

The Home Country of the MNE

The Case of Emerging Economy Firms

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The Home Country of the MNE: The Case of Emerging Economy Firms

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4 **The Home Country of the MNE: The Case of Emerging Economy Firms**
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10 Introduction to Special Issue
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12 *Asia Pacific Journal of Management*
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17 **Abstract**
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19 Research on multinational enterprises that originate from emerging economies has highlighted
20 the importance of the home country for firms' strategies of internationalization. In this paper, we
21 outline a simple analytical framework linking institutions and resource munificence in the home
22 country to the domestic business eco-system in an emerging economy, and thereby to strategies
23 of outward investments. Specifically, we argue that businesses interact with each other in their
24 home economy, and these patterns of interactions influence strategies of internationalization as
25 companies not only compete with each other, but share resources, coordinate actions and serve as
26 each other's role model. Strategies of outward investment thus reflect the competition and
27 collaboration in their home country business eco-system.
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38 **Keywords:** Emerging market multinationals, institutions, resource munificence, business groups,
39 business networks, peer businesses
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4 **Introduction**
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6 Multinational enterprises from emerging economies (EMNEs) have been substantive players in
7 the global economy for over two decades. Some EMNEs such as Lenovo or Tata have already
8 grown into leaders on the global stage. Yet, many others are still in early stages of learning how
9 to cope with the challenges of the global marketplace. In their catch-up, EMNEs exploit
10 spillovers, linkages, acquisitions and investment in R&D as channels through which to upgrade
11 their capabilities (Chari, 2015; Matthews, 2006). Yet, as they upgrade, they still face substantial
12 challenges arising from the characteristics of their respective home country.
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21 The literature on strategy in emerging economies focuses in particular on the role of institutions
22 shaping the rules for markets, governance and practices (Meyer & Peng, 2016; Wright et al.,
23 2005). In addition, a critical question is what resources firms have access to in their home
24 environment, in other words the resource munificence of the economy in which the firm is
25 embedded. Firms in emerging economies often face substantive gaps in financial and
26 technological resources (Cuervo-Cazurra & Ramamurti, 2014; Mathews, 2006), and when it
27 comes to internationalization the shortage of internationally experienced human capital is often
28 an further bottleneck (Meyer & Xin, 2017).
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37 Institutions and resource munificence influence EMNEs not only directly, but also indirectly via
38 the domestic business eco-system, which we define as the firms within a given business
39 community and the patterns of competitive and collaborative interaction between them. As the
40 contributions in this special issue highlight, interactions between firms within the business eco-
41 system of home country shape the strategies of outward investment of EMNEs. Specifically,
42 outward investment strategies are influenced by organizational phenomena such as types of
43 ownership (Li et al., 2017, this issue), spillovers between inward and outward foreign investors
44 (Hertenstein et al., 2017, this issue), interfirm relationships within business groups (Li et. al.
45 2017), supplier relationships and business networks (Hertenstein, et al., 2017), as well as
46 imitation among peer firms that may serve as role models (Xie & Li, 2017, this issue).
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57 We discuss these issues following the structure of Figure 1. First, we briefly review the role of
58 home country institutions with respect to markets, governance and practices, and then consider
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4 the role of the resource munificence enabling access to resources. We then relate these home
5 factors to some aspects of the business eco-system that influence the outward investment
6 strategies of firms from this eco-system. Finally, we summarize the key messages of the accepted
7 papers in this special issue and further propose directions for future research.
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13 *** *Insert Figure 1 about here* ***
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15 16 17 **Institutional Context** 18

19 20 **Home Country Institutions** 21

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23 The institution-based view is probably the most influential theoretical foundation for research on
24 business in emerging economies (Elango & Sethi, 2007; Meyer & Peng, 2016; Peng, Wang &
25 Jiang, 2008; Xu & Meyer, 2013). It integrates distinct scholarly traditions, notably institutional
26 economists, who consider institutions as rules of the game shaping economic activity (North,
27 1990), and organizational sociologists who view institutions as the “regulative, normative, and
28 cultural-cognitive elements that, together with associated activities and resources, provide
29 stability and meaning to social life” (Scott, 2003).
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33 Both perspectives view actors, whether persons or organizations, as affected by institutions in
34 their wider environment. Institutions can shape individual action in a multitude of ways: by
35 determining the efficiency of alternative corporate governance structures (Aguilera, Desender,
36 Bednar, & Lee, 2015; Estrin & Prevezer, 2011), by lowering transaction costs of market
37 exchanges (North, 1990; Williamson, 2000), or by setting rules for competition (Narayanan &
38 Fahey, 2005). Institutions are normally designed to reduce uncertainty by making the behaviors
39 of other actors more predictable, yet at times of political instability, formal rules may change
40 unexpectedly such that institutions themselves can become a source of uncertainty (Banalieva,
41 2014). This is a particular concern in countries going through institutional transitions, a common
42 experience in emerging economies (Peng, 2003).
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58 Institutions in the home country can influence the strategies of firms beyond the home country
59 through at least three mechanisms. First, institutions shape the efficiency of markets through
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4 transparency enhancing and uncertainty reduction mechanisms, and thereby enable resource
5 accumulation and growth strategies of firms within that environment. For example, Cuervo-
6 Cazurra (2011) argues that "...the particular norms and institutions prevailing in the country
7 induce the company to develop specific resources to be able to interact with other players in the
8 marketplace." The resources and capabilities thus accumulated provide a resource pool that firms
9 can draw on when they internationalize. Chen et al. (2015), for instance, observe that strong local
10 institutions that support effective and well-functioning markets create the conditions that induce
11 Chinese firms in that location to develop capabilities in R&D and marketing, which, in turn,
12 enable them to expand into developed countries.
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23 Second, home country institutions shape ownership types and governance structures within the
24 economy. In most emerging economies, firms owned by domestic private owners, by entities of
25 the state, and by foreign investors, compete with each other. However, the relative importance of
26 these types varies across countries and is significantly influenced by the country's institutional
27 framework (Musacchio, Lazzarini, and Aguilera, 2015). For any firm, the relative strength of
28 these different types of peers has implications for the kinds of partners and spillovers it may
29 benefit from. For example, inward-outward linkages may relate foreign investors operating in an
30 emerging economy with local firms starting to invest overseas themselves (Hertenstein et al.,
31 2017).
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41 An important phenomenon in emerging economies is enterprises partially or fully owned by
42 entities of the state, yet in a wide variety of different formal ownership arrangements (Delios et
43 al., 2006). An important sub-group are 'hybrid firms': firms listed on stock exchanges but with
44 the majority of ownership in the hands of a state entity that shares the control of the firm with
45 private financial investors (Bruton et al., 2015). These "marketized" state-owned firms may
46 cultivate more competitive advantages and organizational capabilities than non-marketized state-
47 owned firms (Li, Cui & Lu, 2017). Moreover, state-owned firms differ in the type of government
48 owner and the percentage of government ownership, which affects their growth strategy. For
49 example, firms owned by central and local governments differ in their propensity to invest
50 overseas as their owners have different expectations, objectives, and resources (Li, Cui & Lu,
51 2014; Wang et al, 2012). Further, whether a state is a majority or minority owner makes a critical
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4 difference. For example, Inoue, Lazzarini, and Musacchio (2013) suggest that firms with
5 government minority stakes are less affected by agency problems but can better deal with
6 institutional voids, and thus tend to have better economic performance.
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11 In addition, the incentives that managers face depend on the rules in the institutional framework
12 with respect to rights of shareholders and the procedures for monitoring executive managers
13 (Aguilera & Jackson, 2003; Estrin & Prevezer, 2011). Where formal and informal institutions
14 provide minority shareholders substantial control rights, and where challenging the authority of
15 state-appointed leaders is socially legitimate, firms with state ownership are likely to act similar
16 to private firms. In contrast, where power distance is high and minority shareholder protection is
17 weak, strategies on for example internationalization of private and state-private hybrid firms are
18 likely to substantially diverge (Estrin, Meyer, Nielsen & Nielsen, 2016).
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28 Third, an influential perspective in organizational sociology considers institutions as shared
29 rules, beliefs, and norms that determine the legitimacy of behaviors through acceptance by the
30 environment. In a stable institutional environment this would lead to isomorphic behaviors as
31 actors imitate other actors considered as legitimate within their organizational field (DiMaggio &
32 Powell, 1991). Such organizational pressures in the home environment, however, also influence
33 activities abroad. Specifically, institutional theory emphasizes the phenomenon of
34 ‘organizational imprinting’ whereby a company’s ‘national administrative heritage’ shapes its
35 practices around the world (Bartlett & Ghoshal, 1989; Elango & Sethi, 2007; Noorderhaven &
36 Harzing, 2003). In this way, the impact of home country institutions can spread internationally,
37 for example via corporate codes of conducts and compliance procedures.
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48 However, abroad firms face legitimacy pressures from multiple institutional environments that
49 may vary in what is considered legitimate (Kostova & Roth, 2002). Such legitimacy pressures in
50 host societies are of special concern for EMNEs because as latecomers they are unfamiliar to
51 critical stakeholders (Luo & Tung, 2007). In particular, state-owned EMNEs tend to experience
52 substantial legitimacy challenges in host countries without tradition of state ownership (Li, Xia,
53 & Lin, 2016; Meyer, Ding, Li, & Zhang, 2014). Host countries may be concerned about political
54 motives behind activities of state-owned EMNEs and about the lack of transparency in their
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4 corporate governance (Globerman and Shapiro, 2009). EMNEs can ease such legitimacy
5 pressures by aligning their organizational practices with local rules and norms, establishing
6 alliances with actors that enjoy high legitimacy locally (Lu & Xu, 2006), and adapting entry
7 strategies that lead to lower local resistance or barriers. Thus, Meyer et al. (2014) find that state-
8 owned EMNEs tend to take lower their equity stakes in acquired subsidiaries, particularly in
9 countries where legitimacy challenges are higher.
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17 **Home Country Resource Munificence**

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19 Businesses exist to combine and transform resources – also known as factors of production – to
20 generate higher value outputs, and thereby generate profits. Hence, business opportunities
21 depend on the resources that a firm can access, either in its home environment or in foreign
22 markets. Especially for firms at early stages of their internationalization, the home environment
23 is critical. Yet, the resource munificence of many emerging markets is weak, which can make
24 access to resources a major challenge.
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32 Firms access external resources through factor markets, which are markets for factors of
33 production, such as labor, capital or resources, necessary to create products or services and thus
34 to attain competitive advantage in downstream markets (Kim, Hoskisson & Lee, 2015). Like
35 product markets, the efficiency of factor markets is influenced by information asymmetries and
36 transaction costs, and thus the institutional framework. Firms operating in countries richly
37 endowed with resources and with efficient factor markets are better able to secure the strategic
38 factors they need to implement strategies and generate competitive advantage (Khanna & Palepu,
39 1997; Kim et al, 2015).
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48 EMNEs with ambitious growth strategies face challenges in accessing resources to build their
49 international operations. Barriers arising from weak resource munificence are often amplified by
50 low efficiency of factor markets. Gaps in resources concern in particular technology, finance,
51 and human capital (Awate, Larsen, & Mudambi, 2012). *First*, with respect to technologies,
52 EMNEs tend to lag advanced economy MNEs that benefit from pools of highly qualified
53 individuals, access to cutting edge research in the world’s leading universities, and peers of
54 world leading entrepreneurial and mature businesses (Luo & Wang, 2012). Only in some niches
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4 such as e-commerce local firms in emerging economies are already developing innovations that
5 are at the cutting edge worldwide (Yip and McKern, 2016). Even when technology is available,
6 weak protection of intellectual property rights often inhibits sharing of technologies across firms
7 (Schlotter & Teagarden, 2014). Thus, many emerging economy firms aim to upgrade by
8 accessing technology overseas.
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15 *Second*, financial resources used to be a major constraint on emerging economy firms, but China
16 and many natural resource exporting countries have accumulated ample currency reserves that
17 they can make available to firms investing abroad. However, financial markets are often highly
18 imperfect. While some firms, such as state-owned firms, have preferential access either through
19 government support or through business group resources, private entrepreneurs often find it
20 difficult to raise capital for foreign investment (Morck et al., 2008).
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28 *Third*, human capital with low and mid-level skills may be readily available in many emerging
29 economies. However, the implementation of ambitious international strategies requires human
30 capital for international leadership roles in both headquarters and subsidiaries (Meyer & Xin,
31 2017; Tung, 2007). For instance, the implementation of acquisitions abroad requires high-level
32 managerial capabilities, in both the negotiation process and the integration phase (Cui et al.,
33 2014). Strategy implementation thus requires not only attraction, but also development and
34 retention of highly talented individuals. However, senior managers with international leadership
35 experience are scarce in countries with only a short history of outward investment, and thus with
36 few companies that systematically rotate their staff to overseas assignments.
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46 Many EMNEs try to overcome the weak resource munificence of the home country by accessing
47 resources overseas. They can do so in two ways. First, they can gradually and organically
48 develop the capabilities needed to operate on the global stage (Lyles et al., 2014; Meyer &
49 Thajongrak, 2013). In this process of learning and upgrading, the EMNEs need to link up with
50 existing actors to leverage their resources and capabilities to facilitate organizational learning, as
51 highlighted by Mathew's (2006) Linkage-Leverage-Learning (LLL) framework. Building upon
52 the resource-based view, the framework views EMNEs as latecomers in global markets, engaged
53 in internationalization primarily purpose to acquire assets unavailable to them at home. To this
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4 end, collaboration, through partnerships and joint ventures, becomes the primary mode of foreign
5 entry, which, in turn, allows overcoming barriers to diffusion put in place by advanced MNEs.
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10 Second, EMNEs can take a more aggressive approach by acquiring companies with the aim to
11 use the capabilities of the acquired companies to strengthen their own global capabilities
12 (Mathews, 2006; Luo & Tung, 2007; Rui & Yip, 2008; Deng, 2009). The acquired capabilities
13 are strategic in that they are expected to enhance the competitiveness of the EMNEs not only in
14 the market where they are acquired, but also in the home market and, in the longer run, in third
15 country markets. Such strategic asset seeking FDI provides an accelerated path for EMNEs’
16 international expansion (Meyer, 2015; Makino et al. 2002). In such cases, however, the acquiring
17 firms often lack the operational capabilities to lead the acquired company, which leads to the
18 phenomenon of ‘light touch integration’ whereby the acquired firms continues to operate with a
19 high degree of autonomy (Liu & Woywode, 2013; Meyer & Xin, 2017). However, as EMNEs
20 progress from their initial foreign venture to series of acquisitions, their learning from early
21 acquisitions helps implementing later acquisitions more effectively (Elango & Pattnaik, 2011).
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32 33 **Business Eco-systems**

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35 Businesses develop their strategies through interaction – competitive or collaborative – with
36 other businesses in their local environment. The nature of these interactions within this business
37 eco-system is, in part, shaped by the institutional environment, and the efficiency of markets. In
38 contexts where markets are efficient and reliable information can be readily obtained, arm-length
39 transactions would be the normal way to obtain resources. Where markets are less efficient, other
40 forms of interactions become more important, including business groups, supply chain networks
41 and strategic imitation among peers. In this section, we explore a number of interactions within a
42 home-base business eco-system that influence the outward investment of firms.
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51 52 **Business groups**

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54 A characteristic of many emerging economies is the prevalence of business groups, which are
55 networks of legally independent firms, bound together by formal and informal ties with some
56 degree of central coordination among the affiliate firms (Khanna & Yafeh, 2007; Luo & Chung,
57 2005; Zattoni, Pedersen, & Kumar, 2009). This is often attributed to the prevalence of
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4 institutional voids in domestic factor markets. Member firms of a group overcome institutional
5 voids by sharing key resources, and by coordinating strategic actions such as internationalization
6 and resource allocation (Chang & Hong, 2000; Kumar, Gaur, & Pattnaik, 2012; Lamin, 2013).
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8 The empirical literature thus has found positive effects of business group association on firm
9 performance, which however are highly contingent on institutional settings (Khanna & Rivkin,
10 2001; Khanna & Yafeh, 2005). Even with institutional reforms and enhanced efficiency of
11 markets, business groups continue to grow within emerging economies (Chittoor, Kale &
12 Puranam, 2015; Colpan, Hikino & Lincoln, 2010; Estrin et al., 2009), and some of them are
13 becoming new breed EMNEs (Bhaumik, Driffield & Pal, 2010; Chittoor et al., 2009).
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22 When member firms of a business group internationalize, they can draw on the resources of the
23 group, and thereby accelerate their international growth (Bhaumik, et al., 2010). These shared
24 resources can create both advantages and disadvantages. Advantages include competences in
25 overcoming institutional voids, promoting trust-based transactions, mitigating the lack of
26 international experience and providing greater network connections. In their home markets,
27 EMNEs often attain competitiveness from their ability to deal with institutional inefficiencies
28 (Aulakh, 2007; Wright et al, 2005). This ability may to some degree be transferable to other
29 emerging economies, and may thus be a force driving EMNEs to invest in countries with similar
30 institutional structures (Henisz, 2003; Khanna and Yafeh, 2007). Moreover, business group
31 affiliation facilitates learning among members, including learning about foreign markets, which
32 makes it easier and less costly for individual affiliates to expand internationally (Yaprak &
33 Karademir, 2010).
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46 Disadvantages include obligations of member firms within their group, for example to support
47 strategically important group initiatives or weak units that cannot be discontinued for social
48 reasons. In particular member firms that generate positive cash flows or hold a central role within
49 the business group may be asked to contribute to common causes. As analyzed by Li et al.
50 (2017), this may be a particular concern for state-controlled business groups, which have
51 substantive non-economic objectives in addition to profit satisficing objectives, and which may
52 be asked to take care of certain ailing businesses.
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4 **Business Networks**
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6 Business networks are an important phenomenon in emerging economies where they serve
7 important roles to connect businesses in the presence of weak institutional frameworks (Delios &
8 Beamish, 1999). They differ from business groups in that the linkages are loose and normally do
9 not involve equity ties, but are based on organizational or personal relationships and trust.
10 Networks provide important channels to access complementary resources and for sharing
11 knowledge, for example on how to do business in a foreign country.
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19 Domestic networks can support internationalization in particular for firms entering unfamiliar
20 foreign environments for the first time. For instance, foreign investors tend to cluster with others
21 from the same country of origin to share local networks (Tan & Meyer, 2011), which over time
22 often coevolve with firms in internationalization processes (Johansen & Vahlne, 2009). The
23 combination of a relative lack of international experience of individuals firms and a tradition of
24 working within networks makes networks particularly important for the internationalization of
25 smaller and mid-sized firms from emerging economies (Musteen, Francis & Datta, 2010).
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33 Some entrepreneurial start-ups build in their home environment ties to globally operating MNEs,
34 and leverage these ties in their internationalization. For example, Prashantham and his coauthors
35 observe that many smaller firms in emerging economies, notably in the Indian software industry,
36 partner with large and mature MNEs to access international markets, a phenomenon known as
37 ‘Dancing with Gorillas’ (Prashantham & Birkinshaw 2008; Prashantham & Dhanaraj 2010). As
38 another example, in the automotive industry, highly structured networks connect firms in the
39 value chain, centered on major brand manufacturers. Emerging economy firms wishing to supply
40 subsidiaries of major brand manufacturers need to join these networks and participate in
41 extensive collaboration and quality control procedures, which represent a major barrier to entry
42 to a network. Yet, as Hertenstein et al. (2017) discover, local firms that successfully joined a
43 network then received substantial support from the brand manufacturer for their own
44 internationalization. Thus, these firms internationalize within a network but crossing national
45 borders.
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59 **Unrelated Peer Businesses**
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4 Firms can also be influenced by other businesses in their eco-system even if they are not related
5 through ownership or network relationships. Specifically, firms have been observed to imitate
6 each other for example with respect to introduction of new products, forms of
7 internationalization, timing of entry, market position decisions, acquisition choices,
8 organizational processes, and managerial methods (Lieberman & Asaba, 2006). The organization
9 theory literature on institutions thus emphasizes the importance of imitation strategies to limit
10 downside risk. Thus, firms are argued to align to established norms in their organizational field,
11 which are evident by the actions of their peers, in particular of peers that have a high status in the
12 community (Westphal et al, 1997; Kraatz, 1998). High status firms thus become role models for
13 others, both domestically and internationally.
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24 Imitation can be a rational strategy for several reasons. Under conditions of environmental
25 uncertainty, imitation is a rational approach to handle ambiguous and uncertain situations. As
26 each firm exhibits some degree of mimetic isomorphism, organizations become more
27 homogenous (DiMaggio and Powell, 1983). A related reason for imitation is firms' quest for
28 legitimacy in a given organizational field. Once a behavior has been adopted by a critical mass of
29 actors, it is seen as legitimate, and hence is adopted by others without deep analysis. Finally,
30 firms may also strategically imitate each other to reduce competitive rivalry. For instance, Porter
31 (1979) argues that firms within a strategic group behave similarly because "...divergent
32 strategies reduce the ability of the oligopolists to coordinate their actions tacitly ... reducing
33 average industry profitability".
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44 This line of theorizing has been applied to FDI to explain why in foreign market entry, firms tend
45 to imitate others that came earlier to the same market (Chan & Makino, 2007; Henisz & Delios,
46 2001; Guillen, 2002; Yiu & Makino, 2002). For example, Henisz and Delios (2001) argue that
47 "... *prior decision and actions by other organizations provide legitimization and information to*
48 *a decision marked by uncertainty.*" Applying the ideas of imitation to catch up strategies of
49 EMNEs, however, a fundamental challenge is that the first investors from an emerging economy
50 have few if any earlier investors that they can imitate. By definition, an early mover is
51 differentiating from established patterns. Only once a business eco-system matures, an early
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4 mover can become a role model. In the absence of relevant local peers, emerging market firms
5 may imitate advanced economy firms that have a longer history and profitability track records.
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10 Xie & Li (2017) apply this logic to EMNEs' cross-border acquisitions, arguing that EMNEs tend
11 to mimic ownership strategies of their peers, with varying influence of different types of
12 domestic and international peers. The actual choice of the reference group depends on the types
13 of firms present in the organizational field, information sharing among peers, and similarity
14 among peers. Xie and Li (2017) analyze the choice of reference groups for EMNEs with respect
15 to cross-border acquisitions. They argue that EMNEs tend to use the same ownership mode in
16 entering a host country the more frequently that ownership mode has previously been used by
17 home country peers or by MNCs from developed countries. They find peers from emerging
18 economies to be more relevant as role models presumably because of their greater strategic
19 similarity.
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30 **Internationalization Strategies: Papers in this special issue**

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32 This Special Issue arose from a call for papers in 2012. The papers have been selected from a
33 large number of submissions. They benefited from a rigorous reviewing process and from a
34 paper development workshop in Copenhagen in 2014 where authors received additional input on
35 how to improve the papers. A brief summary of each paper in the Special Issue is presented in
36 Table 1. The authors of the papers take different approaches to analyzing linkages between the
37 home environment of a firm, its interactions with peers in the home environment, and its
38 strategies of internationalization. A common theme emerging from the papers is that not only
39 institutions and resources in the background, but the business eco-systems of the country, shape
40 patterns of internationalization. This section provides a brief guide to this special issue.
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50 *** *insert Table 1 here* ***
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54 The three papers that made it through the review process empirically focus on China, thus
55 highlighting that even for a single context, many different approaches may be suitable to analyze
56 influences of the home environment. The papers submitted to this special issue reflected a
57 broader geographic scope; the focus on China is an unintended outcome of the review process.
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4 However, many of the theoretical ideas developed are likely to be relevant to EMNEs from a
5 wider range of host countries, though we encourage readers to always reflect carefully on what is
6 or is not context specific.
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11 Minghua Li, Lin Cui, and Jiangyong Lu (2017) in “*Marketized state ownership and foreign*
12 *expansion of emerging market multinationals: Leveraging institutional comparative advantages*”
13 focus on institutions of ownership and governance. The perspective of institutional comparative
14 advantage emphasizes that institutional transformation can lead to variations in firms’ ability to
15 develop strategic resources and organization capabilities (Martin, 2014). Advancing this
16 perspective, Li, Cui and Lu argue that corporate ownership reform affects firms’ institutional
17 competitive advantages to adapt and compete with rivals in foreign markets, which, in turn,
18 affect their foreign investment decisions. Specifically, firms with marketized state ownership
19 tend to possess more strategic resources and develop stronger organizational capabilities and thus
20 invest more abroad than those with non-marketized state ownership. They possess extra degrees
21 of managerial freedom derived from their reformed ownership that encourages a closer
22 alignment with market incentive mechanisms, which, in turn, leads to stronger focus on
23 profitability and capability development. Li, Cui and Lu further distinguish marketized state
24 ownership by central and local governments and argue that ownership at central government
25 level has a larger positive effect on firms’ foreign market entries than ownership at local
26 government level. This is because central government ownership provides firms with more
27 organizational resources, which facilitates their foreign market entries.
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44 These relationships though are moderated by business group affiliation, with the relationship
45 becoming weaker for central-government-owned firms while becoming stronger for local-
46 government-owned firms. Li, Cui and Lu argue that firms with central government ownership
47 may experience disadvantages from being a member of a state business group because they may
48 have to subsidize other member firms that are not as resourceful as they are. In contrast, firms
49 with local government ownership, with limited resource access, tend to benefit from being a
50 member of a state business group. Thus, Li, Cui and Lu find that business group affiliation
51 increases outward investment for firms with local government ownership, but decreases for firms
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4 with central government ownership. Using international investment information of over 220
5 publicly listed Chinese firms from 2002 to 2009, they find evidence to support their arguments.
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10 Zhenzhen Xie and Jiatao Li (2017) in “*Selective imitation of compatriot firms: Entry mode*
11 *decisions of emerging market multinationals in cross-border acquisitions*” analyze the patterns
12 of imitative behavior among EMNEs. Their central hypothesis is that EMNEs to some extent
13 imitate strategies of other EMNEs who internationalized earlier, but they are selective as to
14 whom they imitate. This proposition arises from institutional theory, which posits that firms face
15 institutional pressures to align to established norms, and to do so limits downside risks for
16 decision makers. The effects of such imitation apply in particular with respect to earlier investors
17 that have high status or otherwise appear to be successful (Lu & Xu, 2006). Xie & Li (2017)
18 extend this literature by applying this logic to EMNEs. In the context of cross-border
19 acquisitions, they argue that EMNEs tend to use the same ownership mode in entering a host
20 country the more frequently that ownership mode has previously been used by their peers. They
21 further argue that EMNEs are more inclined to imitate their peers from their own country than
22 those from developed countries, for two reasons. First, by imitating peers from home markets,
23 they can also gain legitimacy at home. Second, the different maturity of MNCs from respectively
24 emerging and advanced economies makes the practices of the latter less relevant to EMNEs.
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39 As state-owned EMNEs face more legitimacy challenges, Xie and Li (2017) also examine the
40 imitation behavior of this group of firms in comparison with private EMNEs. They suggest that
41 EMNEs tend to imitate actions of firms in the same ownership group; however, the tendency of
42 state-owned EMNEs to imitate their peers is lower because their peers’ actions may not be
43 viewed as legitimate. Further, early state-owned entrants may be less of a role model for late
44 state-owned entrants because they are believed to suffer from serious agency problems and
45 burdens of non-economic obligations, which make their strategies less relevant to later state-
46 owned entrants. Using cross-border acquisition data by Chinese firms, Xie and Li find evidence
47 to support these arguments.
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57 Peter Hertenstein, Dean Sutherland and John Anderson (2017) in their paper
58 “*Internationalization within networks: Exploring the relationship between inward and outward*
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4 *FDI in China's auto components industry*" focus on the role of international business networks
5 and supply chains in shaping the path of internationalization of emerging economy firms.
6 Theoretically, they extend the literature integrating networks with the internationalization
7 process perspective (Johansen & Vahlne, 2009; Meyer & Thaijongrak, 2013) by focusing on
8 networks of foreign players into which aspiring EMNEs access. By becoming part of such
9 supplier networks they can, at least in the automotive industry, collaborate with the focal player
10 in the network to accelerate their own internationalization. The critical aspect of the business
11 eco-system in this theoretical perspective thus is the presence of global players that develop
12 supplier networks with local players, and are open to partner with such local suppliers outside
13 their home country.
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24 Using multiple longitudinal case study analysis, the authors focus on the Chinese auto industry,
25 with a particular focus on domestic component supply firms to explore the role of business
26 networks and how inward FDI may shape their outward FDI. A large number of interviews were
27 carried out with Chinese firms, their customers in Germany and a range of industry experts,
28 including senior managers of other global assemblers, international operating consultants, and
29 academics. The cases illustrate how Chinese auto-component suppliers initially created strong
30 domestic network relationships with advanced country MNCs. Once they ventured abroad, the
31 Chinese EMNEs invested primarily to exploit and solidify their position within the supply chain
32 of the advanced country MNC. Growing network commitments enabled the suppliers to
33 progressively increase their competencies, which increases the speed of internationalization.
34 These findings contribute to the long-standing Nordic tradition of international business research
35 highlighting the co-evolution of networks, learning and international commitments (Johansen &
36 Mattson, 1988; Johansen & Vahlne, 2006; Meyer & Skak, 2002).
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50 **Outlook**

51 Research on emerging economies has spurred many new lines of inquiry with respect to
52 internationalization strategies of EMNEs, and the papers in this special issue further advance this
53 agenda. Looking forward, we suggest that our framework may stimulate further research. In
54 particular, prior research has strongly focused on institutions and resource munificence, which
55 undoubtedly are important. However, the papers in this special issue highlight that interactions
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4 between firms in their home business eco-system provide important stimuli for outward
5 investors, thus potentially mediating and moderating the impact of institutions and resource
6 munificence. We suggest that future research should analyze in more detail how firms within an
7 eco-system influence each other through competition, collaboration, imitation, or other patterns
8 of interaction. Business groups, supplier networks, and peers worthy of imitation are examples of
9 such interaction within an eco-system that provide starting points for such work.
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17 With respect to business groups, it would be interesting to analyze the impact of governance and
18 ownership structures, as well as group-internal processes, on outward investment by group
19 member firms, and of business groups as a whole. Business groups vary considerably across
20 emerging economies (Colpan, Hikino & Lincoln, 2010), in part because of the variance in
21 institutional development. It would thus be interesting to explore the role of underlying
22 institutional conditions in shaping not only organizational structures of business groups, but also
23 their foreign expansion strategies. In this spirit, an interesting question arises from Li et al.'s
24 (2017) observation that state-owned enterprises in China use the form of business groups, with
25 one or several companies within a group being listed on the stock market. In contrast, the prior
26 literature focuses on business groups that are controlled by families. Thus, a pertinent question is
27 to what extent findings from research on Indian or Korean business groups, which are mostly
28 family controlled, are transferable to state-controlled Chinese business groups.
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41 With respect to home-based networks, it would be interesting to investigate not only how local
42 firms enter such networks with MNEs (Prashantham & Birkinshaw 2008; Prashantham &
43 Dhanaraj 2010) but how such networks influence different aspects of internationalization, such
44 as entry modes, location choices and speed of internationalization. As shown by Heterstein et al
45 (2017), business networks formed at home, especially with developed market MNEs, are
46 important in internationalization of EMNEs. In fact, these home-based networks can help create
47 “networking” assets that become part of a firm’s specific advantages. Thus, another potential
48 avenue for future research is to investigate the processes of forming these advantages.
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57 Future research may also apply social network theories to better explain how networks within a
58 business eco-system influence a firm’s internationalization strategies and performance. Social
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4 network theories highlight that network effects depend not only on participation in networks but
5 also on the attributes of the networks firms get embedded in. Thus, concepts such as network
6 centrality, network density and type of ties become central when assessing the impact of network
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8 centrality, network density and type of ties become central when assessing the impact of network
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10 on the focal firm. For instance, Zaheer & Bell (2005) find that a superior network position
11 enhances firm performance by enabling better exploitation of innovative capabilities.
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13 Consequently, network structure may be a key construct to explain how networks impact firm
14 strategies such as internationalization.
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19 With respect to imitation strategies among peers within a business eco-system, it may be
20 interesting to distinguish information-based and rivalry-based models of imitation (Lieberman
21 and Asaba, 2006). These sets of models highlight the underlying reasons behind imitative
22 behavior and the impact of the environment the outcomes of imitative strategies. Empirical
23 evidence suggests that mimetic behavior is normally associated with positive bottom-line
24 outcomes, but some studies point to negative consequences (Barreto & Baden-Fuller, 2006)
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26 Studies of imitation in internationalization patterns may help to develop theoretically and test
27 empirically to explain the costs and benefits of imitation.
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35 Other research on imitation and internationalization may investigate the robustness of Xie and
36 Li's findings across different contexts. First, institutional variation across home countries results
37 in different legitimacy pressures on firms, which might result in different mimetic strategies or
38 choices of reference groups. Second, it is important to disentangle the effect of peer groups on
39 imitation strategies from inter-organizational learning and any other conventional drivers of
40 firms' strategies. Finally, the dynamics of mimetic strategies require more attention to identify
41 under what conditions firms persist in imitation strategies, or switch to non-imitation.
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49 A common theme running across these research agendas is the importance to analyze not only
50 the design of internationalization strategies, but their implementation. Specifically, strategy
51 research focuses on the design of strategies to achieve a given set of objectives (i.e. profits and
52 growth) under clearly defined constraints. However, actually observed strategies vary from
53 designed strategies in many subtle ways due to challenges of implementation, which can be
54 related to existing organizational structures, specific resource availabilities, and interactions with
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peers. For example, many EMNEs face challenges developing their talent to match their ambitious strategies due to shortage of the internationally-experienced managers within the business eco-system (Bird & Mendenhall, 2016; Meyer & Xin, 2017). In the short run, they may meet their needs either with host country talent or with inexperienced home-grown managers. However, in the longer run they need talent management systems to ensure the development of leadership capabilities. Thus, research on EMNEs should integrate strategic management perspectives with organizational behavior and human resource management perspectives to explain the actually observed strategies of EMNEs.

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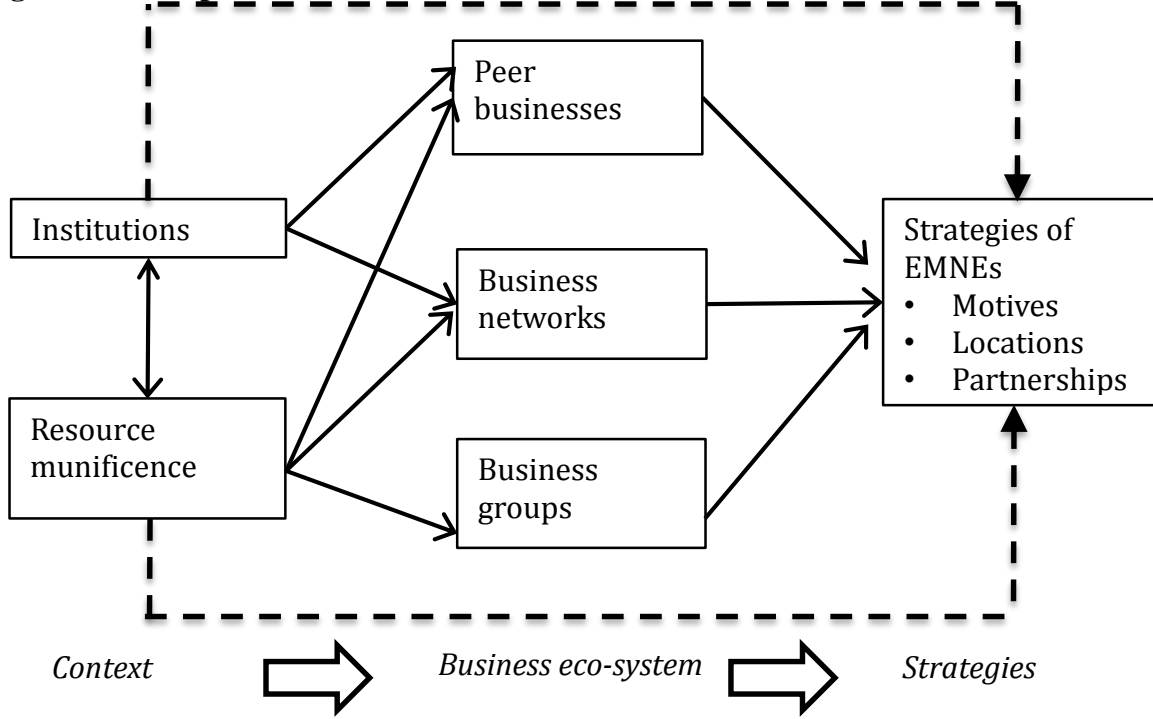
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Figure 1: Conceptual Framework



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4 **Table 1: Summary of papers in this Special Issue**
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Authors	Title	Empirical Findings
Li, Cui & Lu, 2017	Marketized State Ownership and Foreign Expansion of Emerging Market Multinationals: Leveraging Institutional Competitive Advantages	Empirical investigation of the effect of marketized central and local state ownership on foreign expansion of emerging market multinationals. Using a longitudinal sample of 973 Chinese publicly listed firms, the authors find support for the argument that central state marketized ownership has a stronger impact on a firm's foreign market entry than local state marketized ownership. The relationship is contingent on the focal firm's business group affiliation. The paper offers new insights on how EMNEs derive institutional advantages from pro-market reforms for overseas expansion.
Xie & Li, 2017	Selective Imitation of Compatriot Firms: Entry Mode Decisions of Emerging Market Multinationals in Cross-border Acquisitions	Empirical investigation of imitative behavior among Chinese MNEs. The hypothesis is that an ownership mode for entering a host country is more likely used the more frequently that same mode has previously been used by peers from home countries or by MNEs from developed countries. EMNEs are more inclined to imitate their own peers than to imitate MNEs from developed countries. Further, state-owned EMNEs tend not to imitate other state-owned EMNEs.
Hertenstein, Sutherland & Anderson, 2017	Internationalization within networks: Exploring the relationship between inward and outward FDI in China's auto components industry	Longitudinal case studies through which the authors explore how outward FDI strategies of Chinese auto component firms are shaped by sub-contracting supply relationships with developed market MNEs. The main finding of the paper is that business networks developed with advanced country MNEs in their home country shape the internationalization strategies of EMNEs along many dimensions. Specifically, first international investments aim to strengthen the position of the EMNE in the supply network of the advanced country MNE.