



The Impact of the home country on internationalization[☆]

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ABSTRACT

We analyze how a firm's home country influences its internationalization. We propose two complementary types of influence. First, we conceptualize a firm's international trade as shaped by four drivers: comparative advantage, comparative disadvantage, country-of-origin advantage, and country-of-origin liability. Second, we conceptualize the firm's foreign direct investment as shaped by four other drivers: institutional learning, competitive learning, institutional escape, and competitive escape. Taken together, these eight drivers help pull together recent theoretical advances on topics such as emerging-market multinationals, investment in tax havens, and cross-border acquisitions of firms in advanced countries. We also highlight other home-country related issues, such as strategic responses and home-host country links, in the spirit of fostering future research on home-country effects that warrant a more nuanced understanding.

1. Introduction

Some time back Raymond Vernon, a pioneer in the study of multinationals, noted that “the multinationalizing trend (is) widely recognized as similar in nature irrespective of the nationality of the parent company” (quoted in Wilkins 1986: 202). His observation presents an interesting hypothesis worthy of deeper examination. Does the home country of a multinational corporation not matter much, as he asserts, or does it, and if so how?

That is the main question explored in this introductory essay and the papers in this special issue. The rise of new multinationals from emerging markets serves as a valuable natural experiment for probing the impact of a firm's home country on its international strategy and behavior (Luo & Tung, 2007, 2018; Ramamurti, 2009). By 2015, emerging market multinational corporations (EMNCs) accounted for one-quarter of world outward foreign direct investment flows and one-fifth of the largest firms in the *Fortune Global 2000*. This growth led to a surge in academic interest in these firms, including special issues and

volumes dedicated to their analysis (e.g. Aulakh, 2007; Cuervo-Cazurra, 2012; Cuervo-Cazurra & Ramamurti, 2014; Gammeltuft, Barnard & Madhok, 2010; Ramamurti, 2009; Ramamurti & Singh, 2009; Sauvart, 2008; Williamson, Ramamurti, Fleury, & Fleury, 2013). However, there has also been a growing debate on the value of studying them as a distinct type of multinational (see Aharoni, 2014; Cuervo-Cazurra, 2012; Dunning, Kim, & Park, 2008; Godley, 2014; Ramamurti, 2012; Rugman, 2010). Part of the debate and associated confusion emerges from the flawed comparison that some of the analyses make in disentangling the impact of a multinational's home country from that of other variables. Some unique features of EMNCs may not be the result of their country of origin but rather with their industry of operation, stage of internationalization, global context at the time of internationalization, or prior international experience (Ramamurti, 2012).

Many of the current theories and models of the multinational have paid limited attention to the influence of a multinational's home country. In general, home location has received relatively less attention than other firm characteristics, such as resources and capabilities and

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internationalization methods (Dunning, 1998). Even those studies that address home location explicitly have tended to focus aspects such as its level of development, institutional and political system, or economic size and degree of economic openness (e.g., Barkema, Bell, & Penning, 1996; Chung & Beamish, 2005; Delios & Henisz, 2003; Meyer, Estrin, Bhaumik, & Peng, 1996; Voss, Buckley, & Cross, 2010). Other studies have examined how the “distance” between the home and host country affects the international expansion of companies (e.g., Ang, Benischke, & Doh, 2015; Ghemawat, 2001; Johanson & Vahlne, 1977; Luo & Shenkar, 2011). More recently, studies have paid attention to the impact of home-country characteristics on a firm’s innovations and foreign expansion (e.g., Cuervo-Cazurra, 2006; Cuervo-Cazurra & Genc, 2008, 2011; del Sol & Kogan, 2007; García-Canal & Guillén, 2008; Govindarajan & Ramamurti, 2011; Holburn & Zelner, 2010; Hoskisson, Wright, Filatotchev, & Peng, 2013; Luo & Wang, 2012; Un, 2011; see an overview in Cuervo-Cazurra, 2011).

In this article, we aim to go beyond these studies and expand theories and models of how a firm’s home country affects its internationalization. Thus, the ideas proposed below focus on country characteristics and its effect on firms’ internationalization. We first explain how the home country influences a firm’s internationalization via trade, drawing on four well-established, traditional concepts: comparative advantage, comparative disadvantage, country-of-origin advantage, and country-of-origin liability. We then analyze how a firm’s home country affects its internationalization via foreign direct investment. Here, we turn to four newer and more novel concepts: institutional learning, competitive learning, institutional escape, and competitive escape. In the process of discussing these ideas, we provide testable propositions to guide future studies. We explain the heterogeneity in firm responses to home country effects, and discuss how several of these ideas are explored more fully in individual articles in this special issue, which we summarize before the conclusions.

2. Home country influences on internationalization via trade

The analysis of the influence of the home country on the internationalization of firms has evolved as authors have paid attention to different phenomena and built upon each other’s work. Thus, one perception is that only recently with the analysis of multinationals from emerging markets and the realization that what distinguishes these firms from others is the influence of the home country (Cuervo-Cazurra, 2012; Ramamurti, 2012) authors seem to have finally paid more profound attention to the impact of the home market on internationalization.

However, there is a long tradition in international marketing of analyzing how the home country affects the sale of products abroad, the country-of-origin literature (see reviews in Peterson & Jolibert, 1995; Verlegh & Steenkamp, 1999), and an even older tradition that has analyzed the comparative advantage of countries in facilitating exports (Ricardo, 1817; Smith, 1776). We briefly review these traditions that have examined the impact of the home country on the internationalization of firms via international trade before we go into more detail into the recent advancements in theory that have focused on the impact of the home country on the internationalization via foreign direct investment, i.e., multinationalization.

The four drivers of the impact of the home country on internationalization via trade (comparative advantages, comparative disadvantages, country-of-origin advantage, and country-of-origin liability) are interrelated. First, we organize them in a two-by-two matrix, with the impact on the firm (advantage or liability) on one axis and the source of the impact (input or image) on the other. Whereas the comparative advantages and disadvantages affect the firm’s internationalization via the inputs the firm uses in the creation of its products and services, the country-of-origin advantage and liability affect internationalization through the image that is associated with the firm and its products in foreign markets. The comparative advantage and

country-of-origin advantage support the internationalization of the firm and its exports, while the comparative disadvantage and country-of-origin liability may not just limit internationalization but might as well lead to more internationalization as the firm seeks to use foreign inputs to counterbalance the disadvantages.

2.1. Comparative advantages

The role of the home country in the internationalization of companies goes back all the way to the notions of absolute and comparative advantage. Adam Smith (1776) proposed the idea of absolute advantage, which asserted that some countries were better than others at creating specific products, because they were endowed with particular resources, and ought to specialize in those products and trade them with other countries. David Ricardo (1817) refined Smith’s argument by positing that even if a country did not have an absolute advantage in any product, it ought to specialize in those products in which it was relatively more efficient, that is, where it had a comparative advantage. These general principles did not focus on the firm, because they aimed to explain international trade at the country level. Nevertheless, these ideas have direct implications for firms: for instance, firms should specialize in products or components in which their home country has a comparative advantage.

Although useful as a starting point, these ideas and later developments in international economics paid little attention to how companies benefitted from such endowments. They tended to assume that all companies had equal access to a country’s endowments and were equally able to leverage a country’s comparative advantage (Ramamurti, 2009). But in fact endowments have owners who may share it with others only at a price (Hennart, 2012; Narula, 2014). Additionally, countries can “create” endowments (technology, knowledge, or a capacity for innovation) rather than rely solely on the natural endowment, as is very often the case in today’s knowledge-driven global economy (List, 1841; see a historical overview of the literature in Freeman, 1995). The government can support other actors in their R&D efforts and promote the innovativeness of companies (Lundvall, 2010; Nelson, 1993). The development of a supportive infrastructure facilitates the coordination of activities in market economies (Hall & Soskice, 2001). The creation of an advanced financial system supports international trade (Beck, 2002; Kletzer & Bardhan, 1987). A notable case of this is China, where Ramamurti and Hillemann (2018) argue that the government has bolstered the international competitiveness of Chinese firms in many ways through “government-created advantages.”

A breakthrough in developing these ideas at the firm-level came from Raymond Vernon (1966, 1979) and his product lifecycle model of internationalization. According to the model, companies in advanced economies introduced new products to satisfy the needs and desires of highly demanding high-income consumers of the home country. These innovative products later served as the basis for their international expansion as firms exported the innovative products to other advanced countries whose high-income consumers desired them. As the innovations became standardized and prices dropped, products were sold in developing countries. Production also moved from the home country to other advanced countries to developing countries as the technology diffused and standardized. Later analyses connected the highly sophisticated consumers, to the endowments discussed previously, and to sophisticated supporting industries and high rivalry that enabled firms to become internationally competitive in exports (Porter, 1990).

Another significant development was the shift away from international trade in final goods to trade in intermediate goods. In Ricardo’s time, countries traded in finished products, such as exporting wine in exchange for cloth (List, 1841). Nowadays, trade is becoming relatively frictionless, allowing for the value chain to be sliced and diced and dispersed globally (Gereffi, 1999; Kogut, 1985). Thus, firms may not just export final products but can instead concentrate on the creation and export of intermediate products and components that are then

integrated with other components in the assembly of final products abroad. Or some firms may even just rely on the comparative advantage of the home country in their internationalization, exporting inputs and raw materials directly without modifying them.

This traditional idea that the comparative advantage of the home country supports the internationalization of firms can be summed up in this proposition:

Proposition 1. *Firms from countries with a comparative advantage (endowed or created) are more likely to export inputs, intermediate components, and final products, or undertake intermediate and final activities, which rely on these particular sources of comparative advantage.*

2.2. Comparative disadvantages

Whereas the endowment of the country can support the internationalization of the firm, comparative disadvantages in the endowments will limit the ability of firms to export. The comparative disadvantage increases the cost of operation of the firms because inputs and raw materials needed for the creation of their final products are more expensive or not available in the home country. However, these same comparative disadvantages induce the inward internationalization of firms in which companies import from other countries the resources that are in better quality-price availability than what exists in the home country (Kumar, Kumar, & Persaud, 1999). Thus, a firm may be able to augment the competitiveness of its final products by combining inputs and components from the home country with inputs and components sourced from countries that have a comparative advantage over the home country. This relationship between comparative advantage and disadvantage results in a parallel relationship between exports and imports by firms, as companies use the home country's comparative advantage to produce products for exports and offset its comparative disadvantages by relying on imports.

These ideas can be formalized in the following proposition:

Proposition 2a. *Firms from countries with a comparative disadvantage (endowed or created) are more likely to import intermediate components to compensate for the comparative disadvantage and then export the upgraded products.*

Alternatively, the comparative disadvantages may motivate some firms to innovate to get around the country disadvantages, rather than to import, leading to higher exports of innovative products. Some firms create products or processes that do not need or reduce the use of the inputs for which the country has a comparative disadvantage; these innovations are then used as the basis for the increased competitiveness and internationalization of the firms. Thus, for example, the lack of space and energy supplies in Japan led to innovations that miniaturized many electronics firms and made others highly energy efficient. The electronics company Sony solve the lack of plastic in Japan after WWII with a paper-based magnetic tape recorder (Morita, Reingold, & Shimomura, 1987). Similarly, the shortage of capital to finance fixed assets and working capital led to the development of the just-in-time production system that Toyota pioneered and other Japanese manufacturers embraced and led to the export of highly-reliable and at the same time inexpensive products (Cusumano, 1989). And recently companies in emerging economies are building innovative business models that address some of the limitations in infrastructure of their countries, and help them internationalize (Williamson et al., 2013).

We formalize this idea in this proposition:

Proposition 2b. *Firms from countries with a comparative disadvantage (endowed or created) are more likely to innovate to reduce the impact of the comparative disadvantage on their products and processes and export products that build on these innovations.*

2.3. Country-of-Origin advantage

In parallel to these discussions of how the endowments (created and received) of a country support the exports of firms, analyses in international marketing indicated that the perceptions of the home country directly affected its sales in a host country. The driver here was not the actual quality of the product but the perceived quality that the product gained (or lost) depending on the views that customers in the host country had.

In some situations, the country-of-origin of traded products is a source of advantage that supports a firm's internationalization. This perception of the superiority of foreign products is most pronounced in emerging economies countries, in which local products may be shunned in favor of foreign products, especially those coming from advanced countries (Brouthers, Werner, & Matulich, 2000); this phenomenon is called malinchismo, as consumers prefer foreign products over domestic ones in Mexico (Bailey & Pineres, 1997).

However, a country-of-origin advantage does not only happen in emerging economies. In advanced countries, the perceptions of products from particular countries can be positive, especially for products coming from other advanced economies because they are associated with high technology or better quality or higher traditions (Steenkamp, Batra, & Alden 2003; Verlegh & Steenkamp, 1999). Such advantage does not just lie with the country-of-origin but also with beliefs about product performance and attributes (Zhou, Yang, & Hui, 2010). And this positive perception of the country-of-origin can change over time as the country develops and companies are perceived as creating superior products (Brouthers et al., 2000; Suzuki, 1980). The presence of many foreign and local players in the host country may also diminish this country-of-origin advantage (Samiee, 1994).

We summarize these ideas in the following propositions:

Proposition 3a. *Firms from countries that have a country-of-origin advantage in the host country are more likely to export products at a higher price-quality relation.*

Companies in many cases use this country-of-origin advantage in their internationalization. They can use the positive perceptions of the country-of-origin to demand a higher premium for their products. To do so, these firms highlight the country of origin prominently in the marketing and labeling of products. They use their brands and reinforce the connections between the brands and their country of origin, rather than develop or purchase local brands that may not have such connection.

These ideas are formalized in the following proposition:

Proposition 3b. *Firms from countries that have a country-of-origin advantage in the host country are more likely to export products that have the country of origin highlighted in the branding, advertisement, and packaging.*

2.4. Country-of-Origin liability

Companies may find that their products are discriminated by consumers because of the existence of a country-of-origin liability. In this line of thinking, the initial idea was that consumers discriminated against foreign products in favor of products created in the home country as a result of their nationalism, leading to what became known as consumer ethnocentrism (Shimp & Sharma, 1987). A perceived threat of foreign competition to individual well-being or the domestic economy supported the preference for local products (Sharma, Shimp, & Shin, 1995).

Later discussions refined these ideas by acknowledging that the specific home country rather than the foreignness played a role in the sale of products. Some consumers would discriminate against product coming from particular home countries or sold by firms coming from particular home countries, especially less developed ones. The reason

for such discrimination was a perception that if the country was less developed, products coming from such country would not be as good (Bilkey & Nes, 1982).

Another source of the country-of-origin liability was historical conflicts that biased the perceptions over the appropriateness of purchasing products from a particular home country, even if they were superior in demonstrable quality. Thus, for example, Japanese products suffered in China because of the legacy of Japanese invasion before and during the Second World War, even though Japanese products were perceived to use superior technology (Klein, Ettenson, & Morris, 1998). Country-of-origin liability harms the exports by firms. However, firms do not have to suffer this country-of-origin liability passively. They can take proactive measures to address it. First, these firms can invest in compensating for the negative attitude among consumers by offering a better price-quality ratio. They can sell the products at a much lower price that matches the perceived inferior quality. Or they can sell higher quality products at a lower premium than the actual quality could demand.

We sum up these ideas in the following proposition:

Proposition 4a. *Firms from countries that have a country-of-origin liability in the host country are more likely to export products at a lower price-quality relation to compensate for the country-of-origin liability.*

Second, and because the issue is one of the perceptions on the country-of-origin, firms can invest in changing the perception on country of origin using components from countries that have an advantage or separating the country of design from the country of manufacture and highlighting both (Chao, 1993). The international marketing literature has proposed changes to brand names and brand language to get around it (Magnusson, Haas, & Zhao, 2008; Salciuvienė, Ghauri, Stredler, & Mattos, 2010).

These ideas can be formalized in this proposition:

Proposition 4b. *Firms from countries that have a country-of-origin liability in the host country are more likely to export products that have the country of origin disguised or not conspicuous in the advertisement and packaging.*

2.5. Home country conditions and international trade decisions: a model

We pull these ideas together into a decision-making model that firms can use (see Fig. 1). The model starts with managers first asking whether the home country provides a comparative advantage in their chosen products. If so, they face two questions. First, how best to incorporate such an advantage into their products, and second, whether the country of origin will provide an additional advantage or create a liability in a target host country. In the first case, companies can highlight the country of origin, for example with advertisement campaigns that stress the country of origin and placing the required ‘made in...’ in the front of the packaging. In the second case they can disguise the products’ country-of-origin by incorporating components from more desirable countries and indicating that the product is made with those components, by placing the “made in...” in inconspicuous area, or by using alternative location denominations (e.g., using PRC instead of China, Persia instead of Iran, European Union instead of the specific country), or offsetting the liability with lower prices.

In contrast, companies that operate in countries that suffer from a comparative disadvantage may need to think about how to compensate for the comparative disadvantage and complement the sources of the advantage of the company so that products are internationally competitive. After this, the question is again whether the country of origin creates an advantage or a liability. In the first case, the firm can highlight the country of origin of the products and offset the comparative disadvantage by importing complementary inputs. In the second case, the firm can use imported component to compensate for the liability.

3. Home country influences on internationalization via foreign direct investment

The impact of the home country on foreign direct investment differs from the effect on international trade because in foreign investment the ability of the company to rely on comparative advantage is limited. The company needs to be able to integrate the comparative advantage of the home country with its sources of competitive advantage and then find ways to transfer those advantages to other countries. However, many of the competitive advantages in the home country do not transfer well to other countries (Hu, 1995). Perhaps for this reason, most studies of multinationals ignore the impact of the home country on foreign direct investment, assuming instead that just the firm’s competitive advantages enabled it to enter, operate, and succeed in host countries.

Having moved the role of the home country into the background, studies focused instead on how a multinational was able to achieve a competitive advantage in the host country by using resources and capabilities transferred from the home country (for a review of competitive advantages of multinationals, see Tallman & Yip, 2009). At best, the home country figured indirectly through the difference, or distance, between the home and the host countries. These differences were viewed as challenges to be overcome, because they limited the ease with which companies could transfer knowledge created at home to the host country and back (Eriksson, Johanson, Majkgård, & Sharma, 1997; Eriksson, Majkgård, & Sharma, 2000; Johanson & Valhne, 1977).

In the 1990s, as a result of a focus on how firm-level characteristics affected international expansion, there were calls for paying attention to the influences of the location on the behavior of multinationals (Dunning, 1998). Questions were also raised about what international business scholars were adding to the strategic management literature, and in particular in the resource-based view and the associated capability- and knowledge-based views (Buckley, 2002). In these cases, the focus was on analyzing the resources and capabilities of the multinational and its ability to coordinate operations across countries, or to analyze the transactions that multinationals conducted across borders and how the particular characteristics of the transactions played a role in their design (Hennart, 2009).

In the 2000s, the conditions of the home country reemerged as a topic of importance, in part because of the focus on emerging market firms and their weak market-supporting institutions. Studies in economics pushed for a better understanding of how institutions, such as the legal systems (Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998), regulation (Djankov, La Porta, Lopez-De-Silanes, & Shleifer, 2002), or governance (Kaufmann, Kraay, & Zoido-Lobaton, 2000), affected the development of companies. The focus on institutions was part of a larger discussion about how institutions facilitated economic development and market transactions (North, 1990). It gained prominence as Communist countries transitioned towards capitalism and had to create market-supporting institutions from scratch (Yergin & Stanislaw, 1998), and it was fueled by significant economic liberalization programs in advanced countries and the abandonment of import-substituting industrialization by many developing countries (Bruton, 1998).

In management research, the role of institutions in shaping companies was initially investigated in the context of business groups (Khanna & Palepu, 1997; Kim, Kim and Hoskisson, 2010) and transition economies (Peng & Heath, 1996). It was later extended to the study of emerging-market multinationals (Khanna & Palepu, 2010; Luo & Tung, 2007; Ramamurti, 2009). The latter led to studies that explained how home-country institutions affected the foreign investments by emerging market firms (Cuervo-Cazurra & Genc, 2008, 2011; del Sol & Kogan, 2007; Luo & Wang, 2012). A related stream of work studied how emerging market firms rely on mimicking home and host country firm behaviors in a target host market (Ang et al., 2015).

The analysis of the impact of the home country on the multinationalization of companies serves as the basis for understanding the drivers that are behind some of these actions and can inform future

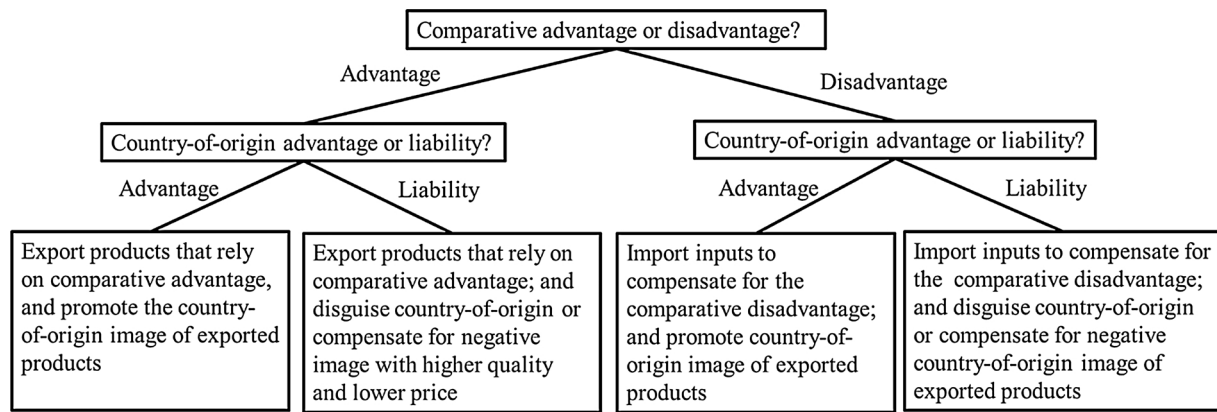


Fig. 1. The impact of the home country on internationalization strategies via international trade.

research. To gain a better understanding of these drivers, we reviewed selected studies that have recently analyzed the impact of the home country on foreign investments. Many of the studies are based on the experience of emerging market firms. The study of these firms has resulted in the advancement of the theory of the multinational via the introduction of new models and arguments that were not considered previously (Cuervo-Cazurra & Ramamurti, 2014), such as the LLL model (Mathews, 2006) or the springboard model (Luo & Tung, 2007).

The analysis of these studies and the prior literature reveal four drivers that explain the influence of home country on the multinationalization of companies. These are institutional learning, competitive learning, institutional escape, and competitive escape. They can be placed in a two by two matrix with the internationalization force on one axis (learning or escape) and the resource dimension on another (institutional or competitive). As such, the four drivers are related to each other in several ways. Institutional learning and competitive learning drive the improvement of the firm's sources of advantage in the home country and thus enable the firm's foreign expansion. On their part, institutional escape and competitive escape highlight the limitations of operating in the home country and provide an incentive to the firm to expand abroad to address these limitations, reducing the disadvantages of operating at home. Moreover, competitive learning and competitive escape could be seen as secondary sources of advantage and internationalization to institutional learning and institutional escape. The latter can support the advantage provided by the former, but rarely be the main source of advantage of the firm.

3.1. Institutional learning

One driver of the influence of the home country on foreign direct investment is institutional learning, or the experience gained in the home country to the particularities of institutions, usually weak ones, and the use of this learning to their advantage in other countries. This institutional learning helps firms operate effectively in comparison with other foreign companies in the host country that do not have the appropriate learning because they come from countries with more developed institutions. This argument builds on the traditional analysis of institutional knowledge (Eriksson et al., 1997; Peng, 2002) and extends theory by highlighting how some firms can use their exposure to challenging institutions at home as a source of advantage (Cuervo-Cazurra & Genc, 2008), in particular, an institutional advantage (Martin, 2014). The subtle difference with the traditional conceptualization of experiential knowledge (Johanson & Vahlne, 1977) is the use of this institutional knowledge as a source of institutional advantage (Martin, 2014). This institutional learning and the related institutional advantage are driven by the particular combination of home and host countries analyzed. Its use requires a sophisticated analysis of the specific institutional characteristics of the home country and how

the learning gained can be used in particular host countries.

Studies in this line of thinking have highlighted a variety of dimensions and use of this institutional learning and advantage in the selection of host countries. These studies indicate that the institutional experience that firms develop from exposure to weak institutions at home induces them to expand into other countries that have similar institutional conditions. Thus, for example, firms from corrupt countries are encouraged rather than discouraged by host country corruption because they have learned how to deal with bribery at home (Cuervo-Cazurra, 2006). Firms from countries with weak governance can gain an edge over companies from countries with strong governance in emerging countries, which have weak governance, because the former have learned how to operate under such weak institutions (Cuervo-Cazurra & Genc, 2008). Firms from countries where the government played a prominent role in the economy that enabled them to gain experience in operating in highly regulated industries redirect investments to countries in which the government has high discretion over investments (García-Canal & Guillén, 2008). Firms from countries that had more political constraints are more likely to invest in other countries that also have political constraints (Holburn & Zelner, 2010).

We summarize these ideas in this proposition:

Proposition 5a. *Companies from countries with weaker institutions are more likely to invest in other countries with weak institutions and achieve an advantage there over companies from countries with stronger institutions because of their learning of how to operate under weak institutions.*

This proposition can be adapted to a variety of institutional dimensions (corruption, political risk, a weak rule of law, government intervention, weak public services,...) to generate a plethora of analyses of the different dimensions of institutions. Studies can focus on the particular dimension of interest and analyze how the firm develops institutional learning from its exposure at home. Additionally, although presented at the level of the firm, the proposition can be adopted at the level of the individual managers, as it is their experience with institutions that drive the investments, and thus their experience can be used by other firms as they move across multinationals in their careers. In some cases, a firm may have to hire managers their institutional learning in other countries and companies, when it is aiming to expand into countries that are institutionally very different from the conditions of the home country. This is a subtle variation on the traditional discussion of how managers' prior international experience speeds up a firm's internationalization (Reuber & Fischer, 1997); we focus attention on the specific institutional learning rather than on the more general internationalization experience.

A refinement on this idea of using institutional learning to invest in similar countries is the notion that the institutional learning can help the firm achieve an advantage abroad and expand more widely because of a superior understanding of institutions. First, institutional learning

gained from dealing with the challenging conditions of the home country can enable firms to use the learning as a source of advantage and achieve superior performance abroad even over domestic companies. A firm exposed to institutional uncertainty at home is better positioned at dealing with such uncertainty abroad. For example, [del Sol and Kogan \(2007\)](#) argued that firms that gained experience in dealing with pro-market reform at home were able to achieve superior performance in comparison to domestic companies in other countries that experience pro-market reforms later, testing the arguments in the context of Chilean multinationals. Second, the same institutional learning gained from exposure to weak institutions can help firms also expand into a wider diversity of countries as they have gained experience managing institutional uncertainty at home that can be useful for dealing with the variations in institutions across multiple countries. Thus, [Cuervo-Cazurra, Ciravegna, Melgarejo and Lopez \(2018\)](#) propose that firms that come from countries with higher corruption and higher political instability have a stronger multinationality-performance relationship, especially outside their home region, because the experience of dealing with the uncertainty associated with political risk and corruption is useful for managing the uncertainty of operating abroad.

These ideas support the following proposition:

Proposition 5a. *Firms from countries with weaker institutions are more likely to invest in countries with a wider diversity of institutions than firms from countries with strong institutions because of their learning of how to operate under higher uncertainty.*

3.2. Competitive learning

A second driver of the impact of the home country on foreign multinationalization is competitive learning, i.e., the experience gained from the exposure that firms in certain countries have to higher levels of competition that force them to improve their competitiveness to international levels, and these, in turn, supports their foreign investments. This argument can be seen as an extension of the traditional arguments that firms that sell to highly sophisticated customers create innovations to serve their needs and which can be sold in other countries later ([Vernon, 1966](#)) and that companies that face demanding customers and competitors, in addition to supportive inputs and suppliers, are more internationally competitive ([Porter, 1990](#)). However, these arguments require an additional extension to link it to international investments and not just international trade. The firms need to refine their sources of competitive advantage and be able, first, to transfer them to other countries, and second, the sources of advantage should enable them to achieve a competitive advantage against incumbents in the host country. Intense competition in the home country from other domestic companies as well as foreign ones can force firms to improve their capabilities and become highly sophisticated international competitors ([Barnett & Hansen, 1996](#)). In the process, they may come to dominate their home countries as domestic competitors fail to match their capabilities disappear or become acquired. This, for example, was part of the process that enabled the Mexican cement firm Cemex to become not only the dominant producer in Mexico but also a global player ([Lessard & Lucea, 2009](#)), or the process that enabled the Chinese telecommunication equipment manufacturer Huawei to change from being a small distributor of foreign products to become the leading global manufacturer ([Sun, 2009](#)).

This higher competitiveness and subsequent foreign investments can be achieved in alternative ways. One is the combination of the influence of not only higher levels of competition in the home country but also exposure to more demanding customers whose demands represent the demands of other countries. Thus, in this way firms in emerging markets can benefit from the competitive learning via linkages to multinationals from advanced economies by acting as their suppliers. [Luo and Wang \(2012\)](#) explain how competitive pressures in the home country and exposure to more advanced technologies via

collaborations with advanced economy firms in the home market enable emerging market firms to become more competitive and internationalize earlier and more widely. Another is a combination of how your diversity of competitors and customers that force companies to create capabilities and enable them to serve a wide variety of customers and face a wide diversity of competitors. In a related line, [Estrin, Nielsen, and Nielsen \(2017\)](#) propose that firms in locations with higher urbanization internationalize more widely because they have access to more sophisticated resources and face higher competitive pressures that enabled them to become better and internationalize. These competitive pressures do not have to be coming only from foreign markets.

This idea that *competitive learning* will enable firms not only to become more internationally competitive and export, but also become multinationals come summarized in the following proposition:

Proposition 6. *Firms from countries that have more competitive pressures and that serve customers who have diverse and sophisticated needs are more likely to upgrade capabilities to international levels that enable them to invest abroad and successfully compete in countries with a higher diversity of levels of economic development.*

These ideas can be extended to the analysis of the mechanisms that help firms to not only reach levels of international competitiveness that enables their products to be exported, but also identify and refine their sources of advantage to the level at which they are transferable to other countries and useful for achieving a competitive advantage there. Thus, a corollary of this discussion is that competitive pressures in the home country alone are not sufficient for a firm to become a multinational. They are useful for the firm to achieve levels of international competitiveness. But it needs to decide if it wants to become a multinational and be able to transfer the sources of competitiveness of other countries. And these sources of competitiveness need to be able to provide it with a competitive advantage in the host country in which it is a new competitor facing incumbent companies. This is an area that the literature seems to have overlooked.

Alternatively, there might be different levels of competitive learning that accompany firms facing competition and demanding consumers at home. There might be an initial level in which the firm can serve consumers and face competitors in the home country. But not to the level at which it can internationalize, either because the sources of advantage are not sophisticated enough to provide an advantage in other country or the products cannot be transferred to another nation (i.e., services). The second level of competitive learning enables the firm to create products and services that can be sold successfully in other countries, but the sources of advantage are not sufficient to compete successfully in other countries or are not transferable abroad. And the third level of competitive learning helps the firm develop sources of advantage that can be transferred and provide the company with an advantage in other countries against incumbents there. In this latter case, an interesting dichotomy of the effect of competitive learning on internationalization would be separating cases in which the firm chooses to expand abroad in search of new markets in which it can apply its newly honed sources of advantage, from cases in which the firm expand abroad because it is no longer able to compete in the home market despite its efforts but its level of competitiveness enables the firm to succeed in other countries in which competition is less intense.

3.3. Institutional escape

A third driver of the influence of the home country on the internationalization of a firm is an institutional escape, in which companies move abroad because they want to avoid the weaknesses of institutional conditions at home. This idea of escaping problematic institutions at home was developed in the fields of political economy and finance by reflecting on the cross-listing of firms from emerging countries in advanced economies with highly sophisticated capital markets. The explanation was that, in addition to tapping into broader pools of capital

to support investments, firms from countries with poor governance were looking to bond themselves by the higher levels of governance that existed in advanced economies; this was done to signal their higher quality and to reduce their association with the weakness in corporate governance at home (Coffee, 2002). However, in these cases, firms did not need to invest in the host country and become multinationals; issuing financial instruments, such as debt or listing their shares indirectly through depository receipts or directly, was sufficient to achieve the institutional escape.

An extension and refinement of this institutional escape argument is the movement into countries with much lower levels of taxes and transparency, i.e., offshore financial centers (Witt & Lewin, 2007). In this case, although the firm invests in the creation of a subsidiary in the host country, the investment is usually insignificant. The firm merely registers a subsidiary that provides the multinational with the access to the institutional context and an ability to optimize taxes, but little else in terms of activities, i.e., a shell company. Sometimes, this institutional escape involves round-tripping investments, with the firm creating a foreign subsidiary that holds funds that are then used to invest back in the home country in the guise of a foreign investor, thus obtaining the benefits provided to them.

In addition to this traditional finance- and tax-driven argument, institutional escape can take other dimensions, and ones that involve an actual relocation of significant activities in another country to avoid the problematic institutions of the home country. This institutional escape can be driven by the gradual deterioration of the institutional conditions in the home country. As it becomes increasingly difficult to operate in the home country, some firms may start looking to relocate operations abroad and reduce the exposure to increasingly challenging conditions at home. For example, Barnard (2014) coined the term “migrating multinationals” to describe companies in South Africa that relocated their headquarters in advanced economies to escape home-country disadvantages and restrictions on international transactions. The move was not merely symbolic, but also involved shifting key activities to the new headquarters.

These ideas can be summarized in the following proposition:

Proposition 7a. *Firms from countries with increasingly deteriorating institutions are more likely to invest in countries with stable institutions to limit exposure to the home country.*

Institutional escape can also be driven by sharp deteriorations in the institutional conditions in the home country. For example, firms facing political violence or the threat of expropriation at home may even shift much of their operations to another country. And companies operating in countries with internal conflicts, guerrilla movements, or drug-related violence, may shift their leaders and families to more peaceful countries. In these situations, firms may even create operating subsidiaries in the peaceful country so that their executives can obtain investor visas. Cuervo-Cazurra's (2016) discussion of the internationalization of Multilatinas explained how some of their foreign expansions were driven by the desire to escape home-country violence and political crises (for an in-depth example set in Lebanon, see Fathallah, Branzei, & Schaan 2018).

These arguments lead to the following proposition:

Proposition 7b. *Firms from countries that experience a sudden deterioration in institutions are more likely to undertake large and quick investments in countries with more stable institutions to protect assets and personnel.*

The analysis of institutional escape can hence take many interesting avenues, some of which have been little discussed. First, for example, the emergence of conflict in the country can result in interesting analyses of which firms relocate activities and which companies choose to stay put (Dai, Eden, & Beamish, 2017). Although all firms have incentives to escape, some may be able to escape more easily while others may not. For example, firms that were already international and had

foreign operations before the conflict can reorganize existing operations in the face of conflict more easily and escape quickly; the foreign operations may temporarily compensate for the loss of the operational base in the home country. Other firms with deep ties within the country may not be able to relocate even if the conflict is intense, as most of their sources of advantage are tied to the home country.

Second, the institutional escape can be limited by changes in the institutions in the home country. For example, institutional escape that many US multinationals undertook via inversions, in which they would acquire a company in a low tax country and locate the domicile of the company to that country, was discouraged with changes in the legislation that made such inversions more difficult.

Third, in the case of family-owned firms, there is another nuanced analysis of institutional escape as the location of the firm may be driven by the personal tax advantage of the owners rather than by institutional considerations. This seems to be the case of large family-owned firms, such as the Swedish furniture retailer IKEA, that are registered in institutionally advantageous countries like the Netherlands.

3.4. Competitive escape

The fourth driver is a competitive escape, in which firms escape the home country to upgrade their competitiveness, acquiring more sophisticated capabilities that help them improve their home operations. This mechanism explains some of the foreign investments by emerging market multinationals, in which the weaknesses in the innovation systems of the home country force them to invest abroad to solve these limitations (Luo & Tung, 2007). The investments in other countries to address the competitive escape are usually made in the form of acquisitions of companies in advanced countries with the sophisticated technologies (Madhok & Keyhani, 2012). This eases access to technologies embedded in the innovation system and the capabilities of the target company and facilitate their use and transfer to the home country. These acquisitions of companies in advanced economies to upgrade home country capabilities change over time as the firm improves its competitiveness, and later acquisitions are more sophisticated than early ones (Elia & Santangelo, 2017). To facilitate such access and transfer the subsidiaries may be given relatively high levels of autonomy to ensure that key employees do not leave to work for competitors and to enable the acquired company to continue developing the advanced capabilities that the acquiring firm lacks (Wang, Luo, Lu, Sun, & Maksimov, 2014). In this way, the emerging market firm bundles its assets in the home market with the intangible resources it has brought from abroad and improves its competitiveness. This extends the idea that multinational corporations bundle intangible and complementary local assets when they expand abroad (Hennart, 2009); in our case, the bundling happens in the home market rather than in foreign ones.

Summarizing this idea of *competitive escape*, we present the following proposition:

Proposition 8. *Firms from countries with weak innovation systems are more likely to acquire advanced technologies in countries with strong innovation systems and bring those sophisticated technologies to upgrade home operations.*

There are other methods to upgrade capabilities that do not entail foreign investments, and thus do not represent competitive escape. The distinguishing characteristic of competitive escape is undertaking of investments in countries that have more advanced technologies, in a broad sense of the concept, and repatriation of those technologies to upgrade the home country operations to address the lack of competitiveness there. First, the firm can undertake offshore outsourcing to access the capabilities of foreign firms (Contractor, Kumar, Kundu, & Pedersen, 2010), although this is not foreign direct investment. Second, the firm can establish alliances and agreements with foreign firms in the home country and thus upgrade its capabilities via these linkages as

they learn to be more competitive (Mathews, 2006), serving as the local partner for the foreign multinational and providing market access in exchange for technology. Third, the firm can license the foreign technology to upgrade its competitive capabilities.

3.5. Home country conditions and foreign direct investment decisions: a model

As we did with the previous section, we now summarize our discussion with a decision tree of how the home country affects a firm's foreign direct investment (see Fig. 2). Thus, managers can analyze whether the institutional conditions of the home country provide them with an opportunity that they can use in other countries or whether they should escape those conditions. In case they obtain institutional learning, the next question is whether operating in the home country provides them with competitive learning. If this is the case, they can invest in other countries that have challenging conditions, and use their institutional advantage to manage institutions and their competitive learning to achieve an advantage against incumbents. If, instead, they are investing to achieve competitive escape, they can obtain technologies from advanced economies and upgrade their operations and then invest in countries with challenging institutions in which they can achieve an advantage against incumbents. If they are investing to achieve institutional escape and also enjoy competitive learning, they can invest in countries with strong institutions to protect their investments and compete in a variety of countries. In the final case that involves both institutional and competitive escape, firms can invest in countries with strong institutions and obtain technologies that help them improve operations at home and protect their investments.

4. Heterogeneity in multinationals' strategic responses to home country effects

In the previous sections, we hinted at some of the heterogeneity that one could expect in the strategic responses to home country effects adopted by multinationals. In this section, we elaborate on this idea and present some additional sources of diversity in how multinationals create a variety of strategies influenced by the conditions of the home country.

First, there are links between inward and outward internationalization that is affected by the home country. For instance, inward internationalization fosters outward foreign direct investment scale, establishment in developed countries (they tend to cooperate with developed country partners in inward internationalization), use of risky and radical entry modes (greenfields and M&As), and earlier

timing in moving overseas. The study by Li, Yi and Gui (2017) has made similar suggestions.

Second, a firm's business development stage at home affects outward investments in several manners. More established or mature firms are more capable of electing an early mover strategy than those less established. Those at the later stage of development and growth are likely to invest more, and in developed countries, as well as choose more radical and risky entry modes. Alternatively, those at the earlier stage of growth are likely to invest less, focus in emerging countries, and prefer international joint venture and alliance modes.

Third, a firm's innovation orientation is relevant because it determines the firm's risk-taking, the way to approach the global market, and investment commitment for future growth. Hence this orientation is likely to bolster investment scale, earlier timing, focus on developed markets, and employment of radical entry modes (greenfields, wholly foreign-owned and M&As).

Fourth, a firm's geographic diversification at home can play a role in the decision because the firm's diversification experience can transcend the border in a "flatter" business world. Given the extremely high diversity, complexity and heterogeneity of a large emerging market, like BRIC countries, geo-diversification experience in such a home market is deemed to be very valuable to tackle any new market, even foreign. It is logical to anticipate that home country geo-diversification heightens outward foreign direct investment scale, earlier timing, diversity in both advanced and emerging countries, and use of more complex entry modes.

Fifth, multinationals should not mimic themselves when investing overseas because organizational legitimacy they seek is significantly different between home and host countries. Emerging market firms mimic local firms more than foreign firms when they invest in host countries (Ang et al., 2015). The strategic choice view (e.g., Child, 1997) may argue similarly – both environmental conditions (task and institutional environments) and strategic intent are considerably heterogeneous between home and host countries. This is complicated by the multiple embeddedness of multinationals in local and global context (Meyer, Mudambi, & Narula, 2011). Therefore, the actual strategies they adopt, whether corporate- or business-level, should be different between home and host countries.

Sixth, following the same logic, multinationals are anticipated to use different strategies between developed and developing host countries. Our view is that both environmental conditions and strategic intent are to some degree similar when home and host countries are similar (e.g., home market developing economies and host country developing economy). These differences, however, are much larger when home and host economies are significantly different.

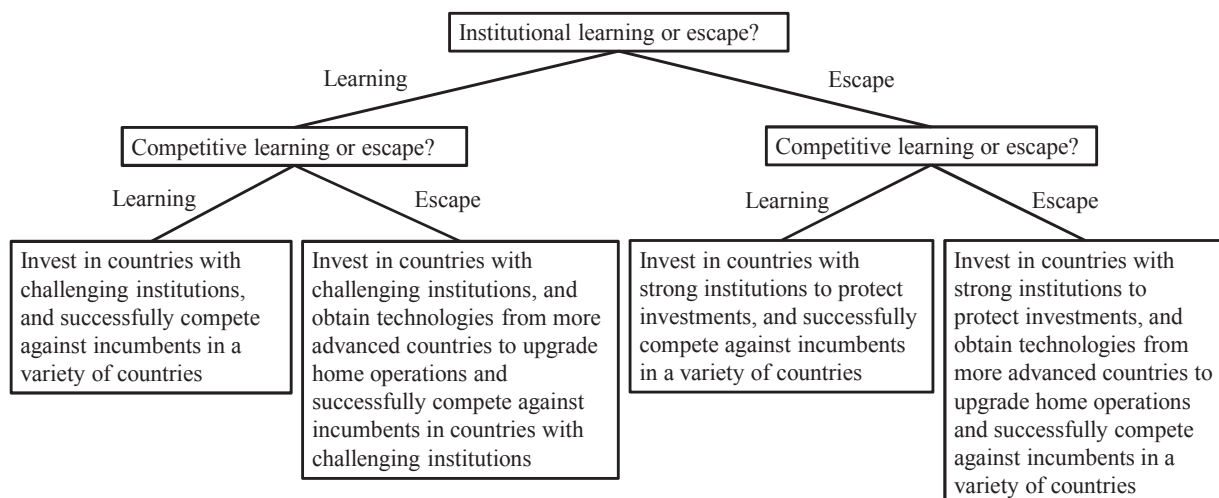


Fig. 2. The impact of the home country on internationalization strategies via international investment.

Seventh, the internalization view argues that host country strategies should be the same as or similar to home-country strategies so that the firm can benefit from cross-border standardization and global economy of scale, as well as reduction of operational and administrative costs. For multinationals seeking to leverage their global scale and skills of massive production for global market, the internalization view may apply. We believe, however, this view may not work well for some new multinationals, such as emerging market multinationals, who do not seek massive global production but seek to acquire key assets. Thus, motivation may play its role in this case (Pananonond, 2015). To some extent, we can expect that the internalization view may work better for, say, emerging market multinationals investing in developing countries due to market similarity and thus leveraging global economy of scale in these countries.

Eight, we see the strategic correlation between home and host countries as a contingent question. It depends on the firm's foreign direct investment motivation – those pursuing asset acquisition (technology, brands) are likely to see low strategic correlation whereas those looking for local market share or quick financial returns are likely to see a high strategic correlation. As stated above, it may hinge on the stage of firm growth – less established firms are likely to have a higher strategic correlation than established ones because (a) the latter are more capable (experience, resources, networks, etc.) of handling different situations using different strategies than the former and (b) the latter tend to operate in more countries or with more products serving for a larger number of global customers. Accordingly, more established multinationals are more likely to employ different strategies in different types of markets (home and host, for example).

Ninth, we view a multinational's resource endowments as an important factor too. Multinationals equipped with greater capabilities are more likely to handle different markets and environments simultaneously by using different strategies. Moreover, they have needed resources to augment different strategies in different markets at the same time. In contrast, those without sufficient resources may be inclined to pursue the same or similar strategies in both host and home countries, which allows them to incur lower costs in information processing, planning, coordination, and differentiation. As we suggested, the type of targeted foreign markets determines market characteristics facing the multinational, and strategies in interest are influenced by such market characteristics.

Lastly, the type of foreign direct investment – whether vertical, horizontal or unrelated – may be relevant as well. Horizontal foreign direct investment is likely to have a greater strategic correlation between host-home activities than vertical, and vertical is likely to have a higher strategic correlation than unrelated foreign direct investment, *ceteris paribus*. Critical to the success of home-host country operational links, horizontally or vertically, is a multinational's capability to connect domestic and foreign value-chain activities and transfer relevant strategic assets and knowledge where and when needed, similarly to a mechanical clutch. This "clutch capability" may be defined as the parent firm's ability to connect domestic and foreign value-chain activities and transfer strategic assets acquired internationally back to the home-based value-chain by setting up appropriate guiding principles and organizational mechanisms. The immediate goal would be optimizing the global value-chain activities, and the ultimate goal would be strengthening of the parent's capacity to compete globally. We view this clutch capability as critical because it helps streamline the multinational's globally integrated value chain activities and optimize exploitation of the dual advantages of the global resources they acquire and the power they possess in the home market.

5. Findings and contributions from this special issue

The special issue was formally launched in 2016 when the four special issue editors (the authors of this introduction) issued the call for papers encouraging submissions that would help to better understand

how the home country affected internationalization. Over the years we had learned the importance of the home country for a firm's internationalization from our experience analyzing and advising emerging market multinationals. Surprisingly, however, most of the models of the multinational were silent on the characteristics of the home country and instead focused on understanding how the host country affected the entry and operation of multinationals. The home country became relevant in the models regarding the distance of differences between the home country and host countries (Johanson & Vahlne, 1977), but there was limited focus on the home country as the subject of analysis. In international marketing, there was, of course, the concept of the country-of-origin that had been analyzed in detail as affecting the sale of products abroad (Peterson & Jolibert, 1995), but there was limited analysis on the investment by firms. Some research analyzing emerging market multinationals and institutions had started to indicate that the home country played an important role in internationalization (e.g., Cuervo-Cazurra, 2006; Cuervo-Cazurra & Genc, 2008; Guillén & García-Canal, 2009; Holburn & Zelner, 2010; Luo & Wang, 2012). Hence, we decided that it was high time to do a thorough analysis of the influence of the home country on internationalization, especially on multinationals.

The process of selection and revision of papers took a year. We received 75 manuscripts and had to make some difficult decisions selecting papers that although good did not fit well with the theme of the call for papers. We invited the authors of the manuscripts that passed the first round to a workshop in June 2017 in Boston organized by the Center for Emerging Markets at Northeastern University and the Center for International Business Education and Research at the University of Miami. Presentation at the workshop was neither a requirement for nor a promise of final acceptance of the paper in the Special Issue. We then had a second round of revisions and some papers went through a third set of comments, and a final round of improvement in January–February 2018. The outcome is the eight papers that comprise this special issue, all of which make a significant contribution to some aspect of how the home country matters in internationalization.

Three papers highlight the importance of escape foreign direct investment and the role that the instability of home country institutions plays in this. Barnard and Luiz (2018) study the impact of institutional changes in the home country on foreign direct investment from emerging economies. Based on the historical case of South Africa from 1956 to 2012, they propose a model that uses the metaphor of stress-strain-failure from materials science to explain escape foreign direct investment. They present a stage model that explains how escape foreign direct investment changes with the deterioration of institutions, inadequate institutional reforms and social instability, and fundamental institutional changes. The paper contributes to a better understanding of institutional escape and highlights the importance of historical analyses. Fathallah et al. (2018) analyze how a turbulent environment at home influences the internationalization of firms that seek to escape the turbulence. They study nine multinationals from Lebanon, which has had a long history of armed conflict and political instability in the last decades to explain how firms use institutional arbitrage. They propose a sequential model in which firm arbitrage rent, value, and scale to match the characteristics of their home country with host countries. The contribution of the paper is to explain the different types of institutional escape. Weng and Peng (2018) look at how labor protection in the home country entice a firm to adopt offshoring strategy as an exit strategy to avoid institutional challenges, and how this is moderated by labor productivity and employee stock ownership. They test these ideas on 300 information technology firms from Britain, France, Germany, Japan and the United States in the period 1990–2010. Their study contributes to the type of strategy that firms use for institutional escape.

Two papers explain the role that home institutions play in internationalization. Li, Xia, Shapiro and Lin (2018) analyze how institutions at the subnational level affect the internationalization of state-

owned firms. They propose that although state ownership results in fewer foreign subsidiaries, supporting regional market institutions and prior experience weaken this relationship. They use a sample of the 1454 foreign subsidiaries of 2585 publicly traded Chinese firms in 2001–2014. The contribution of the paper is bringing the role of sub-national home institutions on the internationalization of state-owned firms. Mingo, Junkunc and Morales (2018) study how the interaction between the strength of the home and host country regulatory institutions affects foreign investment. They propose three mechanisms, institutional hazard avoidance, institutional escapism and dysfunctional institutions, as the drivers of investments, and argue that differences between home and host regulatory institutions sometimes have a positive impact on investments, rather than traditional negative impact discussed in much of the literature. They test the ideas on a sample of 1500 investments in Latin America made by 300 private equity firm during 1996–2011. The contribution of the paper is arguing that the traditional distance in institutions does not always have a negative effect on investments.

Three papers analyze the role of the government in the internationalization of firms, directly via policies and ownership, and indirectly via relationships on the board. Clegg, Voss, and Tardios (2018) study how the level of autocracy in the home country affects the internationalization of state-owned firms. They propose that state-owned firms from autocratic countries are more likely to buy firms abroad, especially in other autocratic countries, in comparison to private firms from autocratic and democratic countries, because the autocratic government uses the firms as an instrument of a mercantilist policy. They test these ideas on a sample of cross-border M&As by state-owned and non-state-owned firms from around the world in 1996–2015. The contribution of the paper is bringing the notion of the level of autocracy of the home country as a driver of foreign investment. Yan, Zhu, Fan, and Kalfadellis (2018) discuss in a theoretical essay how emerging market governments create policies that facilitate foreign direct investment. They propose that the policies created by the government are shaped by domestic companies to support their contribution of the paper is explaining how firms shape policies that support their foreign direct investment. Fernández-Méndez, García-Canal, and Guillén (2018) investigate the role of former politicians in the board of directors on foreign investments. They distinguish between the domestic political connections and the domestic political knowledge that the former politicians provide the firm, and propose that whereas the former is not useful because it is location specific, the latter is helpful for foreign investments in countries with discretionary governments because it brings a sophisticated understanding on the political process. These ideas are tested on a sample of all foreign investments by 95 Spanish listed firms in the period 1986–2008. The contribution of the paper is the separation of the value of politicians on the board and how this value varies with the characteristics of the destination.

6. Conclusions

The home country of multinationals plays an important role in their international trade and investment decisions. Although the influence on international trade is widely acknowledged in the literature, the impact of the home country on international investments has received less attention. In this article, we have reviewed the literature and offered suggestions for future studies. The arguments presented focus on the role of the home country on internationalization, both via international trade and investment. We do not discuss the role of firm characteristics on internationalization, because that is well researched; instead, we focused on explaining how firm characteristics interact with characteristics of the home country to influence internationalization.

The ideas presented here extend existing models of the multinational by highlighting the influence of the home context on their behavior. Many of the models of the multinational i.e., internalization model (Buckley & Casson, 1976), incremental internationalization

model (Johanson & Vahlne, 1977), or the knowledge-based model (Kogut & Zander, 1993) pay attention to host-country characteristics but downplay home-country characteristics. We attempt to bring home-country characteristics to the forefront of the discussion, taking advantage of recent work, such as that on emerging market multinationals (Cuervo-Cazurra & Ramamurti, 2014; Luo & Tung, 2007, 2018). Thus, future research could test the suggestions presented here with large samples, but also by modifying the models to incorporate home-country in their propositions and hypotheses. And these models can go beyond the now traditional focus on institutions and explore many other influences that the characteristics of the home country have on firm behavior, both at home and abroad.

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