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Emerging Market Multinationals and Location choice:

Determinants, Motives and Future Avenues

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EXECUTIVE SUMMARY

The thesis begins with the introduction of the context of the emerging markets, highlighting the growing importance of the emerging market multinationals (EMMs) and their international activities.

In the first chapter, we introduce the debate on the applicability of the existing theoretical frameworks in order to explain the behavior of the EMMs and their international activities. Followingly, we turn our attention to the location choice, which is a strategic decision strongly related to the foreign direct investments of the firms. We summarize what is known in general in the literature about the determinants of the location choice and we develop a systematic literature review specifically focusing on the EMMs. The aim of this review is to get a detailed picture of the country- and firm-level characteristics that the EMMs take into consideration in their location choice strategy. By doing so, we can also identify some of the possible future research questions that we will address in the second and the third chapter of this thesis. This chapter was presented as a conference paper at the 6th Copenhagen Conference on Emerging Multinationals in 2018.

In the second chapter, we illustrate the various theoretical perspectives about the firm-specific advantages (FSAs) of the EMMs and we build our hypotheses on these arguments. We argue that considering the different types of FSAs attributed to the EMMs, the analysis of their location choice makes it possible to better understand what type of advantages do these firms rely on when they invest abroad. We consider their ability to operate in institutionally challenging environments, their domestic market dominance and their knowledge related FSAs in our empirical analysis. Moreover, we are also interested in the direction of their investment, i.e. whether EMMs invest in developed or emerging markets. This chapter is accepted and going to be presented in a competitive session at the 45 th European International Business Academy conference in Leeds, UK.

Finally, in the third chapter, we focus on the influence of the motivation of the investments on the location choice of the firms and the established business activities abroad. We develop our hypotheses based on the motives, on the characteristics of the established business activities and on the direction of the investments. Moreover, during our analysis we concentrate on the investments of the EMMs and their location choice. Lastly, the empirical analysis both in the second and the third chapter is built on a large dataset from fDi Markets, complemented by manually collected data on the investments and further institutional and firm-level data.

INTRODUCTION

Emerging markets have become major players in the global economy and also primary sources of growth in the 21st century (Meyer & Grosse, 2019). The emerging markets are different from the advanced market economies in terms of various economic, institutional aspects and resource endowment. Regarding the economic background, the emerging markets are driving the increase of the global demand while also contributing to the increase in the production of goods and services (Grosse & Meyer, 2019). Moreover, the emerging markets are also a major source of volatility in terms of political and social issues and they are following widely divergent growth paths (Ohmae, 1985). The emerging markets are characterized by less institutional transparency and an increased government involvement compared to the advanced economies (Xu & Meyer, 2013). Finally, the natural resources endowment and relatively low cost of labor in the emerging markets are considered as a critical factor in their prosperity.

I. What are emerging markets?

The concept of "emerging markets" was first used by Antoine van Agtmael, an economist in the World Bank at the end of the 1980s. The expression was used to describe the rapidly growing economies with rapid industrialization (Van Agtmael, 2007). The term "emerging markets" became popular also in other fields such as among financial market analysts (e.g. Errunza, 1983; Harvey, 1995) and was later adopted by management scholars studying various phenomena in these markets.

However, there is no consensus on which countries belong to the category of emerging markets. The classification is frequently modified based on the various indicators that are used to define it and also based on the institutions which are preparing it. There are several classifications developed by international organizations such as the International Monetary Fund (IMF) or the United Nations Conference on Trade and Development (UNCTAD) and by financial companies such as the FTSE, Morgen Stanley Capital International (MSCI) or the Goldman Sachs. The composition of these classifications is quite similar, although there are some notable differences that need to be taken into consideration when deciding which one to work with.

To begin with, these classifications are usually built up by exclusions, meaning that they rather define which countries belong to the category of advanced markets and the rest of the countries will be considered as emerging and developing countries (Grosse, 2015). The most widely used

classification is that of the IMF, which, depending on the yearly edition of the World Economic Outlook report (2018), is excluding 23-28 advanced countries, while the rest of the countries are considered as emerging and developing markets.

Similarly, the UNCTAD (2018) classification is also based on exclusion, but there are some major differences. First, the UNCTAD classification considers advanced markets all the member states of the European Union, including Bulgaria, Croatia, Hungary, Poland and Romania. These countries in other classifications are not considered as advanced economies. Second, according to the UNCTAD classification, Singapore and the Republic of Korea belong to the category of developing countries, while they are considered as advanced economies according to the IMF classification. For this reason, even if UNCTAD is reporting the most on the foreign direct investment (FDI) activity of the emerging markets, one needs to keep in mind these details when applying this classification.

Furthermore, in the field of financial investment professionals, the FTSE (2018) is a leading provider of index data for institutional investors worldwide, has also built up its list of emerging markets. The FTSE Emerging Markets index is part of the FTSE Global Equity Index Series which "includes large and mid-cap securities from advanced and secondary emerging markets, classified in accordance with FTSE's transparent Country Classification Review Process. The FTSE Emerging Index provides investors with a comprehensive means of measuring the performance of the most liquid companies in the emerging markets" (Fornes & Mendez, 2018, p. 480). The latest version of the index consists of 23 countries.

Similarly, the MSCI Emerging Markets Index developed by the Morgan Stanley Capital International, is part of the MSCI Global Investible Market index and it is designed to represent the performance of large- and mid-cap securities in 24 Emerging Markets. The only difference between FTSE (2018) and MSCI (2018) is that while FTSE is considering the Republic of Korea as an emerging market, the MSCI list is not including it.

Finally, the buzzwords BRIC was introduced by Jim O'Neill of Goldman Sachs in 2001 (O'Neill, 2001), referring to the countries of Brazil, Russia, India, China. However, soon there was a need to mention some other countries when talking about emerging markets such as Mexico or Turkey. Currently, Goldman Sachs for describing the emerging economies is using the list of the BRIC countries and the so-called "Next Eleven" that are expected to be the fastest-growing economies in the 21st century. The following table summarizes the differences between the classifications of emerging markets by the various institutions (Table 1).

Table 1 - The classification of emerging economies

Country	IMF	UNCTAD	FTSE	MSCI	Goldman Sachs
Algeria	X	X			
Argentina	X	X			
Bangladesh	X	X			X
Brazil	X	X			X
Bulgaria	X				
Chile	X	X	X	X	
China	X	X	X	X	X
Colombia	X	X	X	X	
Czech Republic			X	X	
Egypt	X	X	X	X	X
Hungary	X		X	X	X
India	X	X	X	X	X
Indonesia	X	X	X	X	X
Iran	X	X			X
Malaysia	X	X	X	X	
Mexico	X	X	X	X	X
Morocco	X	X			
Nigeria	X	X			X
Pakistan	X	X	X	X	X
Peru	X	X	X	X	
Philippines	X	X	X	X	X
Poland	X	X	X	X	
Romania	X		X	X	
Russia	X	X	X	X	X
Singapore		X			
South Africa	X	X	X	X	
South Korea		X		X	X
Taiwan		X	X	X	
Thailand	X	X	X	X	
Turkey	X	X	X	X	X
UAE	X	X	X	X	
Ukraine	X	X			
Vietnam	X	X			X
Venezuela	X	X			

Source: individual elaboration

For the purpose of our analysis, we will use the classification of the IMF. Our choice is based on the reason that in the yearly editions of the World Economic Outlook report, the list of the emerging countries is always updated in case of a change in the development status of a country. Moreover, it is a more restrictive classification, unlike the one of UNCTAD, in which certain countries of the European Union are considered as developed countries by default. Finally, the IMF classification is more relevant for the management and international business research than the stock market indices presented before.

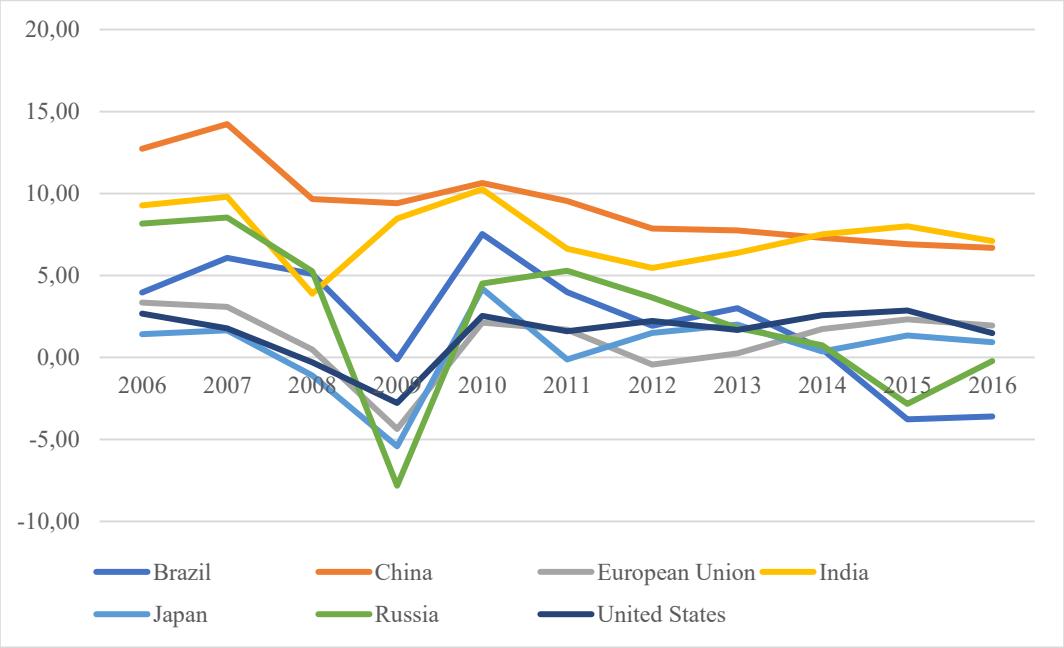
II. The characteristics of the emerging markets

According to Cavusgil, Knight and Riesenberger, the emerging market economies are "former developing countries that have achieved considerable industrialization, modernization and economic growth since the 1980s" (2018, p. 232). Moreover, the definition of Tamer, Ghauri and Akcal also confirms that “emerging markets are countries which are in a transition phase from developing to developed markets due to a rapid growth and industrialization” (2013, p.5). Both definitions of the emerging markets suggest that these countries implemented several institutional reforms in order to sustain their economic growth and global integration. Furthermore, we can summarize the four most important common characteristics of these countries as follows: first, they all have steady growth in their gross domestic product; second, they are facing the issues of poverty, poor infrastructure and overpopulation; third, their government is having a significant influence on the economy and their institutions are relatively weak; finally, they are being more and more integrated into the world economy. In the following section, each of the above-mentioned characteristics will be discussed, highlighting the strengths and weaknesses deriving from them.

2.1. Economic growth and inequalities

First, based on some projections, in the following two decades, the size of the Indian economy in terms of GDP is expected to surpass those of Japan and UK, while by 2050 Brazil, Mexico and Indonesia should become larger than most of the European countries and Japan (Magnus, 2010). The following figure (Figure 1) reports the average growth rate of the BRIC countries and the Triad economies (US, EU and Japan). As it is shown, the average growth rate was 9.3% in China for the period of 2006-2016, followed by India with 7.5% average growth rate for the same period. At the same time, Brazil and Russia had experienced an average growth of 2.2-2.4%. On the other hand, the advanced markets (European Union, Japan, United States) had 0.6-1.4% average growth rate in this ten-year period.

Figure 1 - GDP growth rate (%, 2006-2016)



Source: WorldBank, individual elaboration

In addition, Table 2 shows the average GDP growth rate for two longer time periods: between 1990-2016 and 2006-2016. As it can be noted also here, the average growth rate of the emerging economies is higher than those of the advanced economies. Moreover, the economic growth in the emerging economies was also less affected by the last global financial crises.

Table 2 – Average GDP growth rate of the BRIC countries and the Triad countries

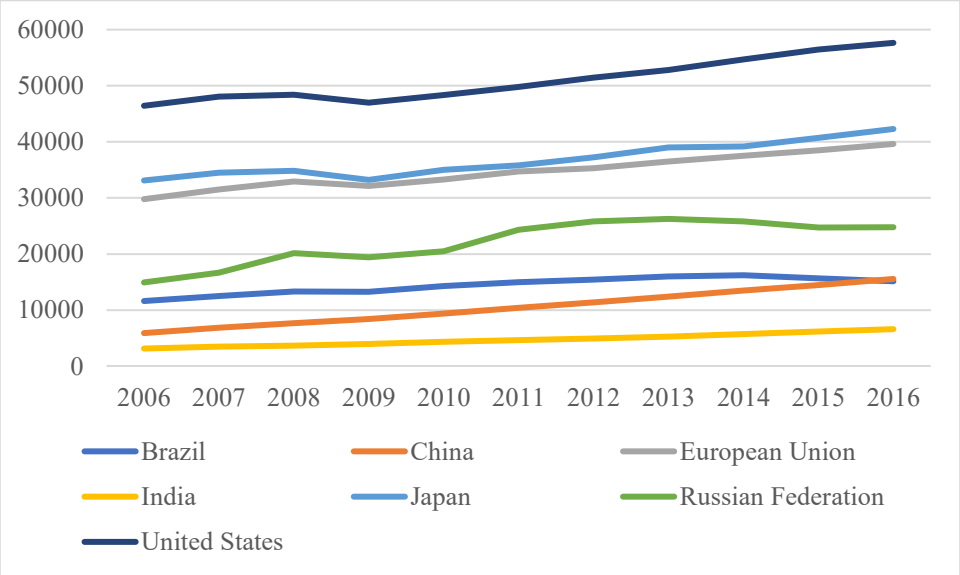
Country	Average GDP growth rate 1990-2016, %	Average GDP growth rate 2006-2016, %
Brazil	2.30	2.23
China	9.63	9.33
European Union	1.75	1.11
India	6.60	7.53
Japan	1.18	0.62
Russian Federation	0.70	2.46
United States	2.42	1.48

Source: World Bank, individual elaboration

Consequently, the rapid economic growth of the emerging markets made them attractive for goods and services. Based on their GDP, China, India and Brazil were among the ten largest national markets in the 2010s, closely followed by Russia and Mexico. Moreover, the consumer demand is expected to grow even faster than in the advanced economies (Meyer & Grosse, 2019).

However, even if these countries seem to become more and more wealthy, their GDP per capita at purchasing power parity (PPP) is revealing that the individual income level of the population is still substantially lower than in the advanced economies (Figure 2). Moreover, most emerging market countries are suffering from high levels of income inequality and there are large differences in household income in the rural and the urban areas (OECD, 2011).

Figure 2 - GDP per capita (PPP, 2006-2016))

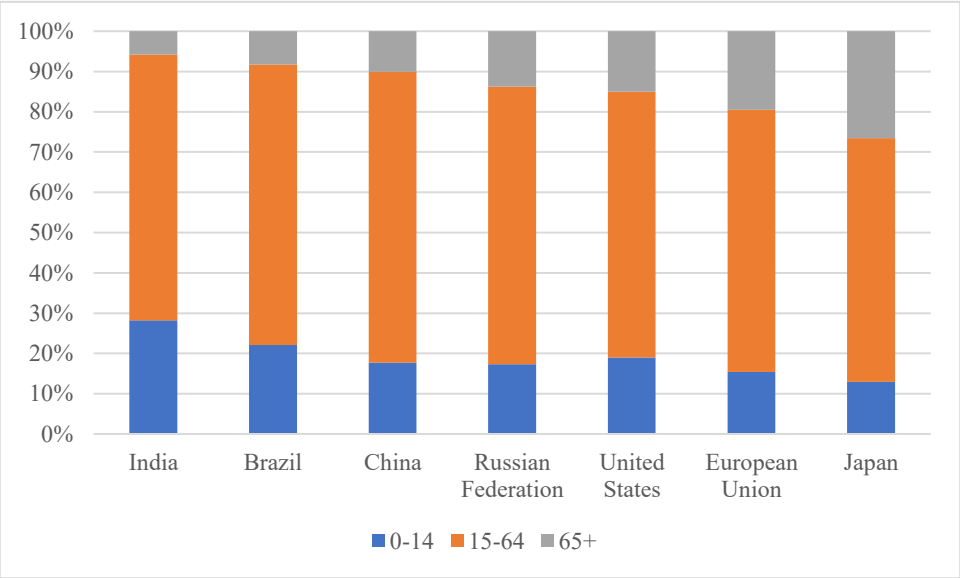


Source: World Bank, individual elaboration

2.2. Population

Second, another distinctive and common characteristic of the emerging markets is the young and growing population. On one hand, it means that there is an increasing pool of workers as these young people at some point will enter the labor market. Moreover, it also gives dynamism and support to the economic growth because of the augmenting consumption. Furthermore, as opposed to the developed markets, the old-age dependency ratio is relatively lower in the emerging markets. Consequently, it does not put a burden on the economy by increasing government spending on social security. The following figure (Figure 3) is representing the demographic distribution of the individual countries. It can be clearly seen that the share of 0-14 years old population is much larger in the emerging markets than in the advanced countries, while the share of the population that is older than 65 years is significantly higher in the advanced markets.

Figure 3 - Share of population by age (2016)



Source: World Bank, individual elaboration

2.3. Institutions

Third, the role of the government is substantial in the economic development of the emerging markets and its involvement in market operations is more significant than in the developed countries (Khanna & Yafeh, 2007). On one hand, the government makes important decisions about the countries' involvement in international trade and opening up their borders. On the other hand, the government is involved also through the centralized economic planning and through the ownership of economic enterprises, even if the share of state-owned enterprises is being gradually reduced by privatization. Moreover, the business system in the emerging markets is considered to be rather relationship-based and the political decisions are often driven by interests. Consequently, due to the domestic companies' network and connection with the government, it may decide to protect them if they are large employers or national champions (Montiel, 2011).

Besides, the phenomenon of institutional voids (Khanna & Palepu, 2010) needs to be mentioned, which is the result of relative inefficiencies in capital product and labor markets compared to the developed markets (Lee & Peng, 2008). These inefficiencies can derive from the weaknesses of the governance and legal system, the absence of intermediary institutions and the poor enforcement of regulations. The countries from emerging markets are characterized by high levels of corruption, bureaucratic inefficiency and political decisions driven by interests. The World Governance Indicators by the World Bank is a collection of

measures of the quality of the different dimensions of institutions: Voice and Accountability (VA), Political Stability (PS), Government Effectiveness (GE), Regulatory Quality (RQ), Rule of Law (RL) and Control of Corruption (CC). The indicators vary on a -2,5 to a +2.5 points scale. As it can be seen in the following table (Table 3), all the BRIC countries are having relatively small values in each of the dimensions with respect to the selected advanced economies.

Table 3 - World Governance Indicators (2016)

Country/Territory	VA	PS	GE	RQ	RL	CC
Emerging Economies						
Brazil	0.47	-0.45	-0.18	-0.21	-0.08	-0.44
China	-1.62	-0.52	0.36	-0.26	-0.22	-0.25
India	0.41	-0.95	0.10	-0.31	-0.07	-0.30
Russian Federation	-1.21	-0.89	-0.22	-0.42	-0.80	-0.86
Advanced Economies						
Japan	1.00	1.01	1.83	1.43	1.38	1.51
United States	1.10	0.35	1.48	1.50	1.67	1.33

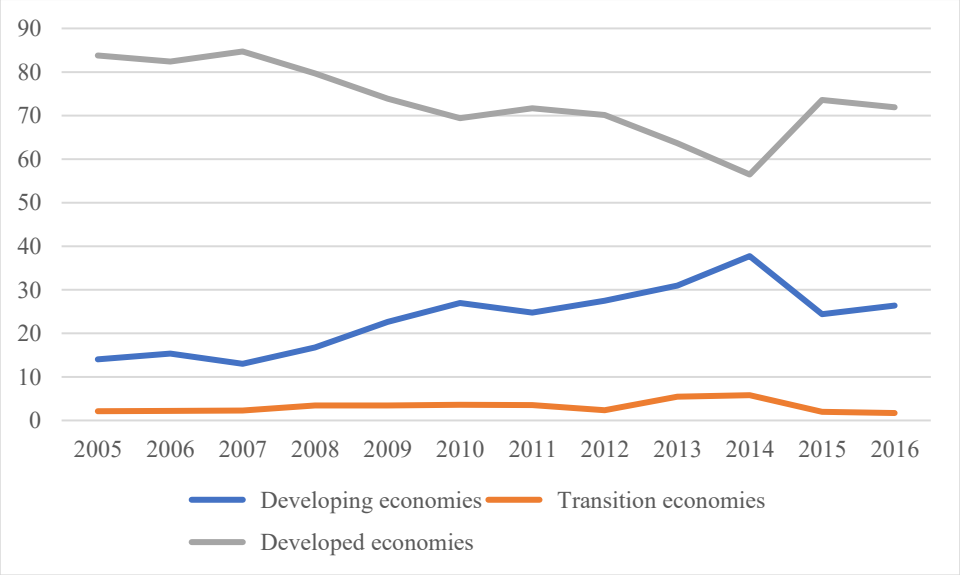
Source: World Governance Indicators, individual elaboration

2.4. Integration to the world economy

Finally, there is the trend of emerging markets and EMMs being more and more integrated into the world economy. It is the result of the liberalization policies of the emerging market governments and by today the emerging market economies are important players in the world trade. They have joined various international organizations such as the World Trade Organization and they have also established their regional trade agreements. For example, China and India have almost doubled their exports between the period of 2009 and 2014 (China from 1.2 trillion dollars to 2.3 trillion dollars, while India 176 billion dollars to 336 billion). Besides trade, the FDI investments from the emerging markets have been increasing since the early 2000s (Figure 4). Developing and transitional countries were mentioned as the newest sources of FDI in the yearly World Investment Report of UNCTAD (2006), representing the 17% of the world FDI outflows in 2005, with this being the highest ever recorded level by that time. These investments were primarily oriented from developing and transitional economies to other developing and least developed countries (South-South investments). During the years of the crisis, the FDI flow from these countries was steadily increasing and in 2009 it has arrived at the 25% share of the world FDI outflows (UNCTAD, 2010). The latest record was in 2013,

where the 39% of the world FDI outflows were deriving from developing and transitional economies (UNCTAD, 2014). Since then, there was a slight decline in this trend caused by the increasing commodity prices, currency depreciation and geopolitical tensions. The only exception was China, where the level of outward FDI is still increasing (UNCTAD, 2016).

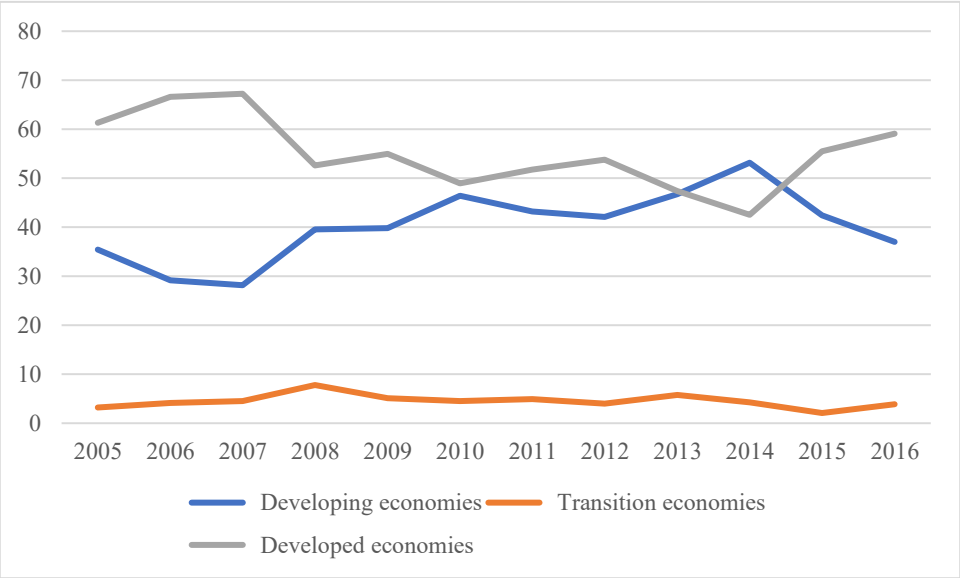
Figure 4 - OFDI (% of the world share)



Source: UNCTAD, individual elaboration

Regarding the inward flowing FDI (Figure 5), currently almost the 60% of the world FDI is directed towards the developed economies in 2016. The developing economies experienced a gradual increase in the OFDI since 2007, with the record of 53.16% in 2014.

Figure 5 - IFDI (% of the world share)



Source: UNCTAD, individual elaboration

The importance of the emerging markets in the global economy is also proved by the fact that they contributed to the global GDP by 36% in 2015 (in the 1990s this ratio was only 16%) and they accounted for the 84% of the world population in the same year (Meyer & Grosse, 2019). Moreover, with the growth of the emerging markets, also the firms from these countries have become key players in the world economy. The increasing importance of the emerging market multinationals (EMMs) is also reflected by their presence on the list of the Fortune Global 500 companies. In 2013, 26% of the companies listed in the ranking originated from emerging economies and in 2017 there were more than 100 Chinese companies on the list. Finally, also the Boston Consulting Group (BCG) set up a dedicated report to the Global Challengers which were defined as exceptionally successful emerging market companies (2016). Regarding the total revenues by the top 100 firms worldwide, the EMMs accounted for 18% of the total revenues in 2009, while this ration increased up to 25% in 2014.

III. Conclusion

The aim of this introduction is to give an insight to the context of emerging markets. Even though we focused on the similarities of these countries, we reckon that they cannot be considered as a homogenous group since each country has its own peculiarities. Some of these countries are characterized by state capitalism, while others are more oriented towards the market economy. There are some commodity exporter countries, while some others of them are more advanced in term of manufacturing goods and services. However, we believe that the

context of the emerging markets, the growing importance of the EMMs and their international activity make them a relevant subject of research in the international business field. The articles in this thesis focus on the specificities of the EMMs and analyze in-depth one of their most important strategic decisions, i.e. their location choice.

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CHAPTER 1

Taking a step backward to find a way forward: A review of the location choice of the emerging market multinationals

Abstract

In the last 20 years, the emerging market multinationals (EMMs) have become important actors of the world economy. The raise of these firms challenges some of the pillars of the MNE literature, generating a lively debate in the international business literature. The aim of this paper is to provide a systematic literature review about a specific aspect of the EMMs' international strategy: their location choice decisions. We reckon is time to take stock of the current body of literature in order to contribute to the advancement of the theory on emerging market multinationals and on MNEs in general. For this purpose, we select 37 articles, using a specific keyword search. As a result, a detailed picture emerged about the main home and host country characteristics that emerging market multinationals take into consideration in their location choice strategy. This allows us to identify some research gaps and future lines of research to solve some theoretical challenges about emerging market multinationals. We believe that understanding the location choice behavior of these firms could contribute to the future advancement of the theory on emerging market multinationals.

Keywords: systematic literature review, foreign direct investment, emerging market multinationals, location choice

I. INTRODUCTION

Firms' location choice for their foreign direct investments has been a subject of curiosity for a long time now in the international business (IB) field. The research stream on the location choice of the multinational enterprises (MNEs) includes not only firm-specific features (e.g. international experience or intangible assets), but also various economic, political and socio-cultural aspects of the home and host countries when analyzing the spatial dimension of the firms (Jain, Kothari & Kumar, 2016; Nielsen, Asmussen & Weatherall, 2017). The majority of these studies are focusing on the location choice of firms from advanced markets (Ramamurti, 2009); however, a growing body of literature analyses the behavior of the emerging market multinationals (EMMs) and the factors that influence their location choice. The theoretical questions addressed in most of these papers are the following: Are they any different from the traditional MNEs? or, in other words, do "these investments represent a new phenomenon that requires new theories, or (…) can be explained within the existing theoretical frameworks that have been used to explain (…) the established MNEs? (Hennart, 2012, p. 169). Do the same location determinants affect their location decisions in the same way? Or the peculiarities of their home countries have a major influence on their location choice outcomes? As the EMMs are becoming more and more prevalent on the global economic stage, especially because of their increased FDI activity, understanding their geographic strategy would allow answering some of the unresolved questions about their activities.

So far, the location choice of the EMMs has been studied by various theoretical and methodological approaches leading to mixed results that require a critical assessment. Therefore, the aim of this paper is to synthesize the existing theoretical body, identifying the current limitations and the possible future directions of the location choice research. For this purpose, we designed a systematic literature review, with special attention on the foreign direct investments (FDI) from emerging market economies both towards developed and developing countries. The analysis includes 37 articles from the most important IB journals and from journals specifically dedicated to emerging markets.

During the analysis, we devoted a special attention to the distribution of home and host countries, the type of FDI investment and the key topics that were related to the location decisions. By doing so, it was found that in most of the cases China is the home country of the investments, but other emerging markets are still underrepresented. Moreover, the majority of the papers analyze the location choice of the outward foreign direct investments (OFDI), but they do not make any distinction between the M&As and greenfield investments. Finally, the

review shows that the EMMs still raise some theoretical issues. The answers to these questions could lead to the advancement of the theory on multinational firms.

The structure of the paper is the following: first, we provide an overview of the theoretical debate on EMMs' FDI activity. Second, we discuss the determinants of the location choice decisions in general and with a special attention to the EMMs. Third, we describe the methodology of the systematic literature review and, finally, the findings of the review are presented together and implications for the future research are discussed.

II. THEORETICAL BACKGROUND

There is an extensive literature about the internationalization of the multinational enterprises in the IB field. The main theories about the MNEs were developed in the 1970s based on the evidence from the experienced and mature Western MNEs and these paradigms are reflecting the characteristics of these firms MNEs (Meyer & Thaijongrak, 2013). However, the EMMs are originating from a different context and this phenomenon is raising new questions, challenging the existing IB theories. The EMMs were a popular research topic in the late 1970s until the early 1990s (see e.g. Lecraw, 1977,1993; Lall, 1983; Kumar & McLeod, 1981; Khan, 1986) when these firms started to appear on the global economic stage. Recently, the trend of internationalization of these firms brought them back to the spotlight (Khanna & Palepu, 2010).

2.1. Dunning's OLI framework

The eclectic theory or as it is also known, the OLI framework, represents the cornerstone of the internationalization literature. For this reason, its applicability in the context of the emerging markets and EMMs has induced a theoretical debate among the IB scholars. Hereby, we emphasize the importance of the location and its advantages in the process of internationalization based on Dunning's work.

In his seminal paper (1980), Dunning sets out the main features of the eclectic theory of international production financed by foreign direct investment. Dunning is focusing on evaluating the importance of the ownership- and location-specific advantages in explaining the industrial pattern and geographical distribution of the observed affiliates.

According to Dunning's theory, there are three main determinants that are influencing the propensity of a firm to get involved in international production through foreign direct investment. First, it is determined by "the extent to which it possesses (or can acquire, on more favorable terms) assets which its competitors (or potential competitors) do not possess" (Dunning, 1980, p.9). Second, it is the profitability of exploiting these assets in combination with the resources of foreign countries rather than in their home country. Third, it is the interest of the firms to internalize these assets, rather than selling or leasing them to other firms. Dunning's key argument is that the more ownership-specific advantages are in the possession of the firm, it is likelier that the firm will internalize them. Moreover, the more attractive is a foreign country's production base, the firm is more motivated to engage in international production. Dunning is emphasizing that for the firm to be able to compete with the indigenous firms of the foreign country, it must possess additional ownership advantages to outweigh the cost of operating in an unfamiliar or distant environment (Hirsch, 1976).

Furthermore, Dunning (1980) states that the function of the firm is to transform valuable inputs into more outputs. More importantly, he is distinguishing between two kinds of inputs: first, there are inputs that are available to all firms on the same terms, regardless of their size or origin, but they are specific to a location and can be used only in their location of origin, such as natural resources and labor, proximity to markets, but also including the legal and business environment in which these inputs are used. Second, there are inputs created by the firm such as technology and organizational skills over which the firm has some proprietary right of use (patents, brand, trademarks). An important characteristic of these types of inputs is that even if their origin is linked to a specific location given the endowments, however, their use is not limited only to that location. The firm can exploit them in any location for minimal transfer costs and, at least for some period of time, they constitute the exclusive property of the firm (mobile between countries, not between firms). Moreover, the ability of the firms to acquire ownership endowments is strongly related to their country of origin and for this reason, the foreign production structure of the different countries should be different.

2.2. The debate on the necessity to develop new theories for the EMMs

Currently, there are three main viewpoints about the need for developing new theories in order to analyze the activities of the EMMs. This debate is generally referred to as a Goldilocks debate [1](Cuervo-Cazurra, 2012) and it takes Dunning's OLI theory as a starting point. First, according to some authors such as Rugman, the behavior of the EMMs can be simply explained by the existing theories (Rugman, 2010). According to this view, it is not necessary to develop a new theoretical framework as the operation of the EMMs and their rapid internationalization can be easily understood in the context of globalization and it can be explained by the traditional view of MNEs (Dunning, Kim & Park, 2008).

Second, on the contrary, other authors argue that the phenomenon of the EMMs follows a different logic and it is calling for new theories and models in order to explain their behavior. For example, the work of Guillen and Garcia-Canal (2009) is also arguing that new theories need to be developed. The authors find the main difference between EMMs and developed market MNEs in the EMMs' accelerated internationalization, in EMM's weak competitive advantages, their strong political ties and high organizational adaptability. Moreover, Guillen and Garcia-Canal (2009) also mention that EMMs are simultaneously entering developed and developing markets as well as balancing between their desire for global reach and capability upgrading. Moreover, some authors made also an attempt to give an explanation to the internationalization of the EMMs. For example, Mathews (2006) came up with the LLL (i.e. linkage, leverage, learning) framework, according to which the EMMs use linkage by acquiring advantages externally, leverage on their network and learning by repetition and improvement in their internationalization process. In a similar vein, Luo and Tung (2007) argue that EMMs invest abroad in order to obtain strategic assets and to avoid the home country's institutional and market deficiencies. According to this view, the EMMs use their international expansion as a springboard to compensate for their disadvantages with respect to their developed market counterparts.

Finally, taking an intermediate position, the third approach claims the existing theories and models should be only extended in order to be applicable to the EMMs. The key argument here is that only some of the predictions of the existing theories need to be modified in order to explain the behavior of the EMMs since there are some aspects of these theories that are

[1] The Goldilocks principle is named by analogy to the children's story The Three Bears, in which a little girl named Goldilocks tastes three different bowls of porridge, and she finds that she prefers porridge which is neither too hot nor too cold but has just the right temperature

universally applicable and other aspects that are not valid for the EMMs (Ramamurti, 2012). According to Ramamurti (2012, p. 41), "to discover areas in which existing theory is inadequate is (…) to look for situations in which the behavior of the EMNEs appears to be strange or inexplicable based on what we know about DMNEs". This statement is encouraging to narrow the focus of the theoretical argument about the EMMs to more precise questions. One aspect that needs to be further discussed in order to advance the theory is the location choice of the EMMs and the interaction of the ownership- and location-specific advantages. This would allow having a full view of the behavior of the EMMs during their FDI activities. For this purpose, in the following section, we first discuss the factors that influence the location choice in general and then we analyze in depth the specific literature on the EMMs' location choice. Moreover, we show that the current debate on the EMMs' location determinants offers a useful perspective to understand the efficacy of the existing IB theories to explain the rise of the EMMs.

III. OVERVIEW OF THE LOCATION CHOICE LITERATURE

Since Dunning's (1998) imperative to devote more attention to the location choice of the MNEs, this research stream has experienced a renewal. There has been a multidisciplinary approach in investigating the factors that influence the location choice decision. Many scholars both in the field of economic geography and of international business have investigated the issue producing a relevant number of papers. Few recent studies have summarized the state of the art in the location choice literature (e.g. Kim & Aguilera, 2016; Jain et al., 2016; Nielsen et al., 2017). The fact that these studies take different approaches to the topic of location choice, provides the opportunity to get a full picture of the current challenges and future directions of the location choice research.

First, Kim and Aguilera (2016) investigate 137 articles from the period 1998-2014 with the purpose of synthesizing the main findings of these articles within the topic of foreign location choice. The authors categorize them into three major groups: institutions, emerging markets and other topics, including the new economic geography, strategic asset-seeking investments, regions, offshoring and networks. Second, Jain et al. (2016) instead are proposing a comprehensive conceptual model to describe the location determinants in the decision-making procedure based on 151 articles published in the period of 1975-2015. The aim of this conceptual model is to give a guidance for the managers to which determinants to consider when making a location choice decision based on the motivation of the investments. Third, the review of Nielsen et al. (2017) takes a different approach, focusing on the quantitative empirical

evidence in the location choice research. They select 153 articles from the period of 1976-2015, with the aim of organizing and analyzing the existing quantitative empirical evidence in the field. For this purpose, the authors identify the main hypotheses that have been analyzed in these studies. Moreover, they analyze the research design, the sample, the unit of analysis and the economic approach of the articles in order to identify the methodological challenges in the field.

Given the different approaches, the three review papers highlight different aspects of the location choice research. While the review of Kim & Aguilera (2016) are focusing on the most popular questions explored, unlike Jain et al. (2016) and Nielsen et al. (2017), they do not discuss directly the specific location determinants in their review. However, there are certain key shared elements of location choice that appear recurrently in these studies.

The role of institutions in the location choice is a common topic in all three reviews. According to Kim & Aguilera (2016), one of the most frequently discussed topics in the literature is whether and to what extent institutional differences influence the location choice of the firms. Moreover, as it was found that the quality of institutions matters, several articles also investigate how some specific aspects of formal (e.g. corruption) and informal (e.g. cultural affinity) institutions affect the location decision. The finding is also confirmed by Nielsen et al. (2017), as the level of development of the institutions was among the most investigated hypotheses in the location choice research, while Jain et al. (2016) emphasize the institutional distance in their conceptual framework as a key determinant of location choice.

Furthermore, both the conceptual framework of Jain et al. (2016) and the most popular hypotheses according to Nielsen et al. (2017) include firm-, industry- and country-level determinants of the location choice. The most widely used firm-level determinant is the international experience of the firm, while on industry level the competition between and the agglomeration of the firms are the factors that influence the location choice. On the country level, besides the numerous macroeconomic factors, the various aspects of the distance between the home and the host country are the most important determinants of the location choice, as well as the countries' inter-regional and trade relations. However, these determinants are not necessarily used at the same time simultaneously and in the empirical models they appear not only individually, but also as the combination of the individual determinants. In contrast, in other studies they are included as control variables. For this reason, the review studies urge to integrate the firm-, industry- and country-level determinants in the future research, adjusting the determinants to the specific context of the analysis.

More specifically, regarding the firm characteristics that affect the location choice, Nielsen et. al (2017) report the pivotal role played by the ownership advantages, i.e. the peculiar individual resources of the firm. Resources such as technological knowledge and brands act as the principal determinants of location choice as they also influence the location choice in two different ways: on one hand, they can compensate for the liability of foreignness of the firm abroad, even in risky and hostile environments. On the other hand, firms may also search for complementarities of these resources and for this reason, they would locate to relatively resource-abundant places. Moreover, the organizational knowledge and international experience as such can be considered as a resource of the firm. The hypotheses tested based on this argument were supporting the idea that the more experienced a firm is, the more likely it is that it will choose "unattractive" locations as a destination of its investment. In addition, Jain et al. (2016) also note that the firms' prior investment can also increase the probability of a new investment in the same host country (Dowell & Killaly, 2009; Erkamilli, 1991; Lu, Liu, Wright & Filatochev, 2014). Finally, the firms' location decision is also influenced by its customer relations, especially when they are in a client-vendor relationship (Hennart & Park, 1994; Li & Guisinger, 1992; Petrou, 2007).

With regards to industry-level determinants, all the reviews (Kim & Aguilera, 2016; Jain et al., 2016; Nielsen et al., 2017) underline the key role of inter-industry relations and of the presence of intra-industry agglomerations and clusters. The location choice can be guided by the level of domestic and international competition within the industry (Ito & Rose, 2002; Li & Guisinger, 1992). For this reason, some firms may also imitate the behavior of other firms in the same industry in their location choice in order to mitigate the risks of internationalization (Ito & Rose, 2002). Moreover, in some cases do the firms prefer to invest in a location where there are other similar firms with the possibility of knowledge spillover and in which other cases they prefer to invest in locations where there are firms with different, but possibly complementary knowledge (Chang & Park, 2005; Chung & Alcacer, 2002; Nachum & Wymbs, 2005).

With regards to the country characteristics, many studies (Belderbos & Sleuwaegen, 2005; Enright, 2009; Flores & Aguilera, 2007; Galan, Gonzales-Benito & Zuniga-Vincente, 2007; Globerman & Shapiro, 2003; Hahn, Bunyaratavej & Doh, 2011; Henisz & Delios, 2001; Kumar, 2001; Shimizutani & Todo, 2008; Duanmu, 2012) consider the pure economic variables that have a direct impact on the firms' costs and revenues, such as the market size of the host country, the level of corporate tax and wages the development of the infrastructure. Based on the findings of these studies, it can be said that firms prefer better macroeconomic conditions

when selecting a location. Moreover, the home-host country distance in all different forms such as cultural, geographic and economic distance is generally found statistically significant supporting the hypothesis that the liability of foreignness increases with the distance between the home and the host country (Eden & Miller, 2004). Consequently, a larger distance is discouraging the firm to select a given location. Finally, the inter-regional relationship and network of the firm in the host country can facilitate FDI for the firms (Chen & Chen, 1998) and so influence the location choice.

Given the depth of this research and the large number of variables considered, the following table (Table 1.1) is summarizing the most frequently studied determinants of the location choice. In the first column there are the constructs, while in the second column contains the measure of each construct. This is followed by the third column with the findings about the constructs' effect on location choice. Finally, in the last two columns the theories used and the name of the authors are recorded.

Table 1. 1 – Most frequently used determinants of location choice

Construct	Measurement	Findings	Theory
Firm level			
Intangible assets	Production technology, Ability to improve processes and products, Procurement and distribution capacity, Ability to manage relationships, Brand advantage, Price advantage	Superior ownership advantages prefer to invest in more developed than less developed regions	RBV, OLI
Experiential learning/ International experience	Number of years of operation abroad Number of foreign subsidiaries	A prior investment can increase the probability of a further one in a given host country	RBV, UM
Customer following	Scale measure for motivation to serve existing clients and markets from the home country	The firms are following abroad their clients, especially in the case of services	TC, OLI
Industry level			
Industry rivalry or imitation	Oligopoly: number of other firms in the host country	The presence of competitors is increasing the probability of locating in the same country	OLI
Agglomeration/Clustering	Number of firms' own prior entry Number of firms' entry from the same home country Number of firms' entry from the same regional network	The higher the number of prior entries or entries from the same home country/regional network, the more like that the location will be chosen	Organizational theory, Internalization theory, OLI
Country level			
Economic factors			
Availability of natural resources	Export of natural resources as a share of GDP	The abundance and availability of natural resources is having a positive effect on the location choice	RBV

RBV = resource-based view, TC = transaction cost theory, IT= institutional theory, LoF= liability of foreignness, UM= Uppsala-model

Construct	Measurement	Findings	Theory
Macroeconomic factors	Market size: GDP, GDP/capita Cost of labor: average wage Infrastructure: kilometer of roads, ratio of paved roads, number of telephone lines Exchange rates: Host currency/ home currency Taxes: Corporate tax rate	Better macroeconomic conditions of the host country in general are increasing the likelihood of the location being chosen	IT, OLI, TC
Distance			
Psychic	Index by Dow and Karunaratna (2006) differences in language, religion, industrial development, education and degree of democracy	The increased psychic distance is discouraging the location choice in the host country	UM
Cultural	Hofstede (1980) Kogut & Singh (1988)	Firms prefer to locate in culturally closer countries	OLI
Geographic	Kilometers Hours of flight between the countries/cities	The increased distance from the host country is negatively influencing the location choice	TC, Internalization theory, OLI
Economic	GDP/capita Communication infrastructure: Phones per capita Transportation infrastructure: Roads paved	The firms prefer to invest in economically similar countries; economically less developed countries are less attractive	RBV, IT
Institutions			
Regulatory Political	Legal system, Political hazards index created by Henisz (2000), Political risk index by Kaufmann et al. (1999)	The higher the similarity of the regulatory and the stability of the political institutions, the more likely is the location choice	Organizational capabilities, IT, OLI, LoF
Networks and inter-regional ties			
Networks and relationships	Trade relations Membership in regional organizations Bilateral agreements	Positive	Network theory, TC

RBV = resource-based view, TC = transaction cost theory, IT= institutional theory, LoF= liability of foreignness, UM= Uppsala-model

However, the studies that we discussed so far do not distinguish between DMNEs and EMMs. The growing international presence of EMM and their embeddedness into their home countries and their peculiar characteristics justify the need to better understand their behavior.

Li et al. (2018) are the first to do so, proposing a review and comparison of the location choice decisions based on 54 articles from developed countries and 30 from emerging markets in the period of 1980-2016. The aim of the review is to understand to what extent the determinants of the location choice of DMNEs and EMMs differ and which factors can explain these differences.

The key point of Li et al. (2018) findings is that home country factors are the least studied among all the location choice determinants. This turns out to be an important gap, as the key home market factors that affect the location decision are quite different for DMNEs and for EMMs. While market and industry positions are key determinants for DMNEs, EMMs are more affected by the home country's institutional hardships, the home economic market growth and business development stage.

The review of Li et al. (2018) make a critical contribution by exploring the differences in the location choice of DMNEs and EMMs; however, 50% of the papers included in the review consider also Taiwan and Republic Korea as emerging economies. These two countries according to the IMF classification are not belonging to the group of emerging markets. Moreover, the review does not take into consideration the theoretical variety applied by the papers on location choice that would help to interpret the location choice determinants. Finally, even if the review discusses the type of the location activity (manufacturing, R&D, services etc.), it does not differentiate between the various types of FDI (greenfield vs. M&As).

For this reason, we propose a broader approach to the study of the location choice of EMMs. To do so, we perform a systematic literature review of previous studies that identify the main determinants of EMMs' location choices. However, we also incorporate and classify the theoretical perspectives adopted in the different papers. This allows us to frame the debate on the EMMs' location choices in the context of the broader debate about EMMs theory. Finally, as the research field is reaching its maturity, we find it important to take stock on the knowledge that has been accumulated so far and fill in the gaps that are related to the activity of the EMMs.

V. METHODOLOGY

The objective of our review is to discover the differences in the location choice of DMNEs and EMMs based on the assumption that the home country environment is influencing the internationalization strategy of the firm (Hobdari, Gammeltoft & Li, 2017; Meyer & Peng, 2016). We implemented a systematic review approach in order to synthesize previous researches carried out in the field so far. The methodology follows the approach of other review papers on location choice in general and about EMMs' location choice in particular (e.g. Nielsen et. al. 2017; Kim & Aguilera, 2016; Li et al., 2018). For the purpose of our analysis, we use the classification of emerging markets promoted by the IMF, since it is regularly updated compared to other classifications. Hereby we describe in detail the steps that we followed in order to perform a systematic literature review.

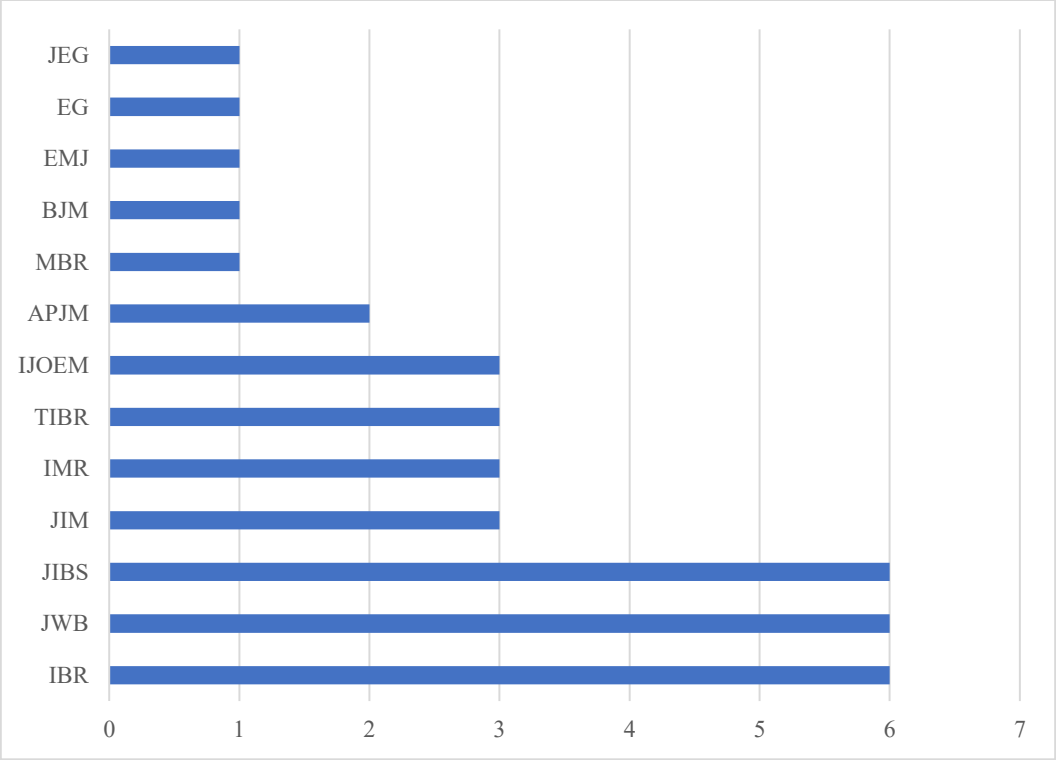
4.1. Journal selection

As a first step of the review, we defined the range of the journals and we selected the articles from top journals in the IB field based on the practice of previous review studies (Kim & Aguilera, 2016) as well as from other management/business journals. [2] Moreover, we took into consideration the most influential economic geography journals and those journals that are specifically dedicated to the topic of emerging markets. Moreover, to be sure to include only high-quality journals in the selection, we checked the impact factor (IF) of each journal. All the journals have a higher IF than 1, which was used as a cut-off point in other location choice literature review papers (Li et al., 2018). The final sample is composed of the following 13 journals (Figure 1.1): Asia Pacific Journal of Management, British Journal of Management, Economic Geography, European Management Journal, International Business Review, International Journal of Emerging Markets, International Marketing Review, Journal of Economic Geography, Journal of International Business Studies, Journal of International Management, Journal of World Business, Multinational Business Review and Thunderbird International Business Review. We selected 1998 as the starting point for two reasons: first, this is the year of Dunning's seminal article on location as a neglected factor in the international business literature; second, it is precisely during this period that the FDI activity of the EMMs has increased significantly and caught researchers´ attention.

[2] The top 20 business and management journals with the highest impact factor were also checked for the articles, to make sure to include the most important journals. The journals that did not have any articles in the topic were excluded (e.g. Strategic Management Journal)

Figure 1.1 represents the selected journals and the number of articles published in the topic of location choice of EMMs in the given journal. The most popular journals are the International Business Review, the Journal of World Business and the Journal of International Business Studies with six articles published in each of them. In the journals that are dedicated to the topics of emerging markets (International Journal of Emerging Markets and Thunderbird International Business Review) there were also six articles published altogether, while in the Asia Pacific Journal of Management there were further two articles published. In the two economic geography journals (Economic Geography, Journal of Economic Geography) included in the journal selection, there were two articles published that deal with the topic of location choice and emerging market multinationals.

Figure 1. 1 - Selected Journals



Source: individual elaboration

4.2. Collection and selection of articles

Secondly, Web of Knowledge and ScienceDirect online databases to search for the articles. We conducted a systematic search in these databases, using a set of keywords as “foreign direct investment”, “FDI”, “emerging markets” and “location choice” and the pairwise combination of them in order to identify the relevant articles from the selected journals. This search

technique resulted in the selection of 181 articles. We then read the title and the full abstracts to evaluate whether the basic criteria of selection were met (Rashman, Withers & Hartley, 2009). As a following step, we dropped all those articles with the requested keywords but investigating topics beyond the scope and topic of the review (Adams, Jeanrenaud, Bessant, Denyer & Overy, 2016; Bakker, 2010; Keupp, Palmi & Gassmann, 2012).

Followingly, we read the selected articles (David & Han, 2004; Bakker, 2010) to control that the topic of the paper was indeed focused on the location choice of EMMs, that the investor's home country is an emerging market and that at least one of the hypotheses in the paper is explicitly related to location choices.

We further refined the list of the articles by excluding articles which subject was the location choice of regional headquarters or domestic location choice within the home country by incumbent firms. We also exclude all those articles where the dependent variable was the probability of investing in a given country without any alternatives (i.e. there was not a choice between two countries) or where the focus of the paper was the speed of investment or the performance of the internationalizing firm. Moreover, conceptual papers and literature reviews have been also excluded from the analysis because of the scope of the review. Based on the assumption that the review process guarantees a high level of quality of the papers (Calabrò, Vecchiarini, Gast, Campopiano, De Massis & Kraus, 2018; Light & Pillemer, 1984; Ordanini, Rubera & De Fillippi et al., 2008) and following similar literature reviews, we also exclude any other non-refereed publications such as book chapters, dissertations, editorials and commentaries.

As a result, we shortlisted 37articles, 33 quantitative and 4 qualitative. This final number is larger than similar, other systematic literature reviews like the one by Li et al. (2018) who found only 30 articles regarding the EMMs' location choice. However, it is worth mentioning that only 9 of the articles in this review are also included in their review because of the different including criteria (Table 1.2).

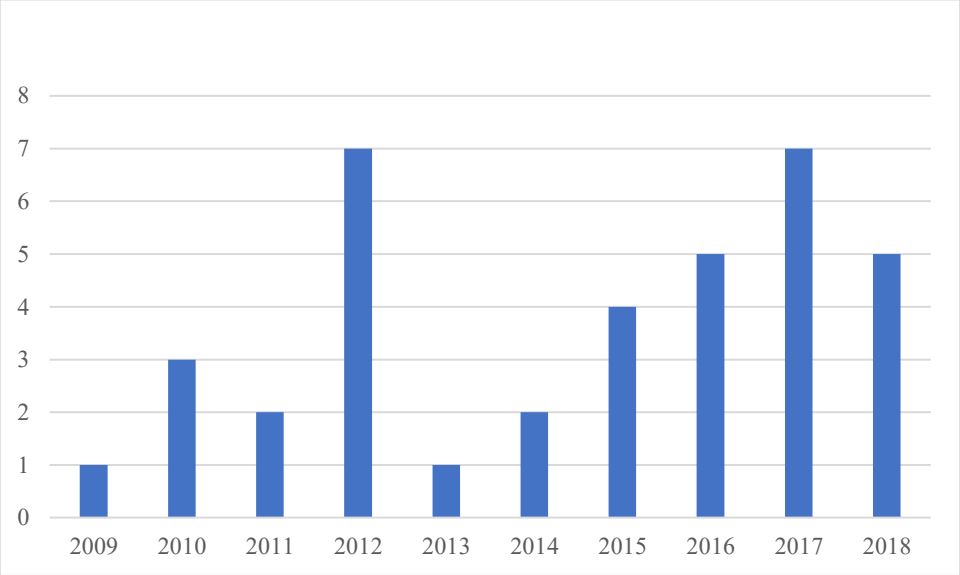
Table 1. 2 – Including criteria

Dimension	**Including criteria**
Time period	1998-2018
Type of research output	Empirical papers
Emerging market as a home country	IMF classification
Hypothesis tested	Location choice as a dependent variable
Location choice	International with alternatives

Source: individual elaboration

After defining the final list, we can observe also the distribution of the articles in the selected period. As it is represented in Figure 1.2, there were no articles found before 2009. The year 2012 stands out as the first with a significant increase in the number of articles published: 3 articles in the Journal of World Business, 1 in the International Business Review, 1 in the Journal of International Business Studies, 1 in the European Journal of Management and 1 in the Journal of Economic Geography. Finally, from 2015 there is an increasing number of studies on the topic of the EMMs' location choice. The overall trend from this year confirms that this topic is a relevant one for the top IB journals.

Figure 1. 2 – Time distribution of the selected articles



Source: individual elaboration

4.3. Analysis of the papers

Finally, we analyzed the contents of the papers. First, accounting for the fragmentation in the location choice research, we classified the various theoretical approaches. Second, we analyze the samples used by the studies in order to delineate the geographic scope of the research in the field. By doing so, the distribution of the home countries studied became clearer and also the direction of the FDI flow (from emerging to other developing or to developed countries). Third, we checked the methodology section of the articles to see what kind of variables are used for analyzing the influence of the home country and the importance of various factors that influence the location choice of the firm. Finally, the description of the samples also revealed the type of FDI (M&As vs. greenfield vs. OFDI in general) that was analyzed by the articles. As the last

category, were classify the main findings of the articles in order to be able to make some general conclusions about the state of the research in the field.

4.4. Findings of the review

4.4.1. Classification criteria

The theoretical approaches used in the articles are quite heterogeneous as they reflect the ongoing theoretical debate (Figure 1.3). First, the most dominant approach applied in the articles to explain the EMMs' location choice is the institutional theory (15 papers), where institutions are viewed as the human designed constraints that shape the "rules of the game" of the economic and social interactions through formal and informal institutions (North, 1990). The main assumption of the institutional theory is that the nature of these formal and informal institutions has significant implications for the firms' activity. In the case of location choice, where firms are getting involved in establishing and conducting value-added activities abroad, the economic, political, geographic and socio-economic differences between the home and host country environments are vital determinants of the final decision of the firms. More specifically, the articles selected in the literature review focus on the impact of the various institutional aspects such as the political stability, the intellectual property rights protection or the level of corruption in the host country on the EMMs' location choice.

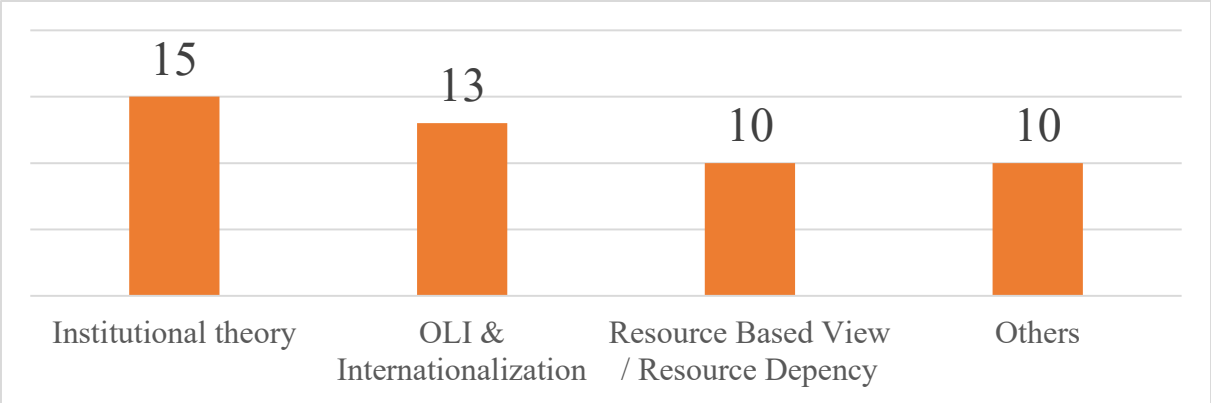
Second, the OLI framework and internationalization theory is one of the most influential approaches used to analyze the location choice of the EMMs (13 papers). The basic assumption of the internalization theory is that the firms set their boundaries where the marginal benefits of internalizing are offset by the marginal costs (Buckley & Casson, 1976) and consequently, the firms are looking for the least-cost location for each of their activity. Moreover, the OLI framework extends this approach and state that the firms' location choice is a result of the interplay of its ownership advantages, internalization advantage and the location advantages of the host country (Dunning, 1980) and elaborated the main motivations for OFDI. In the case of the location choice, the asset-seeking motivation is proposed to be a particularly important assumption in analyzing the EMMs' behavior.

Third, in certain cases, the articles use a mixed theoretical background in order to explain the location choice of EMMs or they refer to the theory as general IB theory. The most common approach is to combine the institutional theory and the resource-based view (4 papers) to explain the behavior of the EMMs. The reason for this is that these approaches can be seen as complementary when analyzing the location choice of the EMMs. On one hand, the resource-

based view highlights the importance of the how the various characteristics and assets of the firm influence their location choice; however, it overlooks the institutional context within which the firm operate and use their resources. By contrast, the institutional theory emphasizes the impact of the formal and informal institutions on the firm's behavior and tend to neglect the economic and strategic optimization goals of the firm. The assumptions of the combination of these two approaches is particularly important for the EMMs' location choice research as they consider both the particular resources of the EMMs and the institutional environment in which they conduct their business.

Finally, we also find papers that used the resource dependency, liability of foreignness, Uppsala model, transaction cost theory and organizational learning perspectives to investigate the location choice of the EMMs The variety of the theoretical approaches used by the authors clearly shows the need of the adjustment of the mainstream theories in order to explain the behavior and the location choice of the EMMs.

Figure 1. 3 - Theoretical approaches

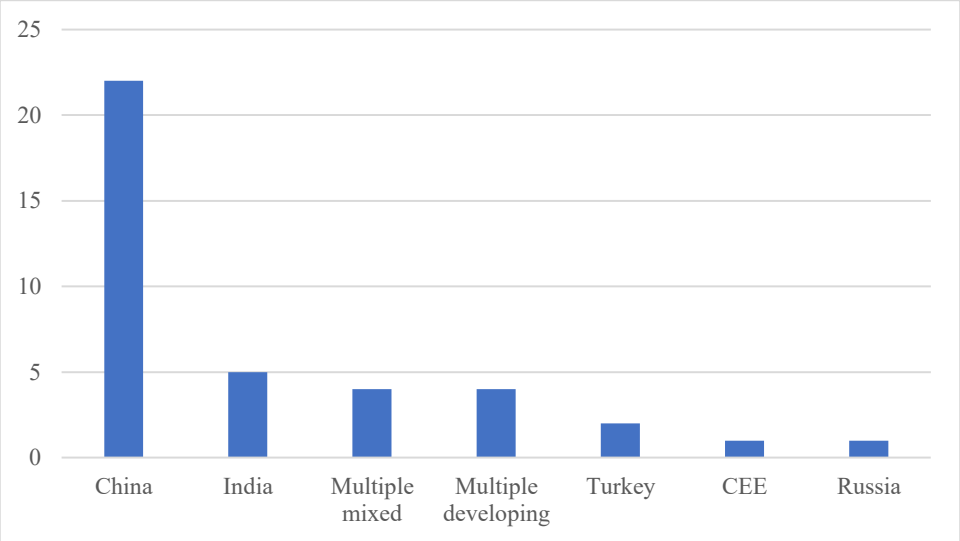


Source: individual elaboration

When looking at the distribution of the host countries (Figure 1.4), the prevalence of China can be immediately noticed. Altogether 22 articles (60%) study China, from which 20 are single country studies, while the other 2 articles are comparing China and India. Consequently, it is difficult to apply the findings of the studies to all emerging markets when there is a clear dominance of China in the samples. The second most studied country is India with only 5 papers, while there are also articles that are including multiple developing countries (4 papers). Moreover, another strand of articles (5 papers) include both developed and developing

countries, which enables a comparison of the outcomes of location choice based on the development level of the home countries.

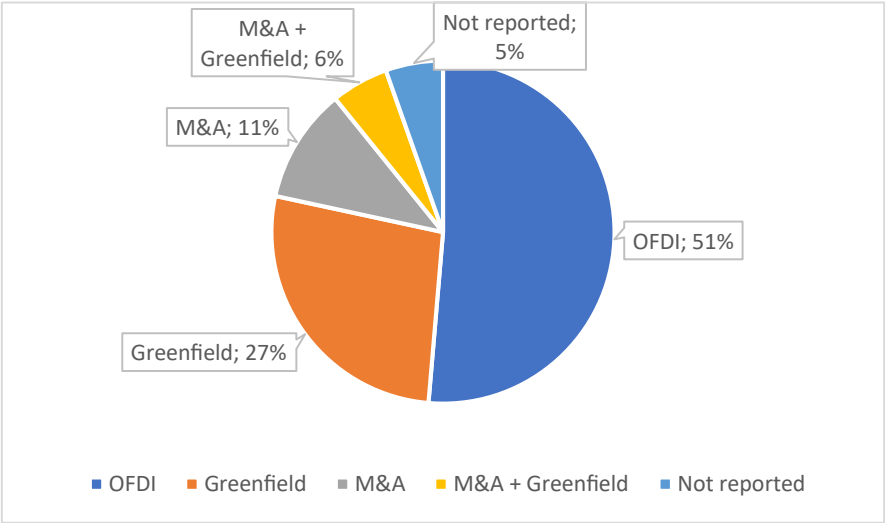
Figure 1. 4 - Home countries in the samples



Source: individual elaboration

Finally, the articles can also be classified into different categories based on the type of FDI activity under study (Figure 1.5). Interestingly, the majority of the articles (51%) do not report the specific type of FDI, but only refer to it in general as outward FDI. There are 10 articles analyzing greenfield investments (foreign subsidiaries, WOS, JV), while there are other 5 studies that investigate the international mergers and acquisitions (M&A) by the EMMs. Only 2 studies include both greenfield and M&As for comparison.

Figure 1. 5 - Types of FDI



Source: individual elaboration

Finally, we categorized the articles by the determinants of EMMs' location choice. We defined the three main categories based on the home country characteristics, the host country characteristics and the firm-level variables.

4.4.2. Home country characteristics

The home country characteristics are scarcely investigated in the literature on EMM location choice. According to our selection, only one study (Stoian, 2013) explicitly considers home country characteristics. This article focuses only on the location choice strategies of firms from Central Eastern European countries during the institutional transition period. Given this very specific setting, the inclusion of the institutional variables, such as institutional reforms on trade and foreign exchange or competition reforms, significantly increases the explanatory power of the model. The statistical significance of the home country's institutional characteristics confirms that home country determinants are relevant in the definition of the firm location choices. The peculiar nature of many emerging country institutions suggests that EMMs may show some specific patterns when investing abroad. Deng & Yang (2015; Yang & Deng, 2017) measure the home and host market's effect on the location choice of M&As from nine different emerging economies. Their study includes the GDP growth and financial market indicators of both the home and the host country to simulate the difference between the resources available at home and abroad. In their view, following the resource dependence theory, the EMMs are escaping the home country because of the lack of availability of resources at home. This assumption is also in line with the escape theory, according to which the firms are escaping

from their home country by investing into other foreign countries (Cuervo-Cazurra & Ramamurti, 2017).

Similarly, Yang (2018) analyzes if the firm is coming from a relatively corrupt environment, how much is it willing to invest in other relatively corrupt location. The assumption here is that if the firm is used to operating in a corrupt institutional setting, it will not be discouraged from investing in other relatively corrupt countries. Moreover, Yang (2018) studies also the effect of the home government involvement on the location choice and finds that the effect of the home country's institutions is more pronounced in the case of private firms compared to state-owned enterprises. In this literature review, only those articles studying state-owned enterprises in comparison with private firms are included, as these firms' ownership structure has a significant influence on the location choice outcome that was also confirmed by several studies (Yang & Deng, 2017; Quer, Claver & Rienda,2018). In addition, Lu et al. (2014) argue that the home government policy support reduces the importance of prior host country experience and increases the likelihood of host country FDI entry, especially when EMMs enter other developing countries.

Furthermore, in the articles (Yuan & Pangakar, 2010), where both developed and developing countries are included in the sample, there is a dummy variable to signal the difference in the economic development of the home country. The variable itself is not significant in the model; however, when included as an interaction term together with the prior number of subsidiaries and prior number of affiliates of the parent firm in a particular country, it becomes significant. Thanks to this distinction in the economic level of the home country, Yuan & Pangarkar (2010) find that EMMs investing in developed countries will have a less inertial and mimetic behavior than those who invest in other developing countries. In all other papers, the characteristics of the home country are only included in the geographic, cultural and psychic distance between the home and the host country.

4.4.3. Host country characteristics

With regards to host country characteristics, measurements of the political stability and the related riskiness of the host country are the most frequently used independent variables (13 out of 37 articles). These constructs are included either as a single variable or as a part of a larger set of independent variables to describe the host country institutional environment such as the rule of law, the level of corruption and the possibility of state intervention were included in the analysis. Examples of these measurements are the POLCON index, used by Demirbag, Tatoglu

& Glaister (2010) or the International Country Risk Guide (Quer et al., 2018) or the World Governance Indicators that have been used by Lu et al. (2014) and Yoo & Reimann (2017). The relationship between the location choice and the different types of variables measuring the institutional environment of the host country is significant in most of the studies. However, the impact of these institutional variables changes from country to country. For example, while Demirbag et al. (2010) argue that in the case of Turkey, investors prefer to choose a developed country with fewer political constraints over an emerging one. In these cases, besides the political stability/riskiness, also the rule of law the level of corruption included in the analysis. Interestingly, most of the studies (Liu, Gao, Lu & Lioliou, 2016; Duanmu, 2012; Quer et al., 2018) find confirmed that contrary to that, the political instability or riskiness of a country is not discouraging the EMMs to invest in those countries. Clearly, the issue needs further investigation in order to define under which condition these two contradictory approaches hold true.

The technological development and knowledge/resource abundance (trademarks and patents) of the host country, were also frequently included in the analysis as factors that influence the location choice outcomes (Yoo & Reimann, 2017), the intellectual property rights protection in the host country. For example, the results of Yoo & Reimann (2017) show that EMMs prefer to invest in knowledge abundant host countries with stronger knowledge-based assets. Moreover, the intellectual property rights protection in the host country has been frequently tested. Here, on the contrary, the results on the intellectual property protection are quite mixed. On the one hand, EMMs prefer to invest in developed host countries with weaker IP protection (Yoo & Reimann, 2017), so they can exploit this weakness of the host country to get access to knowledge. On the other hand, it is also found that some EMMs are escaping from the institutional deficiencies of their home country and they go abroad in the search of a location with a strong intellectual property protection system (Estrin, Meyer & Pelletier, 2018).

Furthermore, there are also additional economic factors considered by the studies. The GDP and the GDP/capita were often used to approximate both the market size, the purchasing power of the consumers and the level of economic development of the host country. The host market size is found to be significant by the articles that studied the location choice of the EMMs and its significance is even higher in the case of manufacturing related investments compared to trade related investments for a manufacturing related investment (Duanmu, 2012). Another economic factor studied and found to have a significant and negative influence on the location choice is the labor cost in the host country (Kang & Yiang, 2012; Duanmu, 2012). Duanmu

(2012) finds that Chinese FDI is deterred by higher labor costs in the host country, especially in the case of investments related to manufacturing. Moreover, Kang & Yiang (2012) also confirm that higher labor costs serve as a deterrent also in the case of other Asian host countries. These results overall show that by this point of view EMMs seem to follow the same logic of the MNCs from more advanced countries. Furthermore, the natural resources in the host country are also analyzed as factors that can attract FDI (Duanmu, 2012; Deng & Yang, 2015). According to the results of these studies, the availability of the natural resources is a more significant determinant when EMMs are investing in other developing countries.

In addition, while it is a popular topic in the research of DMNEs, there is only one article that investigated the effect of agglomeration economies on the location choice of EMMs (Jindra, Hassan & Cantner, 2016). Agglomerations and industrial districts are well known for the advantages of sharing assets external to the firm, but internal for the district such as skilled labor force, infrastructure etc. These strengths should promote the inflow of foreign investments in the area. According to their results, Jindra et al. (2016) confirm that EMMs' location choice is positively affected by the ad by agglomeration economies and the knowledge externalities related to it.

Finally, the journals dedicated to the topics of economic geography considered the influence of some host country specificities that can be linked to the country of origin of the firm. For example, when investigating the greenfield foreign direct investments of the Chinese multinationals; Karreman, Burger & van Oort (2017) found that these investments are directed towards the European regions with larger Chinese communities and this is especially true for the regions with new generations of Chinese migrants.

4.4.4. Firm characteristics

Firm-level characteristics are mainly considered as control variables with few exceptions. The most frequent variable tested in the studies is ownership and specifically the different effect of private vs. public ownership. The issue is relevant in most emerging markets but surely it is particularly relevant in the Chinese context where state ownership is extremely relevant and widespread. Unsurprisingly, most of the studies that use this variable structure of the firm consider it as a moderator with the aim of testing the influence of a certain variable both on state-owned and privately-owned firms. These studies find that the ownership structure is having a moderating effect on the location choice when it comes to the political riskiness of the

host country. Duanmu (2012) and Quer et al. (2018) report that state-owned firms are more likely to go to countries with high level of political risks than their privately owned counterparts.

Furthermore, the previous international experience of the firm and the firm size are also studied as influencing factors (Pangakar & Yuan, 2009). For example, Lu et al. (2014) are using the number of prior entries by the given firm into a particular host country as a proxy for international experience and they find it to be significant and positive on the location choice. Interestingly, when they use an interaction of the host country institutional quality and the prior experience of the given firm, it becomes negative and significant. This implies that the better institutional environment in the host country is reducing the importance of the prior experience in the same country.

Additionally, Pangarkar & Yuan (2009) test the role of firm size and of diversification strategies. They measure size using total sales, while the degree of diversification is measured by the number of foreign subsidiaries and the number of countries invested by a single firm relative to the highest value in the sample, separating for investments into developed and emerging markets. They find that larger size and higher degree of diversification of the firm will induce the firm the locate into developed countries rather than to developing countries. More importantly, there is only one study (Lv & Spigarelli, 2016) that considers the kind of activity realized abroad when analyzing the location choice of EMMs. Their results suggest that investments by EMMs in the sales and service sectors are generally attracted by countries with stable political environments whereas good control of corruption and low trade barriers encourage manufacturing subsidiaries. Finally, the R&D investments are attracted to by large host markets and technologically advanced countries.

VI. DISCUSSION

The main findings of the articles reviewed in this paper reveal several crucial points regarding the literature on EMMs' location choice. In this section, we will discuss the most frequent arguments about the EMMs' location choice behavior and we formulate some formal propositions based on these findings that can be taken as starting points for future research. We believe that this is an interesting topic that not only deserves further analysis, but it is also worth to be investigated for the important theoretical insights it can offer related to the theory of MNEs.[3]

[3] The detailed analysis of the articles can be found in Appendix 1.

First, from the theoretical and empirical point of view, the review shows the relevance of institutional factors on EMMs' location choices. While both economic and institutional factors influence the location choice of EMMs, institutional factors demonstrate a higher level of significance in their decisions (Marano, Arregle, Hitt, Spadafora & van Essen, 2016). However, the significance of the institutional factors seems to be different from country to country. For example, the Chinese firms are more reluctant to political risks and are willing to invest in countries with relatively unstable institutional environments (e.g. in African countries) while they are in search of natural resources (Sanfilippo, 2010). In contrast, the Indian firms are found to be more concerned by the rule of law and regulatory quality of the host country. Still, both Chinese and Indian firms prefer to invest into countries with a similar institutional background (De Beule & Duanmu, 2012; Quer, Claver & Rienda,2017). This evidence raises the question of how specific these findings are. Are these preferences related only to the Indian and Chines context? What about other EMMs from different countries? More generally, these findings show that the institutional factors are important both at the home and at the host country levels and that the heterogeneity of the group of EMMs should be taken into account. As shown in the studies reviewed (Estrin et al., 2018), the home country characteristics affect location choices. The emerging markets institutional environment is characterized by the lack of efficiency and transparency, which in turn increases the transaction costs and investors risk (Van Wyk & Lal, 2010) and has a direct impact on the EMM location choices (Witt & Lewin, 2007; Yamakawa, Peng & Deeds, 2008). These questions raise the issue of the influence of home country characteristics not only in emerging markets but also in the more developed markets.

> *Proposition 1: The location choice of the firm is influenced by the institutional setting both of the home and the host country of the investment. However, the significance of certain institutional factors is evaluated differently by the firms originating from different home countries. For this reason, the heterogeneity of the EMMs should be included in the future research.*

So far, home country characteristics have been considered only in terms of geographic and cultural distances. Our review shows that this is a too limited view and that institutional factors of both the home and host countries should be considered if we want to have a more detailed picture of the motivations and of the determinants of MNEs' location strategies and that of EMMs in particular. As Cuervo-Cazzura, Narula & Un (2015) argue, the international expansion of the EMMs is different from the DMNEs in terms of the motives of internationalization. For this reason, they propose a new distinction of the internationalization

motives that takes into account the environments conditions of the home and the host countries. These motives are aimed to explain the firms' global strategy as well. First, the motive for expansion can be that to sell more abroad. This way the firm is exploiting its existing resources and aims at obtaining better host country conditions, i.e. access to larger markets. On the other hand, the motive of the expansion can be that of exploiting existing resources but avoiding the poor home country conditions, i.e. to buy better and exploit the comparative advantage of the host country. Moreover, the firms may also be motivated to get engaged in foreign expansion in order to upgrade their operations by exploring for new resources abroad and obtaining better host country conditions. In this case, the firms usually bring back the advantages learnt abroad to improve the operations in the home country, typically in the case of acquisition of DMNEs by emerging market competitors (Luo & Tung, 2007; Madhok & Keyhani, 2012). Finally, the firms may also be motivated to go abroad in order to explore for new resources and escape poor home conditions. This way the firms' operations can be improved by the new resources and they can also avoid the limitations of their home country. The underlying assumptions of these motives appeared throughout the articles reviewed in this paper; however, there is a need to further investigate them also on an empirical level in the context of emerging markets.

> *Proposition 2: The EMMS' motives for expansion are rather different from those of the DMNEs. Their motivations are partially determined by their home country environment and have a great impact on their strategic decisions such as their location choice.*

The review of the studies also shows the critical role of ownership. In the emerging markets, and especially in the Chinese context, the role of the state-owned companies is extremely relevant. State ownership affects the risk attitude of firms (Conti, Parente & de Vasconcelos, 2016). Clearly, the peculiar ownership characteristics of some EMMs had an impact on the location choices of Chinese firms. The relevant role played by Chinese investments in Africa (in 2010 the 10% of the Chinese OFDI flow in Africa; Sanfilippo, 2010) raises the issue of the different risk attitude of state- and privately-owned firms. More generally, this raises the questions of the role of ownership on MNEs' strategy. Few studies (Duanmu, 2012; Quer et al., 2018) analyzed the impact of ownership on location choices and empirically investigated whether the role of ownership on location as a moderating effect. Both studies find that compared to the private firms, the state-owned enterprises are more likely to move to countries with high level of political risks.

Proposition 3: The role of the ownership and the presence of state-owned enterprises is highly pertinent in the context of emerging markets. Moreover, the ownership structure of the firm has a great impact on its location choice and on its attitude towards risk. Consequently, state-owned companies are rather disposed to invest in countries with higher political risks as they rely on the support of their government to safeguard in case of a hazardous situation.

Besides, some authors (Ramirez-Aleson & Fleta-Asin, 2016) demonstrate that the host country's stage of economic development plays a moderating effect on the location choice outcome. They argue that in the case of the host countries at their earlier stage of development, the market size proves to be an attractive factor for location choice, while the efficiency of the labor force and the financial markets is becoming important only when the host country is economically more developed.

Proposition 4: The host countries stage of economic development plays a relevant role in the location choice of the firms as it defines the advantages currently available on the host countries market. The more economically developed the host country is, the more important it will become the efficiency of its labor force and its financial markets.

Second, it was found that EMMs prefer to invest in countries with stronger knowledge-based assets (Yoo & Reimann, 2017) with the aim of searching for knowledge and technology that would enable them to catch up with the DMNEs. At the same time, the weakness of the intellectual property right (IPR) protection has a mixed effect on the location choice of the EMMs according to the different studies. On one hand, some argue (Fainshmidt, White & Cangioni, 2014) that the weak protection of the IPRs may facilitate the acquisition of the knowledge-based assets in the host country and so it might be more appealing for the EMMs. On the other hand, the EMMs' preference for host countries with institutions that are less efficient in protecting their IPR may derive from the that they are used to operating in such environments in their home country and so they prefer to invest in institutionally similar countries (Yoo & Reimann, 2017; Estrin et al., 2018). However, also in this case the findings are heterogeneous among the EMMs originating from different emerging markets.

Proposition 5: The EMMs are looking for new and complementary knowledge and technologies in order to compete with the DMNES. As a result, when it comes to the location choice, they are in general more attracted to countries with strong knowledge-based assets. Moreover, from an institutional point of view, they prefer countries with weaker IPR protection system.

Third, some of the studies claim that the location choice of EMMs depends on their industry and on the presence of industrial clusters in the host country. According to Jindra et al. (2016), the EMMs are attracted to agglomeration economies when it comes to the location choice. Moreover, the EMMs are also interested in the possible knowledge externalities arising in the selected location (Jindra et al.,2016). These locations are also important for the investments motivated by asset-seeking in the more developed countries.

Proposition 6: Industrial clusters and agglomerations are important factors in the location choice of the EMMs, as they are expecting knowledge externalities in these locations that are vital for their asset-seeking investments.

All in all, despite the mixed results of the studies, some general trends arise from the analysis of the articles included in the sample. First, the majority of the articles did not differentiate between greenfield and M&As location decisions; even if the motivation behind these investments can significantly influence the location choice and can be significantly different for the DMNEs and EMMs. Second, even though the home country characteristics of the emerging markets are quite different from advanced markets, they are rarely included in the empirical analysis. Moreover, there is no distinction between the single emerging markets, but they tend to be considered as a homogeneous group of countries. This may lead to a misleading generalization given the heterogeneity of the EMMs. Third, even if distance is one of the key elements affecting the location decision, the direction of the investments is still an under-investigated issue. In the case of certain distance aspects, such as institutions and economic development, distance is not an absolute measure (like in the case of culture), but it can be positive or negative. Considering the direction of the investments can deliver further interesting details in a future research. Finally, the industry and the firm characteristics were mostly included as control variables. A broader perspective placing these constructs as variables of interest could provide more nuanced results regarding the location choice of EMMs.

VII. CONCLUSIONS AND FUTURE RESEARCH

The paper's main goal is the presentation of the state of the art of the location choice literature with a special attention to the EMMs. As our systematic literature review shows, the theoretical landscape is still fragmented and, as a consequence, the articles are generating a lack of consensus regarding the theoretical frameworks to be adopted and the empirical relationships to be tested in the context of the EMMs. Our review shows that there are some future research directions that need to be further investigated.

First, the location choice research focuses mainly on the characteristics of the host countries, while the home country and firm- and industry-level characteristics remain in the background. There is an urgent need for future research emphasizing more the relevance of the home country characteristics that could provide a more detailed analysis and deeper understanding of the location choice of EMMs as currently the majority of the findings are based on the Chinese context. In addition, it would be vital to analyze the location choice of the EMMs throughout a sub-national perspective, since the institutional and economic characteristics can be rather heterogeneous not only between the group of the emerging markets but also within the single countries. This approach would allow to increase the attention to the micro-institutional differences within countries and to the significance of special economic zones in some countries.

Furthermore, our review shows how in the current literature there has been a little differentiation between the various types of the OFDI from emerging markets. In our view, it would be important to distinguish between the various types of FDI (e.g. M&As, greenfield investments or joint ventures) in order to achieve specific conclusions about the FDIs of the EMMs (Buckley, Elia & Kafouros, 2018). In addition, the rationale and level of commitment behind these investments are rather different, so the distinction could help to better understand the internationalization paths followed by the EMMs.

Similarly, the motivation of the investments has been also neglected so far and should be emphasized more in the location choice research, comparing the DMNEs and the EMMs from this point of view. The motivations are crucial elements of the firms' strategic decisions, especially in the case of location choice. These choices might be influenced by the market-seeking, resource-seeking, efficiency-seeking or strategic asset-seeking motives of the investment. Given that the locational needs of each investment are different, the motivations have also an important influence on the location choice of the EMMs.

Future research should be dedicated also to study in a comprehensive manner also the activities established abroad in order to fix the inconsistent results that we can find currently in the literature. Clearly, the same factors in the location choice may have a different effect on the outcome based on what kind of activities (e.g. manufacturing, R&D, HQ etc.) firms start abroad as the established activities are having different scale and cost sensitivity.

However, the relevance of this debate should be linked to the theoretical debate on the determinants of EMMs' international strategies. The debate on the question of whether the existing theories are able to explain the FDI activity of the EMMs seems to be closed by a neutral approach. We have seen the dominance of the institutional theory, however, most of the authors do not rely only on a single theoretical approach, but on the combination of two or more perspectives in order to investigate the EMMs' behavior in a more comprehensive way. Nevertheless, it requires further refinements and more empirical testing. This could help not only to clarify the current debate on the EMMs' international strategies but more generally our theory of MNEs. Overall, the analysis of the location choice could also lead to making a step forward in the theoretical debate on the EMMs' FDI activity.

The EMMs are operating in unstable institutional environments, with still numerous state-owned enterprises, while their home countries are currently undergoing a transition towards market-based economies. This unstable institutional environment may have two opposing effects on the location choice of EMMs. On the one hand, it may encourage EMMs to escape their home countries and invest in developed market in the search of more stable institutions. In these cases, the EMMs also need to deal with the institutional gap between the home and the host country (De Beule, Elia & Piscitello,2014). However, on the other hand, it may also induce them to invest in other countries with unstable institutions as they are already familiar with working in such an environment, unlike the developed market MNEs.

In conclusion, we believe that EMMs offer a fruitful avenue for investigation and many interesting questions call for further research. Overall, we hope our review encourages scholars to address these important issues to deepen our understanding of the location choice of EMMs phenomenon.

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Appendix 1

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
Pangarkar & Yuan (2009) MBR	Internalization theory	WOS	Home: Host: Others: Internationalization to developed countries; Internationalization to developing countries; Product diversification; Firm size	Tobin Q	Sample: 154 Chinese MNEs, 1992-2002 Analysis: 2SLS	Firm-sp in the fo degree internat countrie countrie internat countrie internat countrie
Demirbag, Tatoglu, Glaister (2010) IBR	OLI IT TC	OFDI	Home: Host: Political constraints; Knowledge infrastructure Others: Subsidy density R&D intensity Ownership mode Subsidiary size Group affiliation	Location choice EE vs. AE	Sample: 522 foreign affiliates of Turkish MNEs Analysis: Binary logistic regression	The gre Turkish country MNEs more R higher of a ho investm as the increase MNEs DCs ov for the subsidia Turkish their su

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
Erdogmus, Cobanoglu, Yalcin & Ghauri (2010) IMR	OLI Inter-nationalization theory	GF and other non-equity modes	Home: Host: Others:	Case studies	Sample: 4 senior managers of four Turkish retail firms Analysis: multiple case study	The int Turkish emergi leading prime countri Turkish develop going t
Yuan & Pangakar (2010) IMR	Ecology IT	GF	Home: Developed/developing (dummy) Market Openness Market Stability Host: Others: Number of prior subsidiaries	Location decision (binary)	Sample: 204 Chinese firms between 1992 and 2005 Analysis: Conditional logit model	Behavi impact Chinese mimicr country policy relation mimicr locatio possibl influen uncerta
Yeoh (2011) IMR	OLI UM Entrepreneurship	M&A	Home: Host: Others:	Case studies	Sample: 2 Indian pharmaceutical companies Analysis: case study	The int Indian mainstr models explain terms o knowle internat emergi (e.g. t accelera

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
						more explora seeking firms' internat
De Beule & Duanmu (2012) EMJ	Not reported	M&A	Home: Host: GDP GDP/capita Openness Resources Trademark Patent Political stability Rule of law Corruption Regulatory quality Geographic distance from home Others: Target industry Target profitability	Probability of locating in institutionally strong/weak and resource rich/scarce countries	Sample: 121 and 531 acquisitions by Chinese and Indian corporations respectively Analysis: Conditional logit	While quality found t EMMs, acquisit politica negativ Yet thi fading v profitab the mi Indian a take pla with un poor ru of corr corpora poor corrupt abroad

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
Duanmu (2012) JWB	Internalization theory	OFDI	Home: Host: Political risk Economic risk State intervention Exchange rate Natural resources Labor costs Development status Others: Ownership (MO)	1 if location is chosen, 0 otherwise	194 location choices in 32 countries for 1999-2008 of Chinese firms Analysis: Conditional (fixed effects) logistic regression Nested logistic regression	State-O their pe equity, politica more exchang and the of Ch location manufa compar more at market high c country
Kang & Jiang (2012) JWB	OLI	OFDI	Home: Host: GDP/capita GDP growth Market openness Unit Labor Cost Patents Economic freedom Political influence FDI restriction Others: Cultural distance Bilateral trade Resource seeking	FDI stock	Sample: Chinese outward FDI to eight economies in East and Southeast Asia 1995-2007 Analysis: multiple regression	Instituti higher comple determi compar while b the FD MNEs. choices dynami the h Chinese econom time pe

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
Kedron & Bagchi-Sen (2012) JEG	OLI + Internalization theory	OFDI	Home: Host: Other:		Sample: 2 Indian pharmaceutical companies Analysis: case study	Indian and Ra of exp exploiti market asset market asset strategi
Quer, Claver & Rienda (2012) APJM	IT	OFDI	Home: Host: Political risk Cultural risk % of Chinese population in the host country Others:	1 if location is chosen, 0 otherwise	139 decisions on outward FDI was made by 29 Chines firms in 52 countries, 2002-2009 Analysis: Conditional logit model	A high country multina presenc host co with C investm size ar exports positive
Ramasamy, Yeung, Laforet (2012) JWB	OLI	OFDI	Home: China's export to the host, China's import to the host Host: GDP, GDP/capita, GDP growth, Export of ores and minerals, Export of high technology products, Patents, Inward FDI,	OFDI	Public listed Chinese firms during the period 2006–2008 Poisson count data regression model	The internat owners attracte sources politica are mor The fin theories actions adjustm

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
			Political stability, Rate of inflation Others: %of Chinese in the host country population Distance between Beijing and the capital of host country			the be multina
Wang, Hong, Kafouros & Wright (2012) JIBS	RBV, Institutional perspective	OFDI	Home: Host: Others: R&D/employee Degree of state ownership Government affiliation	OFDI by the firm	Sample: Chinese OFDI in 2006-2007 that included 1231 manufacturing firms that invested in 1390 overseas projects Analysis: OLS regression	While through importa resourc with hig likely investm higher attracte showing governn their inv internat
Stoian (2013) IBR	Investment Development Path (IDP) and IT	OFDI	Home: HC economic development, HC technological development, HC inward direct investment flow HC trade and foreign exchange liberalization reform	Outward FDI flow	OFDI from 20 Central and Eastern European countries, 15 years panel Analysis: pooled OLS and Random Effect GLS	The variable power c that co institut role in countri positive per cap investm

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
			HC enterprise restructuring Reforms, HC country overall institutional Reforms, HC competition reforms Host: Others:			Howev associa level of
Duanmu (2014) IBR	IB, Institutional	GF	Home: Host: Labor rights, Tax, Political stability, Corruption, Openness, Distance, GDP, Size, Unemployment Others: Industry Intensity of Mobility	Location choice	Sample: Greenfield FDI undertaken by firms from BRIC countries between 2003 and 2010, 5057 creation in 156 countries Analysis: MCLR	While t attracti standar such a directe Locatio depend relation host c MNCs' Conver industry race to
Lu, Liu, Wright, Filatochev (2014) JIBS	KBV + institutional theory	GF	Home: Government policy support Host: Institutions – regulatory policy Others: Home: Host: Others: Prior entry by the firm	Entry dummy	Sample: hand-collected panel data set of Chinese publicly listed firms during 2002-2009 Analysis: Fixed effects logit	Home g develop reduce experie the like country be id develop countri both de

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
Anderson & Sutherland (2015) JWB	LoF	OFDI (M&A + GF)	Home: Host: Provincial Investment Promotion Agencies Market size Taxation Strategic assets Natural resources Trade mission Others:	Chinese M&A or GF in a Canadian region value + count	Chinese FDI into Canadian provinces 2003-2013 Analysis: Conditional (fixed effect) logistic regression	The pre level in located likeliho in that
Deng & Yang (2015) IBR	RDT	M&A	Home: GDP growth, Market capitalization = financial market size Host: Market capitalization, Natural resources, Patents Others: Cultural distance Host government effectiveness (MO)	Number of deals	Sample: 9 emerging markets, 2000-2012 The final sample size in developed markets is 923 country-year observations over the period of 2000–2012 and in the developing countries there are 1053 country-year observations Analysis: Multiple regression	Higher availabi increas acquisit The loc the reso – the e stronge while th in the d Host Chinese those econom

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
Drogendijk & Martin (2015) IBR	IT UM	OFDI	Home: Host: * Economic distance Demographic distance Differences in languages Differences in religion Physical distance Others:	Stock of OFDI from China and Spain to the 106 countries	Stock of OFDI from China and Spain to the 106 countries Analysis: SEM-PLS	Althoug signific countri dimensi home specific distanc Spanish cultural signific outward
Jain, Kundu & Newburry (2015) TIBR	RBV	WOS + JV	Home: Host: Others: Motive Core competences (MO)	Location choice	Sample: 650 investments by the 32 largest (in terms of revenue) publicly listed Indian software companies, 2000-2009 Analysis: HLM	Accord efficien firms w likely countri overcon foreign and cha prevale
Lv & Spigarelli (2016) IJOEM	IT RBV	OFDI	Home: Host: Rule of law Control of corruption Political stability Trade barriers Foreign ownership GDP Technological and human capital Others:	Location (binomial)	Sample: Chinese OFDI Analysis: fixed-effects logit	Chinese countri market factor f to be Countri environ sales/se countri corrupt encoura

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
						most a subsidia most a subsidia most manufa Manufa technol subsidia capital
Ramirez-Aleson & Fleta-Asin (2016) JIM	IPD	OFDI	Home: Host: Natural Resources, Institutions, Infrastructure, Macroeconomic Environment, Health & Primary Education, Market Size, Higher Education and Training, Labor market efficiency, Financial market development, Goods market efficiency, Technological readiness, R&D innovation, Business sophistication *Stage of development (MO) Others:	FDI stock	117 economies over the period 2006-2013 - balanced panel data of 936 observations 31 stage two countries Analysis: regression – 1 for each IV	The res location decisive that the the h develop importa earlier efficien markets later sta

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
Crotty, Driffield, Jones (2016) BJM	IB theory	FDI	Home: No smoking ban Host: Tobacco tax Others: Sales Change in Sales Cash flow Total intangible assets Age Number of directors Competition	FDI (dummy)	Sample: 141 firms, 53 of whom engage in FDI, and 26 who invest in countries without a smoking ban both from developed and emerging markets Analysis: probit	Smokin importa reducin engage without
Dikova, Panibratov, Veselova & Ermolaeva (2016) IJOEM	IT OLI	M&A	Home: Host: Market Sizes Resources Patents R&D expenditure * Corruption Political stability Cultural distance Others:	Number of M&A	Sample: panel data of 322 Russian cross-border M&As launched in 46 countries, 2007-2013 Analysis: negative binomial regression	Institut the mo dimens has an i betwee and the Corrupt differe terms o but all signific
Jindra, Hassan, Cantner (2016) IBR	OLI	OFDI	Home: Host: Agglomeration, R&D, Density, Technology, Wage, Infrastructure, Market, Distance Others:	Location choice	Sample: mixed emerging and developed (14%) to EU NUTS Analysis: discrete decision modelling	Emergi choices agglom knowle differe valuati locatio in the alternat originat

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
						The evi that en outward augmen
Liu, Gao, Lu & Lioliou (2016) JWB	Resource Dependence	GF - WOS	Home: Host: host country industry risks political risks Others: Input localization (ME) Marketing localization (ME) Ownership (MO)	Self-evaluation of the performance of the last overseas subsidiary	206 Chinese firms, among which 55 are SOEs and 151 are private firms in 14 different industries and investing in 58 foreign countries Analysis: SEM	The fir Chinese risks sig input localiza subsidia affect Politica impact marketi direct oversea also fo localiza sensitiv with pri
Buckley, Chen, Clegg, Voss (2017) JIBS	Behavioral decision theory	OFDI	Home: Host: Access to resources, Market size, Political stability, Local competition, Legal protection Others: Cost of operation ROI	Return attributes	Sample: quasi-experimental data, 60 top executives of Chinese firms Conditional and Mixed Logit	Manage satisfac risk pro risk (le decreas noncon instabil

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
Chari & Shaikh (2017) TIBR	IB theory	M&A	Home: Host: *Geographic distance Common language Economic development distance Institutional distance Advanced/Emerging economy Others:	Number of completed M&A	Sample: acquisitions involving acquiring firms from 77 countries, 2006-2010, mixed AE+EE Analysis: OLS regression	EMMs are driv efficien minimi learning relation and th acquisit these f econom empiric literatu internat emergi respect
Karreman, Burger & Oort (2017) EG	Relational economic geography	GF	Home: Host: Greater Chinese Migrants Regional Chinese Community GDP Accessibility by air Distance to seaport Wage costs Long-term unemployment rate University degree rate Share mining Corporate tax employment	Number of greenfield investments in a region in a particular year	Sample: 577 investments by Chinese companies in 2003-2010 into 26 European countries	There i relation Chinese regions investm Chinese investm with rel and ne The res relation betwee migrant Chinese the edu migrant Chinese

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
			Previous Chinese investments Previous foreign investments Trade with China in 1980 Others: External Economies			locate knowle functio Chinese
Quer, Claver & Rienda (2017) APJM	IT	OFDI	Home: Host: Political risk Cultural distance Others:	Number of OFDI	Sample: 832 Chinese & Indian OFDI, 2005-2014	The i institut decisio and Ind negativ distanc decisio as comp
Yang & Deng (2017) TIBR	OLI and Institutional theory	M&A	Home: GDP growth GDP Government involvement Host: Natural resources Market size Government effectiveness Inflation Openness Others: Cultural distance Industry	Number of CBMA	Sample: data of Chinese cross-border M&A deals in developed markets from 1996 to 2012 Analysis: negative binomial regression	Market strategi econom number develop institut econom positive whereas effectiv the nu Further signific home involve owners

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
Yoo & Reimann (2017) JIM	IT OLI	OFDI	Home: Host: * knowledge-based assets of the home and host country IPR protection regulation in host and home country Others:	FDI flow	85 developing countries to 35 developed countries during 2009–2014 Analysis: log-linear model	EMMs countri based protecti more occur. weaker on the for fir countri knowle
Witte, Burger, Ianchovichina, Pennings (2017) JIBS	IT	GF	Home: Host: Political violence – battle related death Others:	GF FDI (million $)	Sample: 51,800 investments, panel of 90 developing countries 2003-2012 Analysis: dynamic fixed effect model	Politica associa greenfi related resourc geograp most se of po terroris persiste such as on the multina
Gaur, Ma & Ding (2018) JIBS	strategy tripod framework IT, RBV	OFDI	Home: Perceived home country supportiveness Perceived Industry Unfavorableness Host: Others: Export experience (MO)	OFDI	Sample: 212 Chinese firms Analysis: Explanatory Factor Analysis	OFDI perceiv on OF unfavo The int and support on OFD

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
			Inward Internationalization			The in internat governm negativ the in internat industry with the signific
Estrin, Meyer & Pelletier (2018) JWB	LoF	GF	Home: Host: Intellectual Property Rights protection Foreign born population Population Others: Distance	Location choice probability	Sample: France, Germany, Spain, Japan, United Kingdom, United States and Canada + Brazil, China, India, Russia, South Africa, Mexico, and Turkey Analysis: conditional logit	EMMs by dist property more migrant
Li & Bathelt (2018) JIBS	Knowledge & Network based theory	GF & BF	Home: Country of origin Cluster of origin Host: Others: Knowledge intensity Experience and capabilities of the firm	Location choice (binary)	Sample: 3500 investment cases within and between Canada and China, 235 internationals Analysis: Logistic regression	Firms industri substan inclined clusters origin e country explain in clust idea tha

Authors, Year, Journal	Main Theories/ Perspectives (1)	FDI type	Antecedents of internationalization (2)	Internationalization types	Sample	M
						MNEs, pools affiliate
Quer, Claver & Rienda (2018) IJOEM	Institutional perspective	OFDI	Home: Host: Political risk Others: Inertia (prior investments) Mimetic behavior (prior investment by other firms) State ownership (MO)	Location choice	Sample: 186 Chinese firms in 93 countries Analysis: Conditional logit	Chinese (SOEs) more li with hig are les mimetic
Yang (2018) JIM	Organisational learning	OFDI	Home: home country institutions -corruption Government involvement Host: Others: Total assets International experience SOE vs NSOE	Location choice 1 – if the country is relatively corrupt	Sample: 143 outward FDI events of Chinese multinationals Analysis: Binary logit model	The effe at hom pronoun compar

CHAPTER 2

Firm-specific advantages of the EMMs and their location choice: the application of various theoretical frameworks

Abstract

Due to the increased international activity of the emerging market multinationals (EMMs), they have become a subject of curiosity in the international business (IB) research. Their presence on the world economic stage has induced several debates about the applicability of the existing theoretical frameworks in order to explain the behavior of the EMMs when they are going abroad. The aim of this paper is to apply the alternative firm-specific advantages theory of Cuervo-Cazurra & Genc and the complementary local assets theory of Hennart when analyzing the foreign direct investments (FDIs) and location choice of the EMMs. We explore the ability of the EMMs to operate in institutionally unstable environments and their dominance on their domestic markets. Finally, the analysis of the location choice is not only focusing on the distance between the home and the host countries, but also takes into account the direction of the investment (i.e. towards a more or less developed country).

Keywords: location choice, firm-specific advantages, institutional distance, emerging market multinationals, complementary local assets

I. INTRODUCTION

Huawei, Lenovo, Haier…just a few examples of successful EMMs which became a subject of curiosity in the recent years. The EMMs raised the attention also among the IB scholars with their rapidly growing presence on the world economic stage. Moreover, these firms are being internationally active not only in terms of export but also through foreign direct investments (FDI). According to the UNCTAD, the 26.6% of the world FDI is coming from the emerging markets (2018) and in addition, these investments are targeting not only other emerging markets but also developed markets as well. The increased international activity of the EMMs has generated a significant interest for these firms in the field of international business both on the theoretical and on the empirical level.

This study has been motivated by the fact that EMMs have induced several theoretical questions related to their firm-specific advantages, their internationalization strategies and their home country's influence on their strategic decisions. Numerous scholars have already investigated what kind of internationalization patterns do the EMMs follow (Lu, Liu, Wright & Filatochev, 2014) or if their strategic choices are affected by their home country's institutional background (Buckley, Clegg, Cross, Liu, Voss & Zheng,2007). Moreover, it has been also widely discussed (Rugman, 2009; Cuervo-Cazurra, 2012; Narula, 2012; Ramamurti, 2012; Guillen & Garcia-Canal, 2009) whether the FDIs coming from the EMMs are requiring new theories or they can be explained by the existing theoretical frameworks. As the different theoretical approaches attribute different types of firm-specific advantages (FSAs) to the EMMs, in this study we aim to contribute to the debate by arguing that through the location choice of the EMMs, it is possible to better understand their FSAs. More specifically, we believe that the direction of the FDIs of the EMMs will give further insights about the FSAs that they rely on when investing abroad.

First, we discuss the different theoretical aspects of the firm-specific advantages (FSAs) and FDI activities of the EMMs. We will illustrate the various theoretical viewpoints and these arguments will give a basis for our empirical analysis of the location choice. The location choice of the EMMs is important because their FSAs should be complemented by country-specific advantages (CSAs) when they are taking a strategic decision as such. Consequently, we need to understand also the location choice decisions of the EMMs in order to advance theory on the FSAs.

Second, closely linked to the FDIs, one of the core decisions that a firm has to take is related to the location choice of the investment. Even though location choice is generally perceived as a research field that is reaching the level of maturity (Nielsen, Asmussen & Weatherall, 2017), it was pointed out that the topic has been investigated mainly from the point of view of the developed market MNEs (Li, Quan, Stoian & Azar, 2018). Thus, we believe that we can contribute with further insights into this area of research by analyzing the location choice of the EMMs that represent a particular group of firms.

Third, differently from the previous studies, we do not focus on the exact destination of the investments, but rather on the direction of the FDIs. We suggest that there is a gap in research regarding the implications of the institutional distance and its direction. As it is emphasized by Shenkar (2001), the analysis of distance should incorporate the perspective of asymmetry, i.e. rather than the magnitude of distance in absolute terms, it should focus on the two directions of distance. In this view, the distance is considered as negative when firms enter into a less developed country, while it is considered as positive when firms invest in more developed countries. This type of approach has been only recently recognized in relation with the institutional distance and firm performance (Chikhouni, Edwards & Farashahi, 2017; Hernandez & Nieto, 2015; Trapczynski & Banalieva, 2016). In this study, we seek to fill the research gap by implementing the asymmetric approach of institutional distance in the location choice research. Moreover, we aim to find out how is the institutional distance in the location choice affected by the firm-specific advantages of the EMMs? To answer these questions, we will rely on the data from the fDi Markets dataset that has been complemented by information from manually checked greenfield foreign direct investments.

The remainder of this paper is organized as follows. First, we illustrate the various theoretical viewpoints about the FDI activity of the EMMs and we formulate our hypothesis on the location choice of the EMMs. Next, we describe our data and present the results of the analysis. Finally, we discuss our findings and as a conclusion, we highlight our contributions, point out our limitations and suggest possible future research developments.

II. THEORETICAL FRAMEWORK & HYPOTHESIS DEVELOPMENT

2.1. Background

The internationalization of the multinational enterprises (MNEs) has been a central research topic in the IB field in the 20th century. The most well-known internationalization theories were developed based on the behavior of the Western MNEs. Given the developments of the economic world stage, there was a first wave of studies investigating the EMMs' international activity (e.g. Lecraw, 1977, 1993; Lall, 1983; Kumar & McLeod, 1981; Khan, 1986). According to Buckley and Ghauri (2004), the rise of the second wave of EMMs is one of the most interesting outcomes of the globalization and this brought them again in the attention of the IB research (Khanna & Palepu, 2010). However, the distinctive approaches of the EMMs to the internationalization, both on the level of ownership advantages and their home country characteristics, raised the question of the applicability of the existing theories to the FDI activity of the EMMs. In this section, we will discuss one of the classical theories of internationalization, namely the OLI paradigm of Dunning and we will illustrate the various theoretical viewpoints on the firm-specific advantages of the EMMs.

2.2. Theoretical framework

Dunning's OLI paradigm is commonly taken as a reference point for discussing whether the FDI activities by EMM can be explained by existing theories (Hennart, 2018; Lessard & Lucea, 2009). The OLI paradigm puts forward three necessary and sufficient conditions for a foreign direct investment to happen: the investing firm needs to possess an ownership advantage (1), a location advantage (2) and an internalization advantage (3).

However, two of these assumptions make it difficult to apply the OLI paradigm to the EMMs' investments. First, it posits that the investing firms must be in the possession of ownership advantages, while EMMs are rarely possessing ownership advantages in its traditional sense such as advanced technology or strong brand names (Dunning & Lundan, 2008). Indeed, their investments abroad are often motivated by the search for firm-specific advantages (FSAs) rather than exploiting them. Second, the OLI paradigm assumes that the local resources at the foreign locations are freely (or at least at the same terms) available for all the firms – both for foreign and domestic firms alike. Still, it is not always the case, for example regarding government support and subsidies in the emerging markets (Hennart, 2012) that are available only to some privileged local firms (Baffour Awuah & Amal, 2011).

The disconnect between the assumptions of Dunning's OLI paradigm and the empirical evidence of the existence of EMMs and their foreign direct investments provoked various reactions and theoretical explanations by the IB scholars. In the following section, we will discuss the three main standpoints regarding this issue, highlighting the importance of the FSAs when investing abroad. Moreover, as the location choice is also a central argument of our study, we will combine the various theories of the FSAs and the location choice in order to advance theory on the internationalization of the EMMs. Consequently, our hypotheses will be built on these two pillars.

2.3. EMMs without FSAs

The first theoretical position in the debate on the applicability of the OLI paradigm to the FDI activity of the EMMs is the viewpoint of the internalization theory. The main proposition of Rugman's internalization theory (1981, 1996) is that the firms go abroad in order to expand their firm-specific advantages (FSAs). Similarly to Dunning's OLI paradigm, Rugman and Verbeke (1992) are also arguing for the necessity of the ownership advantages – or FSAs, as they call it – in the internationalization process of a firm. These FSAs can be technology or knowledge-based or they can reflect managerial and/or marketing skills that are proprietary to the firm (Rugman & Verbeke, 2003). The other important building block of the theory of Rugman and Verbeke is the country-specific advantages (CSAs). These CSAs are based on the characteristics of the home country that are unique to each firm in the country. For example, a CSA can be the country's natural resource endowment or its labor force.

From the aspect of the EMMs, Rugman and Li (2007) argue that EMMs will be able to make sustainable investments only when they accumulate real firm-specific advantages such as cutting-edge technologies and strong brands. However, according to Rugman (2009), the EMMs do not have real firm-specific advantages and, especially in the case of knowledge-based FSAs, they are in a disadvantage compared to the developed market MNEs. Consequently, in their FDI activity the EMMs rely on the country-specific advantages of their home county, such as cheap labor or natural resources, that are freely available for all firms. For this reason, Rugman and Li (2007) consider EMMs' international expansion as a short-lived phenomenon with short-term perspectives and claim that there is no reason to adapt the existing theory to the EMMs.

Narula is also supporting the argument that there is no need to develop different frameworks for explaining the internationalization of the EMMs. More specifically, Narula (2012) argues

that the basic principles (such as the OLI paradigm) behind the firms' internationalization have not changed with time. In his view, regardless of the firms' origin (developing or advanced market), they need to have an initial set of FSAs in order to make a successful and sustainable international expansion.

Narula (2012) examines the interaction of FSAs and location assets of the home country that will influence the firm's initial internationalization. On one hand, the firm's country of origin and its location-specific assets will define the kind of assets that the infant MNEs will possess. In a given point in time, the countries have a specific set of resources that cannot be changed on the short run and firms are embedded in this local context by historic, social and economic ties and they interact with other actors at the same location. Consequently, the firms FSAs are functions of the home country's location assets as they build on the resources available in the home country and this drives their initial international growth (Simoes 2003; Tan & Meyer 2010). On the other hand, the availability of these locations-specific assets will impose different constraints to the internationalization of the firms from different home countries. Since the location-specific assets are like 'quasi-public goods' by nature, they are not freely available or having the same value to every firm (both domestic and foreign) in the given country. Consequently, the set of potentially available location-specific advantages will determine the kind of FSAs the infant MNE will develop. These basic principles are valid both for developing and advanced markets. Finally, Narula (2012) predicts that the linkage between the FSAs and location-specific assets will weaken by the evolving maturity of the home countries and the firms themselves.

However, Narula (2012) also argues that the location-specific assets constraint differently the developing and advanced market MNEs. These differences in the location-specific assets are not only about the strength or weakness of these assets, but rather related to their evolution that can be traced back in the differences of the institutional conditions of the countries. First of all, the differences in the institutional development is having a different influence on the infant MNEs internationalization. While the EMMs are facing underdeveloped and unstable institutional environments, encouraging them to go abroad to overcome these inefficiencies; the advanced market MNEs are operating in a stable and well-functioning home environment that does not urge the firms to internationalize, even if they have the potential. Second, the access to the capital markets is also having a diverse effect on the firms from different home countries. While for the EMMs the international expansion allows access to international capital markets, the advanced market MNEs in general have already access to credit markets and they

can rely on these funds when they are going abroad. Third, regarding the bilateral and regional agreements, the advanced market MNEs are more integrated and have rather similar regulations that makes the internationalization relatively easier for them than to the EMMs. All in all, Narula (2012) claims that these are the main differences in the way that infant MNEs internationalize, but regardless these differences (that will slowly disappear), the basic principles of the existing theories can explain the behavior of the EMMs.

2.4. Alternative theoretical explanations

The second theoretical position is calling for an alternative interpretation of the OLI paradigm. Cuervo-Cazurra and Genc (2008) argue that both developed market MNEs and EMMs have ownership advantages, with the difference that the developed market MNEs tend to have stronger ones. Regarding the influence of the institutions of the home country on the firms' advantages, they argue that the disadvantage of the poor institutional environment in the developing countries can be turned into an advantage for the EMMs. The advantage derives from the fact that the EMMs are more used to working in an unstable institutional environment, where they face for example less efficient market mechanisms, burdensome bureaucracy and/or inefficient judiciary systems, while the advanced market MNEs are not used to such conditions. Consequently, even if both developed market MNEs and EMMs are facing difficulties during their internationalization process, the EMMs thanks to their ability to operate and manage in difficult institutional environment, will have an advantage over the developed market MNEs when expanding into other developing countries. So far, this hypothesis has been empirically tested by analyzing the prevalence of EMMs in the least-developed countries relatively to the developed market multinationals (e.g. by Cuervo-Cazurra & Genc, 2008, where they simply compare the prevalence of EMMs over the DMNEs in the least-developed countries). Nevertheless, there is some anecdotal evidence to support this argument. According to Goldstein's report for the OECD (2004), Celtel (a British subsidiary of Vodafone) used to have a monopoly on Uganda's mobile phone market. However, when the South African MTN entered the market, it managed to build a 22 times larger subscriber base owing to its expertise in handling the economically and politically risky environment.

Relying on these types of advantages, when developing country MNEs are operating in third countries with difficult institutional conditions, they may face fewer difficulties than developed country MNEs (Cuervo-Cazurra & Genc, 2008). However, if we think about EMMs such as

Huawei, Lenovo, Haier etc., it becomes clear that they are not limiting their investments to other emerging/developing countries with weak formal institutions. For this reason, we developed a new model to measure the institutional similarity between the home and the host countries of the firms and use it as a reference to the location of the investment. In order to test the theoretical explanation of Cuervo-Cazurra & Genc, and to find out whether EMMs invest in institutionally similar countries, we develop our first hypothesis, that will be the baseline of this study as it represents a starting point for the other two hypothesis, as follow:

H1: The EMMs will invest in institutionally similar countries

In the third theoretical position, there is a different approach to the OLI paradigm and the FSAs of the EMMs. Hennart (2018) argues that the transaction cost view of the MNE, unlike the OLI paradigm, can accommodate both the FSA-seeking and the FSA-exploiting investments of the EMMs. It is possible because in the center of the TC theory there is the interdependence between the actors (in this case the firms) and not the actors themselves.

According to the TC theory, the foreign direct investments occur when it is more efficient to coordinate international interdependencies within a firm than through market arrangements as "land, natural resources, labor and distribution assets are sold in imperfect markets" (Hennart, 2012, p.169). The firms in order to avoid the high transaction costs of the market, they rather coordinate the transfer within their boundaries through acquisitions, joint ventures and greenfield investments.

Moreover, another important issue raised by Hennart (2009, 2012) is that, once again unlike the OLI paradigm, the location advantages may not be available for all the firms on the same terms. The condition of having a preferential access to these complementary local assets, often guaranteed by the home country governments, may "provide FSAs that are similar to the intangible-based FSAs which are central to the OLI paradigm" (Hennart, 2018, p. 569). This implies that the preferential access to the complementary local resources may raise the market power of the local firms, explaining the reason why EMMs can compete with developed market MNEs in generating profits and gaining market dominance in their home country.

Furthermore, the intangible asset-seeking FDI by the EMMs is possible because they find the time and the resources through their protected domestic market share and through their control of complementary local resources to gain dominance on their home market (Hennart, 2018). These characteristics are not only making them attractive partners for joint ventures, but it also

allows them to make greenfield investments, acquisitions and to set up foreign country based joint ventures.

Similarly, Gaur, Kumar & Singh (2014) also argue that the EMMs are relying on their FSAs in a different way compared to the developed market MNEs. The reason for this is that because of the lack of traditional resources/FSAs, they exploit different types of resources such as an ethnic consumer base in the host country or the dominant position in their home market.

Finally, by the asset-seeking investment the EMMs go abroad in order to look for a specific knowledge that is required to leverage on the complementary local assets that they control. For example, the EMMs may undertake R&D investments in order to reach the technological parity with their developed market counterparts so as to be able to compete with them on the global market (Hennart, Sheng & Carrera, 2017). Hence, we suppose that the firms that gained dominance on their domestic market will leverage on this in order to invest abroad in the direction of institutionally more developed countries, where they can find the necessary assets to enhance further their competitiveness.

> *H2: EMMs that are dominant on their home market will invest in the direction institutionally more developed countries*

On the other hand, in the TC theory position, it is not ruled out that EMMs might have genuine FSAs and that they can exploit these FSAs when investing abroad. These FSAs are proprietary to the firm and by definition, it is difficult to transfer them on the market. However, following the TC theory position, they can be exploited by FDI and joint ventures also by the EMMs. Furthermore, the genuine FSAs should also allow the firms to exploit their FSAs in institutionally more developed markets and not only in institutionally similar or less developed environments. Moreover, some EMMs have also innovations that can find a market in both developed and emerging markets (Williamson, 2015). On the other hand, Demirbag, Tatoglu & Glaister (2010) argue that the EMMs (in their case Turkish MNEs) will attempt to exploit their FSAs when they invest into other emerging markets in order to enhance their competitive advantage.

Given these arguments, our third hypothesis is that if they are doing an asset-exploiting investment where they rely on their knowledge-based FSAs, they will invest in the direction of institutionally less developed countries.

> *H3: EMMs that possess knowledge-based FSAs will invest in the direction of institutionally less developed countries*

We also have to mention that there is a further theoretical position, according to which the OLI paradigm is incompatible with the international expansion of the EMMs and therefore new models (e.g. linkage, leverage and learning by Mathews, 2006; or springboard theory by Luo & Tung, 2007) should be developed to explain this phenomenon. However, in our overview we focused only on the theoretical explanations that are taking the OLI paradigm as a reference.

Finally, we relied on the theoretical contribution of the institutional theory when formulating our hypotheses. According to the institutional theory, the institutions are humanly devised constraints that are external to the firms and their quality affect the functioning of the market economy. In other words, they determine to a large extent the transaction costs incurred by the firms. Consequently, the institutions of the home country play a key role in influencing the strategic decisions of the firm (Geleiate, Magnusson, Parente & Alvarado-Vargas, 2016) and shaping their international activities such as entry mode and location choice (Kostova & Marano, 2018). For this reason, we decided to use the institutional distance in order to capture the location choice of the firms and in particular, the location choice of the EMMs. Moreover, our focus is not on the magnitude of the institutional distance but on its direction as we expect that the different type of FSAs will exert a different effect on the direction of the distance. Finally, the other types of distance used on the location choice research (i.e. cultural or geographic) can be measured only in absolute terms, while the institutional distance provides the possibility to make a comparison between the institutional settings of the home and the host countries and capture the direction of the investment. Our aim is to leverage on this characteristic of the institutional distance in order to analyze the location choice of the firms.

III. METHODOLOGY

3.1. Data sources and Sample

In order to test the significance of the FSAs in the location choice of the EMMs, we developed a quantitative research design. We decided to focus on the location choice of the greenfield investments of the EMMs as these investments require a commitment from the firms and it can provide different insights than the location choice of the M&As by the EMMs that are mainly motivated by acquiring knowledge related assets abroad. Moreover, contrary to the M&As deals, where the choice of the location is driven by the location of the desired assets; in the case of greenfield investment, the location choice is an important element of the strategic decision of the firms.

For the purpose of our analysis, we created a dataset containing greenfield foreign direct investments by individual firms both from developed and emerging market multinationals. The source of our data was the fDi Markets of Financial Times, which database contains information about international greenfield FDI projects, and it has been widely used to study location choice and FDIs (Duanmu, 2014; Anderson & Sutherland, 2015). Based on the data provided by fDi Markets, 20.000 investments have been manually checked between the period of 2006-2015. The manual check was necessary in order to avoid any overestimation, as the fDi Markets database is reporting announced FDI projects based on the statements of the firms. Even if the announcements are more trustful than the rumors used by other databases (e.g. Zephyr), we wanted to make sure that in our dataset there will be only successfully completed investments. For this reason, each investment has been checked for confirmation by online sources. This procedure enabled us to develop a dataset of 12,638 greenfield FDI investments (63%). This does not mean that the 37% of the announced projects have not been realized, but only that there is no evidence on the web about their successful finalization. In addition, we merged this dataset with the financial information available in the Orbis database about the investing firms. We excluded from our final sample the investments completed before 2009 (3106 investments) and we focused only on the period after the global financial crisis. After the merge with the financial information where available, the final sample is composed of 3,224 observations. In this subset, there are 61 home countries and 140 host countries and firms from 39 industries. Moreover, there are 2,795 investments (86.69%) by developed market multinationals and 429 investments (13.31%) by emerging market multinationals. In the case of H1, we used the whole sample of 3,224 investments, including both firms from developed and emerging markets.

However, H2 and H3 required a sample that only includes EMMs, and so in this case, we used a restricted sample of 429 and 400 observations respectively. It is important to note that the dataset is not a panel, but it contains cross-sectional data for each year of observation.

3.2. Variables and Measures

Dependent Variables

In line with the aim of this study, our dependent variable is the institutional distance between the home and the host countries. The institutional distance is a concept that captures the differences in the institutional environment between two countries (Kostova & Zaheer, 1999). In other words, the institutional distance represents the extent of similarity and dissimilarity between the institutional environment of two countries (Xu & Shenkar, 2002). Moreover, the institutional environment and the institutional distance have a great impact on the firms' strategy and performance (Peng, Wang & Jiang, 2008; Gaur, Delios & Singh, 2007; Konara & Shirodkar 2018). The differences in the institutional environments of the home and the host countries are having their costs and benefits when it comes to the coordination and control of business in a foreign country (Konara & Shirodkar, 2018). The cost and the benefits of operating a business/doing an FDI related to the institutional distance vary not only because of the magnitude of the distance but mostly because of the direction of the distance.

We measure institutional distance by the difference of the scores of the host and the home country based on the World Governance Indicators (WGI) developed by the World Bank. The WGIs are used to evaluate the institutional setting of a country from six perspectives: political stability and absence of violence, voice and accountability, governance effectiveness, regulatory quality, rule of law and the control of corruption (Kaufmann, Kraay & Mastruzzi, 2009). The different variations of the WGIs are used in previous studies (Dikova & Van Witteloostuijn, 2007; Globerman & Shapiro, 2003) both as individual indicators (Lu et al., 2014; Lv & Spigarelli, 2016) and as a composite index (Slangen & Beugelsdijk, 2010; Konara & Shirodkar, 2018). The following table (Table 2.1) contains the definitions of what is measured by each perspective specifically.

Table 2. 1 World Governance Indicators and their definitions

World Governance Indicator	Definition
Political stability and absence of violence	the likelihood of political instability and/or politically motivated violence
Voice and Accountability	the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media
Government Effectiveness	the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies
Regulatory Quality	the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development
Rule of Law	the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence
Control of Corruption	the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the state by elites and private interests

Source: World Bank

Accordingly, we run our model six times using each perspective as a dependent variable. It is important to highlight that this methodology allows us to account for the institutional distance between the countries, since there are multiple home and multiple host countries in the sample. This way, we avoid the issue highlighted by Van Hoorn & Maseland (2016), who states that in the case of a single home or host country, the models are simply measuring the distance from one institutional profile to many others, but not the institutional distance.

The first hypothesis is that EMMs invest in institutionally similar host countries. In order to test this hypothesis (H1), we create a variable based on the institutional distance between the home and the host countries of the investment in order to measure the institutional similarity. Given the home country's score on the WGIs, the variable *Similarity* takes the value 1 if the WGI score of the host country is smaller than the sum of the home country's score and its standard deviation (std) and if it is larger than the home country's WGI score minus its standard deviation (std), and 0 otherwise:

Similarity= 1 if wgihost<=wgihome+std & wgihost>=wghome-std

Moreover, the variable *Similarity* is calculated for each WGI and it is also calculated for all the years since the STD is changing year by year. The standard deviation is a number taken from based on the WGI scores of the countries in the sample. In terms of signs, we expect a positive

outcome that would confirm that EMMs select institutionally similar host countries as a location for their investments.

Furthermore, while in the case of the first hypothesis (H1) we are interested in the similarity of the institutional settings of the home and the host countries, in the case of the second (H2) and the third (H3), we use the institutional distance as the dependent variable. Here the institutional distance is calculated as a result of the home country WGI score deducted from the host country WGI score. Using the institutional distance as a dependent variable we can capture the differences in the institutional profiles of the home and host countries. Similarly, also in these cases, we run each regression six times accordingly to the different dimensions of institutional distance described by the WGIs. As an outcome, we expect a positive sign that would mean that the EMMs select institutionally distant countries for their FDI investments when they are dominant on their home market or when they possess knowledge-based FSAs.

Independent Variables

In the case of H1, our main independent variable is a dummy variable taking the value 1 when the company originates from an emerging market. The variable refers to the theoretical claim according to which the EMMs are used to operate and manage unstable environments and so they tend to invest in other emerging markets.

Another methodological issue is to define which countries do we consider emerging markets. After comparing various classifications (e.g. IMF, FTSE, Goldman Sachs, MSCI, UNCTAD), we decided that for the purpose of our analysis, similarly to Banalieva, Cuervo-Cazurra & Sarathy (2018), Quer, Claver & Rienda (2018) and Yang, Yang & Doyle (2013), we will use the classification of the emerging markets by the IMF. The main reason for selecting this classification is that in the yearly editions of the World Economic Outlook report, the list of the emerging countries is always updated in case of a change in the development status of a country. Moreover, it is a more restrictive classification, unlike the one of UNCTAD, in which certain countries of the European Union are not considered as developed countries by default.

The second independent variable for H2 is the domestic market dominance of the firm that refers to the firm's position on its home market in its own sector. Since there are no prior studies that investigate this variable based on secondary data, we introduced a new variable based on the theory of the local complementary assets in order to capture the dominance of a firm on its domestic market in its own sector. This new variable is the domestic market dominance of the

firm, which is measured by the fraction of the domestic revenues (total revenues-export revenues) of the firm and the average domestic revenue in the same sector in the home country. As a second step, this ratio is transformed by taking its natural logarithm to account for its not-normal distribution. When the result is greater than 1, we consider the firm in possession of dominance in its domestic market.

Log Dominance= Ln (Domestic Revenue / Average domestic revenue in the same sector)

Finally, our third hypothesis (H3) is that EMMs that possess knowledge-based FSAs will invest in institutionally more developed countries. Accordingly, the third independent variable is the knowledge-based FSAs of the firm, which is operationalized by the logarithm of the intangible fixed assets of the investing companies. In this case, we want to measure the stock of knowledge accumulated and possessed by the investing firm, as it represents the absolute value this type of firm-specific advantage rather than its intensity that is classically measured by the ratio of intangible assets over the total assets.

Log Knowledge-based FSAs= Log (Intangible fixed assets, thousand USD)

Control Variables

In line with the previous studies of location choice, we consider certain country- and firm-level variables to control for important effects on the location choice decision. First, we include several country-level variables that represent the attractiveness of the host country as a destination of the FDIs. Similarly to the practice of previous studies, also in our analysis the host country's GDP/capita approximates its economic development (Buckley et al., 2007; Meyer, Estrin, Bhaumik & Peng, 2009; Lv & Spigarelli, 2016), the population of the host country is included as a measure of the host market's size (Yoo & Reimann, 2017; Lu et al., 2014), while the expenditure on R&D as a share of GDP indicates the technological development of the host country (Buckley & Casson, 2009; Dikova, Panibratov & Veselova, 2019). Moreover, we excluded a dummy variable that took the value 1 if the host country was considered as a tax haven based on the work of Hines (2010) for example Aruba or Bermuda. Even though favorable taxation might be an incentive to select a given host country, in our sample only 8.41% of the destinations could have been considered as tax havens. This variable was generating highly correlated with the trade openness and GDP/capita variables in the model, so we decided to drop it. Second, we include the trade openness of the host country that is measured as the share of trade by GDP that is reflecting the host country's openness in general towards international business activities (De Beule & Duanmu, 2012). In addition, we control

for the geographic distance between the home and the host countries as previous research suggests (Kalotay & Sulstarova, 2010; Hernandez & Nieto, 2015) by calculating the distance between the most important cities/agglomerations of the home and the host country. Third, we included a dummy variable for signaling whether the home and the host countries are having common borders as the probability of FDI is higher if a common border is present (Rasciute & Downward, 2017) and also if the two countries share a common official language (Contractor, Yang & Gaur,2016). To control for the cultural distance, we encountered with the difficulty that a large share of the host countries in our sample are not included in the most widely used indicator, in the database of Hofstede. As an alternative, similarly to Cuervo-Cazurra & Genc (2008), we decided to insert a dummy variable if the home and the host countries have colonial ties that represent the common history and, in some cases, a common cultural heritage. Finally, we decided to leave out the variables related to the home country characteristics as they were highly correlated with the independent variable of being on EMM or not.

Additionally, guided by previous studies, we control for several firm-level variables. First, as the firm's size has a potential to increase its propensity to internationalize (Zahra, 2000), we approximate it by the natural logarithm of the number of employees of the firm (Chao & Kumar, 2010). Second, we include five different industrial sectors using Pavitt's (1984) well-known taxonomy and adding a fifth category for the services sector. The distribution of the firms within the sectors is relatively balanced as 23.01% of the firms in our sample belong to the ‘‘Traditional’’ sector, 16% to the ‘‘Scale-intensive’’ industries, 10.83% to the ‘‘Specialized-suppliers’’, 21.25% to the ‘‘Science-based’’ industries and finally 28.91% to the "Services". Furthermore, highly profitable firms are more likely to invest abroad, so we account for the firm's profitability by the fraction of its operating revenue and total sales (Wang, Hong, Kafouros & Boateng, 2012), while its financial leverage ability we considered its debt to equity ratio (Chao & Kumar, 2010). Finally, for the second and the third hypothesis, where we use only the restricted sample of the EMMs, we included a dummy variable 1 if the investing company has been mentioned by the Boston Consulting Group (BCG) as a "Global challenger". The BCG defined Global challengers as exceptionally successful emerging market companies (2016). By confronting the list of the Global Challengers (editions from 2009 to 2015) with the firms in our sample, we find that a significant share of firms (27.04%) match this criterion.

The following table (Table 2.2) is summarizing the control variables, their measurement and the source of the data.

Table 2. 2. Summary of the variables and their operationalization

Variable	Operationalization	Source
Institutional distance	Measured on a scale of -2.5 to +2.5 by the World Governance Indicators	World Bank
EMM	Dummy variable 1 if the firm is an EMM, 0 otherwise	IMF
Log_Dominance	Natural logarithm of the average domestic revenue/average domestic revenue in the same sector in the same host country	Orbis
Log_Knowledge-based FSA	Natural logarithm of the Intangible fixed assets (thousand USD)	Orbis
Geographic distance	Distance measured between the most important cities/agglomerations of the home and the host country expressed in kilometers	CEPII
Common border	Dummy variable 1 if there is a common border between the home and the host country, 0 otherwise	CEPII
Common language	Dummy variable 1 if the home and the host country share a common official language, 0 otherwise	CEPII
Colonial ties	Dummy variable 1 if the home and the host country have colonial ties, 0 otherwise	CEPII
Technological development	R&D expenditure as a share of GDP of the country	World Bank
GDP per capita	Gross domestic product per capita expressed in thousand USD (PPP)	World Bank
Population	Population of the country expressed in million persons	World Bank
Export openness	Trade as a share of GDP of the host country	World Bank
Industry	Self-declaration by the firms	fDi Markets
Firm size	Natural logarithm of the number of employees of the firm	Orbis
Profitability	Natural logarithm of the operating revenue divided by the total sales	Orbis
Leverage	Shareholders' funds divided by the long-term debt of the firm	Orbis
Global Challenger	Dummy variable 1 if the firms is listed in as a global challenger, 0 otherwise	BCG

Source: individual elaboration

3.3. Model Estimation

The following table (Table 2.3) summarizes the descriptive statistics and the correlation matrix of the variables. The first column of the table contains the mean values of the variables, while in the second column we can find the standard deviations. Moreover, regarding the correlation matrix, there is no significant correlation between the variables (>5% has been signaled). Finally, as a further test for multicollinearity, we calculated the Variance Inflation Factors (VIFs) for all the variables. As a result, we found no individual VIF values greater than 10. Moreover, the average VIF value is 1.57 and 1.69 respectively for the second and the third hypothesis, which is well below the suggested threshold of 6. Given that these values are within the acceptable limits defined by the literature (Neter, Wasserman & Kutner, 1989), we can absolutely exclude any problems of multicollinearity as a cause of concern in our analysis.

Table 2. 3 Descriptive statistics and correlation matrix

Variables	Mean	STD	(1)	(2)	(3)	(4)	(5)	(6)
(1) Similarity_PS	.69	.463	1.000					
(2) EMM	.133	.34	-0.097	1.000				
(3) GDP/capita_host	30272.94	20338.62	0.402	-0.086	1.000			
(4) Population_host	2.64e+08	4.47e+08	-0.415	-0.095	-0.392	1.000		
(5) Technological development	1.479	.936	0.290	-0.158	**0.503**	0.067	1.000	
(6) Trade openness_host	87.696	79.28	0.144	0.035	0.414	-0.285	-0.059	1.000
(7) Log_Firm size	8.183	2.709	-0.175	0.076	-0.174	0.093	-0.157	-0.059
(8) Log_Profitability	-.092	.99	0.049	-0.102	0.073	0.015	0.078	0.018
(9) Leverage	245.054	13720.47	0.012	-0.007	0.013	-0.008	0.025	0.000
(10) Geographic distance	5893.63	4282.479	-0.096	-0.091	-0.021	0.170	0.012	0.044
(11) Common border	.115	.32	0.141	0.147	0.043	-0.153	0.061	0.032
(12) Common language	.204	.403	0.039	0.048	0.131	-0.053	0.063	0.139
(13) Colonial ties	.145	.352	0.160	-0.068	0.134	-0.107	0.069	-0.017
(13) Industry	3.17	1.556	0.010	-0.022	0.054	0.010	0.045	0.032
(14) Year	2012.24	2.07	0.020	-0.009	0.159	-0.071	0.129	0.038

Variables	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(7) Log_Firm size	1.000								
(8) Log_Profitability	-0.025	1.000							
(9) Leverage	-0.022	0.267	1.000						
(10) Geographic distance	0.116	-0.030	-0.022	1.000					
(11) Common border	-0.047	0.022	-0.006	-0.413	1.000				
(12) Common language	0.013	-0.050	-0.009	0.086	0.168	1.000			
(13) Colonial ties	-0.104	-0.037	-0.007	0.035	0.022	0.399	1.000		
(14) Industry	-0.097	-0.091	-0.024	0.043	-0.002	0.096	0.080	1.000	
(15) Year	-0.094	0.014	0.015	-0.032	0.029	-0.057	-0.031	-0.007	1.000

Note: Bold correlations indicate significance at 5%

Our first hypothesis (H1) is that the EMMs invest into institutionally similar countries. To test our first hypothesis, we used a multiple logistic regression, where the dependent variable is the *Similarity* in all the six aspects of institutional dimensions represented by the WGIs. Similarity takes the value 1 whenever the score of the host country on the single institutional dimension

is within the range of the home country's score (+/- its standard deviation). The basic formula for testing H1 is the following:

$$Similarity\ (WGI) = \beta 0 + \beta 1\ (EMM0/1) + \beta 2\ (Home\ Country) + \beta 3\ (Host\ Country) + \beta 4\ (Firm) + \varepsilon$$

Regarding the second (H2) and the third (H3) hypothesis that refers to the relationship of the FSAs of the EMMs and the institutional distance between the home and the host country of the investment, we run an OLS regression in order to find out the effect of dominance and knowledge-based firm-specific advantages on the direction of the institutional distance. In the case of these regressions, a negative sign indicates an investment towards a less institutionally developed country, while a positive sign indicates an investment to an institutionally more developed country. Moreover, also in this case the institutional distance is calculated on all the six dimensions of the WGI and relatively to the year of the investment. The baseline hypothesis for all the regressions of the second (H2) and third (H3) hypothesis:

$$Host\text{-}Home\ institutional\ distance = \beta 0 + \beta 1\ (Home\ Country) + \beta 2\ (Host\ Country) + \beta 3\ (Firm) + \varepsilon$$

Finally, it should be noted that based on the suggestion of Spanos, Zaralis & Lioukas (2004), the independent and control variables, are all included in the model with a one-year lag with respect to the year of the investment in order to account for the time difference between the given state of world (country- and firm-level variables) and the future investment location decision (realization of the investment). This way we also partially addressed the issue of endogeneity in the model.

IV. RESULTS

First, Table 2.4 reports the outcomes of the six multiple logistic regressions based on the institutional similarity in terms of political stability and absence of violence (PS), voice and accountability (VA), government effectiveness (GE), regulatory quality (RQ), rule of law (RL) and control of corruption (CC).

Table 2. 4. Results of the logistic regression for H1

Similarity	PS	VA	GE	RQ	RL	CC
EMM	-0.691***	-0.550***	0.618***	-0.281**	0.738***	0.764***
	(-5.18)	(-4.06)	(4.40)	(-1.98)	(5.25)	(5.06)
GDP/capita_host	0.000**	0.000	0.000***	0.000***	0.000***	0.000***
	(2.99)	(-0.30)	(8.25)	(5.88)	(6.84)	(10.45)
Population_host	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***
	(-15.78)	(-16.06)	(-10.70)	(-15.53)	(-12.33)	(-9.64)
Technological	0.909***	0.793***	0.996***	0.955***	1.102***	0.675***
development_host	(11.17)	(11.46)	(12.58)	(11.63)	(14.43)	(9.06)
Trade openness_host	0.002**	-0.005***	-0.002**	0.001	0.001	-0.001
	(2.03)	(-8.20)	(2.56)	(0.18)	(1.18)	(-0.77)
Log_Firm size	-0.073***	-0.090***	-0.083***	-0.074***	-0.071***	-0.056***
	(-3.87)	(-4.94)	(-4.46)	(-3.83)	(-3.89)	(-3.16)
Log_Profitability	0.044	0.024	0.041	-0.021	-0.042	-0.047
	(0.82)	(0.47)	(0.82)	(-0.39)	(-0.82)	(-0.95)
Leverage	0.000	0.000	0.005	0.005	0.006	0.001
	(0.07)	(0.14)	(1.13)	(1.12)	(1.18)	(0.35)
Geographic distance	0.000	0.000**	0.000	0.000***	0.000***	0.000
	(0.79)	(-3.15)	(-0.75)	(-3.84)	(-2.63)	(-1.56)
Common border	1.062***	1.888***	1.033***	1.637***	1.191***	0.600***
	(5.33)	(7.05)	(5.80)	(7.11)	(6.43)	(3.66)
Common language	-0.521***	1.232***	-0.116	0.059	0.057	0.160
	(-3.56)	(8.35)	(-0.80)	(0.39)	(0.40)	(1.19)
Colonial ties	0.983***	-0.013	1.032***	0.327*	0.495***	0.599***
	(5.27)	(-0.08)	(6.05)	(1.92)	(3.13)	(3.84)
_cons	1.059***	1.822***	-0.703***	0.435*	-0.583**	-0.658***
	(4.05)	(7.42)	(-2.78)	(1.66)	(-2.35)	(-2.70)
Number of obs	3224	3224	3224	3224	3224	3224
Pseudo r-squared	0.2853	0.2335	0.3527	0.3746	0.3508	0.3038
Chi-squared	1138.54	927.23	1554.51	1598.49	1552.39	1336.85
Prob > chi2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Presented are the standardized coefficients with z-value in parentheses. All model control for industry clusters (by a dummy based on Pavitt's categorization) and the year of the investment.

*** p<0.01, ** p<0.05, * p<0.1

Given the results of the hypothesis test, we found support for EMMs invest in institutionally similar countries. The first hypothesis is supported when the institutional similarity is defined in terms of government effectiveness (GE), the rule of law (RL) and the control of corruption (CC). The support is evidenced by a positive (4.40) and significant ($p < 0.01$) z-value for the dimension of government effectiveness, as well as in the case of rule of law (5.25, $p < 0.05$) and the control of corruption (5.06, $p < 0.01$). Moreover, the test resulted in negative and significant results for three other aspects of institutional similarity: for the dimension political stability and absence of violence (-5.18, $p < 0.01$), as well as in the case of the voice and accountability dimension (-4.06, $p < 0.01$) and the regulatory quality (-1.98, $p < 0.05$). This implies that EMMs invest not only in institutionally similar but also in institutionally dissimilar (both more and less developed) countries. In addition, regarding the control variables, the z-value for the firm size turned out to be negative and highly significant ($p < 0.01$) for all the 6 aspects of institutional distance. This suggests that the larger is the firm size, the less likely that it invests in an institutionally similar country. Furthermore, the common border and colonial ties between the home and the host country turned out to be positive and significant variables. This result confirms that these variables are important factors in the location choice of the firms. Finally, the variables GDP per capita, the population and the technological development of the host country were found to be positive and significant variables in the location choice of the firms.

Second, Table 2.5 reports the outcomes of the six multiple regressions based on the dominance of the firm and the six perspectives of institutional distance.

Table 2. 5. Results of the multiple regression for H2

Institutional distance	PS	VA	GE	RQ	RL	CC
Log_Dominance	-0.063*	-0.040	-0.030	-0.053*	-0.049*	-0.071**
	(-1.81)	(-0.87)	(-1.22)	(-1.86)	(-1.73)	(-2.39)
GDP/capita_host	0.000***	0.000	0.000***	0.000***	0.000***	0.000***
	(6.30)	(1.41)	(9.76)	(8.20)	(8.85)	(9.98)
Population_host	0.000**	0.000***	0.000	0.000***	0.000***	0.000***
	(-2.03)	(-6.85)	(-1.25)	(-4.20)	(-3.70)	(-3.16)
Technological	0.183***	0.560***	0.494***	0.409***	0.530***	0.490***
development_host	(3.23)	(7.58)	(12.49)	(8.82)	(11.66)	(10.23)
Trade	0.004***	0.001	0.003***	0.003***	0.003***	0.003***
openness_host	(6.16)	(0.72)	(7.46)	(7.11)	(5.41)	(6.47)
Log_Firm size	0.062***	0.031	0.020	0.009	0.006	0.026
	(3.02)	(1.13)	(1.36)	(051)	(0.37)	(1.49)
Log_Profitability	0.102**	-0.041	0.055*	0.053	0.036	0.091***
	(2.50)	(-0.77)	(1.94)	(1.59)	(1.09)	(2.65)
Leverage	0.058	0.038	0.058**	0.071**	0.069**	0.113***
	(1.47)	(0.73)	(2.09)	(2.19)	(2.17)	(3.39)
Global	0.019	0.519***	-0.005	0.172*	0.228**	0.132
Challenger	(0.17)	(3.59)	(-0.06)	(1.89)	(2.56)	(1.41)
Geographic	0.000	0.000***	0.000	0.000***	0.000**	0.000*
distance	(1.32)	(5.03)	(1.23)	(3.09)	(2.44)	(1.91)
Common border	-0.132	0.420***	-0.107	-0.085	-0.081	-0.144
	(-1.20)	(2.95)	(-1.39)	(-0.95)	(-0.93)	(-1.56)
Common	-0.336***	-0.293**	-0.174***	-0.086	-0.191**	-0.272***
language	(-3.56)	(-2.38)	(-2.64)	(-1.11)	(-2.51)	(-3.40)
Colonial ties	0.399***	-0.026	0.246**	0.120	0.367***	0.465***
	(2.67)	(-0.13)	(2.36)	(1.63)	(3.07)	(3.68)
_cons	-1.469***	-1.321***	-1.400***	-1.416***	-1.306***	-1.528***
	(-6.30)	(-4.35)	(-8.59)	(-7.42)	(-6.98)	(-7.75)
Number of obs	429	429	429	429	429	429
R-squared	0.5056	0.4344	0.7298	0.6772	0.7131	0.7169
Adj. R-squared	0.4776	0.4023	0.7144	0.6589	0.6968	0.7008

Presented are standardized coefficients with t-value in parentheses. All model control for industry clusters (by a dummy based on Pavitt's categorization) and the year of the investment.

*** p<0.01, ** p<0.05, * p<0.1

The second hypothesis test also delivered significant results. As evidenced by the coefficients, the institutional distance is negatively and significantly related to the dominance of the firms, except for voice and accountability (VA) and the government effectiveness (GE). This suggests that, opposingly to our expectations, the more dominant the firm is in its sector and on its domestic market, the institutional distance between its home and the selected host county will be negative, i.e. it will invest in an institutionally less develop host country. In contrast, the control variables related to the firms' profitability, its leverage and being a global challenger are positive and significant in 3 and 4 out of 6 cases. This implies that the more profitable the firm is, the institutional distance between the home and the host country of the investment is positive, i.e. the investment takes place in an institutionally more developed country. Similarly, the more financial leverage ability the firm has and it is known for being a global challenger, the direction of the institutional distance between the home and the host country of the investment is positive. Finally, the negative and significant sign of the common language between the home and the host country suggests that the larger the institutional distance is, the more likely that the two countries do not have a common official language. However, as the institutional distance increases between the host and the home country of the investment, the more likely that they had colonial ties in the past, as it is suggested by the positive and significant outcome. It may happen in the case when an EMM invests in its former colonial country.

Third, Table 2.6 shows the outcomes of the six multiple regressions based on the third hypothesis that refers to the relationship of knowledge-based FSAs of the firm and the six dimensions of institutional distance.

Table 2. 6. Results of the multiple regression for H3

Institutional distance	PS	VA	GE	RQ	RL	CC
Log_Knowledge	-0.036**	0.006	-0.027**	-0.018	-0.034**	-0.053***
based FSA	(-2.10)	(0.24)	(-2.15)	(-1.18)	(-2.27)	(-3.45)
GDP/capita_host	0.000***	0.000	0.000***	0.000***	0.000***	0.000***
	(5.75)	(0.93)	(9.37)	(8.41)	(8.72)	(9.90)
Population_host	0.000***	0.000***	0.000	0.000***	0.000***	0.000***
	(-2.70)	(-5.38)	(-1.39)	(-3.85)	(-3.26)	(-3.20)
Technological	0.194***	0.580***	0.484***	0.384***	0.515***	0.467***
development_host	(3.32)	(7.39)	(11.80)	(7.86)	(10.72)	(9.33)
Trade openness_host	0.003***	0.001	0.003***	0.003***	0.002***	0.003***
	(5.07)	(0.89)	(6.48)	(5.80)	(4.33)	(5.14)
Log_Firm size	0.090***	0.013	0.043**	0.023	0.038*	0.069***
	(3.30)	(0.36)	(2.27)	(1.00)	(1.69)	(2.94)
Log_Profitability	0.108***	-0.075	0.032	0.023	0.003	0.063*
	(2.59)	(-1.35)	(1.10)	(0.66)	(0.10)	(1.77)
Leverage	0.063	0.023	0.054*	0.062*	0.062*	0.110***
	(1.61)	(0.44)	(1.96)	(1.90)	(1.93)	(3.30)
Global Challenger	0.112	0.503***	0.037	0.173*	0.261***	0.205**
	(1.01)	(3.35)	(0.48)	(1.85)	(2.84)	(2.15)
Geographic distance	0.000	0.000***	0.000*	0.000***	0.000***	0.000***
	(1.64)	(4.40)	(1.87)	(3.37)	(2.65)	(2.63)
Common border	-0.055	0.361**	-0.055	-0.030	-0.026	-0.054
	(-0.49)	(2.40)	(-0.71)	(-0.32)	(-0.28)	(-0.56)
Common language	-0.299***	-0.351***	-0.108	0.003	-0.121	-0.172**
	(-3.01)	(-2.64)	(-1.56)	(0.03)	(-1.49)	(-2.03)
Colonial ties	0.374**	0.010	0.252**	0.188	0.358***	0.463***
	(2.48)	(0.05)	(2.38)	(1.49)	(2.89)	(3.59)
_cons	-1.362***	-1.245***	-1.371***	-1.375***	-1.271***	-1.403***
	(-5.65)	(-3.84)	(-8.10)	(-6.81)	(-6.41)	(-6.79)
Observations	400	400	400	400	400	400
R-squared	0.5222	0.4257	0.7397	0.6790	0.7191	0.7266
Adj. R-squared	0.4929	0.3906	0.7238	0.6594	0.7019	0.7098

Presented are standardized coefficients with t-value in parenthesis. All model control for industry cluster (by a dummy based on Pavitt's categorization) and the year of the investment.

*** p<0.01, ** p<0.05, * p<0.1

The third hypothesis states that the EMMs with knowledge related FSAs will invest in institutionally more developed countries. This hypothesis is supported as the test led to negative and significant results in 4 out of 6 cases, with the exception of the voice and accountability (VA) and regulatory quality (RQ) aspects of institutional distance. The negative coefficients suggest that the relationship between the firms' knowledge-based FSAs and the institutional distance of the home and the host country of the investment is negative. This implies that the

direction of the investment is negative, i.e. the EMMs with higher level of knowledge-based FSAs will invest in institutionally less developed countries. Finally, as it regards the control variables, the firm's size, its leverage and its being a global challenger, have a positive and significant relationship with the institutional distance of the host and home country. This suggests that the larger is the firm, the more financial leverage it possesses and if it is a global challenger; the direction of the investment is positive and the more likely it is that it will invest in institutionally more developed countries. Similarly to the results of the previous hypothesis (H2), also in this case the common official language between the host and the home country is negative and significant in 3 out of 6 cases, while the variable representing the colonial ties is positive and significant in 4 out of 6 cases.

V. DISCUSSION AND CONCLUSION

Findings and theoretical contributions

The ideas discussed in the article aim to contribute to the ongoing debate on the applicability of the existing theories to the FDIs of the EMMs. We intend to advance the theory by confronting and testing the various theoretical approaches.

Building on the theory that states that the EMMs tend to invest into institutionally similar countries (Cuervo-Cazurra & Genc, 2008), we show that it holds only for certain types of institutional distance. By specifying the types of institutional distance based on the Worldwide Governance Indicators and establishing a measure for similarity, our results show that the EMMs invest in institutionally similar when it comes to the government effectiveness (GE), the rule of law (RL) and the control of corruption (CC). However, we also found that in terms of political stability (PS) and voice and accountability (VA), the EMMs tend to invest in institutionally dissimilar countries.

These findings are in line with several previous studies that analyzed the relationship between the location choice and the single aspects of the institutional distance. First, in terms of political stability, there is empirical evidence both for the preference for politically stable (Demirbag et al., 2010; Lv & Spigarelli, 2016; Dikova et al., 2019) and unstable (Deng & Yang, 2015; Witte, Burger, Ianchovichina & Pennings, 2017) host countries. Moreover, Buckley et al. (2007) find that political stability is not even significant in the location choice of the EMMs, while Tomelin, Amal, Hein & Carpes Dani (2018) argue that other host country factors, such as population or

GDP growth, are more important determinants of the location choice than the political riskiness of the host country. Our results show that EMMs invest into institutionally dissimilar countries in terms of political stability and absence of violence. Regarding the direction of these types of investment, we found that those EMMs that invest into institutionally dissimilar countries are choosing host countries with a higher level of political stability as a location for their greenfield investments, i.e. institutionally more developed countries. A possible explanation for this choice is that even if EMMs are used to manage and operate in institutionally unstable environments, where the regulations are not so effective or the corruption is present, but they are more deterred by the political instability of a country on which they cannot have any control. Moreover, regarding the voice and accountability (VA) that represents the freedom of citizens, previous studies claim that this aspect tends to be less relevant for the foreign investors when making their location choice (Duanmu, 2012; Cuervo-Cazurra & Genc, 2008). In this case, we found that similarly to the political stability, EMMs tend to invest in institutionally dissimilar but more developed countries.

Second, the regulatory quality of the host country is generally stated to be an important factor for the location choice of the firms, as it is associated with transparency and fair regulations. However, in the case of the EMMs which are more familiar with lower regulatory quality environments, the effect of regulatory quality is not so straightforward (Cui, Peng & Chan, 2016). It is confirmed also by our results, according to which the institutional distance in terms of regulatory quality is not significant in the location choice of the EMMs.

Third, from the point of view of government effectiveness (GE), rule of law (RL) and control of corruption (CC), our results confirm the theory according to which EMMs prefer to invest in institutionally similar countries. Government effectiveness is viewed as an essential prerequisite for the foreign investors; however, it is found to be a negative factor for the EMMs (Deng & Yang, 2015). Our results are in line with these findings, specifying that EMMs tend to select as a location the countries where the government effectiveness is similar to their home country.

Moreover, we also found that EMMs prefer to invest in host countries with a similar level of rule of law. Previous studies analyzing M&As have already confirmed that EMMs are more attracted to host countries with poor rule of law (De Beule & Duanmu, 2012; Lv & Spigarelli, 2016). Selecting a host country with similar institutional characteristics in terms of rule of law as a location by the EMMs can be motivated by the fact that in these host countries the EMMs

expect less competition and better chances to succeed than as if they would invest in an institutionally more developed country.

Finally, the institutional distance in terms of corruption has been widely investigated by previous studies (Lv & Spigarelli, 2016; Dikova et al., 2019). The previous empirical evidence showed that EMMs invest in countries with a deficient control of corruption (De Beule & Duanmu, 2012) and this is also in line with our findings that EMMs tend to invest in institutionally similar countries in terms of corruption.

Followingly, in the case of the second and the third hypothesis we are more focused on the direction of the FDIs by the EMMs. Based on Hennart's arguments (2009, 2018), we wanted to find out what is the relationship between the institutional distance and the home market dominance and knowledge-based FSAs of the EMMs respectively.

As it is suggested also by the results of the regressions, both EMMs that are dominant on their domestic market and EMMs that have knowledge-based FSA, make FDIs into institutionally less developed host countries. The relationship between the variable of institutional distance and dominance and knowledge-based FSAs is significant a negative in most of the aspects of institutional distance described by the WGIs. There are no previous studies that consider the domestic market dominance of the EMMs, so we can't confront our results with other findings. Regarding the direction of the investments, the negative outcome is reasonable and actually confirming Hennart's theoretical explanation, because EMMs can efficiently acquire knowledge on the developed markets through acquisitions, but they have to follow a greenfield FDI strategy on the other emerging and less developed markets. On the other hand, the investments that are motivated by the exploitation of the knowledge related FSAs of the EMMs are found to be directed towards institutionally less developed countries as it has been suggested by the literature (Demirbag et al., 2010).

Finally, we contribute to the location choice literature of the EMMs that is still to be explored. We connect it to the institutional theory to figure out the role of the institutional distance in the location choice of the EMMs. Moreover, we take an asymmetric approach to the institutional distance, accounting for its direction. In addition, we add further insights to the location choice of the EMMs regarding the FDI investments in institutionally similar countries.

Methodology contribution

In our analysis, we relied on a unique dataset that has been developed by the merge of manually collected data about numerous foreign direct investments and firm-level information, completed by county-level data. As a result, we had a rich dataset with firms and investments from multiple home and host countries, both from developed and emerging ones.

In addition, so far the studies have implemented a symmetric view of institutional distance (Konara & Shirodkar, 2018), i.e. they focused on the magnitude of the institutional distance between the home and the host country, while its direction (positive or negative) has been only recently gaining research interest (Trapczynski & Banalieva, 2016). There are several studies that investigate the relationship of the institutional distance and subsidiary performance (Gaur et al., 2007), or ownership strategy (Brouthers, 2002) or even the survival of the foreign subsidiaries (Gaur & Lu, 2007). However, this study is the first which aims at incorporating the direction of the investment in terms of institutional distance into the location choice research.

Limitations and Future Research

Future research can draw upon the ideas described in this paper while addressing some of its limitations. First, by considering other types of firm-specific advantages such as marketing capabilities or technological superiority, a further test of the proposed theories could be done. Second, our research strictly focused on the greenfield FDIs of the firms and delivered particular insights to these types of investments. However, it could be interesting to confront our results with brownfield investments (M&As) and to see whether the type of investments would influence the direction of the institutional distance between the home and the host country. Moreover, one of the limitations of this study is that it is difficult to capture the full complexity of the institutional context. For this reason, we decided to keep and empirically test the six WGI dimensions separately rather than incorporating them into a single indicator. Finally, knowing the motivations of these investments would permit to further understand the interdependencies between the institutional distance, the firm and its location choice.

Conclusion

The study aimed at advancing the theory on the EMMs by comparing and testing the various theoretical approaches, combining the theory of FSAs with the location choice literature. We focused on the location choice of the EMMs by analyzing the institutional similarity and the institutional distance between the home and the host countries of the FDIs. Thanks to our

analysis, we found that the EMMs in most of cases invest in countries with similar institutional environments. However, they also tend to invest in institutionally less developed countries both when they rely on their dominance on their domestic market and when they exploit their FSAs in other developing countries.

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CHAPTER 3

The role of the motivation and the established business activities in the location choice of the MNEs: where do EMMs invest?

Abstract

Location choice is a key strategic element of the internationalization process of the firms and it is influenced may numerous economic, political and institutional factors. In addition, the international strategy of the investing firm also plays an important role in the decision process. In our paper, we aim to investigate the role of the motivation and the established business activity in selecting the host country of the foreign direct investments (FDIs). We conduct our empirical analysis based on a sample of 2,872 greenfield FDIs both by developed and emerging market multinational by applying a multinomial logistic approach. Our findings reveal that the majority of the investments by EMMs are directed towards other emerging markets, especially when it comes to production activities. Moreover, in the case of the activities related to corporate services and R&D, the EMMs rather select developed markets as their destination. However, the emerging and developing European region is also often targeted by the EMMs.

Keywords: motivation, location choice, foreign direct investments, emerging market multinationals, corporate activities

I. INTRODUCTION

Location choice is one of the most crucial decisions in the internationalization process of the MNEs. A location, if properly chosen, may have a deep impact on the efficiency of the firms' overseas investments (Bartik, 1985; Li & Park, 2006; Wei & Liu, 2001). Moreover, it may provide the firms with significant advantages that can lead to enhanced firm performance (Nachum, 2004; Vermeulen & Barkema, 2002). Therefore, location choice is a key decision of the international activities and it has also been at the core of international business research (Buckley et al., 2007). Currently, the location choice of the firms is gaining renewed interest since the increased FDI activity of the firms in the last decade.

The location choice of the MNEs has been addressed by several scholars from various disciplines. One part of these studies is focusing on the economic factors of the host countries that influence the choice of the firms (Agarwal & Ramaswami, 1992; Brouthers & Brouthers, 2000; Flores & Aguilera, 2007; Rasciute, Pentecost & Ferrett, 2014), while others are highlighting the effect of the institutional environment and distance between the home and the host countries (Delios & Beamish, 1999; Gomes-Casseres, 1989; Yuan & Pangarkar, 2010) on the location choice.

The majority of these empirical studies are focusing on the location choice of the individual corporate activities, such as the location of manufacturing (Woodward & Rolfe, 1993), of R&D (Brockhoff & Schmaul, 1996; Kuemmerle, 1999) or marketing (Carpano & Crisman, 1995; Hewett, Roth & Roth, 2003). However, there are relatively few studies carrying out a cross-activity comparison (Alcacer, 2006; Defever, 2006; Enright, 2005), but also these are focused or on a single industry or on a single home country/geographic region. Moreover, the literature suggests that the motivations for internationalization are crucial for the strategic decisions of the firm, including its location choice (Dunning, 1988). For example, motivation like market- or asset-seeking can determine what type of a destination country would a firm choose (Demirbag & Glaister, 2010; Ellis, 2008): a country with a large market-size or a country with advanced technology?

Responding to the research gap, we will analyze the location choice of MNEs with a special attention to the motivation of the foreign direct investments and the activities established abroad. In our paper, we aim to build on the theoretical frameworks explaining the motivation of internationalization and their role in the location choice of the MNEs. Moreover, using a large dataset from fDi Markets, complemented with manually collected data about the

investments and further institutional data about the destination countries, we emphasize the location choice of both of the developed (DMNEs) and emerging market multinationals (EMMs). Finally, we will compare their location choice taking into account the various corporate activities established abroad by the investment.

The paper is structured as follows: First, we discuss the importance of location choice as a strategic decision of the firm and its determinants. Next, we present the evolution of the theoretical framework, namely the OLI theory, highlighting the importance of the motivation for internationalization. In addition, we will explore the springboard perspective that is aimed to explain the FDIs by the EMMs. Then, we describe our data and present the results of the analysis. Finally, we discuss our findings and as a conclusion we highlight our contributions, point out our limitations and suggest possible future research developments.

II. THEORETICAL BACKGROUND

Location and the choice of location is a key consideration for the foreign direct investment activities of the firms (Buckley & Casson, 1976; Dunning, 1998; Nachum, 2000; Porter, 1998; Root 1994). This choice is a common, yet at the same time complex, strategic decision for the firms (Galan, Gonzales-Benito & Zuniga-Vincente, 2007) in the current dynamic and competitive international business environment, where both developed and emerging market MNEs are present.

The location choice of the MNEs, i.e. where and why firms place specific activities (Goerzen, Asmussen & Nielsen, 2013), has been studied in the literature through a multidisciplinary approach such as strategic management (Hennart & Park, 1994; Belderbos & Sleuwaegen, 2005), economic geography (Krugman, 1991; Lorenzen & Mudambi, 2013; Markusen, 1996) or international business (Alcácer & Chung, 2007; Nachum & Wymbs, 2005; Porter, 2001). The particularity of the IB approach is that besides the determinants of the location choice, scholars focus also on subtle managerial issues. Some studies alongside the primary aim of explaining why firms invest abroad, often discuss also where the investment should take place. According to Nielsen, Asmussen & Weatherall (2017), who provide a systematic overview of the location choice of FDIs, the likelihood of a company conducting FDI in a given foreign location depends on (the interaction of) multi-level characteristics. First, the characteristics of the destination location, including both the pure economic factors (such as market size, tax rate, wages, infrastructure and human capital) and the institutional environment (its nature and

quality). Second, the characteristics of the firm making the investment may also influence the FDI decision (ownership advantages, international experience). Finally, the location choice depends also on the characteristics of the relationship between the firm and the destination location of the FDI, implying the location-specific experience of the investing firm and the home-host country distance.

However, even if the determinants of the location choice and their interactions have been studied by numerous scholars, the motivation of the investment has been widely neglected or discussed only post-analysis. One of the few studies is the research framework developed by Jain, Kundu & Newburry (2015), who combine firm-specific resources and motivations in order to explain the location choice of the firms. In addition, Amal, Awuah, Raboch & Andersson (2013) propose a direct comparison through case studies in order to address the differences of the internationalization processes of the MNEs both from developed and emerging countries, considering also their motivations.

Hereby we argue that the motivations of internationalization affect the foreign expansion paths and the location choice of MNEs (Makino, Lau & Yeh, 2002). The motivation of the investment should be considered as an equally important factor in the decision-making process of the location choice as they are highly interdependent.

Dunning's (1993) classification constitutes a starting point in the IB research that aims to explain the motivation of the FDIs. He sets up a framework of four categories for the motivations according to which the locational needs of the firms vary.

1. Resource-seeking investments: the aim is to acquire particular types of resources that are not available at home (natural resources and raw materials) or that are available at a lower cost in a foreign location (e.g. metals and minerals, oil deposits)
2. Market-seeking investments: to exploit the possibilities of the markets with larger dimensions and following suppliers and customers (e.g. searching for new markets, targeted customers),
3. Efficiency-seeking investments: taking advantage of the differences in the availability and costs of traditional factor endowments (e.g. low cost of labor, infrastructure, economies of scale)
4. Strategic asset-seeking investments: acquiring and complement a new technological base (e.g. distribution channels, advanced technology and knowledge)

The first three categories have the primary objective of generating profits by the exploitation of some firm-specific advantages (asset exploiting investments), while in the fourth case, the strategic asset-seeking investments are motivated by the access to knowledge and competences that will be gained abroad it by the investing firm (Elia & Santangelo, 2017). These types of investments are often referred to as asset augmenting or exploring investments (Franco, Rentocchini & Marzetti, 2008).

Furthermore, with the revival of the EMMs, the OLI theory of Dunning had to be revisited. Several scholars (Hennart, 2018; Cuervo-Cazurra, 2012; Narula, 2012) argued that and the OLI cannot explain the asset-exploring investments, only the asset-exploiting ones. The reason is that the EMMs do not follow the traditional trajectories of internationalization dictated by the classical theories.

To resolve the discontinuity between the theory and practice, there is a new theoretical concept, called the springboard perspective, that aims at explaining the FDI motivations of the EMMs. The central argument of the springboard perspective, developed by Luo & Tung (2007, 2017), is that EMMs use their FDI as a "springboard to acquire strategic assets needed to compete more effectively against global rivals and to avoid the institutional and market constraints they face at home" (Luo & Tung, 2007, p. 482). This behavior is characterized by proactively acquiring or buying critical assets from DMNEs in order to compensate for their competitive weaknesses. According to Luo & Tung (2007), the FDIs by the EMMs are often neither path-dependent nor evolutionary but simply directed by the pressure deriving from their latecomer status. Moreover, it is also reflected in their way of selecting entry modes and investment locations. In addition, their "springboard" approach is also encouraged by the home country governments of the EMMs, by the willingness of the DMNEs to sell and share their strategic resources and also by the increasing integration of the world economy. Finally, even if the EMMs may benefit from the opportunities abroad, these investments inherently result in riskier activities and challenges the management of the firm. These types of investments in the current literature are also called opportunity-seeking investments and represent an additional category to Dunning's framework. However, the opportunity-seeking approach is mainly focused on the M&As by the EMMs, while the greenfield investments are also significant.

Approaching the FDI activity of the firms from a different point of view, there is a parallel literature (Porter, 1986; Yip, 1995, 1998) that considers the firms as a bundle of activities. Accordingly, these activities should be located based on both the firms' overall strategy and the

characteristics of the destination country. For example, Enright (2009) investigates how the different activities influence the importance of the various location factors when making a foreign direct investment? He promotes the idea of focusing on the individual corporate activities when analyzing the location choice of the firms since the activities are different in the underlying motives for FDIs. Furthermore, Enright (2009) shows that "different locational features have different associations with different activities" (Enright, 2009, p. 831), meaning that the different activities of the firm (e.g. sales, service, production or support) are associated with different needs based on what their position in the value chain, on their scale sensitivity or knowledge intensity. Given the differentiated needs of the individual activities, they are attracted by the various locational features. Finally, Enright (2009) proposes a more complex investigation of the FDI and the location choice, since the firms are not investing in just a single activity in an aggregated way.

To sum up, Dunning (1988) was the first to propose specific typologies for the international motivations of the MNEs, namely the market-seeking, the (natural) resource-seeking, the efficiency-seeking, and the strategic asset-seeking investments. Even though the EMMs have been internationalizing using these four motivations (Deng, 2003); asset-seeking and market-seeking motivations have been more widely accepted for the EMMs (Mathews, 2006; Luo and Tung, 2007). However, the scholars also observed the opportunity-seeking behavior of these firms and developed new theories to explain them. Finally, the activity-based view of the firm is permitting the researchers to approach the topic of location choice from a different point of view and to analyze it in a more complex way.

As a contribution to the location choice literature, our purpose in this paper is to explain the location choice of the MNEs both from the developed and emerging markets through their motivations for internationalization and their activities established abroad.

III. HYPOTHESIS DEVELOPMENT

In the previous section we have discussed the major motives according to which the MNEs select the host country for their FDI. Moreover, it is also assumed that depending on their motivation and on the different location factors available in the potential host countries, they will opt for their destination. In this respect, the MNEs have two main groups of host countries to consider: the developed countries and the emerging countries. These two country groups vary in several aspects: first, the developed markets are characterized by slower market growth and smaller growth compared to the emerging markets. However, the income level is higher in the developed markets. Second, the level of highly educated workforce is larger in the developed markets and, at the same time, their cost is also relatively higher; while in the emerging markets the cost of labor is relatively low and the workforce is un- or semi-skilled. Finally, there are well-functioning institutions, infrastructures and political stability in the developed markets while the emerging markets are characterized by uncertainty and unstable institutional environments.

Moreover, the "location of what", i.e. the established activity abroad, is also often used as a proxy for the motivation of the FDI. However, when analyzing the location choice of the MNEs, the majority of the empirical works focus on the individual corporate activities of the firms rather than distinguishing for the single type of corporate activities established abroad. An exception is Alcacer (2006), who examined the relationship of agglomerations and location choice throughout R&D, production and sales activities. In addition, investigating FDIs in aggregate or in a single activity is providing an incomplete picture of the firms' investment decisions (Enright, 2009).

Our aim in this paper is to find out based on the motivations combined with the established activities abroad (production, corporate services, R&D), which firms will select the developed or emerging markets as their location?

Firms with a market-seeking internationalization motivation may be attracted by several characteristics of the host market. For example, market size may be an important factor attracting foreign investment (e.g. Head, Ries & Swanson, 1995; Wheeler & Mody, 1992;

Mayer & Mucchielli, 2002). Not only the income level of the consumers is relevant from this point of view, but also the size of the consumer base that the firms can gain access to.

On one hand, the DMNEs tend to exploit their firm-specific capabilities (e.g. brands) when investing abroad and they also tend not to adapt their products as much to the local consumer preferences on the developing markets. In addition, the DMNEs often pursue customer bases with higher purchasing power in other developed markets (Kedia, Gaffney & Clampit, 2012).

On the other hand, the EMMs are more likely to seek markets and consumers in other emerging markets for three main reasons: first, the EMMs are familiar with the operational environment in the other emerging markets and their existing and new products are appropriate for those markets (Ramamurti, 2012). Second, the EMMs are attracted to invest in other emerging markets because of the large potential marketplace that these countries are offering and where the EMMs have the possibility to become a first-mover on the market. Third, the EMMs may take advantage of their consumer knowledge in emerging markets by meeting specific consumer and market expectations with their products, which usually do not require advanced technology or product development. For example, Tata Motors was one of the first companies that introduced a new small, economical car, called the Nano, specifically targeted and designed to the needs of emerging market consumers. Conversely, the EMMs are not encouraged to enter developed markets with market-seeking motivations, since their brands are often unfamiliar to those consumers and they are used to sophisticated products.

Taking into consideration the market-seeking motivation of internationalization, we draw up the following hypothesis:

> *H1: The sales and customer support activities motivated by market-seeking motives will be located in other emerging markets by the EMMs*

Resource-seeking FDI has been a common motivation for the DMNEs (Kang, 2018), and more recently, many Chinese and Indian EMMs are also seen to invest abroad with resource-seeking motivation (Fortanier & Tulder, 2009). MNEs with resource-seeking motivations internationalize for two main reasons: to gain access to relatively cheaper physical natural resources and raw materials such as minerals, or to cheaper unskilled or semi-skilled labor (Jain, Lahiri & Hausknecht,2013).

The natural resource endowment has been identified by previous studies as a major type of locational advantage in a host country and as a major determinant of location choice (Buckley,

Munjal, Enderwick & Forsans,2016; 2008; Jain et al., 2015; Mina, 2007; Ramasamy, Yeung & Laforet, 2012). It is common among the DMNEs that their investments in emerging markets are driven by the natural resources available there (e.g. in Brazil or in the Sub-Saharan African region). Moreover, Chinese MNEs typically invest into highly risky locations (Syria, Iraq or Sudan) in order to get access to their hydrocarbon-based natural resources.

Furthermore, the labor cost was found to significantly influence the location choice of the firms (Belderbos & Carree, 2002; Mayer & Mucchielli, 2002; Wheeler & Mody, 1992) as cost reduction is one of the main objectives of the investing firms (Belderbos & Sleuwagen, 2005). Similarly, for the production activities, the transportation infrastructure, i.e. the presence of roads, airport and railways, as well as the proximity to major markets is also important (Bunyaratavej, Hahn & Doh, 2008). For example, Arcelik, a Turkish white-good producer which sells goods both in advanced and emerging markets, conducted its manufacturing activities in its home county. Later, as its business was expanding, it decided to acquire a plant in Romania and transformed it into its largest production site. A few years later, it opened a new plant also in Russia (Bonaglia, Goldstein & Mathews, 2007).

> *H2: The production activities motivated by resource-seeking are more likely to be located in the emerging markets both by developed MNEs and EMMs*

The developed countries are munificent environments with relatively highly skilled workforce, stable institutional environment and more advanced technology. Consequently, the DMNEs that often already have access to these advantages, are less likely to seek them abroad or in emerging markets, which are generally considered as laggards in technology (Luo & Tung, 2007; Makino et al., 2002).

On the other hand, given their home country background, the EMMs are likely to search access to technology, R&D and management expertise in more developed countries (Mathews, 2002, 2006; Kedia et al., 2012), even if it results for them in difficult and risky FDIs (Luo & Tung, 2007). Moreover, while an EMM may have a labor cost advantage at home, it might find it necessary to gain access to more advanced operational processes and management expertise in order to become globally competitive and to successfully manage a rapidly growing firm (Kedia et al., 2012). For example, an Indian industrial commodities company (Hidalco) acquired in 2007 a Canadian multinational manufacturer in order to gain access to its operational expertise in supplying top-level customers and to its managerial expertise of operating internationally in several developed markets.

Therefore, we argue that both DMNEs and EMMs are more likely to invest in developed countries when they are motivated by a strategic asset-seeking investment such as operational and management expertise.

> *H3: The activities related to corporate services and motivated by strategic asset-seeking are more likely to be located in the developed markets both by developed MNEs and EMMs*

Furthermore, regarding knowledge- and technology-related strategic asset-seeking investments, the developed countries might be a relatively more attractive location as R&D knowledge is more frequent there. Moreover, these countries have more highly educated workers and more efficient intellectual property rights protection institutions (Chung & Yeaple, 2008). Moreover, the product development also requires an intensive investment in the infrastructure, which may not be present in the emerging countries (Luo & Tung, 2007). In addition, the sticky nature of the knowledge makes it difficult to access it remotely (Cantwell, 2009) Consequently, firms set up R&D laboratories in the centers of innovation of the host country where they want to gain access to the local technological knowledge (Kuemmerle, 1999). For example, Haier, the Chinese home appliance manufacturer engaged in strategic asset-seeking FDI by establishing its R&D center in Los Angeles in order to gain access to specific knowledge on product development (Luo & Lemanski, 2016).

> *H4: The activities related to corporate services and motivated by strategic asset-seeking are more likely to be located in the developed markets both by developed MNEs and EMMs*

IV. METHODOLOGY

4.1. Data and Sample

Our sample for the empirical analysis consists of 2,872 greenfield foreign direct investments carried out in the period between 2009 and 2015. The data was collected from the fDi Markets database produced by fDi Intelligence, a division of the Financial Times Ltd. The fDi Markets dataset has been frequently used also by other studies to analyze the location choice of the MNEs (e.g. Duanmu, 2014; Anderson & Sutherland, 2015; Castellani & Lavoratori, 2019) as it contains announcements of international investments projects by firms from all over the world. As a step further, the positive outcome of these investments was verified by manual searches online. This manual check was motivated by the fact that even though the fDi Markets dataset contains announcements of investments (which are more reliable than the rumors available in other datasets such as Zephyr), taking them for granted might have resulted in an overestimation of the actually finalized investments. The investments included in the sample origin both from developed (87.67%) and emerging markets (12.33%) and are directed both towards developed (47.81%) and emerging markets (52.19%). Moreover, we complemented our dataset with firm-level financial information from the Orbis dataset, while we used other institutional sources to retrieve additional information about the home and the host countries (e.g. World Development Indicators of the World Bank, International Monetary Fund and the Centre d'études prospectives et d'informations internationals - CEPII).

Dependent variable

In order to analyze the location choice of the MNEs, we set up a multinomial logistic model. This approach is commonly used in the international business literature to analyze the location choice (Strange, Filatochev, Lien & Piesse, 2009; Rodgers, Khan, Tarba, Nurgabdeshov & Ahammad, 2019), the entry mode (Kogut & Singh, 1988; Anand & Delios, 1997; Chen & Hu, 2002; Wei, Liu & Liu, 2005) and the international strategy (Hollenstein, 2005) of the firms.
The aim of the model is to compare the probability of choosing a baseline outcome to its alternatives without any specific order. In our model, the dependent variable will be defined by the destination region of the FDI. The destination countries of the investments were categorized

into destination region groups based on the classification of the International Monetary Fund (IMF) in the World Economic Outlook report. The following table (Table 3.1) is representing the 9 destination regions and their frequencies in the sample.

Table 3. 1 Summary of destination regions

Destination region	Freq.	Percent	Cum.
Latin America & Caribbean	327	11.39	11.39
Middle East & North Africa	134	4.67	16.05
Emerging Asia	642	22.35	38.41
Advanced Asia	213	7.42	45.82
European Union & European Economic Area (EEA)	797	27.75	73.57
Emerging & Developing Europe	196	6.82	80.40
North America	373	12.99	93.38
Sub-Saharan Africa	95	3.31	96.69
Commonwealth of Independent States (CIS)	95	3.31	100.00
Total	2,872	100.00	

Source: individual elaboration

Independent variables

Our main independent variable is the established activity abroad by the FDI. The "location of what", i.e. the established activity abroad, has been often used to approximate for the type of the foreign direct investments (Li, Quan, Stoian & Azar,2018). Moreover, different activities may have different locational needs and result in different location choices. As it has been argued by previous studies (Enright, 2009), investigating FDIs in aggregate or in a single activity is providing an incomplete picture of the firms' investment decision. Based on the established activity abroad, self-declared by the individual firms in the fDi Markets dataset, we defined four types of foreign direct investments (Table 3.2): (1) sales and support activities, (2) corporate services, (3) production and finally (4) research and development.

Table 3. 2 Summary of the established activities abroad

Sales & Customer Support	**Corporate Support**	**Production**	**Research & Development**
Customer Support Center	Business Services	Construction	Design, Development & Testing
Maintenance	Headquarter	Manufacturing	Education & Training
Retail	Internet or ICT Infrastructure	Electricity	Research & Development
After Sales Services	Shared Services	Extraction	
		Logistics & Distribution	
		Recycling	

Source: individual elaboration

Furthermore, previous empirical works (e.g. Jain et al., 2015; Alcacer, 2006; Alcacer & Chung, 2017) used the established activity as an approximation for the motivation of the investment. For example, sales and customer service activities are typically market-seeking and non-scale sensitive investments. On the other hand, production type of activities are cost-sensitive, resource and efficiency-seeking investment, with moderate knowledge intensity and scale sensitivity. Moreover, corporate services activities such as headquarters or business services are scale sensitive and related to strategic asset-seeking investments with high knowledge intensity. Similarly, research & development are also high knowledge intensity activities with a strategic asset-seeking motive for FDI.

In addition, we distinguished for the EMMs that constitute the 12.33% of our sample. To do so, we used the classification of IMF published in the World Economic Outlook on a yearly basis, taking into consideration the eventual changes in the status of the countries (i.e. the Baltic countries were considered emerging markets before the introduction of the euro as their official currency). We relied on the classification of the IMF, as it is frequently used also by other studies (Yang, Yang & Doyle, 2013; Banalieva, Cuervo-Cazurra & Sarathy, 2018; Quer, Claver & Rienda, 2018) and it is considered to be the most updated and exclusive classification with respect to the one's of UNCTAD (United Nations Conference on Trade and Development), FTSE or MSCI (both stock exchange indices).

As a following step, we introduced the interaction term of motivation and the origin of the MNE (DMNE vs. EMM). The reason for this is that we wanted to separate for the EMMs and see whether the same motivations are having the same effect on their location choice.

Control variables

As control variables, we included some classical location choice determinants that are found to be important in the case of FDIs. First, the infrastructure is an important determinant for the attractiveness of the countries as destinations (Graf & Mudambi, 2005) and it is proved to have a positive effect on the FDI both in developed and emerging markets (Li & Park, 2006; Bailey & Li, 2015). In our model, we measure the development of the communication infrastructure in the host country by the mobile cellular subscriptions. Second, another determinant that is often considered in the case of location choice is the natural resource endowment of the host country (Buckley, Clegg, Cross, Liu, Voss & Zheng,2007; De Beule & Duanmu, 2012; De Beule & Van Den Bulcke, 2012). Similarly to these studies, we measure the natural resource endowment by the percentage of ores and metals of the total exports in the host country. Third,

in order to capture the effect of the host market growth and potential, we included the annual GDP growth (Duanmu & Guney, 2009; Kang & Jiang, 2012; Nunnenkamp, Sosa, Vadlamannati & Waldkirch, 2012; Ramasamy et al., 2012) of the host country as large and quickly growing markets are attractive to FDIs. In addition, the population of the host country (Yoo & Reimann, 2017; Lu, Liu, Wright & Filatochev,2014) is also included in our analysis. Fourth, the human capital of a country is a possible measure of the know-how endowment in the host country (Lv & Spigarelli, 2016). For this reason, we included the secondary school enrolment as a proxy for the level of human capital in the host country. Finally, the trade openness of a country represents its general openness towards international business. Consequently, it was also found as an important determinant for the location choice (De Beule & Duanmu, 2012) that we measured as the share of trade by the GDP of the host country.

Moreover, regarding the distance between the home and the host countries, we accounted for three types of distances: (1) geographic distance, that is found to exert a significant influence on the FDI location choices (Kalotay & Sulstarova, 2010), was measured by calculating the distance between the most important cities/agglomerations of the home and the host country based on the CEPII dataset (Hernandez & Nieto, 2015); (2) institutional distance, in which case shorter distance/similarity may drive FDI, was calculated based on the World Governance Indicator by the World Bank called Political Stability and Absence of Violence, where we took the difference of the home and host country's score based on the practice of previous studies (Lv & Spigarelli, 2016); (3) cultural distance, that is a further determinant of the location choice, we used a dummy variable equal 1 if there are colonial ties between the host and the home country and 0 otherwise (Cuervo-Cazurra & Genc, 2008; Paniagua & Sapena, 2014). The colonial ties represent a common history, and sometimes also common cultural ties between the home and the host country. Similarly, we inserted another dummy variable that signals if the home and the host country share a common official language that is found to increase the probability of an FDI (Contractor, Yang & Gaur, 2016).

Finally, guided by previous studies, we control for several firm-level variables. First, we accounted for firm size in our estimations because it might influence other variables, such as the financial resources available, that has the potential to increase the firm's propensity to internationalize (Delacroix & Swaminathan, 1991). We approximate the firm's size by the natural logarithm of the number of employees of the firm (Chao & Kumar, 2010). Additionally, we include five different industrial sectors using Pavitt's (1984) well-known taxonomy and adding a fifth category for the services sector. The distribution of the firms within the sectors

is relatively balanced as 23.01% of the firms in our sample belong to the ‘‘Traditional’’ sector, 16% to the ‘‘Scale-intensive’’ industries, 10.83% to the ‘‘Specialized-suppliers’’, 21.25% to the ‘‘Science-based’’ industries and finally 28.91% to the "Services". Lastly, it is important to note that our sample does not represent a panel as the same firms are not present throughout the whole period that is examined. For this reason, we control also for the year of the investments.

The following table (Table 3.3) is summarizing the control variables, their measurement and the source of the data.

Table 3. 3 Variables and Operationalization

Variable	Operationalization	Source
Destination region	Dummy variable based on the firm's geographic region	IMF
Established activity abroad	Dummy for the established activity by the investment (sales=1, corporate support=2, production=3, R&D=4)	fDi Markets
EMM	Dummy variable 1 if the firm is an emerging market multinational, 0 otherwise	IMF
Infrastructure	Mobile cellular subscriptions (per 100 people) in the host country	World Bank
Human capital	School enrolment, secondary (% gross) in the host country	World Bank
Natural resources	Ores and metals exports (% of merchandise exports) of the host country	World Bank
GDP growth_host	GDP growth (annual %) of the host country	World Bank
Institutional distance	Perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent terrorism. Scoring from −2.5 (weak) to 2.5 (strong)	World Bank
Population_host	Population of the country expressed in million persons	World Bank
Trade openness_host	Trade as a share of GDP of the host country	World Bank
Geographic distance	Distance measured between the most important cities/agglomerations of the home and the host country expressed in kilometers	CEPII
Common language	Dummy variable 1 if the home and the host country share a common official language, 0 otherwise	CEPII
Colony	Dummy variable 1 if the home and the host country have colonial ties, 0 otherwise	CEPII
Firm size	Natural logarithm of the number of employees of the firm	Orbis
Industry	Self-declaration by the firms	fDi Markets
Year	The year of the investment	fDi Markets

Source: individual elaboration

4.2. Model estimation

Table (3.4) summarizes the descriptive statistics and the correlation matrix of the variables in our model. The first line of the table contains the mean values of the variables, while the second one is filled with their standard deviations. Followingly, there is the correlation matrix, where the coefficients with a value higher of 5% are signaled in bold. As it can be noticed, there are only three relations (population host with infrastructure, population host with GDP growth, trade openness with infrastructure) where the correlation is slightly larger than 0.5, so we can exclude any kind of multicollinearity in our sample.

Table 3. 4 Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Mean	4.443	2.139	.123	104.767	97.171	6.287	3.246	-.49
STD	2.07	1.057	.329	33.499	21.697	9.681	3.765	.958
(1) Destination region	1.000							
(2) Motivation	-0.077	1.000						
(3) EMM	-0.000	-0.030	1.000					
(4) Infrastructure	0.139	-0.120	0.038	1.000				
(5) Human capital	0.114	-0.104	-0.084	0.377	1.000			
(6) Natural resources	-0.083	-0.076	0.090	0.040	0.180	1.000		
(7) GDP growth_host	-0.316	0.081	0.034	-0.380	-0.380	-0.008	1.000	
(8) Institutional distance	0.287	-0.141	0.337	0.380	0.443	0.123	-0.354	1.000
(9) Population_host	-0.261	0.164	-0.089	**-0.540**	-0.341	-0.201	**0.574**	-0.432
(10) Trade openness_host	0.003	-0.077	0.032	**0.515**	0.083	-0.020	-0.081	0.260
(11) Geographic distance	-0.293	0.054	-0.048	-0.137	-0.013	0.347	0.252	-0.086
(12) Common language	0.070	0.009	0.044	-0.084	0.052	0.113	-0.043	0.120
(13) Colony	0.175	-0.070	-0.070	-0.010	0.033	0.041	-0.127	0.174
(14) Firm size	-0.122	0.268	0.076	-0.113	-0.081	0.028	0.110	-0.129
(15) Industry	-0.002	0.096	-0.034	-0.010	0.014	-0.007	-0.002	0.035
(16) Year	0.098	-0.037	-0.008	0.302	0.211	-0.008	0.020	0.059
Variables	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Mean	293.406	74.032	5751.78	.198	.141	8.172	3.187	2012.233
std	465.119	59.131	4262.135	.399	.348	2.709	1.552	2.085
(9) Population_host	1.000							
(10) Trade openness_host	-0.272	1.000						
(11) Geographic distance	0.204	-0.133	1.000					
(12) Common language	-0.047	0.075	0.063	1.000				
(13) Colony	-0.111	-0.038	0.048	0.427	1.000			
(14) Firm size	0.099	-0.068	0.123	0.019	-0.096	1.000		
(15) Industry	0.012	0.000	0.042	0.089	0.077	-0.093	1.000	
(16) Year	-0.074	0.047	-0.022	-0.064	-0.022	-0.093	-0.005	1.000

Note: Bold correlations indicate correlation higher than 0.5

V. RESULTS

In order to test our hypothesis regarding the location choice and the motivation of the FDIs, we employed a multinomial logistic regression model (Strange et al., 2009; Rodgers et al., 2019), where the dependent variable is the destination region in which the firms invest. We categorized the destination countries in 9 geographic groups and the group of South American destination will be our baseline category.

$$Destination\ region = \beta_0 + \beta_1\ (Motivation) + \beta_2\ (EMM\ 1/0) + \beta_3\ (Motivation\ x\ EMM) + \beta_4\ (Host\ Country) + \beta_5\ (Firm) + \varepsilon$$

The results of the multinomial logistic regression are summarized in the following table (Table 3.5).

Table 3. 5 Multinomial regression results

Destination region	Middle East & North Africa	Emerging Asia	Advanced Asia	European Union & EEA
EMM	-0.779	1.651**	-4.965***	-3.560***
	(0.611)	(0.735)	(0.870)	(0.598)
Production	-0.392	0.470	-1.715***	-0.459
	(0.412)	(0.429)	(0.498)	(0.370)
Corporate Services	1.681***	0.0335	-1.067*	0.328
	(0.561)	(0.618)	(0.613)	(0.532)
R&D	1.082*	0.430	-0.150	-0.118
	(0.559)	(0.678)	(0.603)	(0.520)
Production x EMM	2.260***	0.440	2.247**	2.026**
	(0.769)	(0.885)	(1.095)	(0.840)
Corp. Services x EMM	1.175	1.120	-10.34	3.770**
	(1.234)	(1.436)	(968.3)	(1.508)
R&D x EMM	4.589**	-6.280	1.499	3.706*
	(2.165)	(11.41)	(2.377)	(2.095)
Infrastructure	0.0343***	-0.00664	0.00243	0.00636
	(0.00643)	(0.00756)	(0.00784)	(0.00636)
Human capital	-0.0557***	-0.0889***	0.169***	0.241***
	(0.0145)	(0.0158)	(0.0201)	(0.0190)
Natural resources	-0.0911***	-0.0702***	-0.0492**	-0.321***
	(0.0248)	(0.0224)	(0.0221)	(0.0444)
GDP growth_host	0.118**	0.269***	-0.342***	-0.555***
	(0.0508)	(0.0659)	(0.0907)	(0.0671)
Institutional distance	-0.639***	-0.802***	2.233***	1.519***
	(0.196)	(0.226)	(0.319)	(0.216)
Population_host	-0.0317***	0.0288***	0.0191***	0.0128***

	(0.00530)	(0.00280)	(0.00314)	(0.00311)
Trade openness_host	0.0187***	0.0813***	0.0743***	0.0552***
	(0.00674)	(0.00730)	(0.00673)	(0.00659)
Geographic distance	-0.000303***	-4.74e-05	0.000216***	-0.000491***
	(4.57e-05)	(4.53e-05)	(6.18e-05)	(4.62e-05)
Common language	-0.554	-2.332***	-1.738**	-0.0466
	(0.472)	(0.617)	(0.809)	(0.544)
Colonial ties	0.662	2.158***	0.0456	0.555
	(0.593)	(0.666)	(0.860)	(0.563)
Firm size	0.0118	0.102	-0.168**	-0.109**
	(0.0590)	(0.0656)	(0.0679)	(0.0555)
Constant	1.968	-5.746***	-22.71***	-20.95***
	(1.711)	(1.753)	(2.494)	(2.150)

*** p<0.01, ** p<0.05, * p<0.1

Tab – cont.

Destination region	Emerging & Developing EU	North America	Sub-Saharan Africa	CIS
EMM	-2.210***	-4.525***	-0.618	0.432
	(0.596)	(1.148)	(0.919)	(0.617)
Production	0.389	0.0774	0.626	-0.173
	(0.372)	(0.571)	(0.484)	(0.465)
Corporate Services	0.637	0.143	-0.0962	-1.335
	(0.562)	(0.702)	(0.869)	(1.014)
R&D	-0.379	-1.191	0.383	0.0540
	(0.635)	(0.817)	(0.758)	(0.620)
Production x EMM	2.928***	1.106	-0.611	2.273***
	(0.792)	(1.542)	(1.039)	(0.841)
Corp. Services x EMM	2.657*	2.931	1.713	-11.47
	(1.386)	(3.528)	(1.620)	(1,069)
R&D x EMM	4.969**	1.903	-8.544	-11.01
	(2.386)	(2.737)	(622.2)	(1,404)
Infrastructure	0.0146**	-0.195***	0.0345***	0.0534***
	(0.00637)	(0.0229)	(0.00812)	(0.00703)
Human capital	0.0403**	0.198***	-0.184***	0.0685***
	(0.0167)	(0.0319)	(0.0199)	(0.0238)
Natural resources	-0.0514**	-0.165***	0.0178	0.0278*
	(0.0222)	(0.0487)	(0.0121)	(0.0150)
GDP growth_host	-0.0544	-0.943***	-0.0590	-0.0640
	(0.0531)	(0.143)	(0.0824)	(0.0704)
Institutional distance	0.0260	2.950***	0.0905	-1.075***
	(0.200)	(0.420)	(0.280)	(0.250)
Population_host	-0.0227***	0.0263***	-0.00446	0.0105***
	(0.00478)	(0.00292)	(0.00410)	(0.00397)
Trade openness_host	0.0362***	-0.0781***	-0.00430	0.0451***
	(0.00677)	(0.0240)	(0.00968)	(0.00830)
Geographic distance	-0.000638***	-0.000346***	0.000134**	-0.000446***
	(5.37e-05)	(6.68e-05)	(6.09e-05)	(6.04e-05)
Common language	-3.890***	1.757***	2.824***	-3.843***
	(0.870)	(0.678)	(0.618)	(1.140)
Colonial ties	0.800	-0.219	-1.694**	2.111***
	(0.607)	(0.703)	(0.740)	(0.727)
Firm size	0.0325	-0.0833	-0.122*	0.198**
	(0.0573)	(0.0807)	(0.0737)	(0.0797)

Constant	-4.305**	1.980	10.41***	-17.36***
	(1.922)	(2.859)	(2.097)	(2.848)

*** p<0.01, ** p<0.05, * p<0.1

N=2872; Log likelihood: -1320.050l; chi2(224) = 8548.04; Prob > chi2 = 0.0000; Pseudo R2 = 0.7640

The model presented in Table 3.5 has a high overall explanatory power (pseudo R^2: 0.764) with a highly significant chi-square (Prob > chi2: 0.000). The β-coefficients indicate the probability of selecting one region compared to the base outcome, in this case South America. A positive coefficient of an independent variable indicates a higher likelihood of that group being selected as the location of the investments, while a negative coefficient indicates that the South American region has a higher probability of being selected as a location than that group of country. In addition, the marginal effects are shown in Table 3.6 which represents the relative probability of selecting a destination region compared to the base outcome given the influence of the individual independent variables (Wooldridge, 2010).

First, based on the results of our analysis, we found support for our first hypothesis, namely that EMMs with market seeking motivation will invest in other emerging markets. The support is evidenced by a positive (1.651) and significant ($p < 0.05$) β-coefficient for the dummy variable being an EMM (1) in the case of investing in Emerging Asian countries and also by the negative and significant coefficients when it comes to the group of the developed countries: Advanced Asia (-4.965, $p < 0.01$), European Union & EEA (-3.560, $p < 0.01$) and North America (-4.525, $p < 0.01$). These negative coefficients mean that there is a higher probability that EMMs will select South America as their destination rather than any other developed country region. The only exception is the Emerging & Developing Europe (-2.210, $p < 0.01$) region, which coefficients imply that the investing firms would rather select the South American region.

Second, our second hypothesis that the investments with the motivation of production will be directed towards emerging markets received significant support. The coefficients of the group of Advanced Asia was found to be negative and significant (-1.715, $p < 0.01$), meaning that the investments motivated by establishing a production activity would rather be destinated in South America than in Advanced Asia. This finding is further supported by the negative and significant marginal effects for the Advanced Asian region (-0.273, $p < 0.01$). Moreover, this hypothesis received confirmation by the marginal effects that are positive and significant for the Emerging & Developing European region, implying that if the motivation of the investment is the production, there is a higher probability to locate in this region. Furthermore, when we

observe the interaction of the motivations and being an EMM, we find that there is a higher probability of the EMMs investing with the aim of production in the Middle East & North Africa (2.260, $p < 0.01$), in Advanced Asia (2.247, $p < 0.05$), in the EU & EEA (2.026, $p < 0.05$) and in the Emerging & Developing Europe (2.928, $p < 0.01$) and in the countries of the Commonwealth of Independent States (2.273, $p < 0.01$), rather than in South America.

Third, the third hypothesis referring to the investment with the motivation of locating activities related to corporate services in developed countries has been partially confirmed. The β-coefficient is positive (1.681) and significant ($p < 0.01$) in the case of Middle East & North Africa as a destination, meaning that the firms locate their corporate services with a higher probability to this region rather than in South America. This is also confirmed by the positive and significant marginal effects in the case of Middle East & North Africa. Moreover, the negative (-1.067) and significant ($p < 0.1$) coefficient of Advanced Asia signals that there is an increasing likelihood that the firms will locate their corporate services in South America rather than in Advanced Asia. This statement is further supported by the negative and significant marginal effects in the case of Advanced Asia. Additionally, both the advanced (3.770, $p < 0.05$) and the emerging & developing (2.657, $p < 0.1$) European destination are having a higher probability to be selected as a location for the corporate services activities by the EMMs than South America. Lastly, the marginal effects are negative and significant for the region of Commonwealth of Independent States.

Finally, our fourth hypothesis stated that the investments motivated by R&D activities will be directed towards developed countries. This hypothesis has also been partially confirmed. In the case of the whole sample, only the region of Middle East & North Africa has a positive (1.082) and significant ($p < 0.1$) coefficient, while for other regions the results were not statistically significant. However, when it comes to the EMMs, we find that there is a higher probability for selecting both advanced (3.706, $p < 0.1$) and emerging (4.969, $p < 0.05$) European countries as destination for their R&D investments, as well as the Middle East & North African region (4.589, $p < 0.05$) compared to South America.

Table 3. 6 Marginal effects

Destination region	South America	Middle East & North Africa	Emerging Asia	Advanced Asia
EMM	0.0184	.023378	.0761381***	-.04987***
Production	-0.00861	-.00691	.0093795	-.02734***
Corporate Services	-0.0213	.05155***	-.007351	-.02897***
R&D	-0.0225	.064559	-.007862	-.00171
Infrastructure	-0.0003*	.000628***	-.000228	.00054***
Human capital	-0.0009**	-.001974***	-.001757***	.0009***
Natural resources	0.00327***	-.000826	-.00066	.00219***
GDP growth_host	0.00489***	.0046469***	.00764***	.00025
Institutional distance	-0.0098*	-.017873***	-.02132***	.02327***
Population_host	-0.0001	-.000873***	.00071***	.00018***
Trade openness_host	-0.0015***	-.000421***	.00151***	.00102***
Geographic distance	9.10e-06***	-1.14e-06	1.83e-06	9.82e-06***
Common language	0.0440***	.0268**	-.04532***	-.02874**
Colonial ties	-0.0261	.00006	.04464***	-.00751
Firm size	0.00024	-.00007	.0026485**	-.0023**

*** p<0.01, ** p<0.05, * p<0.1

Tab -cont.

Destination region	EU & EEA	Em. & Dev. EU	North America	Sub-Saharan Africa	CIS
EMM	-.0596***	.00826	-.05016**	-.0153**	.04881***
Production	-.01429	.03659***	.00669	.0046	-.00011
Corporate Services	.02006	.01092	.00393	-.00229	-.02656***
R&D	.01019	-.00892	-.01408	-.00941	-.01032
Infrastructure	.00068**	.00003	-.00253***	.0004***	.00077***
Human capital	.00739***	-.00289***	.00092**	-.00214***	.00043
Natural resources	-.0114***	.00477***	-.0002	.00082***	.00208***
GDP growth_host	-.0158***	.00798***	-.00849***	-.00166*	.00057
Institutional dist.	.03916***	-.02001***	.02424***	.0047	-.02233***
Population_host	.00075***	-.00101***	.00019***	-.00009**	.00027***
Trade open_host	.0013***	-.00016	-.00163***	-.00044***	.00027**
Geographic dist.	-6.75e-06***	-.00001***	-2.20e-06**	3.13e-06***	-2.59e-06***
Common language	.08914***	-.12303***	.03272***	.04975***	-.04526**
Colonial ties	.00039	.003	-.00915	-.03284***	.02751**
Firm size	-.00433**	.00238	-.00017	-.00201**	.00359**

*** p<0.01, ** p<0.05, * p<0.1

VI. DISCUSSION AND CONCLUSIONS

Findings and theoretical contributions

Based on the results of the multinomial regression, we can draw up several findings from our analysis. First, we have argued and found evidence that the EMMs with market-seeking motivations will invest in other emerging markets. The EMMs are targeting and serving mass markets with their products, may it be their own home country or other developing countries (Williamson, 2015). These products are developed with the aim of satisfying the customer needs in the emerging markets, i.e. they are low price but good enough products (Ramamurti, 2012). In addition, the EMMs have the ability to operate in difficult business environments such as the other emerging markets (Cuervo-Cazurra & Genc, 2008) and their products do not need to be compliant with highly sophisticated regulations on those markets. Moreover, the products from the EMMs are often perceived as low quality, low price without a strong brand identity on the developed markets. However, being able to target and sell to higher income customers on the developed markets is clearly a future strategic intent of the EMMs.

Second, the EMMs investing with an efficiency-seeking motivation and establishing activities abroad related to production are looking for natural resources and relatively lower labor costs. These resources are widely available in the emerging markets, therefore, we argued and found evidence that these EMMs will invest in other emerging markets. Moreover, the Emerging European region seems to be also an attractive location for the manufacturing activities for the EMMs (Milelli, Hay & Shi, 2010). One reason for this can be the level of relatively skilled labor force and talent pool available on more favorable prices in this region than in the developed markets. Furthermore, we found that the EMMs invest also in the Middle East & North Africa with the aim of accessing the natural resources (oil and gas) available in the countries of the region. We also found that the established activities by the EMMs in the Middle East & North Africa are mainly manufacturing and extraction related. At last, the region of the Commonwealth of Independent States, and more specifically Russia and Kazakhstan were targeted mainly by Chinese MNEs for manufacturing purposes.

Third, we found evidence of the EMMs with strategic asset-seeking motivation, locating their corporate service activities both developing and developed markets. The Middle East & North

Africa region is preferred by the EMMs mainly for business services in the heavy & civil engineering sector. Moreover, both in the developed and developing European regions are found to be popular locations for establishing business services and headquarters by the EMMs throughout the various industries. In addition, the Emerging European region also attracted investments related to ICT infrastructure by the EMMs.

Finally, the literature suggested that EMMs with strategic asset-seeking motivation, but with the aim of establishing research and development related activities are attracted to locations with high stock of knowledge (Yoo & Reimann, 2017) and with strong intellectual property rights protection (Holmes, Li, Hitt, DeGhetto & Sutton, 2016). As an evidence, we find that EMMs are investing in the Middle East and in Europe with the aim of establishing their knowledge related activities. The Middle East & North African region was selected by both DMNEs (mainly French and American) and EMMs as a destination for their research and development related activities. The investments in the European Union and the EEA region were driven by the investments of the Chinese multinational, Huawei in Germany, France and Belgium. On the other hand, in the group of the Emerging & Developing European countries, several within-group investments were observed (e.g. Hungarian firms investing in Bulgaria) with the aim of establishing design, development and testing related activities.

Regarding the theoretical contributions of this paper, we aimed at contributing to the location choice literature of the EMMs by investigating their motivations for internationalization and their activities established abroad. In order to do so, we relied on the classification of the motivations for internationalization based on Dunning's OLI theory, however, we made a distinction between the DMNEs and EMMs. Moreover, we found evidence that the motivation of the investment may result in different choices of location for the two group of firms and we got a more nuanced picture of the configuration of their established activities abroad. Finally, we believe that further investigation of the motivation on the theoretical level could contribute to the theories of EMMs and MNE theory in general.

Methodological implications

In terms of methodology, our study brings a novel approach also in terms of empirical analysis. In order to investigate the location choice of the MNEs, we analyzed the FDIs without aggregating them and with a special attention to the different corporate activities established abroad. In addition, we associated the established activities abroad with their motivations for

internationalization. We consider this step to be unique and we believe that it helped us to gain more detailed insights into the FDIs of the firms.

Managerial and policy implications

We believe that academic research should allow the decision makers to absorb its considerations and develop policy implications accordingly. Our study aims not only at enabling location choice research to progress, but also at providing basis for policy implications which would be one of our contribution to practice. Besides the economic policies implemented in order to attract FDI, we find it fundamental to implement reforms on the level of public and private institutions, infrastructure and education in order to attract new FDI, especially in the case of emerging markets. On the other hand, the policy makers in the developed market economies will need to adapt to the growing presence of investors from emerging markets and to the growing importance of EMMs in the global economic system. We are confident that our results can inspire decision makers in designing future national economic policies.

The other contribution to practice is regarding the managerial decisions who are involved in international business and in location choice in particular. Historically, many EMMs focused on the particular activities of the global value chains; however, they are now competing for greater control and the geographic configuration of their activities should not be underestimated. Moreover, we would like to emphasize the importance of the direction of the investments in relation with the motivations. The EMMs' managers could take advantage from the FDIs with efficiency-seeking motives into emerging markets by transferring their existing capabilities and could adapt more easily to the host institutional environment. In addition, if the EMMs would like to target the more developed markets with market-seeking motivations, they should work on improving their product quality and their brand image. On the other hand, when investing in a more developed country with an asset-seeking motivation, have to keep in mind the possibility and the costs of learning from the incumbent firms.

Conclusions and future research

The phenomenon of the EMMs has been in the spotlight of international business research due to their increased international activity. Even though there is a consensus that these firms represent a unique category and need to be studied separately from the DMNEs, there is still

room for research in order to explain their internationalization behavior. In our study, we were focusing on the location choice of the EMMs and on their motivations when making foreign direct investments. We aimed at contributing to the theory of the EMMs by understanding better location choice of these firms throughout their motivations and the established activities abroad. We found that the EMMs are investing in other emerging markets with market- and efficiency-seeking motives, however, they are also targeting the developed markets with knowledge-related investments. Consequently, they are becoming important players on the current world economic stage.

Finally, we are aware of the limitations of our study and we urge future research to address these issues. As our study was focusing on the greenfield foreign direct investments, it would be interesting to undertake the same analysis considering M&As. Moreover, it would be also interesting to track the future location choices and co-locations of the EMMs in order to draw up their international footprint. Lastly, a more specific focus could be implemented on the single home countries in order to be able to show the differences between the EMMs originating from various emerging markets.

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