

Home-Country Institutional Support on EMNEs' Location Choice and Moderating Role of HHL: A Conceptual Framework

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Abstract

Purpose: The paper attempts to fill the gaps in international business research, by studying the complex influences of home country on EMNEs' outward foreign direct investment (OFDI), and strategies related to location choice (LC) with a unifying model, underpinned by institutional arbitrage theory.

Design/methodology/approach: We used a meta-analysis approach, by collecting, classifying and analyzing 20 years significant conceptual studies on emerging markets multinationals (EMNEs) location choice from 10 journals, hoping to find a clear model between state action and internationalization behavior.

Findings: From different policies that the state has to influence the internationalization process, we focus on trade-and-financial and non-trade-and-financial policies encouraging the internationalization motivation of state-owned enterprises (SOEs) and non-SOEs.

Research implications: The paper contributes to the international business field by enhancing the understanding of home country institutional environment on EMNEs in their location behavior.

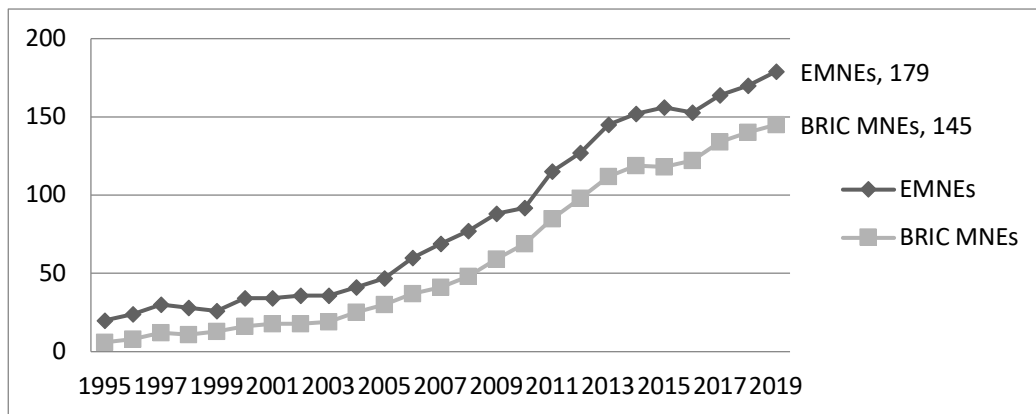
Originality/value: None of the studies have paid attention to the relationship of home support and the location choice strategy of MNEs, this paper fills this gap. For the first time, we proposed home-host legitimacy (HHL), and explore its moderate influence on EMNEs location choice.

Keywords: Emerging Markets Multinationals, Location choice, Institutional support, Home-Host Legitimacy

1. Introduction

The rapid and continuous growth of outward foreign direct investment (OFDI) from emerging economies has been witnessed by the world in the past 20 years (Bhasin and Paul, 2016). In this increasingly changing context, although developed countries multinationals (DMNEs) still account

for the vast majority of the world's OFDI stock, their share has declined significantly, while emerging market multinationals (EMNEs) have increased (Demirbag, Tatoglu and Glaister, 2010; Avioutsikii and Tensaout, 2020). According to 1995-2019 Fortune Global ranking, MNEs from emerging economies and from BRICS countries (Brazil, Russia, India, China, South Africa) are arising, there are 179 EMNEs, and 145 MNEs comes from BRICS countries, as shown in figure 1-1.



Source: *Fortune* official website: <https://fortune.com/fortune500/>

Figure1-1 1995-2019 Emerging market MNEs in Fortune Global 500

Emerging market multinational enterprises (EMNEs) are increasingly seeking for localization and strategically integrating resources in their host countries (Hitt, Ireland, Hoskisson, 2016). The location behavior of multinational enterprises is one of the most vital managerial decisions an organization should consider when engaging in OFDI (Buckley and Casson, 2016; Li, Quan, Stoian and Azar, 2018), the recognition of suitable markets becomes critical for EMNEs (Paul and Mas, 2019). Meanwhile, location decision is a complex decision with the assessments of multiple and diverse elements (Li, Quan, Stoian et al, 2018). There are some inconsistencies in the current literature on location choice (LC), the intensive understanding of the determinants affecting LC is still not mature (Nielsen, Asmussen, & Weatherall, 2017).

At present, many theories and models about MNEs pay little attention to the influence of MNEs' home country (Cuervo-Cazurra, Luo, Ramamurti, Ang, 2018). Home country factors are the least studied factors among all of the factors in recent 40 years of LC studies (Li, Quan, Stoian et al, 2018). In the international expansion of enterprises in emerging economies, the domestic market environment and institutions become especially important (Cuervo-Cazurra et al., 2018). Moreover, economic factors can only partially explain the LC of MNEs, the fact that institutional background of the host country environment also affects LC of MNEs is underestimated (Flores, Aguilera, 2007). This indicates the urge for more in-depth studies on home country institutional effect.

2. Literature Review

This study is divided into the following steps, first, the scope of the study was defined; the database comes from the subject areas of international business and strategic management, in the Academic Journal Quality Guide of the Association of British Business Schools (AJG, 2021), the AJG list is one of the most widely used journal quality lists available (Harvey, et al, 2010). Then, we select journals with grades 3 and 4, this step resulted in 10 journals. After the selection

of target journals, we discussed the keywords: EMNES, location selection, institution, home country, and the time span: 20 years. Then search related papers on Web of Science manually, to identify papers with these keywords in the title. Table 2-1 shows the number of articles containing specific keywords. These papers and the yield papers found in the references developed the details of this study.

Table 2-1 Summary of journals and the number of articles with certain keywords

Journals	Abbr.	Grade
Asia Pacific Journal of Management	APJR	3
Global Strategy Journal	GSJ	4
International Business Review	IBR	3
Journal of International Business Studies	JIBS	4
Journal of International Management	JIM	3
Journal of World Business	JWB	4
Long Range Planning	JRP	3
Management International Review	MIR	3
Strategic Management Journal	SMJ	4*
Strategic Organization	SO	3
Keywords	Number of articles	Time period
EMNEs	86	1991-2021
Location choice	13	1998-2013
Institutional	29	1999-2020
Home country	29	2007-2021

2.1 Home country institutional support

In recent years, scholars worldwide have analyzed how different home country institutional support influence the mode of international expansion (Chan, Panttnaik, 2013; Musachio, Lazzarini, 2014; Lu, Liu, Wright, Filatotchev, 2014; Finchelstein, 2017; Han, Liu, Xia, Gao, 2018; Nuruzzaman, Singh, Guar, 2020), shown in table 2-2. They contribute to deeper understanding of how state actions shape the decision of international firms. However, they mainly focused on the mode of expansion, like the degree of internationalization (Nuruzzaman et al, 2020), the sectorial diversification and the pace of internationalization (Finchelstein, 2017), or the overseas subsidiary performance (Han, Liu et al, 2018), none of them paid attention to the relationship of home support and the location choice strategy of MNEs. We fill this gap by summarizing all the categories of supports, and suggested a complete model of institutional support and location choice strategy, clarified the mechanism of visible support and invisible support, and their impact to SOEs and non-SOEs.

Table 2-2 Selected studies on home institutional support and EMNEs expansion

No.	Authors	Year	Source	Factors
1	Han, Liu, Xia, Gao	2013	JBR	interstate relations and subsidiary performance
2	Lu, Liu, Wright, Filatotchev	2014	JIBS	home country government support
3	Finchelstein	2017	JWWB	the role of state
4	Nuruzzaman, Singh, Guar	2020	GSJ	institutional supports
5	Chan, Pattnaik	2021	IBR	home country support

The mechanism for enterprises in emerging economies to use institutional support for international expansion varies with different types of support. According to previous studies, institutional support for international expansion involves two dimensions: policy content and

policy visibility (Finchelstein, 2017; Han, Liu et al, 2018; Nuruzzaman et al, 2020). Table 2-3 shows four categories of institutional support.

Table 2-3 Four categories of institutional support

Categories of institutional support	Trade and financial institution	Non trade and financial institution
Visible actions	<ul style="list-style-type: none"> · Financial aid and state funds · Export subsidy 	<ul style="list-style-type: none"> · Government bidding · Exhibitions
Invisible actions	<ul style="list-style-type: none"> · Simplifying export and overseas listing process · Multilateral trade agreements · Liberalization of financial markets 	<ul style="list-style-type: none"> · Improve factor markets · Improve transport and logistics infrastructure · Protection of firms' overseas rights

Source: Finchelstein, 2017; Han, Liu et al, 2018; Nuruzzaman et al, 2020

Table 2-3 is based on two dimensions: the visibility of the institution, trade and financial or non trade and financial areas. The term ‘invisible hand’ was coined by Adam Smith and is thought to refer to the price mechanism or market mechanism that is undisturbed by external forces. The term ‘visible hand’ was first coined by J. S. Berliner in 1957 and popularized by E. Neuberger in 1966 as part of a thesis title. ‘Visible hand’ has the symmetrical meaning of ‘invisible hand’ and refers to government intervention, macro-management or planning management. Visible intervention in trade or finance are sponsored by the government, targeting on specific recipients, usually state owned firms or large firms, the ‘national champion’ (Nurruaman et al, 2020), giving them additional resources directly. In this case, the state often allocates resources ignoring or distorting market mechanisms. On the other hand, invisible interventions are ‘invisible hand’ market mechanisms and it has universal benefits for all domestic enterprises.

Visible support in trade and finance implicate the government initiatively choose a particular company or group of companies, and give these enterprises financial support to help them gain advantage in international competition. Visible support in the area of trade and finance includes financial assistance and national funds, export subsidies. Emerging market firms are considered to be lack of ownership advantages in their internationalization process, their status as outsiders makes it difficult for them to raise money abroad, and financial support of home government provides a reliable assistance in overcoming financial crisis in overseas adventure. For example, the state-owned bank Export-Import Bank of China, it’s international credit ratings are consistent with national sovereign ratings, providing export credit, import credit, foreign contracted project loan, overseas investment loan to state-owned firms.

Invisible intervention in trade and finance includes multilateral trade agreements, simplifying of trade and overseas process, liberalization of home-country financial markets. Multilateral trade agreements cut down tariff and non-tariff barriers among member countries and have a universal beneficial effect on the enterprises of member countries. The streamlining of export and overseas listing procedures by the government will help reduce procedural barriers to cross-border transactions, help domestic enterprises raise funds effectively in overseas capital markets, and make up for the deficiencies of capital markets in developing countries. At the same time, the governments of developing countries have actively improved their stock exchanges, in particular

setting up SMEs boards to help all types of enterprises obtain original capital for outbound investment.

The third category is visible non trade and financial intervention, which is common in state-owned enterprises. For example, governments participate in bidding and countries hold international exhibitions. It is common in emerging economies for governments to win overseas contracts for state-owned enterprises or give them priority in overseas projects. The operation and image of government branches in the host country will help enterprises better adapt to the overseas market, and be accepted by the host government and business partners, and improve the success probability of overseas operation. For example, Chinese government proposed China-Africa regional aviation cooperation plan in 2014, China encourages Chinese enterprises, mainly state owned firms, to set up aviation joint ventures with African counterparts (China daily, 2015).

The last category is institutional support with the form of invisible intervention in the non trade and finance area, including protection of firm's overseas rights, improving labor market and logistics infrastructure. Such intervention optimizes the factor market and reduces the cost of international trade and transportation. For example, since 2011, the Chinese government has built 65 Sino-European railways, from which China can directly reach 44 cities in 15 European countries. It reduces the cost of employment of enterprises, reduces the risk of overseas operation, benefits all enterprises, and improves the stability of overseas operation of Chinese enterprises and the price competitiveness of export companies' products in the global market.

2.2 Institutional escapism and institutional exploitation

Institutional arbitrage logic focuses on the idea that emerging market countries can use their skills to adapt to institutional pressures that are difficult for advanced countries firms companies to adapt to, or simply benefit from a better overseas institutional environment (Luo, Tung, 2018). Existing studies suggest that there are mainly two twin strategies of institutional arbitrage simultaneously: institutional escapism (Landau, et al, 2016; Yan, et al, 2018; Nuruzzaman, Singh, Guar, 2020) and institutional exploitation (Gaur, Ma, Ding, 2018; Nuruzzaman et al, 2020), both factors effect firms' internationalize, but with different inner mechanisms (Luo, Tung, 2018). Table 2-4 concludes the key factors and source of studies on institutional arbitrage logic.

Table 2-4 Selected studies on institutional institutional arbitrage logic

No.	Authors	Year	Source	Factors
1	Witt, Lewin	2007	JIBS	Home institutional constrains and firm escape
2	Yamakawa, Peng, Deeds	2008	ETP	Institutional-based view
3	Geleilate, Magnusson , Parente, Alvarado-Vargas	2016	JIM	Home country institutional effects on the multinationality-performance
4	Landau, Karna, Richter and Uhlenbruck	2016	GSJ	Institutional leverage capability
5	Li, Ding	2017	MBR	Dual effects of home institutions
6	Luo, Tung	2018	JIBS	Institutional arbitrage logic
7	Yan, Zhu, Fan and Kalfadellis	2018	JWB	Institutional work view
8	Gaur, Ma, Ding	2018	JIBS	Home country supportiveness, unfavorableness
9	Nuruzzaman, Singh, Guar	2020	GSJ	Institutional support

The institutional arbitrage framework shows that domestic institutions are the source of competitive advantage for enterprises in emerging economies (Landau, et al, 2016; Yan, et al, 2018). EMNEs went global to escape from poor institutional environments at home, to start business in a more protective environment (Witt, Lewin, 2007; Yamakawa, Peng, Deeds, 2008). Figure 2-1 shows the logic of escapism view in institutional arbitrage logic. When home institutional environment is immature, The institutional dilemmas of developing countries such as bribery, poor governance and immature of factor markets, have accelerated ambitious EMNEs escape to advance economies, they benefit from a better system of governance that existed in advanced economies, encourages them catch up with their counterparts in developed countries.

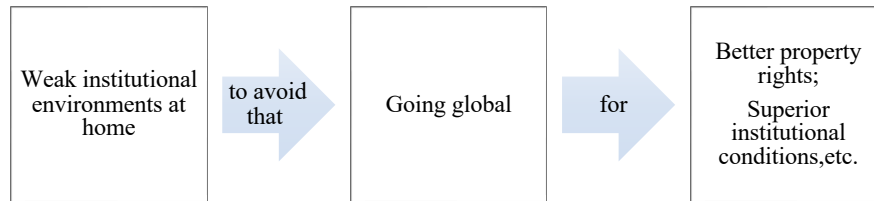


Figure 2-1 Escapism view in Institutional arbitrage logic

The exploitation view regards international expansion as a confident reaction to domestic institutional risks (Cui, Xu, 2019; Gaur, et al, 2018), EMNEs comes from weak institutions environment relatively are good at competition because they are used to such difficulties and uncertainties, they survive in such conditions well (Cuervo-Cazurra et al, 2018). Figure 2-2 shows the exploitation view in institutional arbitrage logic.

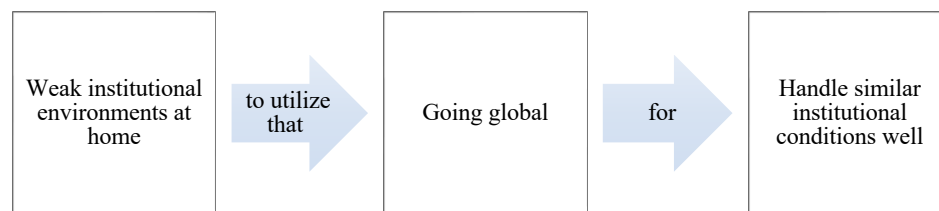


Figure 2-2 Exploitation view in Institutional arbitrage logic

2.3 Home-host legitimacy

Firms are rooted in the home and host country institutional context, appropriate action and conformity to institutional constraint helps them to gain legitimacy (Baum, Oliver, 1992; Hung, 2005; Lu, Liu, Wright, & Filatotchev, 2014). To understand the international success of a multinational corporation, it is necessary to consider both the support of the home government and the relations between countries (Child & Marinova, 2014). Related studies are concluded in Table 2-5.

Table 2-5 Selected studies on home-host legitimacy and EMNEs expansion

No.	Authors	Year	Source	Factors
1	Hung	2005	JBR	institutional embeddedness
2	Yiu , Lau, Bruton	2007	JIBS	home country networks and emnes ventures
3	Han, Liu, Xia, Gao	2013	JBR	interstate relations and subsidiary performance
4	Abosag, Yen, Barnes	2016	IBR	<i>guanxi</i> and performance
5	Fernández-Méndez, García-Canal ,Guillén	2018	JWB	domestic political connections and international expansion
6	Child, Marinova	2018	MOR	contextual combinations

The high degree of legitimacy enjoyed by EMNE's home country and the host government may have a positive spillover effect because of the common rules. On the contrary, the lack of legitimacy of EMNE's home country will lead to the company being regarded as a threat to national security and the competitiveness of existing enterprises in the host country (Han et al, 2021). We name this phenomenon home-host legitimacy, will home-host legitimacy strengthen or weaken the influence of institutional support on EMNEs is well worth studying.

The above research is helpful to understand the home country environment and international strategy. It is necessary to have a more comprehensive understanding of its fundamental mechanism. In the following chapters, we develop a relationship framework between family institutional support and LC of EMNEs. These EMNEs have different ownership structures and the regulatory role of family host legitimacy, as shown in Figure 2-3.

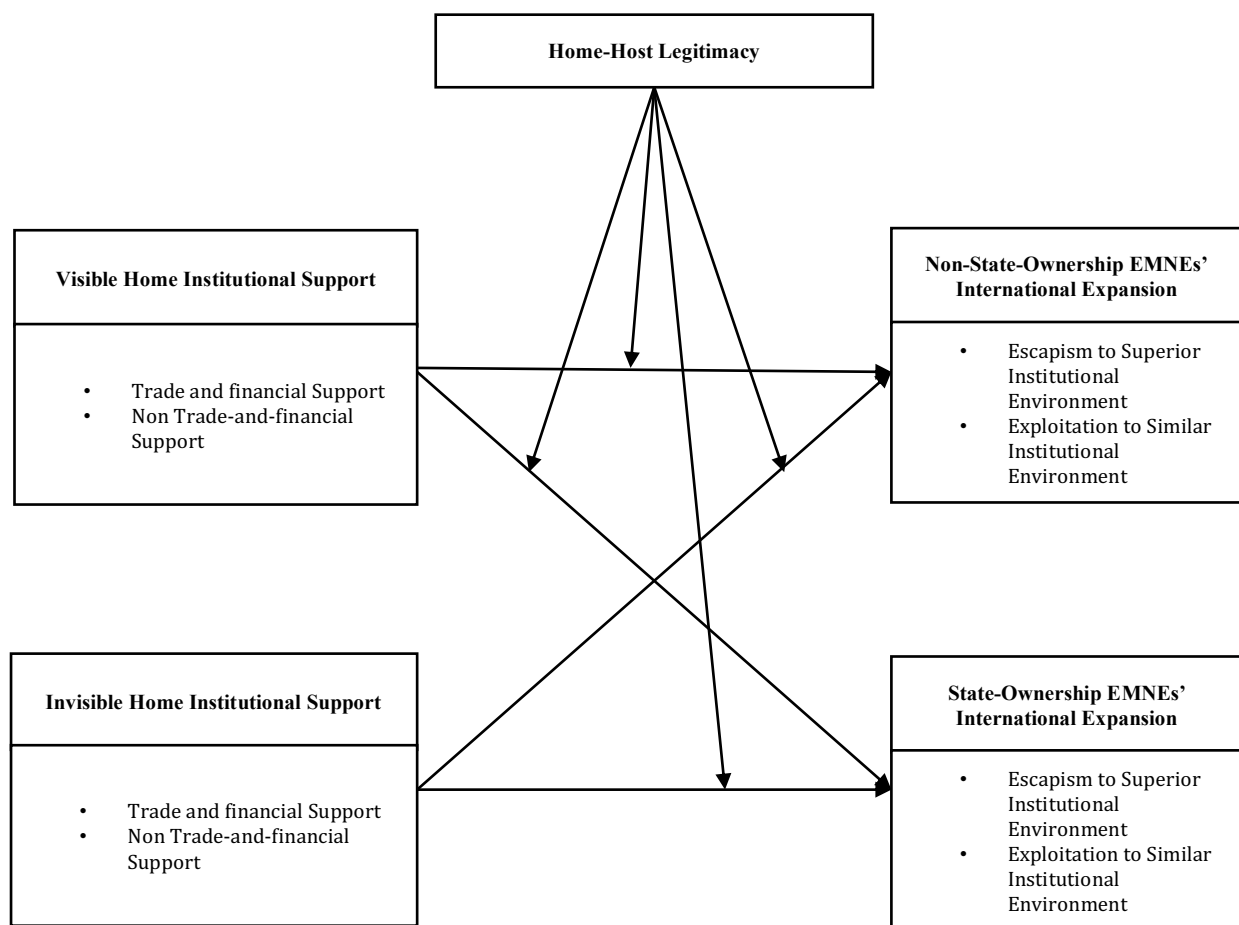


Figure 2-3 Home institutional support and LC of EMNEs: conceptual framework

3. Hypothesis Development

3.1 Visible trade and financial support and EMNEs' OFDI LC

In emerging economies, factor market mechanism is not perfect, commercial bank loans are limited, national resources is particularly important. However, national resources and subsidies are usually given priority to state-owned enterprises, and private enterprises often face more stringent reviews when applying for loans or support. This problem can usually be explained by the size of the enterprise, for example, in the list of Fortune 500 China, there are only 3 non-

state-owned enterprises out of the top 20. We have reason to believe that close to institutional support will make state-owned enterprises willing to move towards a similar institutional environment, while private enterprises tend to get rid of the unfair domestic environment and explore a better institutional environment.

***P1:** Visible home trade and financial support have a positive effect to the escapism of NSOEs (non state-owned enterprises) to superior institutional environment, and the exploitation of SOEs (state-owned enterprises) to similar institutional environment.*

3.2 Visible non-trade-and-financial support and EMNEs' OFDI LC

The visible intervention in the non-trade-and-financial fields, such as the government's help in negotiations and bidding, the government's holding of exhibitions, and the use of the government's credibility and the country's financial rating to replace the credit of enterprises, can help enterprises in emerging economies to be more competitive in business activities. However, due to the above analysis, it is usually applicable to state-owned enterprises. In addition, corruption and bribery in emerging market countries are generally regarded as institutional defects, but to some extent, they have become a competitive advantage of enterprises, because enterprises can obtain institutional experience from weak domestic institutions, prompting them to expand to other countries with similar institutional conditions (Cuervo-Cazurra et al, 2018), reducing trial and error costs and shortening the time needed to adapt to the operating environment of the host country. Therefore, we can infer that:

***P2:** Visible home non-trade-and-financial support have a positive effect to the escapism of NSOEs (non state-owned enterprises) to superior institutional environment, and the exploitation of SOEs (state-owned enterprises) to similar institutional environment.*

3.3 Invisible trade and financial support and EMNEs' OFDI LC

In some emerging economies, especially China, firms get access to critical resources and information from government rather than market rules (Han, 2021). Invisible interventions in trade and finance reduce export costs, multilateral trade agreements reduce tariff and non-tariff barriers to WTO levels. The perfection of capital market endows enterprises with the ability of financing. These measures will effectively promote enterprises' export and outbound investment. Moreover, these measures are in line with the market mechanism and apply equally to every market player, regardless of ownership. Therefore, we suggest that:

***P3:** Invisible home trade and financial support has a positive effect to the escapism and exploitation of enterprises of all ownership structures.*

3.4 Invisible non-trade-and-financial support and EMNEs' OFDI LC

The invisible intervention of factor markets or other trade support institutions can indirectly improve the efficiency of export companies and provide more growth opportunities, because they can obtain cheaper sources of funds and promote cross-border transactions. In addition, the development of financial institutions also helps to mitigate some risks related to cross-border transactions, such as foreign exchange risk. Similarly, the development of other trade support institutions such as transportation infrastructure can promote import and export activities by reducing logistics costs (Nuruzzaman, 2020).

P4: Invisible home non-trade-and-financial support has a positive effect to the escapism and exploitation of enterprises in all ownership structures.

3.5 Home-host legitimacy and its moderating effect

Home-country government enjoys high degree of legitimacy with the host-country government promotes trust and cooperation (Keohane 2005). When the home government gains a greater degree of legitimacy from the host government, all the policies of the home country to promote the overseas competitiveness of enterprises are acceptable and can bring benefits to the decision makers of the host country. Home diplomatic offices of emerging market countries have the opportunity to consult and gather information with host governments on behalf of their companies to help address the localization of their companies. The spillover effects of high legitimacy make host country consumers and partners more willing to accept foreign brands. On the contrary, when the home country of an emerging market country lacks legitimacy in the host government, the image of the home country's diplomatic institutions will be reduced in the host government, and there will be spillover effect, so that all the policies of the home country to promote the overseas competitiveness of enterprises will be considered as a threat and be resisted. Therefore, when the government of the home country and host country is not legal, the OFDI of enterprises from emerging market countries will be affected or even be confiscated.

P5: When home-host legitimacy is positive, the stronger the home institutional support, the easier will be the escapism and exploitation of enterprises in all ownership structures.

When home-host legitimacy is negative, the stronger the home institutional support, the harder will be the escapism and exploitation of enterprises in all ownership structures.

4. Methodology

As the engine of world economy, and the biggest developing country in the world, and a member of WTO, IMF, APEC, etc, Chinese MNEs are good representative of EMNEs, the primary data collected from China is a good choice to test the hypotheses. The questions will be developed from literature review and suggestions from collaborative firm's feedback.

The difficulty of this study is the measurement of HHL, researches show that high legitimacy of a home country leads to the high success rate of M&A, low legitimacy leads to low success rate of M&A (Li et al., 2017). The acquisition of U.S. companies by Chinese state-owned enterprises (SOEs) may be for non-commercial purposes, making the host country doubt the economic value of the acquisition (Globalman and Shapiro, 2009). Chinese multinationals often have the shadow of their host government, this has aroused national security concerns in some countries because they suspect that Chinese multinationals have a political agenda (Globalman and Shapiro 2009). In recent years, in addition to traditional trade barriers, many countries, especially developed economies, have taken a more cautious stance on foreign investment. In this context, the resistance of global capital and innovation factors to flow between developing countries and some developed countries such as the US and Europe has increased significantly. We are planning to use the rate of M&A being investigated and blocked to measure HHL in the following research.

5. Discussions and Conclusion

Through literature analysis, this paper argues that research on MNE and emerging market institutions has begun to show that home countries play an important role in the internationalization process. The home country factor is underrated compared to other corporate

characteristics. In this increasingly complex, fast-paced and interconnected world, emerging market MNEs struggling from a relatively disadvantaged starting point (Kedia, 2010). The disadvantages of emerging markets lead to the different OFDI location selection strategies of emerging market MNCS compared with traditional MNCS in the process of internationalization. At the same time, the disadvantages of home countries can also be transformed into advantages to some extent. Existing literature has studied the economic and institutional factors of host countries, but little attention has been paid to the significant role of home country institutional support for emerging market countries in overcoming 'outsider disadvantage' in an increasing number of host countries. This paper attempts to explore this issue.

Practical and Social Implications: This paper contributes to the international business field by enhancing the understanding of home country institutional environment on EMNEs in their location behavior, and contribute to the understanding of how home government support remedies for emerging market countries' competitive disadvantages, enabling them to compete better with rivals on many fronts.

Theoretical Implications: In this study, we concluded four categories of home institutional support mechanism in the escapism and exploitation of EMNEs' overseas location choice. Our research highlights that the effect of institutional support differs when it is provided in firms with different ownership structures. Additionally, we proposed the notion of home-host legitimacy for the first time, whether the home-host legitimacy will moderate the relationship of home support and EMNEs' LC can be studied in the future research.

Limitations and Suggestions for Future Research: The hypothesized effect of variables and location choice of EMNEs need to be tested in future research based on survey data drawn from official sources and questionnaires. Moreover, the classification of overseas destinations into superior countries and similar countries could be optimized in future research. For example, what kind of institutional environment is superior environment? What kind of institutional environment is similar environment? The criteria needs to be explored in further research.

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