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Impact of the home country on internationalization☆

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ABSTRACT

We analyze how a firm's home country influences its internationalization. We propose two complementary types of influence. First, we conceptualize a firm's international trade as shaped by four drivers: comparative advantage, comparative disadvantage, country-of-origin advantage, and country-of-origin liability. Second, we conceptualize the firm's foreign direct investment as shaped by four other drivers: institutional learning, competitive learning, institutional escape, and competitive escape. Taken together, these eight drivers help pull together recent theoretical advances on topics such as emerging-market multinationals, investment in tax havens, and cross-border acquisitions of firms in advanced countries. We also highlight other home-country related issues, such as strategic responses and home-host country links, in the spirit of fostering future research on home-country effects that warrant a more nuanced understanding.

1. Introduction

Some time back Raymond Vernon, a pioneer in the study of multinationals, noted that "the multinationalizing trend (is) widely recognized as similar in nature irrespective of the nationality of the parent company" (quoted in Wilkins 1986: 202). His observation presents an interesting hypothesis worthy of deeper examination. Does the home country of a multinational corporation not matter much, as he asserts, or does it, and if so how?

That is the main question explored in this introductory essay and the papers in this special issue. The rise of new multinationals from emerging markets serves as a valuable natural experiment for probing the impact of a firm's home country on its international strategy and behavior (Luo & Tung, 2007, 2018; Ramamurti, 2009). By 2015, emerging market multinational corporations (EMNCs) accounted for one-quarter of world outward foreign direct investment flows and one-fifth of the largest firms in the *Fortune Global 2000*. This growth led to a surge in academic interest in these firms, including special issues and volumes dedicated to their analysis (e.g. Aulakh, 2007; Cuervo-Cazurra, 2012; Cuervo-Cazurra & Ramamurti, 2014; Gammeltoft, Barnard & Madhok, 2010; Ramamurti, 2009; Ramamurti & Singh, 2009; Sauvant, 2008; Williamson, Ramamurti, Fleury, & Fleury, 2013). However, there has also been a growing debate on the value of studying them as a distinct type of multinational (see Aharoni, 2014; Cuervo-Cazurra, 2012; Dunning, Kim, & Park, 2008; Godley, 2014; Ramamurti, 2012; Rugman, 2010). Part of the debate and associated confusion emerges from the flawed comparison that some of the analyses make in disentangling the impact of a multinational's home country from that of other variables. Some unique features of EMNCs may not be the result of their country of origin but rather with their industry of operation, stage of internationalization, global context at the time of internationalization, or prior international experience (Ramamurti, 2012).

Many of the current theories and models of the multinational have paid limited attention to the influence of a multinational's home country. In general, home location has received relatively less attention than other firm characteristics, such as resources and capabilities and internalization methods (Dunning, 1998). Even those studies that address home location explicitly have tended to focus aspects such as its level of development, institutional and political system, or economic size and degree of economic openness (e.g., Barkema, Bell, & Penning, 1996; Chung & Beamish, 2005; Delios & Henisz, 2003; Meyer, Estrin, Bhaumik, & Peng, 1996; Voss, Buckley, & Cross, 2010). Other studies have examined how the "distance" between the home and host country affects the international expansion of companies (e.g., Ang, Benischke, & Doh, 2015; Ghemawat, 2001; Johanson & Vahlne, 1977; Luo & Shenkar, 2011). More recently, studies have paid attention to the impact of home-country characteristics on a firm's innovations and foreign expansion (e.g., Cuervo-Cazurra, 2006; Cuervo-Cazurra & Genc, 2008, 2011; del Sol & Kogan, 2007; García-Canal & Guillén, 2008; Govindarajan & Ramamurti, 2011; Holburn & Zelner, 2010; Hoskisson, Wright, Filatotchev, & Peng, 2013; Luo & Wang, 2012; Un, 2011; see an overview in Cuervo-Cazurra, 2011).

In this article, we aim to go beyond these studies and expand theories and models of how a firm's home country affects its

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internationalization. Thus, the ideas proposed below focus on country characteristics and its effect on firms' internationalization. We first explain how the home country influences a firm's internationalization via trade, drawing on four well-established, traditional concepts: comparative advantage, comparative disadvantage, country-of-origin advantage, and country-of-origin liability. We then analyze how a firm's home country affects its internationalization via foreign direct investment. Here, we turn to four newer and more novel concepts: institutional learning, competitive learning, institutional escape, and competitive escape. In the process of discussing these ideas, we provide testable propositions to guide future studies. We explain the heterogeneity in firm responses to home country effects, and discuss how several of these ideas are explored more fully in individual articles in this special issue, which we summarize before the conclusions.

2. Home country influences on internationalization via trade

The analysis of the influence of the home country on the internationalization of firms has evolved as authors have paid attention to different phenomena and built upon each other's work. Thus, one perception is that only recently with the analysis of multinationals from emerging markets and the realization that what distinguishes these firms from others is the influence of the home country (Cuervo-Cazurra, 2012; Ramamurti, 2012) authors seem to have finally paid more profound attention to the impact of the home market on internationalization.

However, there is a long tradition in international marketing of analyzing how the home country affects the sale of products abroad, the country-of-origin literature (see reviews in Peterson & Jolibert, 1995; Verlegh & Steenkamp, 1999), and an even older tradition that has analyzed the comparative advantage of countries in facilitating exports (Ricardo, 1817; Smith, 1776). We briefly review these traditions that have examined the impact of the home country on the internationalization of firms via international trade before we go into more detail into the recent advancements in theory that have focused on the impact of the home country on the internationalization via foreign direct investment, i.e., multinationalization.

The four drivers of the impact of the home country on internationalization via trade (comparative advantages, comparative disadvantages, country-of-origin advantage, and country-of-origin liability) are interrelated. First, we organize them in a two-by-two matrix, with the impact on the firm (advantage or liability) on one axis and the source of the impact (input or image) on the other. Whereas the comparative advantages and disadvantages affect the firm's internationalization via the inputs the firm uses in the creation of its products and services, the country-of-origin advantage and liability affect internationalization through the image that is associated with the firm and its products in foreign markets. The comparative advantage and country-of-origin advantage support the internationalization of the firm and its exports, while the comparative disadvantage and country-of-origin liability may not just limit internationalization but might as well lead to more internationalization as the firm seeks to use foreign inputs to counterbalance the disadvantages.

2.1. Comparative advantages

The role of the home country in the internationalization of companies goes back all the way to the notions of absolute and comparative advantage. Adam Smith (1776) proposed the idea of absolute advantage, which asserted that some countries were better than others at creating specific products, because they were endowed with particular resources, and ought to specialize in those products and trade them with other countries. David Ricardo (1817) refined Smith's argument by positing that even if a country did not have an absolute advantage in any product, it ought to specialize in those products in which it was relatively more efficient, that is, where it had a comparative advantage. These general principles did not focus on the firm, because they aimed to explain international trade at the country level. Nevertheless, these ideas have direct implications for firms: for instance, firms should specialize in products or components in which their home country has a comparative advantage.

Although useful as a starting point, these ideas and later developments in international economics paid little attention to how companies benefitted from such endowments. They tended to assume that all companies had equal access to a country's endowments and were equally able to leverage a country's comparative advantage (Ramamurti, 2009). But in fact endowments have owners who may share it with others only at a price (Hennart, 2012; Narula, 2014). Additionally, countries can "create" endowments (technology, knowledge, or a capacity for innovation) rather than rely solely on the natural endowment, as is very often the case in today's knowledge-driven global economy (List, 1841; see a historical overview of the literature in Freeman, 1995). The government can support other actors in their R&D efforts and promote the innovativeness of companies (Lundvall, 2010; Nelson, 1993). The development of a supportive infrastructure facilitates the coordination of activities in market economies (Hall & Soskice, 2001). The creation of an advanced financial system supports international trade (Beck, 2002; Kletzer & Bardhan, 1987). A notable case of this is China, where Ramamurti and Hillemann (2018) argue that the government has bolstered the international competitiveness of Chinese firms in many ways through "government-created advantages."

A breakthrough in developing these ideas at the firm-level came from Raymond Vernon (1966, 1979) and his product lifecycle model of internationalization. According to the model, companies in advanced economies introduced new products to satisfy the needs and desires of highly demanding high-income consumers of the home country. These innovative products later served as the basis for their international expansion as firms exported the innovative products to other advanced countries whose high-income consumers desired them. As the innovations became standardized and prices dropped, products were sold in developing countries. Production also moved from the home country to other advanced countries to developing countries as the technology diffused and standardized. Later analyses connected the highly sophisticated consumers, to the endowments discussed previously, and to sophisticated supporting industries and high rivalry that enabled firms to become internationally competitive in exports (Porter, 1990).

Another significant development was the shift away from international trade in final goods to trade in intermediate goods. In Ricardo's time, countries traded in finished products, such as exporting wine in exchange for cloth (List, 1841). Nowadays, trade is becoming relatively frictionless, allowing for the value chain to be sliced and diced and dispersed globally (Gereffi, 1999; Kogut, 1985). Thus, firms may not just export final products but can instead concentrate on the creation and export of intermediate products and components that are then integrated with other components in the assembly of final products abroad. Or some firms may even just rely on the comparative advantage of the home country in their internationalization, exporting inputs and raw materials directly without modifying them.

This traditional idea that the comparative advantage of the home country supports the internationalization of firms can be summed up in this proposition:

Proposition 1. *Firms from countries with a comparative advantage (endowed or created) are more likely to export inputs, intermediate components, and final products, or undertake intermediate and final activities, which rely on these particular sources of comparative advantage.*

2.2. Comparative disadvantages

Whereas the endowment of the country can support the internationalization of the firm, comparative disadvantages in the endowments will limit the ability of firms to export. The comparative

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