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Entry Mode Choice by Emerging Market Multinationals: A Review of Theory, Evidence, and Unresolved Debates

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ABSTRACT: The international expansion of emerging market multinationals (EMNEs) has become one of the defining features of the global economy, yet the theoretical apparatus of international business — developed largely from the experience of Western multinationals — fits EMNE behaviour imperfectly. This review synthesises three decades of research on foreign market entry mode choice and evaluates how well its core frameworks (transaction cost economics, the eclectic paradigm, institutional theory, and the resource-based and learning perspectives) explain the observed strategies of EMNEs. The review documents systematic divergences between theoretical predictions and EMNE behaviour: a greater willingness to enter institutionally difficult markets, heavier reliance on partnership-based modes, springboard acquisitions aimed at asset acquisition rather than asset exploitation, and internationalisation sequences that compress or invert the incremental stages predicted by process models. The paper organises competing explanations of these divergences, identifies the conditions under which conventional theory retains predictive power, and sets out an agenda for research on entry mode dynamics — mode change over time — which remains the least developed area of the field.

KEYWORDS: entry mode, emerging market multinationals, internationalisation, transaction cost economics, institutional theory, springboard perspective, literature review

1. INTRODUCTION

Foreign market entry mode — the governance structure through which a firm establishes operations abroad, ranging from exporting and licensing through joint ventures to wholly owned subsidiaries — is among the most consequential decisions in international strategy and among the most intensively studied topics in international business research. The canonical literature, built on transaction cost economics and the eclectic paradigm, was developed to explain the behaviour of multinationals from advanced economies expanding outward from strong institutional home bases with proprietary technological and brand advantages (Anderson & Gatignon, 1986; Dunning, 1988).

The rise of emerging market multinationals over the past two decades poses a sustained challenge to this apparatus. Firms from China, India, Brazil, Turkey, the Gulf states, and Southeast Asia now account for a substantial share of global outward foreign direct investment, and a large body of research documents patterns of expansion that sit awkwardly with received theory: aggressive acquisition of firms in advanced economies by companies with no obvious ownership advantages; comfort operating in institutional environments that Western firms avoid; and internationalisation at a speed that process models struggle to accommodate (Luo & Tung, 2007; Ramamurti, 2012).

This paper reviews the entry mode literature with a specific focus on the EMNE challenge. Rather than treating EMNE behaviour as anomalous, the review asks what the accumulated evidence implies for the scope conditions of the core theories, and where genuine theoretical extension — rather than relabelling — has occurred. Section
2 reviews the theoretical foundations. Section 3 synthesises the empirical evidence on
EMNE entry mode behaviour. Section 4 organises the competing explanations. Section 5 identifies unresolved debates and a research agenda, and Section 6 concludes.

2. THEORETICAL FOUNDATIONS OF ENTRY MODE RESEARCH

2.1 Transaction Cost Economics

Transaction cost approaches model entry mode as a choice of governance structure minimising the sum of production and transaction costs (Anderson & Gatignon, 1986). High asset specificity, high behavioural uncertainty, and high risk of partner opportunism predict high-control modes (wholly owned subsidiaries); low specificity and effective market safeguards predict low-control, shared modes. Three decades of empirical work provide broad but qualified support: meta-analyses find the predicted effects of asset specificity and uncertainty on control levels, though effect sizes are modest and context-dependent (Zhao et al., 2004).

2.2 The Eclectic Paradigm

Dunning's OLI framework (1988) treats entry mode as jointly determined by ownership advantages (firm-specific assets worth exploiting abroad), location advantages (hostcountry attractions), and internalisation advantages (benefits of keeping transactions within the firm). Its flexibility has made it the field's organising umbrella, but the same flexibility limits its falsifiability, and its core assumption — that firms internationalise to exploit existing ownership advantages — is precisely the assumption EMNE behaviour calls into question.

2.3 Institutional Theory

Institution-based perspectives (North, 1990; Peng et al., 2008) bring host- and homecountry institutional quality into the entry mode calculus. Weak host institutions raise contractual hazards, which transaction cost logic reads as favouring full ownership; but they also raise the value of local partners who can navigate informal rules, which favours shared modes. This tension — full ownership to avoid partner risk versus partnership to access institutional knowledge — is resolved differently across studies, and the resolution turns out to depend heavily on where the entering firm comes from, a point central to the EMNE debate.

2.4 Learning and Process Perspectives

The Uppsala process model (Johanson & Vahlne, 1977) predicts incremental internationalisation: firms enter psychically close markets first through lowcommitment modes, deepening commitment as experiential knowledge accumulates. The model's learning core has aged well, but its gradualism has been strained by bornglobal firms and by EMNE acquisition sprees that leap directly to high-commitment modes in distant markets.

3. THE EMNE EVIDENCE

3.1 Documented Behavioural Patterns

Four patterns recur across the empirical EMNE literature. First, institutional-difficulty tolerance: EMNEs invest disproportionately in host countries with weak institutions, where their home-grown capabilities for operating amid institutional voids constitute a genuine competitive advantage (Cuervo-Cazurra & Genc, 2008). Second, partnership propensity: EMNEs use joint ventures and alliances more readily than comparable developed-economy firms, employing partners as vehicles for legitimacy and knowledge acquisition rather than merely as risk-sharing devices. Third, springboard acquisitions: EMNEs acquire firms in advanced economies to obtain — not exploit — strategic assets such as technology and brands, inverting the causal arrow of the OLI framework (Luo & Tung, 2007). Fourth, compressed internationalisation: EMNE expansion sequences frequently skip the incremental stages of process models, moving rapidly to high-commitment modes.

3.2 Performance Evidence

Evidence on the performance consequences of EMNE entry mode choices is younger and more mixed. Studies generally find that shared-control modes outperform wholly owned entries for EMNEs early in their internationalisation, with the differential narrowing as international experience accumulates — consistent with a learning interpretation in which partners substitute for missing experiential knowledge. Springboard acquisitions show high variance: successful asset-seeking acquisitions transform acquirers' capability bases, while integration failures are common and costly, reflecting the difficulty of absorbing sophisticated assets into less sophisticated parent organisations (Madhok & Keyhani, 2012).

4. COMPETING EXPLANATIONS AND THEIR ADJUDICATION

Three positions structure the theoretical debate. The extension view holds that existing theory accommodates EMNE behaviour once variables are measured properly: EMNE ownership advantages are real but unconventional (frugal engineering, institutional navigation capabilities, diaspora networks), and once recognised, standard OLI logic applies (Ramamurti, 2012). The new-theory view holds that EMNE behaviour — especially asset-seeking internationalisation — requires distinct constructs such as the springboard perspective and linkage-leverage-learning framework (Mathews, 2006).

The context view holds that the disagreement itself reflects insufficient attention to scope conditions: theories built for asset-exploiting expansion apply where EMNEs exploit advantages, and learning-based frameworks apply where they seek them.

The weight of accumulated evidence, this review argues, favours the context view. EMNE entry behaviour is not uniformly anomalous: in host markets institutionally similar to home, EMNE mode choices track transaction cost predictions closely; the divergences concentrate in advanced-economy entries where asset-seeking motives dominate. This suggests the field's task is not to replace its core theories but to specify, more precisely than the founding literature did, the motive-dependent boundaries within which each applies — a maturation the entry mode literature has begun but not completed.

5. UNRESOLVED DEBATES AND RESEARCH AGENDA

Three areas stand out as underdeveloped. First, entry mode dynamics: the literature overwhelmingly studies the initial mode choice, yet modes change — joint ventures are bought out, subsidiaries are divested, alliances are restructured — and these dynamics, not the initial choice, determine long-run outcomes. Longitudinal designs tracking mode trajectories remain rare. Second, digital internationalisation: platform-based and digital-first EMNEs internationalise through modes (app-store entry, cross-border ecommerce) that the physical-presence categories of classical theory do not capture, and the field lacks a settled framework for digital entry. Third, geopolitical constraint: investment screening regimes in advanced economies increasingly restrict the acquisition channel central to springboard internationalisation, and how EMNEs adapt their mode portfolios to this constraint is an open and policy-relevant question.

6. CONCLUSION

The entry mode literature is among the most mature in international business, yet the EMNE phenomenon has productively unsettled it. This review has argued that the accumulated evidence supports neither wholesale rejection of the classical frameworks nor complacent business-as-usual, but a contingent synthesis in which the motive for internationalisation — asset exploitation versus asset seeking — determines which theoretical lens applies. For researchers, the priority areas are mode dynamics, digital entry, and geopolitically constrained strategy. For practitioners in emerging

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market firms, the review's practical message is that partnership-based entry is not a second-best compromise but, in the asset-seeking phase of internationalisation, frequently the performance-maximising choice — a conclusion the evidence now supports with some confidence.

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