introduced import substitution policies that restricted foreign firm imports (Bruton, 1998). Later, numerous countries (especially in Asia) embarked upon economic integration policies by which they hoped to attract foreign capital, technology, and managerial know-how (Das, 1981; Stoutjesdijk, 1970; Wright, 1984), even as most countries in Latin America continued to implement import substitution policies, some until the 1980s (Cuervo-Cazurra & Dau, 2009). Nonetheless, sweeping changes in many emerging economies in the 1980s ushered in market-friendly institutions and FDI liberalization that accelerated in the following decade (UNCTAD, 1992). There are many ways that developing economies can increase their FDI attractiveness, from offering tax incentives, to allowing the privatization of state-owned firms, to accommodating foreign personnel (Root & Ahmed, 1978; UNCTAD, 1992), but a great deal of care needs to be exercised as their market structures are often weak and their development needs are pressing (UNCTAD, 2003). host country governments are well aware of this and may seek to restrict foreign ownership or require DMNEs to work with local partners (Chen, Paik, & Park, 2010; Sachdev, 1978). As developing economies grow, the need to offer subsidies or protection from competition in order to attract FDI decreases (Stoever, 1982, 1985). Thus, we see that continued economic growth, structural transformation, and institutional development as well as WTO membership all bring about shifts in policy that affect DMNEs. The Chinese serve as a good example. Chinese policies have shifted from restricting the entry of foreign firms to intervening in their operations – be it through national-level or subnational-level regulation – to aligning the treatment of foreign firms with that of domestic ones (Luo, 2007a). Recently, most developing economies have adopted formal industrial development strategies that are intended to attract FDI, and at the same time improve FDI screening mechanisms, in order to achieve global value chain integration, upgraded capabilities, sustainable growth, and better positioning for the new industrial revolution (UNCTAD, 2018).

Five Major Themes

We identified several dominant research themes from the nearly 40-year period of research by first calculating the frequency of use of topical keywords in prior studies. These keywords suggested five major research themes. Categorization of those themes allows us to see the evolution of the literature. We consulted leading IB and developing economy scholars and experts in order to finalize our selection. The main themes and the number of articles addressing each are given in Figure 4.[3] We summarize the main arguments and findings of those which have been cited 200 times or more in Tables 4, 5, 6, 7 and 8.[4] Finally, the top 20 most-cited articles on DMNEs in developing economies are listed in an Appendix.

Entering and investing in developing economies

There are three interrelated theoretical perspectives used to explain entry strategies, including transaction cost economics, the resource-based view, and institutional theory (e.g., Chen & Hu, 2002; Demirbag, Glaister, & Tatoglu, 2007; Douma, George, & Kabir, 2006; Hoskisson, Lorraine, Lau, & Wright, 2000; Meyer, 2001; Meyer & Peng, 2005). The extant literature shows that the mode, timing

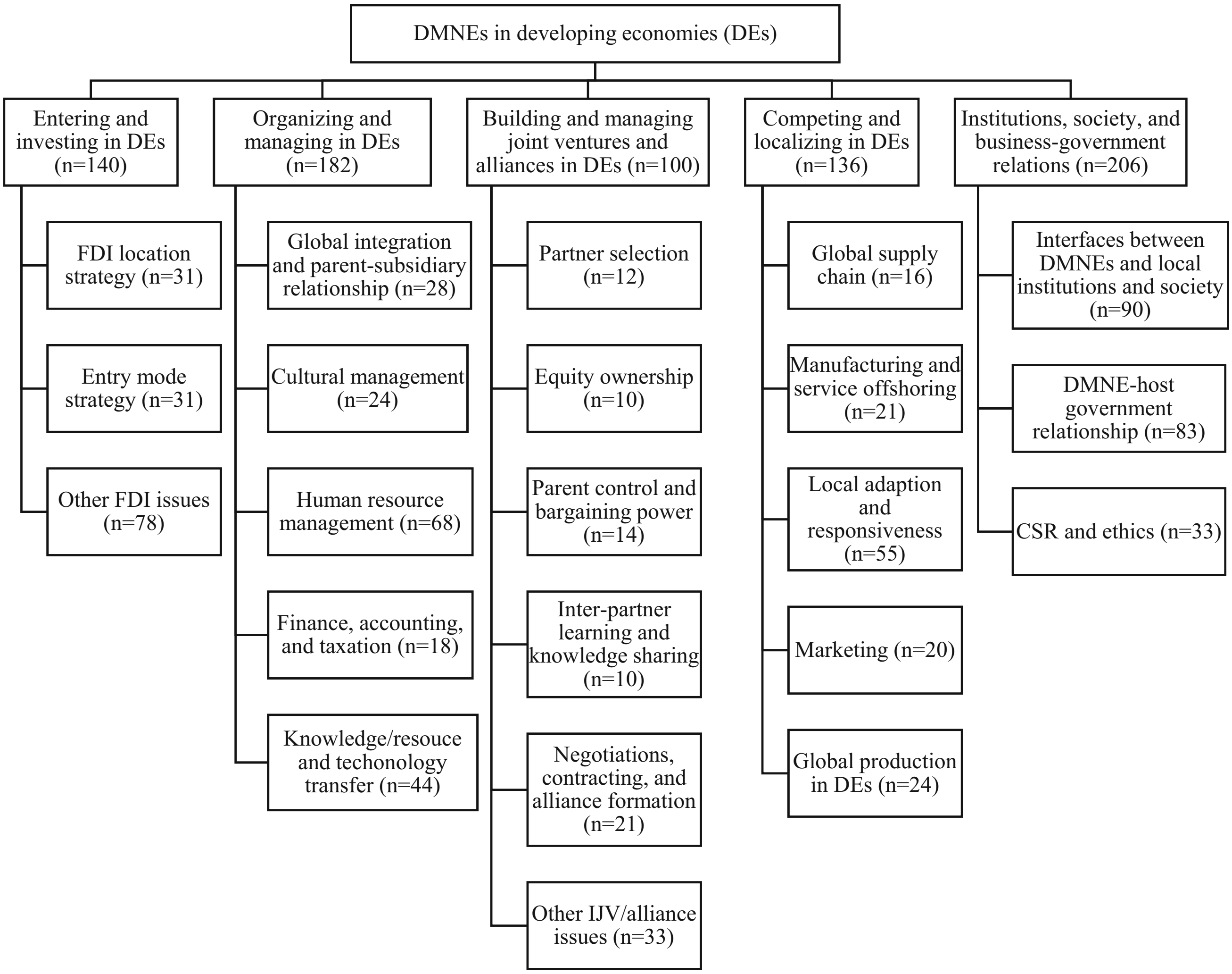

Figure 4 Five main DMNE in developing economies themes.

and location of DMNE entry are determined by numerous factors at both the corporate and the country level. Links have been shown between the resources, capabilities, experience and networks of DMNEs and their entry mode and country selection choices (Chang & Park, 2005; Chen & Chen, 1998; Dikova & van Witteloostuijn, 2007). This suggests that a high-commitment entry is positively associated with the parent company's technological intensity and prior experience in the host country (Filatotchev, Strange, Piesse, & Lien, 2007a; Xia, Tan, & Tan, 2008). In addition, a DMNE may prefer a joint venture (JV) over a wholly owned subsidiary (WOS) when entering a developing economy because JVs often entail more resource sharing and cost-reducing opportunities (Beamish & Banks, 1987). DMNEs are also more likely to invest in JVs or locate subsidiaries where they have stronger economic and cultural links and historic ties (Barkema & Drogendijk, 2007; Guillen, 2002; Kuilman & Li, 2006).

The host country institutional, economic, cultural, and political context significantly shapes foreign market entry strategy (García-Canal & Guillén, 2008; Li, Lam, & Qian, 2001; Tsang & Yip, 2007; Uhlenbruck & De Castro, 2000). Extant research shows that firms in regulated industries tend to avoid investing where there are high levels of macroeconomic uncertainty, preferring locales with discretionary governmental policymaking capacities as they may be able to negotiate favorable entry conditions (García-Canal & Guillén, 2008). DMNEs employ more cooperative modes of entry when investing in developing economies with weak institutional frameworks, low market efficiencies, high political risk, or high cultural

Table 4 Key literature on entering and investing in developing economies (citation > 200)

Author(s)/year	Journal	Country/ region	Main arguments and/or findings
Arnold & Quelch (1998)	SMR	DE in general	In the case of emerging markets, MNEs should consider (1) additional sources of first-mover advantage, (2) new frameworks to guide product and partner policy decisions, and (3) adaptation of developed market strategies
Barkema & Drogendijk (2007)	JIBS	CEE	Sequential internationalization strategies still matter. Internationalizing firms have to balance exploitation and exploration
Brouthers & Brouthers (2001)	JIBS	CEE and Russia	Investment risk in the target market moderates the impact of cultural distance on mode selection. Managers select more cooperative modes of entry in low investment risk markets, but select wholly owned modes of entry in high investment risk markets
Buckley, Clegg, & Wang (2007)	JIBS	China	The nationality of foreign investors impacts productivity spillovers, revealing a curvilinear relationship with foreign direct investment for overseas Chinese (Hong Kong, Macau and Taiwan) multinationals, but not for Western ones. The relationship is most pronounced in low-technology industries
Chen & Hu (2002)	IBR	China	Transaction cost analysis is useful in explaining entry mode choice. Foreign operations with entry modes selected according to the prescriptions of the theory outperform those with modes selected otherwise
Delios & Henisz (2000)	AMJ	DE in general	Public and private expropriation hazards affect the ownership choice of foreign firms. Firm experience (country-level, industry-level, and international) and partner capabilities can mitigate the effects of these hazards on ownership decisions
Dikova & Witteloostuijn (2007)	JIBS	CEE	A parent firm's technological intensity, international strategy and experience determine both establishment and entry mode choices. In the context of transition economies, a host country's institutional environment moderates these relationships
Douma, George, & Kabir (2006)	SMJ	India	The positive effect of foreign ownership on firm performance is attributable to foreign corporations with a larger shareholding, higher commitment, and longer-term involvement. The dichotomy in the impact of shareholders depends on the business group affiliation of firms
Filatotchev, Strange, Piesse, & Lien (2007)	JIBS	China	The choice of equity stake in an affiliate depends upon the extent of family and institutional share ownership in the parent company. High-commitment entry is positively associated with the affiliate being located where there are strong economic, cultural and historic links with the parent company
Ghemawat (2001)	HBR	DE in general	The cultural, administrative, geographic, and economic distance framework helps managers identify the impact of distance on various industries.
Guillen (2002)	AMJ	China	Business group experience and imitation among firms from the same home-country industry increase the rate of foreign expansion. Industry imitation effects tend to decrease after a firm makes its first foreign entry
Guillén (2003)	JIBS	China	Technology-intensive firms are more likely to abandon joint-venture entry modes, owing to contractual hazards. When in the same business group, they will imitate each other's wholly owned plant and joint venture (JV) choices, but when in the same industry mimic each other's wholly owned plant choice, but not JV one
Hoskisson et al. (2000)	AMJ	DE in general	Emerging markets are low-income, rapid-growth countries using economic liberalization as their growth engine. Three theoretical perspectives (institutional theory, TCE, RBV) provide insights into firm strategies in emerging markets
London & Hart (2004)	JIBS	DE in general	The transnational model is not sufficient to explain new MNC initiatives in low-income markets. Instead, leveraging business strategies (including developing relationships with non-traditional partners, co-inventing custom solutions, and building local capacity) is critical for MNCs to develop a global capability in social embeddedness
Luo (1998)	JIBS	China	The timing of FDI has significant influence: early entrants outperform late movers in terms of local market expansion and asset turnover, whereas late movers are superior to early entrants in risk reduction and accounting return during the initial period of international expansion

Table 4 (*Continued*)

Author(s)/year	Journal	Country/region	Main arguments and/or findings
Makino, Isobe, & Chan (2004)	SMJ	DE in general	Country effects are as strong as industry effects, following affiliate and corporate effects, in determining the performance of foreign affiliates of MNEs. Corporate and affiliate effects tend to be more important in explaining variation in foreign affiliate performance in developed countries, whereas country and industry effects are more salient in developing economies
Makino, Lau, & Yeh (2002)	JIBS	DE in general	Firm motivations have a significant impact on the choice of their investment location (developed countries vs. developing countries). Nonetheless, the impact is moderated by the capabilities firms possess
Meyer (2001)	JIBS	CEE and Russia	The costs of organizing business in transition environments influence entry mode choice. Specifically, host countries that have progressed furthest in institutional reform or are of lower distance from the DMNE's home country are more likely to attract wholly-owned subsidiaries. MNEs that transfer technology and build up local management capabilities are more likely to establish a wholly-owned subsidiary
Meyer (2004)	JIBS	DE in general	More IB scholars should engage in research on positive and negative spillovers from FDI in emerging markets. Scholars need to analyze the specific activities and capabilities of the firms involved and the impact of FDI on the broader social and environmental context
Meyer & Estrin (2001)	JIBS	CEE	A brownfield is a hybrid mode of entry, defined as a special case of acquisition in which the resources transferred by the investor dominate those of the acquired firm. This mode has particular relevance for entry strategies in emerging markets
Meyer & Peng (2005)	JIBS	CEE	CEE research has advanced the overall trajectories of development of (1) organizational economics theories; (2) resource-based theories; and (3) institutional theories. CEE research has highlighted the importance of incorporating institutions into theories (such as organizational economics theories and resource-based theories) and advancing an institution-based view of business strategy as a complementary perspective
Meyer et al. (2009)	SMJ	DE in general	Firms can overcome market inefficiencies in different institutional contexts by adopting various resource-seeking entry strategies. JVs allow firms to access resources in countries with weak institutions
Pan & Chi (1999)	SMJ	China	Entry timing, entry mode, and location advantages impact the performance and survival of MNCs in China. Early movers, equity JVs, and location advantages utilizers achieve higher performance
Ramamurti (2004)	JIBS	DE in general	The impact of host country context on DMNE behavior, and the co-evolution of these two factors should be studied further, as should be non-mainstream topics such as home-grown MNEs, the role of diaspora in FDI, and global outsourcing services
Spencer (2008)	AMR	DE in general	The strategies adopted by a DMNE will determine whether an investment in a developing economy will create positive horizontal spillovers through knowledge diffusion and provision of public goods, or negative externalities through a crowding out effect on indigenous firms
Wei & Liu (2006)	JIBS	China	There are positive inter-industry productivity spillovers from R&D and exports, and positive intra- and inter-industry productivity spillovers from a foreign presence to indigenous Chinese firms within regions. OECD investors seem to play a much greater role in inter-industry spillovers than overseas Chinese firms
Wells (1998)	JIBS	DE in general	Future research needs to address four gaps: (1) the impact of the widespread change in development strategies on MNEs, (2) the net impact of FDI on host countries, (3) the causes of declining tensions between developing economies and foreign investors, and (4) links between economic knowledge and the decisions that face private and government managers
Zhang, Li, Li, & Zhou (2010)	SMJ	China	Diversity in the home base of foreign investors can facilitate FDI spillovers and increase the productivity of domestic firms in an industry. This positive relationship is stronger when domestic firms have stronger absorptive capacity (when they are larger and when the technology gap between FDI and the firm is intermediate)

Table 5 Key literature on organizing and managing in developing economies (citation > 200)

Author(s)/year	Journal	Country/ region	Main arguments and/or findings
Farndale, Scullion, & Sparrow (2010)	JWB	DE in general	Global talent management (GTM) is explored from two perspectives: increasing global competition for talent, and new forms of international mobility. The first considers the mechanisms of GTM, the second the willingness of individuals to be mobile and the organizational capability needed to manage talent
Fey & Björkman (2001)	JIBS	Russia	Investments in human resource management (HRM) practices can improve the performance of foreign-owned subsidiaries. Further, different HRM practices have different effects on firm performance
Garnier (1982)	AMJ	Mexico	The degree of interchange of products among members, ownership, workflow integration, and size of the multinational group are the main predictors of autonomy in the decision making of MNCs
Govindarajan & Ramamurti (2011)	GSJ	DE in general	Research on reverse innovation, i.e., an innovation is adopted first in emerging markets before "trickling up" to rich countries, provides an opportunity to enrich and extend mainstream theories
Hannon, Huang, & Jaw (1995)	JIBS	Taiwan	MNCs adopt international human resource (IHR) strategies to alleviate the tensions between global integration and local responsiveness. Local resources, parent resources, and host institutions impact the choice of subsidiaries' IHR strategies
Iles, Chuai, & Preece (2010)	JWB	China	There exist four main perspectives on talent management: exclusive–people; exclusive–position; inclusive–people; and social capital
Immelt, Govindarajan, & Trimble (2009)	HBR	China and India	To tap opportunities in emerging markets and pioneer value segments in wealthy countries, MNEs must learn reverse innovation: developing products in countries like China and India and then distributing them globally
Leung et al. (1996)	JIBS	China	Procedural and performance-based distributive justice is related to job satisfaction, but interactional justice is not. Comparisons between local employees is related to job satisfaction, but comparison with overseas employees is not. Senior managers report a lower level of procedural and interactional justice
Li, Lam, & Qian (2001)	JIBS	China	Culture can influence the timing of entry, investment preferences, and performance of JVs. Oriental culture is valuable for East Asian firms in terms of efficiency and rapid market entry in China
Luo (2003)	JIBS	China	Parent–subsidiary links help generate higher performance by reducing external dependence and enhancing local responsiveness. Parent–subsidiary links have four dimensions: resource commitment, information flow, local responsiveness and control flexibility
Prahalad & Lieberthal (1998)	HBR	DE in general	Success in emerging markets will require more than cultural sensitivity. The more MNEs understand the nature of these markets, the more they will have to rethink and reconfigure their business models
Uhlenbruck (2004)	JIBS	CEE	The pre-acquisition experiences of both the target and the DMNE are critical for the growth of subsidiaries acquired in transition economies. Cultural differences moderate the relationships
Wang, Tong, & Koh (2004)	JWB	China	Knowledge contributed by the parent to the subsidiary is affected by two groups of factors: parent's capacity to transfer knowledge and parent's willingness to transfer knowledge. A subsidiary's capacity and intent to acquire knowledge determine the amount of the amount of knowledge it acquires from its parent
Zhao & Anand (2009)	SMJ	China	There is a distinction between individual and collective teaching activities and absorptive capacity. Collective teaching and collective absorptive capacity are more effective in transferring both collective knowledge and individual knowledge in comparison to individual-based mechanism

distance (Brouthers & Brouthers, 2001; London & Hart, 2004). Cooperative entry modes such as JVs and strategic alliances are better at reducing investment risk and accessing local resources than are greenfields or acquisitions (Demirbag, Tatoglu, & Glaister, 2008; Meyer et al., 2009; Xia, Boal, & Delios, 2009). DMNEs entering countries where corruption is prevalent may choose short-term contracting or a JV (Rodriguez et al., 2005; Uhlenbruck, Rodriguez, Doh, & Eden, 2006). The legitimization of DMNE subsidiaries is subject to legitimacy spillover in FDI communities coupled

Table 6 Key literature on building and managing joint venture and alliance in developing economies (citation > 200)

Author(s)/year	Journal	Country/region	Main arguments and/or findings
(Luo, 2007b)	SMJ	China	JV partner opportunism in emerging markets increases in line with industry structural instability, as it does with a lack of legal enforcement or of information verifiability. The relationship is even stronger when the JV relies on the host country environment, but weaker when the JV operates in a faster-growing industry
Beamish (1985)	JWB	DE in general	JVs differ between developed and developing economies. JVs in LDCs are characterized by a higher instability rate and greater managerial dissatisfaction
Beamish (1987)	MIR	CEE	Greater need and commitment between partners results in more satisfactory international JV (IJV) performance. Partner need was assessed over time in terms of the relative importance of each partner's contribution to the JV in terms of a number of aspects including capital, knowledge, and staff
Beamish & Banks (1987)	JIBS	DE in general	Integrating the transaction cost paradigm with internalization theory, a rational profit-maximizing MNE tends to use wholly owned subsidiaries due to transactions disabilities which are inherent in JV arrangements.
Dhanaraj et al. (2004)	JIBS	Hungary	Tie strength, trust, shared values and systems play an important role in the transfer of tacit knowledge, especially for mature IJVs. Tacit learning is accumulative, assists in explaining explicit knowledge, and is enhanced by social embeddedness
Hitt et al. (2000)	AMJ	Mexico, Poland and Romania	Emerging market firms emphasize financial assets, technical capabilities, intangible assets, and willingness to share expertise in partner selection more than developed country firms, which try to leverage their resources through partner selection and emphasize unique competencies and local market knowledge
Isobe, Makino, & Montgomery (2000)	AMJ	China	Both high commitment to technology transfer and early entry have positive impacts on the JVs' economic performance. These relationships are contingent on parental control of a JV, local infrastructure, and the strategic importance of an investment
Krishnan, Martin, & Noorderhaven (2006)	AMJ	India	Uncertainty moderates the trust-performance relationship in alliances. The positive relationship between trust and performance is stronger under high behavioral uncertainty and weaker under high environmental uncertainty. Partners should concentrate on developing inter-organizational trust
Lane & Beamish (1990)	MIR	DE in general	Problems with the decision to form the venture, partner selection, the design of the organization, and the management of the relationship with partners explain the failures of cross-cultural cooperative ventures
Lane et al. (2001)	SMJ	Hungary	A model of IJV learning and performance segments absorptive capacity into three components: (1) knowledge understanding, gained from trust between IJV parents; (2) knowledge assimilation, influenced by IJV's learning structure and process; (3) knowledge application, determined by IJV's strategy and training
Lee & Beamish (1995)	JIBS	DE in general	Korean JVs in developing economies are different from JVs from developed countries in LDCs in terms of stability, venture creation rationale, satisfaction level with performance, and the relationship between control and performance
Lin & Germain (1998)	JIBS	China	IJV context (cultural similarity, relative power, and relationship age) determines partners' satisfaction. This relationship is mediated by partners' conflict resolution strategies including problem-solving, compromising, forcing, and legalistic strategy
Luo (1997)	OS	China	Both strategic and organizational traits of local partners are associated with IJV performance. Absorptive capacity, product relatedness, and market power increase IJV performance. International experience and organizational collaboration increase IJVs' profitability, stability, and market expansion

Table 6 (*Continued*)

Author(s)/year	Journal	Country/region	Main arguments and/or findings
Luo (2001)	ASQ	China	Personal attachments between boundary spanners in IJVs affect venture performance. The development of attachments depends on factors at three levels. At the individual level, increasing with the length of overlap in tenure, the organizational level, heightened by goal congruity between parent firms but impeded by cultural distance, and the environmental level, strengthened by market disturbance and regulatory deterrence
Luo (2002b)	SMJ	China	Contract and cooperation are not substitutes but complements in relation to IJV performance. The IJV contract provides an institutional framework to guide cooperation, while cooperation overcomes the adaptive limits of contracts. When contracts are more complete, cooperation contributes more to performance
Luo (2002c)	SMJ	China	The relatedness of an IJV's products with that of its foreign and local parents is positively associated with its performance. An IJV maintaining related diversification (with both parents) outperforms an IJV maintaining a unilateral related link (with one parent) or unrelated diversification. This relationship is moderated by resource complementarity, goal congruity, structural opportunities, and institutional deterrence
Luo (2003)	JIBS	China	Parent–subsidiary links help generate higher performance by reducing external dependence and enhancing local responsiveness. Parent–subsidiary links have four dimensions: resource commitment, information flow, local responsiveness and control flexibility
Luo, Shenkar, & Nyaw (2001)	JIBS	China	A comparison of control-performance relationships for foreign versus local parents in IJVs in China suggests that transaction costs analysis is more applicable to foreign than to Chinese parents. Both overall and specific controls are associated with performance for foreign parents, while only specific control is for Chinese parents
Lyles & Salk (1996)	JIBS	Hungary	Adaptation mechanisms (capacity to learn and articulated goals) and structural mechanisms (the provision of training, technology, and managerial assistance by foreign parents) are positively associated with IJV knowledge acquisition from foreign parents, which further leads to better performance
Makino & Beamish (1998)	JIBS	DE in general	There are four distinct forms of JVs based on the JV partners' nationality and equity affiliation: (1) JVs formed between affiliated home-country based firms; (2) JVs formed between unaffiliated home-country based firms; (3) JVs formed between home-country based and local firms; and (4) JVs formed between home-country and third-country based firms. Incidence, performance, and survival likelihood are significantly different among these four JV forms
Osland & Cavusgil (1996)	CMR	China	Based on the interview, Profit is a dominant goal and source of satisfaction for both sides of the JV. However, the specific performance criteria and the control over ventures are sources of dissatisfaction
Shenkar & Li (1999)	OS	China	Absorptive capacity serves as a principle governing the relationship between knowledge possession and knowledge search among IJV partners. The equity JV helps firms seeking transfer of tacit knowledge
Sohn (1994)	JIBS	Korea and Taiwan	Social knowledge is defined as one's ability to understand and predict the general patterns of behavior of others. MNCs with social knowledge the need to resort to ownership for control purpose is less
Steensma & Lyles (2000)	SMJ	Hungary	An imbalance in the management control structure between the IJV parents leads to parental conflict and IJV failure, while an imbalance in the ownership control structure has no influence on conflict or survival. In general, support from the foreign parent is positively related to IJV learning and IJV survival
Tong, Reuer, & Peng (2008)	AMJ	DE in general	An IJV's ownership structure, product–market focus, and geographic location are important in affecting the value of embedded growth options. Minority IJVs and diversifying IJVs contribute to growth option value, but other IJVs do not

Table 6 (*Continued*)

Author(s)/year	Journal	Country/region	Main arguments and/or findings
Tsang (2002)	SMJ	China	Both overseeing effort and management involvement are channels of knowledge acquisition. Firms improve their skills of knowledge acquisition through learning-by-doing. Firms mainly learn through managing their key JVs, which suggests the existence of learning myopia
Yan & Gray (1994)	AMJ	China	The relative bargaining power of partners affects the structure of management control, which further influences performance. Relational characteristics of partners (e.g., trust) and changes in bargaining power will moderate the relationship between parents' control and performance. Changes in performance of the IJV can alter the balance of parents' bargaining power and control

with the host country's acceptance, which further influence entry strategies of DMNEs (Kuilman & Li, 2009; Li, Yang, & Yue, 2007).

Entry strategy is crucial to performance and survival in developing economies. Prior research has shown that early entrants grow faster and are more profitable than late movers (Luo, 1998), while late movers incur lower risks (Pan & Chi, 1999). A newcomer can learn from the experience of prior entrants while at the same time leveraging its own experience gained from previous entries elsewhere, which together can significantly increase performance and ultimately the chances of survival (Belderbos, Olffen, & Zou, 2011; Guillen, 2002; Perkins, 2014; Yang, Li, & Delios, 2015). DMNEs need specialized strategies to capitalize on market opportunities and other capabilities to deal with local environment dominated by informal institutions (London & Hart, 2004; Meyer & Estrin, 2001; Ramamurti, 2004). Prior research has shown that the choice of target country is an important determinant of foreign affiliate performance in developing economies (Chan, Isobe, & Makino, 2008; Makino, Isobe, & Chan, 2004).

Moreover, the level of institutional development and the heterogeneity of subnational regions in large developing economies are significant factors which can explain variations in foreign affiliate performance (Chan et al., 2010; Ma & Delios, 2010; Ma et al., 2013). Studies considering the positive and negative spillover effects from FDI in developing economies have found, among other things, that both the presence and the specific home country of foreign investors have a positive impact on the productivity of domestic firms (Buckley, Clegg, & Wang, 2002), particularly when the latter have strong absorptive capacities and when the technology gap between them and foreign investors is not too large (Meyer, 2004; Zhang et al., 2010). Nevertheless, foreign investors often pose a threat to domestic firms (Dau, Ayyagari, & Spencer, 2015; Meyer, 2004). The magnitude of crowding out effects is particularly strong if DMNEs and local firms target both lower- and middle-income customers or the same regional markets (Chang & Xu, 2008; Spencer, 2008). DMNEs can also capture spillover effects from local firms (Govindarajan & Ramamurti, 2011). Table 4 provides the main arguments made in the key DMNE entry strategy literature.

Organizing and managing in developing economies

There has been an increase in studies related to post-entry issues, including, but not limited to, how DMNEs organize and manage operations once they have entered a developing economy. This line of research has focused primarily on parent–subsidiary links, knowledge transfer, cultural intelligence, and global talent management. First, strong parent–subsidiary links are essential if DMNE subunits are to successfully compete locally. To curtail operational risks arising from uncertainty, DMNE subsidiaries need to manage their dependence on local resources, especially those that are government controlled, by exploiting parent-sourced resources (Child, Chung, & Davies, 2003; Luo, 2003; Robins, Tallman, & Fladmoe-Lindquist, 2002). Meanwhile, parent firms need to delegate some autonomy to subunits in order to be able to exploit new opportunities (Garnier, 1982; Luo, 2003). There is evidence that DMNEs with greater breadth and depth of related prior experience with emerging economies coupled with a larger pool of capabilities will achieve superior performance

Table 7 Key literature on competing and localizing in developing economies (citation > 200)

Author(s)/year	Journal	Country/region	Main arguments and/or findings
Anderson & Markides (2007)	SMR	India and China	Strategic innovation in bottom of the pyramid markets is about discovering a new WHAT or HOW that will serve the needs of customers. This can be done by leveraging 4As – acceptability, affordability, availability, and awareness
Chang & Xu (2008)	SMJ	China	The presence of foreign entrants has benefited local firms nationally, but negatively affected survival rates of local firms regionally. Foreign entrants are crowded out not only by their peers, but by local firms again at both the national and regional levels
Chen, Chen, & Ku (2004)	JIBS	China	Local link intensity of a foreign subsidiary differs by FDI location, entry mode, firm size and nature of the production network. An investor, in searching of distinctive and inimitable resources, will pursue more local links, as opposed to homogeneous and reproducible resources. Investment in such links always begins with the one that carries the lowest risk to the original business network
Frenkel & Scott (2002)	CMR	China	The application of codes of labor practice by global firms can uphold core labor standards, improve the well-being of workers, and enhance workplace performance
Gao et al. (2010)	JIBS	China	Institutional environment has significant effects on export behaviors above and beyond the impact of firm competencies and industry factors. Firms that do not have distinctive competencies and firms that have cost leadership competencies only do not benefit financially from exporting
Hill & Still (1984)	HBR	DE in general	MNEs have two marketing choices when they transfer to developing economies: (1) standardize the product and changes only what is mandatory; (2) make more appropriate for many products
Khanna, Palepu, & Sinha (2005)	HBR	DE in general	A lack of specialized intermediary firms and of regulatory systems cause the poor soil for profit. MNEs have to adapt to the voids in a country's product market, its input markets, or both, but MNEs must retain their core business propositions even as they adapt their business model
Li, Poppo, & Zhou (2008)	SMJ	China	Managerial ties have a positive effect on performance for domestic firms, whereas the effect is curvilinear for foreign firms. Foreign firms have a competitive disadvantage from tie utilization. Managerial ties are less effective when competition becomes more intense or when structural uncertainty increases
Li, Poppo, & Zhou (2010)	SMJ	China	Foreign subsidiaries acquire greater levels of both explicit and tacit knowledge when they share common goals with suppliers. Relationships are moderated by trust between the two, formal contracts, and access to local-supplier networks
Luo (2002a)	OS	China	Capability building and capability exploitation are inversely associated with environmental complexity and industrial uncertainty. Business cultural specificity does not impede capability building, but does capability exploitation
Luo & Park (2001)	SMJ	China	The Analyzer orientation is best for market-seeking MNEs in China dealing with transitional economies and produce highest performance, compared to Prospector and Defender orientation
Luo & Peng (1999)	JIBS	China	The intensity and diversity of host country experience influence subunit performance. The positive effect of intensity of experience on performance diminishes over time, while the impact of diversity of experience on performance remains unchanged. The positive relationship between experience and performance becomes even stronger when MNEs experience greater environmental complexity, hostility, and dynamism
Makino & Delios (1996)	JIBS	Southeast and East Asia	Partnering with local firms is a primary strategy for accessing local knowledge and improving JV performance. JV host country experience and foreign parent host country experience can mitigate local knowledge disadvantages and thereby lead to increased performance
Schmitt & Pan (1994)	CMR	China and Southeast and East Asia	Building and managing corporate and brand identities in the Asia–Pacific Region is similar to anywhere else in the world. At the same time, there are particularly subtle linguistic and cultural differences that require managerial attention

Table 8 Key literature on institutions, society, and business-government relationships (citation > 200)

Author(s)/year	Journal	Country/region	Main arguments and/or findings
Brugmann & Prahalad (2007)	HBR	DE in general	The liberalization of markets is forcing executives and social activists to work together. Social groups have realized that carefully calibrated business models can unleash powerful forces for good
Chan, Isobe, & Makino (2008)	SMJ	DE in general	The level of institutional development, as determined by the Institutional Development Index, has a strong negative curvilinear relationship with foreign affiliate performance
Cuervo-Cazurra & Dau (2009)	AMJ	Latin-America	Improvements in external monitoring brought about by pro-market reforms decrease agency costs, suggesting a positive effect of pro-market reforms on profitability. Such reforms improve more the profitability of domestic firms, both state-owned and private, than of the subsidiaries of foreign firms
Donaldson (1996)	HBR	DE in general	Three principles help MNEs work through cultural differences, establish codes of conduct, and behave ethically: honor core human values, respect local traditions, and the belief that context matters
Fagre & Wells (1982)	JIBS	Latin-America	The bargaining power DMNEs have with host governments depends on the resources they bring and the number of industry competitors they have. Their relative bargaining power influences their subsidiary ownership choice
Frynas, Mellahi, & Pigman (2006)	SMJ	China, Russia, and, Nigeria	The causal relationship between political resources and FMAs is a complex one; while non-market strategies can be used successfully by first movers, they can also be used by late movers to neutralize FMAs The causal relationship between political resources and FMAs is a complex one; while non-market strategies can be used successfully by first movers, they can also be used by late movers to neutralize FMAs Political connections can create first mover advantages (FMAs). The causal relationship is not always clear as being first in the market can lead to political connections. Later movers can also use non-market strategies to neutralize FMAs
Hitt et al. (2004)	OS	China and Russia	China's stable institutional environment allows firms take a longer-term view that emphasizes partner intangible assets. The less stable Russian institutional environment causes local firms to focus more on the short term and to select partners that provide access to financial capital
Husted & Allen (2006)	JIBS	Mexico	Institutional pressures, rather than strategic analysis of social issues and stakeholders, are guiding decision-making with respect to CSR. Multi-domestic and transnational MNEs favor local CSR more than global MNEs. Global CSR is common among all types of MNEs
Khanna & Palepu (1997)	HBR	DE in general	Highly diversified business groups can be particularly well suited to the institutional context of most developing economies. Conglomerates can add value by imitating the functions of several institutions
Kostova & Zaheer (1999)	AMR	DE in general	MNEs face three types of complexity in maintaining and establishing organizational legitimacy, including environmental complexity (normative and cognitive institutional domains), organizational complexity (tension between external and internal legitimacy), and complexity in the process of legitimation (e.g., liability of foreignness)
Lecraw (1984)	JIBS	Southeast Asia	The increased bargaining power of the MNEs relative to the host country leads to a higher level of equity ownership of the MNEs in their subsidiaries. The relationship between subsidiaries' equity ownership and their success is J-shaped. High and low levels of ownership are associated with high levels of success
Murtha & Lenway (1994)	SMJ	DE in general	Governments' organizational capabilities and countries' political institutional structures affect multinational corporations' (MNCs') international strategies and organization structure. In command and transitional economies, foreign investors must share ownership with the government or a local partner. Their strategies tap the local resources that create international cost advantages, provide conduits of intra-firm exports, and make bets on future market development

Table 8 (*Continued*)

Author(s)/year	Journal	Country/region	Main arguments and/or findings
Peng (2003)	AMR	DE in general	A two-phase model of institutional transitions explains DMNE strategic choice during periods of institutional transition. To respond to emerging markets' longitudinal process moving from a relationship-based, personalized transaction structure to a rule-based, impersonal exchange regime, firms should refine their strategic choices, move from a network-based strategy to a market-focused one
Peng, Lee, & Wang (2005)	AMR	DE in general	Institutional relatedness, defined as an organization's informal links with dominant institutions that confer resources and legitimacy, determines the scope of the firm in addition to product relatedness
Peng, Wang, & Jiang (2008)	JIBS	China and India	An institution-based view of IB strategy has emerged as one leg that helps sustain the "strategy tripod" together with the industry-based and resource-based views, especially in the emerging markets
Prahalad & Hammond (2002)	HBR	DE in general	Markets at the bottom of the pyramid are fundamentally where MNEs should be looking for growth. To operate successfully, MNEs must rethink their business metrics – their focus on high-margin investment
Ramamurti (2001)	JIBS	DE in general	Tier-1 bargaining (between host and home country governments) occurs bilaterally or through international organizations and produces macro-rules on FDI that affect micro-negotiations in Tier-2 bargaining (between host country and individual MNE)
Rodriguez, Uhlenbruck, & Eden (2005)	AMR	DE in general	The pervasiveness and arbitrariness of corruption in a host country can affect DMNE organizational legitimacy and entry strategy. The pervasiveness of corruption increases the likelihood of a wholly-owned subsidiary as well as engagement in corrupt activities. Highly arbitrary corruption increases the likelihood a DMNE will take a local partner to increase external legitimacy
Root & Ahmed (1978)	JIBS	DE in general	A test of 44 economic, social, political, and policy variables found six essential discriminators (e.g., corporate tax level, per capita GDP, ratio of exports to imports, extent of urbanization, etc.) that are critical to discriminate among unattractive, moderately attractive, and highly attractive countries for FDI
Uhlenbruck & De Castro (2000)	AMJ	CEE	Traditional merger frameworks fail to incorporate the government as the seller, whose interests go beyond purely economic concerns. Entry via acquisition of privatized SOEs in CEE countries should consider host governments as critical stakeholders and the country-specific risks of FDI
Uhlenbruck et al. (2006)	OS	DE in general	MNEs will respond to pervasive and arbitrary corruption in a host country by using short-term contracting and JVs
Xu & Shenkar (2002)	AMR	DE in general	Institutional distance provides an explanation for DMNE behavior, especially in two critical FDI steps: (1) host country selection and (2) foreign entry strategy

(Uhlenbruck, 2004). Parent–subsidiary links can serve as an important conduit for effective knowledge transfer within a DMNE's global network, depending on the capacity and willingness of both parent and subsidiary to acquire and to transfer knowledge (Wang, Tong, & Koh, 2004; Zhao & Anand, 2009). An innovation or expertise adopted by a subsidiary in one developing or emerging economy can be transmitted to others or even developed economies (Govindarajan & Ramamurti, 2011; Meyer & Estrin, 2014).

Some prior work draws on the cross-cultural management literature to investigate how DMNEs can manage cultural differences. Research shows that DMNEs that follow the socio-cultural rules of the host country are more successful in managing their subsidiaries (Ghauri & Fang, 2001; Li et al., 2001). Investments in employee development, cross-cultural training, expatriate management programs, and top management incentive packages are needed to fill cultural voids while simultaneously encouraging greater collaboration and knowledge sharing (Fey & Björkman, 2001; Selmier, Kahindi, & Oh, 2015; Wong & Law, 1999). DMNEs need to pay particular attention to organizational justice, an important determinant of job satisfaction for local employees and expatriates alike (Chen, Choi, & Chi, 2002; Leung, Smith, Wang, & Sun, 1996; Leung, Zhu, & Ge, 2009). Global talent management research has also been extended to DMNEs in developing economies, as researchers recognize the importance of hiring local talent, of encouraging talent mobility, and of using social media networks in those processes. Human resources departments are addressing these issues with an eye towards balancing global integration and local responsiveness (Farndale, Scullion, & Sparrow, 2010; Hartmann, Feisel, & Schober, 2010; Iles, Chuai, & Preece, 2010). Table 5 provides the main findings of articles classified under this research theme.

Building and managing joint ventures and alliances in developing economies

International joint ventures (IJVs) and global strategic alliances are important cooperative strategies for DMNEs. Studies in the 1980s and 1990s approached this topic by examining IJV characteristics, motivations, partner selection processes, and ownership structure (Beamish, 1985; Hennart, 1988; Lee & Beamish, 1995; Luo, 1997; Pan, 1997; Yan & Gray, 1994). This line of research found that IJVs in developing economies experienced higher instability rates and more managerial dissatisfaction than those in developed countries, especially if one of the parents was from a developed country (Lane & Beamish, 1990; Lee & Beamish, 1995; Lyles & Baird, 1994; Sim & Ali, 1998). Researchers concluded that to improve IJV performance DMNEs should find local partners with complementary resources (i.e. local market knowledge and experience) and make use of their financial assets, technical capabilities, and other resources (Beamish, 1987; Luo, 1997). A good inter-partner fit, that is one characterized by shared organizational traits and common strategies, can increase the commitment of both partners and lead to superior IJV performance (Lane & Beamish, 1990; Lin & Germain, 1998). In contrast to ventures in developed countries in which foreign investors tend to prefer majority or equal ownership, most firms entering developing or emerging economies through IJVs elect to take a minority equity position because of government constraints and environmental uncertainty (Beamish, 1985; Franko, 1989; Makino & Beamish, 1998; Pan, 1997). Firms in developing economies are especially interested in partnering with firms in developed countries from which they can learn and acquire tacit, embedded knowledge (Lyles & Salk, 1996; Shenkar & Li, 1999).

Since 2000, the focus of research has shifted towards studying the management of these IJVs, especially the relative bargaining power of the parents, parent control of the IJV, knowledge transfer, and partner opportunistic behavior (Hitt et al., 2000; Krishnan, Martin, & Noorderhaven, 2006; Lane, Salk, & Lyles, 2001; Luo, 2007b; Tong et al., 2008). It is the relative bargaining power of partners that affects the pattern of management control, which in turn influences IJV performance and parent satisfaction (Luo, Shenkar, & Nyaw, 2001; Steensma, Tihanyi, Lyles, & Dhanaraj, 2005). An imbalance in management control increases the likelihood of conflict, and hence the chance of IJV failure, or its conversion into a wholly owned subsidiary (Barden, Steensma, & Lyles, 2005; Steensma, Barden, Dhanaraj, Lyles, & Tihanyi, 2008; Steensma & Lyles, 2000).

Prior studies have looked at the transfer of technological and managerial knowledge from foreign parents to the IJV (e.g., Dhanaraj et al., 2004; Steensma & Lyles, 2000), although relatively little research has been done on knowledge transfer in the other direction, that is from JVs to foreign parents (Tsang, 2002). Drawing on organizational learning and economic sociology, scholars have found that absorptive capacity and relational embeddedness play important roles in knowledge transfer between IJV partners (Dhanaraj et al., 2004; Lane et al., 2001). Subsequent research suggests that the capacity of partners to jointly learn is just as important in reducing JV instability as their absorptive capacity (Fang & Zou, 2010). Partner opportunism is often an issue in managing IJVs in developing economies as such economies are frequently characterized by drastic change and overall environmental volatility (Luo, 2007b). Contractual and structural (managerial governance) constraints as well social ones have been shown to be effective in curtailing opportunism (Gong, Shenkar, Luo, & Nyaw, 2007; Luo, 2002b), particularly when social mechanisms lead to ongoing relationships built on personal attachment, social ties, trust, and shared values (Dhanaraj et al., 2004; Krishnan et al., 2006; Luo, 2001, 2005).

More recent IJV studies have adopted several nuanced approaches. Gu & Lu (2014) studied how firm reputation, an intangible resource, affects the formation of IJVs. Chen, Park, & Newburry (2009) noted that the use of different control types in an IJV is influenced by the resource contributions of its parent firms. Also, greater attention has been paid to IJV/alliance portfolio management, organization, and configuration (e.g., Andrevski, Brass, & Ferrier, 2016; Lavie & Miller, 2008; Wassmer, 2010). Despite these efforts, overall research output on IJVs in developing economies has decreased since 2010 (see Table 6).

Competing and localizing in developing economies

Research on how DMNEs compete in developing economies has received relatively little attention compared with other themes. Yet, considerable research has been done on the importance of coping with constantly shifting competitive and regulatory environments and also on how DMNEs can effectively change dominant strategies, build capabilities, and establish robust local and global value chains after market entry (Buckley, 2009; Luo, 2002a; Luo & Peng, 1999). A consensus seems to have been reached that DMNEs operating in developing economies face intense competition – not only from other DMNEs but also from local rivals that possess distinct market response and cost advantages (Chang & Xu, 2008; Pan & Tse, 1996; Rangan & Drummond, 2004). DMNEs suffer from a liability of foreignness because they are unfamiliar with the institutional and economic environments in which they operate (Gao, Murray, Kotabe, & Lu, 2010; Li, Poppo, & Zhou, 2010; Zhao, Park, & Zhou, 2014), and they also have a notable competitive disadvantage when attempting to fit into the host country because they lack ties with business and political stakeholders and hence face greater challenges obtaining tacit knowledge from host country actors (Li et al., 2010; Li, Poppo, & Zhou, 2008; Zhou, Poppo, & Yang, 2008). DMNEs attempt to compensate for those weaknesses by making an effort to augment their local knowledge and bolster their experience skillsets by collaborating with local firms, exploiting and building their own capabilities, and adopting a strategic orientation (e.g., analyzer orientation) well suited to the dynamic and complex emerging economy context (Luo, 2002a; Luo & Park, 2001; Luo & Peng, 1999; Makino & Delios, 1996). To compete in developing countries, DMNEs need to determine the optimal price–performance mix, make product adaptations, find ways to meet mass but low-income consumer demand, and improve capital efficiency (Prahalad & Lieberthal, 1998).

DMNEs are attempting to shift their status from "foreign investor" to "strategic insider" as they become increasingly aware of the fact that their success in developing economies is a key part of their overall corporate competitiveness (Khoury, Cuervo-Cazurra, & Dau, 2014; Luo, 2007a). A number of functions that in the past were almost invariably located in the DMNE's home country are being relocated in host countries, and this includes critical upstream and downstream value chain activities such as R&D, branding, procurement, and training (Chen, McQueen, & Sun, 2013; Dou, Li, Zhou, & Su, 2010). DMNEs can strengthen their global competitiveness by building good relationships with local suppliers and distributors (Zhou & Xu, 2012), using upstream technical and knowledge-intensive business services in the host country (Manning, Ricart, Rosatti Rique, & Lewin, 2010), and developing local managerial competence (Corredoira & McDermott, 2014; Li & Scullion, 2010).

One significant trend is for DMNEs to increasingly use non-ownership, cooperative strategies, i.e. co-production, services outsourcing, franchising, licensing, and other types of contractual relationships by which the DMNE coordinates the local activities of host country firms without itself owning a stake in them (UNCTAD, 2011). Extant research shows that offshore outsourcing has become a popular competitive strategy for DMNEs seeking to achieve business renewal and corporate transformation, and that developing economies have become increasingly attractive offshore locations (Javalgi, Dixit, & Scherer, 2009; Zaheer, Lamin, & Subramani, 2009). Outsourcing goods and services to developing economies allows DMNEs to reduce production costs, improve cycle times, and increase innovation capabilities (Farrell, 2005; Kulkarni, 2008; Lewin, Massini, & Peeters, 2009), but at the same time they need to adopt integration processes and control mechanisms that are task-appropriate and to ensure effective monitoring and coordination of the activities performed by their offshore providers (Jayaraman, Narayanan, Luo, & Swaminathan, 2013; Jensen, 2012; Luo, Wang, Zheng, & Jayaraman, 2012).

Extant literature shows that DMNE offshore outsourcing also benefits developing economies as it contributes to host country exports, employment, and GDP, creates positive knowledge spillovers, and provides access to global value chains (Bunyaratavej, Hahn, & Doh, 2008; Manning et al., 2010). Developing economies eager to tap into such benefits are attempting to increase their attractiveness as services and production offshoring locations by bolstering their investment in human capital, infrastructure, and cluster capabilities, and by improving the overall business environment (Bunyaratavej et al., 2008; Contractor & Mudambi, 2008; Manning et al., 2010; Zaheer et al., 2009). Despite the potential benefits and the eagerness of developing economies to make the most of them, there are concerns that DMNEs are using outsourcing as a way to circumvent their domestic social and environmental standards and that developing economies are locked into low-value-added activities and are overly dependent on technologies owned or controlled by DMNEs and on their global value chains (UNCTAD, 2011). Table 7 provides a summary of key contributions to this research theme.

Institutions, society and business-government relationships

The influence of political, social, and economic variables on DMNE investments in developing economies has been of interest to scholars as far back as the 1970s, so much so that the second largest number of articles by theme falls into this category (see Figure 4). Among the important findings of that body of research is that the level of corporate tax, political stability, and economic development are critical determinants of whether a country is attractive – or unattractive – to foreign investors (Keegan, 1979; Levis, 1979; Root & Ahmed, 1978). Studies in the 1980s focused on the bargaining models of DMNEs and their relationships with host country governments. Those studies found that the resources a DMNE brings determine its relative bargaining power vis-à-vis the host government, which in turn influences the equity ownership of its subsidiaries (Fagre & Wells, 1982; Lecraw, 1984; Simon, 1984). Ramamurti (2001) developed a two-tier, multi-party bargaining model in which bargaining between the governments of host and home countries influences the institutional environments for micro-level negotiations between individual DMNEs and host country institutions. While bargaining processes and negotiations between DMNEs and host country governments can affect the legitimacy of firms, the cognitive and normative institutions present a particular challenge to DMNEs (Ajami, 1980; Kim, 1988; Kostova & Zaheer, 1999). The consensus is that DMNEs in developing economies must contend with high uncertainty and high complexity due to differences in host country institutions and government intervention (Kostova & Zaheer, 1999; Poynter, 1982; Simon, 1984).

The trend towards marketization, liberalization, and privatization in developing countries since the 1990s has led to the development of market-supporting institutions which in turn have reduced the importance of JVs as an entry mode (Meyer, 2001; Meyer et al., 2009). A two-phased model developed by Peng (2003) suggests that, as developing economies become less relationship-based and more impersonal, a market-focused strategy should be adopted. Research also suggests that pro-market reforms enhance DMNE profitability by reducing firm-wide agency costs (Cuervo-Cazurra & Dau, 2009), and that stable institutional environments encourage DMNEs to employ a long-term strategy in developing economies (Hitt et al., 2004). There has also been considerable research on corruption in emerging economies. Recent research suggests that an increase in the perception of corruption reduces the propensity of DMNEs to cooperate with host governments or to make philanthropic contributions, and also increases short-term contracting and participation in corrupt activities (Cuervo-Cazurra, 2008; Cuervo-Cazurra & Genc, 2008; Luo, 2006; Rodriguez et al., 2005; Spencer & Gomez, 2011; Uhlenbruck et al., 2006). Along with the industry- and resource-based views, institutions can be seen as one leg of the "strategy tripod". The institution-based view has been extensively used to explain how institutions influence DMNE strategies and performance in emerging economies (Peng et al., 2008; Stevens et al., 2016).

The societal impact of DMNEs on developing economies can be either positive or negative. Some DMNEs have introduced modern technology or environmentally friendly production processes to the developing economies where they invest, others use outdated technology or take advantage of the less stringent environmental regulations in what has been called pollution havens, in an environmental standards "race to the bottom" (Meyer, 2004). There are studies that stress the positive spillover effect of DMNEs in improving host country labor standards and wages (Caves, 1996), and studies that show that hosts eager to attract FDI compromise their standards (Scherer & Smid, 2000). Over the past decade, questions on business ethics have been high on the research list. Corporate social responsibility (CSR) has gained traction with interest in both formal and informal institutional DMNE settings. The motivation, process, quality, and outcomes of DMNE CSR activities in developing economies are being examined in closer detail. Research in this area has shown that, in general, DMNEs focus more on CSR and ethical issues overall when they are faced with complex institutional pressure, such as conflicting demands from global and local stakeholders or between their ethical standards and those of their host countries (Husted & Allen, 2006; Luo, 2006; Zhang & Luo, 2013). Hence, the evidence is mixed on whether CSR activities help DMNEs gain institutional legitimacy or government support in developing economies. This suggests that rewards for successful CSR management are contingent upon the particular industry or host country, and on the CSR undertaken (Li, Fetscherin, Alon, Lattemann, & Yeh, 2010; Selmier et al., 2015; Wiig & Kolstad, 2010). Table 8 synthesizes the main results of this theme.

FRONTIER ISSUES AND FUTURE RESEARCH

As developing economies have become more diverse, scholarly interest in these economies has grown concomitantly. The complexity and dynamism of developing economies and the evolutionary nature of DMNEs that themselves differ in origin, type, and capabilities, has many theoretical and practical implications. The global reach of new MNEs originating in developing and emerging economies has recently received considerable attention by IB scholars (see review by Luo and Zhang, 2016). Yet, we believe that a renewed endeavor is also needed to continue research on DMNEs that are active in competing in developing and emerging economies.

We identified frontier issues based on four criteria. First, the research agenda we propose requires a dynamic point of view. DMNEs must make adjustments in their global and local strategies as time goes by, because host countries are themselves changing, and because DMNEs learn experientially. Second, with emerging economies playing an increasingly significant role, many DMNEs are recognizing the need to co-develop and co-evolve and are adopting reverse innovation and reverse transfer policies. Thus, the idea of change resonates throughout many of our suggestions for future research. Third, digital globalization is compelling DMNEs to revamp their business models – both those for local markets and for global ones. We see this reflected in the economics of DMNEs offshoring operations to developing economies, in the reshoring of certain activities, and in DMNEs reconfiguring their global value chains (Tallman, Luo, & Buckley, 2018). In addition, DMNEs are integrating their operations in developing economies into their global ecosystem. Indeed, a number of our research agenda proposals have to do with the impact of the new global reality on DMNE strategies. Fourth, developing economies are complex. Far from abating, complexity has been heightened in some areas: for instance, the impact of informal institutions and that of impact of local competition is more and more difficult to anticipate. Thus, many of the research questions that we believe need to be answered have to do with complexity and how DMNEs can respond to it.

Strategic Localization and Insiderization

We believe additional light needs to be thrown on the strategies pursued by DMNEs *after* they enter developing economies, notably in the area of strategic localization and insiderization. Extant research suggests that, as DMNEs increasingly compete in large developing economies, they are shifting their strategic focus away from local adaptation towards insiderization (Luo, 2007a). Ohmae (1989) views insiderization as an essential element in understanding local market demand and thereby achieving commercial success in foreign markets. Insiderization activities are characterized by value chain localization, adaptive diversification and local competence building. DMNEs typically rely on their previous successes or failures in large developing economies to redefine and reorganize their strategies. Restructuring activities are often hub-and-spoke centered in key emerging economies, taking place across subunits in geographically dispersed locations. The goal is expansion of critical upstream and downstream activities to ultimately achieve global value chain integration. This insiderization process has not been sufficiently studied to date. This process entails DMNEs being proactive in (1) identifying and acting upon market opportunities, (2) localization and adaptation, and (3) bolstering organizational legitimacy and reputation. Insiderization is not an isolated act, it is evolutionary, and thus requires longitudinal analysis of the external and internal forces. This does not mean that DMNEs need to localize all critical processes. On the contrary, determining which activities and functions should be localized (and what should not) and what level of corporate support is needed to underpin them are critical. As is true of the process, the consequences of insiderization have not yet received adequate attention. For instance, DMNEs expending greater resources to counteract liabilities of foreignness accrue higher initial costs, but after insiderization is complete, is the continuous investment worth the gains in improved legitimacy? A number of promising avenues of research might compare DMNEs that have achieved insiderization with indigenous firms. One in particular would be to gauge learning over time. Insiderization requires coordination with corporate headquarters and with other DMNE subsidiaries. Future research should use a more integrated and interactive framework to study how insiderization affects global and local mandates. Lastly, the field would benefit from a more nuanced understanding of organizational behaviors that foster insiderization in R&D, marketing, supply chain management, distribution, e-commerce, and human resources management, among others.

Reverse Transfer and Reverse Adaptation

Knowledge acquisition is not a one-way street. Just as it is transferred from DMNE to host economy, so can it flow from a host developing country to the home country of a DMNE, notably through reverse transfer. As it applies to DMNEs, reverse transfer is a process whereby an innovation or knowledge originates in a developing or emerging economy where a DMNE has operations, and is then later transferred to the DMNE home country or to other developed or developing economies (Govindarajan & Ramamurti, 2011). Innovations often originate in emerging markets and are transferred by DMNEs globally. Some DMNEs have subsidiaries that serve as global innovation incubators. How reverse transfer is structured, coordinated and executed, and what levels of corporate support or organizational infrastructure (e.g., global mindset, corporate culture, data flows, parent–subsidiary links, reward schemes, etc.) are required to underpin it, has yet to be unpacked. Future research may explore which measures, programs, and policies at the parent level and at the subsidiary level would encourage reverse transfer. How a DMNE's global integration strategy should incorporate reverse transfer also remains largely unstudied. The transnational approach, that is, conducting reverse transfer within a DMNE's centrally planned, globally coordinated, and locally adapted transfer system, appears to be the most viable of the currently employed reverse transfer strategies. It would be valuable to the field to determine if that is indeed the case or if other strategies are more effective, and, if so, under what conditions.

Reverse transfer also applies to the deploying of key personnel (Luo, 2016). In contrast to local adaptation, which typically is unidirectional nationals from developed countries learning about and adapting to a developing or emerging country culture and environment, there is a burgeoning trend of personnel movement in the other direction. Often, it entails employees of a foreign subsidiary receiving training on the DMNE's vision and competences so that they might be deployed wherever the firm needs them worldwide. The new paradigm reverses the notion of adaptation from "foreign to local" to that of "local to foreign". The kinds of reverse transfer we have described are key components of knowledge flow within a DMNE. They are critical to the creation and exploitation of innovation and to learning, as reverse transfer and reverse adaptation both facilitate the dissemination of new ideas from large developing host countries to other countries, including developed ones.

Probing how reverse adaptation and cultural diversity work together to generate the highest level of benefits for a DMNE should be the next step in research of reverse adaptation evolutionary process. Reverse adaptation, if effective and extensive enough, can ultimately result in greater cultural diversity for DMNEs, which in turn appreciates and reconciles cultural differences. It can also create culturally diverse management teams that can better understand the implications of headquarters decisions in various foreign markets and can better reflect the breadth of the DMNE's geographic footprint. To date, DMNEs seem to have intuitively understood that diversity is good for business, but they struggle to convert that into action. Reverse adaptation can help stimulate this conversion. Also, future research should address how reverse adaptation aligns with global strategy. DMNE managers need to invest in a global personnel program that prioritizes the development of indigenous talent and train them to become global talent. Extant research has found that sharing core cultural values, mindsets and ideologies is an essential, and one of the most effective, mechanisms to solidify a DMNE's global integration and knowledge transfer processes (Bartlett & Ghoshal, 1989). DMNEs that maintain a high rate of knowledge and capability transfer across regions, businesses, and functions tend to have a greater breadth and depth of reverse adaptation capability. Likewise, organizations that engage in cross-border mergers, acquisitions and strategic alliances bolster reverse adaptation to foster cooperation and fluid post-acquisition integration.

Co-evolution with Local Business Ecosystems

According to the co-evolution perspective, firms and societies evolve together; thus, firms must adapt to the environment and the environment is impacted by the actions of firms (Lewin, Long, & Carroll, 1999; Lewin & Volberda, 1999), in other words, they co-evolve. This suggests that firms should seek to balance shifting competitive and institutional dynamics with their own evolving strategies. Applying this to DMNEs and the environments in which they do business, there has been much recent discourse regarding local adaptation, but markedly less about co-evolution with local business ecosystems, i.e., horizontal (local rivals and other foreign rivals), vertical (suppliers, distributors, users and consumers), and diagonal partners (specialized service vendors, industrial designers, financial service providers, local banks, and regulatory and government agencies). DMNEs also have robust internal ecosystems that, by orchestration and integration, effectively delegate power to subunits in developing economies. Co-evolution with both external and internal ecosystem partners is intentional and deliberate, and its success depends on how effectively structural, operational or organizational architecture can forge the connections that govern the evolution and stability of the ecosystem.

Future research might address co-evolution in several ways. First, most developing economies are characterized by shifting institutional and market environments and by an underdeveloped industrial environment (Luo, 2007a). This means that DMNE may have opportunities to bring about, or take part in, evolutionary processes in the ecosystems which they have entered, perhaps influencing industrial standards or regulatory policies. Determining the circumstances under which DMNEs might initiate, direct, or accelerate a co-evolution process would make a valuable contribution to the field, and equally valuable would be determining the value-capture strategies they could employ to capitalize on the improved conditions they have helped to create. Second, DMNEs often seek long-term growth opportunities in the markets they enter; thus, their long-term strategies are often contingent upon competitive and institutional dynamics that co-evolve with them. There are abundant win–win opportunities for firms when conditions improve. DMNEs that successfully compete in emerging economies often see themselves as participants in an evolving system wherein the synergetic or collaborative value of an industry ecosystem is greater than the sum of the parts. One critical research question is how MNEs can work towards common benefits without losing their centrality or keystone positions (Zahra & Nambisan, 2012). Extant literature has identified other risks DMNEs face in building and utilizing such an ecosystem: initiative risk, interdependence risk, and integration risk (Adner, 2006). We believe that the field would benefit from future research that investigates in more detail how DMNEs might harness returns from co-evolution without at the same time creating new and powerful rivals and losing control as the ecosystem is extended. Third, DMNE subunits in developing economies are simultaneously co-evolving with their corporate partners in other countries. Previously, these subunits catered to the *emerging market*, but are now shifting toward serving the *world market*. DMNEs need to know which bottlenecks (technological or organizational) are likely to inhibit the transition of their emerging economy subsidiaries from local players to global contributors.

Reorganizing and Restructuring

We see considerable scope for future IB research on the reorganization and restructuring of DMNE investment and operations in developing economies and the processes behind it. DMNEs have been reorganizing and consolidating their operations since the late 1990s, for which there are at least two major reasons. First, there is a general trend away from production-centric strategies towards more localized value chain activities. DMNEs are terminating unprofitable subunits and those that simply no longer fit their revised foreign-country, business-competence portfolios. Second, in the early days, many DMNEs established numerous subunits in a given host country and tried out different strategies in different locations within them (Meyer & Su, 2015). That approach meant that they later had to integrate activities if they were to be cost-effective. Now, DMNEs are beginning to carry out that integration and are consolidating functions under host country umbrella subsidiaries in a bid to streamline procurement, manufacturing, R&D, training, distribution, public relations, IT, financing, and taxation.

Extant research shows a trend towards sell-offs and spin-offs, ownership restructuring, leadership change, subunit consolidation, and early IJV termination (Dhanaraj & Beamish, 2004; Li & Li, 2010; Meschi, 2005; Steensma et al., 2008). One issue we would like to see on the research agenda is how DMNEs are carrying those out, that is, by which forms and processes, and under what conditions one or another is best. Researchers might consider the factors behind the trend itself, taking into consideration both local ones, such as disappointing subunit performance, revised downward projections for long-term growth in a host country, and increased rivalry from indigenous firms, as well as global ones, like a decline in the importance to a DMNE of a host country market and overall change in a DMNE's geographic portfolio. Another issue that merits attention is how DMNEs coordinate the efforts of individual subunits in a host country and at the same time across other countries. Yet another issue of interest is the role that a hub in a large emerging economy such as China might play in DMNE reorganizing and restructuring, given that such a hub may be in an ideal position to provide feedback on local trends. Research in this area may reveal which global integration functions are likely to be handled at the national host country level and which are more likely to be performed in regional hubs.

McKinsey (Bughin, Lund, & Manyika, 2015) have projected that the unprecedented increase in DMNE profits from investments in emerging economies over the past two decades is drawing to a close. Current geopolitics, especially growing tensions in trade and investment between major developed economies (USA in particular) and leading developing countries (China in particular), further complicates the prospect for DMNEs. These MNEs will have to become more efficient, more resilient, and develop new capabilities if they are to remain competitive vis-à-vis powerful local rivals. Future research might address how reorganization and restructuring processes have resulted in improved efficiency and capability-building and have bolstered competitiveness. A real options logic, which holds that firms are adaptive systems that need to balance refinements of existing processes and explorations of new market conditions and opportunities (Kogut & Kulatilaka, 2001; McGrath, Ferrier, & Mendelow, 2004), might serve as a basis for a better understanding of the motives, processes, and consequences of restructuring and reorganization. As DMNEs continue to engage in co-evolution with local business ecosystems, it becomes even more important for them to match their capabilities to the environment. A real options heuristic allows a firm to gauge the value of particular paths of exploration in evolving environments. Future theorization could possibly unpack how real options methods work specifically in the context of DMNE reorganization in developing economies. Perhaps even more important to the growth of DMNEs is to determine which distinctive capabilities will allow them to make the most of opportunities they may have in the future, a premier notion in the real options theory framework (Bowman & Hurry, 1993).

Strategic Responses to Institutional and Market Complexity

Developing economies differ among themselves in their competitive and institutional environments but also in their heterogeneity and complexity. Large developing economies are characterized by intense market complexity that is manifested in geographic segmentation, sectorial heterogeneity, new consumerism, institutional unpredictability, and fierce competition. There has yet to be a thorough analysis in the IB literature of how DMNEs cope – or should cope – with that complexity. It seems more implausible than ever that DMNE home country executives, or even those in faraway regional locations, can decipher trends, diagnose problems, or react with ubiquitous heterogeneity within a host country. Developing country markets are segmented by levels of economic development, industrialization policies, local culture, purchasing power, consumer behavior, and distribution networks (Luo, 2007a). Their industrial structures have moved towards multiplicity, dissimilarity and heterogeneity because of governmental industrial policies that have put varying entry barriers in different sectors (Meyer, 2004). Another example is how new consumerism has challenged the ability of DMNEs to meet consumer demand as consumers in some developing markets leapfrog their developed country counterparts in the use of digital products. The level of consumption is on the rise across developing economies, facilitated by electronic purchasing and delivery. The new consumers in developing economies have already changed the nature of the luxury goods market, with the internet making it possible for them to purchase global brands in a way unimaginable a decade ago.

We caution against mistakenly treating developing economies in the simple aggregate, because large developing economies are a conglomeration of a variety of segmented markets, and thus, when considering strategic responses of DMNEs in these larger economies, within-country and cross-sector variations must be taken into account. There is an extant body of research that examines in detail country-level issues including economic, institutional, and cultural influences in developing economies, but less attention has been paid to within-country variations in demand, consumers, and sector-level actors.

There is widespread belief that developing economies are characterized by institutional voids, an absence of specialized intermediaries, and a lack of contract-enforcing mechanisms. While there is some truth to such notions, institutional complexity represents a much greater challenge. It is not so much that developing economies are lacking in regulations and institutions, but that there are too many of them (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Luo, Wang, & Zhang, 2017; Shi et al., 2017). The bureaucracy underpinning each formal institution and regulatory agency exerts sometimes contradictory pressures. Institutional complexity depicts the extent to which a DMNE encounters not only multiplicity but multi-directionality (some institutional forces are improved but others worsened), heterogeneity (DMNEs confront institutional constituents that require differently coercive, normative or cognitive standards), instability (institutional requirements constantly change and are difficult to predict), and ambiguity (tedious processes, dubious rules, and poor enforceability) of different requirements from a plurality of institutional forces in a large emerging economy. This complexity amplifies costs of processing information, of making decisions, and even of handling routine operations.

However, prior research does not provide an adequate understanding of DMNEs' responses to institutional complexity. This shortfall is even more striking from decidedly interactive, evolutionary, and longitudinal perspectives. Institutional complexity dissuades investment, and in some cases has even caused large, well-established DMNEs to downsize or exit developing economies. It would be particularly useful to examine how DMNEs, individually or collectively, push *institutional innovations* at national, subnational and industrial levels of developing economies, in a process of co-evolution with local institutions, so as to reduce future institutional complexity. Of particular interest would be whether DMNEs obtain better results if they deal with institutions one-on-one or as part of a group comprising numerous DMNEs with shared interests, and, if so, in what ways. Efforts to change local institutions are often undertaken with local competitors, resulting in both collaboration and competition with the latter. Local rivals generally have a better understanding of the local environment (Luo & Child, 2015). However, cooperation with local rivals in both host country and global markets also warrants attention, especially concerning the forms of cooperation, co-learning processes and conditions under which co-opetition unfolds and evolves.

CONCLUSION

Prior research in early years largely focused on DMNEs' entry into developing economies and treated DMNEs as "foreign investors". More recent research shows that DMNEs have been evolving from "foreign investors" into "strategic insiders", who conduct a large array of value chain activities in developing economies. Our review of the literature from 1970 through 2016 identifies key theoretical insights and empirical findings and shows that there has been considerable progress in the last four plus decades towards consensus on a number of issues. We undertook this study in order to advance our understanding of topics as diverse as entry strategies, IJV formation and management, the organization of host country operations, local market adaptation, and the management of social and institutional interactions.

The literature on DMNE investing in developing economies has enhanced our understanding of key theoretical lenses in international business. Extant research suggests that developing economies are not just a market for DMNEs but a critical source of global competence and global innovation. The concepts of reverse innovation and reverse transfer, for instance, have significantly changed the dominant views toward capability development, deployment, and diffusion. The literature sheds new light on the global integration–local responsiveness framework because it shows that many functions once performed by corporate headquarters have become much more decentralized and are now often performed in part by flagship hubs located in key emerging economies. The literature further changes our view toward global planning and decision-making theory. Many DMNEs have shifted away from a traditional top–down approach, where developing market subsidiaries in the past were mere implementers of global initiatives, to a bottom–up one where they are responsible for global initiatives. An increasing number of DMNEs have now established regional headquarters and global competence centers in large cities in developing countries.

Furthermore, the literature offers a nuanced understanding of the institutional perspective, and further enriches the evolutionary view of MNEs by providing insights on how MNEs co-evolve with host country competitive and institutional environments in recursive, iterative and interactive steps (e.g., Meyer, 2004; Ramamurti, 2004). This is possible because of the transitional nature of these economies at national, subnational and industrial levels. The literature also deepens our understanding of MNE evolution and strategic change, raising new questions as to how such evolutions may reshape existing MNE theories, such as internalization, ownership-specific advantages, and the liability of foreignness. Dynamic capabilities may be a viable lens to handle some of these issues, but it still needs to embrace organizational evolutions in this theory.

There are several research areas that could deepen our understanding of the co-development of DMNEs and developing economies. To this end, we identified five key areas that we think warrant greater attention: strategic localization, reverse transfer and reverse adaptation, co-evolution with local business ecosystems, reorganization and restructuring, and strategic responses to institutional and market complexity. Today, MNEs are continuously proactive in tapping potentials in developing economies despite daunting challenges and new global geopolitics they face. Opportunities also abound for IB scholars to contribute to the broadly defined body of work we have revealed and to offer nuanced approaches to understanding how DMNEs and developing economies co-evolve.

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NOTES

[1]For instance, we identified some newly industrialized economies (NIEs) (e.g., Hong Kong, Taiwan, Singapore, and South Korea) as developed economies from 1998, and defined them as developing economies before 1998. Since 1998, the IMF and the CIA World Factbook began to list these NIEs as advanced economies. Similarly, the United Nations' human development index (HDI) indicated that these four NIEs have reached a relatively high level of human development score as developed economies in 1998.

[2]To decide on keywords, we looked at 10 highly-cited developing economy literature reviews: Bruton & Lau (2008); Kirkman, Lowe & Gibson (2006); Lu (2003); Luo & Zhang (2016); Marquis & Raynard (2015); Nicholls-Nixon, Castilla, Garcia & Pesquera (2011); Pisani (2008); Roth & Kostova (2003); Tsui, Schoonhoven, Meyer, Lau & Milkovich (2004); and Xu & Meyer (2013). We formed two sets of keywords: the first having descriptive terms relating to developing economies and the second relating to MNEs. We used the two sets to guide the literature search using the ABI/INFORM Complete-ProQuest and the EBSCO/host Business Source Premier databases. Each time we used a keyword from set one and also from set two, and ensured that each keyword from one set was pairwise searched together with a keyword from the other. We selected only full-length original research articles, excluding dissertation abstracts, book reviews, and introductory short notes.

[3]Articles dealing with two research themes were coded as two. This explains why the cumulative number of articles shown in Figure 4 is larger than our 692 sample size.

[4]We used the Google Scholar citation count of August 30, 2018.

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APPENDIX

See Table 9.

Table 9 Top 20 most cited articles on DMNEs in developing economies

Article title	Author	Year	Citation	Journal
Strategy in emerging economies	Hoskisson et al.	2000	3541	AMJ
Institutional transitions and strategic choices	Peng	2003	2618	AMR
Why focused strategies may be wrong for emerging markets	Khanna and Palepu	1997	2536	HBR
Organizational legitimacy under conditions of complexity: The case of the multinational enterprise	Kostova and Zaheer	1999	2492	AMR
Absorptive capacity, learning, and performance in international JVs	Lane, Salk, and Lyles	2001	2245	SMJ
An institution-based view of international business strategy: A focus on emerging economies	Peng, Wang, and Jiang	2008	2134	JIBS
Serving the world's poor, profitably	Prahalad and Hammond	2002	2082	HBR
Distance still matters: The hard reality of global expansion	Ghemawat	2001	2012	HBR
Partner selection in emerging and developed market contexts: Resource-based and organizational learning perspectives	Hitt et al.	2000	1633	AMJ
Knowledge acquisition from foreign parents in international JVs: An empirical examination in the Hungarian context	Lyles and Salk	1996	1587	JIBS
Bargaining power, management control, and performance in United States–China JVs: A comparative case study	Yan and Gray	1994	1427	AMJ
Reinventing strategies for emerging markets: Beyond the transnational model	London and Hart	2004	1467	JIBS
Institutions, resources, and entry strategies in emerging economies	Meyer et al.	2009	1338	SMJ
Managing tacit and explicit knowledge transfer in IJVs: The role of relational embeddedness and the impact on performance	Dhanaraj et al.	2004	1055	JIBS
Equity JVs and the theory of the multinational enterprise	Beamish and Banks	1987	1052	JIBS
Learning to compete in a transition economy: Experience, environment, and performance	Luo and Peng	1999	974	JIBS
Institutional distance and the multinational enterprise	Xu and Shenkar	2002	974	AMR
Institutions, transaction costs, and entry mode choice in Eastern Europe	Meyer	2001	965	JIBS
When does trust matter to alliance performance	Krishnan, Martin, and Noorderhaven	2006	912	AMJ
Strategies that fit emerging markets	Khanna et al.	2005	903	HBR

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