ARTICLE IN PRESS

Journal of World Business xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

Emerging Economy MNEs: How does home country munificence matter?

Saul Estrin[a], Klaus E. Meyer[b,*], Adeline Pelletier[c]

[a] Department of Management, London School of Economics, UK
[b] Ivey Business School, Western University, Canada
[c] Goldsmiths College, University of London, Centre for Economic Performance, LSE, UK

ARTICLE INFO

Keywords:
Foreign direct investment
Location choice
Emerging economy multinationals
Home country munificence
Liability of foreignness

ABSTRACT

Multinational Enterprises (MNEs) from emerging economies (EEs) are establishing operations in advanced economies (AEs), apparently departing from traditional models of internationalization. We explore an under-explored difference between EE MNE and their AE counterparts concerning their country of origin: EEs have less munificent business environments. This leads EE MNEs to make different location choices than AE MNEs when entering AEs, specifically because they are more deterred by barriers to entry. We therefore predict EE MNEs to be relatively more deterred by distance and weak intellectual property protection and relatively more attracted by diaspora of migrants and by markets. Our empirical results are consistent with these predictions.

1. Introduction

Historically, foreign direct investment (FDI) was undertaken primarily by multinational enterprises (MNEs) from advanced economies (AE) investing in other AEs or in emerging economies (EEs) (Dunning, 1998). Yet, there has been rapid growth in investment by MNEs from EEs, up from 17% of outward FDI flows in 2007 to 36% in 2014 (UNCTAD, 2012, 2016). While many of these investments have been in other emerging EEs, a significant and highly publicised share of this FDI has been invested in locations more developed than their country of origin (Cui & Aulakh, 2018). Leading theories of MNEs focus on explaining FDI inflows into similarly or less advanced environments (Dunning, 1993), which raises the question of how theories may have to be adapted to explain EE MNEs entering AEs (Cuervo-Cazurra & Ramamurti, 2014).

This study compares the determinants of location choice by MNEs from EEs against those of MNEs from AEs. The theory of the MNE suggests that location decisions depend on the interaction of the firm's own capabilities with the specific locational advantages of potential hosts (Alcácer, Denzsö, & Zhao, 2013; Dunning, 1998). However, investment by EE MNEs into AEs appears to challenge this view (Hennart, 2012, Ramamurti, 2012, Luo & Tung, 2007). Specifically, *when they invest in AEs*, EE MNEs have *fewer* capabilities suitable for exploitation in these new locations than their AE competitors (Lu, Liu, Wright & Filatotchev, 2014; Ramamurti, 2012; Verbeke & Kano, 2015). We propose that these deficiencies largely arise from specific shortcomings of the home country business environments, its resource munificence.

Our argument is based on the notion that the home economy in EEs provides less support in terms of access to resources, market size and institutions than is the case in AEs. Thus, while all MNEs have tangible and intangible assets that they can leverage internationally, country of origin deficiencies place EE MNEs at a disadvantage relative to AE MNEs. This means that EE MNEs face a greater liability of foreignness when entering AEs (e.g. Klossek, Linke & Nippa, 2012). We argue that these home country disadvantages lead EE MNEs to be relatively more deterred by barriers to entry, or more attracted by their absence, in a potential host economy.

A variety of deficiencies in the munificence of the home country limit EE MNEs when they start to internationalize (Luo & Wang, 2012; Meyer & Thaijongrak, 2013; Ramamurti, 2012). For example, they face shortages of outward-oriented business networks (Manolova, Manev, & Gyoshev, 2010; Musteen, Datta, & Francis, 2014) and of intermediaries for the gathering, analysing and disseminating intelligence about global markets as well as of managers experienced in operating in AEs (Leung, 2014; Meyer & Xin, 2018; Wang, Luo, Lu, & Maksimov, 2014). Many of these resources are based on tacit knowledge and therefore cannot be bought in the market place. This leads EE MNEs to make different location choices than AE MNEs when entering AEs. Specifically they are more deterred by barriers to entry.

We develop four hypotheses about the relationship between aspects of the host economy: that EE MNEs will be relatively more deterred by host economy distance and weak IPR protection and relatively more attracted to countries with larger migrant diaspora and greater market size. We construct a unique firm-level dataset which allows us to

* Corresponding author.
E-mail addresses: s.estrin@lse.ac.uk (S. Estrin), kmeyer@ivey.ca (K.E. Meyer), a.g.pelletier@lse.ac.uk (A. Pelletier).
URL: http://www.klausmeyer.co.uk (K.E. Meyer).

https://doi.org/10.1016/j.jwb.2018.02.004
Received 2 October 2016; Received in revised form 16 February 2018; Accepted 21 February 2018

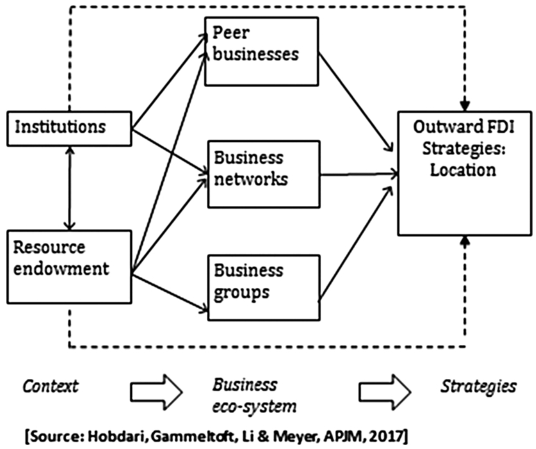

Fig. 1. Home Country Context, Business Ecosystem and Firm Strategies.

compare the FDI location choices in AEs by MNEs from AEs against those from EEs. Our empirical tests provide evidence in favour of our hypotheses. Specifically, the direction of the effects of key explanatory variables is the same for MNEs from both EEs and AEs, but there is evidence of greater deterrence by barriers to entry, and attraction for positive host economy characteristics, for EE MNEs than AE MNEs.

We offer the following contributions to the literature. First, we develop a theoretical argument that integrates the resource munificence of the home economy with theories of location choice to explain the pattern of EE MNEs outward investments. To achieve this, we extend the liability of foreignness concept to the country of origin, to explain why EE MNEs find it more challenging than AE MNEs to overcome barriers. We provide a powerful explanation of EE MNEs investment into AEs and resolve apparent contradictions noted in the recent literature. This allows us to address a pertinent question in the IB literature (e.g. Hennart, 2012; Luo & Tung, 2007; Luo & Zhang, 2016): do we need a new theory to explain EE MNEs? Our answer is that we do not; rather we need to incorporate home country munificence into the existing models.

Second, we make a number of empirical contributions. Our novel dataset provides insights on location choices by MNEs from both AEs and EEs into AEs, specifically identifying important differences in the pattern of determination of location choice between AEs and EEs that arise from the greater liability of foreignness of EE MNEs. Finally, we document and interpret more finely grained results for individual countries of origin, which enables us to critically evaluate country specific idiosyncrasies and the generalizability of our findings.

2. Theorizing about emerging economy multinationals

2.1. Challenge to theory?

The theory of the MNE suggests that firms engage in outward FDI to transfer and exploit their capabilities (Buckley & Casson, 2009; Narula & Verbeke, 2015). Yet recent empirical studies highlight that the recent wave of EE MNEs lacks the famous brands and leading-edge technologies that are usually viewed as the principal drivers of MNEs' overseas expansion (e.g. Mathews, 2006; Kim, Hoskisson, & Lee, 2014; Klossek et al., 2012; Luo & Wang, 2012).

In particular, EE MNEs tend to operate with comparatively older technologies, labor rather than technology intensive processes, and with brands that have limited appeal beyond their country of origin (Rugman & Nguyen, 2014; Verbeke & Kano, 2015). Moreover, due to their relatively short history of international operations, they have not yet build up international management capabilities grounded in experience of managing international operations in a variety of host countries (Meyer & Xin, 2018; Wang et al., 2014). Thus, EE MNEs enter the global stage with different types of resources than AE MNEs. Indeed EE MNEs have been argued to have developed capabilities to cope with the particular conditions of an EE and while these can support internationalization, this is primarily to other EEs but not AEs (Cuervo-Cazurra & Genc, 2008; Verbeke & Kano, 2015).[1]

2.2. Home countries in the theory of the MNE

We focus on country of origin effects and propose that the range of capabilities that an MNE can exploit differs between AE MNEs and EE MNEs. Focusing on emerging economies, Hobdari, Gammeltoft, Li, and Meyer (2017) model the relationship between home country resource munificence and institutions and link these first to the domestic business eco-system and then to outward investment strategies. They propose that interactions between firms in the home economy affects internationalization because companies in a given country of origin share resources, coordinate actions and serve as each other's role models. Strategies of outward investment thus reflect the competition and collaboration in their home country business eco-system. This argument is summarized in Fig. 1.

The OLI paradigm (Dunning, 1993) suggests that MNEs possess some ownership advantages that allow them to overcome the liabilities of foreignness associated with operating in unfamiliar host business contexts. We argue that this proposition applies equally to AE and EE MNEs, and thus EE MNEs must possess some source of competitive advantage. However, these ownership advantages are subject to country of origin effects (Narula, 2012). In particular, as indicated in Fig. 1, international management expertise is developed interdependently between the national economy, the business eco-system and the enterprise itself.

The national economy provides the fundamental resources, capabilities and institutions upon which firms can draw. Critical among these for MNEs are the education system including the levels of attainment of, for example, technical, managerial and language skills; the financial system with its implications on the cost of domestic as against foreign capital; and the property rights system, notably the structure of corporate governance and regulation (Gugler, Mueller, Peev, & Segalla, 2013). In home economies with low resource munificence, MNEs seeking to internationalise may find it difficult to recruit trained or competent managers for their overseas subsidiaries; finances for global expansion[2] or governance structures to prevent management from seeking (domestic) private benefits rather than international opportunities (Estrin, Meyer, Nielsen & Nielsen, 2016). We develop these arguments below.

Further, the internationalisation process has public good properties, the importance of which depends on the munificence of the home country environment and its business eco-system (Hennart, 2009; Gugler et al., 2013); hence firm internationalization is interdependent with the internationalization of other actors in the home environment. Experience in operating in international environments critically facilitates the assessment of opportunities and risks, and reduces the marginal costs of further entries (Buckley, Elia & Kafouros, 2014; Clarke, Tamaschke, & Liesch, 2012). Such experience can to some extent be shared within business networks, especially in networks of companies from the same origins (Belderbos, van Olffen, & Zou, 2011; Manolova

[1] For example, EE MNEs may possess capabilities in 'process innovations' to lower costs without reducing quality (Zeng & Williamson, 2007), and 'frugal innovation'. Other EE MNEs develop capabilities in managing labor-intensive manufacturing processes (Ramamurti, 2012; Williamson, Ramamurti, Fleury & Fleury, 2013), or "the ability to manage institutional idiosyncrasies" (Henisz, 2003, also see Carney, Dielemann & Taussig, 2016). These capabilities however are likely to be of limited value in AE contexts.

[2] In fact, some home countries may provide EE MNEs preferential access to national resources (Hennart, 2012; Narula, 2012), notably to financial resources (Morck, Yeung & Zhao, 2008) and to network relationships (Musteen et al., 2014; Prashantham & Dhanaraj, 2011). This may reduce differences between AE and EE MNEs.