

Is there an advantage of emergingness? A politico-regulatory perspective

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Abstract:

The source(s) of competitive advantage of emerging-economy multinational enterprises (MNEs) remains a puzzle in international strategy scholarship, with some arguing that such firms are at a disadvantage compared to developed-economy rivals. Drawing on the concept of institutional advantage and using a sample of 233 foreign subsidiaries operating in 25 emerging economies over the period of 2000–2017, we find that foreign subsidiaries of emerging-economy MNEs are more adept than foreign subsidiaries of developed-economy MNEs at deploying their fixed asset management capabilities in emerging-economy host countries, especially when host-country politico-regulatory institutions are underdeveloped. Likewise, we find that subsidiaries of emerging-economy MNEs are more adept at deploying their tax planning capabilities when host-country politico-regulatory institutions become increasingly volatile. We discuss how these findings contribute to scholarly thought regarding the performance of emerging-economy MNEs.

Keywords: emerging economies | emerging-economy MNE | foreign subsidiary | firm performance | institutional advantage

Article:

1. Introduction

Emerging economies are countries experiencing rapid economic development due to significant changes in government policies that encourage economic liberalization and private business ownership (Hoskisson, Eden, Lau, & Wright, 2000). At the same time, emerging economies also feature underdeveloped and volatile politico-regulatory institutions (Cuervo-Cazurra, 2012; Hoskisson et al., 2000; Slangen & Van Tulder, 2009). Despite these challenges, multinational enterprises (MNEs) headquartered in emerging economies are increasingly among the largest and most successful firms in the world, making up about one-third of the Fortune Global 500 list (World Economic Forum, 2016). Yet, how these MNEs have achieved this success is an important and unresolved question in international business research (Buckley, Doh, & Benischke, 2017).

Prior studies have speculated that their unfavorable home-country institutional environments inhibit the ability of emerging-economy MNEs (EE MNEs) to develop traditional firm-specific

ownership advantages – such as technologies, brand names, or patents (Dunning, 1980) – that have facilitated the internationalization of developed-economy MNEs (DE MNEs; Mallon & Fainshmidt, 2017; Ramamurti, 2012). However, given that many EE MNEs have become important global players, scholars suggest that EE MNEs must still possess certain competitive advantages. Specifically, in contrast to DE MNEs, EE MNEs are thought to derive their competitive advantages from “non-traditional” sources, particularly their exposure to underdeveloped and volatile politico-regulatory institutional contexts in their home countries (Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018; Guillén & García-Canal, 2009; Luo & Zhang, 2016). Such sources of competitive advantages have been conceptualized as non-traditional because they are available to a broad set of firms originating from countries with weak institutions and are therefore not necessarily firm-specific. Moreover, given that these sources of competitive advantage are derived from the home-country institutional context, the degree to which they can lead to superior performance when expanding abroad is dependent on the institutional context in host countries (Li & Oh, 2016). This perspective has led some scholars to suggest that EE MNEs may outperform DE MNE rivals in emerging-economy host countries (Cuervo-Cazurra et al., 2018; Hu, 1995).

Although EE MNEs are thought to leverage their institutional experience by combining it with capabilities at the local subsidiary level (Adarkwah & Malonæs, 2020), the mechanisms by which exposure to underdeveloped and volatile politico-regulatory institutional contexts in their home countries allows them to outperform DE MNEs in other emerging-economy host countries is incomplete (Hoskisson, Wright, Filatotchev, & Peng, 2013; Luo & Zhang, 2016). This may not be surprising given that studies of EE MNEs have tended to focus on their internationalization patterns. We therefore seek an answer to the research question: How and when does EE MNE home-country institutional experience combine with specific capabilities to contribute to a competitive advantage that allows them to outperform DE MNEs in emerging-economy host countries?

Emerging economies feature politico-regulatory institutional environments with less developed infrastructure for obtaining and protecting physical assets, as well as complex tax codes (Cuervo-Cazurra, 2012; Hoskisson et al., 2013; Tanzi & Zee, 2000). Such institutional attributes necessitate fixed asset management and tax planning capabilities, respectively, yet these attributes also lead to difficulties for DE MNEs and opportunities for EE MNEs (Liu, Gao, Lu, & Lioliou, 2014). This is because the *direction* of the institutional distance – that is, whether the MNE enters an emerging economy from a developed or emerging home country – can create additional challenges on top of any difficulties related to the *magnitude* of institutional distance. The direction of institutional distance from home to host country is thought to create particular challenges when MNEs internationalize from developed to emerging economies because of the increased uncertainty and risks associated with politico-regulatory regimes in emerging economies when compared with those in developed economies (Chikhouni, Edwards, & Farashahi, 2017; Hernández & Nieto, 2015). Combining this insight with the concept of institutional advantage, which suggests that MNEs’ “preexisting characteristics” can combine with specific institutional attributes to generate a competitive advantage resulting in superior performance (Martin, 2014: 62), we argue that EE MNE subsidiaries will derive more value from their fixed asset management and tax planning capabilities compared to similarly skilled subsidiaries of DE MNEs. The reason for this is that EE MNE subsidiaries can draw on the

home-country institutional experience of the parent MNE when deploying these capabilities, whereas DE MNE subsidiaries must contend with the aforementioned challenges of internationalizing from a relatively more to less developed country. Fixed asset management and tax planning capabilities are a natural starting point for investigations of EE MNE competitive advantage because they reflect higher-order strengths of EE MNEs related to achieving cost advantages and managing relationships with governmental actors, respectively (Adarkwah & Malonæs, 2020; Estrin, Nielsen, & Nielsen, 2017; Madhok & Keyhani, 2012).

We test our theoretical arguments using a sample of 233 foreign subsidiaries operating in 25 emerging economies over the period of 2000–2017 and find broad support for our hypotheses. This study contributes to the research on EE MNEs by showing that home-country institutional experience matters for EE MNE performance, but only when paired with appropriate subsidiary capabilities, providing a critical missing piece of the puzzle surrounding EE MNE competitive advantage (Adarkwah & Malonæs, 2020; Cuervo-Cazurra, 2012; Ramamurti, 2012). We show that EE MNEs do indeed possess some similar capabilities as DE MNEs, but they require particular institutional contexts for these capabilities to contribute to superior performance. This interplay of host-country institutional context and subsidiary-level capabilities explains how EE MNEs can sometimes compete successfully despite lacking the typical ownership advantages possessed by DE MNEs, which is one of the most pressing gaps in our knowledge of EE MNEs (Cuervo-Cazurra, 2012; Hernandez & Guillén, 2018; Luo & Tung, 2018; Ramamurti, 2012). We propose the moniker “advantage of emergingness” to denote institution-based performance benefits of EE MNEs vis-à-vis DE MNEs. By focusing on competitive advantage *after* market entry, our study also complements previous studies of EE MNEs that have emphasized the internationalization patterns of these firms (e.g., Luo & Tung, 2007, 2018; Mathews, 2006), their likelihood of entry (e.g., Cuervo-Cazurra & Genc, 2008), or their exporting activities (e.g., Brouthers, O’Donnell, & Hadjimarcou, 2005).

2. EE MNEs, institutions, and firm capabilities

2.1. EE MNE internationalization and competitive advantages

Much research has focused on how EE MNEs differ from DE MNEs. Whereas DE MNEs generally internationalize slowly into increasingly distant countries and progressively move from exporting to the establishment of subsidiaries (Johanson & Vahlne, 1977), EE MNEs tend to adopt a “springboard” approach (Luo & Tung, 2007), internationalizing much more quickly by leveraging strategic alliances, joint ventures, licensing agreements, and cross-border acquisitions (Mathews, 2006). These MNEs tend to favor establishing foreign subsidiaries much earlier in the internationalization process than DE MNEs (Cuervo-Cazurra, 2012).

By internationalizing quickly, EE MNEs attempt to overcome deficiencies in their resource bases (Luo & Tung, 2007). The lack of strong and stable institutions in emerging economies often inhibits the development of firm-specific ownership advantages such as technologies, brand names, or patents (Dunning, 1980; Ramamurti, 2012). Unlike DE MNEs, which often internationalize to *exploit* firm-specific resources or capabilities, EE MNEs often internationalize to *acquire* or *develop* firm-specific resources or capabilities (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; Sun, Peng, Ren, & Yan, 2012). For example, EE MNEs in the white goods sector

(such as China-based Haier) leveraged international partnerships with established players from developed countries in order to build their own distinct competencies and brand reputations (Bonaglia, Goldstein, & Mathews, 2007). This approach contrasted with the internationalization patterns of their partners from developed countries, which generally internationalized after establishing market dominance at home.

Although enlightening, studies of EE MNEs have tended to focus on how the internationalization patterns of these firms can be explained. As a result, relatively little theory exists regarding the conditions under which EE MNEs can successfully compete with DE MNEs *following* internationalization. This omission is not trivial given that any potential competitive advantages of EE MNEs likely do not fit with the traditional conceptualization of an ownership advantage as defined in the eclectic paradigm (Dunning, 1980; Ramamurti, 2012), meaning that extant theory is not well adapted to explain situations in which EE MNEs can successfully compete with DE MNEs following foreign market entry. In other words, even if EE MNEs are able to internationalize despite the lack of traditional ownership advantages, this does not explain under which conditions they would be able to compete successfully with DE MNEs. Hence, there is a need for theory that elucidates the ability of EE MNEs to compete successfully abroad.

The competitive advantages of EE MNEs are presumably derived in part from their exposure to weak home-country institutions (Cuervo-Cazurra et al., 2018; Guillén & García-Canal, 2009; Luo & Zhang, 2016). To illustrate, Fig. 1 compares developed and emerging countries with respect to their politico-regulatory institutional development based on data from the Worldwide Governance Indicators (Dikova & Van Witteloostuijn, 2007; Slangen & Van Tulder, 2009). As shown, the institutional environment in emerging economies is characterized by significantly underdeveloped politico-regulatory institutions when compared to developed economies.¹ Moreover, Fig. 2 shows that, on average, the year-to-year magnitude of politico-regulatory institutional change is greater in emerging economies than in developed economies.² As such, it is evident that politico-regulatory institutional underdevelopment and volatility are two important characteristics of the institutional context in emerging economies.

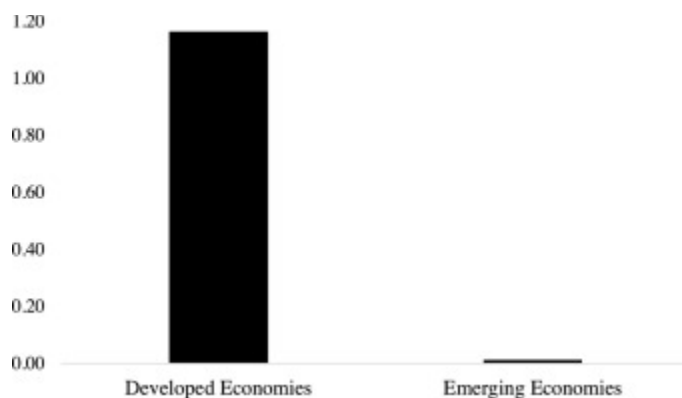


Fig. 1. Comparison of average levels of politico-regulatory institutional development.

¹ We also performed a t-test and found that the difference in institutional development between developed and emerging economies was statistically significant, with a mean difference of 1.05; Std. error = 0.20; $t = 5.33$; $p < 0.01$.

² The difference in the rate of change between emerging and developed countries was also statistically significant when performing a t-test. Mean difference = 0.03; Std. error = 0.01; $t = -2.18$; $p < 0.05$.

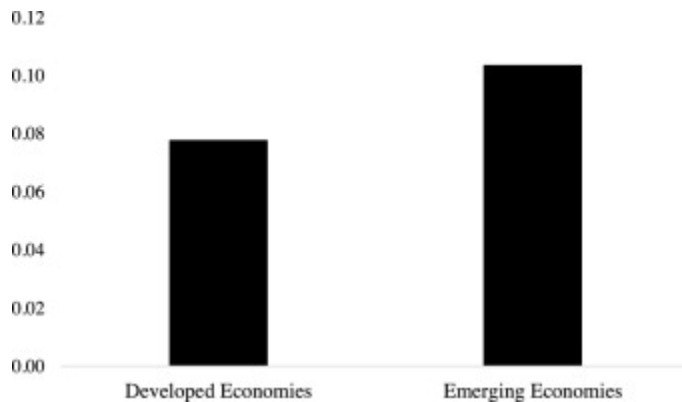


Fig. 2. Comparison of average levels of politico-regulatory institutional volatility.

Because EE MNEs may derive their competitive advantages at least partially from their institutional experience, any such advantages would likely be more location-bound or context-specific than the prototypical ownership advantages often possessed by DE MNEs, which are by definition non-location bound (Li & Oh, 2016; Sutherland, Anderson, & Hu, 2020). This would suggest that any competitive advantage that EE MNEs may possess should primarily materialize in host countries that exhibit similar institutional contexts as the home country, such as other emerging economies (Cuervo-Cazurra, 2012; Guillén & García-Canal, 2009; Hu, 1995). For example, Chilean MNEs had a substantial competitive advantage over rival firms in rapidly liberalizing host countries because their home country had also experienced rapid liberalization (Del Sol & Kogan, 2007).

However, even in host countries characterized by similar contexts – i.e., other emerging economies – there is reason to believe that the institutional experience derived from the exposure to a weak home-country institutional context is insufficient to explain why EE MNEs may outperform DE MNEs. It is difficult to conceive of MNEs being competitive without *any* firm-level capabilities (Ramamurti, 2012). Rather, EE MNEs likely bundle capabilities with institutional experience in order to compete (Li & Oh, 2016; Luiz, Stringfellow, & Jeffthas, 2017). Like all MNEs, EE MNEs expect local subsidiaries to develop the capabilities needed to survive in a host country (Adarkwah & Malonæs, 2020). Therefore, there is a need for novel theory that goes beyond arguing that EE MNEs’ institutional experience is the only source of these firms’ competitive advantage. We address this tension by applying the concept of institutional advantage to develop hypotheses that emphasize the interplay of institutional context and subsidiary-level capabilities in explaining EE MNEs’ competitive advantage within emerging-economy host countries.

2.2. Institutional advantage and EE MNE competitiveness

The concept of institutional advantage adds a firm-level perspective to the institution-based view, which emphasizes country-level institutional influences on firm outcomes (e.g., Peng, Wang, & Jiang, 2008). Specifically, the concept of institutional advantage proposes that institutions at the country level can enhance the “preexisting characteristics” of a firm to generate a competitive advantage leading to superior performance (Martin, 2014: 62). Thus, the concept of institutional advantage emphasizes the interplay between host-country institutional

environment and firm resources or capabilities as the source of a competitive advantage. Extending these insights to our context, we argue that EE MNE subsidiaries have an institutional advantage in that the host-country politico-regulatory institutional environment in emerging economies helps them deploy certain capabilities more effectively than DE MNE subsidiaries due to the challenges DE MNEs face when operating in less developed political-regulatory environments.

EE MNEs are thought to possess higher-order skills related to managing tangible assets efficiently because underdeveloped and volatile politico-regulatory institutions constrain resource availability (Estrin et al., 2017; Madhok & Keyhani, 2012); they are also thought to develop relationship management abilities to deal with governmental actors in such environments (Adarkwah & Malonæs, 2020; Madhok & Keyhani, 2012). Importantly, this means that foreign subsidiaries in emerging-economy host markets must also develop appropriate capabilities if they are to succeed. Specifically, given the scarcity of important input factors such as fixed assets (Hermelo & Vassolo, 2012; Hoskisson et al., 2013), MNE subsidiaries must develop and deploy fixed asset management capabilities (or the ability to do more with fewer physical resources) to use these resources as efficiently as possible. Moreover, weak property rights protections mean firms must expend more resources to protect fixed assets (Luo, 2001), also pointing to the need for efficiency. Likewise, although corporate tax rates are low in emerging economies (Duanmu, 2014), firms cannot take full advantage of lower tax rates if they cannot navigate the complex and arcane tax codes often found in emerging economies (Tanzi & Zee, 2000), necessitating an ability to know how to manage tax payments. Thus, fixed asset management and tax planning capabilities intersect both the purported higher-order strengths of EE MNEs as well as the specific skills needed to compete in an emerging-economy host country following market entry by MNEs.

Consistent with the concept of institutional advantage, our general argument is that fixed asset management capabilities and tax planning capabilities are likely to be more advantageous for EE MNE subsidiaries compared to similarly skilled DE MNE subsidiaries when both operate in host countries that are emerging economies. EE MNE subsidiaries can draw on the home-country institutional experience of parent MNEs when deploying them, enhancing the efficacy of these capabilities. On the other hand, DE MNE subsidiaries cannot draw on similar experience from their parent MNEs and will face unique difficulties, hampering the efficacy of the same capabilities. In totality, the applicability of EE MNE parent experience will lead to an institutional advantage (performance benefit) for EE MNE subsidiaries over DE MNE subsidiaries. Moreover, if EE MNE advantages are indeed tied to institutional context, then increasing levels of politico-regulatory institutional underdevelopment and politico-regulatory institutional volatility should amplify the utility of fixed asset management and tax planning capabilities, respectively.

2.2.1. Fixed asset management capability and institutional underdevelopment

Fixed asset management capability refers to the ability of firms to generate more revenue from their physical resource base than competitors, or “to do more with less” when using physical resources (Fainshmidt, Nair, & Mallon, 2017; Tang & Liou, 2010). For two important reasons, we expect that such a capability is valuable when operating in emerging-market host countries.

First, the underdeveloped politico-regulatory institutional environment in emerging economies means fixed assets can be difficult to access because purchasing resources like land and machinery is heavily dependent on often subpar governmental infrastructure (Shirodkar & Mohr, 2015), meaning firms must make do with what they have. Second, any fixed assets owned by MNEs are often threatened by weak property rights protections (Luo, 2001). The “unstable macroeconomic and weak institutional environments increase uncertainty and risk, usually discouraging investment in fixed assets” in emerging economies (Hermelo & Vassolo, 2012: 282). For example, in 2012, Argentina nationalized YPF (Yacimientos Petrolíferos Fiscales, or Fiscal Oilfields in English), an oil exploration company and subsidiary of Spanish MNE Repsol that produced oil within the country (Rucinski & Morris, 2012). Thus, MNEs will need to expend more resources to protect fixed assets from the risks posed by weak property rights protections, and also try to use fixed assets as efficiently as possible to make the most of limited available resources. Hence, the higher the fixed asset management capability of the MNE, the higher its ability to derive value from limited fixed assets while simultaneously protecting them from the risks associated with poor property rights protections.

These arguments suggest that all foreign subsidiaries would equally benefit from their fixed asset management capabilities when operating in emerging-economy host countries. However, we further argue that EE MNE subsidiaries will benefit more from fixed asset management capabilities than equally skilled DE MNE subsidiaries. The reason is that whereas EE MNE subsidiaries with fixed asset management capabilities can leverage their parent MNEs’ extensive experience in a broadly similar institutional context to help them deploy such capabilities in an emerging-economy host country, DE MNE subsidiaries likely cannot to the same extent.

In the former case, there is a stronger match between the home-country institutional context and the context in which fixed asset management capabilities are deployed, creating an advantage for EE MNE subsidiaries. Underdeveloped politico-regulatory institutions are common in emerging economies but not in developed economies (Cuervo-Cazurra, 2012). Essentially, EE MNEs’ exposure to operating in underdeveloped politico-regulatory institutional contexts in their home countries means that similar institutional contexts in emerging-economy host countries will facilitate their subsidiaries’ ability to deploy their fixed asset management capabilities. Said differently, EE MNE subsidiaries likely possess an institutional advantage in that their “preexisting characteristics” (Martin, 2014: 62) in terms of fixed asset management capabilities would be enhanced in emerging-economy host countries because these subsidiaries can leverage the expansive experience of their parent MNEs with similar institutional environments in the home country. Indeed, prior research has shown that parent-level institutional experience can be transferred to foreign subsidiaries (Kostova & Roth, 2002; Liu et al., 2014). This is especially true for EE MNEs as they tend to be more centralized, with subsidiaries frequently relying on the parent firm’s strategic expertise (Li & Oh, 2016). For example, EE MNEs often send expatriates to staff their foreign subsidiaries as a means of transferring institutional experience (Hu, 1995).

On the other hand, subsidiaries of DE MNEs cannot rely on extensive parent MNE expertise with underdeveloped politico-regulatory institutions, and these subsidiaries will face challenges when attempting to deploy their fixed asset management capabilities in emerging-economy host countries (Cuervo-Cazurra et al., 2018). In other words, their same “preexisting characteristics” will be hampered rather than enhanced by the host-country institutional context. This is because

the *direction* of institutional distance between home and host countries creates additional challenges for DE MNEs operating in emerging economies (e.g., Chikhouni et al., 2017; Hernández & Nieto, 2015). Although quantitative measures of institutional distance may be similar in magnitude, “the contextual differences (or similarities) may be comparatively much different” based on the direction of institutional distance (Chikhouni et al., 2017: 34). That is, an emerging and developed home country could have the same absolute magnitude of institutional distance from a third emerging host country (only in opposite directions), but the contextual differences between home and host country are likely to be much greater for MNEs from the developed country due to the direction of the distance (i.e., from a more developed country to a less developed country). Scholars have argued that in emerging economies, “rules and conventions prevalent in such institutional contexts are harder for DMNEs [developed-economy MNEs] to become accustomed to” (Sutherland et al., 2020: 4). For example, laws protecting property rights are common in developed countries, but the lack of such laws is a common institutional attribute of emerging economies (Luo, 2001). Similarly, government officials in emerging economies often use policies and regulations to extract wealth from firms (Friedman, Johnson, Kaufmann, & Zoido-Lobaton, 2000). In these cases, there is a contextual difference between institutions in developed and emerging economies (in addition to institutional distance) that inhibits adaptation on the part of DE MNEs, (Konara & Shirodkar, 2018).

Given the differences in institutional context between emerging and developed economies and the fact that adaptation will be more difficult for DE MNEs than EE MNEs (Holburn & Zelner, 2010; Mallon & Fainshmidt, 2017), DE MNE subsidiaries will face greater barriers in effectively deploying their fixed asset management capabilities in an emerging-economy host country due to the relative lack of relevant parent-level institutional experience with such settings. In contrast, EE MNE subsidiaries can leverage their parent MNEs’ institutional experience in order to deploy their fixed asset management capabilities more effectively than DE MNE subsidiaries. In other words, EE MNEs will enjoy an institutional advantage in that the similarity in institutional contexts between home and host countries allows them to draw on their parent-level institutional experience to enhance the performance benefits of subsidiary-level fixed asset management capabilities. Formally stated:

Hypothesis 1a. *In emerging-economy host countries, EE MNE subsidiaries will generate more performance-enhancing value from their fixed asset management capabilities than DE MNE subsidiaries.*

Although emerging-economy host countries are generally characterized by underdeveloped politico-regulatory institutions, there is variation among emerging economies (Luo & Zhang, 2016). Given this heterogeneity, we further argue that the performance advantage of EE MNE subsidiaries with regards to fixed asset management capabilities should increase in emerging-economy host countries that exhibit relatively more underdeveloped politico-regulatory institutions. Subsidiaries of EE MNEs with fixed asset management capabilities will be even better positioned to benefit from their fixed asset management capabilities than similarly skilled DE MNE subsidiaries because for the latter, the institutional context will become even more different from their home country and adaptation will be further inhibited. This means that the ability of EE MNEs to leverage relevant parent-level institutional experience will be even more valuable, increasing the gap between DE MNEs and EE MNEs with respect to their ability to

deploy similar levels of fixed asset management capabilities effectively. Thus, consistent with the concept of institutional advantage, the interplay of firm-level preexisting characteristics and institutional environment is even more favorable for EE MNE subsidiaries because there will be greater opportunity to distinguish themselves from DE MNE subsidiaries struggling to deploy their capabilities in the face of underdeveloped institutions, leading to a greater institutional advantage (performance benefit) for EE MNE subsidiaries. Therefore:

Hypothesis 1b. *As emerging-economy host-country politico-regulatory institutional underdevelopment increases, EE MNE subsidiaries will realize increasingly more performance-enhancing value from their fixed asset management capabilities compared to DE MNE subsidiaries.*

2.2.2. Tax planning capability and institutional volatility

In addition to less developed politico-regulatory institutions, another aspect of the politico-regulatory institutional environment that can significantly affect firm performance within an emerging-economy host country is the payment of taxes (Luo, 1999). Tax regimes in many emerging economies can often facilitate significant savings on tax payments for foreign MNEs (Duanmu, 2014), provided they develop subsidiary-specific tax planning capabilities. Tax planning involves legally structuring tax payments in a way that reduces the overall tax burden of the firm (Cooper & Nguyen, 2020). Subsidiaries with tax planning capabilities actively plan their tax payments in ways that are favorable for firm performance (Bai, Lu, & Tao, 2009; Tang & Liou, 2010). Tax planning capabilities are needed because emerging economies often have idiosyncratic tax regimes: “in many developing countries the political set up is less amenable to rational tax policy than in advanced countries” (Tanzi & Zee, 2000: 299). As a result, in emerging economies, tax codes are often complicated and convoluted. For example, the corporate tax rate often differs greatly based on economic sector and the tax codes feature “depreciation systems that are complex, incoherent, restrictive, and in general not investment-friendly” (Tanzi & Zee, 2000: 312). Additionally, there are numerous tax incentive programs that firms can exploit, such as tax holidays, investment allowances and tax credits, accelerated depreciation, investment subsidies, and various indirect incentive programs (Tanzi & Zee, 2000).

Moreover, firms and their tax payments are often overseen by many different governmental authorities (Gauthier & Gersovitz, 1997). In China, for example, firms must often pay taxes or fees to local governments, which have the ability to bankrupt non-compliant businesses (Zhou & Poppo, 2010). In many emerging economies, the “grabbing hand” is a common phenomenon wherein governmental actors seek to appropriate unduly large amounts of profit from firms through taxation (Friedman et al., 2000). Subsidiaries need to have the capabilities to form relationships with governmental actors to arrange for preferential treatment when it comes to tax payments (Wang, Jiang, Yuan, & Yi, 2013). Thus, navigating the tax regime in emerging-economy host countries often takes considerable tax planning skills.

However, analogous to our arguments above, we argue that possessing tax planning capabilities alone may not be sufficient to enjoy a competitive advantage. Although it is plausible that both DE MNE subsidiaries and EE MNE subsidiaries operating in emerging-economy host countries could develop tax planning capabilities, EE MNE subsidiaries will be better at deploying their

tax planning capabilities than similarly skilled DE MNE subsidiaries. Because of the aforementioned differences in institutional context between emerging and developed economies with regards to tax regimes, DE MNEs may face more difficulties in deploying their tax planning capabilities compared to equally skilled EE MNEs. DE MNEs may not possess experience dealing with complex tax codes featuring many opportunities for tax reductions. The fact that EE MNE subsidiaries can better leverage their parent MNEs' institutional experience when deploying their tax planning capabilities in emerging-economy host countries suggests that EE MNE subsidiaries will be better positioned to take advantage of the lower tax rates than DE MNE subsidiaries, creating an institutional advantage leading to superior performance for EE MNE subsidiaries. For example, EE MNEs can help their subsidiaries deal with local taxing authorities and navigate complex tax codes when the subsidiaries deploy their tax planning capabilities. Moreover, as noted above, following internationalization, relevant knowledge can be effectively transferred from the parent to the subsidiary (Kostova & Roth, 2002), especially if the host market exhibits similarities to the home market (Cuervo-Cazurra et al., 2018; Liu et al., 2014). Because there are contextual differences between the tax regimes of emerging economies and those of developed economies, DE MNEs are unlikely to have the breadth and depth of experience dealing with such issues, and thus will be less able to help their subsidiaries deploy tax planning capabilities in emerging-economy host countries. Hence:

Hypothesis 2a. *In emerging-economy host countries, EE MNE subsidiaries will generate more performance-enhancing value from their tax planning capabilities than DE MNE subsidiaries.*

As mentioned earlier, given that the institutional environment can differ somewhat across emerging-economy host countries, we further argue that the ability of EE MNE subsidiaries to leverage their parent MNEs' institutional experience when deploying their tax planning capabilities should increase in emerging-economy host countries characterized by relatively more volatile politico-regulatory institutions. In this situation, the parent's institutional experience becomes even more valuable because the relatively quick pace of politico-regulatory change in emerging economies means that tax programs and policies often change with little notice (Hoskisson et al., 2000; Meyer & Peng, 2016). Indeed, this fast pace of change is itself an important institutional difference compared to developed economies (Harzing & Pudelko, 2016). For example, governments may on short notice introduce tax holidays, or limited time periods during which certain taxes do not need to be paid (Tanzi & Zee, 2000). EE MNE subsidiaries can rely on expertise from their parent MNEs to deploy their tax planning capabilities and take advantage of these situations. It has been suggested that EE MNEs have developed an innate "institutional entrepreneurial ability" (Guillén & García-Canal, 2009: 32) due to their exposure to weak home institutional contexts. That is, compared to DE MNEs, EE MNEs are often more alert to changing institutions and better able to navigate such changes to their benefit, especially politico-regulatory changes (Guillén & García-Canal, 2009). On the other hand, DE MNE subsidiaries are likely to be slower when deploying their tax planning capabilities, and therefore may miss out on opportunities for tax savings.

Thus, as politico-regulatory institutions in emerging-economy host countries change, EE MNE subsidiaries should have even more opportunities to leverage their parent MNEs' institutional experience when deploying their tax planning capabilities which, as we argued above, can lead to

an institutional advantage over developed-economy rivals. As a result, the performance advantage related to tax planning capabilities should increase for EE MNE subsidiaries as host-country institutions become more volatile.

Hypothesis 2b. *As emerging-economy host-country politico-regulatory institutional volatility increases, EE MNE subsidiaries will realize increasingly more performance-enhancing value from their tax planning capabilities compared to DE MNE subsidiaries.*

3. Sample and methods

3.1. Sample

We collected data on foreign subsidiaries operating in emerging economies between 2000 and 2017 because much of the rise of EE MNEs began in earnest around the start of the 21st century (World Economic Forum, 2016). As noted above, we focused on emerging-economy host countries because they likely offer the most opportunities for EE MNEs to exploit their non-traditional advantages (Hu, 1995). Foreign subsidiaries were identified using Bloomberg Data Services, which collects filings from worldwide stock market exchanges. We manually verified that each firm was a foreign subsidiary by confirming it was owned by a parent company headquartered in a different country. Following previous research (e.g., Yamakawa, Khavul, Peng, & Deeds, 2013), we used the International Monetary Fund’s (IMF) classification of emerging economies to determine the emerging-economy status of home and host countries (our sampled countries were also consistent with the list of emerging economies found in Hoskisson et al., 2000). The IMF considers countries emerging economies if they have relatively lower per capita income, lower levels of export diversification, and lower levels of integration in the global financial system. Developed economies feature relatively higher levels of these characteristics and include all countries that are not considered emerging economies. No countries in the sample changed status during the sampling period. Our final sample encompassed MNEs from 32 countries, including EE MNEs originating from 10 different emerging economies spanning four continents. The subsidiaries in the sample operated in 25 emerging host markets across five continents (a list of home and host countries is displayed in Table 1). On average, the host country was approximately 7,000 km away from the home country.

Table 1. List of home/host countries in sample.

Home Country	Firm-years	Host Country	Firm-years
Austria ^{DE}	18	Argentina	65
Belgium ^{DE}	21	Bangladesh	12
Brazil	30	Brazil	161
Canada ^{DE}	7	Bulgaria	7
Chile	15	Chile	136
Denmark ^{DE}	16	China	109
Finland ^{DE}	15	Colombia	4
France ^{DE}	170	Croatia	13
Germany ^{DE}	183	Ecuador	5
Great Britain ^{DE}	284	Hungary	8
Greece ^{DE}	18	India	681
Hong Kong ^{DE}	75	Indonesia	274

Home Country	Firm-years	Host Country	Firm-years
India	23	Malaysia	77
Indonesia	8	Mexico	21
Italy ^{DE}	152	Morocco	45
Japan ^{DE}	152	Pakistan	176
Malaysia	33	Peru	160
Mexico	22	Philippines	74
Netherlands ^{DE}	153	Poland	120
Norway ^{DE}	7	Romania	25
Panama	7	Russia	30
Portugal ^{DE}	12	South Africa	94
Russia	6	Thailand	73
Singapore ^{DE}	122	Turkey	196
South Korea ^{DE}	20	Vietnam	6
Spain ^{DE}	130		
Sweden ^{DE}	13		
Switzerland ^{DE}	110		
Taiwan ^{DE}	35		
Thailand	42		
Turkey	17		
United States ^{DE}	656		

Note: DE = Developed-economy home country; all host countries are emerging economies.

Next, data on performance and other variables enumerated below were collected for the subsidiaries and their parent companies, also using relevant stock market filings from Bloomberg. As explained below, country-level variables were collected from various archival sources. Finally, subsidiaries with missing data were removed, resulting in an unbalanced panel of 233 foreign subsidiaries and 2572 firm-year observations (not all subsidiaries had complete data for all years). All sectors of the Global Industry Classification Standard were represented in the sample. The most represented industries were consumer staples (19.87 percent of the sample), consumer discretionary goods and services (16.64 percent), materials (16.06 percent), and industrial goods and services (14.66 percent). The smallest number of firms were from the financial (3.03 percent of the sample) and energy industries (3.81 percent). Thus, no single industry or industries dominated the sample, and the sample was balanced in terms of firms selling to consumers and firms selling to other firms, as well as firms producing goods versus those providing services.

3.2. Operationalization of variables

3.2.1. Dependent variable

Consistent with previous studies (e.g., Chacar & Vissa, 2005; Contractor, Kumar, & Kundu, 2007), subsidiary *performance* was measured using return on assets (ROA). Compared to other accounting-based performance measures, ROA is more comparable across countries and time because it is more evenly enforced by the International Accounting Standards Board (Tan & Chintakananda, 2016). ROA was adjusted for industry by centering it around the industry mean, using two-digit Global Industry Classification Standard codes (e.g., Ang, Benischke, & Doh, 2015).

3.2.2. Independent and moderator variables

To capture whether each foreign subsidiary was owned by a parent MNE that was headquartered in a developed or emerging economy, we created a dummy variable that took the value of one if the subsidiary was an *emerging-economy firm*, and zero if it was a subsidiary of a DE MNE. As noted above, we followed the IMF's classification to identify firms that originated from emerging economies. This measurement is consistent with other studies that seek to capture the direction of institutional distance and the resulting differences or similarities between the home country of the MNE and the host country (e.g., Chikhouni et al., 2017; Hernández & Nieto, 2015).

To measure *fixed asset management capability*, we followed prior studies and performed a principal components analysis of subsidiaries' asset depreciation to sales ratio (indicating decline in resource value) and fixed asset turnover ratio (indicating the value extracted from resources), then used the resulting factor scores to compute the variable used in our analyses (Fainshmidt et al., 2017; Tang & Liou, 2010). Essentially, this measure reflects subsidiaries' ability to maximize gains from available fixed assets and minimize losses from depreciation.

Tax planning capability was operationalized using subsidiaries' tax to sales ratios (also known as GAAP ETR), which is a common metric for firms' ability to influence their tax payments legally (e.g., Cooper & Nguyen, 2020; Minnick & Noga, 2010). The denominator of the ratio is the revenue of the firm, whereas the numerator reflects an estimate of the amount of taxes owed by the firm based on accrual accounting. Because accrual accounting records transactions when they occur, but not necessarily when the actual money changes hands, the line item for the estimated tax expenses can include tax payments due in the current period, those paid in the past, or those anticipated to be paid in the future (Hanlon & Heitzman, 2010). Put differently, "tax expense is composed of the sum of current tax expense and deferred tax expense. Deferred taxes represent taxes that will be paid or refunded in the future as a result of timing book-tax differences. These timing differences are an effective and popular tax planning tool to reduce current taxes and maximize the time value of money" (Minnick & Noga, 2010: 708). Thus, "because the income tax expense is an accrual-based expense, portions of it can potentially be manipulated to affect after-tax earnings" (Hanlon & Heitzman, 2010: 30). As a result, higher tax to sales ratios are often associated with better performance because the tax expense in the numerator may include payments that will be returned to the firm but nonetheless count towards the amount of taxes owed (Eden, 1998; Minnick & Noga, 2010; Tang & Liou, 2010). This is particularly true in emerging economies where laws allow for more flexibility with the tax expense line item (Bai et al., 2009; Tanzi & Zee, 2000).

Data on host-country institutions were drawn from the Worldwide Governance Indicators, which include six dimensions of country-level governance factors that are commonly used to measure national institutions (e.g., Ang et al., 2015). Specifically, by averaging the indicators, researchers can compare institutional development across countries because the six indicators reflect the same underlying dimension of institutional quality (Dikova & Van Witteloostuijn, 2007; Slangen & Van Tulder, 2009). Accordingly, we averaged the six Worldwide Governance Indicators for each host country in each year to measure *institutional underdevelopment*. All values were

negative, as expected for emerging economies. In order to ease interpretation of a performance advantage, we took the absolute values to use in our measure, such that higher values meant a higher degree of underdeveloped institutions/lower levels of institutional development. To operationalize *institutional volatility*, we calculated the absolute value of the change in this measure year-over-year for each country.

3.2.3. Control variables

We included a number of variables that have been shown to substantially affect subsidiary performance. At the level of the subsidiary, we controlled for *age* (in years), as younger subsidiaries may have less autonomy than older ones (Kim, Lu, & Rhee, 2012). Additionally, older subsidiaries may be more adept at receiving knowledge transfers from the parent MNE (Rabbiosi & Santangelo, 2013). We also controlled for subsidiary *size*, operationalized as the natural logarithm of total assets, because larger subsidiaries may be more established in host markets and therefore better positioned to compete (Liu et al., 2014; Zeng, Shenkar, Lee, & Song, 2013). Considering that EE MNEs may lack traditional ownership advantages compared to DE MNEs (Cuervo-Cazurra, 2012), we controlled for the monetary value of subsidiaries' *intangible assets*, which indicates advantages such as technology or brand name (Anand & Delios, 2002). At the level of the parent MNE, we controlled for *size* (natural logarithm of total assets) and *foreign experience* in the form of number of foreign subsidiaries to account for the fact that larger and more experienced MNEs may have more varied institutional experience as well as greater skill at transferring knowledge to subsidiaries (Zeng et al., 2013). The average MNE had about two foreign subsidiaries. We also controlled for *parent performance* (ROA) because more successful MNEs may possess distinct advantages that could be transferred to subsidiaries.

Because subsidiary performance could be a function of industry, we controlled for a number of industry-level factors based on two-digit Global Industry Classification Standard codes. *Industry capital intensity* was calculated using the average ratio of fixed assets to sales in each industry (Datta, Guthrie, & Wright, 2005; Lepak, Takeuchi, & Snell, 2003). *Industry dynamism* was measured by regressing the time period (1, 2, 3, etc.) against total industry sales, then dividing the standard error of the slope coefficient by mean industry sales (Datta et al., 2005; Lepak et al., 2003). Finally, *industry technological intensity* was measured by dividing total industry sales by total research and development expenditures (Lepak et al., 2003).

To account for country effects, we controlled for *host-market growth* by using the year-to-year change in gross domestic product (GDP) of each host country (Zeng et al., 2013). Growing countries may have more economic opportunities for subsidiaries to improve performance. We included *cultural distance* between home and host countries using Kogut and Singh's (1988) formula and data from Hofstede's (2001) cultural dimensions because greater cultural distance may inhibit the transfer of knowledge from parent to subsidiary (Ambos & Ambos, 2009). To establish that the direction of institutional distance matters in addition to its magnitude, we followed previous studies and factor analyzed the Worldwide Governance Indicators (which resulted in the indicators loading on one factor) to create an institutional profile for each home and host country, then calculated the *institutional distance* between them (e.g., Konara & Shirodkar, 2018; van Hoorn & Maseland, 2016). Finally, because our sampling period included

Variable	8	9	10	11	12	13	14	15	16	17	18
11. Industry capital intensity	-0.15	-0.04	0.13	1.00							
12. Industry dynamism	-0.12	0.07	0.13	-0.35	1.00						
13. Industry tech intensity	0.13	0.00	-0.08	-0.22	0.10	1.00					
14. Parent foreign experience	-0.08	0.24	-0.06	-0.06	0.21	-0.10	1.00				
15. Parent performance	0.13	0.04	-0.05	-0.10	-0.10	-0.05	0.09	1.00			
16. Parent size	-0.10	0.12	-0.07	0.05	0.12	-0.20	0.31	0.12	1.00		
17. Intangible assets	-0.16	-0.10	0.11	0.03	0.04	-0.08	0.01	-0.04	0.13	1.00	
18. Subsidiary size	-0.20	-0.02	0.24	0.25	0.27	-0.13	0.12	-0.03	0.38	0.33	1.00
19. Subsidiary age	0.10	-0.01	-0.22	-0.10	-0.13	-0.12	0.17	0.16	0.19	-0.10	-0.11

Bolded correlations indicate $p < 0.05$; $N=2,572$.

Because our main independent variable of interest (emerging-economy firm) did not vary over time, a fixed-effects approach would be problematic; accordingly, we used random-effects panel regression with robust standard errors clustered by firm to account for the non-independence of observations from the same subsidiaries over time (Wooldridge, 2013). Random effects is a generalized least squares approach, so it must be noted that R-squared values are not very meaningful; however, coefficient estimates are more efficient compared to alternative methods, such as pooled OLS (Wooldridge, 2013). Consistent with recommendations (Aiken & West, 1991), constituent variables within all interaction terms were centered around the mean to reduce the potential for multicollinearity. Because our hypotheses include three-way interactions using some of the same constituent variables (i.e., whether the subsidiary was part of an EE MNE), the models for H1a and H1b were run separately from H2a and H2b. The results are displayed in Table 3 (H1a and H1b regarding fixed asset management capability) and Table 4 (H2a and H2b regarding tax planning capability). Model 1 in each table is the baseline model including all controls and the main effects for the respective moderating variables. Subsidiaries located in countries with high GDP growth were associated with better performance, as were subsidiaries whose parents performed well and had more foreign experience. Notably, tax planning capability had a significant, positive effect on subsidiary performance.

Table 3. Fixed asset management capability (FAMC) and institutional underdevelopment effects on subsidiary performance.

	Model 1	Model 2	Model 3
Constant	-5.74 (3.83)	-5.70 (3.83)	-5.98 (3.83)
Crisis year	0.36 (0.50)	0.36 (0.50)	0.34 (0.50)
Host market growth	0.17 (0.06)**	0.18 (0.06)**	0.17 (0.06)**
Cultural distance	-0.01 (0.02)	0.00 (0.02)	0.00 (0.02)
Institutional distance	-0.47 (0.28) [†]	-0.42 (0.27)	-0.41 (0.27)
Industry capital intensity	0.94 (0.82)	0.93 (0.82)	0.89 (0.82)
Industry dynamism	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Industry tech intensity	91.31 (110.30)	87.32 (110.41)	92.18 (112.84)
Parent foreign experience	0.86 (0.41)*	0.87 (0.41)*	0.83 (0.41)**
Parent performance	0.17 (0.05)**	0.17 (0.05)**	0.17 (0.05)**
Parent size	-0.30 (0.65)	-0.33 (0.65)	-0.33 (0.65)
Intangible assets	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Subsidiary size	0.73 (1.20)	0.74 (1.20)	0.74 (1.20)
Subsidiary age	0.04 (0.02) [†]	0.04 (0.02) [†]	0.05 (0.02)
Institutional underdevelopment	-1.15 (1.67)	-0.88 (1.64)	-1.14 (1.65)

	Model 1	Model 2	Model 3
Institutional volatility	-0.75 (3.91)	-0.65 (3.90)	-0.37 (3.89)
TPC	3.12 (1.06)**	3.13 (1.06)**	3.12 (1.05)**
EE firm	1.59 (2.57)	1.27 (2.45)	1.54 (2.31)
FAMC	-0.10 (0.29)	-0.20 (0.25)	1.16 (3.34)
EE firm X FAMC		16.09 (6.11)**	52.35 (17.76)**
EE firm X Institutional underdevelopment			8.28 (3.54)**
FAMC X Institutional underdevelopment			9.25 (22.69)
EE firm X FAMC X Institutional underdevelopment			134.69 (67.74)**
R ²	0.09	0.09	0.09
N	2,572	2,572	2,572

Note: EE = emerging economy; FAMC = fixed asset management capability; TPC = tax planning capability. Unstandardized coefficients displayed; clustered robust standard errors are in parentheses. † $p < 0.10$. * $p < 0.05$. ** $p < 0.01$.

Table 4. Tax planning capability (TPC) and institutional volatility effects on subsidiary performance.

	Model 1	Model 2	Model 3
Constant	-5.74 (3.83)	-5.57 (3.84)	-5.64 (3.80)
Crisis year	0.36 (0.50)	0.37 (0.50)	0.36 (0.50)
Host market growth	0.17 (0.06)**	0.17 (0.06)**	0.17 (0.06)**
Cultural distance	-0.01 (0.02)	-0.01 (0.02)	0.00 (0.02)
Institutional distance	-0.47 (0.28)†	-0.48 (0.28)†	-0.48 (0.28)†
Industry capital intensity	0.94 (0.82)	0.95 (0.82)	0.90 (0.82)
Industry dynamism	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Industry tech intensity	91.31 (110.30)	92.21 (110.28)	94.79 (110.55)
Parent foreign experience	0.86 (0.41)*	0.87 (0.41)*	0.87 (0.41)*
Parent performance	0.17 (0.05)**	0.17 (0.05)**	0.16 (0.05)**
Parent size	-0.30 (0.65)	-0.33 (0.65)	-0.34 (0.65)
Intangible assets	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Subsidiary size	0.73 (1.20)	0.74 (1.21)	0.80 (1.21)
Subsidiary age	0.04 (0.02)†	0.04 (0.02)†	0.04 (0.02)†
Institutional underdevelopment	-1.15 (1.67)	-1.18 (1.67)	-1.24 (1.65)
Institutional volatility	-0.75 (3.91)	-0.74 (3.92)	2.88 (3.36)
FAMC	-0.10 (0.29)	-0.09 (0.30)	-0.08 (0.29)
EE firm	1.59 (2.57)	1.53 (2.62)	1.30 (2.61)
TPC	3.12 (1.06)**	3.51 (1.26)**	3.84 (1.35)**
EE firm X TPC		-5.37 (3.44)	1.90 (2.30)
EE firm X Institutional volatility			-25.40 (11.72)*
TPC X Institutional volatility			12.98 (31.52)
EE firm X TPC X Institutional volatility			197.27 (72.10)**
R ²	0.09	0.09	0.09
N	2,572	2,572	2,572

Note: EE = emerging economy; FAMC = fixed asset management capability; TMC = tax planning capability. Unstandardized coefficients displayed; clustered robust standard errors are in parentheses. † $p < 0.10$. * $p < 0.05$. ** $p < 0.01$.

Hypothesis 1a suggested that EE MNE subsidiaries will derive more performance-enhancing value from their fixed asset management capabilities compared to DE MNE subsidiaries, and was supported. The interaction term of emerging-economy firm and fixed asset management

capability in Model 2 of Table 3 was positive and statistically significant ($B = 16.09$; $p < 0.01$). This coefficient indicates that compared to a DE MNE subsidiary with fixed asset management capability, a similarly skilled EE MNE had an ROA that was about 16 percentage points higher, on average. Fig. 3 displays the interaction plot and shows that DE MNE subsidiaries realized almost no benefits from fixed asset management capabilities (high/low points displayed in the interaction plots represent one standard deviation above and below the mean, respectively). Whereas EE MNE subsidiaries without fixed asset management capabilities underperformed developed-economy firms, those with fixed asset management capabilities outperformed them.

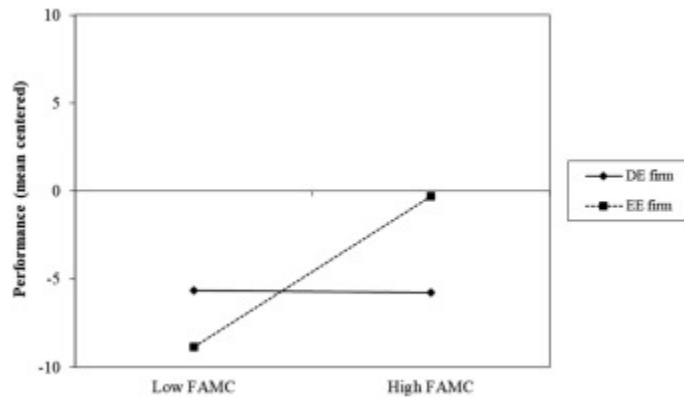


Fig. 3. Interaction of emerging-economy (EE) firm and fixed asset management capability (FAMC).

Hypothesis 1b, which stated that the performance advantage of EE MNE subsidiaries with fixed asset management capabilities would increase in countries with more underdeveloped institutions, also received support. As can be seen in Model 3 of Table 3, the interaction of emerging-economy firm, fixed asset management capability, and underdeveloped institutions was positive ($B = 134.69$) and statistically significant at the 0.01 level. As institutions became more underdeveloped, EE MNE subsidiaries with fixed asset management capabilities performed increasingly better than the 16 percentage point differential in ROA noted above. This three-way interaction is plotted in Fig. 4, which shows that EE MNE subsidiaries outperformed DE MNE subsidiaries when fixed asset management capability was high and institutions were underdeveloped. In such situations, EE MNE subsidiaries outperformed comparably skilled DE MNE subsidiaries by over 10 percentage points, on average.

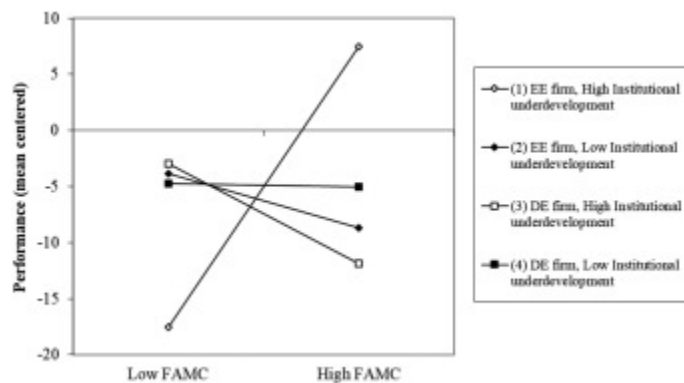


Fig. 4. Interaction of emerging-economy (EE) firm, fixed asset management capability (FAMC), and institutional underdevelopment.

In Hypothesis 2a, we argued that EE MNE subsidiaries would derive more performance-enhancing value from their tax planning capabilities compared to DE MNE subsidiaries. Model 2 of Table 4 shows that the interaction of emerging-economy firm and tax planning capability was negative and insignificant ($B = -5.37$; $p > 0.10$); thus, Hypothesis 2a was not supported. Hypothesis 2b predicted that tax planning capabilities would have increasingly stronger performance effects for EE MNE subsidiaries as institutional volatility increased. As shown in Model 3 of Table 4, the interaction of emerging-economy firm, tax planning capability, and institutional volatility was positive and significant ($B = 197.27$; $p < 0.01$). The interaction effect is displayed in Fig. 5, showing that EE MNE subsidiaries outperformed DE MNE subsidiaries when both tax planning capability and institutional volatility were high. In these cases, EE MNE subsidiaries outperformed comparably skilled DE MNE subsidiaries by about 1.5 percentage points, on average. The lack of support for Hypothesis 2a may indicate that developed-economy firms also take advantage of publicized tax exemption or reduction programs offered by host governments. However, because Hypothesis 2b was supported, emerging-economy firms may be quicker to spot and take advantage of tax opportunities when politico-regulatory institutions change. This also helps explain why the performance differential is smaller with regards to tax planning capabilities compared to fixed asset management capabilities.

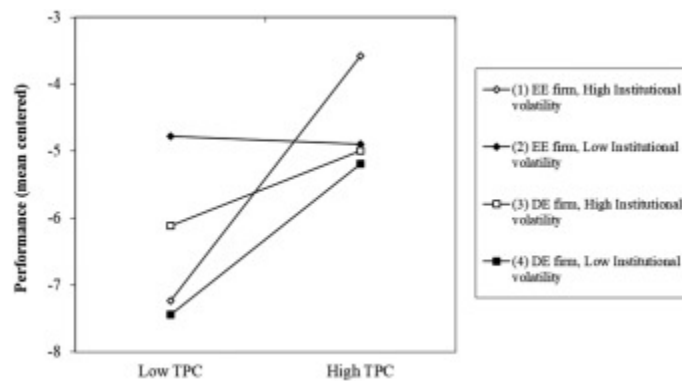


Fig. 5. Interaction of emerging-economy (EE) firm, tax planning capability (TPC), and institutional volatility.

4.1. Additional analyses

Although we found broad support for our hypotheses, one concern could be that our results were driven by our choice of dependent variable. Thus, in order to assess the robustness of our results, we re-ran all models using an alternative dependent variable, return on equity (ROE), mean-centered around the industry average (results available upon request). ROE measures the effectiveness with which a firm uses capital from investors. The results of our robustness test using ROE as a dependent variable were substantively similar to our results reported above, with minor exceptions. When using ROE, the interaction of emerging-economy firm and fixed asset management capability (Hypothesis 1a) was still positive, but did not meet conventional levels of statistical significance. The three-way interaction of emerging-economy firm, fixed asset management capability, and institutional underdevelopment was statistically significant ($p < 0.01$); therefore, the general pattern of the relationships held. Additionally, the three-way interaction of emerging-economy firm, tax planning capability, and institutional volatility had a

very slightly higher possibility of a null effect when using ROE ($p < 0.10$). These slightly attenuated results when using ROE could be due to the fact that equity is harder for EE MNEs to come by due to underdeveloped financial systems in their home countries (Cuervo-Cazurra, 2012), making this measure of performance less comparable between EE and DE MNEs, as the latter have easier access to equity. Given that EE MNEs are thought to be susceptible to agency problems and have difficulties using private investment efficiently (Hoskisson et al., 2000), the fact that the results mostly hold when using ROE lends further validation to the hypotheses.

Finally, because unobserved variables may have affected our results, we checked for potential endogeneity in our models using the dynamic generalized method of moments (GMM; Arellano & Bond, 1991; Roodman, 2009). Year dummies were used as exogenous instruments, whereas lagged independent and control variables were used as endogenous instruments (Ullah, Akhtar, & Zaefarian, 2018). The p-values of the Arellano-Bond two-step estimator, Hansen test, and the difference in Hansen tests were not statistically significant, providing justification for our use of the dynamic GMM and our choices of instruments (Roodman, 2009). Although observations were lost due to the lagging of variables, the dynamic GMM results were broadly consistent with our main findings, suggesting that the empirical findings reported above are likely not driven by endogenous influences.

5. Discussion

5.1. Theoretical implications

The objective of this study was to advance our understanding of EE MNEs' competitive advantages after foreign market entry. To the best of our knowledge, this study is among the first to address the theoretical tension in the literature around the specific sources of competitive advantages EE MNEs may possess despite the lack of supportive institutional environments in their home countries. We build on research that has speculated about how the competitive advantages of EE MNEs are "non-traditional" (Luo & Zhang, 2016: 346) or "different" (Ramamurti, 2012: 42) compared to those of DE MNEs. We add much needed theoretical and empirical substance to this stream of research by revealing the mechanisms and conditions under which experience with difficult institutional environments in the home country can translate into a competitive advantage for EE MNEs when competing in other emerging economies (Adarkwah & Malonæs, 2020). Despite its prominence in the literature, institutional experience alone is an insufficient explanation for EE MNEs' competitive advantage vis-à-vis DE MNEs in emerging-economy host countries. Rather, our theory and findings demonstrate that EE MNEs can possess an institutional advantage when competing in emerging-economy host countries if they are able to *combine* their parent MNEs' institutional experience with subsidiary-level fixed asset management and/or tax planning capabilities. In such situations, an advantage of emergingness, or a performance benefit that accrues to EE MNEs over DE MNEs, can occur.

Cuervo-Cazurra (2012) elegantly summarized the debate around EE MNEs as consisting of three possible positions: (1) that the behavior of EE MNEs requires entirely new theories; (2) that their behavior can be entirely explained with existing theories; and (3) that their behavior can be somewhat explained with existing theories, but these theories require modification. The findings presented in this study fall within the purview of the third perspective. That is, although they

may lack ownership advantages as traditionally conceived, EE MNEs *can* possess similar capabilities as DE MNEs: fixed asset management and tax planning capabilities could be developed by either type of MNE. Yet, these capabilities may only be valuable for EE MNEs relative to DE MNEs when competing in contexts that feature some institutional similarity vis-à-vis the home country, suggesting that the mechanism through which institutional experience contributes to EE MNE competitive advantage is by enhancing the value of subsidiary-level capabilities in appropriate contexts. More broadly, our study signals the need for the literature on EE MNEs to move beyond the notion that these firms can perform well in difficult institutional environments, and instead focus on the specific mechanisms through which their performance can be higher than that of DE MNEs.

Moreover, we show that the advantages of emergingness uncovered in this study are partially dependent on host-country institutional context, in contrast to ownership advantages frequently possessed by DE MNEs, which are presumed to be non-location bound (Li & Oh, 2016). That is, their resources or capabilities are unique to the firm and therefore can improve performance independently of the host-country institutional environment. Hence, while our findings echo prior research suggesting that institutions are driving factors of EE MNE performance when competing abroad (Li & Oh, 2016), our study adds the important qualification that institutions matter only insofar as they can enhance EE MNEs' subsidiary-level capabilities such as fixed asset management or tax planning capabilities. This insight necessitates modifications to theories of EE MNE competitive advantage. Although the eclectic paradigm has been extended to include institutional ownership advantages, this conceptualization consisted of "the institutional infrastructure, which is specific to a particular firm" (Dunning & Lundan, 2008: 582). It did not consider that the external institutional context could enhance the value of subsidiary-level capabilities, as delineated within the concept of institutional advantage (Martin, 2014), and demonstrated by our theory and empirical findings.

More broadly, studies of EE MNEs should therefore focus on specific combinations of institutional attributes and firm-level capabilities that improve their performance compared to DE MNEs. There are likely other institutional attributes that contribute to EE MNE performance over DE MNEs when paired with the appropriate capabilities. For example, emerging economies often feature distinct norms of doing business, such as nepotism and complex bureaucracies, and the lack of market-supporting institutions often lead to distinct customer needs (Madhok & Keyhani, 2012). Our study suggests that a more targeted approach to formal and informal institutional differences between emerging and developed economies will lead to greater understanding of EE MNE competitive advantages.

Finally, two popular perspectives on emerging economy MNE internationalization patterns – the springboard perspective (Luo & Tung, 2007) and the linkage, leverage and learning (LLL) perspective (Mathews, 2006) – seek to explain the rapid internationalization of EE MNEs. These perspectives explain how, why, and where EE MNEs internationalize; however, they are less informative regarding the competitive advantages that EE MNEs can exploit *following* internationalization. This study complements these streams of research by demonstrating how, why, and where EE MNEs can compete successfully after foreign market entry.

5.2. Managerial implications

Our findings also have important implications for managers of both EE MNEs and DE MNEs. First, managers of EE MNEs ought to recognize that they may possess distinct advantages that they can deploy in other emerging economies and should therefore consider entering such countries to exploit their non-traditional advantages. However, they should consider that institutional experience from the home country is likely not sufficient for a competitive advantage, but rather must be paired with appropriate firm-level capabilities. Second, EE MNE managers should consider whether other institutional contexts could be bundled with certain firm-level capabilities in order to increase their competitiveness in existing or perhaps new host countries. Managers of DE MNEs should be aware that, although they may possess traditional ownership advantages, these might not be sufficient to perform well in certain emerging markets or other countries with low institutional development or high institutional volatility. Accordingly, if they wish to compete with EE MNEs, they should seek to bolster their routines for coping with difficult institutional environments.

5.3. Limitations and future research

As with all empirical research, our study is not free of limitations. First, in order to test our ideas relating to the advantage of emergingness, our focus was at the subsidiary level, which is appropriate given our research questions and the fact that many EE MNEs are increasingly establishing foreign subsidiaries (Jormanainen & Kovesnikov, 2012; Meyer & Peng, 2016). However, there may also be performance differentials between DE and EE MNEs at the parent level, where there may be a portfolio of subsidiaries operating in diverse countries. Second, we examined subsidiaries operating in emerging economies because institutional underdevelopment and high institutional volatility are more common in such countries. Future research may seek to extend our arguments to developed host countries to ascertain whether they might perform well in certain situations, despite their general disadvantages in such countries. For example, developed host countries might require ownership advantages on the part of EE MNEs, but our focus herein was on institutional advantages.

6. Conclusion

The competitive advantages of EE MNEs are not well understood in the international strategy literature (Luo & Zhang, 2016). Herein, we developed and tested theory regarding specific competitive advantages of EE MNEs and the conditions under which such firms might outperform developed-economy peers. This study indicates that there is an advantage of emergingness when EE MNE foreign subsidiaries operate in emerging-economy host countries and possess fixed asset management capabilities. This advantage is amplified by institutional underdevelopment. There is also an advantage of emergingness when EE MNE foreign subsidiaries in emerging-economy host countries possess tax planning capabilities and there is an above-average level of institutional volatility. We contribute to the literature on EE MNEs by showing that their competitive advantages can take the form of institutional advantages, wherein the host-country institutional context enhances the performance benefits of these capabilities for EE MNE subsidiaries.

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