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Emerging multinational companies and strategic fit: A contingency framework and future research agenda

Peter Gammeltoft [a,*], Igor Filatotchev [b,c], Bersant Hobdari [a]

[a] *Department of International Economics and Management, Copenhagen Business School, Porcelænshaven 24, 2000 Frederiksberg, Copenhagen, Denmark*
[b] *Centre for Research on Corporate Governance, Sir John Cass Business School, City University London, 106 Bunhill Row, London EC1Y 8TZ, UK*
[c] *Department of Global Business and Trade, Vienna University of Economics and Business, Augasse 2-6, 1090 Vienna, Austria*

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Summary There is an increasing awareness in international business that institutional factors need to be better incorporated into the understanding of international investments decisions of multinational companies. This applies equally to outward foreign direct investment by emerging economy firms. The intense renewal of interest in these 'emerging multinationals' over the last half decade or so has stimulated an increasing volume of contributions offering alternative theoretical perspectives, macro-level surveys of aggregate trends and case studies of firms and their strategies and operations. Not much has been suggested in terms of integrating various theoretical frameworks however and developing a more holistic understanding of these new investment flows. In this Editorial we propose that outward FDI from emerging economies can be better understood by analyzing them within a broad institutional framework of strategic fit. This theoretical approach may provide important insights concerning both the original impetus to the contemporary acceleration of these flows and their specific features. By building on the early literature on fit in strategic management we outline an institutional framework which considers flows of outward investment from emerging economies as framed by institutional pressures at the firm level towards achieving fit between the environment, strategies, structures, resources and practices of the firm. For the multinational firm this fit must be attained along multiple dimensions, domestically, abroad and in the global environment. We then proceed to interpret recent evidence on 'emerging multinationals', including the contributions in this special issue, in the context of this framework. We conclude with proposing promising areas of future research.

Introduction

In the context of the globalization of markets, interest is increasingly focusing upon the strategies of multinational corporations (MNCs). Recent studies from developed

* Corresponding author.
E-mail address: pg.int@cbs.dk (P. Gammeltoft).

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economy MNCs recognize that both firm-specific and environmental factors help explain international diversification. Lesser attention has been given to the drivers of inter- nationalization strategies of firms from emerging economies (Child & Rodrigues, 2005; Luo & Tung, 2007; Witt & Lewin, 2007; Gammeltoft, 2008), and evidence on the relationship between emerging economy MNC (EMNC) competitive advantages and the nature of their internationalization strategies is lacking (Mathews, 2006). There is therefore a significant gap in the International Business (IB) and strategic management literatures on the drivers of international diversification of EMNCs. Addressing this gap is important, partly because of the substantial increase in outward foreign direct investment (OFDI) from countries such as China, India and Russia, but principally because the lessons for developed economies may not be directly applicable to an EMNC context.

The current wave of OFDI from emerging economies can in itself be interpreted as a firm-driven process of reestablishing 'fit': contingency theory emphasizes that a shift in the economic environment will trigger efforts in firms to maintain 'fit' between environment, strategy and structure. By realigning their strategies and structures with the changed circumstances firms can maintain their performance or take advantage of new opportunities. The global economy is shifting in ways that offer new opportunities and new challenges for firms in emerging economies. The consequent process of realignment of firms' strategies and international structures involves substantial outflows of FDI, supported by enabling government policies.

Achieving, and maintaining, through strategy a fit between the resources of a multinational firm and the environments in which it operates is central determinant of firm performance. For EMNCs achieving fit is a particular challenge, especially when investing in advanced economies. EMNCs often originate from institutional environments which are heterogenic and segmented, have co-evolved their structures and practices within idiosyncratic institutional environments, and need to overcome differences between diverse institutional settings in their foreign direct investments (Gammeltoft, Barnard, & Madhok, 2010a, 2010b). These challenges are often compounded by limited organizational and managerial experience and capabilities to internationalize.

For MNCs fit is a multidimensional concept. Traditionally, the strategic management literature has distinguished between internal and external fit (Venkatraman & Camillus, 1984). Internally, firms must match their organizational resources, structure and practices with their strategy. Externally, resources, structure and practices need to be aligned with the environment and its opportunities and threats. However, for multinational companies achieving fit acquires additional complexity. In addition to the traditional aspects of fit they also need to align across units in different locations at multiple levels. Internal fit is extended to encompass the relationship between units in different locations, particularly the fit between parent and subsidiary. External fit is extended to several contexts rather than one, viz. the home, host and global environment. These different dimensions of fit are illustrated in Figure 1.

The contributions in this special issue touch upon the issue of strategic fit in various ways. How do EMNCs fit with and are influenced in their internationalization by features of their home institutional environment; how are subsidiaries aligned with host environments, e.g. to effectively absorb technology; and how does the match between subsidiary and parent facilitate technology transfer are examples of central concerns.

It would be hard to provide a parsimonious review of a rapidly developing sub-field of FDI research that is focused on the complex interaction between organizational and environmental contexts of EMNCs. In this Editorial, we selected some key themes that have been relatively advanced in previous research that may help to develop a framework for understanding the influence of organization-environment interdependencies on the internationalization strategies of EMNCs in terms of the strategic fits that they try to achieve when expanding abroad. We link these themes with papers in the special issue, and outline potential avenues for future research.

Strategic fit and the evolution of EMNCs

Most generic management issues have an international business equivalent. They usually retain their basic characteristics when they are projected into an international space but are bestowed with additional layers of complexity. This applies equally to the issue of strategic fit. As Figure 1 suggests superior performance requires alignment between multiple institutional settings; for the multinational company achieving fit becomes a multidimensional challenge. This is supported by the literature on embeddedness, which argues that the concurrent and coordinated embeddedness in multiple institutional settings is conducive to MNC performance, particularly the concurrent embeddedness in firm-internal and firm-external networks (Andersson, Forsgren, & Holm, 2002; Meyer, Mudambi, & Narula, 2011).

While achieving fit is an issue for all multinational companies regardless of their regional origin, a number of special challenges are associated with multinationals from emerging economies. These special challenges emanate both from the characteristics of the institutional systems out of which they evolve and from the institutional distance between their home and the host countries. Cast in other terms, Gaur, Kumar, and Sarathy (2011) argue that EMNCs tend to face higher liability-of-foreignness than developed-country MNCs. For example, most developing and emerging economies exhibit some extent of 'duality' or segmentation in their structure, i.e. the economy is divided into two or more segments which are distinct in terms of characteristics such as productivity, technology, capital intensity, export orientation, firm size etc. (Gammeltoft, 2001). Depending on membership of such segments EMNCs opportunities and modalities of internationalization can be vastly different. The extent and nature of such challenges are not uniform but will reflect the varied nature of the national institutional systems, bringing about a wide diversity in internationalization trends among emerging economy multinationals (Gammeltoft et al., 2010b).

Even though it is not the most widespread motive for OFDI in quantitative terms, strategic asset seeking investments are taking on increasing importance in the current wave of OFDI from emerging economies (Gammeltoft, 2008) and attract considerable attention for both academic

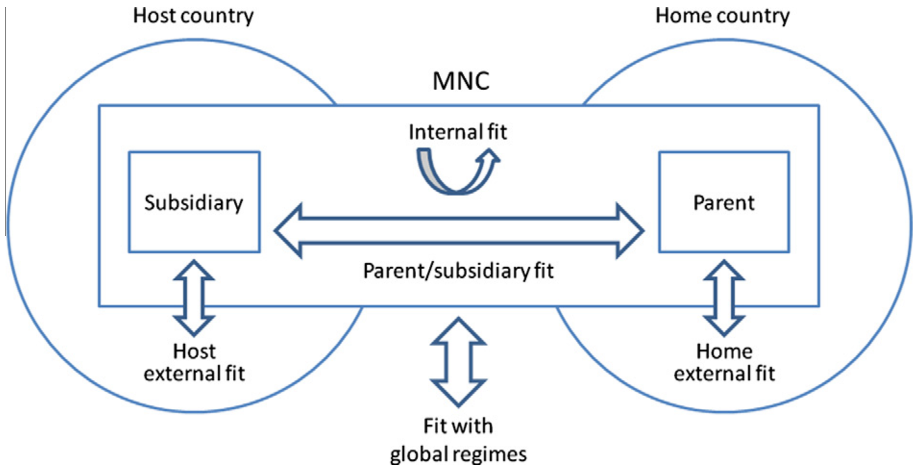

Figure 1 Dimensions of fit for MNCs.

and policy reasons. Whether through greenfield FDI, joint ventures or acquisition, EMNCs' successful acquisition of resources abroad is contingent on proper alignment both externally between the foreign affiliate and the host environment and internally between affiliate and parent (Di Minin et al., 2012, this issue; Chen et al., 2012, this issue). Such alignment enables the firm to better absorb locational advantages abroad, bundle them with its internal resources and leverage the extant set of advantages across geographic space (Rugman, Verbeke, & Yuan, 2011). This modality of resource acquisition is similar to the 'linking-leverage-learning' model proposed by Mathews (2006) as underpinning the development of latecomer firms, even though he conceptualized the model in terms of supplier roles in global value chains and not linkages forged through outward FDI.

Considering first external fit in the host economy, this conditions the sustainability and efficiency of foreign ventures and the effectiveness with which resources can be absorbed from abroad. Many EMNCs have begun to aggressively acquire strategic assets abroad (Luo & Tung, 2007) and achieving a sufficient level of fit in the host country is a determining factor for the sustainability of such ventures and for whether the assets acquired can be successfully absorbed and leveraged. The particular modality EMNCs choose to acquire target firms also depends on how the parent firm is inserted in the institutional environment of the home country (Stucchi, 2012, this issue).

For EMNCs, corporate HR practices can be significantly different from what prevails in the host economy and affect the success of acquisitions (Budhwar, Varma, Katou, & Narayan, 2009) as well as recruitment, attrition rates and productivity in general. In other countries EMNCs' structures and practices may endow them with comparative advantages over developed country investors. For example, EMNCs are often considered to be particularly astute in negotiating the institutional environments in developing host countries (Cuervo-Cazurra & Genc, 2008; Guillén & García-Canal, 2009; De Beule and Duanmu, 2012, this issue).

Groups of EMNCs may 'cluster' their investments abroad, whether driven by follow-the-leader or collective action effects. Investments can also be supported in the host country in different ways. For instance, in addition to the support services such as feasibility studies and risk analyses by Chinese overseas missions, there have been plans to construct Chinese-funded industrial and technological parks in Austria and Sweden and a consortium of Chinese businesses plan to establish a common European headquarters for electronics, clothing and maritime industries in Copenhagen.

Turning to fit in the home economy, OFDI flows are conditioned by macroeconomic and macro-institutional factors in the home economy (Fortanier & Tulder, 2009; Tolentino, 2010). In addition to this, alignment between the firm and the home institutional environment impacts the performance of the EMNC in a number of ways. Emerging economies tend to have a preponderance of business groups and state-owned enterprises (SOEs). They may draw on a more diverse set of resources within and beyond the group, compensate for deficiencies in financial, labor and product markets and reduce transaction costs (Becker-Ritterspach et al., 2012, this issue), and draw on internationalization experiences from other companies in the group (Elango & Pattnaik, 2007). Many emerging economies also have a high incidence of family-firms and firms with concentrated ownership. It has been suggested that firms with these ownership structures are less likely to engage in OFDI (Bhaumik, Driffield, & Pal, 2010). On the other hand, if they do engage in such investments they can operate less constrained by requirements from shareholders and other stakeholders.

A particularly important contingency in most developing and emerging economies is the extent to which a firm occupies a privileged position vis-à-vis the state (Gammeltoft et al., 2010a). This includes access to preferential finance, foreign exchange assistance, technical support, privileges in domestic markets and state ownership (Buckley et al., 2007; Child and Rodrigues, 2005). In the case of China subsidiary firms of the large 'national champion' groups have been found to perform better than other firms (Guest & Sutherland, 2010). Better fit may also entail better access to government privileges for supporting internationalization efforts. On the other hand, there is a risk firms that firms which are extended with privileges may grow complacent at home or engage in inefficient or overly risky investments abroad.

Converse to domestic privileges, inability to achieve fit at home may also work as a factor impelling firms to internationalize. In some economies, private as opposed to state-owned or state-affiliated firms may be compelled to venture abroad to remain competitive due to absence of privileges and preferential access to science and technology infrastructure etc. The home institutional environment may also be so poorly functioning that firms choose to internationalize as an 'institutional escape' from perceived misalignments between firms' needs and the institutional environment. This can be caused by factors such as political uncertainty, corruption, high tax rates, poorly functioning labor markets or inability to access critical input or output markets (Luo & Tung, 2007; Witt & Lewin, 2007).

Outward and inward internationalization are dynamically linked. Often outward internationalization is preceded by a learning period where the firm engages in different forms of inward internationalization, e.g. imports, technology acquisition, licensing and strategic alliances. The experiences, capabilities and network relationships gained through such inward activities can subsequently be leveraged in processes of outward internationalization (Chittoor, Sarkar, Ray, & Aulakh, 2009; Fletcher, 2001; Liu, Xiao, & Huang, 2008).

The extent to which EMNCs align with international regimes has a bearing on their performance and on their reception in host economies. There are often voiced concerns that emerging economy multinationals may be less committed to international standards and codes of conduct in domains such as the environment, labor standards and human rights. There is less in the way of concrete empirical evidence, however. Yet, it may be the case that family firms and SOEs from emerging economies have greater latitude in behaving more radically and less constrained by investor or public opinion than most developed country multinationals. The international environment also conditions outward investment through business networks: internationalization processes are often steered by firms' ability to attach to and navigate international business networks and motivated by the aspiration to gain access to certain networks (Chen & Chen, 1998).

In addition to the external fit between the EMNC and the home, host and international environment respectively, performance also depends on the internal fit between parent firm and affiliates and between overall strategy and structure of the EMNC. When it comes to foreign acquisitions in particular, fit between the parent company and the acquired company is important for performance. It is well known that most M&As fail and EMNC acquisitions are particularly prone to failures (Tan, 2005), due to the limited experience and capabilities of the acquirers and the psychic space spanned in the acquisitions. The performance of an acquired firm depends not only on its own fit locally but also on the fit of the parent firm, both at home and internationally, as this conditions the resources the subsidiary can leverage locally (Buckley, Elia, & Kafouros, 2010).

For strategic asset-seeking investments in particular, the fit between parent and subsidiary is critical. For assets acquired abroad to be successfully leveraged in the EMNC as a whole, be it in parent firm R&D operations or in affiliates in other countries, acquisition and absorption of assets in the subsidiary itself is not sufficient. It is necessary to also achieve effective transfers of assets between subsidiary and parent firm (Di Minin et al., 2012, this issue; Chen et al., 2012, this issue; Concer, 2012, this issue). International transfers of technology and knowledge are always difficult and costly to accomplish (Graebner, Eisenhardt, & Roundy, 2010; Teece, 1977) and even more so when latecomer firms acquire in developed economies advanced assets they do not yet master.

With respect to the internal fit between strategy and structure, generally the international structure follows the strategy of the EMNC. For example, firms producing standardized goods for mass markets will tend to adopt centralized and hierarchical structures, while firms in highly regulated industries or industries highly dependent on local tastes and preferences such as food and beverages will tend to adopt more decentralized and lateral structures. EMNCs will tend to adapt their structural characteristics, e.g. location choice, entry mode and ownership structure, to their strategy and their perception of the host environment, e.g. level of political and regulatory risk, cultural and linguistic distance etc. (De Beule and Duanmu, 2012, this issue; Kuo et al., 2012, this issue). But as alluded to earlier, the reverse influence may also apply, as when the governance structure and extent and character of network relationship shapes firms' internationalization strategies (Filatotchev, Strange, Piesse, & Lien, 2007).

The notion of fit in international business

Different approaches in strategic management differ with respect to what they define as the primary foundation for superior performance. Contributions within 'contingency theory' share the common understanding that context and structure must somehow fit together if an organization is to perform well. The label 'contingency' derives from the perspective that there is no single best way to design organizational structures. Rather, organizational performance is contingent on the fit between the environment and the structure and processes of the organization (Drazin & Van de Ven, 1985) and decision makers within organizations must continuously strive to align organizational goals with the external environment to achieve strategic fit (Hambrick & Canella, 2004; Sirmon & Hitt, 2009).

Superior performance requires proper alignment of endogenous design variables (e.g. organizational structure, degree of planning formality) with exogenous context variables (e.g. environmental uncertainty, technological change, market size). For any given strategy only a limited number of potential structures will be beneficial, depending on certain contingency factors. The better a firm manages to create a fit between its environment, strategy and structure, the better it will perform.

Contingency theory is distinct from alternative approaches in strategic management, particularly industrial organization economics and organization theory. Rather than fit, industrial organization, economics represented most forcefully by Michael Porter (1980, 1985) with roots in Bain and Mason, considers position in industries and strategic groups along with mobility barriers as the critical sources of competitive advantage, to the relative relatively neglect of firm heterogeneity and firm-internal factors. Since firms' organization and practices are largely determined by their environment they do not exert any significant independent influence on performance. Organizational economics, e.g. transaction cost economics (Williamson, 1975) and agency theory (Jensen and Meckling, 1976), underline the importance of governance mechanisms and contracts to reduce transaction or agency costs.

The issue of fit was prominent already in the seminal works on strategic management such as Chandler's *Strategy and Structure*, Ansoff's *Corporate Strategy* and Andrew's *The Concepts of Corporate Strategy* (Rumelt, Schendel, & Teece, 1991). These works emphasized the relationships between strategy and performance, the importance of combining external opportunities with internal capabilities and the notion that structure follows strategy. Chandler for example argued that changes in strategy are mainly responses to opportunities or needs created by changes in the external environment, such as technological innovation. As a consequence of change in strategy, complementary new structures are also devised.

Burns and Stalker's (1961) seminal work identified environmental variability as a critical contextual factor in organizational design and argued that formal, mechanistic structures are most appropriate in stable environments while informal, organic structures are appropriate in unstable ones. Miles and Snow's (1978) typology of strategic behavior further illustrates the approach. Depending on the type of environment firms would follow one of four strategies: defender, prospector, analyzer or reactor. Prospectors continually search for market opportunities, pioneer new products and experiment with different responses to environmental changes. They will be structurally very organic and need a high level of decentralization. Defenders prefer to compete on price and quality rather than invest heavily in innovation, often focus on niche markets and seek to improve their efficiency in existing operations. They need more mechanistic structures with more central coordination. Analyzers have traits of both prospectors and defenders in that they seek to simultaneously harvest on a stable base of existing products and customers and scan for new market opportunities. For this they adopt a structure that balances autonomy with control. Finally, reactors lack a consistent strategy and only adjust their behavior if forced to do so by the environment. They typically lack a fit between strategy and structure.

With its focus on firm resources and how they are bundled through rent-generating strategies and on the alignment of internal governance forms with the external environment the 'fit' literature is epistemologically related to RBV and institutional theory. In RBV for example value creation depends on the extent to which the firm's resources fit with the external environment allowing them to be mobilized to respond to opportunities or threats in the environment.

The process of creating fit is referred to as 'alignment'; fit is brought about through alignment of organizational resources with environmental opportunities and threats. The literature on fit argues that various forces drive organizations towards alignment, e.g. natural selection (survival of the best performing organizations and elimination of the poorest), organizational inertia and of course deliberate managerial action (Miller & Friesen, 1984; Siggelkow, 2001). Managing fit over time is an important dynamic managerial capability. Borrowing from the IB literature, which in turn borrows from organizational sociology, in addition to the discipline enforced by efficiency, pressures towards fit are also brought about through isomorphic efforts to achieve legitimacy. Isomorphism is here understood as 'a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions' (DiMaggio & Powell, 1983).

Studies of firms' strategic responses to institutional environments stress the importance of alignment of firms' interest and institutional structures (Witt & Lewin, 2007; Oliver, 1991). Hall and Soskice (2001) stress that firms adopt their strategies and organizational practices to take advantage of institutional opportunities and that the fit or isomorphism with the institutional environment can result in comparative institutional advantage on firms that align themselves with the opportunities and resources in the environment. As a result they expect firms to opt for those strategies and practices that take advantage of these opportunities.

When faced with unstable institutional environments at home or moving into new institutional environments past experiences are not that helpful for firms future actions, and economic norms are uncertain and in a state of flux (Newman, 2000). Adapting to new environments involves a range of responses, ranging from simply following what others are doing to strategic flexibility and network relationships. Although ownership form could potentially moderate the ease of adaptation, it is likely that both private and non-private firms will face similar challenges to adaptation. Multinationals, when setting up operations abroad, are often faced with institutional transitions, which are defined as 'fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players' (Peng, 2003). These transitions require strategic choices, which are likely to be dynamic in nature. Furthermore, these choices are contingent upon formal institutional development, informal norms, firm's own resources and industry context (Zhou & Peng, 2010).

Emerging market multinationals, especially those penetrating in developed country markets, face significant challenges towards environmental fit. Extant literature emphasizes the relative lack of market institutions in emerging markets, and large institutional differences between developed and emerging markets as potential barriers to outward investment of emerging market multinationals in developed countries (Peng, Wang, & Jiang, 2008; Hoskisson, Eden, Lau, & Wright, 2000). Overcoming these barriers requires EMNCs to effectively align across multiple institutional settings, as illustrated in Figure 1. At the same time, through aligning with, isomorphically adapting to and mimicking host institutional settings EMNC subsidiary learn to operate in developed country institutional settings.

Empirical studies have analyzed different aspects of fit. Externally, studies have looked at alignment of strategy with variables such as market opportunities, product life cycle, market growth rates and relative competitive position. Internally, studies have looked at alignment of strategy with variables such as structure, management systems, technology and organizational culture (Venkatraman & Camillus, 1984).

Contingency theory is not without its critics. It has been argued that the focus on fit implies environmental determinism at the expense of strategic choice; that focusing on fit does not sufficiently recognize managers' discretion to make choices (Hrebiniak & Joyce, 1985). It may also be that you can have too much of a good thing, that too tight a fit will bring about rigidities, inflexibilities and perhaps complacencies on the part of the firm, which can be detrimental to long term performance. The ambidexterity literature suggests that firms, which master exploitation and exploration concurrently, and strikes the right balance between them, will achieve superior performance, i.e. an unbalanced relationship between environment and organization can induce dynamism and innovativeness (Raisch & Birkinshaw, 2008; Wulf, Stubner, & Blarr, 2010).

Firms do not necessarily just adapt to their environment; they may also shape it. While extant literature focuses largely on how institutional environments shape firm responses, there is a stream of research outlining the co-evolutionary nature of institutions and firm behavior. This stream emphasizes ways in which firm strategy collectively and intentionally feeds back to shape institutional structures. For instance, Campbell (2004) focuses upon the creative and self-interested means in which firms adopt institutional elements from their own and other contexts, modify, mutate, and otherwise make the element work in new contexts. Examples of such processes are Asian firms' attempts at filling institutional voids, retarding institutional developments and deploying institutional escape (Carney, Gedajlovic, & Yang, 2009).

EMNCs and institutional fit

IB studies often view the firm's internationalization as a process of increasing experiential knowledge whereby the firm makes incremental moves from low resource-augmenting modes to higher resource-augmenting modes of entry or from home regions to further regions (Johanson & Vahlne, 1977). However, emerging economy firms sometimes take high level risks in the international process by skipping the intermediate stages and going directly to the more advanced stages with little prior international experience or by investing aggressively in countries which institutionally differ from their home country (Barkema & Drogendijk, 2007). A growing body of research suggests that emerging economy firms engage in OFDI due to multilevel factors that include macro-business environmental forces as well as firm-level dynamics (Ramamurti & Singh, 2009). The rise of EMNCs, therefore, provides an important opportunity to deepen our understanding of how they seek institutional fit in their home and host countries to mitigate disadvantages of their late arrival and to accelerate the internationalization process.

Early development of the cross-level literature on institutions and international business has largely focused on institutions in MNCs' host countries (Henisz & Zelner, 2005). Recently, OFDI from emerging economies has attracted research interest in the role of home country institutions in the process of internationalization by emerging economy firms (Child & Rodrigues, 2005; Witt & Lewin, 2007). However, the extant international diversification literature seldom considers institutions in both host countries and the home country simultaneously, especially the interaction between host country institutions and supportive policies by the home country. Considering these two aspects together is important, since home country support may help overcome host country constraints, while such support may be less important if the host country context is open to foreign entry. Alternatively, there may be complementarities where home government support is needed to help inexperienced emerging economy firms to enter competitive overseas markets.

Traditional IB theory, such as the incremental internationalization model, emphasizes the importance of learning in internationalization. It suggests that knowledge of foreign markets resulting from firms' experience in their past or current operations helps them increase their commitment to foreign markets (Johanson & Vahlne, 1977). While experiential learning may still be important in the context of underdeveloped institutions in host countries or where firms lack institutional support from the home government, well-established institutional environments in host countries and home country government's support may help firms reduce risk and uncertainty associated with foreign operations. Hence, appropriate institutional arrangements in both host and home countries may compensate firms for their lack of experiential knowledge and enable them to accelerate the internationalization process. Previous IB studies suggest that various differences between country level factors of home and host countries may significantly affect the success of foreign firm investing in host countries (Tsang & Yip, 2007). Recent research, however, shows that EMNCs are less risk—averse and less guided by the psychic, cultural, geographic and economic distances between their home country and host countries (Mathews, 2006). Instead, EMNCs are known to take internationalization as a 'springboard' to overcome their latecomer disadvantage, and are not necessarily evolutionary in selecting entry modes and project location (Luo & Tung, 2007). In other words, research linking expansion ambitions to 'institutional fit' between firm-level resources and home and host country environments is a useful heuristic lens to consider FDI by emerging economy firms.

More specifically, home country institutions not only facilitate firms' development of distinctive advantages in production, technology, and marketing that can be deployed in host countries (Erramilli, Agarwal, & Kim, 1997), but also provide firms' political advantages that allow firms to manage political risks in host countries. García-Canal and Guillén (2008) argue that government-backed MNCs may be able to negotiate favorable conditions of entry in host countries, while Holburn and Zelner (2010) find that firms from home countries characterized by weaker institutional constraints on policymakers have higher organizational capability for managing policy risk and are less sensitive to host-country policy risk. While government policy plays important roles in regulated industries, favorable government policies are critical especially when some emerging economy governments encourage local enterprises to go global. Hence, in the process of internationalization, emerging economy firms could leverage favorable policies received in home countries to mitigate risks in host countries.

In addition, emerging economy governments use promotional tools, including trade shows and inter-government agreements, to directly assist exports and OFDI. OFDI promotion policies set by emerging economy governments are institutionally complementary to offsetting competitive disadvantages of EMNCs in global competition. In emerging economies, weakly developed institutions and government promotions for internationalization may coexist. Emerging economy governments may offer direct support such as providing low cost of capital to EMNCs (Buckley et al., 2010) and indirect support including negotiation of bilateral treaties with host country governments to protect OFDI. For example, the Korean government provided strong support that has enabled Korean firms to invest heavily abroad at relatively low cost in their early internationalization stages (Lau, 2003). In China, since the implementation of the 'go global' strategy in 2000, the Chinese government has established a set of guidelines for Chinese OFDI in order to create incentives for OFDI, streamline administrative procedures, ease capital control, inform firms investment opportunities, and reduce political and investment risks in OFDI (Buckley, Cross, Tan, Voss, & Liu, 2008).

In explaining the 'large steps' in internationalization of EMNCs scholars often build on the notion of 'institutional escapism' (Witt & Lewin, 2007). The institutional escapism perspective argues that misalignments between firms' needs and home country institutional environments force emerging economy firms to invest abroad to escape home country institutional constraints. One dominant view of this perspective is that the hostile home country institutional environment propels OFDI of firms in emerging economies. Predatory governments and institutional voids are likely to push emerging economy firms abroad. For example, many companies from China, India and Brazil establish entities abroad and then return home as inward FDI to enjoy more preferential policies as 'foreign' investors. Moreover, informal institutional hazards, such as public corruption and taxation evasion at home, can also push legitimate businesses abroad (Luo & Tung, 2007). Thus, OFDI of emerging economy firms may be pulled by advanced institutional environments in host countries.

A number of host country institutional factors may affect MNCs. Guler and Guillen (2010), for example, find that host country institutions determine the attractiveness of a foreign country and have a large impact on entry into new markets by US firms. In particular, institutions in host countries, which affect transaction costs and resource access capabilities of firms, significantly shape firms' market entry strategies. MNCs may select short-term contracting and joint venture entry modes to avoid risks and minimize the uncertainty resulting from weaker institutional environments in host countries (Uhlenbruck, Rodriguez, Doh, & Eden, 2006). On the other hand, institutional environments that support business development may be a magnet for foreign firms that want to take advantage of these favorable conditions. Corruption — i.e., the abuse of public power for private benefit — is another factor that may have significant impacts on economic growth, and countries with less government corruption are found to grow faster (Mauro, 1995). In terms of OFDI, uncertainty surrounding corrupt transactions increases the perceived operating cost of MNCs, and deters them from investing in these countries. Existing research finds that corruption significantly reduces aggregate OFDI even when controlling for political risk and cultural distance between the home and host countries (Habib & Zurawicki, 2002). On the other hand, well-established market supporting institutions are able to provide support services to foreign firms and the efficient common infrastructure that facilitates economic transactions (McEvily & Zaheer, 1999). They also help firms to reduce the information and search cost associated with accessing critical resources for foreign operation.

This discussion suggests that EMNCs may be in search of institutional fit both abroad and at home that may significantly affect their internationalization decisions. Differences in institutional settings can significantly influence a firm's ability to take advantage of firm-specific capabilities (Sirmon, Hitt, & Ireland, 2007); deploying these capabilities through the proper structure can help the firm improve its ability to utilize these capabilities, create value, and overcome institutional environmental differences. A number of more recent studies made a significant criticism of the RBV; that it ignores the context in which firms operate, assuming that the resource-structure-performance interrelationship applies universally and is not influenced by contextual factors (Priem & Butler, 2001; Sirmon et al., 2007). Yet others have noted that when firms expand abroad they encounter unique national institutional contexts that define the ''rules of the game'' for doing business in that particular country (Newman, 2000). We argue that future research on EMNCs should take into account institutional differences between countries and tailors the resource-structure-performance paradigm (Brouthers, Brouthers, & Werner, 2008).

Corporate governance and FDI

In addition to the external fit between the EMNC and the home, host and international environment respectively, performance also depends on the internal fit between parent firm and affiliates and between overall strategy and structure of the EMNC. Corporate governance at the headquarter level and of a headquarter-subsidiary relationship forms an integral part of this strategic fit that has been largely unexplored by IB studies. Buckley and Strange (2011) argue that to the extent that the IB literature has focused on governance issues, the emphasis has been on bureaucratic control of the allocation of production and distribution systems, generally from an internalization theory (IT), and to a lesser extent RBV, perspective. Filatotchev and Wright (2011) however, argue that it is becoming increasingly important to adopt an agency theory (AT) perspective that recognizes various dimensions of corporate governance, such as goal misalignment between managers and stakeholders, as well as managerial opportunism. More recent studies have indicated that internationalization strategies are associated with information asymmetries and substantial risks. As a result, the specific FDI decisions may also be related to a fit between business opportunities and risk preferences and decision-making horizons of managers and the other main shareholder constituencies as suggested by agency theory (Carpenter and Fredrickson, 2001).

Given that the firm's degree of internationalization is an important determinant of the complexity it faces (Sanders & Carpenter, 1998), FDI strategy will depend on the ability of the parent to deal with information asymmetries and potential agency conflicts associated with overseas ventures. As FDI decisions typically require high levels of information and the low frequency and high duration with which they occur, these conditions are also likely to contribute to agency problems (Michael & Pearce, 2004). Therefore, FDI decisions should also depend on the firm's governance characteristics, such as the distribution of ownership and control. However, the effects of the governance characteristics of the focal firm that undertakes FDI remains relatively unexplored.

For example, within economics and corporate finance, a substantial body of research has focused on the governance roles of dominant block-holders, especially in the environment of emerging and less developed economies (Claessens, Djankov, & Lang, 2000). In the context of NIEs in South-East Asia and elsewhere, family owners and other block-holders have been identified as an important governance constituency that may shape strategic decisions, including internationalization (Claessens et al., 2000; La Porta, Lopez-de Silanes, Shleifer, & Vishny, 2000). For example, it has been shown that the presence of foreign institutional shareholders, rather than pure family ownership or non-family insider ownership, is generally associated with high commitment entry modes (Filatotchev et al., 2007) and that shareholdings of controlling family, and of non-family insiders, in parent company, and parent shareholding in the Chinese affiliate, have significant effects on FDI location (Strange, Filatotchev, Buck, & Wright, 2009). Also, the fit between the form of corporate governance and international experience is a determinant of entry strategies affecting whether firms choose joint venture or wholly-owned subsidiary as the preferred entry mode (Kuo et al., 2012, this issue).

Buckley and Strange (2011) argue that both IT and RBV perspectives emphasize the importance of bank- or family-centred business groups, in particular in developing and newly industrialized economies (e.g. Khanna & Palepu, 2000). This organizational form helps businesses, in particular in emerging markets, to overcome institutional imperfections, provide access to internal and external resources, buffering the company from risks and develop international operations (Becker-Ritterspach & Bruche, 2012, this issue).

AT, however, provides a different perspective on organizational outcomes of this form of organization. For example, the role of banks as shareholders provides obvious incentives for banks to behave opportunistically as a result of their multiple roles and access to information: banks may handle the accounts of companies and thus be intimately aware of their cash-flow positions, while at the same time offering their services as investment brokers, management consultants and agents in corporate finance, seeking funds for the company abroad. While these multiple roles offer significant economies of scope, other shareholders may be disadvantaged, as bank-shareholders may have too much influence within the firm, and banks may be more concerned with their short-term credit positions than with long-term investment prospects (Coffee, 1991).

Agency research may help to re-assess the recent evidence associated with rapid development of bank holding companies in transition economies. A particularly characteristic exemplification of this trend is the oil/gas and telecommunication industries in India, China and Russia, which are dominated by holding companies such as Gazprom and PetroChina. These companies are fixing the borders of their international empires through intra-holding consolidations, mergers and single-share swaps. They are also characterized by concentrated, often state-controlled, ownership. Moreover, outside shareholders in each of them have suffered a dilution of their holdings, at different stages and to various degrees. In addition, many industries in Russia have also experienced a rapid development of Financial-Industrial Groups (FIGs) that represent large diversified holding companies owned by banks, trading companies, etc. which are ultimately controlled by a handful of well-connected 'oligarchs'.

Very often business groups and other holding companies are actively trying to fend off pressure for their members to restructure, and sometimes become simply a vehicle for creating pyramidal ownership structures. La Porta et al. (2000) suggest that these structures can be used by controlling shareholders to make existing shareholders pay the costs, but not share all the benefits, of new ventures. Perotti and Gelfer (2001) provide empirical evidence from Russia suggesting that, although members of FIGs have easier access to investment finance, the extent of their restructuring and performance is lower than non-group firms. This can result in the traditional principal-agent problems firms face being supplanted by unique agency problems arising from principal-principal goal incongruence which occurs when a dominant owner disregards the interests of minority owners (Douma, George, & Kabir, 2006).

These diverse research streams suggest that corporate governance parameters of EMNCs may have a significant impact on the notion of strategic fit. Traditional internalization theory approach limits our understanding of the behavior of EMNCs since it fails to take account of the different risk preferences of managers and shareholders which may lead to differences in strategic objectives. The need, then, is to design a governance contract to align interests of managers and shareholders rather than simply governance structures that minimize the costs of effecting a transaction. Such governance factors as ownership structure and types of dominant owners, board characteristics, executive compensation, etc. may have not only significant impact on the internationalization strategies of EMNCs but also determine performance outcomes of these strategic decisions.

Papers in the special issue

While a special issue cannot address the full range of issues related to strategic fit, this issue comprises of a set of papers that theoretically and empirically cast light on EMNCs' efforts toward institutional fit. The special issue arose out of the 2nd Copenhagen Conference on Emerging Multinationals held at Copenhagen Business School, Copenhagen, Denmark, on November 25–26, 2010. Out of more than 60 papers submitted for the conference 7 papers were included in the special issue. A brief summary of these papers is given in Table 1. The papers highlight the variety of challenges facing EMNCs in their search of fit and use multiple lenses to interpret and understand them. Overall, despite diversity in themes and methodologies, the papers emphasize that in order to succeed EMNCs must achieve organizational and environmental fit, both at home and host country.

Alberto Di Minin, Jieyin Zhang and Peter Gammeltoft's paper 'Chinese foreign direct investment in R&D in Europe: a new model of R&D internationalization?' employs a multi case-study approach to investigate Chinese firms' investment in R&D in European countries. The authors focus on three different aspects: technology exploration versus technology exploitation as investment motive; locational strategies for R&D investments; and the dynamics of motives of

Table 1 Overview and relation to fit of the papers in the special issue.

Authors	Explanandum	Explanans	Theory	Issues of fit
Alberto Di Minin, Jieyin Zhang, Peter Gammeltoft	Evolution of motives and mandates of Chinese R&D labs in Europe	Learning- vs innovation-based internationalization	Innovation management Strategic management	Fit between subsidiary and host for knowledge acquisition Fit between subsidiary and parent technological capabilities
Victor Zitian Chen, Jing Li, Daniel M. Shapiro	Technological capability creation in EMNC parent firms	OFDI in technologically advanced hosts	Innovation management	Fit between subsidiary and parent vis-à-vis knowledge transferFit between subsidiary and host for knowledge acquisition
Felipe Borini, Moacir de Miranda Oliveira Junior, Franciane Silveira, Ronald De Oliveira Concer	Parent company use of subsidiary innovations ('reverse innovation')	Strategic orientation of subsidiary's R&D function Integration between parent company and subsidiary Entrepreneurial orientation Entry mode Subsidiary embeddedness	RBV Innovation management International strategic management (transnational framework) Stages theory	Fit between subsidiary and parent vis-à-vis knowledge transfer Fit between subsidiary and host for knowledge acquisition
Florian Becker-Ritterspach, Gert Bruche	Capability creation and internationalization of emerging market firms	Business group embeddedness	Institutional theory RBV (capabilities)	Extent of fit with home institutional environment (group)
Anthony Kuo, Yi-Chieh Chang, Ming-Sung Kao, Chih-Fang Chiu	Entry mode choice by family firms	Environmental uncertainty; Family firm; Investment size; Parent size; R&D intensity; Debt ratio; Industry	Corporate governance FDI theory TCE	Fit between strategy and governance
Filip De Beule, Jing-Lin Duanmu	Locational determinants of Chinese and Indian acquisitions	Country-, industry, firm-specific determinants Market size and openness; Institutional quality; Natural resource endowments; Strategic asset endowments; Distance; Deal size; Profitability; Acquiror characteristics	FDI theory	Fit between investment strategy and firm capabilities
Tamara Stucchi	Acquisition strategies by Indian firms in developed economies	Market type; Industry; Ownership mode; Diversification; Internationalization experience; Management experience; Financing; Linkages	Strategic management OLI	Extent of fit with home and host institutional environment

overseas R&D units. Juxtaposing R&D investment strategies of Chinese multinationals to those of developed country multinationals, the authors find stark differences across all aspects. A specificity of technology exploitation activities of Chinese firms is that, although they possess domestic competitive advantages in terms of technological capability, they require technological assistance from local partners. The companies involved in R&D internationalization first seek and explore technologies abroad before they transfer these back and fuse them with domestic R&D activities to enhance their R&D capabilities in China. Effective accumulation and transfer of technology requires subsidiaries to be properly aligned with its foreign partners and parent.

In their contribution 'International Reverse Spillover Effects on Parent Firms: Evidences from Emerging-Market MNEs in Developed Markets,' Victor Zitian Chen, Jing Li and Daniel M. Shapiro examine whether and to what extent EMNCs use outward foreign direct investment in a developed market to capture knowledge spillovers and transfer knowledge in order to improve their technological capabilities at home. Building upon innovation management and foreign direct investment theories and using a sample of 493 EMNCs over the period 2000—2008 the authors provide evidence of the existence of this reverse transfer phenomenon. The successful occurrence of knowledge transfer is however impacted by the readiness of parents to absorb transferred knowledge and the ability of the subsidiary to benefit from knowledge in the host country. The latter is, in turn, impacted by the fit with technological resources in the host country in general and relevant industry in particular.

Felipe Mendes Borini, Moacir de Miranda Oliveira Junior, Franciane Freitas Silveira and Ronald de Oliveira Concer in their paper 'The Reverse Transfer of Innovation of Foreign Subsidiaries of Brazilian Multinationals' investigate the factors that allow the subsidiaries of emerging multinationals to develop innovations that are used by the parent company using survey data from 66 subsidiaries of 30 Brazilian multinationals. They find, among other things, that the reverse innovation takes place by strategically aligning the parent company to its subsidiaries through control via communication and socialization.

In their paper 'Capability creation and internationalization with Business Group Embeddedness — The Case of Tata Motors in Passenger Cars' Florian Becker-Ritterspach and Gert Bruche, drawing insights from the institutional and resource-based view theories, argue that capability creation and internationalization of EMNCs is conditioned by their close affiliation and fit with the home country institutional environment and, particularly, business groups. Using the case of Tata Motors Ltd. in passenger cars, they show that business group affiliation plays a key role in providing access to internal and external resources as well as capabilities in the creation of internationally exploitable assets. Further, business group affiliation also plays a key role in buffering the company from risks involved in creating and exploiting assets through internationalization.

In their paper 'The Influence of International Experience on Entry Mode Choice: Difference between Family and Non-Family Firms,' Anthony Kuo, Yi-Chieh Chang, Ming-Sung Kao and Chih-Fang Chiu emphasize the fit between the form of corporate governance and international experience as determinant of entry strategies. Using transaction cost economics arguments the authors postulate that inexperienced firms would opt for a local partner's help when internationalizing and therefore would tend to choose joint venture rather than wholly-owned subsidiary as the preferred entry mode. The difference in entry strategies between experienced and inexperienced firms is however moderated by corporate governance form. Due to concerns with preservation of socioemotional wealth inexperienced family firms would tend to rely more on joint ventures than their non-family firms counterparts, while experienced family firms would tend towards more wholly-owned subsidiaries than their non-family firms counterparts. These conjectures are supported from the analysis of a sample of publicly listed computer and electronics companies in Taiwan entering the Chinese market.

Filip De Beule and Jing-Lin Duanmu, in their paper 'Locational determinants of internationalization: A firm-level analysis of Chinese and Indian acquisitions,' use a global firm-level dataset of Chinese and Indian acquisitions to analyze how country-, industry- and firm-specific determinants affect their location choice. An important finding of this paper is that firms' acquisition strategies are related to their capabilities, with differences in capabilities leading to differences in expansion strategies between Indian and Chinese firms. For instance, Indian firms that have gradually accumulated sufficient technological and other capabilities to allow them to expand their operations abroad seem to be adding to their existing advantages through strategic acquisitions abroad in similar markets. On the other hand, Chinese firms seem to be more aggressively targeting technological assets. A somewhat surprising finding of the paper relates to the role of host country institutions in firms' location decisions. Challenging conventional wisdom, the authors find that lower quality of institutions, such as lack of the rule of law and political instability, increases the likelihood of acquisitions.

Finally, in the only purely conceptual piece in the issue, Tamara Stucchi's paper 'Emerging market firms' acquisitions in advanced markets: Matching strategy with resource-, institution- and industry-based antecedents' provides a comprehensive overview of how different resource-, institution- and industry-based antecedents affect the motivations guiding the acquisitions that emerging market firms undertake in advanced markets. Building upon the resource-based and the institution-based views of the firm, the author argues that in order to be successful emerging market firms have to undertake those upmarket acquisitions that best 'fit' their antecedents. The three sets of antecedents interact in a complex matter to determine the motivation for adopting one of the four mutually exclusive acquisition strategies.

Future research agenda

All the papers in this special issue, despite their diversity, highlight the complex nature of fit that EMNCs must achieve when engaging in OFDI. The diversity brought by the papers opens up new exciting opportunities for future research in trying to build a more integrated framework in analyzing OFDI by EMNCs. For example, while a large literature emphasizes the role of institutional fit, it is not clear what specific role is played by formal versus informal institutional fit. Are the two types of fit complementing or substituting each other? The literature is ambiguous on this distinction, which calls for further research. For instance, one stream of literature argues in favor of 'substitutes' notion (Dyer & Singh, 1998), while another stream argues in favor of 'complements' notion (North, 1990; Poppo & Zenger, 2002). Further, the potential interaction of formal and informal institutions is an interesting avenue to pursue.

More research is needed on strategic asset-seeking investments, where EMNCs seek technology, knowledge, managerial and organizational capabilities, distribution networks, brands etc. in developed economies. Even though these investments are not dominant in quantitative terms they are endowed with significant theoretical, commercial and policy potential. Often developed country firms, which are acquired by emerging economy firms for their technology, stand a higher likelihood of survival than if they were acquired by a developed economy-MNC. This is because the latter may already hold other similar assets in other parts of the corporate network or acquire the firm with the express intent to quench competition. The EMNC on the other hand usually makes the acquisition with the explicit intent to access and further develop the resources of the acquired firm. The acquired firm may even be infused with renewed opportunities if the acquirer can facilitate new market access in its home economy. It is crucial for acquirers and targets alike that acquisitions are successfully carried through, yet these acquisitions are prone to failure and so far not enough is known about what conditions their success.

A specific concern related to asset-seeking investment is when EMNCs invest abroad with the purpose of transferring knowledge and capabilities back to their home countries. As also indicated by papers in this special issue the effective transfer of knowledge will depend on proper alignment of incentives of subsidiaries to both obtain knowledge and acquire capabilities, and to transfer it to the parent back home.

The role of the state in shaping OFDI from emerging economies is a particularly challenging area of research, for which it is inherently difficult to obtain precise and reliable information. Further research is needed in this area. In emerging economies the state is often active in large parts of the economy, both directly through ownership and indirectly through policies and regulations (Deng, 2004). SOEs in specific are often influenced in their strategies and operations by government priorities and political agendas, including those to do with geopolitics and security of strategic supplies. At the same time, even most SOEs are in the long run subject to the imperatives of the market and must be run with a minimum of commercial viability. Attaining reliable insights into extent and the modalities of government influence on OFDI flows and the implications for firms, government and societies is a worthy challenge for research.

While the literature has begun to address the role of home country institutions in EMNCs internationalization, it rarely considers institutions in both host countries and the home country simultaneously. For example, further research on the interaction between host country institutions and supportive policies by the home country can help clarify when home country support may help overcome host country constraints.

The co-evolutionary nature of firms' structures, practices and resources on the one hand and their broader institutional environment on the other is still to be approached and analyzed with any precision by the literature on EMNCs. There is a growing body of contributions related to the role of business groups in emerging economies, how business groups come to emerge as institutional structures to reflect specific features of the home economy and how business group membership shapes internationalization processes of member firms. However, the more general issue of how structure and practices of firms evolve in specific emerging economy institutional environments and how this impacts on their strategies and processes of internationalization and modalities of engagement with host economy institutional environments is a promising frontier for future research.

Another promising avenue for future research is incorporating better the reverse causality between firm strategies and institutional structures and processes. As we discussed, co-evolutionary arguments emphasize that not only do institutional contexts shape firms' responses and behavior; firm strategies also jointly feed back into shaping institutional processes. This elevates the firm into a more central position and allows explicit modeling of possible collective action by firms towards institutional changes.

We discussed the relationships between firms' governance structures and their internationalization processes. In different ways, FDI decisions depend on firms' governance characteristics, such as the distribution of ownership and control. However, the effects of the investing firm's governance characteristics still remain relatively unexplored. Further research can help disclose how differences in governance structures between MNCs from developed and emerging economies may result in different international strategies, structures and practices.

EMNCs are becoming an increasingly forceful phenomenon in the global economy and will only gain increasing weight in the years to come. This is likely to become an occasionally contentious process for firms and governments as competitive maps are redrawn and markets and resources are realigned and renegotiated. One of the big challenges in the contemporary international economy is to assure a smooth integration of these new players within frameworks that provides due attention to the rights and responsibilities of all stakeholders, and secures a proper fit between emerging multinationals and the global institutional environment.

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Peter Gammeltoft is Associate Professor at the Department of International Economics and Management, Copenhagen Business School, pursuing research in globalization and economic and technological change. Recent publications include: Emerging multinationals, emerging theory: Macro- and micro-level perspectives, Journal of International Management, 2010, 16(2) (with H. Barnard, A. Madhok); 'Emerging

Multinationals: Home and Host Country Determinants and Outcomes', International Journal of Emerging Markets, 2010, 5(4) (with J.P. Pradhan, A. Goldstein); Emerging multinationals: outward FDI from the BRICS countries, International Journal of Technology and Globalisation, 2008, 4(1).

Igor Filatotchev is a Professor of Corporate Governance and Strategy at Cass Business School, City University London and Director of Centre for Research on Corporate Governance. His research interests are focused on corporate governance effects on entrepreneurship development, strategic decisions and organisational change. Key research programmes currently in progress include analysis of resource and strategy roles of corporate governance; corporate governance life-cycle; and a knowledge-based view on governance development in entrepreneurial firms and IPOs. He has published more than one hundred academic papers, as well as books and book chapters in the fields of corporate governance and strategy including publications in leading academic journals such as Academy of Management Journal, Academy of Management Perspectives, Strategic Management Journal, Journal of International Business Studies, Organization Science, California Management Review, and Journal of Management. He is an Associate Editor in *Corporate Governance International Review and Journal of Management and Governance*.

Bersant Hobdari (PhD, Copenhagen Business School, Copenhagen, Denmark and Centre for Economic Research and Graduate Education, Charles University, Prague, Czech Republic) Associate Professor at Copenhagen Business School. His research focuses on corporate ownership and governance, the role and impact of board of directors, international business and trade, economic geography, and the functioning and strategies of multinational enterprises. His research has been published in the Journal of World Business, Corporate Governance: An International Review, Comparative Economic Studies, Journal of International Management, among others.