Emerging Economy MNEs:
How does home country munificence matter?

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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.

Keywords: foreign direct investment, location choice, emerging economy multinationals, home country munificence, liability of foreignness.

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 markets, a significant and highly publicised proportion of this outward FDI has been invested in locations more developed than their country of origin (Cui and 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; Nielsen Asmussen & Weatherall, 2017). 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 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 the generalizability of our findings.

Theorizing about Emerging Economy Multinationals

A 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 et al., 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]

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 & 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 Figure 1.

insert Figure 1 here

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 Figure 1, international management expertise is developed interdependently between the national economy, the business eco-system and the enterprise itself.

[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.

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, 2015; 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 et al., 2011; Manolova et al., 2010; Tan & Meyer, 2011). Hence, the munificence of the home environment is critical for internationalising firms.

Emerging economies as MNE home countries

[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.

We propose that for the most part, the resource munificence is weaker in EEs than in AEs, and that this has implications for strategic decisions of MNEs from respectively EEs and AEs. Specifically, while all MNEs have ownership advantages to help them overcome their liability of foreignness in host economies, these will be less marked for MNEs from EEs than AEs (Klossek et al., 2012; Narula, 2012). Thus, all MNEs face barriers to entry in their host economies, and seek resources that help them to exploit their particular ownership advantages. The impact of home country munificence is to exacerbate those barriers to entry, or to enhance those attractors. Hence, in our hypothesizing and subsequent empirical work we explore ways in which, EE MNEs' location choices are driven by their lesser ability to overcome their liability of foreignness, and their need to exploit more intensively their more limited areas of advantage.

EE business environments are normally less munificent in three aspects that fundamentally affect FDI location decisions: knowledge-based resources, international management capabilities and networks. First, ownership advantages enable firms to achieve competitive advantages in different national contexts (Dunning, 1993). International business research has emphasized in particular technological and marketing capabilities as basis for ownership advantages (Anand & Kogut, 1997; Rugman, 2009). However, the home environment in EEs normally provides less support for the development of world-leading technologies and internationally recognized brands that could be exploited in AEs (Luo & Wang, 2012). For example, deficiencies in the education system and in public (and private) administration result in weaknesses of human capital formation in EEs, including narrower portfolios of technological capabilities (Awate, Larsen, & Mudambi, 2012).

Second, international management capabilities enable firms to identify and implement cross-border business opportunities. This includes capabilities such as cross-cultural management (Bird & Mendenhall, 2016), global strategic thinking and global leadership (Caligiuri, 2006; Stahl et al., 2012). It includes capabilities in utilizing location-specific

resources (Zaheer & Nachum, 2011) and the ability of home country business units to absorb knowledge from overseas operations (Ambos, Ambos & Schlegelmilch, 2006; Cuervo-Cazurra & Rui, 2017; Kotabe, Jiang & Murray, 2011). These capabilities are embedded in people and organizations and, since they are to a high degree based on experiential knowledge (e.g. Buckley, Munjal, Enderwick & Forsans, 2016). Especially a lack of experience with processes and practice of international management raises barriers to entry in 'foreign' locations (Clarke, et al., 2012).

When EE firms extend beyond national borders, they typically face a national shortage of individuals and managerial teams with experience of operating in AEs (Arp, 2014; Meyer & Xin, 2018). In consequence, EE MNEs typically lack, for example, cultural sensitivity for managing international branding; human resource management practices for managing highly skilled labor forces (such as research or creative workers); and a corporate culture supporting flat managerial structures and culturally diverse teams (Bird & Mendenhall, 2016).

Third, MNEs learn and grow through interactions within business networks, and especially EE MNEs often internationalize within such networks (Hertenstein, et al., 2016; Lin, Peng, Yang & Sun, 2009; Musteen et al., 2014; Prashantham & Dhanaraj, 2011). Hence, patterns of existing networks to a large extent influence the location choices of firms at early stages of internationalization (Alcácer, et al., 2015; Tan & Meyer, 2011), and the absence of such networks becomes a major constraint.

International management requires the gathering, analysis and dissemination of intelligence about global markets. AEs have often been global players for decades (or even centuries), and at the country level have developed stocks of experiential capital and knowledge through business networks, administrative structures (e.g. for diplomacy), educational institutions and market intermediaries that support international activities of the domestic business community (e.g. Jones & Khanna, 2006). Furthermore, business

communities in AEs often collaborate to create supportive networks such as overseas Chambers of Commerce to facilitate relationships in a host economy (Keating, 1993).

To sum up, deficiencies in the munificence of the home environment translate into capability gaps of firms. Where knowledge-based resources are scarce, this scarcity constrains the creation of firm-specific capabilities. Where few senior managers have overseas experience, it is difficult to assemble an internationally experienced top management team; where business networks do not (yet) expand across national boundaries, growth within networks will be slow.

Hypotheses: Location Choice of MNEs into AEs

The home environment's weaker resource munificence constrains the strategic options of EE MNEs relative to those of AE MNEs, and it translates into a relatively greater sensitivity to barriers to entry and sharper focus on exploiting potential advantages in the host economy. We develop hypotheses concerning the differential impact on AE and EE MNE location choices of four drivers, specifically two barriers to entry, namely weak property rights and home-host distance, and two attractors of FDI, namely the home country diaspora in the host economy, and host market size.

Weak intellectual property rights as a barrier to entry

An important barrier to entry for foreign investors is the need to learn how to operate within the institutional framework of the host country (Meyer et al., 2009). This includes tacit knowledge of not just formal rules, but of informal rules and practices of law enforcement (North, 1990). Within a given institutional framework, the protection of intellectual property rights (IPR) tends to be of particular concern to foreign investors (Khoury & Peng, 2010; Nunnenkamp & Spatz, 2004). The less clearly IPR are protected, and the less effectively such protection is enforced, the more foreigners have to rely on their own internal processes as well as informal means of engaging with local enforcement agencies (Benassy-Quere, Coupet, & Mayer, 2007). This challenge tends to deter many foreign

investors (Adams, 2010). Hence, our baseline expectation for all MNEs is that *the better IPR is protected in an economy, the more likely foreign investors choose to locate there*.

Firms develop capabilities to manage and protect their knowledge. They may, for example, selectively transfer or compartmentalize knowledge, which enables sharing of proprietary knowledge across sensitive interfaces while appropriating the benefits of the knowledge (Cohen, Nelson, & Walsh, 2000; Henkel, 2006). Moreover, internal processes enable experienced MNEs to tap into and transfer to headquarters knowledge from geographically dispersed subsidiaries (Kafouros, Buckley, & Clegg, 2012; Monteiro 2015). Such processes are supported by munificent home environments in which such knowledge can be shared in business networks and in which relevant skills can be easily recruited. They enable MNEs to protect against potential unauthorized knowledge diffusion, even in institutionally less developed contexts (Laursen & Salter, 2014).[3]

EE MNEs operating in AEs have, compared to local competitors, a) weaker abilities of operating under AE institutional frameworks and b) less sophisticated managerial processes to protect their products and technologies internally. In their home country, they are used to different types of challenges in managing technologies, and IPR in particular. For example, they tend to operate at home with mature technologies that are easy to imitate, but for which the costs of the imitation are not very serious. In consequence, they have fewer human resources with the capability to manage, to protect and to exploit the sophisticated technologies that are available to them in AEs. We therefore expect that the deterrence of weak protection of IPR will affect EE MNEs more than AE MNEs.

Moreover, a particular concern for EE MNEs in AEs is the control of technologies that they acquire with the take-over of local firms in strategic asset seeking investments (Rui &

[3] It might be argued that because MNE from EEs operate in business environments with weak IP protection, their experience would make it easier for them to expand internationally to countries with lower IP protection (Cuervo-Cazurra and Genc, 2008, Del Sol and Kogan, 2007). However, note that our framework focuses solely on location choices in AEs.

Yip, 2008; Li, Li & Shapiro, 2012). When EE MNEs acquire local firms with higher levels of technologies, they find it demanding to manage these technologies effectively and to prevent the uncontrolled diffusion of knowledge, for example when critical employees leave an acquired company. This puts EE MNEs relatively more at the mercy of the legal framework, in particular the strength of IPR protection, in the host economy.

EE MNEs also have less experience of managing processes of sharing knowledge within the organisation, especially in absorbing knowledge from overseas affiliates in AEs into the parent organization in an EE. Arguably, their 'headquarter absorptive capacity' (Ambos, et al., 2006) is comparatively weak, which in part is a consequence of home country munificence. Thus, they are less able to create processes to diffuse innovations internally, or to recruit staff who might lead knowledge sharing, while making it more difficult to prevent diffusion of the new technologies to potential competitors.[4]

In summary, their inexperience in terms of capabilities for managing technology and innovation in AEs, and their relative disadvantages in sourcing the relevant skills, knowledge and experience in the home economy, means that EE MNEs benefit from host environments whose legal systems offer better IPR protection. Hence, we suggest:

Hypothesis 1: The stronger the host country's protection of intellectual property, the more likely is an MNE is to locate in that AE. This effect will be <u>stronger</u> for EE MNEs than for AE MNEs.

Home-host distance as a barrier to entry

The geographic distance between an MNE's home and host locations is usually argued to increase the costs of entering foreign markets and of doing business (Ghemawat, 2007;

[4] Again, this argument is different to the one that states that EE MNEs operating in other EEs are more easily able to function in host environments closer to their own, in terms of for example institutional voids than MNEs from AEs (Cuervo-Cazzuro & Ramamurti, 2014). The capabilities that EE MNEs have learnt from their home country institutional voids may well be valuable in other similar institutional contexts but are not likely to be relevant for investment in AEs.

Estrin, Baghdasaryan, & Meyer, 2009; Tihanyi, Griffith, & Russel, 2005). Moreover, national differences increase the extent of adaptation needed to reach consumers, and reduce the efficiency of interaction with (external) business partners and (internal) employees. Thus, in general the greater the difference, the greater is the need for global leadership capabilities to manage increasingly complex interfaces. While distance may also offer some firms opportunities for arbitrage' (Ghemawat, 2007), for companies at early stages of their internationalization, the costs of distance usually outweigh such potentialities (Johansen & Vahlne, 2009). Hence, our baseline expectation is that *all MNEs are less likely to invest in a country that is located at a greater distance from the home economy, but more likely where the same official language is spoken*.

However, the effect of distance on location decisions is critically moderated by international management capabilities available in the home economy. Certain costs of distance decline with the experiential knowledge held by or available to the management team (Kirca et al., 2012; Sambharya, 1996; Tan & Meyer, 2010). For example, internationally experienced managers know better how to manage diverse workforces, and how to adapt human resource systems to a workforce that is culturally or otherwise different from the parent organization. Moreover, being able to draw upon experience in diverse settings strengthens absorptive capacity of the parent organization and thus the ability to integrate knowledge potentially available in distant locations (Ambos et al., 2006; Kotabe et al., 2011).

As we have argued above, international management capabilities tend to be scarce in EEs, and that applies even more to competences related to managing in contexts that are very different to what the top management is familiar with. EE MNEs face considerable challenges to recruit, prepare and manage managers able to take on leadership roles in subsidiaries that operate in very distant foreign locations (Arp, 2014; Meyer & Xin, 2018).

Even in EEs, some individuals likely have experience of living or doing business in countries that are nearby or share a common language, for example through student travel, temporary work or au pairing. But as countries become more distant, the likelihood of these casual exchanges is reduced because the costs and the complexity of undertaking them increase. Because people in EE have less experience engaging with countries that are more distant, it is harder to identify and recruit managerial talent with the relevant skills. This will raise the cost of operating in more distant locations, such that we suggest:

Hypothesis 2: The less the distance between the home and host country, the more likely is an MNE to locate in that particular host country. This effect is <u>stronger</u> for EE MNEs than for AE MNEs.

Diaspora reducing the liability of foreignness

Populations within the host economy who have migrated from the investing country can help investors build bridges to the host economy and thus to reduce some barriers to entry (Javorcic, Özden, Spatareanu, Neagu, 2011; Saxenian, 2006). This is because successful FDI relies on good information about a huge variety of business issues in the host economy, which can be very expensive for potential entrants, whether from AEs or EEs, to gather and process, as emphasized by the notion of the liability of foreignness (Zaheer, 1995). However, the costs of obtaining and processing this information can be reduced by migrants resident in the host economy who can act as a source of information and as a mechanism to interpret differences between the home and host economy in a manner that can be more easily assimilated by the investing MNE.

To investigate this idea, a small literature has explored the links between FDI and the existence of ethnic networks in the host economy, and for the most part has confirmed its relevance empirically. For example, Kugler and Rappoport (2007) find that migration at one point of time is associated with a future increase in the level of FDI. Moreover, evidence from China, which has a large migrant diaspora, suggests a positive relationship between

the numbers of ethnic Chinese in host country locations and FDI inflows (Tong, 2005). Thus, our baseline prediction is that *migrant diaspora reduce the liability of foreignness for MNEs from AEs and EEs.*

As argued above, the need for the provision of relevant host economy market knowledge is relatively greater for MNEs from EEs than AEs because their business ecosystems have fewer mature international business ties, and a relative shortage of expertise related to foreign markets. Thus, the liability of foreignness weighs more heavily upon them and their ability to compensate through other channels is weaker because of the lesser munificence of their home economy. This implies that the access and information provided by a diaspora of migrants is relatively more valuable to EE MNEs than to AE MNEs. This leads us to hypothesize that:

Hypothesis 3: The larger the diaspora from the MNE's own country of origin, the more likely is an MNE to locate in that AE. This effect is <u>stronger</u> for EE MNEs than for AE MNEs.

Market attraction

A primary motive for MNEs to expand internationally is access to overseas markets (Bevan & Estrin, 2004; Dunning, 1993; 1998; Nielsen Asmussen & Weatherall, 2017). In other words, firms expand overseas to exploit their resources and capabilities by selling their products and services to a wider range of customers. As market-seeking is the most common motive for FDI, the number of potential consumers is a major attractor for FDI. In other words, potential market size is driven by demographic factors (O'Neil, 2011; Townsend, Yeniyurt & Talay, 2009). Our baseline prediction is therefore that *all MNEs are more likely to invest in countries with large markets, indicated in particular by large populations.*

Do these arguments apply with equal force to MNEs from AEs and EEs? Experience from competing successfully in their AE home market provides MNEs from AEs typically

with sophisticated products, reputable brands and experience with high income distribution channels, all associated with markets for consumers with relatively high incomes (Dunning, 1993, Townsend, et al., 2009). MNEs from AEs therefore typically occupy premium segments and their strategies involve systematic product differentiation (Alcácer, et al., 2013).

In contrast, experience of competing in EEs provides EE MNEs with capabilities valuable in the price sensitive volume segments of AEs (Lessard, 2014; Brandl & Mudambi, 2014). Thus, EE MNEs tend to sell in volume markets where size in terms of potential consumers is more important than other market attractors (Bahadir, Bharadwaj & Srivastava, 2015). Their advantages of scale are more naturally transferable to large markets whereas customization for smaller markets incurs relatively higher costs for them. Hence, market size may be relatively more important to attract for EE MNEs than AE MNEs.

Larger markets will likely also contain more heterogeneous population and therefore a wider variety of consumers. They therefore offer a greater spectrum of potential paths for product differentiation and market segmentation. Moreover, a greater variety of consumer preferences and tastes, of distribution channels and of geographic sub-segments offers more niches into which a foreign investor can gradually enter. This greater range of possibilities for market penetration therefore offers exposure to a wider variety of internationalization experiences and thus more learning opportunities for EE MNEs.

Finally, a larger market is likely to host more incumbent firms, covering the numerous options for strategic variation, such that EE MNEs will also be able to learn from a greater diversity of local peers. For example, Haier, which entered the USA as an early foreign market (rather than smaller economies in Europe) argued that if it succeeded in the USA, it could build on that learning to succeed in other countries subsequently (Khanna, Palepu, Vargas, 2006). Subsequently, Haier entered other markets, including major acquisitions in New Zealand, Japan and in 2016 again the USA. In view of the greater emphasis of EE

MNEs on scale and learning opportunities, we propose our hypothesis on host countries' market attractiveness.

Hypothesis 4: The larger the number of potential customers in the host economy, , the more likely are MNEs to locate in this advanced economy. This effect is stronger for EE MNEs than for AE MNEs.

Table 1 summarizes our hypotheses. As is customary, we discuss alternative explanations and countervailing effects in the discussion section.

Insert Table 1 about here

METHODOLOGY

Data

We constructed our own dataset of the locational choices of foreign investors from the Orbis database (Bureau van Dyck) combined with other variables. Orbis distinguishes between foreign and domestically owned firms and provides the home economy of the ultimate owner; the largest shareholder that is independent.[5] We define a firm as being foreign owned when the (foreign) ultimate owner holds a direct or indirect participation of at least 50.01% of the stock. We restrict our attention to firms that were incorporated after 2005, so as to focus on investments that are comparable in terms of market conditions and institutional context.[6] The dataset allows us to identify all firms operating in a given host economy owned by firms from any given source country, provided the subsidiary is of the minimum size to be included in the database.

Our hypotheses are tested by considering *differences* in home country effects on locational choice between firms from AEs and EEs; hence our dataset must encompass

[5] If a largest shareholder is not independent, the ultimate owner is traced back again via the largest shareholder until an ultimate owner which is independent is finally identified.
[6] We are including "all active companies and companies with unknown situation" in 2011. This excludes those companies incorporated after 2005 but closed before 2011. The latter filter helps in reducing the survival bias that would emerge if we included firms incorporated some time previously.

MNEs originating from both. To construct this, we extracted data from Orbis for all MNE subsidiaries active in 2011 and established after 2005 that originated from one of the fourteen main actors in FDI; seven AEs (France, Germany, Spain, Japan, United Kingdom, United States and Canada) and seven EEs (Brazil, China, India, Russia, South Africa, Mexico, and Turkey). The chosen seven AEs generated about two thirds of global FDI from AEs, and the seven EEs around three fifths of all investment from EEs (UNCTAD 2016).

We consider a wide range of AEs economies into which MNEs from these home economies invest. We included the European countries that are member of the OECD and the largest non-European economies that are member of the OECD. In total, we include the following 31 host countries in our dataset: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Latvia, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Slovakia, Slovenia, Sweden, Switzerland, United Kingdom and the United States. These countries received more than 80% of all FDI into AEs (UNCTAD, 2012). Figure 2 illustrates the structure of our dataset and our empirical methodology.

Insert Figure 2 about here

Our hypotheses concern the relative importance of four groups of *host economy characteristics* influencing the choice of location by MNEs' from AEs as against EEs. We are interested in the factors determining the choice of location for MNEs within a set of potential host economies and the appropriate methodology is therefore location choice modelling, which has been frequently applied in studies of FDI (Alcácer & Chung, 2014; Chang & Park, 2005; Disdier & Mayer, 2004; Head et al., 1995; Tan & Meyer, 2011). Our hypotheses are tested by investigating whether the coefficients on the determinants of location choice for MNEs from AEs are the same as those for MNEs from EEs.

In our framework, firms are making choices about whether or not to invest (I) across a variety of host countries (h). The dependent variable, I_h, describes the probability of a given

firm to invest in a potential host country, given the characteristics of this host country. The choice set of host economies for investing firms is restricted to AEs, which we operationalize as member countries of the OECD, excluding non-European members that until recently were commonly classed as emerging economies (Chile, Mexico, Israel and Turkey). Investing firms make their location choice according to the characteristics of the potential host countries discussed in our hypotheses (C_h) as well as a vector of control variables (X_h).

The traditional methodology in the literature on location choice is to use a conditional logit (C-Logit) to examine the determinants of location choice. This method is an extension of the multinomial logit model that was developed for models of choice behavior in which the explanatory variables include attributes of the choice alternatives (Maddala, 1983). In the C-Logit specification, the utility for each host-country alternative depends on the attributes of that alternative and not on the attributes of the firm, as is the case in the multinomial Logit. Crucially, this means that, in our model, the explanatory variables are at the host-country level and it is important to note that the C-Logit specification cannot directly accommodate firm-level or home-country level variables.[7] Under a type 1 extreme value distribution of the error term, the probability of choosing location *h* takes the following form (McFadden, 1984):

$$\text{Prob}(I_h = j|x_{h1},x_{h2},\ldots\ldots x_{hJ}) = \text{Prob}(I_h = j|X_h) = P_{hj} = \exp(x'_{hj}\beta)/\Sigma i_{=1} \exp(x'_{hj}\beta) \qquad (1)$$

where the x denotes the choice variables (Greene, 2011). The coefficient on each variable is then estimated by maximum likelihood. Thus, we estimate for each group of home economies a C-Logit equation of the form:

$$\text{Prob}\ (I_{h)} = f(\ C_h, X_h). \qquad (2)$$

[7] Unless home-country and firm variables are interacted with host-country variables.

Note that the coefficients in this type of model reflect the characteristics of the choice alternative, in our case alternative locations. Thus, the coefficients reflect the attractiveness of locations to the firms in the respective samples (Alcácer & Chung, 2014; Tan & Meyer, 2011).

We use two methods to test our hypotheses. First, we divide the sample into AEs and EEs and analyse the differences in the strength of effects (i.e. the size of coefficients) between the two sub-samples using a Hausman test. Second, we use the whole sample but interact our independent variables of relevance for our hypotheses with a dummy variable which takes the value 1 if the home economy is an EE and zero if it is an AE. The hypothesis is then tested according to the sign and significance of this interactive dummy. If the interaction term is significant and of the sign predicted in Table 1, then we conclude that the difference between EE MNEs and AE MNEs firms in the impact of the variable of interest on location choice is significant. In a post hoc analysis, using country specific datasets, we offer a more nuanced analysis in which the determinants are considered on a country by country basis across the set of EEs and AEs though of course the sample for each home country is much smaller.

Measurements

Our dependent variable captures the probability that a given firm chooses a particular host country from the available set of countries as the location for a subsidiary. Thus, for every possible firm-host country dyad, the dependent variable of investment location choice takes the value of 1 if the pertinent country is chosen by the firm, and zero for all other countries. Table 2 provides a description of the pattern of FDI flows in our sample. For example, based on the number of subsidiaries, Chinese MNEs invest most into Germany followed by

Australia and Italy. Indian MNEs have the largest number of subsidiaries in Great Britain followed by Germany and the United States.[8]

Table 2 about here

Turning to the independent variables about which we hypothesize, for *Intellectual Property Rights Protection* (H1) we use the measure of intellectual property rights protection from the Heritage Foundation, 2007. H2 concerns *distance*, and in our main analysis we use geographic distance between the most populated cities in kilometers (thousands), sourced from the *GeoDist* database made available by Mayer and Zignano (2011). These data are widely used in international trade and migration research (e.g. Bernard & Redding, 2011; Chaney, 2014; Abel & Sander, 2014). H3 concerns the impact of migrant diaspora, which we proxy by the *foreign born population*, as a percentage of the host country population, in each host economy from each home economy in 2001 from OECD. Finally, market attraction (H4) is measured by the *Population* of the host country (Loree & Guisinger, 1995) in 2007 which we obtained from the World Bank's World Development Indicators and introduced in 100,000s and logarithms to ensure normality.[9]

As noted above we use two methods to test our hypotheses. First, we compare the coefficients on each of the variables of interest in sub-samples of EEs and AEs respectively; if for example the prediction in Table 1 is that EEs will be more strongly attracted by an independent variable, then we expect a positive significant difference between the relevant estimated coefficient in the EE and AE sub-samples. Second, using the whole sample, we create five interactive variables, one for each of the hypothesis independent variables multiplied by an *EE* dummy, which equals 1 if the firm's ultimate owner parent is located in one of the EEs listed above. A prediction that EEs are more deterred than AEs by a host

[8] Note that our data refers to the number of subsidiaries from a specific home country, rather than their value. This may explain why the observed pattern is not always the same as indicated in the media, which tends to concentrate on particular large value acquisitions rather than the volume of investments. We return to this issue in the discussion section.

[9] The year 2007 was chosen to be midway through our sample period.

economy characteristic, would be supported if the coefficient on the interactive EE*independent variable term is negative and statistically significant.

To ensure we are not falsely attributing effects to our independent variables caused by other phenomena, we include a large number of control variables in our regressions.[10] First, we introduce *GDP growth* for the period 2007 to 2010, from the World Development Indicators as the growth potential of an economy is an important attractor of FDI (Navaretti & Venables, 2006; Bevan & Estrin, 2004). We follow earlier studies such as Fisch and Zschoche (2012) and Holburn and Zelner (2010) who use the multi-year average of GDP growth in each host economy, in our case over the years 2007 to 2010.

We also introduce the *GDP per capita* of the host economy in 2007 (World Economic Outlook, IMF) to capture levels of development and host economy labor costs; ceteris paribus a given level of labor force skill will be less attractive in countries with higher income per capita. We capture *agglomeration* effects (Alcacer & Chung, 2014; Tan & Meyer, 2011) by including the bilateral (between the relevant home and host economy) stock of FDI in 2004, in logs to address the non-normality of this distribution. We also control for *trade openness* using trade as percentage of GDP in 2007 from World Development Indicators. Furthermore, as suggested by the Varieties of Capitalism (VOC) framework (Hall & Soskice, 2001), the extent of manufacturing activity may be an important indicator of the institutional structures and level of skill development amongst AEs. Hence we control for the extent of *manufacturing* activity in the host economy, measured as the share of manufacturing output in GDP and derived from the IMF World Economic Outlook. Given the importance of language patterns in shaping trade and investment (Clougherty & Grajek, 2008; Selmier & Oh, 2013), we control for *common*

[10] In alternative specifications, we include other indicators of institutional quality and governance, such as corruption, but due to high correlations between these indicators and property rights (which is also a proxy for institutional quality), we decided not to include them in the reported specifications. This problem has been widely reported in the literature (e.g. Estrin, Baghdasaryan. & Meyer, 2009).

language, a dummy variable which takes the value of 1 if home and host countries have the same official language and 0 otherwise, using data from CEPII.

We cluster the standard errors at the firm (subsidiary) level to correct for the presence of within cluster correlation. The descriptive statistics of the independent variables for the sample of host economies are reported in Table 3.

Table 3 about here

The correlation matrix for the independent variables on the full sample allows us to consider potential collinearities (Table 4). For the most part, the correlation coefficients are low, less than 0.3, which indicate that there is no serious multicollinearity issue in our estimating sample.[11]

Table 4 about here

Results

We report our main results in Table 5, with coefficient estimates of the C-Logit model. We report the results of estimating our model for the EE and AE sub-samples respectively in the first two columns, along with the χ^2-test of whether the coefficients of the hypothesized variables are significantly different. The final column reports the hypothesis test based on the full sample, with an interaction term between an emerging economy (EE) dummy and each of the hypothesized variables.

Hypothesis 1 concerns the impact on inward investment of protection of intellectual property rights. As expected, we find in columns (1), (2) and (3) that stronger IPR protection increases the choice of a particular location by all MNEs. We are also able to confirm that the positive effects of stronger IPR are more marked on the location choice of firms from EE than AE. If we look at the AE as against the EE sub-samples in columns (1) against (2), the coefficients are very similar (0.004 for EE compared with 0.008 for AE) but

[11] However, the *intellectual property rights* variable has a correlation of 0.65 with GDP per capita. To address potential collinearity, we estimated our basic model excluding GDP per capita. The results with respect our hypotheses were not sensitive to these changes.

both are strongly significant (with p-values of 0.000) and in fact the χ^2-test indicates that stronger IPR protection is a slightly stronger attractor for AE than EE MNEs. The odds-ratio help us to interpret the coefficient (see Table A.1 in the Appendix). A one-unit increase in the strength of IPR increases the odds of entry of an EE MNEs by 0.4% and of an AE MNE by 0.8%.

When we use the full sample we find that the interaction term IPR*EE is significantly negative (p= 0.000) indicating that, all else equal, IPR protection matters less for EE firms than for AE firms. Thus our data provides at best mixed support for Hypothesis 1: strong IPR attracts investors, but in the specification using the full dataset, it attracts AE firms relatively more than EE firms.

Turning to Hypothesis 2, as predicted we find that greater (geographic) distance deters all MNEs, whether from AEs or EEs or using the full sample in column (3). Moreover, a comparison of columns (1) and (2) of Table 5 reveals that the deterrence effect is more marked for EEs (-0.523 as against -0.303) and the χ^2-test confirms that these differences in coefficients are statistically significant at the 1% level (Prob > χ^2=0.000). The odds ratio is 0.593 for EE MNEs and 0.739 for AE MNEs, meaning that the probability is reduced by 40.7% in the case of EE MNEs but only by 26.1% in the case of AE MNEs. Hypothesis 2 can also be tested by considering the sign and significance of the coefficient on the distance * EE interaction in the full sample estimates in column (3). It can be seen that as predicted the coefficient is negative and significant at the 1% level (p = 0.000), indicating that the distance coefficient is significantly smaller in the EE sub-sample. This provides further support for Hypothesis 2.

Our third hypothesis concerns the impact of the migrant diaspora on FDI location. As predicted, the proportion of the population in a host economy born in a home economy increases the likelihood that MNEs choose that location for their investment. Thus, the coefficient on foreign born populations is positive and significant in columns (1), (2), and

(3) (p=0.000). However, the attraction of a migrant diaspora is more marked for EE than AE MNEs; the coefficients in columns (1) and (2) respectively are 0.680 against 0.139 and the difference is statistically significant at the 1% level (Prob > χ^2=0.000). The odds ratios (Table A1) moreover tell us that a one percentage point increase in the share of foreign-born population in a host country increases the odds of entry of an EE MNEs by 98%, against 15% for AE MNEs – a huge difference.

Turning to the test on the full sample in column (4), the coefficient on the foreign-born pop * EE term is positive and statistically significant at the 1% level (p=0.000). Hence we find strong support for Hypothesis 3.

Finally Hypothesis 4 concerns the attractiveness of markets, measured by market size. As predicted, all MNEs are attracted by large markets; the coefficient is positive and significant (with a p-value of 0.000) both in the sub-samples (columns (1) and (2) and in the full sample (column (3)). The positive effects are more marked for EE MNEs than AE MNEs. Thus, the coefficient on population is 0.633 for AEs as against 0.884 for EEs, with the difference in the coefficients being statistically significant at the 1% level (Prob > chi2=0.000). According to the odds ratio (Table A1), an increase of 1 unit of the log of population (i.e. a ten-fold increase e.g. from 1 million to 10 million), more than doubles the probability of entry in a host country in the case of EE MNEs (i.e. an increase of 142%) but less than doubles it in the case of AE MNEs (i.e. an increase of 88%.

The interactive term population * EE is both positive and statistically significant at the 1% level (with a p-value of 0.000). Thus the data also provide strong support for Hypothesis 4.

The results from the control variables also conform to expectations. Countries that have a higher share of manufacturing attract more FDI. The coefficients on GDP growth and GDP per capita are positive. The agglomeration effects are also significant and positive; MNEs are more likely to locate in host countries where there has been already important FDI from their

home countries in the past. Countries that are more open to trade also attract more FDI. FDI is attracted relatively more to economies in which the share of manufacturing and trade are higher. Finally, the impact of a *common language* between home and host economies is positive and significant for all firms.

Supplementary Analyses

Country-Specific Analyses

Our theoretical predictions were based on the typical features of EEs as home countries, but we are cognizant that each country may have idiosyncratic features. Therefore, we have explored to what extent our hypothesized effects hold true for MNEs from each home country when analysed in isolation. We are aware that this approach is subject to substantial noise in the data. Our theoretical analysis focuses on features that typically are associated with emerging economies, but that theory allows for country-specific effects that may deviate from the general patterns. Yet greater insights can be gained from the more fine grained analysis. Thus we re-estimate the regression equations of Table 5 for subsamples of MNEs from each home country. Naturally, the sample sizes are much reduced, such that standard errors may rise sharply in some cases and particular coefficient estimates may be unduly influenced by outliers. This makes some of the results hard to interpret. However, in the spirit of full disclosure, which is called for in view of claims that social sciences selectively report confirmatory evidence (Bettis et al., 2016; Hahn & Ang, 2017; Meyer et al., 2017), we report in Tables 6a and 6b the full results for MNEs from each home country.

Table 6a and Table 6b about here

Commencing with Hypothesis 1 on the effect of IPR, we find that as expected for AE MNEs the coefficients are mostly positive and significant with the exception of German MNEs, where it is significantly negative. In addition, it is negative, but insignificant for Spanish and French MNEs. Concerning EE MNEs, while the coefficients are mostly *positive* and significant (Brazil, India, South Africa and China), IPR protection is actually

significantly *negatively* associated with FDI from two EEs, Russia and Turkey, and has no significant effect for Mexico. The fact that MNEs from two EEs are actually *deterred* by stronger host IPR, these being countries which themselves have a weak rule of law and property rights protection, explains why overall we only find at best mixed support for Hypothesis 1. A possible explanation for the two outliers, Russia and Turkey, is the hypothesis advanced by Cuervo-Cazurra and Genc (2008) and Del Sol and Kogan (2007), among other authors, that capabilities in managing under institutional voids are part of the capabilities that MNEs from these two countries aim to exploit abroad.

Geographic distance is a significant deterrent for all AE MNEs except for UK and Canadian MNEs, though the coefficients are often small. Geographic distance is also a major *deterrent* for some emerging markets, notably China, India and South Africa; the coefficient for China is more than 16! However, distance also actually significantly *attracts* MNEs from Russia and Brazil, and has no significant effect on location choice from Turkey. In the case of Brazilian MNEs, this reflects an affinity with Europe, and the Netherlands in particular (see Table 2); the case of Russian MNEs we discuss further below. Thus, the evidence suggests that the deterrence effect of distance applies in general, as proposed in Hypothesis 2, but can be offset by positive relations such as historical ties for specific countries.[12]

At the country level, migrant diaspora are found to have a more marked positive effect on MNEs from EEs than AEs. MNEs from *all* EEs appear to be *positively* attracted to locations with larger migrant diaspora, as against MNEs from only four of seven AEs (significant at the 5% level for only three of them). Specifically, migrants have no FDI pulling power for MNEs from Japan and Canada and actually act to deter investments from the US and Spain. On the other hand, the coefficients are sometimes very large for EE MNEs, especially from

[12] In the country-specific regressions, the measures for distance and for common language are in some case correlated, which leads to counterintuitive results for some AE subsamples. In Germany and France, AEs with the same official language are neighboring countries, leading to a negative correlation, whereas in the case of the UK they are positively correlated as Australia, Canada, New Zealand and USA (but not Ireland) are far from the UK.

Brazil, China and South Africa, but typically smaller for all AEs. This pattern is highly consistent with Hypothesis 3. The substantial variance in the impact of diasporas on AE MNEs than EE MNEs is presumably linked to culture and history, though the overall impact on EE MNEs is of course greater.

Finally, a large population, and hence a large market, attracts MNEs from all EEs and from all AEs. We confirm Hypothesis 4 because MNEs from some EEs are highly sensitive to market size, notably China, Brazil and India, while apart from France and the UK the lure of larger markets is less for AEs. On the other hand, Russian MNEs are least attracted by large markets.

The main observation arising from this fine-grained analysis (in addition for the support for our hypotheses in most cases) is that Russian MNEs appear to diverge from the predictions of theory. We note that they are particularly attracted to Latvia and the Czech Republic (Table 2), neither of which scores particularly highly on any of the variables that we predicted to indicate an attractive host country. We interviewed experts on these countries, who suggested that Russian entrepreneurs are attracted to these two countries by a combination of, for them, favourable tax conditions, the presence of a Russian nouveau riche community and a substantial Russian speaking minority (Latvia) or similarities of Russian and the local language (in the Czech Republic). We conducted additional tests on the effect taxation but found corporate tax rates not to display the expected effect; presumably because the tax rates published in comparative databases do not adequately capture the specific conditions applying to nouveau riche diaspora.

Alternative Measurements

We have conducted a number of further tests to explore the robustness of the results. Most importantly, we use an alternative measure of distance, namely the cultural distance between home and host countries as measured using Kogut and Singh's (1988) methodology based in four Hofstede's cultural dimensions (power distance, individualism,

masculinity, uncertainty avoidance).[13] The results (reported in Table A.2 in Appendix) are broadly consistent with our main findings (Table 5), although the coefficient on IPR * EE is positive, but not significant in the sample with all firms and interaction terms (4). Due to the well-known validity problems associated with this measure with respect to EEs (e.g. Estrin et al., 2009; Shenkar, 2001), we are not surprised by this result.

Independence of Irrelevant Alternatives and Mixed Logit

Underlying the distribution of the error term in the construction of the C-Logit model is the assumption of the Independence of Irrelevant Alternatives (IIA). In other words, the property of this model is that the odds ratio of choosing between two locations is independent of the characteristics of any third location. This implies that the choices should therefore all be equally substitutable to the investor. However, if we think that some countries are closer substitutes than others, then this assumption might be violated.

We performed a Hausman and McFadden (1984) test to check its validity of the IIA assumption; the test is based on the idea that if a subset of the decision choice set is irrelevant, its omission from the model will not systematically change the estimates.

To that end, we first estimated the model on the full set of 31 host country alternatives and re-ran it on the subset of 30 alternatives (partial). We exclude alternatively three locations: the U.S., France and Great Britain. In the three cases we find that the IIA assumption is violated, perhaps unsurprisingly given these are very major economies. The results of the tests indicate that we could reject H_0 at the 1% level, with a χ^2 statistic of respectively 15,115.98 (comparison full – partial ex-US), 3,751.41(comparison full – partial ex-France) and 2,784.13 (comparison full – partial ex-GB), indicating that the two sets of estimates (full vs partial) were statistically different in the three cases.

[13] Cultural Distance$_{gh}$ = $\sum_{n=1}^{4}\{(I_{ng} - I_{nh})^2/V_n\}/4\}$where I_{ng} is the index for the nth cultural dimension in the home country of the foreign affiliate's group g and I_{nh} corresponds to the index for the nth cultural dimension in the foreign affiliate's i host country h. V_n is the variance of the index for the nth cultural dimension. For the indices see Hofstede, Hofstede and Minkov (2010) and the Hofstede Center's website (http://geert-hofstede.com/ index.php).

There are several ways to address the problems caused by the violation of the IIA assumption, one of the most widely used of which is the use of a mixed logit. This resolves the limitations of standard logit by allowing for random taste variation, unrestricted substitution patterns, and correlation in unobserved factors over time (McFadden and Train, 2000). The firm faces a choice among J country-alternatives. The utility of firm *n* from host country *h* is specified as:

$$U_{nh} = \beta'_n x_{nh} + \varepsilon_{nh}$$

where x_{nh} are observed variables that relate to the alternative and decision-maker, β_n is a vector of coefficients of these variables for firm *n* representing that firm's tastes, and ε_{nh} is a random term that is *iid* extreme value. The coefficients vary over decision-makers in the population with density $f(\beta)$. This density is a function of parameters Θ that represent, for example, the mean and covariance of the β's in the population. This specification is similar to that of the standard logit, except that β varies over decision-makers (firms) rather than being fixed (Train, 2009). In our specification, the coefficients β_n vary over firms but not over investments for each firm, namely:

(1) Some variables have coefficients that are assumed to vary over firms, with an independent normal distribution with mean and standard deviation that are estimated. In other words, these coefficients can take either sign, as seen in our country-by-country regressions. We select the following variables to have random coefficients: Common Language, GDP per capita, Manufacturing, and Agglomeration.

(2) The other variables have coefficients that are assumed to be fixed (i.e. do not vary over firms).

Table 7 about here

The results are reported in Table 7, Column (1) for the mean of the coefficients and Column (2) for the standard deviation of the coefficient. It can be seen that our results using

mixed logit are broadly consistent with our c-logit specification in Table 5. Conforming to expectations, the coefficient of Distance * EE is negative and significant, and the coefficients of foreign-born pop * EE and Population * EE are positive and significant. However, similarly to our C-logit results, we find that the coefficient of IPR * EE is negatively significant.

Regarding the random coefficients, the standard deviation enters significantly for common language and manufacturing, indicating that the random specification is indeed valid for these two variables. However, the standard deviations of the coefficient for GDP per capita and Agglomeration are not significant, indicating that the parameters of these two variables are not significantly dispersed around the mean; in other words, they are relatively fixed. Overall, we conclude that the results from these robustness tests confirm our main findings.

DISCUSSION

EE MNEs are different from AE MNEs, but these differences can be explained as a consequence of the lesser munificence of the business communities in their home economies. We have argued that the institutional development and resource endowment of the home country provide the foundation for firms to develop resources that they can deploy in their international operations. We thus incorporate the home environment as a factor influencing firms' initial resources and their ability to accumulate international management capabilities. In particular, we propose that the lesser munificence of the country of origin in effect increases the liability of foreignness of MNEs from EEs seeking to enter AEs. In consequence, they are relatively more deterred by barriers to entry such as distance or weak protection of intellectual property rights. On the other hand, they are attracted than MNEs from AEs by positive characteristics of the host economy which can make up for their home country deficiencies, notably the size of a migrant diaspora and large and fast growing host

economy markets. We have tested this framework with four hypotheses, and we find strong support for our arguments.

Our analysis contributes to three important debates in the field of international business. The first debate concerns the nature of organizational capability building by firms chasing international catch-up (Awate, et al., 2012; Kumaraswamy et al., 2012; Madhok & Keyhani, 2012). Such a process of capability upgrading can follow a gradual pattern along the internationalization process model (Johansen & Vahlne, 2009), aspects of which have been observed in studies of EE MNEs (Buckley, et al., 2016; Kotabe & Kothari, 2016; Meyer & Thaijongrak, 2013). Our theoretical framework suggest an interdependence between the home country eco-system and a focal firm. Home country resource munificence provides a basis for the emergence of business ecosystems that help firms to create proprietary resources important in managing their international operations (Hobdari et al., 2017), and also to accelerate learning processes and to strengthen the absorptive capacity in corporate headquarters (Ambos et al., 2006; Cuervo-Cazurra and Rui, 2017; Kotabe et al., 2011). In consequence, MNEs from home countries that are relatively immature in terms of institutions and resource endowments are likely to be more deterred by barriers to entry and attracted by host economy characteristics such as migrant diaspora that reduce their obstacles to doing business internationally.

Second, several studies of EE MNEs have highlighted the importance of strategic asset seeking investments (Cui & Aulakh, 2018; Cui, et al., 2014; Deng, 2009; Rui & Yip, 2008). Hence, recent theoretical work suggests that MNEs from EEs use FDI to *create* firm-specific assets, rather than to *exploit* them (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; Madhok & Keyhani, 2012). For example, advanced technologies or brand names acquired overseas might strengthen a firm's competitive position vis-à-vis its competitors back home (Li, et al., 2012; Luo & Tung, 2007).

We would expect strategic-asset seeking investors to be particularly attracted by protection of IPR in a host country, while the traditional model would put more emphasis on standard attractors and barriers, such as markets and distance. We find support for markets and distance to be more important for EE MNEs, and also greater sensitivity to IPR protection, at least in most EEs, which suggests that EE MNEs indeed pursue both types of catch-up strategies. However, note that our control for technological sophistication, R&D as a share of GDP, has very similar negative coefficients for both EEs and AEs. This implies that the technological sophistication of the host economy acts as a barrier to all MNEs, presumably because it indicates the quality, efficiency and effectiveness of domestic competition. Thus, strategic asset seeking investors FDI represents a theoretically interesting type of strategy, but it is only part of a bigger trend of EE MNEs catch up.

Third, together, these contributions help to answer whether or not explaining the strategies of MNEs from EE requires new theories (Luo & Tung, 2007; Ramamurti, 2012). Some scholars argue that systematic differences in the investment process require new theories to explain the characteristics of EE MNEs (Child & Rodgrigues 2005; Guillén & Garcia-Canal, 2009; Mathews 2006; Rugman & Nguyen, 2014). In contrast, others propose that the established theories should not be prematurely abandoned since they retain the capacity to explain the principal features of EE MNEs (Hennart, 2009; Narula, 2012; Ramamurti, 2012). Our take on this debate is that existing theories are quite powerful in explaining the pattern of location choices by EE MNEs, as long as the theoretical framework incorporates the *relative* weakness of international management capabilities as a consequence of resource munificence in these home economies.

Extrapolating to the future, our theoretical analysis suggests that as EEs grow, their MNEs become more experienced in international management, such that the differences between AE and EE MNEs will decline. Our framework is thus consistent with the broader institutional voids framework (Khanna & Palepu, 2000; Carney, van Essen, Estrin and

Shapiro, 2017), in which business behavior in EEs become more similar to those in AEs as the level of institutional development rises.

Empirical Limitations and Future Research

One of the limitation of our approach is that although we can examine the "extensive margin" of FDI by analysing the decision of firms to invest in a foreign country, we are not able to examine the "intensive margin" of FDI (volume of foreign affiliate sales), nor the volume or value of FDI flows. As such we can only tell one part of the FDI story, and this also limits our ability to draw policy conclusions in terms of the differential impact of EE MNEs and AE MNEs on the host economy. In particular, our framework does not capture the determinants of the small number of very large projects that often receive media or case study attention. Scholars interested in the policy implications of FDI *capital* inflow volumes may thus want to study different dependent variables.

Another limitation of our approach is that we are only considering majority owned FDI but not minority equity stakes. This means that if the economic or institutional characteristics of certain host countries made them more likely to receive minority investments – a common concerns when EEs are considered as host countries – then these characteristics might interact with the likelihood of investing and cause selection biases. We chose 50% as cut-off because lower cut-offs bring into the study non-strategic (i.e. financial) investors as well as substitution effects with non-equity modes of serving foreign markets, which complicate the theoretical framing of the study. Future research may thus further explore investments into minority ventures.

Moreover, the choice set in our study is limited to 31 OECD countries. This represents wide variety for business research, and covers the locations most relevant to our research question, i.e. the anomaly of FDI against the traditional flow of capital from advanced to developing countries. However, FDI between different EEs (so called 'South-South' FDI) also entails interesting questions, highlighted for example by Chinese investment in Africa

(Li et al., 2015; Ramasamy et al., 2012). Future research may thus investigate in addition the locational determinants of South- South FDI.

Further limitations arise from the database of the Bureau van Dyck itself. This database covers all firms registered in the respective country and obliged to publish their financial reports. However, while the database is commonly used in international business research (e.g. Brouthers, Brouthers, & Werner, 2003; Shinkle & Kriauciunas, 2012), the reporting requirements vary slightly across countries, for example for minimum size threshold for inclusion. This bias can affect cross-country comparisons, but as it is not systematically related to our explanatory variables, it would not affect our results.

MANAGERIAL IMPLICATIONS AND CONCLUSIONS

Our findings have implications for managers of MNEs from AEs and from EEs as well as for policy makers in EEs. Managers of MNEs in AEs are becoming increasingly aware of competitors from EEs in their markets (Accenture, 2008). High profile examples include Haier or Beko in white goods, Huawei or ZTE in telecoms; Embraer and COMAC in aircraft; and Lenovo and Xiaomi in mobile phones. EE MNEs have also been buying Western brands and competing in developed markets; for example, Indian Tata (Jaguar Land Rover, Tetley Tea); Chinese Geely in cars (London Taxi, Volvo, Lotus) and Turkish Ulker in confectionary (Godiva, United Biscuits). However, AE firms for the most part remain somewhat complacent about their ability to counteract threats from these new competitors (Khanna & Palepu, 2010), perhaps because they view these new entrants as niche players without global strategy (Guillén & Garcia-Canal, 2013).

Our research warns against complacency on this score. Our theoretical framework suggests that differences between AE and EE MNEs in terms of their international investment strategies will gradually diminish as EE MNEs build resource munificence in their home business environments and from this develop capabilities and skills in internationalisation. We argue that currently observed differences in strategies and behavior

arise primarily from differences in home country resource munificence. Consequently, we predict that these differences will diminish as EEs become more advanced. Hence, AE MNEs will face ever increasingly competitive environments at home or in similar economies and need to address in their strategizing the disruptive effects of new competitors from EEs.

Second, for EE MNE managers the main implication is to be clear about their own limitations. Specifically, they likely are limited by the quality and availability of the resources they can draw upon in their home business ecosystem. Our theoretical arguments suggest that managers should develop their strategies for internationalization with this in mind; they should seek to build resources to overcome home country deficiencies, working within local ecosystems. They should specifically focus on developing absorptive capacity for international experiences in order to counter the impact of home country immaturity. A major aspect of this would be a forward looking talent management strategy that addresses future leadership challenges (Meyer & Xin, 2018).

Third, experience from Japan, Korea, Singapore and others shows that government policy frameworks may play a helpful role in developing a more munificent business environment that eventually supports international competitiveness (Wade, 1990). In these countries, institutions were put in place to build human capital and organizational capabilities to assist firms in their internationalization process. These might include embassies providing commercial information, facilitating the creation of Chambers of Commerce abroad, or building education in areas such as foreign languages, culture studies, and cross cultural management.

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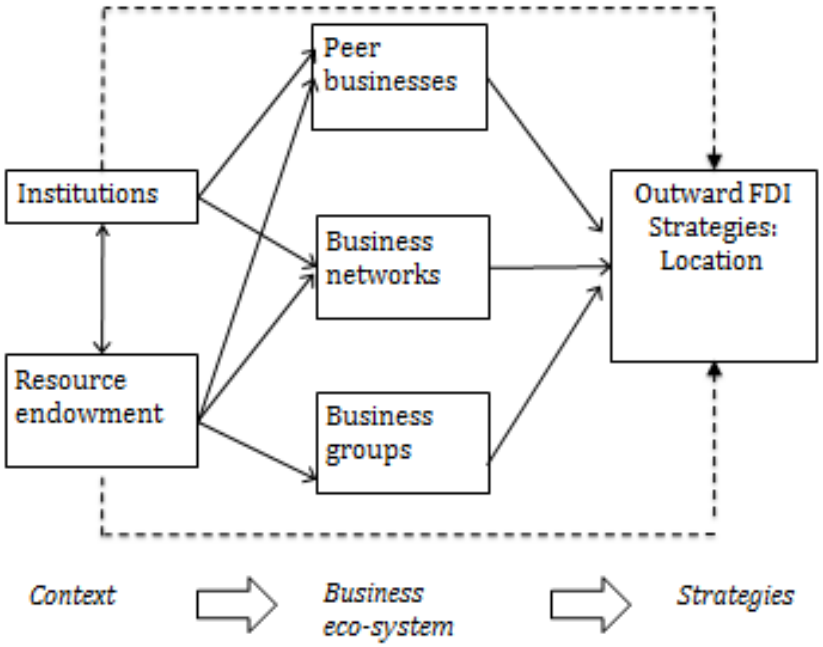
Figure 1: Home Country Context, Business Ecosystem and Firm Strategies



[Source: Hobdari, Gammeltoft, Li & Meyer, APJM, 2017]

Figure 2: Structure of the dataset

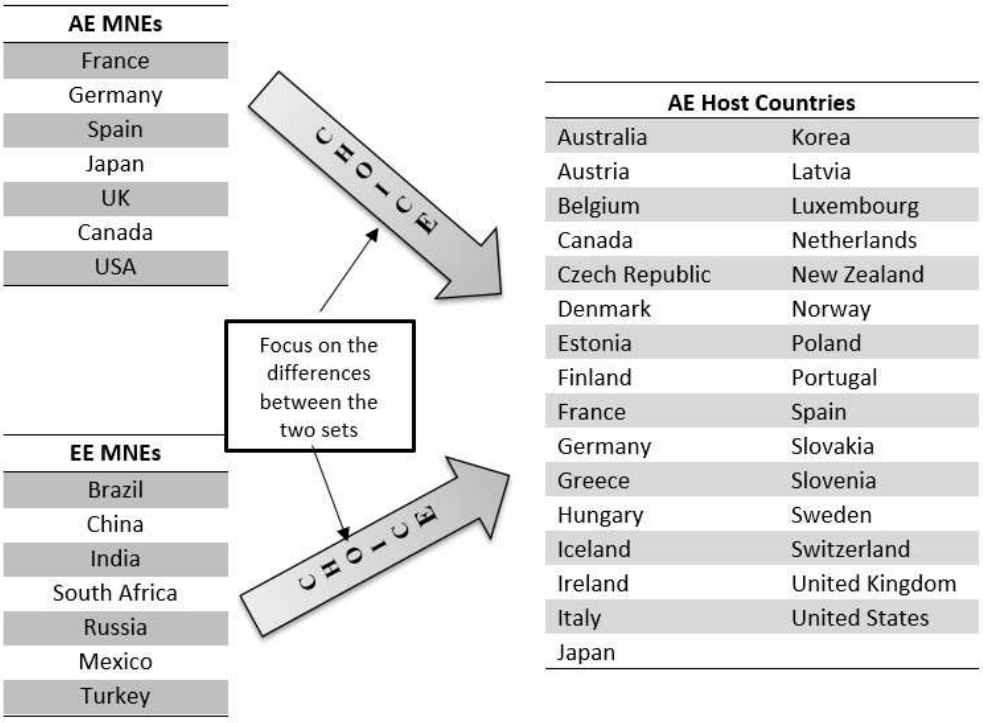


Table 1: Summary of Hypotheses

	Hypotheses	
	direct effect	*differences*
IP protection (H1)	positive	stronger positive for EE MNEs
Distance (H2)	negative	stronger negative for EE MNEs
Diaspora (H3)	positive	stronger positive for EE MNEs
Markets (H4)	positive	stronger positive for EE MNEs

Table 2: Share of investments from host countries in outward investors from EE countries

investing in...	Brazil	China	India	Mexico	Russia	Turkey	South Africa
AT	8.5%	0.8%	1.6%	1.8%	1.7%	1.3%	1.3%
AU	1.8%	14.9%	7.5%	0.9%	0.2%	0.5%	25.7%
BE	0.8%	0.3%	1.6%	0.0%	0.1%	0.1%	0.4%
CA	0.1%	0.3%	0.4%	0.9%	0.0%	0.0%	0.0%
CH	2.6%	0.9%	3.4%	5.5%	0.7%	1.6%	3.1%
CZ	0.5%	3.4%	3.9%	14.6%	33.1%	11.6%	1.5%
DE	5.5%	38.5%	17.8%	10.0%	16.4%	46.3%	11.4%
DK	0.2%	0.1%	0.3%	0.0%	0.0%	0.2%	0.3%
EE	0.0%	0.1%	0.2%	0.9%	1.1%	0.0%	0.1%
ES	4.4%	0.9%	2.9%	12.7%	0.1%	0.7%	1.0%
FI	0.1%	0.2%	0.2%	0.0%	0.1%	0.0%	0.3%
FR	0.8%	1.4%	1.5%	0.0%	0.1%	4.9%	1.3%
GB	5.4%	4.1%	22.0%	4.6%	0.7%	1.5%	30.8%
GR	0.0%	0.0%	0.1%	0.0%	0.0%	0.3%	0.0%
HU	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.3%
IE	0.2%	2.1%	0.9%	0.9%	0.4%	0.1%	2.4%
IT	5.3%	11.5%	4.3%	7.3%	1.5%	3.8%	1.3%
JP	0.2%	0.6%	0.5%	0.0%	0.0%	0.0%	0.0%
KR	0.1%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%
LU	2.3%	0.3%	0.6%	0.0%	0.4%	0.2%	1.5%
LV	0.8%	2.2%	3.7%	4.6%	37.3%	9.6%	0.9%
NL	39.6%	10.8%	10.3%	5.6%	0.9%	4.8%	9.1%
NO	0.2%	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%
NZ	0.0%	0.0%	0.5%	0.0%	0.0%	0.0%	1.6%
PL	0.2%	1.0%	1.7%	5.6%	0.2%	2.2%	3.7%
PT	14.7%	0.2%	0.6%	0.0%	0.0%	0.1%	0.1%
SE	0.1%	0.1%	0.6%	0.0%	0.0%	0.0%	0.1%
SI	0.2%	0.1%	0.1%	0.0%	0.2%	0.7%	0.0%
SK	0.0%	1.8%	0.9%	0.0%	4.4%	8.5%	0.0%
US	5.3%	3.0%	11.1%	24.6%	0.1%	0.9%	1.5%
Total	100%	100%	100%	100%	100%	100%	100%

Note: dark (blue) shading: top 3 host countries (rows) in the given source country (columns); medium (green) shading: host country accounts for more 3% of FDI from source country, but is not top 3; light (yellow) shading: host country accounts for less than 3% of FDI from source country.

Table 3: Sample Statistics

Variable	Mean	Std. Dev.	Min	Max
Sample with all firms. N=1,644,226				
IPR Protection	77.774	16.117	50.000	90.000
Distance	7.896	1.091	5.570	9.883
Foreign-born population	0.459	1.176	0.000	9.800
Population	16.062	1.476	12.649	19.523
GDP Growth	0.558	1.587	-2.942	4.364
GDP per capita	36.231	18.885	9.091	87.773
Agglomeration	6.664	5.148	-12.979	13.160
Trade openness	102.144	58.672	27.959	336.251
Manufacturing	16.378	5.213	9.113	25.961
Common language	0.122	0.328	0.000	1.000

Table 4: Correlation Matrix. Sample with all firms

	(obs=1,641,079)	1	2	3	4	5	6	7	8	9	10
1	IPR protection	1.000									
2	Distance	0.097	1.000								
3	Foreign-born population	0.099	-0.133	1.000							
4	Population	-0.107	0.093	-0.124	1.000						
5	GDP Growth	-0.025	0.045	-0.060	0.111	1.000					
6	Common language	0.259	0.009	0.438	0.046	0.108	1.000				
7	GDP per capita	0.651	-0.052	0.073	-0.250	0.107	0.184	1.000			
8	Manufacturing	-0.188	-0.170	-0.139	0.090	0.196	-0.137	-0.370	1.000		
9	Agglomeration	0.061	-0.189	0.133	0.312	0.046	0.268	0.057	0.042	1.000	
10	Trade openness	0.036	-0.262	0.087	-0.573	0.159	0.032	0.284	0.155	0.027	1.000

Table 5: Determinants of location choice

VARIABLES	(1) EE MNE	(2) AE MNE	(3) Test of difference of coefficients X2	(4) ALL
Intellectual property rights	0.004	0.008	8.56	0.009
	(0.001)	(0.001)		(0.001)
Distance	-0.523	-0.303	48.59	-0.306
	(0.031)	(0.005)		(0.005)
Foreign-born population	0.680	0.139	4017.61	0.130
	(0.007)	(0.005)		(0.005)
Population	0.884	0.633	244.70	0.722
	(0.013)	(0.010)		(0.007)
IPR EE				-0.005
				(0.001)
Distance EE				-0.885
				(0.025)
Foreign-born pop EE				0.318
				(0.007)
Population EE				0.164
				(0.008)
GDP Growth	0.162	0.002		0.032
	(0.009)	(0.004)		(0.004)
GDP per capita	0.003	-0.001		0.001
	(0.001)	(0.001)		(0.000)
Agglomeration	0.013	0.084		0.037
	(0.003)	(0.005)		(0.002)
Trade openness	0.010	0.009		0.010
	(0.000)	(0.000)		(0.000)
Manufacturing	0.158	0.027		0.045
	(0.003)	(0.001)		(0.001)
Common Language	1.469	0.170		0.302
	(0.054)	(0.015)		(0.014)
Observations	401,110	1,215,284		1,616,394
Pseudo R2	0.304	0.099		0.143

Robust standard errors in parentheses, clustered at the firm level.

Table 6a – Determinants of location choice – Country by country regressions. Emerging Economies

VARIABLES	(1) Brazil	(2) China	(3) India	(4) Mexico	(6) Russia	(7) Turkey	(8) South Africa
IPR protection	0.052	0.016	0.034	-0.010	-0.036	-0.060	0.106
	(0.005)	(0.002)	(0.008)	(0.016)	(0.003)	(0.011)	(0.021)
Distance	3.826	-16.369	-2.209	0.226	2.303	0.435	-7.571
	(0.490)	(0.522)	(0.184)	(1.240)	(0.116)	(0.305)	(1.092)
Foreign-born population	13.654	6.486	0.452	0.475	1.217	1.172	5.561
	(1.480)	(0.193)	(0.198)	(0.420)	(0.025)	(0.175)	(1.663)
Population	1.221	2.935	0.795	0.958	0.455	1.055	1.375
	(0.092)	(0.103)	(0.056)	(0.152)	(0.039)	(0.079)	(0.163)
GDP Growth	-0.174	-0.137	0.101	0.064	0.109	0.045	0.607
	(0.039)	(0.013)	(0.040)	(0.097)	(0.020)	(0.035)	(0.116)
GDP per capita	-0.021	0.012	-0.025	0.025	0.027	0.017	-0.020
	(0.008)	(0.002)	(0.007)	(0.017)	(0.008)	(0.006)	(0.016)
Agglomeration	-0.149	-0.287	0.180	-0.018	0.099	0.156	-0.044
	(0.027)	(0.015)	(0.033)	(0.026)	(0.019)	(0.046)	(0.022)
Trade openness	0.022	0.040	0.009	0.009	0.011	0.019	0.015
	(0.002)	(0.002)	(0.001)	(0.003)	(0.002)	(0.002)	(0.003)
Manufacturing	-0.062	-0.064	-0.036	0.149	0.582	0.177	-0.051
	(0.015)	(0.010)	(0.012)	(0.052)	(0.015)	(0.018)	(0.027)
Common Language	-2.953		0.491	2.134			-0.390
	(0.669)		(0.124)	(0.396)			(0.547)
Observations	10,296	107,436	34,749	2,225	216,580	18,876	10,948
Pseudo R2	0.166	0.363	0.221	0.271	0.494	0.421	0.357

Robust standard errors in parentheses, clustered at the firm level.

Table 6b – Determinants of location choice – Country by country regressions. Advanced Economies

VARIABLES	(1) Germany	(2) Spain	(3) France	(4) UK	(5) Canada	(6) US	(7) Japan
IPR protection	-0.003	-0.001	-0.000	0.017	0.052	0.022	0.020
	(0.001)	(0.004)	(0.001)	(0.001)	(0.008)	(0.002)	(0.005)
Distance	-0.636	-1.453	-1.167	0.306	0.142	-0.148	-7.506
	(0.021)	(0.098)	(0.035)	(0.016)	(0.119)	(0.045)	(0.627)
Foreign-born population	1.012	-1.231	1.551	0.818	0.037	-5.072	-1.479
	(0.026)	(0.261)	(0.059)	(0.016)	(0.968)	(0.255)	(1.044)
Population	0.182	0.694	2.021	1.968	1.116	0.677	0.808
	(0.034)	(0.044)	(0.079)	(0.030)	(0.072)	(0.045)	(0.085)
GDP Growth	-0.068	0.044	0.049	-0.123	0.005	0.024	0.005
	(0.008)	(0.023)	(0.011)	(0.009)	(0.034)	(0.009)	(0.034)
GDP per capita	-0.023	-0.018	0.026	0.040	-0.021	0.005	-0.010
	(0.001)	(0.006)	(0.002)	(0.001)	(0.005)	(0.002)	(0.004)
Agglomeration	0.300	0.052	-0.796	-0.591	-0.201	0.216	0.312
	(0.019)	(0.018)	(0.046)	(0.017)	(0.043)	(0.028)	(0.043)
Trade openness	-0.001	-0.001	0.007	0.027	0.012	0.013	0.009
	(0.000)	(0.002)	(0.001)	(0.000)	(0.001)	(0.000)	(0.001)
Manufacturing	-0.018	0.107	0.078	-0.010	-0.052	0.027	-0.052
	(0.003)	(0.008)	(0.004)	(0.003)	(0.012)	(0.004)	(0.010)
Common Language	-0.215		-0.886	-3.481	0.557	1.877	
	(0.037)		(0.092)	(0.081)	(0.148)	(0.068)	
Observations	298,508	45,696	174,468	285,712	25,956	343,448	41,496
Pseudo R2	0.107	0.212	0.194	0.161	0.176	0.172	0.214

Robust standard errors in parentheses, clustered at the firm level.

Table 7 – Robustness Tests

	Mixed Logit	
	(1)	(2)
VARIABLES	Mean of coefficient	Std. Dev. Of coeff.
IPR protection	0.005	
	(0.001)	
Distance	-0.295	
	(0.008)	
Foreign-born population	0.244	
	(0.010)	
Population	0.819	
	(0.008)	
IPR EE	-0.005	
	(0.001)	
Distance EE	-0.441	
	(0.041)	
Foreign-born pop EE	0.298	
	(0.012)	
Population EE	0.064	
	(0.009)	
GDP Growth	0.014	
	(0.004)	
Trade openness	0.009	
	(0.000)	
GDP per capita	-0.000	-0.001
	(0.001)	(0.001)
Agglomeration	0.035	0.011
	(0.003)	(0.017)
Manufacturing	0.043	0.291
	(0.002)	(0.003)
Common Language	-0.686	2.883
	(0.115)	(0.216)
Observations	1,616,394	1,616,394
Pseudo R2		
LR chi2	7031.18	

Robust standard errors in parentheses, clustered at the firm level.

APPENDIX

Table A.1 – Odds Ratios

VARIABLES	(1) EE	(2) AE
IPR protection	1.004	1.008
	(0.001)	(0.001)
Distance	0.593	0.739
	(0.018)	(0.004)
Foreign-born population	1.975	1.149
	(0.013)	(0.006)
Population	2.421	1.882
	(0.030)	(0.019)
GDP Growth	1.176	1.002
	(0.011)	(0.004)
Common Language	4.345	1.185
	(0.233)	(0.018)
GDP per capita	1.003	0.999
	(0.001)	(0.001)
Manufacturing	1.171	1.027
	(0.004)	(0.001)
Agglomeration	1.014	1.088
	(0.003)	(0.006)
Trade openness	1.010	1.009
	(0.000)	(0.000)
Observations	401,110	1,215,284
R2	0.305	0.099

Robust standard errors in parentheses, clustered at the firm level.

Table A.2 - Robustness test: Cultural Distance

VARIABLES	(1) EE MNE	(2) AE MNE	(3) Test of difference of coefficients X2	(4) ALL
IPR protection	0.003	0.002	0.78	0.004
	(0.001)	(0.001)		(0.001)
Cultural Distance	-0.140	-0.111	5.63	-0.094
	(0.011)	(0.006)		(0.006)
Foreign-born population	0.717	0.097	5800.09	0.103
	(0.007)	(0.005)		(0.005)
Population	0.786	0.442	529.02	0.597
	(0.011)	(0.010)		(0.006)
IPR EE				0.001
				(0.001)
Cultural Distance EE				-0.146
				(0.011)
Foreign-born pop EE				0.415
				(0.006)
Population EE				0.128
				(0.006)
GDP Growth	0.164	-0.005		0.029
	(0.009)	(0.004)		(0.003)
GDP per capita	0.007	-0.003		0.002
	(0.001)	(0.001)		(0.000)
Agglomeration	0.024	0.168		0.070
	(0.002)	(0.006)		(0.002)
Trade openness	0.009	0.008		0.010
	(0.000)	(0.000)		(0.000)
Manufacturing	0.175	0.036		0.061
	(0.003)	(0.001)		(0.001)
Common Language	1.289	0.104		0.274
	(0.053)	(0.016)		(0.015)
Observations	386,117	1,169,962		1,556,079
Pseudo R2	0.301	0.087		0.129

Robust standard errors in parentheses, clustered at the firm level.