Introduction

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1. Emerging economies: a business eco-system perspective

Emerging economies have become attractive investment locations for globally operating multinational enterprises (MNEs), and more recently a cradle for MNEs challenging global leaders. Their economic advance and integration in the global economy has been driven by the development of market-supporting institutions and the opening to international trade and investment. Through this integration, many (but not all) emerging economies have been able to accelerate their economic growth, reduce poverty, and in some industries become important players in global competition.

For MNEs, emerging economies present novel opportunities and challenges (Meyer and Grosse, 2019). Opportunities relate to new markets and cost saving in global value chains, plus recently opportunities for innovation by taking advantage of inexpensive skilled workforces and distinct demand and technology trajectories (for example, Yip and Prashantham, 2019). However, distinct challenges arise from differences to advanced economies. In work with Dean Xu (Xu and Meyer, 2013: 1323), we highlight several common features:

- *Markets are less efficient due to less transparency, more extensive information asymmetries, and higher monitoring and enforcement costs.*
- *Governments and government-related entities are not only setting the rules, but are active players in the economy, for example through state-owned or state-controlled firms.*
- *Network-based behaviors are common, in part as a consequence of the less efficient markets, but arguably also due to social traditions, and they influence how firms interact with each other.*
- *Risk and uncertainty are high due to high volatility of key economic, political, and institutional variables. Hence, businesses find it harder to predict parameters they need for strategic decisions, including for example business cycles, government actions, or the outcome of legal proceedings.*

To this, we now have to add a global policy environment that is less committed to liberalization and creating level playing fields for firms and individuals from different origins (Meyer, 2017; Witt, 2019). Among other challenges, this changing policy environment in many countries increases the needs to actively work on gaining legitimacy in host societies, and to enhance organizational flexibility to adapt to policy events. This applies to both traditional MNEs competing in emerging economies and for emerging economy MNEs aiming to gain a foothold in advanced economies.

These and other characteristics of emerging economies shape the strategies and operations of local and foreign businesses. Specifically, foreign investors have to engage with the local environment and with local firms that are accustomed to the local context and may have developed specific capabilities to manage in this context.

Local contexts vary on many dimensions, which may best be described as business-ecosystems consisting not only of the national resource endowment of country and the institutional framework, but the entire business community (Figure I.1). The community of local firms represents potential competitors, peers, and partners. Their capabilities and strategies are shaped by the historical development of local institutions and resources in the business ecosystem (Hobdari, Gammeltoft, Li and Meyer, 2017). Institutional frameworks are multilayered along several dimensions, including local, national and supranational institutions in the economic sphere directly impacting businesses as well as social and political institutions that indirectly impact on businesses (for example, Cui, Hu, Li and Meyer, 2018).

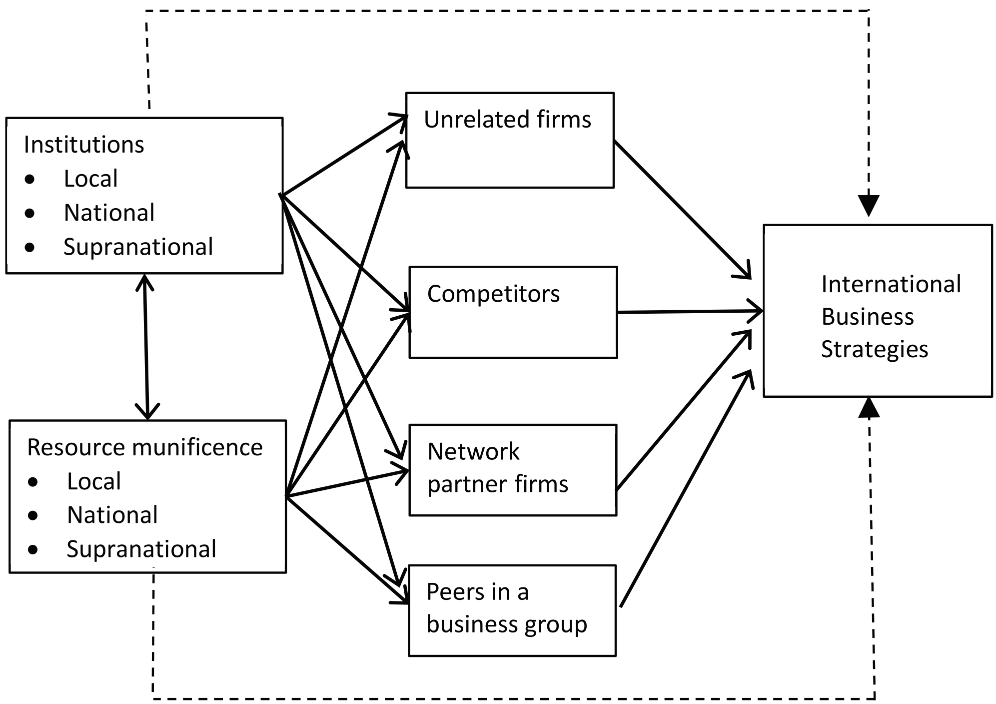

Figure I.1 A business ecosystem perspective

This business ecosystem perspective provides a broad view of the features of an economy that may influence incoming foreign investors or outgoing domestic firms. Most empirical studies tend to focus on selected aspects of the ecosystem to allow parsimonious analysis. In the research brought together in this book, I have in particular employed institutional perspectives, which are introduced in Chapters 2 and 3.

Foreign MNEs pursue the distinct opportunities in each emerging economy by adapting their strategies to the specific business ecosystem. This includes, inter alia, the location of production, choice of entry mode, forms of equity and non-equity partnerships and market positioning. Chapters 3 to 11 explore various aspects of these foreign entry strategies.

Conversely, when local firms set their ambitions beyond national boundaries, their own resources and capabilities are shaped by the business ecosystem of their home country. In particular, when the business ecosystem is weaker than in peer countries, this presents a competitive disadvantage for an MNE at early stages of its international growth. Emerging economy MNEs thus are often prioritizing capability building rather than capability exploitation in their internationalization strategies, as discussed in Chapters 12 to 19.

2. Institutions as a theoretical perspective on MNEs in emerging economies

Scholarly research, including my own, on MNEs in emerging economies has focused in particular on one aspect of the business ecosystem, the institutional environment. Following Douglass North (1990), institutions are generally understood as the rules of the game by which businesses engage. They include both formal institutions, that is, rules codified in laws and regulations, and informal institutions such as norms or conventions that are not formalized but shared within a community.

Transition economies in particular have since 1990 made significant efforts to improve their institutional framework in the sense of developing institutions supporting the efficiency of markets. The absence of such institutions is often described as ‘institutional voids’ based on Khanna and Rivkin (2001). This terminology is somewhat unfortunate in that institutional voids do not imply the absence of institutions (though many reviewers make that inference), but rather the failure of institutions to secure the efficiency of markets. Efficient markets depend on institutions that lower transaction and information costs, and reduce market uncertainty. Therefore, institutions affect the capacity of firms to exchange goods and services, and to coordinate their activities through contracts, and to acquire complementary resources or even entire firms.

Institutional perspectives have been popular among international business scholars to explain the influence of context on business strategies. They encompass a broad range of theoretical approaches grounded in distinct research traditions. These intellectual roots vary in their underlying assumptions, terminology and theoretical logics, and hence do not constitute a unified theory. For example, institutional economics starts out from the assumption of rational and utility maximizing agents whose incentives are shaped by formal and informal institutions (North, 1990). Many studies applying institutional economics (but not North himself) consider institutions as exogenous to the firm. In the short run, and for the vast majority of firms in our research datasets, firms’ influence on the rules of the game is negligible.

In organization theory, broader sets of human motivations are considered, in particular the quest for legitimacy and isomorphic behaviors. Agents thus, for example, imitate behaviors of others as strategy to enhance legitimacy, notwithstanding that such mimetic isomorphism contradicts the business school mantra to be exceptional and the entrepreneurial drive for novelty. Organization theorists usually follow Scott (2003) and classify institutions as regulatory, normative and cognitive; the former two overlapping with formal and informal institutions in institutional economics, and the latter rarely satisfactorily measured. Organization theory also puts greater emphasis on the endogeneity of institutions, or on the co-evolution of firm strategies and the relevant aspects of the institutional environment.

As we discuss in Chapter 2 (Meyer and Peng, 2016), each perspective has its limitations and no single theory can address all the concerns of business researchers. Thus, a problem-focus should guide the selection of theory to analyze any research question at hand – rather than choosing problems that a scholars’ favorite theory can explain. After all, business studies is an applied science where the explanation of real world phenomena should be the ultimate objective, and theories are developed to aid that objective.

Most of my work starts from institutional economics in the tradition of Douglass North, which allows me to analyze how businesses adapt their strategies to a given institutional context. An exception is Chapter 11 (Meyer and Thein, 2014), where we are investigating the changing pressures firms experience in their home country with respect to Myanmar, which at the time was subject to international sanctions. Here, we found the institutional perspective of organizational theory with its focus on legitimacy, critical stakeholders and endogenous institutions more powerful to explore how and why some firms withdraw or otherwise adjust their strategies before or after formal sanctions had been announced in their country of origin.

The two papers in this section of the book reflect the progress of our thinking on institutions and MNEs in emerging economies. Our original work in Chapter 1 (Meyer and Peng, 2005) aims to integrate the scholarly literature on business in the transition economies of Central and Eastern Europe (CEE) in the 1990s and to explore the usefulness of various theoretical perspectives.[1] We found that, at the time, the majority of studies in the field had been informed by one of three lines of theorizing: organizational economics, resource-based perspectives or institutional perspectives. Organizational economics focuses in particular on agency and transaction costs, and their impact on organizational forms and performance. Resource-based perspectives focuses on the internal aspects of firms, specifically the bundles of resources that firms inherited from the previous regime, and the organizational learning that led to upgrading of their capabilities. Institutional perspectives, as discussed below, focus on variations in the external environment as moderators of corporate strategies and operations. These theories each had their continued impact on the literature, though – some would argue unfortunately (Casson, 2018) – analytical models driven by the rigor of organizational economics have become less prominent in management research in recent years.

Our review focuses on three distinct types of firms that were predominant in the CEE region at that time: foreign investors, local incumbents and local entrepreneurs. Viewing this categorization *ex post* highlights how much these economies have changed: the categories have become fluid as firms rise and fall, change their ownership, and expand globally. Today, such a categorization would look artificial, though it may occasionally still be helpful for methodological reasons.

Published in the *Journal of International Business Studies* (JIBS) in 2005, this paper was recognized by the journal with the *JIBS Decade Award* in 2015. Thus, we were invited to reflect on the progress of this line of research since the original publication. Our reflections in Chapter 2 (Meyer and Peng, 2016) broaden the perspective across emerging economies and focus on the different streams of work employing institutional perspectives. Specifically, we discuss three lines of work: institutional economics, organizational theory and the analysis of business–MNE negotiations in the IB literature. While these generally are complementary, the underlying assumptions and theoretical reasoning can be quite distinct. For further insights on the different lines of theorizing on institutions, I recommend complementary reviews by Hotho and Pedersen (2012) and two chapters in the *Oxford Handbook of Management in Emerging Markets*, namely by Tatiana Kostova and Valentina Marano (2019) and by Chi-Nien Chung and Rose Luo (2019).

A key contribution of work employing institutional perspectives is to highlight and clarify the importance of context for explaining phenomena and relationships in management research. As I have argued many times (Meyer, 2006, 2015), managerial phenomena are often contextually bound, or moderated by context. Yet, insufficient attention to such contextual boundary conditions continues to inhibit the development of practically useful theories in management scholarship.

3. Local context and foreign entry

The institutional environment first and foremost shapes the attractiveness of a location for (potential) foreign investors, and hence their location choice. In an early study of FDI across countries, Alan Bevan, Saul Estrin and myself (2004, Chapter 3 in this volume) try to untangle the influences of different aspects of the national institutional framework. We study the location choices of foreign investors in the transition economies of CEE and the former Soviet Union using the 'transition indices' published by the EBRD as proxies for institutional development. Along with studies such as Guisinger (1985) and Globermann and Shapiro (2003), this study establishes the relevance of the development of the formal institutional framework. However, beyond other studies, we also show the importance of the actual implementation of the rules formally adopted by a country.

A specific finding that I still consider the most interesting in this study concerns the importance of not only developing a legal framework but also to impartially implement it through the court system. We find law enforcement to matter more than the legal framework per se in explaining attraction of FDI. While most of our variables showed a strong association between the extensiveness and the effectiveness indicators, law enforcement in Russia was significantly lagging. The lack of law enforcement was a significant deterrent to FDI in Russia, after controlling for market size and natural resources where Russia is more attractive than most of its peers. This conclusion probably applies more broadly to emerging economies: the creation of a level playing field not only in law but in practice is important for attracting foreign investors.

Below national institutions, institutions at lower levels matter for foreign investors. Institutions vary considerably within countries, such as provinces or cities, and affect intra-country location and other strategic decisions. In two studies of FDI in Vietnam, we analyzed survey data to better understand how and why geographically fine-grained local institutions matter for foreign investors.

Chapter 4 (Meyer and Nguyen 2005), has been motivated by field research with my collaborators in Vietnam, Hung Vo Nguyen and Ha Thanh Nguyen, some of which is published as case studies in a book (Estrin and Meyer, 2004). This research suggests that that institutions at local level matter. For example, foreign investors reported that local governments varied considerably in their infrastructure, bureaucratic processes, and even the support for potential investors to obtain national approvals. Even where sub-national authorities have limited authority to set formal rules (such as tax rates), informal norms may vary considerably due to, for example, different historical pathways. Empirically, we found it difficult to identify appropriate proxies for these institutional effects, and thus used SOE presence and industrial zones as proxies; recent studies found better proxies. However, our ideas on sub-national institutions have proven to be relevant beyond Vietnam, in particular for studies of regional effects within China, where intra-country variations in institutions are substantial and important to explaining business strategies and performance (for example, Chan, Makino and Isobe, 2010; Ma, Tong and Fitza, 2013).

In a follow-up study with Danchi Tan (Chapter 5, Tan and Meyer, 2011), we study a different aspect of the local business ecosystem attracting inward investors. Specifically, we investigate the role of other foreign investors already present in the same location, including those in the same industry and from the same country of origin. While industry agglomeration effects are well established in the literature, we argue and show empirically that the affinity between businesses from the same country of origin leads to strong clustering effects. Especially for smaller and less experienced foreign investors, the access to local knowledge is a major challenge when venturing abroad; ethnic ties and expatriate networks provide valuable channels to access such knowledge.

What matters more, institutions or agglomeration? In Chapter 5 (Tan and Meyer, 2011), we apply a different theoretical framework and different analytical techniques to reanalyze the same data as Meyer and Nguyen (2005, Chapter 4 in this volume). The study thus also highlights the importance of replication studies – specifically studies that reanalyze the data used in an earlier study applying more advanced empirical methodologies. Specifically, we found that agglomeration effects – especially industry and country-of-origin agglomeration – are more powerful in explaining the location pattern than the institutional variables analyzed in the earlier study. However, this contrarian evidence did not deter citations to Meyer and Nguyen (2005), whose ideas on sub-national institutions continues to inspire new research.

4. How do MNEs adapt their entry and operation modes to local contexts?
Institutions not only shape the attractiveness of countries to potential foreign investors; they also influence how foreign investors organize their operations in a country. International business scholars have in particular focused on organizational choices of ownership and entry mode (the choice between joint ventures, acquisitions and greenfield entry).

In a now classic study (Chapter 6, Meyer, 2001), I investigate the impact of national institutions on foreign investors' choice of entry mode. In the 1990s, institutional frameworks in the CEE region were only partially reformed, and thus unusually inconsistent and not stable. This provides an opportunity to investigate how institutions influence strategies when transaction costs are high. In particular, I argued that the transaction costs associated with acquiring a local firm or with developing a greenfield project from scratch would be high, such that weak institutional environments would lead to a higher propensity of non-equity or shared equity entry strategies.

The response of a firm to a weak institutional environment, however, depends also on the firm's own resources and strategies. Thus, in Chapter 7 (Meyer, Estrin, Bhaumik and Peng, 2009), we explore the interaction of resource and institutional dimensions. As in the earlier paper, the starting point for our theoretical considerations is that foreign investors need some local resources to build their envisaged local operations. The resources they need vary with investors' prior resource endowment, including experiential knowledge of the local context. The institutional context shares the effectiveness of markets in facilitating access to local resources that may often be intangible and organizationally embedded.

In environments with weaker institutions, joint ventures are used to access local resources, whereas under stronger institutions joint ventures become less important and acquisitions can be used to access local resources. Entry by acquisition is highly dependent on institutions related to financial markets and corporate control, including financial intermediaries, accounting standards, and independent auditors. On the other hand, greenfield is most feasible where foreign investors do not depend on local partners to access local resources, that is, under highly efficient markets for resources. Thus, in this analysis, transaction costs in the market for corporate assets are a key determinant of entry mode choice.

The application of transaction costs to entry mode analysis, however, requires very careful reasoning, as we discuss in Meyer and Wang (2015, Chapter 8 in this volume). In fact, some of the standard associations commonly explained with transaction costs arguments are theoretically ambiguous. Transaction costs analysis of organizational forms concerns the *relative* costs of organizing a given transaction (or a set of transactions between two partners) using alternative mechanisms, such as market or internalization. The transaction costs are normally not directly observable. Therefore, scholars usually employ proxies associated with rising market transaction costs to measure transaction costs. However, these same proxies often are also associated with increasing costs of internal coordination. For example, weaker intellectual property rights – a key aspect of institutions – make it more costly to write and enforce contracts. Thus, theory suggests internalization would be preferred. However, weak intellectual property rights also make it more difficult to enforce confidentiality agreements in employment contracts. Thus, the dissemination risk increases in both types of organizational forms.

Moreover, it is often argued that better institutions facilitate entry without a local partner and with full equity control. However, careful consideration of the theoretical argument shows these relationships also to be theoretically inconclusive. Institutional idiosyncrasies and low levels of transparency increase the need for local resources, which suggests a joint venture entry. However, joint ventures depend on predictable institutions to avoid being taken advantage of by a local joint venture partner – especially when other means of control such as posting expatriates are not feasible. Else, the risk of being taken advantage of by an unscrupulous partner is high. In other words, institutions simultaneously influence the need for a local partner and the costs of contracting with a local partner.

A further concern regarding the entry mode choice literature is its focus on the choice between distinct options. That may be helpful for applying and testing theory, but that is rarely the way decision makers in practice approach entry strategy decisions. Their primary concern is to fine-tune operation modes to fit host country environments. In other words, for practitioners, entry strategy is about designing a foreign operation, often creatively, not about choosing from a limited set of options. Thus, entry strategies vary along many dimensions, including intra-country location, timing, market positioning, logistics and human resource deployment. Even when focusing on the choice of entry mode, the actual options are manifold. Chapters 9 to 11 apply primarily qualitative methods to develop more fine-grained understanding of entry strategies.

In Meyer and Estrin (2001), we develop the idea of 'brownfield acquisition', which we define as an acquisition where the post-acquisition restructuring replaces most of the resources of the acquired entity with those of the acquirer, retaining only a few critical ones such as brands or key human resources. This work was informed by a major case-based research project on foreign investments in CEE in the 1990s, a very particular institutional context due to the pace of change in formal institutions (Estrin and Hughes, 1997). In Chapter 9 (Estrin and Meyer, 2011), we put this concept to an empirical test, and explore its relevance beyond the original context.

Acquisitions also vary in how acquirers manage the ownership change over time. Especially in acquisitions related to the privatization process, we observed that the initial shared ownership arrangement was often not stable. Thus, in Chapter 10 (Meyer and Tran 2006) we propose a typology of partial, staged, and full acquisition. Ownership stakes may be changed after the initial entry in response to changing circumstances, but we argue that often such ownership changes are already anticipated at the outset as part of the original strategy. Staged transfer of ownership helps create incentives for the outgoing management team and enhances legitimacy in the eyes of external stakeholders in the local environment.

In other contexts, foreign investors may want to operate in a country, but keep a low public profile or low capital investments because the target country faces challenges to legitimacy in the investors' home country. This is in particular the case when a country is subject to negative media coverage, NGO activism, or political sanctions. With formal sanctions, MNEs may be able to engineer around them based on precise understanding of the rules, which some firms may consider appropriate and others not. Informal pressures may go further than formal pressures, for example the advocacy of a consumer boycott of products from a given country. This dilemma led us to the notion of 'low key strategies' (Chapter 11, Meyer and Thein 2014). Overall, these studies of MNEs in emerging economies highlight that, especially in emerging economies, the creative design of entry modes, rather than choosing between textbook models, allows MNEs to achieve their strategic objectives.

5. MNEs from emerging economies: focus on home countries

Since the turn of the century, MNEs from some emerging economies have become major players in the global economy. Their catch-up strategies have drawn scholarly attention to the importance of home countries of the MNE, specifically the home country business ecosystem, for the resources and hence the strategies, of these MNEs. As for inward investors, my own research has explored in particular institutional perspectives.

The sources of international competitiveness of emerging economy MNEs differ from those of MNEs from advanced economies, especially for early stage investors that are more dependent on their home environment. First, emerging economy MNEs typically lack the sorts of famous brands and leading-edge technologies that have been key drivers of MNEs' overseas FDI in recent years. In contrast, emerging economy MNEs seem to have other advantages such as competences in areas of risk management, managing of low-skill labor on a large scale, and access to natural resources in emerging economies themselves (see for example, Verbeke and Kano, 2016; Ramamurti, 2012).

Second, in the business ecosystems of emerging economies, ties to other organizations such as business groups or government agencies are often important to access resources. In particular, alignment with governmental policy agendas reportedly helps firms to attract resources that facilitate outward FDI. Moreover, many emerging economy MNEs, especially small and medium sized ones, are closely embedded in business networks that can both foster and constrain their international growth.

Two multi country studies investigate how variations in home country institutions influence outward FDI. In Chapter 12 (Estrin, Meyer, Nielsen and Nielsen, 2016), we argue that national institutions are critical not only for the private sector but also for the effectiveness of corporate governance in hybrid firms with mixed state and private ownership – an organizational form that is common especially in emerging economies.

Institutional environments that foster strong monitoring and transparency also reduce agency conflicts between owners and decision makers in (partially) state-owned firms, and strengthen the influence of financial investors relative to politicians and insiders of the firm. In consequence, hybrid firms develop strategies more similar to those of private firms. On the other hand, when governance institutions are weak, managers are more able to pursue strategies that serve the interests of political actors, or their own interest, at the expense of outside investors. Since such non-economic goals can normally be better pursued domestically, state-owned firms will have a home country bias in their profile of operations under weak institutional environments. This home country bias (relative to fully private firms) diminishes the stronger the institutional environment.

In Chapter 13 (Estrin, Meyer and Pelletier, 2018), we compare the location decisions of MNEs from advanced and emerging economies. We argue that generally the motives driving location choice should be quite similar, but the importance of different considerations varies because of variations in the business ecosystem of the home country. Specifically, MNEs from advanced economies can draw on rich resources in the home country, which can be accessed via (relatively) efficient markets or partnerships with other businesses, for example, talent, technologies and business services. This resource access strengthens the firm-specific capabilities of the MNE, and thus makes it easier to overcome barriers to entry in foreign countries. Emerging economy MNEs, in contrast, can draw on fewer capabilities at home, which acts as barrier to ambitious international expansion strategies.

Our empirical study compares the determinants of location choice between MNEs from respectively advanced and emerging economies. We confirm our conjecture that on average emerging economy MNEs are relatively more deterred by distance and weak intellectual property rights, and relatively more attracted by ethnic diaspora and market size. However, we find interesting variations when we look at specific countries of origin as home country idiosyncrasies moderate many of the effects suggested by general theory. In our study, especially Russian MNEs diverge from the predictions of general theory with respect to distance and intellectual property protection.

An interesting issue arising from this study is the apparent contradiction between the negative effect of distance in our study and case evidence that some Chinese firms make highly ambitious acquisitions in distant locations. We infer that the much discussed large company cases in the media (and published case studies) are not representative of the population of emerging economy MNEs, which also include many smaller and lower profile investors. In other words, scholars need to be even more careful about generalizing from single case studies, or single emerging economies, to emerging economy firms in general. This holds especially true for those working with Chinese or Russian data.

In addition to challenges arising at home, emerging economy MNEs often also face additional challenges in navigating the institutional environment of host countries, including advanced economies with sophisticated institutional arrangements. A key concern is legitimacy with local stakeholders. All foreign investors need to build legitimacy in their host society to be able to succeed in attracting local partners, employees, and customers. However, this is a particular challenge when preconceived negative opinions exist in the host society (based on fact or not).

In our paper titled ‘Overcoming Distrust’ (Chapter 14, Meyer, Ding, Li and Zhang, 2014), we argue that among Chinese MNEs, those with state ownership face more legitimacy challenges. To reduce challenges to their legitimacy, and to overcome preconceived distrust, they choose entry strategies that are less likely to trigger controversies in the host country society. Thus, they are more likely to choose greenfield rather than acquisition as a mode of entry. If they acquire a local firm, they are more likely to choose a lower level of equity. Our empirical results confirm these arguments. Moreover, these effects are stronger in host countries that are more sensitive to inward investment by state-owned firms, namely countries with a strong rule of law and/or strong technological development.

Moreover, the political nature of some of the institutional barriers to international investment raises the question if and how the political relationship between two countries would facilitate investment. In particular, when two countries have strong ties with extensive diplomatic representations (especially consular units of embassies and consulates), then diplomats can help companies to access information and to facilitate interactions with authorities in the host country.

Thus, in Chapter 15 (Li, Meyer, Zhang and Ding, 2018), we argue that the diplomatic service can act as a critical referral node between business networks. Specifically, diplomatic networks can serve as bridges between corporate networks, especially in new locations where a firm has not yet developed its own network. However, access to such diplomatic networks varies among firms dependent on the proximity to government in their own networks. In our empirical study, we find that stronger bilateral diplomatic ties serve to attract foreign investors, and this effect is strongest for state-owned firms under central government but negligible for private firms without personal ties at the central government level.

6. The catch-up of emerging economy MNEs: process perspectives

Although many emerging economy MNEs are big in their own countries, they are still relative novices on the global stage. As argued above, their home country business ecosystem lacks resource munificence, such that emerging economy MNEs are typically endowed with relatively weak corporate resources when they start investing overseas. Therefore, their international expansion represents a catch-up process that may best be interpreted in a process perspective. The basic argument is laid out in Chapter 16 (Meyer and Thaijongrak, 2013). Despite their often considerable size, emerging economy MNEs are often at early stages of their international growth. Thus, the interactive process between resource commitments, organizational learning, and capability building of the internationalization process model, also known as the Uppsala model (Johanson and Vahlne, 2009), provides a useful theoretical angle to explain their development over time.

By focusing on processes and series of decisions over the span of several years – rather than singular decisions at a particular point in time – this process perspective places specific investment projects in the context of an organizational history context and on the longer-term trajectory of organizational development. To the extent that internationalization involves trial and error processes, it may also be interpreted as an evolutionary process. Such a perspective would emphasize the creation of new projects or routines, and the selection among them (Santangelo and Meyer, 2017).

Even at early stages of their international activity, some emerging economy MNEs acquire companies in advanced countries to access brands and/or technology to compete not only in the host country, but in wider global markets. In fact, some of these acquisitions aim at strengthening positions in the home market: with increasing competition in the fastest growing economy, scores of Chinese firms have acquired small and medium sized German firms with technologies and brand names that help strengthen their position back in China. Access to the crowded and less dynamic European markets is often only a secondary motive.

These MNEs thus pursue strategic asset seeking motives in their foreign investment projects to overcome traditional barriers to fast growth (Chapter 17, Meyer, 2015). This phenomenon is per se not new. The concept of strategic asset seeking arises from a typology of investment originally proposed by John Dunning (1993), along with market, efficiency and natural resource seeking. It is, however, unusually common among emerging economy MNEs due to the nature of their own resource gaps. The argument has been put forward by several authors focused on Chinese MNEs, and recently integrated by Luo and Tung (2018) who emphasize the springboard character of these strategies: acquire resources abroad to strengthen home capability bases as foundations for later global expansion strategies.

However, strategic asset seeking foreign investment is not an appropriate strategy for all emerging economy firms. Thus, in Chapter 18 (Cui, Meyer and Hu, 2014), we investigate what drives firms' strategic intent to acquire strategic assets as a means of catch-up strategy. Specifically, we focus on managers' awareness and capabilities, which in turn are shaped by the markets, governance and capability of the firm.

The strategic intent to catch-up through strategic asset seeking investment is very different from the successful implementation of such a strategy (a point missed by Luo and Tung, 2018). Especially among Chinese MNEs, there is considerable evidence that they acquired competences in making major merger and acquisition deals. Yet, when it comes to strategy implementation outside of their home country, they still face formidable challenges. In good part these challenges relate to building human capital able to implement strategic ambitions, as we discuss in Chapter 19 (Meyer and Xin, 2018). As a consequence of such talent gaps, many Chinese MNEs pursue light-touch integration of acquired business units. This approach itself, however, creates considerable leadership challenges for top management teams with limited experience in international management. More generally, the experience of Chinese MNEs highlights the need to train people not only for the current organization and its institutional context, but for the context in which the company aims to compete in the future.

7. Conclusions

Business ecosystems vary considerably between advanced and emerging economies, but also among emerging economies. Variations in institutions are a major cause of such variations and affect individual firms not only in direct and obvious ways, but also indirectly by shaping the strategies and practices of local firms that may become competitors or partners.

For foreign investors coming into emerging economies, this requires adaptation to a local context. They thus need to build local competences through partnerships with local firms and/or by continuous investment in learning locally.

For local firms with international growth ambitions, this implies that their ability to access resources and develop capabilities is substantially constrained. Thus, the development of international management and technology competences for global markets occurs concurrently with the internationalization, often by using foreign investment projects (especially acquisitions) as a means to access cutting-edge capabilities and technologies.

Looking forward, the institutional environment for international trade and investment has been changing in the decade since the global financial crisis, in that many countries shift selectively towards policies that are less open to foreign investment and international trade. This increases the complexity and uncertainty of the institutional frameworks for MNEs, and increases the tensions between home and host institutions. It also refocuses attention on supra-national rather than national institutions in enabling a global business ecosystem that can support economic prosperity.

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Note

1. A bibliography containing all the papers in the database of the 2005 papers has been placed online at: http://www.klausmeyer.co.uk/publications/2005_meyer_peng_2005_bibliography.pdf.