

# 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

Introduction to Special Issue  
*Asia Pacific Journal of Management*

## Abstract

Research on multinational enterprises that originate from emerging economies has highlighted the importance of the home country for firms' strategies of internationalization. In this paper, we outline a simple analytical framework linking institutions and resource munificence in the home country to the domestic business eco-system in an emerging economy, and thereby to strategies of outward investments. Specifically, we argue that businesses interact with each other in their home economy, and these patterns of interactions influence strategies of internationalization as companies not only compete with each other, but share resources, coordinate actions and serve as each other's role model. Strategies of outward investment thus reflect the competition and collaboration in their home country business eco-system.

**Keywords:** Emerging market multinationals, institutions, resource munificence, business groups, business networks, peer businesses

## Introduction

Multinational enterprises from emerging economies (EMNEs) have been substantive players in the global economy for over two decades. Some EMNEs such as Lenovo or Tata have already grown into leaders on the global stage. Yet, many others are still in early stages of learning how to cope with the challenges of the global marketplace. In their catch-up, EMNEs exploit spillovers, linkages, acquisitions and investment in R&D as channels through which to upgrade their capabilities (Chari, 2015; Matthews, 2006). Yet, as they upgrade, they still face substantial challenges arising from the characteristics of their respective home country.

The literature on strategy in emerging economies focuses in particular on the role of institutions shaping the rules for markets, governance and practices (Meyer & Peng, 2016; Wright et al., 2005). In addition, a critical question is what resources firms have access to in their home environment, in other words the resource munificence of the economy in which the firm is embedded. Firms in emerging economies often face substantive gaps in financial and technological resources (Cuervo-Cazurra & Ramamurti, 2014; Mathews, 2006), and when it comes to internationalization the shortage of internationally experienced human capital is often an further bottleneck (Meyer & Xin, 2017).

Institutions and resource munificence influence EMNEs not only directly, but also indirectly via the domestic business eco-system, which we define as the firms within a given business community and the patterns of competitive and collaborative interaction between them. As the contributions in this special issue highlight, interactions between firms within the business eco-system of home country shape the strategies of outward investment of EMNEs. Specifically, outward investment strategies are influenced by organizational phenomena such as types of ownership (Li et al., 2017, this issue), spillovers between inward and outward foreign investors (Hertenstein et al., 2017, this issue), interfirm relationships within business groups (Li et. al. 2017), supplier relationships and business networks (Hertenstein, et al., 2017), as well as imitation among peer firms that may serve as role models (Xie & Li, 2017, this issue).

We discuss these issues following the structure of Figure 1. First, we briefly review the role of home country institutions with respect to markets, governance and practices, and then consider

the role of the resource munificence enabling access to resources. We then relate these home factors to some aspects of the business eco-system that influence the outward investment strategies of firms from this eco-system. Finally, we summarize the key messages of the accepted papers in this special issue and further propose directions for future research.

\*\*\* *Insert Figure 1 about here* \*\*\*

## **Institutional Context**

### **Home Country Institutions**

The institution-based view is probably the most influential theoretical foundation for research on business in emerging economies (Elango & Sethi, 2007; Meyer & Peng, 2016; Peng, Wang & Jiang, 2008; Xu & Meyer, 2013). It integrates distinct scholarly traditions, notably institutional economists, who consider institutions as rules of the game shaping economic activity (North, 1990), and organizational sociologists who view institutions as the “regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life” (Scott, 2003).

Both perspectives view actors, whether persons or organizations, as affected by institutions in their wider environment. Institutions can shape individual action in a multitude of ways: by determining the efficiency of alternative corporate governance structures (Aguilera, Desender, Bednar, & Lee, 2015; Estrin & Prevezer, 2011), by lowering transaction costs of market exchanges (North, 1990; Williamson, 2000), or by setting rules for competition (Narayanan & Fahey, 2005). Institutions are normally designed to reduce uncertainty by making the behaviors of other actors more predictable, yet at times of political instability, formal rules may change unexpectedly such that institutions themselves can become a source of uncertainty (Banalieva, 2014). This is a particular concern in countries going through institutional transitions, a common experience in emerging economies (Peng, 2003).

Institutions in the home country can influence the strategies of firms beyond the home country through at least three mechanisms. First, institutions shape the efficiency of markets through

transparency enhancing and uncertainty reduction mechanisms, and thereby enable resource accumulation and growth strategies of firms within that environment. For example, Cuervo-Cazurra (2011) argues that "...the particular norms and institutions prevailing in the country induce the company to develop specific resources to be able to interact with other players in the marketplace." The resources and capabilities thus accumulated provide a resource pool that firms can draw on when they internationalize. Chen et al. (2015), for instance, observe that strong local institutions that support effective and well-functioning markets create the conditions that induce Chinese firms in that location to develop capabilities in R&D and marketing, which, in turn, enable them to expand into developed countries.

Second, home country institutions shape ownership types and governance structures within the economy. In most emerging economies, firms owned by domestic private owners, by entities of the state, and by foreign investors, compete with each other. However, the relative importance of these types varies across countries and is significantly influenced by the country's institutional framework (Musacchio, Lazzarini, and Aguilera, 2015). For any firm, the relative strength of these different types of peers has implications for the kinds of partners and spillovers it may benefit from. For example, inward-outward linkages may relate foreign investors operating in an emerging economy with local firms starting to invest overseas themselves (Hertenstein et al., 2017).

An important phenomenon in emerging economies is enterprises partially or fully owned by entities of the state, yet in a wide variety of different formal ownership arrangements (Delios et al., 2006). An important sub-group are 'hybrid firms': firms listed on stock exchanges but with the majority of ownership in the hands of a state entity that shares the control of the firm with private financial investors (Bruton et al., 2015). These "marketized" state-owned firms may cultivate more competitive advantages and organizational capabilities than non-marketized state-owned firms (Li, Cui & Lu, 2017). Moreover, state-owned firms differ in the type of government owner and the percentage of government ownership, which affects their growth strategy. For example, firms owned by central and local governments differ in their propensity to invest overseas as their owners have different expectations, objectives, and resources (Li, Cui & Lu, 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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corporate governance (Globerman and Shapiro, 2009). EMNEs can ease such legitimacy pressures by aligning their organizational practices with local rules and norms, establishing alliances with actors that enjoy high legitimacy locally (Lu & Xu, 2006), and adapting entry strategies that lead to lower local resistance or barriers. Thus, Meyer et al. (2014) find that state-owned EMNEs tend to take lower their equity stakes in acquired subsidiaries, particularly in countries where legitimacy challenges are higher.

### **Home Country Resource Munificence**

Businesses exist to combine and transform resources – also known as factors of production – to generate higher value outputs, and thereby generate profits. Hence, business opportunities depend on the resources that a firm can access, either in its home environment or in foreign markets. Especially for firms at early stages of their internationalization, the home environment is critical. Yet, the resource munificence of many emerging markets is weak, which can make access to resources a major challenge.

Firms access external resources through factor markets, which are markets for factors of production, such as labor, capital or resources, necessary to create products or services and thus to attain competitive advantage in downstream markets (Kim, Hoskisson & Lee, 2015). Like product markets, the efficiency of factor markets is influenced by information asymmetries and transaction costs, and thus the institutional framework. Firms operating in countries richly endowed with resources and with efficient factor markets are better able to secure the strategic factors they need to implement strategies and generate competitive advantage (Khanna & Palepu, 1997; Kim et al, 2015).

EMNEs with ambitious growth strategies face challenges in accessing resources to build their international operations. Barriers arising from weak resource munificence are often amplified by low efficiency of factor markets. Gaps in resources concern in particular technology, finance, and human capital (Awate, Larsen, & Mudambi, 2012). *First*, with respect to technologies, EMNEs tend to lag advanced economy MNEs that benefit from pools of highly qualified individuals, access to cutting edge research in the world's leading universities, and peers of 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 Thaijongrak, 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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end, collaboration, through partnerships and joint ventures, becomes the primary mode of foreign entry, which, in turn, allows overcoming barriers to diffusion put in place by advanced MNEs.

Second, EMNEs can take a more aggressive approach by acquiring companies with the aim to use the capabilities of the acquired companies to strengthen their own global capabilities (Mathews, 2006; Luo & Tung, 2007; Rui & Yip, 2008; Deng, 2009). The acquired capabilities are strategic in that they are expected to enhance the competitiveness of the EMNEs not only in the market where they are acquired, but also in the home market and, in the longer run, in third country markets. Such strategic asset seeking FDI provides an accelerated path for EMNEs' international expansion (Meyer, 2015; Makino et al. 2002). In such cases, however, the acquiring firms often lack the operational capabilities to lead the acquired company, which leads to the phenomenon of 'light touch integration' whereby the acquired firms continues to operate with a high degree of autonomy (Liu & Woywode, 2013; Meyer & Xin, 2017). However, as EMNEs progress from their initial foreign venture to series of acquisitions, their learning from early acquisitions helps implementing later acquisitions more effectively (Elango & Pattnaik, 2011).

## **Business Eco-systems**

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

## **Business groups**

A characteristic of many emerging economies is the prevalence of business groups, which are networks of legally independent firms, bound together by formal and informal ties with some degree of central coordination among the affiliate firms (Khanna & Yafeh, 2007; Luo & Chung, 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  
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6 voids by sharing key resources, and by coordinating strategic actions such as internationalization  
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8 and resource allocation (Chang & Hong, 2000; Kumar, Gaur, & Pattnaik, 2012; Lamin, 2013).  
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10 The empirical literature thus has found positive effects of business group association on firm  
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12 performance, which however are highly contingent on institutional settings (Khanna & Rivkin,  
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14 2001; Khanna & Yafeh, 2005). Even with institutional reforms and enhanced efficiency of  
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16 markets, business groups continue to grow within emerging economies (Chittoor, Kale &  
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18 Puranam, 2015; Colpan, Hikino & Lincoln, 2010; Estrin et al., 2009), and some of them are  
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20 becoming new breed EMNEs (Bhaumik, Driffield & Pal, 2010; Chittoor et al., 2009).  
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23 When member firms of a business group internationalize, they can draw on the resources of the  
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25 group, and thereby accelerate their international growth (Bhaumik, et al., 2010). These shared  
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27 resources can create both advantages and disadvantages. Advantages include competences in  
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29 overcoming institutional voids, promoting trust-based transactions, mitigating the lack of  
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31 international experience and providing greater network connections. In their home markets,  
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33 EMNEs often attain competitiveness from their ability to deal with institutional inefficiencies  
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35 (Aulakh, 2007; Wright et al, 2005). This ability may to some degree be transferable to other  
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37 emerging economies, and may thus be a force driving EMNEs to invest in countries with similar  
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39 institutional structures (Henisz, 2003; Khanna and Yafeh, 2007). Moreover, business group  
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41 affiliation facilitates learning among members, including learning about foreign markets, which  
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43 makes it easier and less costly for individual affiliates to expand internationally (Yaprak &  
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45 Karademir, 2010).  
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48 Disadvantages include obligations of member firms within their group, for example to support  
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50 strategically important group initiatives or weak units that cannot be discontinued for social  
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52 reasons. In particular member firms that generate positive cash flows or hold a central role within  
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54 the business group may be asked to contribute to common causes. As analyzed by Li et al.  
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56 (2017), this may be a particular concern for state-controlled business groups, which have  
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58 substantive non-economic objectives in addition to profit satisficing objectives, and which may  
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60 be asked to take care of certain ailing businesses.  
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## **Business Networks**

Business networks are an important phenomenon in emerging economies where they serve important roles to connect businesses in the presence of weak institutional frameworks (Delios & Beamish, 1999). They differ from business groups in that the linkages are loose and normally do not involve equity ties, but are based on organizational or personal relationships and trust. Networks provide important channels to access complementary resources and for sharing knowledge, for example on how to do business in a foreign country.

Domestic networks can support internationalization in particular for firms entering unfamiliar foreign environments for the first time. For instance, foreign investors tend to cluster with others from the same country of origin to share local networks (Tan & Meyer, 2011), which over time often coevolve with firms in internationalization processes (Johansen & Vahlne, 2009). The combination of a relative lack of international experience of individuals firms and a tradition of working within networks makes networks particularly important for the internationalization of smaller and mid-sized firms from emerging economies (Musteen, Francis & Datta, 2010).

Some entrepreneurial start-ups build in their home environment ties to globally operating MNEs, and leverage these ties in their internationalization. For example, Prashantham and his coauthors observe that many smaller firms in emerging economies, notably in the Indian software industry, partner with large and mature MNEs to access international markets, a phenomenon known as ‘Dancing with Gorillas’ (Prashantham & Birkinshaw 2008; Prashantham & Dhanaraj 2010). As another example, in the automotive industry, highly structured networks connect firms in the value chain, centered on major brand manufacturers. Emerging economy firms wishing to supply subsidiaries of major brand manufacturers need to join these networks and participate in extensive collaboration and quality control procedures, which represent a major barrier to entry to a network. Yet, as Hertenstein et al. (2017) discover, local firms that successfully joined a network then received substantial support from the brand manufacturer for their own internationalization. Thus, these firms internationalize within a network but crossing national borders.

## **Unrelated Peer Businesses**

Firms can also be influenced by other businesses in their eco-system even if they are not related through ownership or network relationships. Specifically, firms have been observed to imitate each other for example with respect to introduction of new products, forms of internationalization, timing of entry, market position decisions, acquisition choices, organizational processes, and managerial methods (Lieberman & Asaba, 2006). The organization theory literature on institutions thus emphasizes the importance of imitation strategies to limit downside risk. Thus, firms are argued to align to established norms in their organizational field, which are evident by the actions of their peers, in particular of peers that have a high status in the community (Westphal et al, 1997; Kraatz, 1998). High status firms thus become role models for others, both domestically and internationally.

Imitation can be a rational strategy for several reasons. Under conditions of environmental uncertainty, imitation is a rational approach to handle ambiguous and uncertain situations. As each firm exhibits some degree of mimetic isomorphism, organizations become more homogenous (DiMaggio and Powell, 1983). A related reason for imitation is firms' quest for legitimacy in a given organizational field. Once a behavior has been adopted by a critical mass of actors, it is seen as legitimate, and hence is adopted by others without deep analysis. Finally, firms may also strategically imitate each other to reduce competitive rivalry. For instance, Porter (1979) argues that firms within a strategic group behave similarly because "...divergent strategies reduce the ability of the oligopolists to coordinate their actions tacitly ... reducing average industry profitability".

This line of theorizing has been applied to FDI to explain why in foreign market entry, firms tend to imitate others that came earlier to the same market (Chan & Makino, 2007; Henisz & Delios, 2001; Guillen, 2002; Yiu & Makino, 2002). For example, Henisz and Delios (2001) argue that *".... prior decision and actions by other organizations provide legitimization and information to a decision marked by uncertainty."* Applying the ideas of imitation to catch up strategies of EMNEs, however, a fundamental challenge is that the first investors from an emerging economy have few if any earlier investors that they can imitate. By definition, an early mover is 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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## 28 29 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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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  
7 on the focal firm. For instance, Zaheer & Bell (2005) find that a superior network position  
8 enhances firm performance by enabling better exploitation of innovative capabilities.  
9 Consequently, network structure may be a key construct to explain how networks impact firm  
10 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)  
25 Studies of imitation in internationalization patterns may help to develop theoretically and test  
26 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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4 peers. For example, many EMNEs face challenges developing their talent to match their  
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6 ambitious strategies due to shortage of the internationally-experienced managers within the  
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8 business eco-system (Bird & Mendenhall, 2016; Meyer & Xin, 2017). In the short run, they may  
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10 meet their needs either with host country talent or with inexperienced home-grown managers.  
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12 However, in the longer run they need talent management systems to ensure the development of  
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14 leadership capabilities. Thus, research on EMNEs should integrate strategic management  
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16 perspectives with organizational behavior and human resource management perspectives to  
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18 explain the actually observed strategies of EMNEs.  
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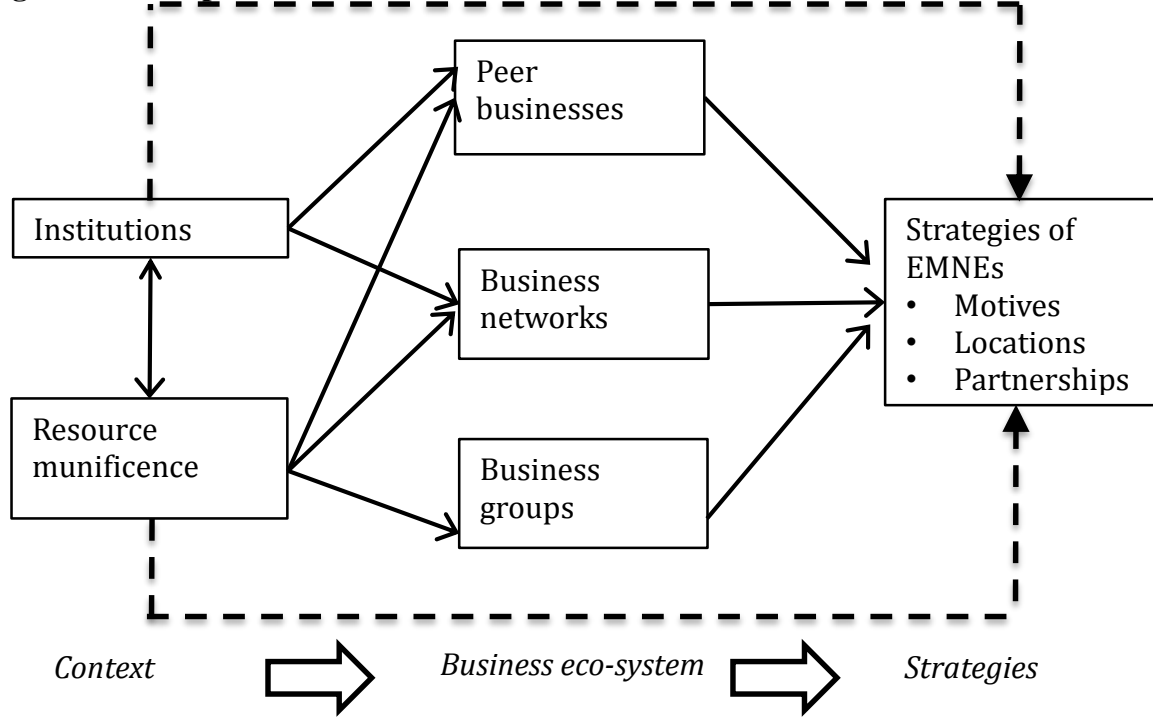
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Figure 1: Conceptual Framework



**Table 1: Summary of papers in this Special Issue**

| 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.                                                            |