Do MNEs from developed and emerging economies differ in their location choice of FDI? A 36-year review

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ABSTRACT

This study examines the extent to which MNEs from developed (DMNEs) and emerging (EMNEs) economies differ in Location behaviour. Studies on MNE location choices have failed to capture the changing FDI landscape and leave the inconsistent findings unexplained. We address this gap by systematically reviewing the extant literature on location choices of DMNEs and EMNEs over the past 36 years – from the introduction of the OLI model to 2016. Key themes emerging from the review reflect a comprehensive picture, capturing the impact of multiple factors affecting location choices of DMNEs and EMNEs. Future research is challenged by: a. adopting an integrated approach examining three levels – individual (managerial), firm (ownership structure, type of FDI, internationalisation stages, and the different nature of ownership advantage), and context of location decisions (home, host, sub-national, regional, supranational, and networking); b. refining or developing theories to capture the dynamic picture of MNE internationalisation.

1. Introduction

The location behaviour of multinational enterprises (MNEs) has been recognised as one of the most important organisational considerations (Buckley, 2016; Dunning, 1998, 2008). Since location economics was introduced to the international business (IB) domain by Dunning in his first major research project in 1952 (Dunning, 1958), the location dimension has become an essential and distinctive element in IB research (Buckley & Ghauri, 2004). Location choice (LC) is core to the managerial decisions of MNEs when engaging in foreign direct investment (FDI). LC decisions in most cases are irreversible, or costly to alter, and hence affect the sustainable development of MNEs (Duanmu, 2012). A location decision is very complex and involves consideration of multiple and diverse elements. Inconsistencies exist in the current LC literature and a comprehensive understanding of the factors that affect LC is still under-developed (e.g. Kim & Aguilera, 2016; Nielsen, Asmussen, & Weatherall, 2017).

While the landscape of the IB research on LC has been dominated by studies on MNEs from developed countries (DMNEs), the scenery is changing, as MNEs from emerging economies (EMNEs) are disrupting the competitive milieu with their increasing participation in international trade and contribution to global economic development (Casanova & Miroux, 2016; Duanmu, 2012; Hitt, Li, & Xu, 2016). EMNEs, in the past 15 years, have not only considerably expanded overseas, but have also achieved significant success. Notably, 30% of the Fortune Global 500 firms are now from emerging economies[1] (compared to less than 10% ten years ago), and in 2015, 40% of industry leaders were firms from emerging markets (none in 2004; Casanova & Miroux, 2016, p.12). The geographic scope of outward FDI made by EMNEs is not only South–South, but also South–North, especially since the 2007–2008 Global Financial Crisis (Casanova & Miroux, 2016; Hitt et al., 2016). Simultaneously, DMNEs' internationalisation strategies are also evolving. While 50 years ago, business decisions and core competences were largely located at DMNE headquarters (HQ), the current competitive environment has driven DMNEs to pay greater attention to customer needs; hence, DMNEs increasingly opt for localisation and seek strategically important resources in host countries (Hitt et al., 2016). However, comparing the two groups, EMNEs start their outward FDI later than DMNEs and face challenging home market environments characterised by inadequate business mechanisms, political instability, and resource constraints (Casanova & Miroux, 2016). This provides the motivation for our study to capture the current state of knowledge on the location behaviour of both DMNEs and EMNEs.

By conducting an evidence-based systematic review (Tranfield,

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[1] Emerging economies are defined based on four criteria (Casanova & Miroux, 2016 p. 2): (1) their level of development, (2) their upward trajectory towards a mature stage of development, (3) their increased integration in the world economy, and (4) their potential to play a significant role in the global economy.

Denyer, & Smart, 2003) of the literature on *Location* over the past 36 years, this study answers the following questions: 1) *To what extent do the determinants of location choice differ between DMNEs and EMNEs?* 2) *What are the underlying logics that can explain the similarities and differences in the location behaviour between DMNEs and EMNEs and what are their implications for future research?* This research differs from the extant review papers (e.g. Kim & Aguilera, 2016; Nielsen et al., 2017), as it separates LC studies into two groups based on whether the MNEs originate from emerging or developed economies (indicated by the articles themselves, and in line with the classification defined by MSCI, 2017; OECD, 2016). This allows us to compare and contrast these two groups (DMNEs vs. EMNEs) and to discover the similarities and differences in their location decisions. Key themes reflecting factors at the individual (managerial), firm, and context (of location decisions) levels affecting the LC of DMNEs and EMNEs reveal a full picture of the current state of knowledge on Location. Our study hence contributes to the IB field by enhancing our understanding of how DMNEs and EMNEs differ in their location behaviour – a gap in the existing knowledge on MNE LC. The rationales explaining the different location behaviours of the two groups are discussed and the implications for future research are considered.

The remainder of the study is organised as follows. We first explain how a systematic literature review method is employed to help identify and analyse the selected articles. The findings emerging from the review are then presented. This is followed by discussions on the rationale for DMNEs' and EMNEs' location behaviour and recommendations for future research. The paper concludes with a discussion and suggestions for future research.

2. Methodology

To reveal a full picture of the current state of knowledge on the location behaviour of MNEs and to respond to recent calls on understanding why inconsistent findings exist in the extant research (Kim & Aguilera, 2016; Nielsen et al., 2017), this study is designed on the premise that the home country environment (developed or emerging economy) of an MNE determines its traits and objectives and hence its internationalisation strategy (Hobdari, Gammeltoft, & Li, 2017; Meyer & Peng, 2016). This paper adopts a systematic review approach, a widely used method for management and business studies (e.g. Pittaway et al., 2004; Thorpe et al., 2005), which aims to synthesise research in a 'systematic, transparent, and reproducible manner' (Tranfield et al., 2003, p. 207). To enhance the reliability of the research, we undertook five procedural steps that are widely used in review papers published in international business and management (e.g. Fetscherin, Voss, & Gugler, 2010; Kiss, Danis, & Cavusgil, 2012; Nielsen et al., 2017). Each step is explained in detail below.

Step 1: Define the scope of the research

The research database (or collection of reviewed studies) was sourced from the Social Sciences Citation Index (2015) in the subject areas of 'business' and 'management', with a total of 251 journals identified. We ranked the journals by impact factor (IF, Thomas Reuters JCR Impact Factor) and removed those with an IF below 1, resulting in 152 journals. We also checked this against the UK Association of Business Schools list (ABS, 2015), and removed journals that were graded 1 and 2, resulting in a bank of 109 journals. Furthermore, drawing on the subject areas defined by the UK Association of Business Schools in 2015 and the specified aim and focus of each journal, we identified eight subject areas highly relevant to MNE LC. These areas are as follows: International business and area studies; Strategy; Organisation studies; Marketing; Innovation; HRM and employment studies; General management, ethics and social responsibility; Entrepreneurship and small business management. This step resulted in 73 journals.

The review period is from 1980 to 2016; 1980 was selected as a starting point due to the introduction of Dunning's OLI model

(Dunning, 1980). The few location papers published before 1980 are not representative of the mainstream LC literature that developed thereafter. Therefore, a time span of 36 years (1980–2016) guarantees coverage of early studies as well as the most recent research on location.

Step 2: Article search (keywords and search strings)

To locate relevant articles from the 73 journals and to ensure that all relevant papers on location were included, the four authors formed a review panel and discussed key search terms collectively. Agreed keywords focused on the concepts of 'location' and 'multinational', including alternative terminologies, such as 'geographic space', 'distance', 'subsidiary', 'international', 'FDI'/'Foreign Direct Investment', and 'global'. We used each string to manually search all 73 journals on the Web of Science. Thus, we identified those articles where the chosen keywords appear in the title, abstract and keyword list. The initial search yielded 1,213 papers published in 65 journals (8 journals yielded no papers). To ensure that all relevant articles on location were included, we used 'location' only to search again in the 73 journals; the results were consistent.

Step 3: Categorisation of articles into A, B and C classes

We read the abstracts of the 1,213 articles and classified them into categories A, B, and C, based on the inclusive criteria shown in Table A1 below. Class A represents highly relevant articles ('location' is studied as either a dependent or an independent variable), class B refers to those articles in which the research topic is indirectly related to MNE LC (e.g. consumer behaviour), and class C means that the article has no relevance to MNE location choice (e.g. migration). Group meetings took place whenever there were doubts about the classification of an article. Among the 1,213 articles, 363 were allocated to class A, 77 to class B, and 773 to class C.

Step 4: 'Location choice' as the dependent variable: DMNEs and EMNEs

The 440 A and B class articles were further classified into two groups: a) LCs of DMNEs; b) LCs of EMNEs. Articles without information on '*where from*' (the home country) were identified by carefully reading the full text and subsequently excluded. Book reviews, comments, and editorial summaries were also excluded. As a result, of the 440 articles, 168 were found to be in the DMNE group (38.2%), and 71 were found to be in the EMNE group (16.1%). 201 articles (45.4%) were dropped because the '*where from'* information was not explicit. We further screened the articles based on whether LC was a dependent or an independent variable in the study. All articles in which LC was an independent variable were excluded. This principle was applied to all articles, regardless of whether they used a quantitative and/or a qualitative method. This further screening resulted in the identification of 54 articles focusing on DMNEs and 30 focusing on EMNEs published across 16 journals (as shown in Table A2), as detailed in Tables A3 and A4.

Step 5: Identification of key themes (thematic analysis)

We systematically analysed the full text of the 84 articles (54

Table A1
Inclusion criteria.

No.	Inclusion criteria	Reasons for inclusion
1	Empirical studies	Capture key themes of research on location choice
2	Between 1980 to 2016	Ensure the coverage of most recent research in IB (Dunning's OLI, 1983)
3	All industries	Ensure the width of research in IB
4	Quantitative and qualitative	Capture all empirical evidence
5	All countries	Focus on 'location' in a global arena
6	MNE focused	In line with the OLI
7	IB focused	Aim of the paper (non IB focused areas, e.g. political research, supply chain, IT, retailing, HR are excluded)