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EXTENDING THEORY BY ANALYZING DEVELOPING COUNTRY MULTINATIONAL COMPANIES: SOLVING THE GOLDILOCKS DEBATE

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I analyze how the study of developing country multinational companies (DMNCs) can help extend theory. The renewed interest in DMNCs has generated a 'Goldilocks' debate, with one camp arguing that the analysis of DMNCs is 'hot' and requires new theory, another camp arguing that it is 'cold' and no new theory is required, and a third camp arguing that it is 'just right' and it can be used to extend theory. I follow this third camp and argue that the unique conditions of developing countries influence the internationalization of DMNCs, creating a laboratory for extending theory. I illustrate this idea by reviewing some of the key theories and models of the multinational company and explaining how they can be extended with the study of DMNCs. Copyright © 2012 Strategic Management Society.

INTRODUCTION

The topic of developing country[1] multinational companies (DMNCs) has reemerged with renewed impetus in recent years. Although there was a spurt of research on these firms in the 1970s and early 1980s (e.g., Ghymn, 1980; Heenan and Keegan, 1979; Kumar and McLeod, 1981; Lall, 1983; Lecraw, 1977; Vernon-Wortzel and Wortzel, 1988; Wells, 1983), less was done in the 1990s (with some exceptions like Aggarwal and Agmon, 1990; Lecraw, 1993; Young, Huang, and McDermott, 1996; for a review see Yeung, 1999). The renewed interest in the 2000s appears to coincide with the emergence of some of these companies as world leaders in their industries, such as the Brazilian airplane manufacturer Embraer or the Chinese telecommunication equipment manufacturer Huawei, and their bold acquisitions in advanced economies, such as the purchase of the Dutch steel producer Corus by the Indian conglomerate Tata or the acquisition of the

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[1] There is a myriad of terms used to refer to countries that are not advanced (Third World, underdeveloped, developing, the South, the periphery, backward, emerging, etc.). In this article, I use the term developing countries to refer to countries that are not advanced economies. I follow the classification of the International Monetary Fund and consider advanced economies to be the following: Australia, Austria, Belgium, Canada, Cyprus, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Portugal, Singapore, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Taiwan, the United Kingdom, and the United States. Hence, I include as developing countries not only less developed or underdeveloped countries (countries with very poor populations and a narrow industrial and export bases), but also emerging economies (high-growth countries that are not advanced economies), a term some researchers prefer to use because it has a more positive connotation. In any case, I use this classification of countries into developing and advanced merely for convenience of exposition. There are large differences within each group and, in many cases, the classification is not relevant because there is no clear point of separation (see Cuervo-Cazurra and Genc, 2011, for a more detailed discussion).

British cement producer RMC by the Mexican company Cemex. These have garnered attention in the managerial press (e.g., *The Economist*, 2008; BCG, 2011) and led to a renewed interest in the academic literature (e.g., see the articles in the special issues edited by Aulakh, 2007; Gammeltoft, Barnard, and Madhok, 2010; and Luo and Tung, 2007; the chapters in the books edited by Sauvant, 2008; Sauvant, Maschek, and McAllister, 2010; Ramamurti and Singh, 2009; and Williamson *et al*., forthcoming; and the articles in this special issue). This is part of a new interest in better understanding how managing in developing countries challenges existing ideas given the particularities of these countries (e.g., see the articles in the special issues edited by Christensen *et al*., 2010; Gelbuda, Meyer, and Delios, 2008; Hoskisson *et al*., 2000; and Wright *et al*., 2005).

At the same time, the study of DMNCs has generated a debate regarding the merits of analyzing them to develop theory,[2] which has taken the form of a Goldilocks debate. Some researchers see the analysis of DMNCs as a 'hot' topic and propose that these firms are a new phenomenon that requires new theories because previous theories were based on the analysis of advanced economy multinational companies (AMNC) (e.g., Guillen and Garcia-Canal, 2009; Luo and Tung, 2007; Mathews, 2006). Other researchers see the study of DMNCs as 'cold' and argue that their behavior can be easily explained with existing theories (e.g., Dunning, Kim, and Park, 2008; Rugman, 2010a). A third view sees the examination of DMNCs as 'just right' and posits that DMNCs can help extend existing theories (Ramamurti, 2009, 2012).

I follow this third approach and explain how the study of DMNCs can be used to extend existing theories and models of the multinational company (MNC). I argue that the conditions of the country of origin influence the behavior and internationalization of firms (for a deeper discussion see Cuervo-Cazurra, 2011a). Thus, I propose that the study of DMNCs helps identify some of the unstated assumptions upon which existing theories have been built and extend their predictions. I also propose that in areas in which the country of origin exerts limited influence, the predictions of existing theories are appropriate; a good theory that can explain the behavior of AMNCs as MNCs should also explain the behavior of DMNCs as MNCs. I illustrate these ideas by reviewing a few of the leading theories and models of the MNC and the articles in this special issue.

Thus, the article contributes to literature in two ways. First, it highlights the boundaries and assumptions upon which existing theories are built and helps extend them. It does so by going beyond the typical description of how DMNCs differ from AMNCs and discussing how the study of DMNCs can extend theory. Second, it clarifies the debate on the value of analyzing DMNCs. It does so by presenting a balanced view of the use of DMNCs as a laboratory for theory building, providing a road map to generate novel and useful insights in future studies of DMNCs.

THE GOLDILOCKS DEBATE: DMNCS ARE HOT! DMNCS ARE COLD! DMNCS ARE JUST RIGHT!

The recent literature analyzing DMNCs has generated a Goldilocks debate regarding the novelty and value of analyzing them. I review the three views of the debate.

DMNCs are hot!

Some authors argue that DMNCs behave differently from AMNCs and, thus, require new theories and models to explain their behavior. For example, Mathews (2006) introduces the linkage, leverage, learning (LLL) framework as an explanation of the differing behavior of DMNCs. He argues that DMNCs are part of a second-wave, accelerated multinationalization using pull factors that challenges existing theories. The LLL framework proposes that DMNCs internationalize using linkage (acquiring advantages externally, via outward orientation and strategic asset access), leverage (connecting to partners to obtain resources and using networks), and learning (upgrading via repetition and improvement). Luo and Tung (2007) propose a springboard investment perspective, in which DMNCs invest abroad to obtain strategic assets needed to compete more effectively against AMNCs and avoid home

[2] I use the term theory loosely to refer both to fully fledged theories that explain multiple dimensions of firm behavior, not only in a cross-border but also in a domestic setting (e.g., resource-based view, internalization/ transaction cost economics), but also to models or frameworks that provide an explanation of only a particular dimension of firm behavior: for example explaining the international expansion of a firm (e.g., OLI framework).

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country institutional and market deficiencies. DMNCs use their international expansion as a springboard to compensate for competitive disadvantages, overcome latecomer disadvantage, counterattack global rivals' major footholds in their home country market, pass stringent trade barriers, alleviate domestic institutional constraints, secure preferential treatment offered by emerging market governments, and exploit their competitive advantages in other emerging or developing markets. Guillen and Garcia-Canal (2009) discuss the DMNC model of internationalization, whereby these firms follow an accelerated internationalization, have weak competitive advantages but strong political capabilities, simultaneously enter developed and developing countries, use alliances and acquisitions to expand abroad, and have high organizational adaptability.

DMNCs are cold!

In contrast to these ideas, other authors argue that the behavior of DMNCs can easily be explained with existing theories. For example, Rugman (2010a) proposes that the firm-specific advantage/country-specific advantage model easily explains the behavior of DMNCs. He argues that DMNCs do not have firm-specific advantages, besides economies of scale, and that their international success depends on the internationalization of country-specific advantages in low-cost labor, finance, and natural resources. Dunning, Kim, and Park (2008) argue that differences in the conditions of operation in the 1960s and in the 2000s explain the apparent differences in internationalization trajectories of AMNCs and DMNCs. They argue that globalization has sped up the investment development path explanation of foreign direct investment (FDI) (Dunning, 1981). They also argue that the ownership-location-internalization (OLI) framework explains the existence of DMNCs, which have become MNCs despite their limited ownership advantages by building on location advantages.

DMNCs are just right!

A third view argues that the analysis of DMNCs can help extend existing theories and models. For example, Ramamurti (2009) indicates that differences in the context of internationalization and the home country lead DMNCs to follow particular paths of international expansion; these paths modify some, but not all of, the predictions of existing theories. DMNCs are heterogeneous, have emerged in a very different global context, are late globalizers, fend off competition from foreign MNEs in the home market, and catch up with AMNCs on technology and best practices by expanding into foreign markets. The main differences between AMNCs and DMNCs are the latter's early multinationalization and high reliance on country-specific advantages, tacit firm-specific advantages and purchase of capabilities, adaptation of technologies and products to developing country conditions, production excellence, government support, and adversity capabilities. As a result of these differences, DMNCs follow different internationalization strategies (natural resource vertical integrator, local optimizer, low-cost partners, global consolidator, and global first mover). Thus, the analysis of DMNCs can contribute to the extension of three areas of theory: rethink and deepen our understanding of how firms internationalize; bring context more explicitly and comprehensively into theory; and highlight the value of studying internationalization in a more strategic and managerially relevant manner. Ramamurti (2012) deepens this line of thinking and explains how the analysis of DMNCs can help better understand the use of ownership advantages and the internationalization process. DMNCs do have ownership advantages, but these are different from the traditional ones the literature focuses on; DMNCs have had less time to hone sophisticated advantages and they internationalize to obtain advantages for use in their home country. They internationalize differently because the global environment facilitates a rapid internationalization, because they exploit differences rather than similarities in their foreign expansion, and because industry characteristics lead to different patterns.

SOLVING THE DEBATE: EXTENDING THEORY BY ANALYZING DMNCS

I follow this third approach and propose that the analysis of DMNCs can contribute to the extension and modification of existing theories by clarifying their assumptions and boundaries. I also propose that the contribution is limited to the areas in which the country of origin has a large influence on the behavior of the firm.

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Conditions of developing countries and DMNCs' differing behavior

Developing countries have particular conditions that affect the internationalization of their firms. Different sources (e.g., World Bank, United Nations Development Program, United Nations Conference on Trade and Development, International Monetary Fund) use different criteria when classifying countries, which results in the same countries being classified as advanced by one source and as developing by another. Since countries can be ranked by relative level of development, the separation between advanced and developing countries is an artifact (Cuervo-Cazurra and Genc, 2011) that does not take into account the large differences within each group (Ramamurti, 2009). Despite this, I use this broad classification to facilitate the discussion.

Table 1 summarizes the stereotypical conditions of developing countries and how these affect the observed behavior of DMNCs at home and abroad (for reviews of the role of the environment on a firm's internationalization, see Cuervo-Cazurra, 2011a, and Meyer, Mudambi, and Narula, 2011). I group a country's conditions into four types (Ghemawat, 2001)—social, politico-regulatory, geographic, and economic—and analyze those conditions that can be ranked in terms of development. For conditions that cannot be ranked in terms of development (e.g., cultural attitudes, legal families), AMNCs and DMNCs cannot be compared (see Cuervo-Cazurra and Genc, 2011, for a discussion).

First, developing countries tend to be characterized by lower levels of social development, especially in terms of income and, in many cases, in health and education (notwithstanding pockets of excellence in some countries). The lower level of income induces firms to generate innovations that are appropriate for low-income consumers (Prahalad, 2004). These innovations help DMNCs not only enter other developing countries in which customers have similar needs, but also sell to customers in advanced economies, benefitting from reverse innovation processes (Govindarajan and Ramamurti, 2011).

Second, in the politico-regulatory arena, developing countries tend to have poorly developed institutions and less stable political systems and regulations (Djankov *et al*., 2002), which have been termed institutional voids (Khanna and Palepu, 1997, 2010). These induce firms to develop the ability to manage high transaction costs and political influences, which makes them more resilient to instability in the environment (Khanna and Palepu, 2010) and induces their diversification, leading to the emergence of business groups (Cuervo-Cazurra, 2006a; Khanna and Yafeh, 2007; Yiu *et al*., 2007). This ability to deal with challenging home countries enables DMNCs to enter and dominate other countries with problematic governance conditions (Cuervo-Cazurra and Genc, 2008) and high corruption (Cuervo-Cazurra, 2006b). Alternatively, DMNCs may escape the poor governance at home by entering countries with better governance (Witt and Lewin, 2007), bonding themselves to the more stringent governance (Coffee, 2002).

Third, geographically, developing countries tend to have less developed infrastructure because of the government's inability to provide it. This results in companies having to invest in the development of the missing infrastructure (Fisman and Khanna, 2004) and in the creation of innovations that function within the underdeveloped infrastructure (Prahalad and Mashelkar, 2010). These abilities enable firms to internationalize using process-based advantages that rely less on supporting infrastructure and generate resilient innovations.

Fourth, in terms of economic characteristics, developing countries tend to have less sophisticated innovation systems, underdeveloped capital markets, and fewer and less developed suppliers. This results in firms having fewer patents (Furman, Porter, and Stern, 2002), less sophisticated financial structures (Booth *et al*., 2001), and internalizing more suppliers of inputs (Toulan, 2002) at home. It also induces DMNCs to expand abroad to obtain sophisticated technology, acquiring firms from advanced economies (Madhok and Keyhani, 2012). Moreover, the process of pro-market reforms that many developing countries have undertaken has changed the conditions of operation and induced firms to improve, for example by integrating into global value chains (Kumaraswamy *et al*., 2012), and becoming more international (Cuervo-Cazurra and Dau, 2009a), helping them improve performance (Cuervo-Cazurra and Dau, 2009b).

Extending theories and models by analyzing DMNCs

I now review some of the insights the analysis of DMNCs can provide to some of the leading explanations of the MNC (for recent reviews of theories of the MNC, see Cuervo-Cazurra (2011b), Dunning

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Table 1. Stereotypical conditions of developing countries and their impact on the behavior of DMNCs at home and abroad

Country dimension	Conditions of developing countries (in comparison to advanced countries)	Impact of developing country conditions on the behavior of DMNCs at home	Impact of developing country conditions on the behavior of DMNCs abroad
Social	Lower education Lower health Lower income Younger population Higher outward economic migration	DMNCs generate consumer innovations that take into account differing needs (e.g., extreme poverty), lack of complementary assets in the country (e.g., unavailable finance), or lack of complementary assets in consumers (e.g., lack of access to electricity) DMNCS generate efficiency-enhancing innovations that take into account the lower quality of labor (e.g., lower education)	DMNCs internationalize not only in developing countries, but also in advanced economies to take advantage of larger markets that pay more for efficiency-enhancing innovations DMNCs internationalize into countries that are different from the country of origin but have a large home-country immigrant community DMNCs enter into more and different countries using their higher flexibility and ability to internalize transactions and operate in difficult environments
Politico-regulatory	Poorer governance/worse regulation More uncertainty/higher volatility Fewer rights and freedoms	DMNCs become resilient to the uncertainty and volatility of the political system DMNCS become accustomed to poorer governance and regulation and to governments that are more unpredictable DMNCs internalize more transactions (i.e., become business groups)	DMNCs tend to have higher levels of control in their foreign operations DMNCs are more likely to establish operations abroad that rely less on the infrastructure DMNCs enter advanced economies with resilient innovations that address extreme conditions
Geographic	Worse infrastructure	DMNCs invest in the creation of supporting infrastructure that is missing in the country (e.g., schools, hospitals, roads) DMNCs generate resilient innovations (e.g., sturdy packaging, tough products) that take into account infrastructure constraints (e.g., unreliable electricity flow)	DMNCs are more likely to establish alliances and/or acquire firms in advanced economies to upgrade technology DMNCs quote in foreign financial markets to access larger and more sophisticated sources of capital
Economic	Less sophisticated innovation systems Underdeveloped capital markets Fewer and less developed suppliers	DMNCs upgrade technology by absorbing foreign technology via license and alliances with foreign companies in the home country DMNCs generate efficiency innovations that take into account lower capital availability (i.e., capital efficient) DMNCs internalize more suppliers of inputs (i.e., more vertically integrated)	

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(2009), Hennart (2009), Westney and Zaheer (2009)). Existing models and theories have been developed by observing and analyzing the behavior of AMNCs. In many cases, they have taken for granted certain conditions of the advanced country and the global environment at the time when they studied AMNCs. The analysis of DMNCs can help identify these assumptions and extend the predictions of the theories; the interaction between theory and observed reality can lead to a more powerful explanatory engine (Buckley and Lessard, 2005).[3]

Table 2 summarizes the arguments and assumptions of some of the leading explanations of the MNC and how these arguments can be modified by the analysis of DMNCs. I go beyond merely identifying how the behavior of DMNCs differs from that of AMNCs, as I did in Table 1 and the previous discussion, and analyze how this differing behavior extends theory. To do so, I review the core arguments of each theory or model, discuss how DMNCs may not follow the stated predictions, and explain how this differing behavior reveals unstated assumptions and boundaries that can be used to extend the theory or model.

Contributions to the product life cycle model

The product life cycle model proposed by Vernon (1966) and extended in Wells (1972) and Vernon (1979) indicates that innovations are created first in advanced economies to solve the needs of sophisticated consumers there. These innovations are then exported to other advanced countries that have similar sophisticated consumers and are produced there to ensure proximity. As the innovation and production process becomes standardized and the price drops, the innovation is then sold in developing countries and produced there to take advantage of the lower cost of production. Eventually, the innovation stops being manufactured in advanced economies and is imported from developing countries.

DMNCs may select to sell their innovations in countries in which consumers have similar needs, i.e., other developing countries, or may choose countries in which consumers are more willing to pay for innovations, i.e., advanced economies. This helps separate two assumptions that are confounded in the original model: the similarity in customer needs between home and host countries that the innovation satisfies and the need for a high level of income to pay the premium that the innovator demands.

Moreover, after introducing the innovation and selling it abroad, DMNCs may continue producing at home when the products become standardized because DMNCs are already operating in low-cost countries (Mudambi, 2008). Thus, production stays in the same country in which the innovation was created rather than move abroad when the innovation is transferred to other countries. Production does not necessarily have to follow to the country in which the innovation is sold to ensure proximity.

Contributions to the incremental internationalization process model

The incremental internationalization model introduced by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) and refined by Johanson and Vahlne (1990, 2003) and Eriksson *et al*. (1997) outlines two predictions about the internationalization process. First, the model explains the selection among countries in which to enter, arguing that managers minimize risk by first selecting countries that are close in psychic distance (a measure of the differences between countries that limit the transfer of information) to the home country because managers can use their knowledge there more easily, and later selecting those that are further away. Second, the model explains the selection of the mode of operation in a country, arguing that managers select the mode of operation that limits the perceived risk and exposure as they learn about how to operate in the country. Thus, they choose first to export using agents, and then they establish sales subsidiaries and eventually production subsidiaries.

The analysis of DMNCs helps separate psychic distance from market attractiveness in the selection of countries; these two drivers are confounded in the original model, which has tended to focus too much on the risks and less on the benefits of internationalization (Nordstrom, 1991). DMNCs may have to choose between first: (1) expanding into another developing country that has low psychic distance because the institutions and consumer characteristics

[3] An alternative way of using DMNCs to extend the literature is to focus on topics (e.g., competitive strategies, subsidiary management, technology development, strategic alliances) and challenge existing explanations by looking at how the country of origin of the MNC alters mechanisms and predictions. These applied aspects of existing theories can provide especially valuable insights to managers of DMNCs who have to take decisions and for whom following the recommendations of existing studies may not be appropriate (or may even be counterproductive) given the differences in the conditions of the country of origin of their firms.

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Table 2. Key theories of the MNC and their extension from the analysis of DMNCs

Theory	Product life cycle	Incremental internationalization	OLI framework	Internalization theory	Integration/differentiation and legitimation models	Resource-based view and knowledge-based view
Initial argument	Vernon (1966)	Johanson and Wiedersheim-Paul (1975)	Dunning (1977)	Buckley and Casson (1976)	Prahalad and Doz (1987)	Penrose (1959)
Assumption on individuals' behavior	Full rationality Imperfect information Information asymmetry	Bounded rationality Imperfect information Information asymmetry	Full rationality Imperfect information Information asymmetry	Bounded rationality Imperfect information Information asymmetry Asset specificity Opportunism	Bounded rationality Imperfect information Information asymmetry	Bounded rationality Imperfect information Information asymmetry Asset specificity
Assumption on objective of foreign expansion	Increase sales by using innovations developed at home and benefit from lower production cost abroad	Increase sales by using knowledge developed at home	Increase sales by building on home-based ownership advantage and obtain location advantage abroad	Increase sales by using technology developed at home	Increase sales by gaining and using knowledge from multiple operations, achieving legitimation	Grow and increase sales by using already-developed firm-specific resources, especially knowledge
Assumption on impact of home country conditions	Firms innovate to satisfy demanding high-income consumers	Managers develop knowledge specific to home country	Firm creates home-based ownership advantages	Firm develops technology to compete at home	Home-based headquarters pressures to standardize and achieve legitimacy	Home country provides inputs that determine resources and knowledge created by the firm
Assumption on impact of host country conditions	High-income consumers abroad induce export of innovation Lowering costs induce production abroad	Differences in conditions between home and host country limit transfer of information between countries	Host country location advantages induce entry	Transaction protection in host country determines use of firm or market	Host country pressures firm to adapt to local conditions	Host country inputs and competitive conditions determine applicability of home-based resources
Key question on MNC behavior	Where does the MNC move sales and production around the world?	How does an MNC internationalize?	Why does an MNC set production facilities abroad?	How does an MNC internalize cross-border transactions?	How does an MNC solve the tension between global integration and local differentiation?	How does an MNC expand and compete across countries?
Key answer	MNC moves sales and production from developed to developing countries as an innovation and associated production process become standardized	MNC internationalizes incrementally to minimize risks and obtain experiential knowledge from abroad	MNC sets up production facilities abroad when it has ownership advantages (O) at home, location advantages (L) abroad, and internalization advantages (I) of keeping the foreign operation within the firm	MNC uses a hierarchy in a cross-border transaction when the costs of using contracts exceed the costs of internalizing the transaction	MNC organizes decision making to benefit from economies of scale and from adaptation to local conditions, achieving legitimation	MNC creates firm-specific assets whose services are used to create products and services, with management being the key constraint to growth at some point in time
Differing DMNC behavior	DMNC sells innovations in advanced economies to benefit from higher income or in developing countries to benefit from similar consumer needs DMNC is already operating in low-cost countries and does not move production	DMNC chooses between a similar country but small market or dissimilar country but large market DMNC has higher tolerance for risk	DMNC is more likely to expand in search of O advantages DMNCs is more likely to expand in search of L advantages without moving production abroad	DMNC has higher tendency to internalize operations because of higher transaction costs at home	DMNC follows new strategies to take into account the pressures of the country of origin	DMNC internationalizes using resources/ knowledge that cannot be protected via institutions DMNC internationalizes to access missing resources/knowledge
Potential theoretical extension from the analysis of DMNCs	Separate similarity in needs from level of income needed to pay for innovation Production does not move abroad to ensure proximity	Separate psychic distance from market attractiveness in the selection of countries Managers have levels of risk aversion influenced by home country that affect country selection and entry mode selection	Different types of O and L advantages depending on the country of origin determine internationalization Firms not only enjoy advantages but suffer from disadvantages that induce internationalization	Managers from different countries have different attitudes toward transaction costs	Home country exerts pressures in addition to headquarters and host country pressures	Create advantages that do not rely on institutions to protect them Build advantages using acquisitions

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are similar to the ones prevailing at home, but has low market attractiveness because consumers have low levels of income; or (2) expanding into an advanced economy that has high market attractiveness because consumers have higher levels of income, but also high psychic distance because the conditions of the advanced and developing countries differ, thus following a nonsequential internationalization process (Cuervo-Cazurra, 2011c) with different selection patterns (Cuervo-Cazurra, 2007, 2008). In contrast, AMNCs may choose other advanced countries that are both close in psychic distance and have high market attractiveness.

The study of DMNCs provides additional insights on the role of risk aversion in the internationalization process; this modifies the idea that managers are risk averse. Managers of DMNCs are likely to be better at dealing with risk than managers of AMNCs because of the higher levels of uncertainty and crises prevalent in developing countries. This higher ability to manage risks can lead managers of DMNCs to bypass an incremental entry style and enter directly with high commitment modes, such as via the establishment or acquisition of production facilities. Additionally, this higher ability to deal with risk enables them to choose to start the firm's internationalization in countries that are more distant from the home country.

Contributions to the OLI framework of international production

The OLI framework proposed by Dunning (1977) and extended by Dunning (1988, 1995, 2000) explains the establishment of production facilities in another country (see Eden and Dai, 2010, for a review of the evolution of the framework). It indicates that a firm transfers its ownership advantages (O) to benefit from the location advantages (L) of another country and become an MNE if there are internalization advantages (I) in the transfer of advantages and coordination of operations within the company rather than using the market.

The analysis of DMNCs highlights the variation in advantages for the creation of production facilities abroad. This adds to the debate regarding the advantages of the MNC, with Buckley and Casson (1985) arguing that O advantages are not needed for an MNC to exist and Rugman (2010b) arguing that O can be grouped with I advantages as firm-specific advantages. Thus, DMNCs may become MNCs not only by using the traditional O advantages discussed in the literature of innovative products and well-known brands. Instead, they may become MNCs by using other advantages—such as efficient processes and business model innovations—that are rarely discussed. For example, the Mexican construction materials firm Cemex developed best-in-class integration and standardization processes that enabled it to become a global leader in its industry (Lessard and Lucea, 2009).

The study of DMNCs draws attention to the existence of disadvantages that the OLI framework's focus on advantages neglects. DMNCs are more likely to move abroad not only to exploit O advantages developed in the home country, but also to reduce O disadvantages; acquiring firms are likely to move abroad to improve O advantages at home. Moreover, DMNCs may invest abroad to escape L disadvantages at home in the form of poor institutions or asphyxiating regulation. They are also likely to enter advanced economies in the input market (rather than the product market) to obtain L advantages—such as advanced finance, technology, or management skills—without having to establish production subsidiaries abroad.

Contributions to the internalization theory of the MNC

The internalization theory of the MNC introduced by Buckley and Casson (1976) and refined by Hennart (1982), Teece (1986), and Anderson and Gatignon (1986) explains the selection of methods to enter a country as the result of the transaction costs of using markets or companies. The firm selects the best method of operation (exporting, licensing, alliances, greenfields, or acquisitions) to benefit from the existing technological advantage depending on the ease of contract creation, the specificity of assets, and the ease of protection against opportunism.

The analysis of DMNCs extends the traditional view that a decision to internalize a transaction depends on the conditions of the particular transaction to include the characteristics of the company and its ability to manage transaction costs. DMNCs learn to internalize transactions because they are used to dealing with higher transaction costs and poorer contractual protections in their home countries. They react differently to transaction cost abroad, internalizing transactions differently from AMNCs because they have a higher tolerance for the level of transaction costs they can manage and a lower trust in the ability of external mechanisms, such as the judicial system, to protect contracts.

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Contributions to the integration/differentiation model of the MNC

The integration/differentiation model discussed by Prahalad and Doz (1987) and Bartlett and Ghoshal (1989) explains the tension in the firm between benefiting from economies of scale via the integration and standardization of activities across countries and benefiting from responsiveness to local conditions via the adaptation and differentiation of activities to the host country in which the MNC operates (for a review of subsidiary management, see Birkinshaw and Pedersen, 2009, and Westney and Zaheer, 2009). The result of these pressures is the creation of different strategies to manage the twin set of pressures from headquarters and from the host country. An extension of these ideas is the application of neoinstitutional theory to the MNC and its analysis of the tension between headquarters and the host country in pressuring the subsidiary to achieve legitimation (Kostova and Zaheer, 1999).

The analysis of DMNCs helps extend these arguments by highlighting a third source of pressures in the form of the influence of the home country; this complements the pressures from headquarters and the host country that are traditionally discussed in the literature. These traditional two sets of pressures result in the international, global, multidomestic, and transnational strategies of the multinational (Bartlett and Ghoshal, 1989). The influence of the home country on the DMNC results in other strategies, for example natural resource vertical integrator, local optimizer, low-cost partner, global consolidator, and global first mover (Ramamurti, 2009).

Contributions to the resource-based view

The resource-based view introduced by Penrose (1959) and refined by Dierickx and Cool (1989), Barney (1991), and Teece, Pisano, and Shuen (1997) argues that firms have firm-specific resources/capabilities that managers use to create products that solve the needs of customers in competition with the offers of competitors. The application of the theory to the study of the MNC highlights the existence of architectural and component capabilities and their creation and use across countries (Tallman and Fladmoe-Lindquist, 2002). An extension is the knowledge-based view discussed by Nonaka (1994) that indicates that firms compete on the basis of knowledge, because knowledge is the resource that determines the value of all other resources. A firm becomes an MNC because it is better than the market at transferring knowledge across borders (Kogut and Zander, 1993).

The study of DMNCs highlights the influence of the country of origin on the development of resources and knowledge, which has resulted in the extension of the resource-based view with the so-called institution-based view (Meyer *et al*., 2009; Peng, Wang, and Jiang, 2008) that highlights the importance of institutions in the firm's internationalization. DMNCs emerge in countries in which the advantage provided by the resources is more difficult to protect because of the underdevelopment of institutions such as the patent or judicial system (Khanna and Palepu, 2010). This forces DMNCs to focus on developing advantages that are not protected externally but rather internally via secrecy, causal ambiguity, and systemic relationships such as new business models, organizational capabilities, and process innovations. Some of these advantages may even be the ability to manage in the challenging and changing institutional environment of developing countries (Cuervo-Cazurra and Genc, 2008; del Sol and Kogan, 2007). Thus, as DMNCs expand abroad, they use these differing advantages. Moreover, when internationalizing, DMNCs are likely to prefer methods of entry that provide more control over the operations because they already have a higher tendency to protect their resources and knowledge and rely less on institutions for protection.

Additionally, the study of DMNCs helps better explain how companies develop capabilities at the same time as they internationalize in a coevolutionary manner (Cuervo-Cazurra, 2002; Luo and Rui, 2009). DMNCs internationalize at the same time as they obtain new resources and capabilities via the alliances or acquisition of firms to upgrade capabilities at home and catch up to AMNCs (Bonaglia, Goldstein, and Mathews, 2007; Kumaraswamy *et al*., 2012; Luo and Tung, 2007). Thus, the traditional model in which the MNC uses existing resources to expand abroad is modified. DMNCs expand abroad at the same time as they create resources.

Limits to the contributions to theory development

Although the analysis of DMNCs can contribute to extending theories by revealing some of the assumptions and implicit conditions of operations upon

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which the theories have been built, there are limits to this contribution. A good theory should be able to explain the behavior of firms in general and not just under particular conditions. When the conditions of the country diminish in importance for the behavior of the firm, the contribution gained by analyzing DMNCs as one special type of MNC diminishes. In this case, they can help create and extend theory, not because they are DMNCs but just because they are MNCs.

Thus, I propose that the contributions to theory found through the study of DMNCs are mostly generated when analyzing the early stages of the foreign expansion of DMNCs. The reason is that at the beginning of the international expansion of the firm, the country of origin has a large influence, either because it is the source of most of the advantages/disadvantages or because the attitudes and knowledge of managers at headquarters play the leading role in decision making and international expansion. Once the DMNC operates in a large number of countries and derives much of its inputs and sales from multiple countries, the country of origin plays a limited role in its behavior. As a result, differences in behavior between DMNCs and AMNCs, as well as the potential contribution to theory by analyzing DMNCs as a distinct phenomenon, diminish in later stages of internationalization.

Additionally, there are other differences in behavior between DMNCs and AMNCs that have been discussed in the literature but that are not driven by differences in the conditions of the country of origin. Instead, they are driven by differences in the conditions of the firms and environment of operation. Unfortunately, some authors mistakenly associate these alternative explanations with being typical of DMNCs.

I group these alternative explanations of the differences between DMNCs and AMNC that are not associated with the country of origin into three types (see Ramamurti, 2012, for a related and detailed discussion).

The first alternative explanation is the lower level of internationalization. Many DMNCs are in the early stages of internationalization (infant MNCs) and, thus, differ in behavior from the AMNCs traditionally studied, which tend to be in later stages of internationalization (mature MNCs). Hence, many DMNCs are smaller, operate in fewer countries, are more regional, or have less well-known brands—not because they are from developing countries, but because they have internationalized for a shorter period of time; AMNCs with a short history of foreign expansion will show similar traits.

The second alternative explanation is a facilitating global environment. Although some DMNCs became MNCs long ago, like the Argentinean shoe company Alpargatas that established operations in Uruguay in 1890 and in Brazil in 1907, most DMNCs are becoming MNCs at a time of lower institutional barriers to foreign direct investment and widespread advances in transportation and communication technologies in the late twentieth and early twenty-first centuries. In contrast, many of the AMNCs analyzed in the literature emerged when transferring products and information was more difficult, in the early and middle parts of the twentieth century. Thus, much of the rapid and widespread internationalization of DMNCs can be explained by the ease of foreign expansion at the time they move abroad rather than from their origin in developing countries; AMNCs that are becoming MNCs in recent times can also do so quickly and widely (Knight and Cavusgil, 1996).

The third alternative explanation is the higher prevalence of special types of owners. Some DMNCs are state-owned firms under the control of politicians and many are family owned and managed, while many of the AMNCs traditionally analyzed are widely held and run by professional managers. Thus, some DMNCs follow nonbusiness objectives as a result of the differences in the desires of their owners rather than because they come from developing countries; state-owned and family-controlled firms from advanced economies are also likely to follow nonbusiness objectives that affect their internationalization (Pedersen and Thomsen, 1997; Thomsen and Pedersen, 2000).

In sum, the ability to use DMNCs to extend theory depends on whether researchers focus on the specific differential conditions of the home country and how these affect the internationalization of the firm, or whether they merely analyze how DMNCs behave. What sets DMNCs apart as a different phenomenon is their country of origin. Studies of DMNCs that want to extend theory by using DMNCs as a laboratory need to be explicit about which conditions of the country of origin they study and explain how they impact firm behavior. The question that researchers need to ask when analyzing DMNCs is whether the same arguments, logic, and behavior can be found in AMNCs. If the answer is yes, the study is not about DMNCs but MNCs that happen to come from developing countries. Many studies on DMNCs merely

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rediscover that well-known relationships identified from studying AMNCs hold for DMNCs as well.

CONTRIBUTIONS TO THEORY IN THIS SPECIAL ISSUE'S ARTICLES

The six articles included in this special issue illustrate how the study of DMNCs can help extend theory. The articles can be grouped into three sets by their topics and methodologies: two theoretical articles extending the OLI framework, two case-based articles analyzing how DMNCs solve disadvantages, and two large sample articles studying how the conditions of the home country affect foreign investments. All are valuable contributions to the literature on DMNCs in particular and MNCs and global strategy in general. The articles have benefited from the insights of expert reviewers and I thank them for these.

The theory articles provide two complementary views of how the study of DMNCs can help extend theory and, in particular, help refine the OLI framework introduced by Dunning (1977). Hennart (2012) extends the OLI framework by arguing that access to the location advantage is not freely available, as the model appears to assume. He proposes that DMNCs control location advantages at home and make them into ownership advantages that are later used in their internationalization. Narula (2012) also extends the OLI framework by discussing how the ownership advantages of the MNC are influenced by the location conditions of the country of origin. The difference between AMNCs and DMNCs is the level of location advantage that is available to the companies, thus resulting in differing internationalization patterns. As the influence of the home country diminishes with internationalization, differences between DMNCs and AMNCs also diminish.

The two case-based articles extend the literature by providing detailed descriptions and deep analyses of how DMNCs solve disadvantages. Awate, Larsen, and Mudambi (2012) extend our understanding of catching-up processes that DMNCs undertake to become leaders in their industries. By contrasting two leading wind turbine producers, Suzlon of India and Vestas of Denmark, the authors challenge the view that DMNCs are relegated to low-tech industries and cannot arrive at the frontier of technological development on their own. However, DMNCs suffer from an underdeveloped innovation system in their home country that affects their ability to develop technology. As a result, they can catch up to AMNCs first in output capabilities and later on in innovation capabilities. Pant and Ramachandran (2012) also highlight the additional challenges that DMNCs face. They extend neoinstitutional theory and the concept of legitimacy by explaining how DMNCs gain legitimacy in an advanced economy in which they face not only the traditional challenges of being a foreign firm, but also the specific ones of coming from a developing country and having limited advantage. The analysis of Indian software firms in the U.S. over 20 years results in the identification of five mechanisms of legitimation.

The two large sample articles provide a better understanding of how the conditions of the country of origin affect firms' outward foreign investments; this is a topic that has received limited attention because most studies in the international business literature focus on analyzing how the conditions of the host country affect inward foreign investment. Luo and Wang (2012) explain how the conditions of the home country affect the internationalization of DMNCs in their scale, timing, and location of investments, testing the arguments on a sample of Chinese MNCs. They also provide a detailed discussion of how the study of DMNCs helps extend theory. Dau (2012) studies how pro-market reforms that have changed much the institutional landscape of developing countries induce firms to invest abroad. He proposes that the influence is higher for private firms than for state-owned firms, testing these arguments on a sample of the largest Latin American firms.

In conclusion, the contributions to theory discussed in this article and exemplified in the articles included in this special issue are merely a first overview. Future research can take each of the theories individually and discuss how DMNCs can help advance them. Future research can also take other theories that are not focused directly on explaining the existence of MNCs but have discussed their behavior, and analyze how DMNCs can help advance those by identifying how the country of origin of the firm modifies the behavior of the firm. The key to using DMNCs to extend theory is to focus on their uniqueness—the country of origin—and study how this affects their global strategy.

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