How Different are Emerging Economy MNEs?
A Comparative Study of Location Choice

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Abstract

What distinguishes the global location strategies of multinational enterprises (MNEs) from emerging economies (EE) and industrialized economies (IEs)? We propose relative maturity in international business as the key distinguishing feature. Locations offering learning opportunities have a stronger positive effect on investment by EE MNEs, while barriers to entry have a stronger negative one. We test hypotheses derived from this argument against alternatives from the strategic asset seeking and institutional perspectives, using conditional logit methods on a dataset of MNEs from nine countries investing in IEs. We find the maturity perspective to dominate the alternatives.

Keywords: foreign direct investment, emerging economy multinationals, location choice, maturity perspective
Introduction

Historically the bulk of foreign direct foreign investment (FDI) has originated from industrialized economies (IE), which thus has been the foundation for developing theories of the multinational enterprise (MNE). Yet, recently FDI from emerging economies (EEs) such as China or in Latin America has been rising fast. In particular, South-North investment – from EEs into IEs – is raising the question whether the same theoretical frameworks explain their patterns of investment? Some scholars argue that MNEs from EEs are systematically different from MNEs originating from an IE and thus call for the development of new theory to explain their characteristics (Child and Rodríguez, 2005; Guillén and Garcia-Canal, 2009; Mathews 2006; Rui and Yip, 2008). 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 (Dunning 2006; Hennart, 2009; Narula 2012; Ramamurti 2012).

We take this debate forward by proposing a ‘maturity perspective’ which argues that the fundamental structural difference driving the strategic location choices of MNEs from EEs and from IEs is their maturity in terms of their experience of international business (IB). This difference affects the choice of host countries where these MNEs invest. Since EE MNEs have less experiential knowledge in conducting international operations (Meyer and Thaïjongrak, 2013; Peng, 2012; Ramamurti, 2012), they will be more sensitive both to locational advantages and disadvantages, and hence be more motivated to seek learning opportunities and be more deterred by barriers to entry in the host economy than their more experienced counterparts from ICs.

Our approach integrates the theory of the MNE with recent work on experience effects and internationalization processes (Johanson and Vahlne, 2009; Melin, 1992). The former posits that FDI is attracted to locations that offer advantages in terms of markets and/or resources, and favorable conditions in terms of institutions and infrastructure (Nadkarni, Herrman and Perez, 2010; Bevan, Estrin and Meyer, 2004; Globerman and Shapiro, 2002). The location decision of a specific firm depends on the interaction of its firm specific advantages (FSA) (Rugman, 1982), with the specific locational advantages at potential host locations (Belderbos, van Olffen and Zou, 2011; Dunning, 1998; Narula, 2012). In other words, firms expand internationally where they can redeployst their internationally-transferable proprietary resources and capabilities to both exploit and explore their resource base (Barney, 1991). Thus, the choice of investment location is determined by the interaction of the firm with the host context.
Firms are however evolving as they go through the process of internationalization (Johansen and Vahlne, 2009; Melin, 1992; Meyer and Thajjongrak, 2013). In particular, they accumulate experience from operating in international environments along multiple dimensions, including both in general IB and in specific host economies (Clarke, Tamaschke and Liesch, 2012; Li and Meyer, 2009), which facilitates the assessment of opportunities and risks, and reduces the marginal costs of further entries (Li, 1995). To some extend, such IB knowledge can be shared within business networks, especially networks of companies from the same origins (Belderbos et al., 2011; Tan and Meyer, 2012). Therefore, the accumulated experience of the firm, its business networks, and its home community – what we henceforth refer to as its IB maturity – critically contributes to a firm’s FSAs, and therefore its location choice. Less mature MNEs, such as those from EEs, lack experience in overcoming international barriers to entry and thus focus on learning processes when designing their ventures abroad (Elango and Pattanaik, 2011; Li, 2010; Mathews, 2006; Meyer and Thajjongrak, 2013). The (typically) lesser IB maturity of EE MNEs thus becomes a critical factor distinguishing them as a group from IC MNEs in their choice of business location.

Recent literature has proposed two other innovative theoretical ideas to explain differences between MNEs from EEs and IEs respectively, namely strategic asset seeking (or springboard) perspectives (Li, Li and Shapiro, 2012; Luo and Tung, 2007; Luo, Zhao, Wang and Xi, 2011) and institutional perspectives (Cuervo-Cazurra and Genc, 2008; Cui and Jiang, 2012; Holburn and Zelner, 2010). Empirical contributions in this literature are mostly based on single country studies, and hence provide insights regarding the distinct features of the particular country but offer limited advancement of knowledge into the comparative aspect of the research question (Deng, 2012; Jormanainen and Kovesnikov, 2012). Hence we lack clarity on the basic question of what distinguishes EE MNEs from IE MNEs, and whether we need new models to understand their strategic choices. We address these questions by designing a comparative study of EE MNEs and IE MNEs.

We have constructed a unique firm-level dataset which allows us to compare the FDI location choices into most OECD countries by MNEs from both IEs and EEs. We focus on OECD countries as hosts because it is the investment by EE MNEs into these relatively more advanced economies that creates most challenges for the theory of the MNE (Hennart, 2012; Ramamurti, 2012; Luo and Tung, 2007; Tsang and Yip, 2007). If EE MNEs were fundamentally different from those addressed in traditional theories, then the determinants of location choice would not be the same. In contrast, if the current
theory of the MNE has universal applicability, then the determinants of inward FDI would not differ with the status of the country-of-origin as IE or EE. For our estimations, we use an extended version of the gravity model (Anderson and van Wincoop, 2003; Carr, Markusen and Markusen, 2001; Bloningen, 2005) and our results provide evidence in favor of the latter view. Specifically, the direction of the effects of key explanatory variables for location choice is the same for MNEs from both EE and IE. However, significant differences in the size of these effects remain and these can largely be explained by the lesser maturity of EE MNE.

We offer the following contributions to the strategic management literature. First, we develop a theoretical argument on how IB maturity affects the determinants of location choice. Second, we offer closure to the debate on whether EE MNEs require a new theory, by propose a research agenda that focuses on integrating country-level moderators into existing theories. Third, we use empirical location choice methods to test the proposition that differences in maturity moderate the effects of locational characteristics on FDI location choice. Finally, we extend our empirical analysis to country-by-country tests of whether other arguments hold for specific countries without being generalizable across EEs as a whole.

**Emerging Economy Multinationals**

**The phenomenon**

MNEs from EE have rapidly increased their relative position in the global economy in the first decade of the 21st century. As an empirical phenomenon, they are not entirely new (Lall, 1983; Lecraw, 1993) though it is of greatly increased importance in terms of number of MNEs and volume of FDI capital outlays (Table 1). The dominance of US and UK MNEs, who together accounted for 57% of worldwide FDI stock in 1980, has successively been eroded and fell to 32% by 2010; at the same time MNEs from an ever increasing range of countries became substantive players on the global stage. Hence, the recent rise of China, India and Russia represents the extension of a longer trend of increasing diversity of origins of MNEs.

*** insert Table 1 here ***

It has been argued that this recent wave of EE MNEs show characteristics that – while perhaps not unique – distinguish them from IE MNEs. Specifically, most EE MNEs lack the famous brands and leading-edge technologies that are usually viewed as the drivers of MNEs’ overseas FDI (Mathews 2006; Rugman 2009). The theory of the MNE suggests that firms engage in outward FDI when they have some resources or FSAs that
they can transfer and exploit (Rugman, 1982). However, FSA is a very broad concept that encompasses any capability that can be transferred to another country to enable foreign entrants successfully to compete with local firms.

The EE MNE literature suggests that two types of FSAs could be driving their internationalization. First, studies identify a range of operational capabilities of particular relevance to EE contexts (Verbeke and Kano, 2012). For example, EE MNEs may possess capabilities in ‘process innovations’ that allow them to lower production costs without necessarily reducing product quality (Zeng and Williamson 2007), and ‘frugal innovation’ generating new products initially designed for needs of an EE, but also enabling entry into niches in advanced economies (Govindarajan and Ramamurti, 2011). Other EE MNEs develop capabilities in managing dispersed value chains and labor-intensive manufacturing processes (Ramamurti, 2012), or “the ability to manage institutional idiosyncrasies” (Henisz, 2003), which helps EE MNEs to compete in other EEs, and provides them with a competitive advantage in those contexts (Cuervo-Cazurra and Genc, 2008; Del Sol and Kogan, 2007).

Second, the FSAs of EE MNEs may be grounded in their preferential access to country-specific advantages of their home country (Hennart, 2012; Narula, 2012). This preferential access may arise both from close network relationships in the home country, or from ownership and governance forms provide access to external resources. In particular, many EE MNEs belong to business groups that share resources and internalize markets. Their FDI may be driven by their role within the business group and supported by resources shared within the group (Khanna and Rivkin, 2001; Guillén, 2002). Other firms access resources through state ownership and other forms of association with the home country government, for example by obtaining finance from state-owned banks on comparatively favorable terms. Therefore, firms aligning themselves with governmental policy agendas are reportedly finding it easier to attract resources that facilitate outward FDI, notably in China (Buckley et al., 2007; Morck, Yeung and Zhao, 2008; Wang et al., 2012). This preferential resource access enables them to be less averse to political risk, and to seek resources of national rather than of purely corporate interest (Ramasamy et al., 2012; Cui and Jiang, 2012; Luo et al., 2011).

In conclusion, EE MNEs enter the global stage with different sorts of FSAs than a typical IE MNE, be they internal to the firm (such as operational capabilities) or in form of preferential access to country specific advantages of the home country. These differences in starting points impact on their outward FDI strategies, and have hence
stimulated new theorizing. We thus next introduce the learning perspective (Li, 2010; Mathews, 2006; Meyer and Thaijongrak, 2013) which provides the basis for our main line of argument that the lesser IB maturity is the distinguishing feature of EE MNEs that moderates their location choice. Thereafter, we briefly summarize two other arguments from the recent literature, the strategic asset seeking (or springboard) and institutional perspectives, which serve as the basis for alternative hypotheses in our empirical tests.

**Theoretical Perspectives**

**Learning Perspective**

EE MNEs begin their IB activity from a position of relative weakness compared to global leaders. They lack knowledge of how to overcome various barriers to entry that MNEs face when entering ‘foreign’ locations because they lack IB experience in both its general and its host country-specific forms (Clarke, et al., 2012). Since EE MNEs are still at early stages of their ‘internationalization process’ (Johansen and Vahlne, 2009; Melin, 1992), despite their often considerable size in their home country, their first challenge is to overcome barriers to entry given their limited experiential knowledge on how to operate under ‘foreign’ conditions (Autio, Sapienza, and Almeida, 2000; Delios and Henisz, 2003). Hence, many of the activities of EE firms outside their own country may best be understood by reference to their contribution to the firm’s capability building process and learning trajectory (Li, 2010; Mathews, 2006).

The internationalization process is driven by both internal, experiential learning (Tsang, 2002) and external learning through knowledge sharing in business networks (Johansen and Vahlne, 2009; Meyer and Thaijongrak, 2013). Especially for small and medium sized EE MNEs, embeddedness in business networks shapes their processes of international learning and growth (Lin, Peng, Yang and Sun, 2009; Prashantham and Dhanaraj, 2011; Zhou, Barnes and Luo, 2010). Especially at early stages of internationalization, they thus tend to invest in locations where they can tap into existing networks of compatriots that facilitate their learning processes and operations (Belderbos et al., 2011; Tan and Meyer, 2012). Moreover, EE MNEs use acquisitions of small firms abroad strategically to accelerate their internationalization processes and to overcome barriers to entry (Elango and Pattnaik, 2011; Luo et al., 2011).

In the learning perspective, each FDI project is viewed in terms of its contribution to the firm’s process of building a portfolio of competences that will eventually enable it to compete in its chosen markets internationally. EE MNEs have less IB experience, and can draw on less such experience shared in their home community. Translated to the
country-of-origin level, this ‘maturity perspective’ thus suggests that learning how to overcome high barriers to market entry in host economies and creating learning opportunities that assist in building IB capabilities would be key motivators of EE MNEs location choice:

**Proposition 1:** Because EE MNEs typically lack international business experience, their international operations in ICs are largely driven by their lesser ability to overcome industry barriers to entry and the need to create learning opportunities.

**Strategic Asset Seeking Perspective**

A common thread in the empirical literature is the observation that EE MNEs tend to acquire strategic assets overseas by purchasing firms in IEs that are more advanced in terms for example of technology, distribution skills and even management than they are themselves (Deng, 2009; Madhok and Keyhani, 2012; Peng, 2012; Rui and Yip, 2008). This observation led to theoretical work suggesting that FDI by EE MNEs primarily aims to create FSAs, rather than to exploit them (Gubbi, Aulakh, Ray, Sarkar and Chittoor, 2010; Rugman, 2009). These acquired assets are strategic in the sense that they strengthen the capabilities of the acquirer not only in the local market, but in its global operations, providing for example advanced technologies or international brand names that strengthen the firm’s competitive position vis-a-vis its competitors back home.

Hence, the ‘strategic asset seeking’ or ‘springboard’ perspective (Li et al., 2012; Luo and Tung, 2007; Luo, Zhao, Wang and Xi, 2011) suggests that EE MNEs would use such acquisitions to acquire resources abroad that then are combined with existing resources to create FSAs that enable to compete more effectively both at home and abroad. Such strategic asset-seeking is not new (see e.g. Kogut and Chang, 1991), but appears to be particularly prevalent in the recent wave of FDI by EE MNEs.

This motive mainly applies to FDI by EE MNEs into IEs, where such internationally transferable assets are likely to be found. It suggests that investments by EE MNEs in IEs are primarily designed to accomplish a catch-up with global leaders, and target locations where complementary assets such as technology are most available (Li et al., 2012). We summarize this theoretical argument as follows:

**Proposition 2:** Because EE MNEs are typically deficient in some key strategic assets, notably technology and skills, they tend to invest in ICs specifically to acquire such assets.
Institutional Perspective

Firms in EE face business environments of extensive market imperfections, also known as institutional voids (Khanna and Rivkin, 2001; Meyer, Estrin, Bhaumik and Peng, 2009). Hence, they develop practices and capabilities that enable them to fill or overcome such voids, and to succeed under such conditions. Once developed, such capabilities can become a foundation both for domestic diversification (Khanna and Palepu, 2000; Guillén, 2000), and for international expansion into other EEs with similar market imperfections, and hence where such capabilities contribute to attaining competitive advantages locally. This institutional perspective thus suggests that the capabilities developed by EE MNEs in their domestic markets enable them to expand most easily where they find similar institutional conditions (Curvo-Cazurra and Genc, 2008; Del Sol and Kogan, 2007; Henisz, 2003) and political risks (Holburn and Zelner, 2010).

A related institutional argument focuses on the close association of many EE MNEs with their home government. State ownership is relatively more widespread in emerging markets, in part because of former socialist legacies (Estrin, Hanousek, Kocenda and Svejnar, 2009) and the weakness of private capital markets (Globerman and Shapiro, 2002). Even where the state does not own firms, governments influence company decision making both directly through state-ownership and more subtly through personal ties between managers and government officials (Lin, 2011; Peng and Luo, 2000; Sun et al., 2010). These relationships facilitate access to certain types of resources, but also create pressures to align firm strategies with government policy. For example, government associated firms gain preferential access to guarantees, bank loans and information about the foreign business environment, collaboration with research institutes and universities (Luo, et al., 2011; Morck, et al., 2008; Peng, 2012; Ramasamy et al, 2012).

Governmental support in the provision of resources, however, comes at a price in terms of blurring corporate objectives, with SOEs in particular in a position of resource dependence and therefore required to align their FDI strategies to policy goals of their governments. These policy goals vary from country to country; in the case of China, scholars emphasise acquiring natural resources and advanced technologies (Luo et al., 2010; Zhang et al., 2010). In the case of natural resources, these are often located in environments with political instability and high corruption as a consequence of the “resource curse” (Collier, 2008). Governmental financial support also makes the strategies of MNEs from EEs less sensitive to institutional deficiencies in the local environment such as political risk or corruption, because the additional costs that these
conditions impose are offset by implicit guarantees or the attainment of the non-material goals.

Both lines of the institutional argument thus suggest that EE MNEs may have capabilities that are particularly suited for competing in less advanced institutional environments and they may be able to accept higher levels of political and economic risks than their IE competitors. Hence, we summarize this theoretical discourse as follows: 

**Proposition 3:** Because EE MNEs have capabilities in operating in the presence of institutional voids, and face institutional and financial pressures from their governments to support national resource seeking motives, they tend to be less averse to investing in locations of relatively less developed institutions and higher political risks.

**Location Choice of MNEs**

We test the proposed difference between EE MNEs and IE MNEs by investigating a specific aspect of their outward FDI strategies, namely their location choice. We use as our starting point the predominant approach in international economics, the “gravity model”, which posits that the drivers of trade or investment flows are a) the size of the host economy, b) the growth of the host economy, and c) the distance between the two economies (Anderson and van Wincoop, 2003; Bloningen, 2005; Carr et al., 2001; Chakrabarti, 2001). This model is grounded in similar models in international trade, and the factor endowment theorem in particular (Mundell, 1957; Brainard, 1997).

Recent literature has considerably broadened the notion of locational advantages to encompass the attractiveness of a potential host economy as both a site for production and as a market. Contemporary literature considers for example the costs of production, especially unit labor costs and locally available intermediate goods (Bevan and Estrin, 2004) and natural resources (Hejazi and Pauly, 2003), human capital and other factors enhancing productivity (Dunning, 1980; Globerman and Shapiro, 2002), as well as the institutional framework facilitating or inhibiting the operations of foreign investor, proxied for example by corruption (Brouthers, Gao and McNicol, 2008; Habib and Zurawicki, 2002; Wei, 2000).

These extensions of the gravity model provide the theoretical benchmark against which we explore how and why how host country attractions may vary for investors from different countries of origin. As we have seen, the choice of location is driven by firms identifying the optimal place in which to combine their FSAs with locational advantages in order further to exploit and explore them (Dunning, 1993; Narula, 2012; Rugman,
Different types of firms – in our case firms from different countries of origin – are attracted to different locational advantages of potential host countries.

Most contemporary EE MNEs are at early stages of developing international business and hence possess FSAs in certain specializations, including non-conventional types of FSAs (Ramamurti, 2012; Verbeke and Kano, 2012). Yet, they are relatively weak in general IB competences because of their comparatively short period of accumulating experience in a competitive market economy (Luo and Tung, 2007; Meyer and Thaïjongrak, 2013). This suggests that many of the observed differences between EE and IE MNEs arise from the IB maturity of the firm. This insight, summarized in Proposition 1, provides a basis for hypothesizing how the relationship between the characteristics of host economies and the attraction of FDI varies between MNEs from EEs and ICs. However, the implications of Proposition 1 are sometimes at odds with the arguments of the strategic asset seeking perspective (Proposition 2) and the institutional perspective (Proposition 3), which provide the basis for alternative hypotheses.

**Distance and Market Growth**

The basic element of gravity model is geographic distance, which like cultural distance is a key variable increasing the costs of entering foreign markets and of doing business (Barkema, Bell and Pennings, 1996; Estrin et al., 2009; Tihanyi et al., 2005; Zaheer et al., 2012). At the same time, locations distant from the MNEs prior operations are likely to offer greater opportunities for arbitrage (Ghemawat, 2007; Shenkar, 2001). Usually the costs of distance outweigh the incremental opportunities, so MNEs have been shown to follow particular geographic patterns in their processes of growth (Johansen and Vahlne, 1977) and even mature MNEs tend to do most of their business in their home region (Qian, Khoury, Peng and Qian, 2010; Rugman and Verbeke 2004). Hence, our baseline expectation is that MNEs are less likely to invest in a country that is located at a greater distance from the home economy.

However, the effect of distance on location decisions is critically moderated by firm-level experience. Certain costs of distance, such as the lack of local knowledge and networks and information barriers inhibiting the recognition and assessment of opportunities, decline with the accumulation of experiential knowledge in IB (Johansen and Vahlne, 2009; Li and Meyer, 2009). For example, MNEs will be able to draw on their tacit knowledge of the local context when they have gone through a process of experiential learning in establishing a prior affiliate. Similarly, investors expanding from an existing local subsidiary can draw on their experience of managing different types of
workforces (in both the local and their home context) and may have already developed human resource systems adapted to the workforce characteristics in the host country.

However, these experience benefits extend beyond the boundaries of the firm. If home country business communities and networks have experiences to share, this reduces the need for firms to generate such knowledge themselves when entering distant countries (Belderbos et al., 2011; Tan and Meyer, 2012). In EE, however, such experiences of operating outside the country are relatively rare. For example, EE MNEs are known to face considerable challenges to recruit, prepare and manage managers suitable to take on leadership roles in overseas subsidiaries because of the shortage of human resources in the home country (Tung, 2007; Morilha Muritiba et al., 2012). The lesser experience within business communities in operating internationally raises the costs from these communities of entering distance countries. Hence, we suggest that:

**Hypothesis 1a:** MNEs are more likely to locate in a country, the lower the geographic distance, and this effect is stronger for EE MNEs than for IC MNEs.

A counter argument arises from the strategic asset seeking perspective of Proposition 2. Complementary assets are more likely to be found in countries that are distinctly different from the investors’ home country, and given the traditional North-South divide, this is likely to be associated with higher distance. For example, technologies, practices or brand values are more likely to be distinctly different in distant countries, thus creating opportunities to arbitrage on such differences (Ghemawat, 2007). If EE MNEs’ outward FDI was primarily driven by the quest for complementary assets, then distance should have a positive or less negative effect on EE MNEs compared to IC MNEs’ location choice:

**Hypothesis 1b:** MNE’s are more likely to locate in a country the lower the geographic distance, and this effect is weaker for EE MNEs than for IC MNEs.

The second core component of the gravity model is the economic growth of a host economy (Bevan and Estrin, 2004; Blongingen, 2005; Chakrabarti, 2001), which is a major attraction for foreign investors seeking new opportunities to sell their products. MNEs with FSAs in form of, for example, brands or logistics and distribution capabilities, find enhanced opportunities to exploit these FSAs, and to realize economies of scale, by entering large and fast growing markets in the host economy (Brouthers et al., 2008; Garcia-Canal and Guillen, 2008). Hence, our baseline expectation is that **MNEs are more likely to invest in a country that has higher economic growth.**
Following the logic of Proposition 1, we propose that this pull of higher growth in the host economy will be even stronger for firms from EEs. This is because less mature MNEs, at an early stage of their internationalization, initially lack the capabilities to manage complex international operations (Melin, 1992). Hence, it is difficult for them to develop the international supply and value chains which are the basis of efficiency motivated FDI (Dunning, 1993). Moreover, EE MNEs are more likely to seek markets that are structurally similar to their home country, which for them implies in high growth markets, because their organisations are designed to operate in such a context. This allows them to exploit skills and capabilities developed at home in their international expansion. In other words, the existing capabilities of EE MNEs are geared towards high growth economies and this suggests that they would be particularly keen on high growth environments. This argument is supported by evidence that a large share of FDI by EE MNEs is targeted at other EEs (Cuervo-Cazurra and Genc, 2008; Del Sol and Kogan, 2007). In contrast, low growth is likely to be perceived as a barrier to entry, because it is normally associated with mature industry structures and few niches where an EE MNE may gain a foothold. In consequence, the maturity arguments suggests that EE MNEs are more likely to be more market seeking than developing sophisticated global value chains. Hence, we suggest:

**H2a: MNEs are more likely to locate in a country the higher its economic growth and this effect is stronger for EE MNEs than for IC MNEs.**

Proposition 2 suggested that EE MNEs are instead investing overseas to a larger extent in strategic asset seeking projects, which are aimed at strengthening their position in global markets or even home country markets, rather than host markets (Luo and Tung, 2007). However, strategic assets are likely to be more common in countries with higher levels of development, with large embodied investment in human capital and R&D infrastructure. There is a large economics literature on economic convergence stemming from Barro and Sala-i-Martin (1992) which argues that countries at a higher level of development will grow at a slower rate than countries at lower levels of development, implying that poorer countries will tend to catch up and that income per capita levels will converge. This occurs because richer economies rely on technological change as the basis for their growth while development in poorer countries is based upon bringing underemployed resources, notably labor, into use on the basis of pre-existing technologies. EEs typically have huge reserves of under-employed or unemployed resources at their disposal (World Bank, 2012) while IEs tend to allocate their resources more efficiently, and have fewer
unused resources. If IEs, where strategic resources are mostly concentrated, tend to have slower growth rates than EEs, this implies that if EE MNEs are strategic asset seeking, they will tend to concentrate their FDI on relatively slower growing economies.

Moreover, EE MNEs seek strategic assets that are held by local firms, and which have a potential value for the global operations of the EE MNEs. These assets have to be of greater value for the acquirer than for the current owner, because otherwise the current owner would not be willing to sell them. Such conditions – internationally valuable assets at affordable prices – are likely to be found where economic growth is slow, and hence where the value to be generated by exploiting the assets in domestic markets is small relative to the potential these same assets would have if deployed in global markets or the country of origin of the acquirer. Hence, we suggest:

H2b: MNE are more likely to locate in a country the higher the economic growth, but this effect is weaker for EE MNEs than for IC MNEs, and may be reversed.

Technological Barriers to Entry
Foreign investors are at a competitive disadvantage relative to local competitors due to the liability of foreignness, and it is only because of their unique FSAs that they can overcome this disadvantage (Dunning, 1993; Zaheer, 2005). In other words, domestic firms operate with cost advantages in their home location which represent a barrier to entry to potential foreign entrants. The stronger local firms are relative to foreign ones in terms of their indigenous capability, the higher these barriers will be, especially in IEs. Thus, the less experienced are MNEs, the more they are potentially deterred by barriers to entry, in particular those created by the technology and competitiveness of domestic incumbents; the technological base of local firms thus acts as a barrier to entry for potential foreign market entrants. Hence, MNEs are less likely to invest in a country that has a strong skill and/or technology base.

The ways that MNEs overcome these barriers is a starting point for theories of the MNE, which argue that MNEs compete on the basis of the strength of their technology based FSAs (Rugman, 1982) that help them to overcome barriers to entry in host markets. However, EE MNEs are typically less mature than their local competitors in IEs, and they enter on the basis of FSAs in operational capabilities or preferential access to resources in the home country (Hennart, 2012; Zeng and Williamson, 2007; Verbeke and Kano, 2012). They have less experience in developing and deploying their FSAs internationally and will therefore find it more challenging to overcome technological barriers to entry.
Moreover, a highly skilled workforce in the host location may be seen as a disadvantage for an EE MNE because it may not yet have the experience or managerial practices to manage them effectively. In other words, EE MNEs are more distant from the global technology frontier than their IE counterparts, and thus more deterred by barriers to entry created by local technology and skills. Hence we propose:

**Hypothesis 3a:** MNE are less likely to locate in a country the stronger the technology and capability base, and this effect is stronger for EE MNEs than for IC MNEs.

**Hypothesis 4a:** MNE are less likely to locate in a country the stronger the skill base, and this effect is stronger for EE MNEs than for IC MNEs.

In contrast, the strategic asset seeking perspective suggests that investments by EE MNEs in IEs are to a large extent motivated by the desire to acquire strategic assets (Proposition 2). Studies of IE MNEs have shown that they are seeking local skills and capabilities because it allows them to build stronger local operations (Globerman and Shapiro, 2002; Mody and Srinavasan, 1998). In the case of EE MNEs, acquired technology and skills are important not only for the local operation but – potentially – for the worldwide operations (Luo and Tung, 2007). Such assets are located in particular in countries with cutting edge technology and skills, such as Germany and the USA (Klossek, Linke and Nippa, 2012). If indeed this strategic-asset-seeking motive dominates, then EE MNEs should be attracted to high technology economies, rather than being deterred by their barriers to entry. Hence, as an alternative to Hypotheses 3a and 4a, this perspective suggests:

**Hypothesis 3b:** MNE are more likely to locate in a country the stronger the technology and capability base, and this effect is stronger for EE MNEs than for IC MNEs.

**Hypothesis 4b:** MNE are more likely to locate in a country the stronger the skill base, and this effect is stronger for EE MNEs than for IC MNEs.

**Institutional Barriers to Entry**

The institutional environment of a location has been identified as a critical determinant in attracting FDI (Brouthers et al., 2008; Disdier and Mayer, 2004; Grosse and Trevino, 2005; Pajunen 2008). In particular, this literature has established that FDI is attracted to countries with a more market oriented institutional framework, that in particular offers better protection of property rights because this lowers the costs of doing business and creates a more level playing field between local and foreign competitors (Globerman and Shapiro, 2002). Critically, foreign investors are not only concerned with the formal laws,
but with the practices related to property rights (Bevan et al., 2004; Jandhyala, 2013). On
the other hand, where the efficiency of markets is undermined by for example corruption,
foreign investors are likely to stay out (Brouthers, Gao and McNicol, 2008; Wei, 2000).
Moreover, corruption in a host economy is associated with a variety of institutional
weaknesses, and seen as a highly visible and measurable indicator for MNEs to evaluate
the business environment (Rose-Ackerman, 1978).

Closely related to the efficiency of the institutional framework is the question of
political risk, which is both an indicator of opportunity and of potential loss. In high risk
environments, investors that survive may obtain high returns. However, since Kobrin
(1976), the literature has identified political risk as a major deterrent for foreign direct
investment activity (Asiedu et al., 2009) and extensive empirical evidence supports this
contention (e.g. Globerman and Shapiro, 2002; Mody and Srinavana, 1998). Based on
this literature, our baseline expectation is that MNEs are more likely to invest in a country
that has better control of corruption and higher political stability.

Corruption can be regarded as a tax on doing business, but one that falls with
particular intensity on foreign firms as they are less embedded in the local informal
structures and networks. MNEs with many years of experience of IB have learnt
mechanisms and systems to address the costs of this pernicious problem, while
inexperienced MNEs lack the experience and local networks to cope with such often
idiosyncratic demands. Moreover, the uncertainty generated by a corrupt environment, in
which firms cannot predict the demands upon managerial time and resulting production
or sales delays, is potentially as damaging as the financial cost of paying the bribe
Rodriguez, Uhlenbruck and Eden, 2005). Less internationally experienced MNEs will
have less capability to deal with these issues, and find it even harder to manage them.

Similarly, MNEs’ ability to handle political instability and the resulting risks grows
with their development of management practices related to both the assessment of risk
and the implementation of mitigating actions once a disruptive political event happens
(Henisz, 2003). With their relatively short history of IB, EE MNEs rarely have
experiential knowledge to assess risk in foreign business contexts, and to manage the
sorts of risks associated with adverse political events in foreign countries. Moreover,
mature MNEs normally have a wider production network, which not only facilitates risk
diversification, but new subsidiaries in high volatility environments add value by their
contribution to the MNEs global flexibility (Fisch and Zschoche, 2012). Due to their
lesser global scope and experience (Proposition 1), EE MNEs have fewer opportunities to
diversify risks arising from the exposure to specific high risk contexts where political instability is great. With less maturity in IB, we thus expect EE MNEs to be less able to either manage or diversify risks associated with corrupt practices or political instability, and hence to avoid investing in countries where such issues create higher risks:

**H5a: MNE are more likely to locate in a country the better control of corruption and this effect is stronger for EE MNEs than for IE MNEs.**

**H6a: MNE are more likely to locate in a country the higher the political stability, and this effect is stronger for EE MNEs than for IE MNEs.**

In contrast, the institutional perspective suggests that EE MNE have comparative advantages (relative to IE MNEs) when it comes to operating in weaker institutional environments because they may possess capabilities in the management of unstable, inconsistent or incomplete institutional environment (Henisz, 2003; Spencer and Gomez, 2011). This is in part an outcome of the operational capabilities adapted to an EE institutional context, as discussed in Proposition 3. These capabilities are argued to underlie the expansion of EE MNEs to other EEs (Cuervo-Cazurra and Genc, 2008; Del Sol and Kogan, 2007) and, by extension of the argument, would also help them compete in relatively more corrupt and less predictable environments among OECD countries.

Moreover, their experience in operating in volatile institutional environments, and their closer relationships with their home country government, strengthens EE MNEs’ ability to manage risk arising from political instability, for at least two reasons. First, they are more embedded in inter-governmental relationships, which imply that adverse political actions may trigger supportive reactions by the home country government. Second, their attitude to risk may be tempered by their access to implicit guarantees from government agencies or state banks, and (in the case of SOEs) by soft budget constraints (Buckley et al., 2007). These contingent resources would help EE MNEs manage their political risk, and make them less sensitive to potential losses due to the backing of their national governments (Holburn and Zelner, 2010; Ramasamy et al., 2012). Hence, EE MNEs have developed capabilities that enable them to respond to changes in for example the regulatory environment with potentially negative effects on inward investment. These capabilities reduce their aversion (relative to IE MNEs) to investing in countries of high corruption or political risk:

**H5b: MNE are more likely to locate in a country the better the control of corruption, but this effect is weaker for EE MNEs than for IC MNEs.**
**H6b**: MNE are more likely to locate in a country the higher the political stability, but this effect is weaker for IC MNEs than for EE MNEs.

Table 2 summarizes our hypotheses. We have explored six direct effects suggested by the theory of FDI and location economics. For these six determinants, the maturity perspective suggests stronger effects in the case of EE MNEs compared to IC MNEs because of their lesser economic maturity. In contrast, counter arguments derived from the strategic asset seeking and institutional perspectives in the recent literature on EE MNEs suggest that the effect may be weaker, or even reversed.

*** Insert Table 2 about here ***

**METHODOLOGY**

Our hypotheses concern the factors influencing the MNCs choice of location with respect to the characteristics of the host economies for each specific source economy or group of source economies (IE versus EE). We therefore test whether the same factors in each host economy affect MNCs conditional upon the specific context of their home economy which leads us to follow studies of FDI location choice focusing on agglomeration effects (Chang and Park, 2005; De Beule and Duanmu, 2012; Disdier and Mayer, 2004; Head et al., 1995; Shaver and Flyer, 2000; Tan and Meyer, 2012). The traditional methodology in this literature is conditional logit; an extension of the multinomial logit model that was developed particularly for models of choice behavior in which the explanatory variables include attributes of the choice alternatives as well as characteristics of the firms making the choices (Maddala, 1983). The specification of the model takes the form of the standard logit model,

$$
\text{Prob}(Y_i = j | x_{i1}, x_{i2}, \ldots, x_{ij}) = \text{Prob}(Y_i = j | X_i) = P_{ij} = \exp(x_{ij}' \beta) / \sum_{j=1}^{J} \exp(x_{ij}' \beta) \quad (1)
$$

where in this case the x denotes choice variables (Greene, 2011).

In our framework, firms in each of the source countries are making choices about whether or not to foreign direct invest (I) across a variety of host countries h, representing most industrialized and OECD members. They make this location choice according to the characteristics of those host countries C\(_h\) and a vector of control variables (X\(_h\)). I is a variable representing the probability that the source economy or economies make an investment in a particular host country. Thus, we estimate a conditional logit equation of the form:

$$
\text{Prob } (I_{ih}) = f( C_{ih}, X).
$$

(2)
Our hypotheses concern differences in the strength of the effect between emerging and industrialised economies. We explore these by comparing the coefficients estimated on the relevant sub-samples, for example the coefficient on distance in a locational choice regression of investment probabilities from all the IE countries into the OECD host economies, as against the same coefficient in the same equation estimated for all the EE countries into the same set of host economies. We formalise the test of whether there are differences in the determinants of FDI by MNEs from IEs as against EEs by considering the sign and significance of an interactive effect between the determinant of interest and a dummy variable signifying whether or not the source economy is an emerging economy in an equation estimated on the dataset as a whole. For example, for Hypothesis 1 on distance, we estimate using the entire dataset for all source economies together an investment equation including an interactive term between distance and the emerging economy dummy variable. If the coefficient is positive, we find support for Hypothesis 1a; if negative for Hypothesis 1b.

Data
We constructed our own dataset of locational choices of foreign investors ($I_h$) on the basis of the Orbis database (Bureau van Dyck). This database contains records of all firms filing their annual reports in many of the countries in the world, including most OECD countries, and distinguishes between foreign and domestically owned firms as well as providing the source economy of the ultimate owner. We define a firm as being foreign owned when the ultimate owner holds a direct or indirect participation of more than 50.01% of the stock. The ultimate owner is the largest shareholder that is independent.\textsuperscript{1} We restrict our attention to firms that were incorporated after 2005, so as to focus research attention on investments by IE and EM MNEs that are comparable in terms of market conditions and institutional context.\textsuperscript{2} 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.

To test our hypotheses, our dataset must encompass MNEs originating from both industrialized and emerging economies. We decided to focus on the source countries providing the vast majority of all FDI in the host database. We therefore extracted data on

\textsuperscript{1} 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.

\textsuperscript{2} We are including “all active companies and companies with unknown situation” in 2011. This ignores companies incorporated after 2005 and closed before 2011. The latter filter helps in reducing the survival bias that would emerge if we included firms incorporated some time previously.
all MNEs originating in five industrialized economies (France, Germany, Japan, United Kingdom and United States) and four emerging economies (China, India, Russia, and South Africa). In 2011, the five industrialized countries generated about two thirds of global FDI from developed economies, and the four emerging markets around two thirds of all investment from developing countries (UNCTAD 2012). We also wished to consider the widest possible range of developed market economies into which MNEs from the source economies invest. We therefore included 24 host countries in our dataset: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and the United States. These countries received more than 80% of all FDI into developed economies in 2011 (UNCTAD, 2012).

Measurements
Our dependent variable is the probability that a given firm chooses one particular host country from the available set of countries as the location for a subsidiary. Our explanatory variables cover a wide range of characteristics of the host country suggested by the theories discussed above as likely determinants of FDI, drawing on a wide range of archival data sources. Using an approach similar to Bevan et al. (2004), Bouquet and Birkinshaw (2008) and Fisch and Zschoche (2012) we measure Distance as the geographic distance between the most populated cities in kilometers (thousands), sourced from the GeoDist database made available by Mayer and Zignano (2011). As noted above, Hypothesis 1a suggests that distance should have a stronger negative effect for EE MNEs, whereas Hypothesis 1b suggests the opposite. Hypothesis 2a/b also follows the gravity framework in proposing Economic Growth in the host economy as determinant of locational choice. Following earlier studies such as Fisch and Zschoche (2012) and Holburn and Zelner (2010), we use the average of GDP growth in each host economy over the years 2004 to 2008 derived from the World Economic Outlook of the IMF. For Hypotheses 3a/b regarding Technology, we are interested here in the level of technological sophistication of the host economy, as reflected in for example innovation and adaptation of technological change. However, several of these indicators are likely to

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3 Our analysis does not include Brazil, because there are too few Brazilian investment projects in the dataset.
4 Gravity models sometimes include distance in a quadratic form to pick up non-linearities in the relationship. However, the quadratic term was not significant and was dropped.
5 These years were chosen to avoid inclusion of data covering the years of the economic crisis after 2008.
be affected by, as well as affecting, the level of FDI. We therefore follow the innovation literature (Amann and Cantwell, 2012) in using as our indicator the number of patent applications in 2007 per capita, i.e. normalized by residents and truncated at the US value, and derived from the World Development Indicators of the World Bank. The Skills base (H4a/b) of the host country is related to educational achievements, which we proxy by the proportion (%) of the labor force with tertiary education in 2007; data also derived from the World Bank’s World Development Indicators.

We follow the literature (e.g Kwok and Tadessi, 2006) in measuring corruption (Hypothesis 5) using the World Governance Indicators of the World Bank, 2007. Political risk (Hypothesis 6) is measured by the series ‘government stability’ from the International Country Risk Guide published by PRS groups, which has been frequently used in empirical studies (Asiedu et al., 2009; Buckley et al., 2007).

In addition, we include in our regressions a number of control variables that we expect to impact location choice, but for which we have no theoretical reason to expect the effects to vary between EE and IC MNEs. First, we use population numbers to capture the scale of the host economy (Garcia-Canal and Guillén, 2008; Loree and Guisinger, 1995). Population in the year 2007 has been derived from the World Bank (World Development Indicators) and was introduced in 100,000s and logarithms to ensure normality.6 Investment location equations also normally control for the level of development, and we use GDP per capita of the host economy for the year 2007, derived from the IMF. Finally, some EE MNEs are said to source natural resources through FDI (Ramasamy, et al., 2012). We therefore include the share of the host country’s primary exports (food, fuel, ores and metals) in merchandise exports, also derived from the World Bank (World Development Indicators) for 2007.

We estimate our model using conditional logit for all economies taken together and for the two groups of economies, emerging and industrialized. The estimating equation takes the general form,

\[
\text{Prob}(I_h) = a_{h0} + a_{h1} \text{Distance} + a_{h2} \text{Growth} + a_{h3} \text{Technology} + a_{h4} \text{Skills} + a_{h5} \text{Control of Corruption} + a_{h6} \text{Political Stability} + a_{h7} \text{Population} + a_{h8} \text{GDP pc} + a_{h9} \text{Primary Exports} \]

(3)

and our hypotheses depend on the difference between the coefficients \(a_{h1}\) to \(a_{h6}\) in the regressions over the two subsamples, for IE and EE respectively. The hypotheses were tested formally by adding an interactive term between the independent variable of interest

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6 We use population rather than GDP to reduce collinearity with other independent variable- see below.
and an emerging market dummy, i.e. $a_{01} \text{Distance} \times \text{EE}$, and establishing its sign and significance; “a” hypotheses are supported when the coefficient on the interactive term is positive; “b” hypotheses when they are negative. We also consider regressions for each of the EE source economies separately to investigate whether there are interesting country specific effects.

The descriptive statistics for the host economies are reported in Table 3. We observe considerable variation in the variables of interest. Thus, firms looking for size of market might focus on the United States and the larger European economies, but for growth instead Ireland and Korea. The table suggests that the dataset provides the variation in independent variables necessary to test our hypotheses.

*** Table 3 about here ***

We report in Table 4 the correlation matrix for the independent variables to explore the issue of potential collinearity. There is very little collinearity between our independent variables of relevance to our hypotheses. The only issue is a weak but significant correlation between our measures of technology and skills. To address this, in the regressions we estimate specifications with one and the other excluded. The results on the remaining hypotheses are not affected at all and we do not report them.\(^7\)

*** Table 4 about here ***

Also our controls for size and level of development, population and GDP per capita, are correlated with each other and with some other independent variables, namely population with economic growth and political stability and per capita GDP with control of corruption and political stability. In the context of our estimations, it should be noted that multicollinearity should be considered taking carefully into account the sample size, since both multicollinearity and “micro-numerocity” jointly affect the stability of coefficients (Goldberger, 1991). In that sense, a large sample size (as in our case) may alleviate the impact of multicollinearity; we estimate our central model on 490,000 observations – around 58,000 from EEs and 432,000 from ICs. Hence one might be a little less concerned about problems of collinearity in our sample than in studies relying on much smaller samples.

Nonetheless, we address the resulting biases by estimating a number of versions of our basic model. In particular we experiment with specifications that exclude GDP per

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\(^7\) These regressions are available from the authors on request.
The results with respect our hypotheses were not sensitive to changes of specification. In the analysis which follows, we report estimates of the most general model since it is robust to alternative specifications. All alternative specifications are available from authors on request.

**RESULTS AND INTERPRETATION**

We estimate equation (3) first for the entire sample including all nine source economies (Table 5, column 1) and then for the two sub-samples of respectively the four EE and the five IE MNEs (Table 5, columns 2 and 3). We go on to report formal tests of the hypotheses based on the signs and significance of the interactive terms between each of the variables in the hypotheses (distance, growth, technology, skills, control of corruption, political stability) and an EE dummy variable in Table 6. Finally we apply in Table 7 the same regression to sub-samples from each of the four emerging market countries separately to explore whether there are any interesting country specific effects.

***Tables 5 to 7 about here***

Column 1 shows the overall results, with more than 490,000 observations and a relatively good fit for what is in effect cross section analysis (pseudo $R^2 = 0.292$). All the independent variables are highly significant at the 99.9% level. Column 2 reports the results for EE MNEs, and it shows the direction of all coefficients to be signed in the same directions as in the aggregate regression. Column 3 reports the results for IE MNEs, and again we find that all coefficients are signed as in the aggregate, and without exception they are significant. This is encouraging from the perspective of general theory as is suggests that location choices by EE MNEs and IE MNEs are driven by the same general determinants. Indeed, the pseudo $R^2$ is considerably higher (0.50 against 0.28) for the former, indicating that the standard model actually provides a better fit for EE MNEs than IE MNEs.

To explore our pairs of hypotheses, however, we need to turn to the differences between the coefficients in Columns 2 and 3 of Table 5. In addition, we provide formal tests in Table 6. Hypothesis 1a suggested that the negative effect of distance is bigger for EE MNEs than for IE MNEs, whereas Hypothesis 1b suggested the opposite. The results show that indeed the former coefficient (Column 2) is considerably bigger than the latter

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8 We also replace control of corruption by other indicators of institutional quality such as intellectual property rights protection and regulatory quality to test for robustness. Once again the results are not affected.
Hypothesis 2a focused on the growth opportunities in foreign markets, and suggested that host market growth would be more important for EE MNEs than for IC MNEs. Indeed, we find that the coefficient on economic growth is statistically significant and positive in both Columns 2 and 3. The coefficient is slightly larger for IEs than EEs, suggesting some support for Hypothesis 2b rather 2a. We return to this discussion below in the context of the formal tests in Table 6.

Hypotheses 3a and 4a suggested that the entry barriers created by high levels of capabilities, technology and skills would have a stronger negative effect on the likelihood of entry by an EE MNE compared to an IE MNE, whereas the strategic asset seeking argument suggested the opposite (Hypotheses 3b and 4b). The results in Table 5 are consistent with Hypotheses 3a and 4a for Technology and Skills, in that the estimated coefficients are larger in absolute values for the EE than IE economies, and the standard errors are very small.

In Hypotheses 5a and 6a, we suggested that the less mature MNEs from EE are more sensitive to the Control of Corruption and Political Stability, whereas the institutional argument suggested EE MNEs would be more capable of managing in more imperfect institutional environment. The coefficient on control of corruption in EEs is 3.71 as against 1.05 for IC’s. The coefficient on Political Stability is 1.82 as against 0.69. We therefore once again appear to support the hypotheses in the a. rather than the b. category.

Our hypotheses can be formally tested via the sign and significance of the coefficient on the interactive term between the variable of interest and a dummy variable for whether or not the source economy is an emerging economy, estimated in a version of equation (3) which includes all the variables of equation three and each of the six variables of our hypotheses interacted with the EE dummy. This specification is estimated on the entire dataset (Table 6). The interactive terms provide the basis for our hypothesis tests.

Commencing once again with Hypothesis 1, we confirm the indicative findings of Table 5 that MNEs from emerging markets are less capable of overcoming the barriers to entry caused by high distance, with the significant negative coefficient consistent with the Hypothesis 1a of negative moderation. However, we are unable to confirm either Hypothesis 2a or 2b; there is no significant moderation in either direction between EEs
and IEs with respect to economic growth. Thus, we are unable to identify any significant
difference between the two types of source economy with respect to economic growth in
the host economy.

However, the remainder of our results strongly confirm the perspective of
negative moderation proposed in the ‘a’ hypotheses. Thus, we find that the barriers to
foreign entry based on high levels of technology and skills in the host economies are
confirmed to have a stronger deterring effect on EE MNEs in the third and fourth rows of
Table 6; the negative interactive term indicates that the (negative) impact of technology
and skill barriers are exacerbated if the MNE originates from an emerging economy.
Similarly, the positive benefits of control of corruption and political stability are felt more
keenly by EE MNEs; the interactive terms on these variables are positive and strongly
significant. Thus contrary to the institutional views that predicted positive moderation
due to EE MNEs’ domestic experience in economies with greater political risk or weaker
institutions, our results indicate that institutional barriers to entry actually deter firms
from emerging markets even more strongly than firms from industrialized economies.

Country-by-Country Analysis
Our tests so far have been designed to test whether the theoretical argument regarding
maturity (Hypotheses H1a to 6a) rather than those related to strategic asset seeking
(Hypotheses H1b to 4b) and institutional capabilities (Hypotheses 5b and 6b). We found
overwhelming evidence in favor of the former over the latter. Yet, this evidence does not
allow us to fully reject the latter lines of argument as the effects may still apply in
specific subsets of MNEs; recall that most prior literature in EE MNEs is based on single
country studies. Hence, we have conducted the same analysis separately for each of the
four EEs of origin in our study (Table 6). It should however be noted that the sample size
for each country is rather smaller than for the sample as a whole, which means that the
statistical tests are less powerful.

With respect to Hypotheses 1 a/b on Distance, we find that firstly all coefficients
except for the Chinese one are negative as expected, and secondly, the coefficients on the
other EEs are in the range of -2.21 for South Africa and -1.17 for Russia, and thus much
larger than for industrialized economies (-0.22). Hence, we note that this result
reconfirms Hypothesis 1a, but China may be an outlier.

The impact of Economic Growth (Hypothesis 2a/2b) suggests a clear distinction
between different EEs. Growth encourages FDI for firms from EEs based in Russia and
South Africa. However, the effect is insignificant for firms from India, and actually
negative (and not significant) for MNEs from China. Why may that be? EE MNEs from India and especially China seeking fast growing markets likely find their home markets to be more attractive targets than foreign markets as they have been growing faster than most of the OECD countries considered as host countries in this study.

With respect to Technology (Hypotheses 3a/b) we find that the coefficients range between -5.5 and -1.98, all higher than the average of IEs (-1.65). With respect to Skills (Hypotheses 4a/b), we similarly find that most of the coefficients are of a fairly similar magnitude ranging from -0.21 (South Africa) to -0.09 (India), almost all above the IE aggregate of -0.14. Hence, for Hypotheses 3a/b and 4a/b, it appears that the finding of the aggregate regression is confirmed in almost every individual case, except India, an economy perhaps more emphasizing development through the use of highly skilled labor.

We find similar results for the institutional quality measures. The coefficient on control of corruption is higher in every EE source country than for IEs as a whole. However, the negative moderation from political stability is felt especially strongly by Russian MNEs. In fact, Chinese and Indian firms seem able to address the barriers from political instability in more or less the same way as their counterparts from industrialized economies (the coefficients are positive but not significant). However, firms from South Africa actually seem to seek politically unstable host countries, a counter-intuitive finding. Perhaps, South African MNEs in particular have developed ‘political capabilities’ (Holburn and Zelner, 2010) that provide them with comparative advantages in OECD countries with relatively less political stability.

Hence, the individual countries in our sample largely follow the pattern of the EEs as a whole. The only exceptions relate to specific coefficients in the analysis of Chinese and South African MNEs, as we will elaborate further in the discussion.

**DISCUSSION**

This study suggests two major implications for future IB research, the first theoretical and the second methodological. For theory, we find that the maturity argument, which is an extension of the internationalization process model (Johanson and Vahlne, 1977, 2009; Melin, 1992) to the national level, has strong explanatory power for how and why EE MNEs would be different from IE MNEs, and has more explanatory power than alternative theoretical arguments put forward in the literature. This suggests extending the internationalization process model to investigate EE MNEs not only at the firm level (Elango and Pattnaik, 2011; Meyer and Thajjongrak, 2013) but also to study populations...
of MNEs that share networks, experiences or other resources (Belderbos et al., 2011), such as MNEs from the same country of origin.

On the other hand, the patterns of location choice are moderated by a number of country-of-origin level features that cannot be generalized across EEs, as we have seen in our country by country analysis. At this level, we noted some support for the strategic asset seeking argument (Luo and Tung, 2007; Deng, 2009) in the case of China and for the institutional argument (Cuervo-Cazurra and Genc, 2008; Del Sol and Kogan, 2007) in the case of South Africa. The latter is the only significant support for an alternative argument in a country-specific sub-sample, which supports the argument that South African MNEs, being experienced in volatile home environments, are more at ease with investments in other countries of high volatility.

In the case of Chinese MNEs, two coefficients are signed opposite to the predictions of the maturity perspective, those on distance and economic growth, albeit insignificantly so. This suggests the possibility that Chinese MNEs are atypical of such firms from EEs more generally. They are not deterred by distance, nor encouraged by economic growth in the host economy, which could be due to the political support they receive, and the attraction of their home market – why seek markets abroad if the home market is big and fast growing? However, the remainder of the results support the maturity arguments, despite the theoretical plausibility of the strategic asset seeking argument in the Chinese case: they are deterred by the technological level and skills in host economies, and attracted to low corruption and politically stable hosts.

These exceptions from the general pattern suggest that some theorizing is in fact context-specific. This should not be entirely surprising given that the studies proposing those ideas are mostly single country studies, but it challenges the interpretation of the aforementioned studies as speaking about EE MNEs in general.

This leads us to our second major contribution, which is methodological. Empirical results from any one of our country-of-origin specific regressions cannot be generalized to other countries, unless tested for other countries as well because national contexts matter. This applies not only for EE MNEs but also for IE MNEs (which we have not discussed in detail). This raises a broader implication that is perhaps obvious for IB scholars but less so for general management scholars, namely that any empirical findings of strategic management research (or any other social science) is influenced by the context of the study, and hence should be treated as context-specific finding unless proven otherwise.
This has implications for the design of future studies. Our discussion suggests considering each country with its unique features – or use indices to differentiate home country characteristics, rather than assuming simple bimodal separation between EE and IE. Single country studies may explain anomalies that we identified for specific countries, say, why are Russian MNEs so concerned about Political Stability while South African MNEs are not, and Chinese investors apparently averse to host country Economic Growth. Such studies will require deep contextualization to interpret the results, which would enable deeper theorizing and the establishment of contextual boundaries for new theoretical ideas (Meyer, 2006).

**Limitations**

The importance of context naturally applies also to the host countries, which suggests a substantive empirical limitation of our dataset, namely that we only cover OECD countries as host countries, due to data availability. However, ‘emerging to emerging’ FDI also entails interesting questions, for example Chinese investment in Africa (Ramasamy et al., 2012). Unfortunately, the data we are using, derived from the Bureau van Dyck database, are not available beyond OECD countries; when such data become available future research may investigate the locational determinants of such 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, reporting requirements vary across countries, for example for minimum size requirements for non-listed firms. This particular bias can affect cross-country comparisons, but we believe that it is not systematically related to our explanatory variables and would thus not affect our results.

Another limitation arises from the selection of home economies. We need a fairly large number of subsidiaries of MNE from a particular country for a conditional logit to converge, i.e. to generate meaningful results. Unfortunately, the number of observations for other countries, notably Brazil, was too small to include them in our study. However, our results suggest that country of origin effects may matter, and hence the comparison of MNEs from a wider variety of EE origins can be expected to yield further theoretical insights.

**CONCLUSION**

Do we need a new theory to explain the emergence of EE MNEs? We have argued theoretically and supported empirically that we do not need a new theory for EE MNEs as such because the structural difference between IE MNEs and EE MNEs is essentially a
matter of maturity. Hence, theories focused on less mature MNEs, notably the internationalization process model (Johansen and Vahlne, 2009; Melin, 1992), provides an adequate foundation for explaining the differences. On this basis, we argue that future research on MNEs from emerging economies ought to incorporate not only international experience (Clarke et al., 2012), but the maturity of the firm and its home environment.

Country-specific effects may exist for some countries of origin, but they do not allow generalizing across the group of EEs, which after all is a very diverse set of economies. Hence, some EE MNEs acquiring firms in advanced economies to seek strategic assets (for example from China), while some EE MNEs are developing capabilities that enable them to compete in highly corrupt or uncertain environments (for example from South Africa). These phenomena merit scholarly attention per se. But they are not characteristic for EE MNEs as a population, and great caution needs to be applied to interpreting and generalizing studies from single contexts.
REFERENCES


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Table 1: The shifting pattern of Global FDI

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<td>94.8%</td>
<td>95.2%</td>
<td>90.7%</td>
<td>89.0%</td>
<td>88.2%</td>
<td>82.3%</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.1%</td>
<td>1.2%</td>
<td>0.7%</td>
<td>0.6%</td>
<td>0.9%</td>
</tr>
<tr>
<td>China</td>
<td>…</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.5%</td>
<td>0.3%</td>
<td>0.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>India</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Russia</td>
<td>…</td>
<td>…</td>
<td>0.1%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>1.2%</td>
<td>1.6%</td>
</tr>
<tr>
<td>South Africa</td>
<td>1.1%</td>
<td>0.9%</td>
<td>0.5%</td>
<td>0.6%</td>
<td>0.4%</td>
<td>0.3%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Other Emerging</td>
<td>0.9%</td>
<td>2.2%</td>
<td>1.8%</td>
<td>2.8%</td>
<td>2.8%</td>
<td>3.5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Total Emerging</td>
<td>2.1%</td>
<td>3.4%</td>
<td>2.6%</td>
<td>4.7%</td>
<td>4.1%</td>
<td>5.8%</td>
<td>7.6%</td>
</tr>
<tr>
<td>NIE</td>
<td>1.9%</td>
<td>1.9%</td>
<td>2.2%</td>
<td>4.6%</td>
<td>6.7%</td>
<td>5.9%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>


*Note: NIEs (Hong Kong, Singapore, Korea, and Taiwan) are reported separately as they arguably have shifted status (from 'emerging' to 'developed') during the reporting time. Three dots indicate data not available but presumed to be close to nil.*
### Table 2: Summary of Hypotheses

<table>
<thead>
<tr>
<th>Variable</th>
<th>Direct effect</th>
<th>Maturity Perspective</th>
<th>Strategic asset-seeking perspective</th>
<th>Institutional perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Distance</strong></td>
<td>Negative</td>
<td>Stronger negative (H1a)*</td>
<td>Positive (H1b)</td>
<td>---</td>
</tr>
<tr>
<td><strong>Real GDP Growth</strong></td>
<td>Positive</td>
<td>Stronger positive (H2a)</td>
<td>Negative (H2b)*</td>
<td>---</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>Negative</td>
<td>Stronger negative (H3a)*</td>
<td>Positive (H3b)</td>
<td>---</td>
</tr>
<tr>
<td><strong>Skills</strong></td>
<td>Negative</td>
<td>Stronger negative (H4a)*</td>
<td>Positive (H4b)</td>
<td>---</td>
</tr>
<tr>
<td><strong>IP Protection</strong></td>
<td>Positive</td>
<td>Stronger positive (H5a)*</td>
<td>---</td>
<td>Negative (H5b)</td>
</tr>
<tr>
<td><strong>Political Stability</strong></td>
<td>Positive</td>
<td>Stronger positive (H6a)*</td>
<td>---</td>
<td>Negative (H6b)</td>
</tr>
</tbody>
</table>

Note: * = empirically supported hypotheses.

### Table 3: Descriptive Statistics for the Dataset

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>2.71</td>
<td>1.05</td>
<td>0.88</td>
<td>5.34</td>
</tr>
<tr>
<td>Technology</td>
<td>5.28</td>
<td>0.97</td>
<td>3.16</td>
<td>6.68</td>
</tr>
<tr>
<td>Skills</td>
<td>31.73</td>
<td>9.55</td>
<td>14.10</td>
<td>61.10</td>
</tr>
<tr>
<td>Control of Corruption</td>
<td>1.66</td>
<td>0.68</td>
<td>0.22</td>
<td>2.51</td>
</tr>
<tr>
<td>Political stability</td>
<td>0.90</td>
<td>0.43</td>
<td>-0.15</td>
<td>1.49</td>
</tr>
<tr>
<td>Population</td>
<td>14.17</td>
<td>1.62</td>
<td>10.35</td>
<td>17.22</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>46.04</td>
<td>15.69</td>
<td>21.65</td>
<td>82.09</td>
</tr>
<tr>
<td>Exports – primary sector</td>
<td>26.13</td>
<td>21.48</td>
<td>5.00</td>
<td>78.00</td>
</tr>
</tbody>
</table>
Table 4: Correlation Coefficients:

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distance (H1)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Growth (H2)</td>
<td>-0.0855</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology (H3)</td>
<td>0.131</td>
<td>0.426*</td>
<td>1</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Skills (H4)</td>
<td>0.224</td>
<td>0.167</td>
<td>0.168</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control of corruption (H5)</td>
<td>0.313</td>
<td>0.0297</td>
<td>-0.119</td>
<td>0.741***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political stability (H6)</td>
<td>-0.612**</td>
<td>0.412*</td>
<td>0.265</td>
<td>-0.495*</td>
<td>0.719***</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population</td>
<td>0.355</td>
<td>-0.078</td>
<td>0.121</td>
<td>0.585**</td>
<td>0.574**</td>
<td>-0.585**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.271</td>
<td>-0.083</td>
<td>0.136</td>
<td>0.259</td>
<td>0.209</td>
<td>-0.403</td>
<td>0.278</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: * p<0.05; **p<0.01; ***p<0.001
<table>
<thead>
<tr>
<th></th>
<th>ALL MNEs</th>
<th>EE MNEs</th>
<th>IC MNEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distance (H1)</td>
<td>-0.17*** (0.0)</td>
<td>-1.19*** (0.1)</td>
<td>-0.22*** (0.0)</td>
</tr>
<tr>
<td>Economic Growth (H2)</td>
<td>1.74*** (0.0)</td>
<td>1.43*** (0.2)</td>
<td>1.69*** (0.0)</td>
</tr>
<tr>
<td>Technology (H3)</td>
<td>-1.78*** (0.0)</td>
<td>-2.85*** (0.4)</td>
<td>-1.65*** (0.0)</td>
</tr>
<tr>
<td>Skills (H4)</td>
<td>-0.16*** (0.0)</td>
<td>-0.18*** (0.0)</td>
<td>-0.14*** (0.0)</td>
</tr>
<tr>
<td>Control of corruption (H5)</td>
<td>1.22*** (0.0)</td>
<td>3.71*** (0.2)</td>
<td>1.05*** (0.0)</td>
</tr>
<tr>
<td>Political stability (H6)</td>
<td>0.85*** (0.1)</td>
<td>1.82*** (0.5)</td>
<td>0.69*** (0.1)</td>
</tr>
<tr>
<td>Population</td>
<td>3.49*** (0.0)</td>
<td>4.92*** (0.3)</td>
<td>3.29*** (0.0)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.16*** (0.0)</td>
<td>0.19*** (0.0)</td>
<td>0.15*** (0.0)</td>
</tr>
<tr>
<td>Exports primary sector</td>
<td>-0.030*** (0.0)</td>
<td>-0.064*** (0.0)</td>
<td>-0.026*** (0.0)</td>
</tr>
<tr>
<td>Observations</td>
<td>490026</td>
<td>58224</td>
<td>431802</td>
</tr>
<tr>
<td>Pseudo R-squared</td>
<td>0.292</td>
<td>0.502</td>
<td>0.277</td>
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</table>

Notes: Marginal effects; Standard errors in parentheses, * p<0.05; **p<0.01; ***p<0.001
Table 6: Conditional Logit Regression Results: Interaction Effects

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>Std. Error</th>
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<tbody>
<tr>
<td>Distance</td>
<td>-0.22***</td>
<td>(0.0)</td>
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<tr>
<td>Real GDP growth</td>
<td>1.69***</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Technology</td>
<td>-1.65***</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Skills</td>
<td>-0.14***</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Control of Corruption</td>
<td>1.05***</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Political stability</td>
<td>0.69***</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Population</td>
<td>3.29***</td>
<td>(0.0)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.15***</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Exports primary sector</td>
<td>-0.026***</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Distance x EE (H1)</td>
<td>-0.97***</td>
<td>(0.1)</td>
</tr>
<tr>
<td>GDP growth x EE (H2)</td>
<td>-0.26</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Technology x EE (H3)</td>
<td>-1.20**</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Skills x EE (H4)</td>
<td>-0.034***</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Corruption x EE (H5)</td>
<td>2.66***</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Political Stability x EE (H6)</td>
<td>1.13**</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Population x EE</td>
<td>1.63***</td>
<td>(0.4)</td>
</tr>
<tr>
<td>GDP per capita x EE</td>
<td>0.031*</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Exports primary sector x EE</td>
<td>-0.038***</td>
<td>(0.0)</td>
</tr>
</tbody>
</table>

Observations: 490026
Pseudo R-squared: 0.303

Note: Marginal effects; Standard errors in parentheses; * p<0.05 ** p<0.01 *** p<0.001"
<table>
<thead>
<tr>
<th></th>
<th>Russia</th>
<th>India</th>
<th>China</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distance (H1)</td>
<td>-1.17</td>
<td>-1.37**</td>
<td>1.08</td>
<td>-2.21</td>
</tr>
<tr>
<td>Economic Growth (H2)</td>
<td>3.36***</td>
<td>0.39</td>
<td>-0.45</td>
<td>1.72**</td>
</tr>
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<td>Technology (H3)</td>
<td>-5.51***</td>
<td>-2.32***</td>
<td>-2.30***</td>
<td>-1.98***</td>
</tr>
<tr>
<td>Skills (H4)</td>
<td>-0.20***</td>
<td>-0.090***</td>
<td>-0.20***</td>
<td>-0.21***</td>
</tr>
<tr>
<td>Control of corruption (H5)</td>
<td>2.82***</td>
<td>3.00***</td>
<td>7.66***</td>
<td>4.71***</td>
</tr>
<tr>
<td>Political stability (H6)</td>
<td>8.16***</td>
<td>0.30</td>
<td>0.76</td>
<td>-1.74*</td>
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<td>Population</td>
<td>7.84***</td>
<td>3.36***</td>
<td>4.58***</td>
<td>4.60***</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.19***</td>
<td>0.12***</td>
<td>0.16*</td>
<td>0.27***</td>
</tr>
<tr>
<td>Exports primary sector</td>
<td>-0.13***</td>
<td>-0.050***</td>
<td>-0.050***</td>
<td>-0.038***</td>
</tr>
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<td>Observations</td>
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<td>11976</td>
<td>18480</td>
<td>9336</td>
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<tr>
<td>Pseudo R-squared</td>
<td>0.751</td>
<td>0.338</td>
<td>0.601</td>
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