Assets of Foreignness: A Theoretical Integration and Agenda for Future Research

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Abstract:

International business scholars are increasingly focusing on the unique advantages of being foreign, or assets of foreignness (AOFs). Although scholars have identified a broad range of AOFs, it is unclear why they exist. In this paper, we bring together extant yet disparate literature and integrate insights from the institution-based view, resource-based theory, and transaction cost economics to advance theory of the underlying sources and workings of AOFs. In doing so, we elucidate the conceptual underpinnings of AOFs as well as their relation to multinational enterprise (MNE) success, complementing scholarship regarding the liability of foreignness. Critically, we also distinguish AOFs from related concepts, such as ownership advantages, explaining how and why they differ conceptually. We put forth several testable propositions that stem from our synthesis of theory in this research stream, bolstering the conceptual foundations of the drivers, dynamics, and longevity of AOFs. Finally, we draw attention to under-researched aspects of AOFs, thereby propelling a theory-based agenda for future research on AOFs and, consequently, MNE success.

Keywords: assets of foreignness | home country | host country | institutional asymmetry | multinational enterprise | firm resources

Article:

1. Introduction

Much has been said about the disadvantages of foreignness since Zaheer (1995) introduced the concept of liability of foreignness to explain the unique pressures and costs that subsidiaries of multinational enterprises (MNEs) face when operating in a host country (for a review, see Denk et al., 2012). However, scholars have also pointed to the unique *advantages* that may accrue to MNE subsidiaries particularly due to their being *foreign*, which are often referred to as assets of foreignness (AOFs; Sethi and Judge, 2009). Indeed, a broad range of AOFs have been identified, including intangible assets (e.g., Delios and Beamish, 2001), tangible incentives from host-country governments (e.g., Sethi et al., 2002), and freedom from certain local norms (e.g., Gu and Lu, 2014, Regnér and Edman, 2013). Yet, despite this burgeoning stream of research, it is still unclear why AOFs exist, partially because this construct may lack strong theoretical foundations (Shi and Hoskisson, 2012).

In this article, we bring together extant yet disparate literature on AOFs in order to identify their types, underlying sources, and workings. We first take stock of known AOFs rooted in three distinct theoretical lenses, namely, the institution-based view (Peng et al., 2008), resource-based theory (Barney, 1991), and transaction cost economics (Williamson, 1975). Then, we integrate these perspectives to explicate how home-country institutions, host-country institutions, and foreign firms interact to shape AOFs. This synthesis reveals that AOFs arise either directly from economic and/or sociological institutional conditions in the host country, or due to institutional asymmetries between home and host countries, in that different institutional systems favor the development of different resources and capabilities, sometimes providing MNE subsidiaries with unique advantages within certain host countries.

Further, we also explicate how AOFs that stem from these institutional asymmetries are more likely to extend over longer periods of time when MNE subsidiaries leverage such asymmetries in unique, firm-specific ways. However, we highlight that AOFs are often not immediately realized, and are susceptible to negation by competitors over time, though acquired subsidiaries are more likely to realize potential AOFs faster than greenfield units. Finally, we illustrate the concepts and workings of AOFs with a short vignette of India-based Tata Global Beverages and its foreign operations in the United Kingdom (U.K.).

Because AOFs contribute to MNEs' competitive advantage vis-à-vis host-country competitors (Sethi and Judge, 2009), a thorough and structured framework of why AOFs exist and how they create value contributes to a better understanding of why MNEs succeed or fail – an important "big question" in international business (Peng, 2004). That is, in order to fully grasp the advantages MNEs may possess and their performance consequences, one must take into account all benefits and costs of foreignness (Nachum, 2010, Sethi and Judge, 2009). There is much research regarding disadvantages of foreignness, but relatively little is known about the workings of AOFs. Hence, we contribute a critical piece to the larger puzzle of MNE success, complementing a robust stream of research regarding disadvantages of foreignness. Finally, we add to the literature by drawing attention to under-researched sources and dynamics of AOFs, thus propelling a theory-based agenda for future research on AOFs and MNE competitive advantage.

2. Literature review and theoretical framework

2.1. Advantages and disadvantages of foreignness

Since Hymer's (1960) introduction of the costs of doing business abroad, international business scholars have discussed the difficulties that MNEs face when operating in foreign countries. Zaheer (1995: 342) defined the liability of foreignness as "all additional costs a firm operating in a market overseas incurs that a local firm would not incur." These include costs related to distance, time, and unfamiliarity with the local environment. Others have also found evidence of the liability of foreignness and its dynamics over time (e.g., Mezias, 2002, Zaheer and Mosakowski, 1997). Moreover, MNEs can have difficulties achieving legitimacy when operating in foreign countries (Kostova and Zaheer, 1999). For instance, Moeller et al. (2013) asserted that an MNE's home country can be a source of liability of foreignness because

host-country stakeholder groups (such as vendors and customers) may have varying levels of acceptance of foreign subsidiaries, depending on their country of origin.

In addition to the costs of doing business abroad, international business scholars have also recognized advantages that MNE subsidiaries may have over local firms, such as ownership advantages (Dunning, 1980, Dunning, 1998) like patents and trademarks (Delios and Beamish, 2001), and bargaining power in negotiations with the host country government (Fagre and Wells, 1982). Sethi and Judge (2009) proposed that foreignness in and of itself can sometimes be a source of advantage because it can entail the possession of unique resources, capabilities, or opportunities that are unavailable to host-country rivals. Thus, they defined an AOF as any advantage or benefit incurred by an MNE subsidiary that domestic firms would not be able to easily access or duplicate, occurring exclusively within the host-country context.

Assets of multinationality (AOMs), on the other hand, are “benefits available to a foreign subsidiary, but outside the host-country's context through the leveraging of the parent MNE's global network” (Sethi and Judge, 2009: 410). Essentially, AOMs arise because of the MNE's international network and occur in the global environment, including economies of scale, the ability to hedge currency risks, and access to knowledge from diverse countries (Doukas, 1995). As another example, foreign subsidiaries may be more successful than domestic firms at turning research and development investments into innovations in some cases because they are under pressure to compete with other units in the parent MNE (Un, 2011). Critically, such advantages arise *outside* of the host-country context. To facilitate a nuanced theory, we focus here only on AOFs and not AOMs. Unlike AOFs, the antecedents, benefits, and costs of multinationality have been discussed at length elsewhere (e.g., Denis et al., 2002, Doukas and Kan, 2006, Hejazi and Santor, 2010, Kirca et al., 2011).

Furthermore, AOFs are distinct from ownership advantages, which entail the possession of assets that are specific to the firm and potentially valuable in many different settings, including the MNE's country of origin (Dunning, 1980). AOFs, on the other hand, may not require the possession of any assets whatsoever (aside from the firm's status as foreign), occur in specific host-country contexts and, as we will discuss below, may vary in their firm-specificity. For example, subsidies from a host government may be available to a broad cross-section of foreign-owned firms, whereas other AOFs may only be available to smaller subsets of MNEs, such as those from the same home country. Additionally, as we will discuss, some AOFs may convey a competitive advantage, and some may convey a *comparative* advantage.

AOFs are also distinguishable from ownership advantages by the traceable and proximal linkage of the advantage to the *foreignness* of a firm, whereas ownership advantages may have little to do with foreignness *per se*. However, as we will show, ownership advantages that are strongly rooted in the foreignness of the MNE within a host-country context could be considered AOFs. Put differently, these two concepts only partially overlap and hence are conceptually distinct. Finally, ownership advantages are primarily grounded in economics, helping to explain why internationalization makes economic sense for firms by indicating whether firm resources are “sufficient to outweigh the costs of servicing an unfamiliar or distant environment” (Dunning, 1980: 9). As we will demonstrate, theory of AOFs embraces insights from not only economic-based theories, but also institutional theory.

Table 1. Comparisons among theoretical concepts related to benefits of foreign operations.

Concept	Definition	Theoretical foundations	Source of advantage	Degree of firm-specificity	Differences vis-à-vis assets of foreignness
Asset of foreignness	Advantage or benefit incurred by an MNE subsidiary in the host-country context due to its foreignness, that domestic firms would not be able to easily access or duplicate (Sethi and Judge, 2009).	Institution-based view (Peng et al., 2008), resource-based theory (Barney, 1991), and transaction cost economics (Williamson, 1975).	Leveraging of institutional asymmetries between home and host country OR leveraging of host-country attributes	Medium to high. Only available to other foreign-owned firms, sometimes only those from the same country or countries with similar institutions as focal firm's. Leveraging asymmetries could lead to high firm-specificity.	
Asset of multinationality	Advantage or benefit incurred by an MNE subsidiary due to global operations, occurring outside the host-country context, through the leveraging of the larger, global MNE network (Sethi and Judge, 2009).	Resource-based and MNE network theory (e.g., Bartlett and Ghoshal, 1989)	Network of subsidiaries around the world, allowing for economies of scale, transfer pricing, hedging, and knowledge flow among network members.	Low to medium. Available to MNEs comparable in size and scope, but not domestic firms.	Stems from global operations rather than foreignness. Occurs in the larger MNE network, outside of the host-country context, and is available to other subsidiaries as well as the parent MNE.
Ownership advantage	A capability or resource unique to the firm occurring across different contexts (Dunning, 1980).	Eclectic paradigm (Dunning, 1980) and resource-based theory (Peng, 2001).	Firm-specific resources and/or capabilities.	High.	Determined by possession of firm-specific resources with relatively little role of foreignness or leveraging of institutional asymmetry between home and host country.
Country-of-origin effect	Consumers' use of a product or service's national origin as a cue for its quality (Verlegh and Steenkamp, 1999).	Consumer psychology (Verlegh and Steenkamp, 2005).	Positive perceptions of certain types of goods originating from certain countries.	Medium. Available to firms from the same country as focal firm operating in the same industry.	A unique type of AOF based on particular consumer associations of a country's institutions with certain products. Other AOFs could be rooted in firm resources and capabilities that have little to do with the individual consumer.

The concept of AOF is also broader than country-of-origin effects, though it encompasses such phenomena. Country-of-origin effects are a specific, narrow type of AOF, whereby foreignness from a particular country can be a source of advantage (Bilkey and Nes, 1982, Verlegh and Steenkamp, 1999), but other types of AOFs could potentially apply to firms from many countries within a given host market (e.g., incentives for foreign direct investment). In sum, the concept of AOF sheds light on benefits that may accrue to MNE subsidiaries in a host country, but that are not within the construct domain of the abovementioned, related concepts. We summarize in Table 1 the similarities and differences among the AOF, AOM, ownership advantage, and country-of-origin concepts.

Importantly, AOFs can operate independently of liabilities of foreignness; that is, MNE subsidiaries could simultaneously have costs related to the liability of foreignness (e.g., unfamiliarity with the local culture) as well as benefits related to AOFs (e.g., subsidies from the host government). Additionally, the scope of AOFs goes beyond the ways in which MNEs may reduce or eliminate costs associated with doing business abroad. Only focusing on lessening the costs associated with doing business abroad ignores the potential of AOFs to *create value*. To illustrate this difference, consider two MNEs entering the same foreign country. MNE A takes advantage of a government subsidy that temporarily reduces taxes on newly established foreign-owned subsidiaries (Sethi et al., 2002), and MNE B has positive country-of-origin effects associated with its home country. In the case of MNE A, the AOF in the form of the subsidy will *directly ameliorate* the costs of the liability of foreignness because the MNE will not incur costs that foreign-owned firms would normally have to bear. MNE B, on the other hand, would more likely incur the full costs of foreignness, but the positive country-of-origin effect could create value that may *indirectly offset* these costs. Therefore, we take a broad view of AOFs that includes both potential positive effects.

Next, we take stock of extant literature on AOFs using three distinct theoretical perspectives: the institution-based view, resource-based theory, and transaction cost economics. Our primary unit of analysis is the MNE subsidiary (greenfield or acquired), as AOFs by definition occur in the host-country environment wherein sub-units must ipso facto contend with this environment as they leverage existing advantages and create new ones (Regnér and Edman, 2013, Sethi and Judge, 2009).

2.2. AOFs within an institution-based view

Broadly speaking, the institution-based view asserts that MNEs are influenced by the various institutions within which they are embedded (Peng et al., 2008). Institutions are the formal and informal “rules of the game” and can substantially shape both the capabilities and strategic options of MNEs (Dunning and Lundan, 2008, Martin, 2014, North, 1990). From this perspective, “institutions directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy” (Ingram and Silverman, 2002: 20; Peng et al., 2008). Yet, unlike purely domestic firms, MNE subsidiaries face the institutions of both the home and host country (Kostova et al., 2008). Thus, institutions create dual opportunities for AOFs to arise.

First, the institutional systems in some countries are better or more efficient than others in creating capabilities through the interaction among organizations and institutions (Martin, 2014),

providing MNEs with opportunities to leverage what we call *institutional asymmetries*. Here, capabilities that arise because of home-country institutions can often be exploited in other countries, potentially leading to an AOF if domestic firms cannot easily emulate them. Emulation may be difficult because the environment required to develop such resources and capabilities (i.e., the home country of the MNE subsidiary's parent company) may not be available to domestic rivals, creating an asymmetry between home- and host-country institutions that results in a competitive advantage (Lehrer, 2001). Although domestic rivals could enter countries with a similar institutional system to that of the foreign subsidiary, it would take a long time to gain these capabilities.

For example, the level of technology of MNEs' home countries can lead to an advantage in countries with less advanced technological conditions (Insch and Miller, 2005, Yildiz and Fey, 2012), because domestic firms in such settings do not have the access to the technological infrastructure needed to develop firm-level technological resources. As another example, MNEs from emerging economies are thought to be inherently agile because the volatility of their home countries necessitated the development of such skills (Guillén and García-Canal, 2009, Luo and Rui, 2009). After internationalization, these capabilities could form the basis of an AOF, provided domestic firms do not also operate in an environment that would foster the development of similar capabilities.

Also within this first type of home-country institutional advantage is the country-of-origin effect. Home-country formal or informal institutions can have strong associations with certain products (e.g., French culture and wine), meaning customers often use the country of origin as a cue for the quality of the product and are therefore more willing to purchase it or to pay a premium for it, regardless of its true quality (Bilkey and Nes, 1982, Verlegh and Steenkamp, 1999). In this way, merely coming from a certain home country can sometimes create an AOF – even if the MNE does not have particular ownership advantages – assuming customers perceive the firm as originating from a country with positive associations with certain goods (Magnusson et al., 2011). They might not associate a firm with its home country at all – perhaps even by design of the firm – in which case an AOF based on the country-of-origin effect would not materialize. For example, Hong Kong-based Shuanghui International Holdings recently acquired U.S.-based Smithfield Foods, but has downplayed concerns related to its country of origin and maintained Smithfield's existing brand image (Geewax, 2013).

Yet, whenever consumers perceive a foreign product or service positively based on its country of origin, it constitutes an AOF because domestic firms cannot easily imitate it. Country-of-origin effects are therefore a subset of AOFs. They likely do not meet the criteria for an ownership advantage because they are not firm specific, but rather potentially available to many firms from a given country operating in the same industry (e.g., all French winemakers). Using the jargon of the resource-based view, country-of-origin effects create value, but are not necessarily rare, because they could be enjoyed by industry peers from the same home country.

In the second type of institution-based AOF, host-country institutions create conditions favorable to foreign-owned firms. For example, MNEs tend to have higher survivability rates than domestic firms in certain host countries, creating a “foreign survival premium” (Kronborg and Thomsen, 2009, Li and Guisinger, 1991). One explanation is that foreign firms are often given

considerable leeway when it comes to conforming to host-country norms: there seems to be an implicit acknowledgment on the part of actors within the host country that foreign organizations should not be held to strict normative standards because they add value to these countries based on the resources they possess (Shi and Hoskisson, 2012), resulting in different sets of role expectations for foreign firms vis-à-vis domestic firms (Regnér and Edman, 2013). For this reason, foreign firms can sometimes engage in "creative institutional deviance" (Shi and Hoskisson, 2012), or activities that are deviant from institutionalized norms and that would not be permitted for domestic rivals. For example, foreign firms in China are not as bound by *guanxi* as domestic ones (Gu and Lu, 2014).

Additionally, some societies – usually with a lower level of economic development – have an inherently negative view of domestic firms, providing foreign firms with a de facto advantage (Kostova and Zaheer, 1999). In a similar vein, certain local cultures (such as London) or population segments tend to have an inherently positive view of foreign-owned firms (Nachum, 2010, Newburry et al., 2014, Newburry et al., 2006). Either way, local institutions can lead to AOFs. Again, in these types of AOFs, MNE subsidiaries do not have to possess any kind of ownership advantage or firm-specific resources, because the benefits derive from firms' foreignness.

2.3. AOFs within resource-based theory

Resource-based theory generally argues that heterogeneous firm resources and/or capabilities are the sources of competitive advantages (Barney, 1991, Leiblein, 2011, Penrose, 1959). Specifically, in Barney's (1991) conceptualization, resources and capabilities that are valuable, rare, inimitable, and non-substitutable (VRIN) create the potential for sustained competitive advantage. This is consistent with the concept of ownership advantages in Dunning's (1980) eclectic paradigm, which states that firms internationalize to exploit firm-specific resources and capabilities. Thus, AOFs within a resource-based framework involve the possession and exploitation of unique tangible and intangible resources and capabilities unavailable to domestic rivals in a host country (Delios and Beamish, 2001, Hymer, 1960, Nachum, 2003).

Critically, however, resource-based AOFs must be attributable to the *foreignness* of the firm; otherwise they could be considered simple ownership advantages. For example, the corporate culture of the MNE, embodied in the values and norms unique to the organization, could constitute an ownership advantage that may have very little to do with its foreignness (Dunning and Lundan, 2008). In our conceptualization, ownership advantages that arise in a specific host-country market because of the foreignness of the MNE subsidiary constitute resource-based AOFs. In these instances, ownership advantages would be attributable to foreignness because the home country can be a major factor in the development of resources and capabilities, creating the potential for institutional asymmetry between home and host country that could be leveraged by the MNE, hence creating an advantage unavailable to domestic rivals. When institution-based AOFs exist, they can benefit many firms; however, those with the capability to leverage institutions effectively can create firm-specific resources by recombining existing firm resources with institutional resources (Landau et al., 2016). For example, national institutions might foster a high level of innovation in the economy at large (Furman et al., 2002), making it easier for

firms to develop patents and other VRIN resources based on intellectual property that could potentially be exploited in other countries without such institutions.

To do so, however, firms must be able to capitalize on the favorable institutional environment in their home country in a way that leads to firm-specific resources. Simply originating from a country in which patents are protected is insufficient for a resource-based AOF; firms must proactively engage in the research and development needed to generate intellectual property. If they are successful, the resulting AOFs would not only be unavailable to foreign rivals, but also hard to imitate because rivals do not have access to the institutional environment needed to leverage institutional factors into such firm-specific resources.

There is therefore some overlap between institution- and resource-based AOFs, but a distinction can be drawn based on the firm-specificity of the AOF. If it is generally available to any of a certain type of firm originating from a particular country (e.g., the generally positive perception of German automakers in the U.S.), then the AOF is more institution-based. However, if an MNE can harness institutional advantages in order to create truly firm-specific resources that can be leveraged in institutionally asymmetric host countries, then the AOF is more resource-based.

2.4. AOFs within a transaction cost framework

AOFs can also accrue whenever foreign firms can achieve lower transaction costs than domestic rivals. By internalizing certain markets, MNEs can gain efficiency advantages over domestic rivals. For example, many governments around the world offer subsidies and incentives to encourage foreign direct investment (Sethi et al., 2002, Sethi and Judge, 2009). By expanding into such countries, MNE subsidiaries' costs of doing business could be significantly reduced due to government support or cooperation. In this sense, MNE subsidiaries could, at least temporarily, operate more efficiently than domestic rivals who do not qualify for government programs, creating an AOF in the form of a comparative advantage.

Once again, there is overlap between resource-based and transaction cost theories, as well as the potential for AOFs to occur due to institutional asymmetry. To wit, the firm-specific assets an MNE possesses could be markedly different from those of domestic firms, perhaps because the institutions in the host country are not conducive to the development of such assets. If host governments seek to help fill this institutional void via foreign direct investment, MNEs can bolster their bargaining power over governmental actors to reduce transaction costs (Fagre and Wells, 1982). If subsidies or other benefits are available generally to foreign-owned firms and have the effect of reducing transaction costs or costs related to the liability of foreignness, this constitutes a comparative advantage and is more of a transaction cost-based AOF. If, however, an MNE has VRIN resources, it could potentially benefit from both the value that could be created by deploying these resources, as well as reduced transaction costs from government programs or incentives relating to the possession of these resources. Hence VRIN resources could lead to both resource-based AOFs and, if these resources are highly valued by host governments, reduced transaction costs.

Finally, transaction cost-based AOFs differ from institution-based AOFs, but there is overlap here as well. Transaction cost-based AOFs reduce costs for MNE subsidiaries, creating a

comparative advantage, whereas the institution-based AOFs discussed earlier create competitive advantages for MNEs. Yet, certain institutional advantages could create the effect of a transaction cost AOF. For example, the ability to circumvent host-country norms could reduce transaction costs, if the circumvention of norms involves not having to engage in costly activities (e.g., relationship-building in China; Gu and Lu, 2014). Ultimately, the classification of an AOF depends on both its underlying source and the effect it has on the MNE. Classifications of example AOFs are displayed in Table 2.

Table 2. Examples of assets of foreignness from three theoretical perspectives.

Institution-based view	Resource-based view	Transaction cost economics
Level of technology in home country (Insch and Miller, 2005)	Access to unique resources unavailable to competitors in a particular context (Hymer, 1960, Kronborg and Thomsen, 2009, Nachum, 2003)	Internalization advantages (Dunning, 1980)
Creative institutional deviance (Shi and Hoskisson, 2012)	Tangible and intangible ownership advantages developed in country of origin (Dunning, 1980, Delios and Beamish, 2001)	Bargaining power with host government (Fagre and Wells, 1982)
Negative perception of local firms (Kostova and Zaheer, 1999)	Competitive advantages leveraged from institutional advantages (Martin, 2014)	Subsidies/incentives (Sethi et al., 2002, Sethi and Judge, 2009)
Positive perception of foreign firms (Nachum, 2010, Newburry et al., 2006)		
Foreign survival premium (Kronborg and Thomsen, 2009, Li and Guisinger, 1991)		
Location advantages (Dunning, 1980)		
Positive country-of-origin perceptions (Bilkey and Nes, 1982, Verlegh and Steenkamp, 1999)		

3. Theoretical integration of AOFs

Although we have separated previously identified AOFs based on three distinct theoretical perspectives, it is also apparent from this discussion that common threads bind these theories together. First, although AOFs occur within the host-country context, home-country institutions play a role as well. As discussed above, the home-country environment can help or drive firms to develop resources and capabilities that can become valuable in other contexts (Dunning and Lundan, 2008, Porter, 1990). For example, firms have incentives and access to public resources to develop patents and other knowledge-based assets in countries where intellectual property is protected and prioritized, which could lead to AOFs in host markets where such incentives do not exist.

Second, firm-specificity is also an important factor. Clearly, the firm-specificity of resources looms large in resource-based and transaction cost theories, but it is also germane in the institution-based view. Home-country institutions can lead directly to AOFs that might benefit many MNEs from that country (e.g., the French wine industry), but they also play a pivotal role in the eventual creation of firm-specific resources that could potentially lead to a competitive advantage or reduced transaction costs. For example, access to quality education in a country can give rise to knowledge- and technology-based resources, and this innovative atmosphere can be further strengthened with intellectual property laws, creating many incentives for firms to develop unique capabilities and resources (Furman et al., 2002, North, 1990, Porter, 1990). In turn, these can form the basis of firm-specific AOFs, as MNEs develop idiosyncratic routines and alter their products as needed to generate foreign sales (Dunning, 1980).

Third, host-country institutions can lead directly or indirectly to AOFs. They can lead directly to AOFs by reducing transaction costs for foreign-owned firms (such as through subsidies) or by cultural norms that favor foreign-owned firms (such as the foreign survival premium). Additionally, as discussed earlier, foreign firms can be insulated from host-country institutional pressures, freeing them to pursue novel strategies for attaining a competitive advantage. Indirectly, host-country institutions determine the extent to which firm-specific resources lead to a competitive advantage or reduce transaction costs for foreign MNEs. For example, some host governments may be more willing than others to offer subsidies and other benefits to lure foreign MNE investment. Yet, host-country institutions can also limit AOFs. In one study, although Chinese consumers perceived Japanese goods to be of high quality, they still chose not to purchase them because of the strained political relationship between the two countries, possibly dating back to World War II (Klein et al., 1998).

Overall, many AOFs arise due to the institutional asymmetry between the resources and capabilities fostered by the home country and those fostered by the host country, which creates opportunities for AOFs because local firms may find it difficult to imitate or substitute such sources of advantage (Peteraf, 1993, Rumelt, 1984). Sustained competitive advantages can arise because a firm's home country favors the development of certain capabilities, and differences in institutional frameworks can be effective barriers to imitation for rivals from other countries (Lehrer, 2001). For example, Toyota has historically worked very closely with its suppliers to help them develop the technology and processes needed to create parts for its automobiles, a strategy that is consistent with the social structuring of the Japanese business system (Whitley, 1999). Toyota successfully replicated this strategy in the U.S., leading to a significant competitive advantage vis-à-vis American rivals, even though Toyota purchased smaller amounts than rivals from identical suppliers (Dyer and Hatch, 2006). Essentially, the asymmetry between the Japanese and American institutional frameworks gave Toyota an advantage because the Japanese institutional framework helped Toyota develop tacit social and technological routines for working with suppliers. Such routines are discouraged in the U.S. institutional framework, where arms-length relationships between buyers and suppliers are more common (Hall and Soskice, 2001), making this capability difficult for U.S. rivals to imitate.

The unique asymmetries between home and host countries also largely determine the possibility and extent of AOFs having to do with perceptions of foreign goods. Prior literature suggests that a generic positive perception of foreign goods is more likely to occur when the host country is less developed *relative* to the country of origin (Sethi and Judge, 2009, Verlegh and Steenkamp, 1999, Yildiz and Fey, 2012). Similarly, the level of technology of the MNE's home country is more likely to confer an advantage when the level of technology in the host country is relatively lower (Insch and Miller, 2005).

Importantly, although there has been some research regarding AOFs based on asymmetries related to having a higher level of economic development or technology in MNEs' home countries, this does not mean that AOFs cannot occur in the other direction. As discussed, emerging-economy MNEs often possess capabilities for adaptability that developed as a response to their institutional home-country environment and that may not be possessed by host-country competitors who have operated under a more stable institutional environment (Cuervo-Cazurra, 2012, Ramamurti, 2012). Similarly, relatively lower consumer wealth in emerging

markets can lead to reverse innovation, whereby emerging-economy MNEs develop cost-saving innovations that eventually spread to more advanced markets (Govindarajan and Ramamurti, 2011). In sum, whether MNEs hail from developed or developing countries, there are opportunities for AOFs due to institutional asymmetries.

Regardless of the source of asymmetries, because different institutions support the development of different capabilities, the more different the institutions between two countries, the more different the capabilities of firms from these two countries (Martin, 2014). This, in turn, creates increased opportunities for AOFs in the form of institutional arbitrage (Jackson and Deeg, 2008). For example, the choice of entry mode often involves considerations of institutional asymmetry: MNEs whose home country has a higher level of technological development than the targeted host country tend to enter via greenfield investment in order to exploit fully the potential for institutional arbitrage in institutionally asymmetric host markets (Anand and Delios, 2002). These insights lead to the following statement regarding AOF opportunities:

> ***Proposition 1.*** *The greater the institutional asymmetry between a given home and host country, the greater the likelihood that AOFs will benefit MNE subsidiaries from the home country operating in the host country.*

Moreover, AOFs that arise because of the institutional asymmetry between home and host countries should be difficult for host-country rivals to imitate if these asymmetries are leveraged in idiosyncratic ways to become specific to one firm. The competencies that form the basis for such AOFs could have arisen due to unique historical characteristics in the home country at the time of firm founding, imprinting MNEs with certain cognitive models that facilitate the development of the underlying capability (Marquis and Tilcsik, 2013). Such a unique historical milieu would not be shared by or accessible to domestic rivals in a host country, adding to the causal ambiguity of these capabilities. For example, Silicon Valley has a distinctive industrial culture that favors high-technology firms (Saxenian, 1991), and that facilitates the development of unique higher-order capabilities (Foss, 1999), making imitability difficult. Due to the combination of their tacit nature and country- and time-specific origins, these AOFs may be especially difficult to imitate. Furthermore, firms that recognize the value of such asymmetries can work to integrate them into their bundle of resources, resulting in firm-specific assets and amplifying the advantages created by institutional asymmetries (Landau et al., 2016).

Comparative advantages based on transaction cost savings, on the other hand, could be more easily mimicked. For example, foreign firms sometimes receive subsidies from foreign governments, yet domestic firms could potentially substitute for such an AOF by eliminating costs in parts of their value chain. Because an MNE subsidiary possessing such an AOF only does something better or more efficiently than local rivals, the causal ambiguity needed to sustain such an advantage may be limited. Indeed, comparative advantages are inherently imitable and often fleeting (Porter, 1990), unless they can somehow be parlayed into a competitive advantage (Madhok et al., 2010).

Furthermore, although AOFs can arise purely due to institutional asymmetries (e.g., differences in the level of technological development between home and host countries), institutions can change. Asymmetries that by themselves create AOFs today may not exist tomorrow. For

example, although MNEs from developed economies sometimes have advantages in emerging markets due to the higher level of technological development in the home country, emerging markets by definition experience rapid development (Hoskisson et al., 2000), so such technological asymmetries may decrease and erode developed-economy MNEs' AOFs. If, however, MNEs can leverage institutional asymmetry in an idiosyncratic manner, these AOFs could persist even if institutional asymmetry declines over time. The example of Toyota discussed earlier is illustrative of this dynamic. The asymmetry between the Japanese and American business systems led to unique partnerships between Toyota and its suppliers, which eventually became tacit, firm-specific routines. Even when suppliers began to engage Toyota's rivals in similar behaviors, they could not do so in an equally effective way because previous routines had already evolved and were difficult to change (Dyer and Hatch, 2006). In other words, even though U.S.-based rivals now knew how to engage in highly collaborative supply chain best practices, they could not replicate Toyota's unique routines, which developed over many years of leveraging the U.S.-Japan institutional asymmetry. Thus:

> ***Proposition 2.*** *AOFs that emerge from the idiosyncratic leveraging of home- and host-country institutional asymmetries are more sustainable than those based purely on institutional asymmetries or transaction cost savings.*

Whenever the potential for AOFs exists, it may take some time to parlay them into a competitive advantage. When MNEs first enter a host country via a greenfield investment, subsidiary managers suffer from a knowledge gap that can take several years to close, as managers must first realize what they need to know to compete – but do not – and then proceed to learn it (Petersen et al., 2008). Thus, the maximum benefits of an AOF may take some time to be fully realized.

Additionally, as benefits from AOFs begin to accrue, two important processes unfold: first, rivals may seek to imitate or find a substitute for the AOF (Barney, 1991), perhaps leading to knowledge spillover that enables rivals to eventually negate the AOF. Domestic firms may not be able to fully ameliorate foreign subsidiaries' AOFs, but their competitive actions over time will likely erode AOFs' value. Second, the subsidiaries themselves become less reliant on AOFs. When new subsidiaries emerge, parent companies allocate significant amounts of resources to them (Uhlenbruck, 2004), and these subsidiaries largely mirror their parents in form and function (Rosenzweig and Singh, 1991). This reliance on parents and other subsidiaries within the same MNE is critical for the early survival of new subsidiaries (Kim et al., 2012). Yet, subsidiaries are also expected to develop their own distinct capabilities and rely less on the parents as they grow (Uhlenbruck, 2004). Importantly for our focus on AOFs, which ultimately derive from the home country, subsidiaries usually develop such capabilities using host-country inputs, and rely less and less on parent and home-country resources as they mature (Almeida and Phene, 2004, Malnight, 1995).

Moreover, although foreign subsidiaries can be insulated from certain institutional norms, the isomorphic pressure of the host-country environment can be strong (Rosenzweig and Singh, 1991, Zaheer, 1995). In order to gain access to resources in the host country that could be used in the development of a distinctive subsidiary capability, MNE subsidiaries must gain legitimacy in the host country, which is often achieved through isomorphing (Kostova and Zaheer,

1999, Miller and Eden, 2006). In other words, AOFs will likely be a central part of foreign subsidiaries' strategies during the early stages of the life cycle, but they will likely become less central as subsidiaries mature and adapt to the host-country environment. Over time, foreign subsidiaries will develop distinct competencies by bundling existing parent resources with host-country resources. Although AOFs are important early on in subsidiaries' existence, they will eventually reach a peak and their value-creating potential will decline.

Consider the example of German automakers that have located manufacturing plants in the United States. Although many Americans may prize "German engineering," it takes some time before sufficient host-country demand exists to make local car manufacturing plants profitable (Mays, 2012), so an AOF based on this advantage will not generate benefits immediately upon entry. Once a critical mass of consumer demand has been reached, rivals may have already begun to imitate the strengths that led to AOFs in the first place. German car manufacturers were early innovators when it came to semi-autonomous driving functions, such as cruise control, which was part of their appeal; but today, many American automakers are leading in this area, and German car makers are partnering with them in order to catch up (Rowe, 2015). The AOF based on country of origin and technological innovation therefore took time to generate benefits for German automakers, eventually reached a peak, and finally began to decline as American rivals eventually leapfrogged the German firms, and these German firms began accessing host-country resources (such as partnerships) to develop new sources of competitive advantage. Hence:

> ***Proposition 3.*** *Upon initial entry into a host country, benefits generated by a particular AOF follow an inverted-U-shaped pattern over time, ceteris paribus.*

For foreign subsidiaries that are acquired by MNEs, this inverted-U-shaped AOF cycle will begin more quickly. Entering a host country via acquisition speeds up the process of exploiting AOFs because established subsidiaries already possess knowledge of the host environment, greatly reducing the time needed to internalize local market knowledge and develop distinctive resources and capabilities (Uhlenbruck et al., 2006). Moreover, the downstream capabilities needed to exploit such resources and capabilities are highly location-specific (Anand and Delios, 2002). In the case of greenfield entry, such downstream capabilities must be developed over time, whereas for acquired subsidiaries, they are pre-existing. Although post-acquisition integration processes can be complicated and take some time (Birkinshaw et al., 2000), in general, entry via acquisition will enable MNEs to realize the benefits of AOFs more quickly.

> ***Proposition 4.*** *Upon initial entry into a host country via acquisition, the increasing initial benefits generated by a new AOF are realized faster than in the case of a greenfield entry, ceteris paribus.*

4. Illustrative example: Tata Global Beverages Group Limited

To illustrate the types of AOFs and their dynamics, we next offer a short vignette regarding Tata Global Beverages Group Limited (TGB). TGB is a member of the Tata Group, a large business group founded in India in 1868 that operates in diverse industries including beverages, automobiles, and hotels; however, each unit within the business group operates as a mostly

autonomous firm and is responsible for its own strategy (Verbeke, 2013). Founded in 1983 as Tata Tea, TGB now produces a range of beverage products, including bottled water, tea, and coffee. It has a brand presence in over 40 countries and is the second-largest tea company in the world, with nearly 3000 employees and 29 foreign and domestic subsidiaries; it is also among the top ten coffee companies in the world (Tata Global Beverages, 2014).

The company has undergone significant growth in recent years: its takeover of U.K.-based Tetley Tea was the largest international acquisition of any Indian firm at the time (BBC, 2000), and TGB recently formed a joint venture with Starbucks to introduce the U.S.-based firm's coffee to the Indian market (Tata Global Beverages, 2014). As a fast-growing MNE, TGB exhibits multiple types of AOFs. To facilitate an understanding of AOF dynamics, we illustrate TGB's AOFs in one host-country setting: the U.K. Moreover, the AOFs identified here were verified for accuracy by a top executive at TGB, via an interview with the authors.

As an example of an institution-based AOF, TGB leverages abroad certain features of its home country of India. India is internationally renowned for its tea (especially Darjeeling), and foreign consumers may readily buy an Indian brand of tea even though the country as a whole may not be associated with higher-quality goods (Ahmed et al., 2004). Through its U.K.-based subsidiary Teapigs, TGB sells premium Darjeeling tea marked as “sourced in India” to take advantage of this positive country-of-origin effect (Tata Global Beverages, 2014). As discussed earlier, the AOF here is strongly associated with the country of origin, and the MNE subsidiary merely acts as a vehicle for exploiting positive associations with the home country, leading to a country- rather than firm-specific advantage that would likely benefit other Indian tea companies in addition to TGB. In other words, TGB has no firm-level resources that create this advantage, beyond the fact that it originates in India.

However, the company also has ownership in the tea gardens that supply its tea leaves, exploiting India's long tradition of exceptional tea while at the same time giving the firm access to high-quality leaves that are farmed using sustainable agricultural methods (Tata Global Beverages, 2014). In a time of global climate change, environmental sustainability is on the minds of many consumers, making the integration of sustainable production methods a key advantage (Dangelico and Pujari, 2010). In this way, TGB exploits its home country's institutions idiosyncratically by combining the positive perception of Indian tea with a firm-level resource (sustainably grown tea leaves) that is unavailable to local firms in the U.K. Its unique tea production methods complement and amplify an already existent home-country advantage, which is then capitalized on in foreign markets.

Illustrative of the indirect role of host-country institutions as well as the dynamics of AOFs in acquired subsidiaries, our informant at TGB indicated that the company leverages the extensive history in the U.K. and “Britishness” of its subsidiary, Tetley, while simultaneously sourcing some of Tetley's tea leaves from its gardens in India. The British love of tea – coupled with the ability to capitalize quickly on AOFs by entering the U.K. via acquisition instead of greenfield investment – allowed TGB to realize high performance soon after the Tetley acquisition (Noronha, 2001).

Acquiring Tetley also provided a transaction-cost advantage: the acquisition created synergies that allowed the combined firm to operate as a single entity, creating economies because they had operated as separate entities prior to the acquisition. After the acquisition, costs related to procurement and logistics were drastically reduced (Noronha, 2001). In this way, Tetley, as a subsidiary of TGB, has an advantage over local rivals because it can supply a quality product – which its competitors cannot access – to the local market at a greatly reduced cost. In other words, Tetley has access to quality resource inputs from a foreign company *at favorable prices*, a privilege local rivals do not have. This goes beyond the immediate economies of scale. Indeed, company documents showed increased growth and financial performance as a direct result of the acquisition (Tata Global Beverages, 2011). If competitors were to attempt a similar strategy, the related transaction costs would likely be prohibitively high, though with time they could find ways to achieve similar economies, including potential consolidation or efficiency improvements.

In sum, Tata Global Beverages exemplifies several of the types of AOFs and their dynamics. Although TGB's AOFs are distinguishable, it is also clear that they work in tandem to create advantages for the MNE. The company pairs a positive country-of-origin effect for Indian tea with its own firm-specific resources (tea gardens) and locates in countries where these advantages are further enhanced by the host country's social and industrial environment.

5. Discussion and agenda for future research

AOFs are the unique advantages that MNEs possess in host-country settings by virtue of hailing from a different country (Sethi and Judge, 2009). Based on the theoretical insights of resource-based theory, the institution-based view, and transaction cost economics, we have developed an integrative framework of AOFs that ties these perspectives together. We have traced the ultimate origins of AOFs to either institutional asymmetries between home- and host-country institutions or favorable conditions in the host-country environment. Home-country institutions can give rise to resources and/or capabilities that can be the basis for a competitive advantage or comparative advantage (through reduced transaction costs) within a host country, if suitable institutional asymmetries exist. When MNE subsidiaries leverage these institutional asymmetries in unique ways (per resource-based theory), institution-based AOFs can become more sustainable. Moreover, if MNE resources or capabilities are perceived as valuable, host-country institutions can directly lead to AOFs (e.g., government subsidies). Local institutions also indirectly influence the extent to which firm-specific resources create AOFs, contingent on the specific institutional asymmetries between home and host countries.

We bring together the extensive yet disparate literature on AOFs into a holistic theoretical framework. Scholars have identified AOFs ranging from concrete monetary examples (such as subsidies for direct foreign investment) to intangible sociological advantages (such as creative institutional deviance). The framework presented here is inclusive of the wide variety of AOFs, but also adds theoretical reasoning to explain this diversity based on the ultimate *sources* of AOFs. This advances our understanding of *why* AOFs arise and why several types exist, integrating this important construct into the wider nomological network of MNE competitive advantage. In doing so, we have also put forth testable theoretical propositions regarding the

opportunity, sustainability, and dynamics of AOFs. Next, we discuss outstanding research questions regarding AOFs and thus provide a roadmap for future inquiry.

5.1. Agenda for future research

Although AOF research has made considerable progress, there remains much that we do not yet know about AOFs. We classify the following avenues of future research according to their primary underlying theoretical lenses, but, as we have noted, there is much overlap among these. We therefore encourage scholars to integrate these theories in their research, as we have done here.

Even though the international business literature has focused extensively on AOFs due to host-country institutions, research looking more specifically into particular institutional asymmetries between home and host countries to identify novel AOFs is needed. This could be accomplished by analyzing how MNE characteristics are shaped by the home country and/or how they create value in the host country in a way unavailable to other firms. For example, comparisons of the institutional environments or business systems (Whitley, 1999) between home and host countries can highlight institutional asymmetries and thus prove a fruitful avenue for uncovering new AOFs.

Rather than focus on the advantages of locating in certain host countries, scholars could also explore how home-country institutions endow firms with unique yet fungible capabilities that may be exploitable AOFs in a variety of settings. Although VRIN resources are the basis of competitive advantages, fungible resources are more useful for fostering growth (Nason and Wiklund, 2015). Given that internationalization is a form of growth, the concept of fungibility and its relationship to AOFs are important topics of research for international business scholars. A potential research question might be: which home-country institutions are most likely to create fungible AOFs? Previous research has focused on how formal institutions, such as government agencies and regulations, inculcate certain firm capabilities (e.g., Cuervo-Cazurra, 2006, Cuervo-Cazurra and Genc, 2008, Holburn and Zelner, 2010), so future research might investigate the role of informal institutions, such as culture. Moreover, how changing institutions, as well as inter-country relations, affect MNE AOFs and how MNEs can cope is another important avenue of research.

MNEs' foreignness provides them with some insularity from isomorphic pressures (Kostova et al., 2008, Shi and Hoskisson, 2012), but the *extent* of such freedom is an important – yet unanswered – boundary condition that is vital for more accurate theory. Although it may be possible for MNEs to operate as “institutional entrepreneurs” (Battilana et al., 2009) and influence or create host-country norms in ways that are advantageous to the firm, how far MNEs can really go against the grain of national institutions – and how this might lead to specific AOFs – is an open question.

Under the purview of the resource-based view, scholars might focus on institutional AOFs more specific to the firm. Here, research is needed regarding how firms learn to take full advantage of institutional asymmetries to create AOFs in other countries. How do institutional advantages become difficult for rivals to imitate, especially those rivals from the same home country or who

originated in a similar business system? Are there key organizational capabilities of MNEs, such as dynamic capabilities (Teece, 2014), that facilitate the creation of firm-specific AOFs? Which institutional advantages are more mobile across national borders and therefore more likely to become AOFs? These are just a few important questions that could be addressed for AOFs in this area.

Although there has been research of transaction cost-based AOFs, much of it has focused on tangible incentives for foreign firms, such as subsidies. More work could be done to explicate whether intangible AOFs can also reduce transaction costs. Additionally, although we have argued that such comparative advantages may be inherently more imitable, perhaps there are strategies for protecting them. We have intimated that VRIN resources could potentially lead to a situation where MNEs can maximize their AOF by leveraging their unique resources to reduce transaction costs, such as by negotiating lower tax rates with host governments. Explication of this process would contribute to the AOF research and have very practical implications.

Regarding the dynamics of AOFs, we have identified some possibilities, and we encourage scholars to investigate empirically these longitudinal effects, as identifying the length of time that AOFs provide an advantage would not only increase our understanding of how they create value for MNEs, but also inform managers regarding which AOFs may be more sustainable than others. Additionally, investigations of the differences between leveraging AOFs in greenfield and acquired subsidiaries could help MNE managers make the most of AOFs. For example, how do acquired units best leverage AOFs post-acquisition? What kind of integration processes enhances the benefits of AOFs?

Finally, in order to craft a more holistic framework of the advantages and disadvantages that MNEs face and thereby understand why MNEs succeed or fail, scholars should relate AOFs to the liability of foreignness and assets/liabilities of multinationality (Denk et al., 2012). We discussed above the distinction between AOFs that mitigate the liability of foreignness and those that create value independently of these costs. More research is needed to ascertain whether different types of AOFs have heterogeneous positive effects; i.e., do certain types of AOFs reduce the costs of the liability of foreignness, and others do not? Furthermore, scholars might investigate how AOFs reduce liabilities of multinationality or how they might complement certain AOMs. For example, operating in more host countries exposes the MNE to more institutional environments and creates opportunities for learning (Zahra et al., 2000). MNEs may be able to parlay lessons learned in one host country into an AOF in another host country. Such a capability is enabled by the MNE's multinational network and therefore connects both AOFs and AOMs.

In short, there remains much to do to understand the relationships between the various sources and types of liabilities and assets. A more complete understanding of assets and liabilities associated with doing business abroad (as well as the relationships between them) would have substantial practical and theoretical value. The research questions posed here are listed in Table 3.

Table 3. Future research questions.

Area	Research questions
Institution-based view	Which home-country institutions are most likely to create fungible AOFs? How do institutional asymmetries between business systems create opportunities for novel AOFs? Which cultural dimensions or elements of a host country's informal institutions can lead to AOFs? Can MNEs act as institutional entrepreneurs to shape host-country institutions in ways that create AOFs? What is the limit of creative institutional deviance of MNEs? How does institutional change affect AOFs?
Resource-based theory	How do MNEs create firm-specific AOFs from institutional advantages? Are there key organizational attributes (e.g., dynamic capabilities) that facilitate the development of firm-specific AOFs rooted in institutional advantages? Which AOFs based on institutional advantages are more mobile across national borders?
Transaction cost economics	Can intangible AOFs reduce transaction costs? How can AOFs based on comparative advantages be leveraged into sustainable competitive advantages? How can VRIN resources lead to both a competitive and comparative advantage in the form of an AOF?
AOF dynamics	How long do AOFs typically provide an advantage? Which types of AOFs are the longest-lasting? How do acquired units best leverage AOFs post-acquisition? What kind of integration processes enhance the benefits of AOFs? How do AOFs interact with the liability of foreignness and assets/liabilities of multinationality?

5.2. Implications for practitioners

As scholars have noted (Nachum, 2010, Sethi and Judge, 2009), we must understand both the costs and benefits MNE subsidiaries face in host countries in order to have a holistic sense of the advantages and disadvantages of doing business abroad. A lack of understanding of where these advantages and disadvantages stem from and how they interact may cause managers of MNEs to make ineffective internationalization decisions. For example, underestimating the liability of foreignness led to disastrous results for Cargill in India (Kostova and Zaheer, 1999). However, *overestimating* the liability of foreignness or underestimating AOFs may cause MNE managers to avoid investing in potentially profitable locations because they think they would not have sufficient competitive advantages. As this article demonstrates, there are many sources of AOFs that MNEs can exploit. Some of these, such as subsidies or incentives from foreign governments, may be fairly obvious. Some, like skills developed by interacting with the home and host institutional environments, are more subtle.

The framework presented here brings together many insights under one umbrella to facilitate a more organized and holistic framework for managers making international strategic decisions in pursuit of competitive advantage. By drawing attention to capabilities or resources that could be exploited in certain environments, the framework may even suggest new countries where the MNE can expand. In countries where subsidiaries are already operating, the explication of why AOFs exist and how they create value may help managers identify new sources of competitive advantage or suggest strategies for coping with the liability of foreignness.

6. Conclusion

In this article, we distinguished AOF as a unique concept that adds explanatory reasoning to the success of MNEs beyond related concepts, such as ownership advantages, assets of multinationality, and country-of-origin effects. We then assessed and integrated theory regarding AOFs using the insights of institutional, resource-based, and transaction cost theoretical lenses.

Our reasoning fits well with the existing literature and identifies the sources of AOFs, providing a needed theoretical explanation for why AOFs exist and how they create value. This explanation includes the core argument that AOFs arise due to institutional asymmetries between home and host countries, or due to institutions in the host country that are favorable to foreign firms. Although we initially separated AOFs based on their sources, we also reveal close interrelationships among these sources, such as how institution-based AOFs can be leveraged into resource-based ones specific to the firm. Based on our synthesis of theory and evidence regarding AOFs, we put forth several theoretical propositions, which we believe pave the way for additional refinement and empirical investigation of theory on AOFs. Finally, our study instigated a roadmap for future research in this area by indicating where research has been scarce, and where scholars may further our understanding of AOFs. Such research would help enhance our understanding of how and why MNEs succeed.

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