UNIVERSITAT DE BARCELONA

Analysis of Emerging Market Multinationals' subsidiaries in developed host countries: An institutional theory approach

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PhD in Business

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A mi familia

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TABLE OF CONTENTS

CHAPTER 4. EMNE SUBSIDIARIES: MITIGATING LIABILITY OF ORIGIN IN DEVELOPED COUNTRIES

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1.
INTRODUCTION

1.1. INTRODUCTION, MOTIVATION AND RESEARCH QUESTIONS

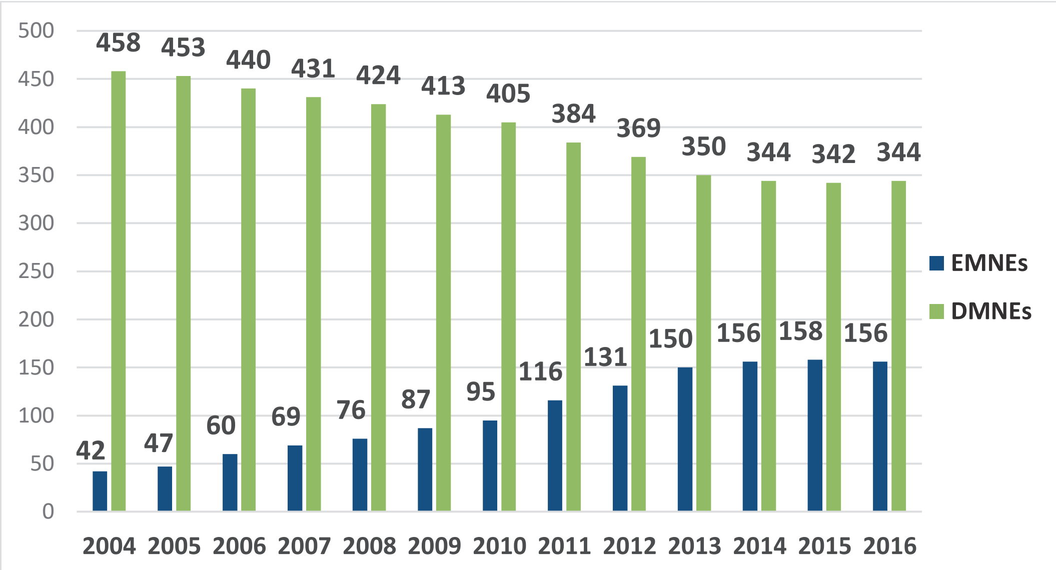
Traditionally, developed countries were the prime actors within the global flows of foreign direct investment (FDI), being at the same time the largest sources and recipients of such investment. However, during the last decade emerging countries appeared on the world scene, investing not only among these countries but also in developed ones. Several factors lead to this change. Firstly, the fast pace of development and government policies that favour economic liberalisation in emerging countries (Cuervo-Cazurra, 2007; Wright et al., 2005). Secondly, the birth of emerging market multinational enterprises (EMNEs) that have increased their importance in the arena of global competition. These became relevant players in their sectors and were able to compete effectively with their counterparts from developed economies (Guillén and García-Canal, 2009; Malik, 2017). At the beginning of the 2000's, EMNEs quickly increased the number of their international activities and thereby raised their direct presence in other developed markets such as European and North American countries (UNCTAD, 2006).

As a result, the FDI outflows from emerging countries have increased rapidly, especially since 2003, from US$ 58.73 billion in 2003 to US$ 408.58 billion in 2016 (UNCTAD, 2016), reaching a rate of growth over these years of 596%. Consequently, in the last thirteen years (2003-2016), outward FDI stocks from emerging countries have risen tremendously, from US$ 960.83 billion to US$ 6,198.15 billion, corresponding currently to the 24% of the global outward stock (UNCTAD, 2016). Consistently, the number of EMNEs in the Fortune Global 500[2] list has increased dramatically. In 2004, only 42 EMNEs featured in the Fortune list (8%), growing progressively up to 156 in 2016, representing the 31% of the firms in this ranking (see **figure 1.1**). Moreover, the trend seems to be on the rise. According to McKinsey Global Institute (2013) by 2025, emerging

[2] The Fortune Global 500 is an annual ranking elaborated by Fortune magazine of the top 500 companies worldwide by gross revenue in US dollars.

countries are expected to be the home of almost 230 companies in the Fortune Global 500 which will represent 46% of the Global 500.

Figure 1.1. Evolution of the number of EMNEs and DMNEs listed in Fortune Global 500 (2004-2016)



Note: EMNEs in blue (emerging market multinationals enterprises), DMNEs in green (developed market multinationals enterprises).

Source: Own elaboration based on Fortune Global 500 (various editions)

Based on this phenomenon during the last years, EMNEs have increasingly attracted scholarly attention. A great number of studies on EMNEs have been published in specialised and academic journals, the majority of which focus on parent company as the main unit of analysis. Some studies have employed macro-level institutional factors to examine the motives and location patterns of EMNEs' international expansion (e.g. Buckley et al., 2007; Cuervo-Cazurra, 2008; Del Sol and Kogan, 2007; Kalotay and Sulstarova, 2010; Morck et al., 2008; Tolentino, 2010). These studies consider the deficiencies at the institutional level, such as limited property rights, the absence of specialised intermediaries or high political risk among others, as incentives for EMNEs to undertake FDI processes to developed countries.

Furthermore, the research of EMNEs has resulted in different theoretical approaches such as the 'linkage, leverage and learning model' (Mathews, 2006), the 'Springboard Perspective' (Luo and Tung, 2007), and the 'Ambidexterity Perspective' (Luo and Rui, 2009), which agree to consider the EMNEs' international expansion as a process of rapidly development or acquisition of the needed resources and capabilities to compete on the global scene. Accordingly, the most startling feature of EMNEs that distinguishes them from their developed world counterparts, is their accelerated pace of internationalisation (Child and Rodrigues, 2005; Gammeltoft et al., 2010; Mathews, 2006; Luo and Tung, 2007; Guillén and García-Canal, 2012) contradicting the traditional internationalisation process model of Uppsala (Johanson and Vahlne, 1977).

At micro-level analysis, has also increased a great deal of studies that put the focus on different aspects of the internationalisation of EMNEs. For instance, Buckley (2017), Contractor (2013), Dunning et al. (2008), Gugler (2017), Khanna and Palepu (2006), Rugman (2009), and Ramamurti (2012) analyse the nature of the sources of EMNE's competitive advantages. In this regard, although there is no clear consensus, it seems that the international competitiveness of EMNEs is explained by several factors which emanate from either the possession of rich natural resources, the cheap labour availability or the ability to operate in difficult business environments. Another topic widely covered is the entry mode choice used by EMNEs in their international adventures. Particularly, mergers and acquisitions have attracted most of attention (Deng, 2009; Deng and Yang, 2015; Kale and Singh, 2017; Gubbi et al., 2010; Marchand, 2017; Rabbiosi et al., 2012; Stucchi, 2012; Sun et al., 2012), which is consistent with the specific theoretical perspective on EMNEs that highlight the need to catch-up with global players in terms of technological knowledge and other strategic assets (Luo and Tung, 2007; Mathews, 2006). There are many studies that analyse the behaviour and performance implications of EMNEs that try to acquire these assets abroad, especially in developed countries, where generally are located due to their higher development (Rabbiosi et al., 2012; Buckley et al., 2014; Kedia et al., 2012; Mazon et al., 2017; Nicholson and Salaber, 2013; Parthasarathy et al., 2017; Zheng et al., 2016).

Although a great number of studies have emerged analyzing the phenomenon of EMNEs from various perspectives, there is a shortage of publications that focus their attention on the subsidiary as the unit of analysis. This approach insufficiently studied is particularly interesting since these units are key pieces to conquer new markets and articulate successfully the EMNE's international expansion plans (Child and Rodrigues, 2005; Luo and Tung, 2007; Mathews, 2006). Moreover, EMNE subsidiaries play an important role within the internationalisation processes of their multinationals groups since they are latecomers in the international global arena and thereby need strategic assets to face new competitors. Generally, these assets are located in developed countries with better institutional environment and infrastructure, high quality research and development, vast qualified workforce and, great availability of customers and supplier networks. Hence, subsidiaries located in these developed host countries are usually entrusted with developing or acquiring these desired assets such as new technological knowledge and/or management and marketing skills (Ciabuschi et al., 2017; Rabbiosi et al., 2012).

Given the importance of these subsidiaries, few studies have addressed the presence and performance of EMNE subsidiaries located in developed countries. Some exceptions are included in **table 1.1** which contains the main studies of EMNEs in developed countries from a subsidiary-level perspective. For instance, Amendolagine et al. (2015), Brienen et al. (2010) and Zhang et al. (2012) focused exclusively on the presence of investment from China and India in Europe trying to explain the most relevant characteristics of these foreign firms. In the same vein, Sanfilippo (2015) expands the range of emerging countries considering the BRICS countries, comparing EMNEs subsidiaries' productivity with the rest of foreign and local companies in Europe. It is therefore clear that in the vast majority of studies on EMNEs, there is a bias to include China and India as emerging countries of analysis (Luo and Zhang, 2016). In general, extant literature describe the characteristics of EMNEs' presence in Europe considering basically the whole region, particularly all the 27 EU member states together.

Moreover, few studies rigorously analyse the adaptation of the EMNE subsidiaries in developed host countries from an institutional perspective, tackling the issue of cross-cultural problems and the additional costs of being new entrants in a concrete foreign country; what is known as ‘liability of foreignness’ (Buckley and Casson, 1976; Hymer, 1960; Zaheer, 1995). For example, Wong (2012) describe the barriers encountered by a major Chinese acquisition in Australia, analyzing the information collected on public officials documents and media reports not containing the perceptions of the company involved. Klossek et al. (2012) also analyze the obstacles faced by Chinese subsidiaries in Germany and argue that the strategies to mitigate their liability of foreignness depends on the entry mode chosen, (i.e. greenfield versus acquisitions). Also, Si and Liefner (2014) investigate the difficulties of Chinese affiliates located in Germany and put the spotlight on the problem of being excessively embedded in the host country.

Furthermore, very little attention have been given to the examination of negative country-of-origin effects, what is called as ‘liability of origin’ (Pant, 2012; Pant and Ramachandran, 2012) suffered by EMNEs in developed countries at the subsidiary-level. This type of liability arises from the unfavourable perception that host-developed stakeholders have about firms from undeveloped countries (Bartlett and Ghoshal, 2000; Held and Berg, 2014). Particularly, only two studies examine this issue from this unit of analysis. First, Nguyen and Larimo (2015) analyse by means of archival data, how Brazilian EMNEs manage acquired units in United States, Canada and Japan in order to reduce their liability of origin. Second, Yu and Liu (2016) investigate through a single case study the major factors that cause local stakeholders’ negative perceptions toward a Chinese acquired subsidiary in New Zealand, neglecting other emerging countries of origin.

Table 1.1. Main studies in EMNE subsidiaries located in developed countries

Author/year	**Methodology**	**Home countries**	**Host countries**	**Main research objectives**	**Key findings**
Amendolagine et al. (2015)	Quantitative (Database)	China and India	EU-27 countries	To provide a picture about Chinese and Indian investments in Europe, associating their characteristics (i.e. size, innovation propensity, profitability) with their internationalisation strategies.	Findings show that greenfield investments are more likely to be chosen by large-sized EMNEs. Also, a high propensity for innovation is associated with M&A strategy and strongly related with technological asset-seeking FDI.
Brienen et al. (2010)	Quantitative (Database)	China and India	EU-27 countries, Switzerland and Norway	To test which locational factors are important determinants of Chinese and Indian greenfield investments in Europe.	Results show that these investments are predominantly market seeking, and there is some partial evidence for asset-seeking motivations as well.
Chang et al. (2009)	Qualitative (Multiple case study)	Taiwan	United Kingdom	To examine the types of control used by headquarters of Taiwanese MNEs to manage their subsidiaries located in the United Kingdom.	Taiwanese subsidiaries in the UK have been found to be tightly controlled by their parent companies in Taiwan. Specifically, three control mechanisms are identified: (1) Expatriates; (2) global technology platforms; and (3) standardized HRM practices.

(Continued on the next page)

Giuliani et al. (2014)	Qualitative (Multiple case study)	Argentina, Bahrain, Brazil, China, India, Israel, Kuwait, Malaysia, Mexico, Russia, South Korea and Taiwan	Italy and Germany	To analyse how EMNE subsidiaries investing in Europe learn from the local context as well as examine if their behaviour differ from that of DMNEs.	Results suggest a different typology of EMNE subsidiaries that contributes to the host-country's development through its significant local innovative efforts. Also, unlike the DMNEs, EMNE subsidiaries display predatory behaviour related to the appropriation of local knowledge with the purpose mainly of transferring it to their headquarters.
Klossek et al. (2012)	Qualitative (Multiple case study)	China	Germany	To identify and to describe how entry mode choice impacts the strategies adopted by Chinese firms to cope (or not to cope) with the specific institutional hurdles in Germany, and how they mitigate their liability of foreignness.	Acquirers and greenfield investors came up with different ways to reduce their liability of foreignness. Whereas acquirers often use measures like communication and signalling to show reliability and reputation, greenfield investors do not rely much on reputation building and reliability enhancement.
Nguyen and Larimo (2015)	Qualitative (Database/archival data)	Brazil	Canada, Japan and United States	To determine the strategic motives of acquisitions by Brazilian MNEs and how they manage acquired units to reduce their liability of country of origin.	The analysed Brazilian MNEs do not impose any radical change on their acquired units in advanced economies to reduce their liability of origin.

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Sanfilippo (2015)	Quantitative (Database)	Brazil, Russia, India and China	All European countries	To measure differences in Total Factor Productivity for a group of foreign subsidiaries of EMNEs in Europe against their counterparts from developed countries as well as domestic-owned MNEs.	The paper demonstrates that EMNE subsidiaries in Europe are still at the bottom of the productivity ladder, holding a productivity gap around 30 percent-age points with developed counterparts, a gap which rises up consistently (around 45 p.p.) when they are compared with United States affiliates.
Schüler-Zhou and Schüller (2013)	Quantitative (Survey)	China	Germany	To determine which degree of decision-making autonomy do Chinese subsidiaries in Germany and the factors that determine such degree of autonomy.	Results show that Chinese companies apply no rigid rules regarding authority over decision making in their subsidiaries. It is demonstrated a significant correlation between reliance on a subsidiary's knowledge transfer and degree of subsidiary autonomy.
Si and Liefner (2014)	Qualitative (Multiple case study)	China	Germany	To illustrate how Chinese affiliates leads to multiple obstacles in Germany such as difficulties in managing public relations, a failure to cope with language problems, difficulties in hiring local personnel and ineffective knowledge sharing with the parent firm.	Chinese firms assert that the business environment in Germany is too complicated and unfamiliar to understand. Results also show that a fast and successful process of becoming embedded in the host region can hamper the subsidiary's success, as it may cause conflict with the parent firm.

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Wong (2012)	Qualitative (Database/archival data)	China	Australia	To explore the forces from Australian institutional environment (particularly, local companies, media and government) affecting the investment of Chinese state-owned enterprises in Australia.	Chinese businesses and their representatives still suffer from negative perceptions since local institutions see this kind of investments as an attempt on the part of Chinese government to take over national strategic assets.
Yu and Liu (2016)	Qualitative (Single case study)	China	New Zealand	To explain the major factors that cause local stakeholders' negative attitudes toward a Chinese company purchasing local dairy farmland.	Local stakeholders feel that many foreign assets are owned by the Chinese government and this situation provokes rejection. Many actors are worried that there would be increasing competition within New Zealand's dairy industry as a result of China's investments.
Zhang et al. (2012)	Quantitative (Database)	China and India	All European countries	To provide a comparative analysis of the main characteristics of Indian and Chinese firms in Europe in general and their geographical agglomeration in particular.	A large proportion of Indian and Chinese firms are highly concentrated in few European cities and regions. The agglomeration trend of Indian and Chinese firms in Europe is more evident when these companies are small sized and were established as greenfield investments and are operating in less knowledge intensive industries.

Despite recent years there has been a growing interest in explaining particularities of the FDI coming from emerging countries into developed countries, there are aspects of which are still lacking. Firstly, a descriptive study from macro- and micro-level perspective is needed, particularly in European countries such as Spain. To the best of our knowledge, there are no studies focusing on Spain that assess the magnitude of the phenomenon in the context of a known developed country as is the case. Secondly, it is interesting to extend the institutional theory approach by analyzing the potential role of cultural values of EMNEs in their integration process at developed host countries. Although previous studies provide clues about how EMNE subsidiaries behave in order to overcome cross-cultural differences, they do not reflect how they adapt their cultural values of origin at host country to achieve acceptance of both parent firm and local stakeholders. This is especially important because foreign subsidiaries are located in both external (host country) and internal environments (EMNE multinational) that exert isomorphic pulls on these subsidiaries, in what has been described as the 'isomorphic conflict' (Forsgren, 2013). Thirdly, the study of the EMNEs' liability of origin in developed countries from a subsidiary perspective need to be better developed to solve the limitations of previous research. This kind of liability has not been enough empirically analysed in the context of European developed host countries. Not only it is crucial to examine a greater deal of subsidiaries' cases by going beyond the current qualitative studies, providing more conclusive findings; but also it is necessary to address this issue by elaborating a model explaining how EMNE subsidiaries can dilute their liability of origin using quantitative methodology.

Consistently, to cover this gap in the literature, the aim of this dissertation is to know more about the presence of EMNEs in developed countries focusing on the subsidiary as a unit of analysis as well as to analyse their adaptation strategies to overcome the obstacles derived from the high institutional and cultural distance. To achieve this objective, this thesis aims to offer answers to the following questions:

(1) What is the degree of presence of EMNEs in a developed European country like Spain?

(2) How do EMNE subsidiaries achieve an adequate level of cultural adjustment in a developed country?
(3) How can EMNE subsidiaries mitigate their liability of origin in developed countries?

In answering these research questions, the present thesis is based on the premise that the EMNE subsidiaries have very active participation within the internationalisation processes of these multinational groups. This reality is particularly meaningful when the destination countries are categorized as developed, since the mission of these subsidiaries is more challenging due to the higher institutional distance faced. Under these circumstances, EMNE subsidiaries must be able to adapt to host environments that differ significantly from their home countries. Such institutional adjustment is crucial for the subsidiaries to fulfill the assignment entrusted by their headquarters, i.e. taking advantage of the benefits offered by developed countries. It is therefore of great interest to investigate how EMNE subsidiaries can mitigate their liabilities of foreignness and origin in developed countries in order to make successful these FDI.

1.2. STRUCTURE OF THE THESIS

In pursuit of the objectives stated, it is proposed a compendium of three articles corresponding to the central chapters of this PhD dissertation. These articles are closely interrelated, in a way that each one contributes to develop its own research questions in order to fulfil the general purpose of the present study. **Table 1.2** summarizes the content of the three articles of this thesis.

Table 1.2. Main characteristics of the central chapters in the thesis

	Second chapter	**Third chapter**	**Fourth chapter**
Title of the chapter	Spain as a host country for emerging market multinational enterprises	Mitigating the isomorphic conflicts faced by EMNEs in Southern Europe: The case of Chinese subsidiaries in Spain	EMNE subsidiaries: mitigating liability of origin in developed countries
Research questions	Is Spain a country of destination for the foreign investment of EMNEs? What position does Spain occupy within their global strategy in developed countries?	What is the degree of penetration of Chinese EMNEs, in Spain? How do Chinese firms interact with the Spanish host environment in adapting to a new distant market?	How can EMNEs mitigate disadvantages linked to their origin in developed markets?
Theoretical framework	Country specific advantages. Firm specific advantages.	Institutional theory. *Guanxi* perspective.	Network-based view. Institutional theory.
Methodology	Descriptive method analysing the presence of EMNEs in Spain at macro-and-micro level.	Mixture of descriptive and qualitative methods. Descriptive method analysing the Chinese presence in Spain. Qualitative methods based on case study applied to two Chinese subsidiaries operating in Spain	Mixture of quantitative and qualitative methods. Quantitative method based on a survey, resulting on a sample of 116 EMNE subsidiaries allocated in European countries (Germany, United Kingdom, France, Italy and Spain). Qualitative methods based on case study of ten EMNE subsidiaries located in Spain.

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Main finding	The presence of EMNEs in Spain is significant and increasing. For most EMNEs, FDI in Spain does not constitute a major part of their overall strategy, with the exception of *multilatinas*, for whom Spain occupies an important position, constituting a springboard into other countries.	*Guanxi* plays a major role in the search for legitimacy undertaken by Chinese subsidiaries located in Spain. The adaptation of *guanxi* practices to the local environment allows the subsidiary to align with the culture of the parent corporation and at the same time embeds itself in the host environment.	EMNE subsidiaries suffer liability of origin, particularly at the beginning of their arrival to developed countries. Our model suggests that subsidiaries joying of greater degree of autonomy are less likely to suffer discrimination by their host-country stakeholders.
Outcomes (for more details, see **Annex A**)	Información Comercial Española (ICE). Revista de Economía	Journal of Evolutionary Studies in Business 1st International Business in Southern Europe in a long term perspective	

The first article (second chapter), is a contextual article that serves to improve the understanding of the EMNEs' internationalisation as a phenomenon and their main sources of competitive advantages. Given the international rise of these multinationals and their greater relevance in the global outward FDI, the article analyses the presence of EMNEs in Spain as part of their policy of expansion into developed countries. Therefore, it addresses the following questions: 'Is Spain a country of destination for the investment of EMNEs?', 'What position does Spain occupy within their global strategy?'. These questions are tackled by developing a descriptive approach which examines the direct presence of FDI from emerging countries at both macro and micro level. On the one hand, we undertake a study of the historical evolution of FDI flows and stock received in Spain from emerging countries. On the other hand, we analyse the presence of

EMNEs in Spain determining the profile of their subsidiaries allocated in our country. The results obtained demonstrate that Spain is in line with this international rise of EMNEs, being the destination of a large number of these new multinationals, particularly from China. However, Spain does not appear to be a strategic country for EMNEs' global interests. Only for a minority of these multinational enterprises, especially from Latin America, Spain occupies a crucial position, constituting a springboard into other countries.

These findings provide enough empirical evidence to further investigate the phenomenon once observed that it bursts forth in Spain, and Chinese EMNEs are becoming one of the main protagonists. In fact, in the period 2007 to 2014, the Chinese FDI stock in Spain has drastically increased by 89,790%, being clearly the most spectacular growth rate among all the emerging countries. Consequently, this leads us to focus on the second article on the analysis of cases of Chinese EMNEs and their difficulties to settle in Spain. We chose these Chinese corporations instead of Latin American ones, because they offer an interesting opportunity of investigating the more institutional distant EMNEs and the adaptation problems that may deal with. Therefore, the second article (third chapter) examines how Chinese subsidiaries operating in Spain resolve the isomorphic conflict (Forsgren 2013), by seeking internal and external legitimacy at the subsidiary level. Also this research illustrates how these subsidiaries mitigate their liability of foreignness as well as they manage their cultural adaptation to new environments. Hence, the main question proposed in this chapter is the following: 'How EMNE subsidiaries interact with the Spanish host environment in adapting to a new distant market?' Adopting a qualitative methodology by reporting case studies of two Chinese subsidiaries in Spain, the findings denote great institutional distance between China and Spain that are overcome by using Chinese cultural values known as *Guanxi*[3]. Interestingly, the adoption and adaptation of *guanxi* practices to the local environment allow the subsidiary to align itself with the culture of the parent organization at the same time as it embeds itself in the host environment, thus resolving any isomorphic

[3] *Guanxi* is a Chinese deep-rooted system of personal relations and social connections founded on mutual interests.

conflicts. Our results also reveal that within this process of isomorphic conflict resolution, local subsidiary managers take on a key role in the success of Chinese investment in developed countries. To do so, Spanish managers have to involve themselves in *guanxi* practices in order to win the confidence of Chinese expatriates. They act as a bridge, reducing the cultural-cognitive distance by transferring mutual knowledge between the host's institutional environment and that of the corporation.

After analyzing the cultural adaptation of Chinese EMNE subsidiaries in Spain, in the third article we continue studying the disadvantages of EMNEs when they are internationalized in institutionally distant countries. In this occasion, we put the emphasis on the liability of origin, which is inherent of EMNEs. Therefore, the third article (fourth chapter), is intended to analyse how EMNE subsidiaries in developed countries can overcome the issue of possible discrimination that they may suffer from their host stakeholders, simply by the fact of proceeding from an emerging country and carrying with them a negative institutional heritage. Then, this article addresses the following question: 'How can EMNE subsidiaries mitigate the liability of origin in developed countries?' This research question is answered by conducting both quantitative and qualitative methods. On the one hand, the need to obtain conclusive results pushes for adopting a partial least square approach to structural equation modelling in order to provide empirical evidence based on a survey of 116 EMNE subsidiaries settled in Germany, United Kingdom, France, Italy, and Spain. On the other hand, because of the issue of EMNEs' liability of origin is still at exploratory stage, a qualitative approach it is necessary and useful for tackling our question, and thereby a case study methodology was carried out examining ten EMNE subsidiaries in Spain. The main contribution of this article is the elaboration of an original model that contains subsidiaries' levels of embeddedness and legitimacy, and autonomy which explains how subsidiaries from EMNEs combat their liability of origin. Particularly, the model raises the following hypotheses: (1) a high level of subsidiary' external embeddedness will increase the subsidiary' level of external legitimacy; (2) a greater level of subsidiary' external legitimacy, the lesser the subsidiary' liability of origin; (3) a high level of subsidiary' internal embeddedness will increase the subsidiary' level of internal legitimacy; (4) a high level of subsidiary's external legitimacy will increase the level of subsidiary' internal legitimacy; (5) the greater the subsidiary' internal legitimacy, the greater the subsidiary' autonomy; (6) the greater level of subsidiary' autonomy, the lesser the subsidiary' liability of origin. These significant relationships were nuanced and enhanced by the cases study.

Finally, the conclusions section (fifth chapter) reflect about the results obtained as well as present some inspiring future research lines to continue developing the EMNE's literature.

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CHAPTER 2.

SPAIN AS A HOST COUNTRY FOR EMERGING MARKET MULTINATIONALS

2.1. INTRODUCTION

The global rise of emerging market multinational enterprises (EMNEs) is a recent phenomenon that is acquiring increasing relevance in the field of international business. These enterprises, forged in developing countries, are not only able to compete effectively in their countries of origin but they are also expanding successfully into more developed countries, home to most of the world's leading multinationals (Guillén and García-Canal, 2012). Proof of the growing international importance of EMNEs is the increasing weight of their participation in global direct investment. According to UNCTAD (2016), EMNEs have gone from representing 5% of the global foreign direct investment (FDI) issued in 1990 to 16% in 2005 and 28% in 2015. Likewise, an increasing number of EMNEs have entered *Fortune* magazine's ranking of the world's 500 largest corporations: in 2005 there were 47 but by 2015 this number had risen to 158 to represent 32% of the firms in this ranking.

As a result of the global rise of EMNEs, the behavior of these multinationals has gained increasing attention in both the academic and professional worlds. Indeed, it is against the backdrop of this new scenario, that this paper raises two questions: Is Spain a country of destination for the investment of EMNEs as these enterprises opt to establish foreign subsidiaries as part of their policy of expansion into developed countries? And, what position does Spain occupy within their global strategy? As such, this paper seeks to ascertain the motives driving these multinationals to undertake FDI (Dunning, 1979) in Spain based on such evidence as the volume of assets invested in the country, the number of workers employed, the degree of diversification or the amount of foreign activity of their subsidiaries in terms of their export records and the amount of shares held in other companies. This question is of particular interest, given that to date no reports have examined the direct presence of EMNEs in Spain. However, a few studies have analysed FDI, above all that originating from Latin America. For example, Rivera et al. (2009) examine FDI flows and stock received from Latin American countries, but undertake neither a micro nor a strategic analysis of the presence of these EMNEs in Spain. Likewise, Santiso (2008) undertakes a qualitative study of the performance of Latin

American multinationals or *multilatinas* in Spain. Finally, Quer et al. (2015) focus their analysis solely on Chinese investments received by Spain, and as such do not consider those from the rest of the emerging countries.

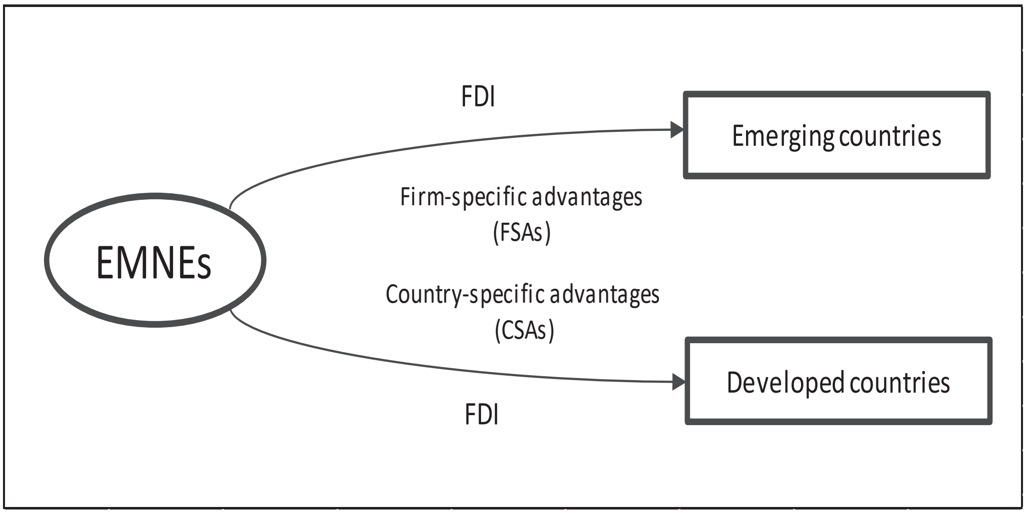
To analyse the FDI originating from emerging economies, this article begins with an analysis of the main characteristics of EMNEs as described in the academic literature. Next, the methodology used to identify the EMNEs in Spain is described. In the following sections, the degree of penetration of these EMNEs in Spain is quantified and their strategic behavior in the country analysed. Finally, the main conclusions and future lines of research are reported.

2.2. PHENOMENON: THE EMERGING MARKET MULTINATIONALS

The earliest theories about the multinational firm were developed in the 1960s and 1970s (Hymer, 1960; Vernon, 1966; Johanson and Valhne, 1977; Dunning, 1979) and responded to the prevailing reality in which the vast majority of firms that ventured beyond the borders of their own country originated from the United States or Western Europe. Despite the validity of these theories, they are no longer entirely applicable to explain the FDI that originates from the emerging economies. The development paths and internationalisation processes that characterize EMNEs differ from those of the multinationals of developed countries (Khanna and Palepu, 2006; Cuervo-Cazurra, 2007; Luo and Tung, 2007). According to Gammeltoft et al. (2010), EMNEs are characterized by their tendency to be more vertically and horizontally integrated, to operate in technologically more mature industries, to be reliant on social networks based on language and other cultural affinities, and to enjoy the active intervention of governments in their international development.

In the early 1980s, the first studies appeared in the literature explaining the international expansion of a large number of enterprises from emerging economies (Lecraw, 1977; Heenan and Keegan, 1979; Kumar and McLeod, 1981; Lall, 1983; Wells, 1983). At that time, most of these firms operated in sectors based on natural resources and many them were state-owned (Heenan and Keegan, 1979). With the passage of time, the differences between these first EMNEs and those that currently typify this phenomenon have become increasingly more evident, which is why new theories have been developed that adapt better to the prevailing reality. As a result of this evolution we now find two different approaches that attempt to explain the internationalisation of EMNEs (see **Figure 2.1**).

Figure 2.1. Internationalisation of EMNEs



Source: own elaboration

From the perspective of the theory underpinned by country-specific advantages (CSAs) (Dunning, 1989; Porter, 1990; Buckley and Casson, 1998), the internationalisation of firms from emerging economies can be explained, first, by their privileged access to internationally scarce natural resources – raw materials such as oil and natural gas, metals and forest resources among others (Lucea and Lessard, 2010); and, second, by the abundance of generic production resources on the domestic market, primarily cheap labor (Rugman, 2009; McCarthy et al., 2009). Access to these scarce natural resources enables these firms to succeed abroad given the limited availability of alternative suppliers. Similarly, the availability of cheap labor in the domestic market allows them to implement substitution strategies for their factors of production. All in all, their intensive use of low-cost inputs offsets the competitive barriers that they are faced with in international markets.

On the other hand, from the perspective of the theory based on firm-specific advantages (FSAs) (Dawar and Frost, 1999; Meyer, 2004; Khanna and Palepu, 2006; Rugman, 2009), EMNEs, unlike the enterprises of developed countries, are able to operate successfully in adverse market conditions (Ramamurti, 2009, Guillén and García-Canal, 2012). The extremely challenging institutional, technological and competitive environments of their domestic markets force these firms to develop innovative capabilities that are of particular value in other countries and relatively easy to transfer internationally (Khanna and Palepu, 2006). These capabilities can be built on product and process technologies and on marketing and distribution skills, which allow them to compete in the market alongside the large multinationals of developed countries.

Although there is currently no consensus in the literature as to the main determinants of the rise of the EMNEs (Lucea and Lessard, 2010), evidence to date seems to favor the CSA-based theory (Dunning et al. 2008; Rugman, 2009). **Figure 2.2** classifies EMNEs according to the origin of their international competitive advantages.

Figure 2.2. EMNEs source of advantages matrix

Country-specific advantages	**Firm-specific advantages** Weak	Strong
Strong	1 EMNEs with a competitive advantage in natural resources	3 EMNEs with strong CSAs and FSAs
Weak	2 EMNEs without an international competitive advantage	4 EMNEs owning powerful brands and advanced technology
	Weak	Strong

Source: adapted from Rugman (2009)

The first quadrant holds the cost leaders, that is, firms with an international orientation for the production of raw materials. By operating in mature industries, the possession of intangible resources is less important than the abundance of natural resources and low energy costs, since they constitute the main sources of competitive advantage for these firms. In contrast, the companies in the second quadrant are somewhat inefficient and do not have a sufficiently consistent international strategy, lacking either country- or firm-specific advantages. They are, in general, smaller multinationals that do not yet have a large global presence. This quadrant also holds firms that are preparing for expansion or which are involved in restructuring processes. In the third quadrant, we find firms which can, in general, opt for any strategy due to their having both strong CSAs and FSAs. This is the case of firms that have been able to develop highly distinct capacities by exploiting the advantages of their country of origin. Finally, the firms in the fourth quadrant differ from the rest in that they boast strong FSAs based on high levels of technological and marketing skills derived, for example, from the impetus generated by a strong brand. According to Rugman (2009) there is little empirical evidence that any EMNEs are to be found in this last quadrant, since such FSAs are unlikely to be independent of the localisation and competitiveness factors of the countries of origin of these enterprises.

Although EMNEs share numerous traits, we find marked differences in their origin and behavior according to their regions or countries of origin. **Table 2.1** summarizes the main characteristics attributed by the literature to EMNEs according to their region of origin. Thus, the majority of *multilatinas* are usually smaller than the EMNEs from other emerging regions; Asian firms are notably larger (and attract most of the attention of the literature); the multinationals of Eastern Europe are characterized by their late entry in the world economy and by a low degree of diversification; and, finally, the EMNEs from the Middle East and Africa are the least numerous and, therefore, the least studied in the academic literature.

Table 2.1. Main characteristics of EMNEs

	Origin	Leading multinationals	Main sectors	Diversification	Geographical presence	Studies published
Multilatinas	**1970-1990**: regional internationalization. Post **1990** (period of economic liberalisation in Latin America): global internationalisation	Petrobras (Brazil), Cemex (Mexico), Vale (Brazil), Embraer (Brazil), Mexichem (Mexico), América Móvil (Mexico), Gerdau (Brazil), Grupo Bimbo (Mexico), JBS (Brazil), LAN (Chile), PDVSA (Venezuela), WEG (Brazil)	Raw materials (oil and natural gas), steel, chemicals, construction, foodstuffs, telecommunications, aeronautics, industrial engineering	Widely diversified	**Regional**: in other neighboring emerging countries **Global**: in developed countries and other emerging economies	Martinez et al., 2003; Cuervo-Cazurra, 2007, 2010, 2016; Santiso, 2008; Fleury and Fleury, 2010, 2014; Lucea and Lessard, 2010; Casanova, 2011; Parente et al., 2013; Ávila et al., 2015
Asian	Post **1970**: multinationals of South Korea, Taiwan and Hong Kong began process of internationalisation. **1970-1980**: Indian multinationals undertook FDI in other emerging countries. **1990-2000**: Indian multinationals undertook FDI in developed countries. Chinese multinationals intensified their investments abroad.	Sinopec Group (China), China National Petroleum (China), Tata Group (India), Lenovo (China), State Grid China), Foxconn (Taiwan), Hutchison Whampoa United (Hong Kong), CITIC Group (China), ChemChina (China), Huawei (China), Reliance (India), Suzlon (India), Sun Pharmaceuticals (India), Dr. Reddy's (India)	Electronics, motor vehicles, raw materials (oil and natural gas, metals), chemicals, pharmaceuticals	Diversified	**Regional**: in other neighboring emerging countries **Global**: in developed countries and other emerging economies	Child and Rodrigues, 2005; Buckley et al., 2007; Luo and Tung, 2007; Ramamurti and Singh, 2009; Williamson and Zeng, 2009; Li Sun et al., 2012; Wang et al., 2012; Nicholson and Salaber, 2013; Meyer et al., 2014; Amendol-agine et al., 2015; Thite et al., 2016; Zheng et al., 2016

(Continued on the next page)

Eastern European	Post **2000**: experienced global internationalisation	Gazprom (Russia), Lukoil (Russia), Rosneft Oil (Russia), Severstal (Russia), Sistema (Russia), Evraz Group (Russia), PKN Orlen Group (Poland), Mol Hungarian Oil & Gas (Hungary)	Raw materials (oil and natural gas, metals)	Non-diversified (their activities involve the exploitation of natural resources)	**Regional**: in other neighboring emerging countries **Global**: in developed countries and other emerging economies	McCarthy et al., 2009; Kalotay and Sulstarova, 2010; Spigarelli, 2011; Radlo, 2012; Musteen et al., 2014; Panibratov, 2015
Middle Eastern and African	Post **1980**: Turkish multinationals began international expansion. Post **1990** (end of Apartheid): South African multinationals began global internationalisation	Sabic (Saudi Arabia), Koç Holding (Turkey), Yildiz (Turkey), Sappi Ltd. (South Africa), Barloworld (South Africa), Qatar Telecom (Qatar)	Telecommunications, chemicals, raw materials (oil and mining), foodstuffs, construction and mining equipment	Diversified	**Regional**: in other neighboring emerging countries **Global**: in developed countries and other emerging economies	Demirbag et al., 2007, 2010; Klein and Wöcke, 2007; Goldstein and Prichard, 2009; Yaprak and Karademir, 2011; Chen and Aybar, 2015

Source: own elaboration

2.3. METHODOLOGY

To fulfill our goal, the first step was to undertake a study of the historical evolution of FDI flows and stock received in Spain from emerging countries. For this analysis, we opted to use the Spanish Foreign Investment Registry (DataInvex)[4], given that it is a highly useful tool for conducting a detailed evaluation of the FDI received in Spain. So as to eliminate all speculative capital movements that might interfere with the interpretation of this FDI, we excluded from the analysis all the flows received by *Entidades de tenencia de valores extranjeros*, that is, entities holding foreign securities[5]. Moreover, investments were only included by the 'last country of origin', since this is where the last holder of the investment resides. This criterion is more representative than using that of the 'immediate country of origin', which only takes into consideration the direct holder of the investment, which might be merely a country of transit for organizational or fiscal purposes.

First, to identify emerging economies, we chose those countries whose real GDP growth rates, according to the International Monetary Fund (2016) for the period 2007–17, were above 4% for at least three fiscal years. This growth benchmark reflects our aim of only including the most important countries in terms of their ability to generate business. In this way, we also exclude countries that, despite being included in the emerging group, are developing economies whose contribution to global GDP and the world of international business in general is slight. As a result, thirty-nine countries were selected: Argentina, Bahrain, Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Czech Republic, Ecuador, Egypt, Hong Kong, Hungary, India, Indonesia, Kazakhstan, Korea (South Korea), Kuwait, Latvia, Lithuania, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, Singapore, South Africa, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, Uruguay and Venezuela.

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[4] DataInvex – data records published by the Spanish Ministry of Economy and Competitiveness - since 1993 it has included information on the FDI received and issued by Spain in both gross and net terms.

[5] These are holding companies set up as part of a tax optimization strategy within a business group. The real destination of their FDI flows is not Spain's production system but those of other countries (Fernández-Otheo, 2004).

Second, to analyse the profile of the FDI originating from these emerging economies, we identified the EMNE subsidiaries operating in Spain in 2015[6] according to a secondary information source, SABI (*Sistema de Análisis de Balances Ibéricos*)[7]. In order to ensure the multinational exercised absolute control over the Spanish subsidiary, we only selected those firms that reported a foreign ownership of at least 50.01% from an emergent economy. During the process of database construction, some inconsistencies were found when identifying the Spanish subsidiaries of EMNEs (i.e. the wrong codes were listed for the foreign shareholder countries or the names of the foreign shareholders were linked to more than one emerging country). These were solved by triangulating the information with other sources, such as the records from *Fomento de la Producción*[8] and the websites of the companies themselves.

Finally, having identified the EMNE Spanish subsidiaries, information was sought on different business aspects in order to assess the magnitude of the phenomenon, establishing a profile of these firms present in Spain, as well as analyzing their strategic behavior in the country.

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[6] The year for the baseline data was fixed as 2015 as this was the most recent financial year offereing the most information.

[7] The SABI (Iberian Balance Sheet Analysis System) database – published by Bureau van Dijk – records general information and financial data for more than 1,250,000 Spanish companies and 400,000 Portuguese companies. The data are updated periodically and are obtained from official sources including the *Registro Mercantil* and the *BORME*.

[8] *Fomento de la Producción* is a database published by the institution of the same name. Each year, since 1984, it has published “España 30.000” based on information taken from the companies registers.

2.4. THE PRESENCE OF EMNES IN SPAIN

2.4.1. Spain as a recipient of FDI from economies of emerging countries

In 2015, Spain occupied thirty-fourth place in the global ranking of flows of FDI received (UNCTAD, 2016) with a total of 9,243 million euros, of which 19.11% originated from the economies of emerging countries. In the period 2000 to 2015, gross FDI inflows from emerging and developed countries followed similar patterns (see **Table 2.2**). However, in these last fifteen years a different growth rate can be observed: inflows originating from emerging countries underwent an average growth of 185.35%, compared to just 2.68% for those originating from the rest of foreign countries. In short, Spain's FDI inflows from emerging countries present a clear upward trend, especially since the onset of the economic crisis when this growth became quite constant (rising from 0.75% in 2000 to 19.11% in 2015). This current pattern is consistent with developments on the international scene where the weight of the emerging economies in global FDI has increased notably. Thus, according to UNCTAD figures (2016), while the investment emanating from developed countries remains stagnant, the emerging economies reported a record $518 billion in 2014, accounting for 39.27% of total global FDI inflows.

Table 2.2. Spain's FDI inflows (2000-2015) (%)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Emerging countries	0.75	12.28	4.13	3.11	3.49	6.14	7.56	5.93	1.54	31.74	3.43	16.72	10.10	13.36	22.70	19.11
Latin America	86.18	96.87	70.63	84.98	83.51	89.15	66.81	42.91	32.68	11.93	50.01	4.95	51.66	50.39	67.07	39.02
Asia	6.44	0.64	17.40	1.55	6.82	1.52	4.00	34.90	30.58	1.96	26.27	2.23	40.69	37.17	29.32	43.12
Middle East and Africa	4.46	1.19	10.73	8.52	5.75	3.77	17.60	20.17	23.24	84.84	11.25	91.34	3.39	7.06	2.14	15.50
Eastern Europe	2.93	1.30	1.24	4.96	3.93	5.56	11.60	2.01	13.50	1.28	12.47	1.48	4.26	5.37	1.47	2.37
Rest of foreign countries	99.25	87.72	95.87	96.89	96.51	93.86	92.44	94.07	98.46	68.26	96.57	83.28	89.90	86.64	77.30	80.89
Total EUR million	**26,035**	**15,514**	**11,770**	**9,936**	**9,032**	**13,887**	**9,824**	**30,045**	**29,550**	**12,413**	**12,409**	**28,945**	**14,801**	**17,025**	**19,893**	**23,609**

Source: Based on data from Spanish Foreign Investment Registry (DataInvex)

As for the origin of these FDI inflows, it can be seen that since 2006, the previous dominance enjoyed by Latin America has been relinquished to the other emerging regions, given that, while between 2000 and 2005 the continent's mean weight in these flows was 85.22%, between 2006 and 2015 this mean value fell to 41.74%. For example, the share of investment flows originating from Mexico has fallen dramatically, so while they accounted for 93.01% of the FDI from emerging countries in 2001, by 2015 they represented just 21.52%. Meanwhile, Asia and the Middle East/Africa have emerged as regions that are investing increasing amounts in Spain, albeit that no single country has yet to emerge to occupy the dominant role formerly exercised by Mexico for so many years. Thus, FDI inflows have grown from China, India and Singapore in the Asian region, from the United Arab Emirates and Turkey in the Middle East/Africa while Russia leads the way among the emerging countries of Europe.

As for Spain's inward FDI stock originating from the emerging countries, **Table 2.3** shows how over a seven year period this has increased by 190.29% in absolute terms. Thus, its weight in relation to total FDI stock has risen from 6.50% in 2007 to 14.40% in 2014, again in parallel with the events of the international financial crisis. In short, the investment position of emerging countries in Spain is clearly expanding, with a mean growth in the last seven years of 27.18%, compared to 2.84% from the rest of foreign countries.

Table 2.3. Spain's inward FDI stock (2007-2014*) (%)

Year	2007	2008	2009	2010	2011	2012	2013	2014
Emerging countries	6.50	8.59	6.92	8.63	12.43	12.39	14.03	14.40
Latin America	81.28	85.68	75.66	82.71	57.82	55.25	62.45	62.45
Asia	1.50	0.73	2.36	2.12	23.74	25.57	19.96	23.55
Middle East and Africa	16.68	13.17	21.54	14.65	17.66	17.88	16.31	12.80
Eastern Europe	0.54	0.42	0.44	0.53	0.78	1.31	1.28	1.20
Rest of foreign countries	93.50	91.41	93.08	91.37	87.57	87.61	85.97	85.60
Total EUR million	**251,748**	**286,225**	**320,607**	**316,344**	**319,016**	**316,632**	**299,614**	**329,634**

Note: * correspond to the only years available in the Foreign Investment Register

Source: Based on data from Spanish Foreign Investment Registry (DataInvex)

An analysis of FDI stock by region shows how Latin America, despite the deceleration recorded in recent years, continues to be the chief source of direct investment from emerging countries in Spain, accounting for 62.45% in 2014. This can be explained by the extremely strong trading links that have been forged over so many years between Spain and Latin America as a result of their firm historical and cultural ties (Casanova, 2011; Santiso, 2008; Rivera et al., 2009). However, although Mexico continues to be Spain's main investor (45.85% of the total in 2014), the spectacular growth from the emerging Asian region, with China and Hong Kong at the forefront, cannot be ignored. Thus, **Table 2.4** shows that in just seven years China has experienced a huge investment push, leaving it second only to Mexico as the most important investor in Spain from the emerging economies.

Table 2.4. Ranking of Spain's inward FDI stock from emerging countries

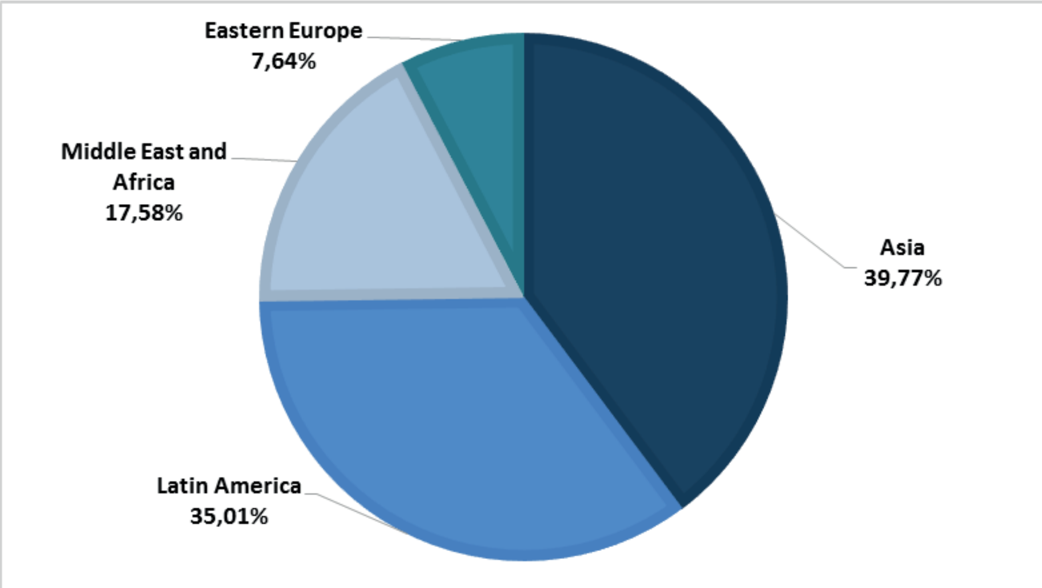
RK	Emerging country	Stock value 2014 (Total EUR million)	Stock value 2007 (Total EUR million)	Increase in absolute values (Total EUR million)	Increase in relative values (%)	Average growth 2014-2007 (%)
1	Mexico	21,767	12,138	9,629	79	11
2	China	8,989	10	8,979	89,790	12,827
3	Brazil	5,130	384	4,746	1,236	177
4	United Arab Emirates	4,880	470	4,410	938	134
5	Hong Kong	874	5	869	17,380	2,483
6	Argentina	805	68	737	1,084	155
7	South Korea	714	137	577	421	60
8	Venezuela	705	113	592	524	75
9	Uruguay	665	206	459	223	32
10	Saudi Arabia	398	1,317	-919	-70	-10

Source: Based on data from Spanish Foreign Investment Registry (DataInvex)

2.4.2. Profile of the EMNE subsidiaries located in Spain

Following on from this analysis of FDI inflows and stock, of the 15,231 subsidiaries located in Spain, and registered in SABI, with foreign capital participation greater than 50%, a total of 694, that is 4.56%, can be identified as subsidiaries of EMNEs. Most are of Asian origin (276 firms), followed by those from Latin America (243), the Middle East/Africa (122) and Eastern Europe (see **Figure 2.3**). If we break these figures down by country, we find 135 companies from Mexico, 93 from India, 82 from China, followed by 53 from Brazil, 49 from the United Arab Emirates, 28 from Turkey and 24 from South Korea.

Figure 2.3. Origin of the EMNE subsidiaries' leading shareholder in 2015



Source: Based on data from SABI

The EMNE subsidiaries employ 4.59% of Spanish workers and represent 16.23% of the total revenues of foreign multinationals in the country (see **Table 2.5**). They also account for 11.22% of assets and 14.08% of total shareholders' equity. The subsidiaries of the EMNEs, compared to those of the developed countries, are markedly larger in size. With the exception of the number of employees, the rest of the variables (operating revenues, assets and equity) present a much higher mean value than those presented by the rest of the foreign capital companies. Although the EMNE subsidiaries employ a smaller number of workers, their operating revenues and equity almost triple those of the other foreign affiliates, while their assets are almost twice as great.

If we analyse the characteristics of each group of firms according to the origin of their capital, we see that the subsidiaries of *multilatinas* and those originating from the Middle East/Africa are the largest. Thus, the enterprises from Latin America present the highest absolute and average values in terms of assets and equity, while the subsidiaries from the Middle East/Africa stand well above the rest in terms of their operating revenues. They are followed by the Asian and Eastern European subsidiaries, the latter being the smallest.

In short, the presence of EMNEs in Spain is characterized by a small number of large subsidiaries, indicating that the phenomenon is still incipient, especially when compared to foreign direct investment originating from the developed countries.

Table 2.5. Characteristics of the EMNE subsidiaries versus those of all the foreign subsidiaries in Spain (2015)

		Latin American subsidiaries	Asian subsidiaries	Middle East and African subsidiaries	Eastern Europe subsidiaries	EMNE subsidiaries	Foreign subsidiaries	% EMNE subsidiaries as total foreign
Companies	Absolute values	243	276	122	53	**694**	**15,231**	**4.56**
Employees	Absolute values	22,890	20,747	16,955	2,401	**62,993**	**1,373,614**	**4.59**
	Average values	170.20	93.04	184.29	60.03	**128.04**	**150.80**	
Operating Revenues*	Absolute values	18,190	13,183	53,612	1,129	**86,114**	**530,423**	**16.23**
	Average values	98.32	60.19	520.51	25.66	**148.67**	**52.52**	
Total Assets*	Absolute values	52,839	8,692	25,799	476	**87,806**	**782,796**	**11.22**
	Average values	309.59	36.07	230.35	10.57	**142.64**	**76.96**	
Total Equity*	Absolute values	35,783	2,519	10,874	130	**49,306**	**350,308**	**14.08**
	Average values	220.19	11.35	97.09	2.90	**85.18**	**34.45**	

* Absolute values in millions of euros

Source: Based on data from SABI

The EMNE subsidiaries operate mainly in the services sector – 75.36% vs. 18.30% in the manufacturing industry[9]. Within the services sector, most of the subsidiaries operate in less knowledge-intensive sectors (57.55%), such as the wholesale and retail of various products (electronics, chemicals and foodstuffs, among others), compared to 42.45% that operate in more knowledge-intensive sectors, such as financial services or R&D (see **Table 2.6**). In the case of the industrial enterprises, a significant proportion of these operate in sectors with a medium-low technological intensity (33.07%), such as metallurgy and plastics. However, a large proportion also operate in industries with a medium-high technological profile (36.22%), such as chemicals, motor vehicles and the manufacture of machinery and electrical equipment.

This sector analysis shows that most EMNEs in Spain operate in sectors other than those linked exclusively to the monopolistic advantages to be gained from exploiting natural resources or cheap labor (CSAs), which means, in the absence of any other evidence, that the theory based on firm-specific advantages (FSAs) (Dawar and Frost, 1999; Khanna and Palepu, 2006; Rugman, 2009) seems to fit the Spanish case most closely.

[9] To analyse these firms by sector, we opted to employ the criteria used by Eurostat (2011), which establishes a classification based on the different levels of technology and knowledge of the different economic activities. Thus, the services sector is divided into knowledge-intensive and less knowledge- intensive services and manufacturing is divided into industries with high, medium-high, medium-low and low technological intensities.

Table 2.6. Sector classification of EMNE subsidiaries by technological and knowledge intensity (2015)

	Companies	%
Without technological classification	**44**	**6.34**
Electricity, gas, steam, water and air conditioning supply	18	40.91
Construction	16	36.36
Mining and quarrying	10	22.73
Manufacturing industries	**127**	**18.30**
High-technology	**7**	**5.51**
Manufacture of basic pharmaceutical products and pharmaceutical preparations	5	71.43
Manufacture of computer, electronic and optical products	2	28.57
Medium-high technology	**46**	**36.22**
Manufacture of chemicals and chemical products	18	39.13
Manufacture of motor vehicles, trailers and semi-trailers	18	39.13
Manufacture of electrical equipment and other machinery	10	21.74
Medium-low technology	**42**	**33.07**
Manufacture of fabricated metal products, except machinery and equipment	20	47.62
Manufacture of rubber and plastic products	8	19.05
Manufacture of other non-metallic mineral products	8	19.05
Other manufacturing	6	14.29
Low-technology	**32**	**25.20**
Manufacture of food products and beverages	22	68.75
Manufacture of textiles, leather and related products	6	18.75
Other manufacturing	4	12.50
Services	**523**	**75.36**
Less knowledge-intensive services	**301**	**57.55**
Wholesale trade, except of motor vehicles and motorcycles	146	48.50
Warehousing and support activities for transportation	36	11.96
Land transport and transport via pipelines	25	8.31
Retail trade, except of motor vehicles and motorcycles	19	6.31
Wholesale and retail trade and repair of motor vehicles and motorcycles	17	5.65
Office administrative, office support and other business support activities	16	5.32
Real estate activities	14	4.65
Accommodation	12	3.99
Food and beverage service activities	10	3.32
Other sectors	6	1.99

(Continued on the next page)

Knowledge-intensive services	**222**	**42.45**
Financial service activities, except insurance and pension funding	71	31.98
Architectural and engineering activities; technical testing and analysis	30	13.51
Computer programming, consultancy and related activities	24	10.81
Activities of head offices; management consultancy activities	17	7.66
Other professional, scientific and technical activities	16	7.21
Activities auxiliary to financial services and insurance activities	14	6.31
Publishing activities	6	2.70
Telecommunications	5	2.25
Gambling and betting activities	5	2.25
Advertising and market research	5	2.25
Legal and accounting activities	5	2.25
Scientific research and development	4	1.80
Sports activities and amusement and recreation activities	4	1.80
Human health activities	3	1.35
Other sectors	13	5.86
TOTAL	**694**	**100.00**

Source: Based on data from SABI and Eurostat

On the other hand, in relation to the activities they carry out, half the subsidiaries of EMNEs (56.05%) only operate in one sector of activity, indicating that they are not at all diversified[10]. Of those that are diversified (43.95% of the total sample), only 8.93% opt to follow a related diversification strategy, while the remaining 35.01% have opted for unrelated diversification. This latter strategy is a typical feature of EMNEs (Khanna and Palepu, 2006; Cuervo-Cazurra, 2007). For example, the Tata Business Group has subsidiaries in Spain that operate in sectors as diverse as those of motor vehicles, steel and computer consulting.

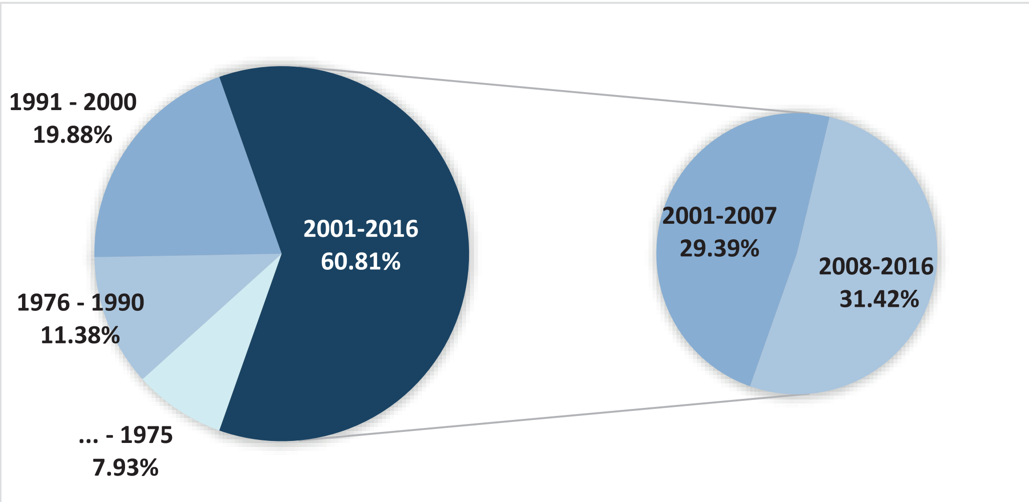
Unlike the multinationals of developed countries, EMNEs have only been established in Spain for a short time. In fact, 80.69% of the firms analysed were set up after 1991 and more than half of the sample (60.81%) have

[10] In line with Hitt et al. (1997) to measure the degree of diversification we adopt the following criteria: a firm presents no diversification in Spain if it does not have a secondary NACE classification; a firm implements a related diversification strategy in Spain if it has a secondary NACE that differs from its primary NACE at the three-digit level, but which coincides at the two-digit level; finally, a firm presents an unrelated diversification strategy if its secondary NACE differs from its primary at both the two- and three-digit levels.

been operating for less than fifteen years, and as such are very young subsidiaries (see **Figure 2.4**). Of these youngest subsidiaries, roughly half (29.39% of the total) were set up before the outbreak of the 2008 economic crisis, while the other half (31.41% of the total) were the result of investments made after the onset of the severe economic downturn.

In general terms, irrespective of the specific year in which the subsidiary was set up and of its country of origin, the direct investment of EMNEs in Spain has been concentrated primarily over the last decade. Those firms set up before 1991 (11.38% prior to 1990 and 7.93% before 1975) are generally the result of mergers and acquisitions of Spanish companies. This is the case, for example, of the CEPSA group which was acquired in full in 2011 by the Emirate group, International Petroleum Investment Company, for an amount close to 5,000 million dollars.

Figure 2.4. Year of foundation of the subsidiaries in which the EMNEs have a participation (2015)



Source: Based on data from SABI

2.4.3. International strategy of the EMNE subsidiaries in Spain

Having verified that Spain has not been sidelined from the growing investment of the EMNEs, this section analyses the position that the country occupies within the framework of their global strategy. For most EMNEs, Spain does not however appear to be a key country in their process of international expansion. If we analyse the presence of the world's 100 largest EMNEs according to the World Investment Report 2016[11] (UNCTAD, 2016), we see that only twenty-three of them have a foreign subsidiary operating in Spain (see **Table 2.7**). In addition, their level of assets in Spain is low (7.89%) compared to the total invested in other foreign countries, with only seven EMNEs exceeding 2%.

However, for some of these EMNEs, such as the *multilatinas*, Spain does occupy a key position within their internationalisation strategy. This is the case of the Mexican firms of Cemex and Bimbo and of the Brazilian firm Gerdau, which hold a significant percentage of their total foreign assets in Spain (97.88, 14.22, and 13.38%, respectively). These figures are logical if we consider that Spain, in combination with Latin America, forms a large natural market and a springboard from which the international expansion of many *multilatinas* or *global latinas* has begun (Casanova, 2011).

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[11] The World Investment Report (WIR) publishes an annual ranking of the top 100 EMNEs according to their percentage of assets held abroad.

Table 2.7. Presence in Spain of the leading EMNEs according to the WIR (2016)

Ranking WIR	Company	Country	Nº subsidiaries in Spain	Foreign assets 2014 (mill. EUR.)	Assets in Spain 2014 (mill. EUR.) *	% assets in Spain over total foreign assets
1	Hutchison Whampoa Limited	Hong Kong, China	1	82,778	507	0.61
4	Samsung Electronics Co., Ltd.	South Korea	1	51,058	504	0.99
7	China Ocean Shipping (Group) Company	China	2	40,732	23	0.06
10	Tata Motors Ltd	India	3	28,324	176	0.62
11	**Cemex S.A.B. de C.V.**	**Mexico**	**7**	**27,960**	**27,366**	**97.88**
13	Hyundai Motor Company	South Korea	2	25,924	285	1.10
20	Sabic - Saudi Basic Industries Corp.	Saudi Arabia	3	21,531	2,002	9.30
27	China Minmetals Corp	China	1	17,478	5	0.03
29	Sinochem Group	China	1	17,005	15	0.09
35	Lenovo Group Ltd	China	1	15,264	165	1.08
45	**Gerdau SA**	**Brazil**	**5**	**13,202**	**1,767**	**13.38**
46	Fomento Economico Mexicano SAB	Mexico	1	12,284	530	4.31
50	Tata Steel Ltd	India	3	11,769	57	0.48
55	Sasol Limited	South Africa	1	10,128	1	0.01
60	Infosys Limited	India	1	9,398	2	0.02
63	DP World Limited	United Arab Emirates	2	9,250	90	0.97
68	Naspers Ltd	South Africa	1	8,694	35	0.40
69	Tata Consultancy Services	India	1	8,622	17	0.20
72	Reliance Industries Limited	India	2	8,318	16	0.19
74	**Grupo Bimbo SAB de CV**	**Mexico**	**10**	**8,185**	**1,164**	**14.22**
81	LG Electronics Inc.	South Korea	1	6,858	208	3.03
82	Olam International Ltd	Singapore	3	6,693	111	1.66
99	Acer Inc	Taiwan	1	4,189	100	2.39
		TOTAL	**54**	**445,643**	**35,146**	**7.89**

* Note: total assets in Spain have been obtained by summing all the assets of the Spanish subsidiaries of these EMNEs.

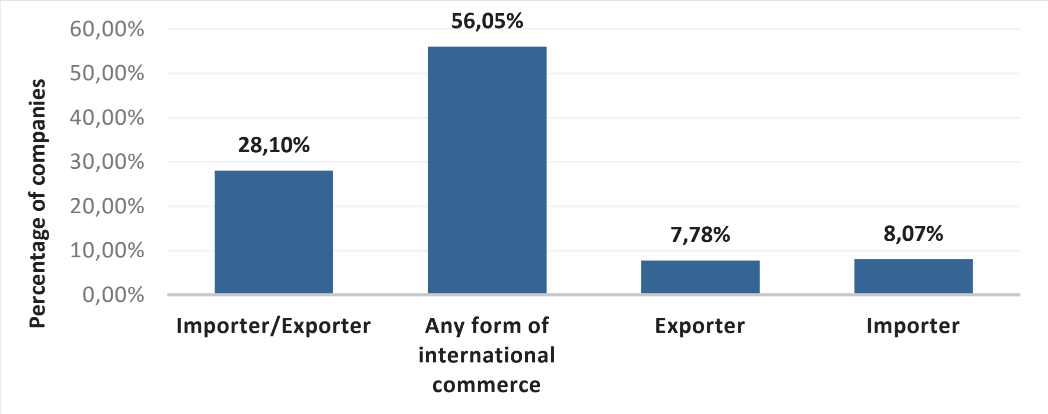
Source: Based on data from the World Investment Report 2016, UNCTAD and SABI

On the other hand, if we analyse the foreign activity of the Spanish subsidiaries of the EMNEs identified (see **Figure 2.5**), we note that the majority (64.12%) do not carry out any foreign activity or that they only engage in import trade. This suggests they operate in Spain with the sole motivation of finding a geographic market (Dunning, 1979). In contrast, the remaining 35.88%, mostly *multilatinas* and Asian firms, do undertake export activities, which means their presence in Spain seeks to be more than a simple search for a domestic market. The latter are multinationals that see Spain as a means for accessing neighboring markets or for obtaining intangible resources (Dunning, 1979). This is the case, for example, of the Chinese subsidiary, Lenovo Spain, S.L, a supplier of computer equipment and smartphones, which has been operating in Madrid since 2005. The Chinese group has ambitious growth plans in Europe, and Spain seems to be a key part of their development strategy. The Chinese company recently opened a new international business center for sales to medium-sized firms in Barcelona. The center provides coverage for 13,300 customers of medium-sized firms in Spain, France, Italy, Belgium, the Netherlands and Luxembourg[12]. Similarly, the Korean subsidiary, Iberian Lube Base Oils Company, S.A., manufacturer of base oil and lubricants, has made a strong commitment to Spain, in this case for its research and production. In 2015 the Korean company opened a new lubricants plant in Murcia, which is responsible for producing and developing state-of-the-art lubricating oils to help reduce fuel consumption, and satisfies 40% of European demand[13].

[12] La Vanguardia, January 13, 2016

[13] La Vanguardia, September 21, 2015

Figure 2.5. Foreign activity of the EMNE subsidiaries in Spain (2015)



Source: Based on data from SABI

An analysis of the foreign companies in which the subsidiaries of the EMNEs participate shows that the majority (80.84%) do not, in their turn, operate any subsidiary companies abroad. This high percentage indicates that for the EMNEs Spain represents the end of the road in their foreign expansion. This is the case of the Spanish subsidiaries of Hutchison Whampoa Ltd. and of Lenovo Group Ltd., based in Hong Kong and China, which operate in the construction sector and electronics industry, respectively, and which commit few resources to the country.

However, there is a minority group of EMNE subsidiaries (19.16%), mostly *multilatinas* and Asian enterprises, which do operate subsidiary companies abroad. For these EMNEs, Spain is seen as a strategic country for their international expansion, a springboard (Pla et al., 2009)[14] taking them in two possible directions. First, we find many *multilatinas* that employ their Spanish subsidiaries as a springboard to strengthen their presence in Europe; and, second, various Asian and Middle Eastern EMNEs see Spain as an intermediate step for making the leap into Latin American markets.

[14] Pla et al. (2009) identify two necessary conditions for a country to be considered a springboard: a) in relation to institutional knowledge, the springboard country should occupy an intermediate point between the target country and the investing country, so that institutional learning in the springboard country can somehow be transferred to the target country; b) the "springboard country" must have an intense flow of commerce flow with the target country, so that the investment company can acquire "business knowledge" and develop networks in the target country via the "springboard country".

As regards the first of these two cases, Spain is a country that lies halfway between Europe and Latin America, because of the role it has played throughout history (Pla et al., 2009). The cultural factors linking Spain and Latin America, reflecting their strong historical ties, and their use of the same language reduce the 'psychic distance' (Johanson and Vahlne, 1977) between the two regions. Moreover, the strong trade links built up between the two continents over the centuries, the great migratory flows in both directions and the fact that Spain is a member of the European Union favor business relations between these two continents. An excellent example of this is provided by Cemex España, S.A. which participates in thirty-two foreign companies, most of which are located in Europe (Holland, Italy, France, the UK and Denmark, among others). The extremely high asset levels that the Mexican multinational maintains in Spain (see **Table 2.7**) are also a clear indication that the group's international expansion is led by the Spanish subsidiary (Casanova, 2011). For this Mexican EMNE, Spain clearly provides its gateway into Europe. This is also the case of other *multilatinas*, including the Mexican firms of Gruma (foodstuffs), Grupo Elektra (financial services) and Tenedora Nemak (machinery), whose Spanish subsidiaries in turn participate in twenty-two European subsidiaries, mainly in Germany, France, the United Kingdom and Italy.

The second case stems from the growing interest of Asian countries in Latin America (Pla et al., 2009), motivated by their strategic need to access raw materials, natural resources and other commodities to continue fueling the rapid industrialisation of the emerging Asian continent. Examples include Elsamex Internacional S.L. and Elsamex S.A., both subsidiaries of the Indian multinational IL&IF, dedicated to infrastructure development and finance. They carry out the same activity as their parent company and participate in nine firms based in Mexico, Brazil, Colombia and the Dominican Republic. Another example is provided by the Indian multinational chemical company, United Phosphorus, whose Spanish subsidiary participates in three companies with sites in Bolivia, Argentina and Colombia.

Finally, although most EMNEs do not have a strategic vision of Spain when it comes to their internationalisation, there are some indications, especially among the *multilatinas*, of the strong position that Spain plays and can continue to play in the future international expansion of these new multinationals.

2.5. CONCLUSIONS

In light of the results obtained, we can conclude that the direct investment of the EMNEs in Spain is significant and increasing, albeit at only a moderate pace. Today, a small number of foreign subsidiaries of the larger EMNEs and from various regions of origin (Asia, Latin America, Middle East/Africa and Eastern Europe) are operating in Spain, although compared with the presence of multinationals from developed countries this phenomenon is still quite small. However, there is a clear upward trend in recent years, especially as a result of the international economic crisis.

For most EMNEs present in the country, investment in Spain does not seem to constitute a major part of their overall strategy, with the exception of a small minority, especially *multilatinas*, for whom Spain does occupy an important position, constituting a springboard into other countries. These companies base their international competitive advantages on the possession of advantages linked to their country of origin (CSAs) as well as on those developed in-house (FSAs), which would place them in the third quadrant of Rugman's (2009) model.

As a result, a new scenario is unfolding that poses different challenges for both companies and the public administration. On the one hand, Spanish enterprises, hitherto accustomed to competing almost exclusively with multinationals from developed countries, will have to readjust and reorient their competitive and growth strategies in order to successfully face these new potential competitors.

On the other hand, policy makers should not allow the opportunity of capturing new investment from emerging countries to elude them. An effective long-term policy needs to be implemented so that Spain can increase its ability to attract new foreign investments, not solely by focusing on attracting new investment from developed countries (as has been the policy to date), but also by committing themselves to specifically attracting

EMNEs. Here, the strong historical and cultural ties with Latin America represent an outstanding opportunity that should be capitalized upon. Consequently, the actions, programs and work of the state and regional promotion agencies will be fundamental if Spain hopes to attract and ensure the geographical diversity of new foreign investment. To guide this policy of attracting the investment of EMNEs, it is essential that a fluid dialogue and close institutional collaboration be maintained with the managers of the EMNE subsidiaries already present in Spain, as well as with the consulates and the promotion agencies of emerging countries, which are becoming increasingly more numerous and active. Their experience and knowledge about the decision-making processes of the EMNE parent companies should be of great help in guiding policies to attract and retain foreign investment in Spain.

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CHAPTER 3.

MITIGATING THE ISOMORPHIC CONFLICTS FACED BY EMNES IN SOUTHERN EUROPE: THE CASE OF CHINESE SUBSIDIARIES IN SPAIN

3.1. INTRODUCTION

The rise of emerging market multinational enterprises (EMNEs) is a recent phenomenon that is gaining in significance in the international business field. Not only are these companies, with their origins in emerging countries, able to compete effectively in their home markets, but they are also investing successfully in the most advanced economies, the birth place of many of the world's leading players. Indeed, the growth of EMNEs is clearly evidenced in terms of foreign direct investment (FDI). According to UNCTAD (2016), the share of global FDI outflows from emerging economies has increased from 5% in 1990 to 14% in 2004 and 28% in 2015. Moreover, an increasing number of EMNEs appear in *Fortune's* ranking of the world's 500 largest companies: in 2005 47 EMNEs were listed, in 2013 the number had risen dramatically to 132, reaching 158 in 2015, representing 32% of the Global 500.

Among the countries of Southern Europe, in 2015 Spain was ranked 34th in the list of global FDI inflows (UNCTAD, 2016) with a total of 9,243 million euros, that is 19.11%, originating from emerging economies. Indeed, Spanish FDI inward stock from emerging countries has risen dramatically by 190.08% in just seven years (2007-2014). Consequently, investments in Spain from emerging economies are clearly on the upturn, with an average growth rate of 27.18%, compared to just 2.84% in all other foreign countries. In this regard, Latin America is gradually being pushed aside by Asia, whose share of total stock has risen from 1.50% to 23.55% in only seven years. In fact, in the latest *Fortune 500*, China had 92 (106 if we include Hong Kong and Taiwan) of the world's 500 largest corporations by revenue.

This rise of EMNEs has aroused considerable interest among academics, resulting in a broad range of empirical studies and theoretical works aimed at analysing their characteristics, determinants, pathways and performance (Buckley et al., 2007; Child and Rodrigues, 2005; Cuervo-Cazurra, 2007; Gammeltoft et al., 2010; Guillén and García-Canal, 2009; Luo and Tung, 2007; Mathews, 2006; Ramamurti, 2009). Against this backdrop, a number of specific questions arise concerning the Spanish context, most notably: What is the degree of penetration of EMNEs, particularly Chinese EMNEs, in Spain? How do Chinese firms interact with the Spanish host environment in adapting to a new distant market? The aim of this paper therefore is to use micro-data to determine the extent of the Chinese presence in Spain and to adopt a qualitative approach in order to examine the cultural adaptation of Chinese subsidiaries to the host country. This latter question is of particular relevance, especially given the paucity of studies conducted to date examining issues of cultural fit and despite its obvious importance to the success of FDI. Chinese FDI has, on the other hand, been the subject of a number of studies, including analyses of how Chinese subsidiaries address their disadvantages in developed countries (Klossek et al., 2012; Si and Liefner, 2014; Wong, 2012), the factors that determine the decision-making autonomy of Chinese subsidiaries in Germany (Schüler-Zou et al., 2013) and the role played by Taiwanese subsidiaries and their overall performance (Chang et al., 2012; Chen et al., 2013; Chiao and Ying, 2013).

To fill this gap in the literature, we present case studies of two Chinese subsidiaries operating in Spain that provide valuable information about how they resolve the isomorphic conflict (Forsgren, 2013), by seeking internal and external legitimacy at the subsidiary level. Thus, the main contribution of this paper is to illustrate the way in which deep-rooted Chinese values and practices, especially *guanxi*, play a significant role in the subsidiaries to balance pressures from both the home- and host-environments.

The rest of this paper is structured as follows. The next section describes the extent of the presence of Chinese EMNEs in Spain. Then, we examine the main theoretical arguments concerning the institutional and cultural features of Chinese subsidiaries. Section 4 discusses the research methods employed here. In the fifth section, we present our analyses and the results of our case studies of Chinese subsidiaries. Finally, we discuss our findings and identify both the limitations of this paper and future avenues of research.

3.2. PRESENCE OF CHINESE EMNES IN SPAIN

Among its Asian partners, China has recently become the key player in the world economy in terms of FDI. Despite the ongoing slowdown in China, with an economy that is expected to grow at 6.3% in 2016 compared to 7.3% in 2014 (IMF, 2016), the country is set to continue its investments in the most developed countries, thus playing a major role in the FDI arena. Spain is the 9th largest destination for Chinese FDI among the EU-27 countries, behind the United Kingdom, Germany and France (Rhodium, 2015). Indeed, Spain's position as a recipient of Chinese investment has grown rapidly in recent years. According to the Spanish Foreign Investment Registry (DataInvex)[15], the evolution of Chinese FDI in Spain accelerated dramatically from 2008 onwards, increasing from 26 to 1.478 million EUR between 2010 and 2015 (see **Table 3.1**). In just a few years, China rose to first place in the rankings, having occupied a distant 20th place in 2009. This rapid growth means that today China accounts for 7% of Spain's total FDI inflows, when barely four years ago it represented just 0.23%. In terms of stock, China is also second only to Mexico, overtaking in a very short period of time the United Arab Emirates, Brazil, Saudi Arabia, Argentina and South Korea, which had been the emerging countries that invested most heavily in Spain.

[15] DataInvex is an official database recording all FDI in Spain since 1993. To eliminate any speculative capital movements that might blur our interpretation of this FDI, flows received by entities holding foreign securities were excluded from the analysis. Additionally, investments were included only by the 'last country of origin', as this is where the last owner of the investment resides. This approach is more reliable than including the investments by the 'immediate country of origin', since this might be a mere country of transit for tax reasons.
The emerging countries included in our study are Argentina, Bahrain, Brazil, Bulgaria, Chile, China, Colombia, Czech Republic, Ecuador, Egypt, Hong Kong, Hungary, India, Indonesia, Kazakhstan, Korea (South Korea), Kuwait, Latvia, Lithuania, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, Singapore, South Africa, Thailand, Taiwan, Turkey, Ukraine, United Arab Emirates, Uruguay and Venezuela.

Table 3.1. Spain's FDI inflows from China and Hong Kong (2008-2015)

Year	2008	2009	2010	2011	2012	2013	2014	2015
China (Total EUR million)	1.05	2.85	26.41	62.16	141.77	526.54	610.48	1.478.18
Hong Kong (Total EUR million)	0.26	1.12	25.58	5.22	40.33	241.16	245.20	221.08
China and Hong Kong (Total EUR million)	**1.31**	**3.97**	**51.99**	**67.38**	**182.10**	**767.70**	**855.68**	**1.699.26**
China and Hong Kong as Asian emerging countries (%)	**0.94**	**5.15**	**46.54**	**62.56**	**29.94**	**90.80**	**64.63**	**87.34**
China and Hong Kong as total emerging countries (%)	**0.29**	**0.10**	**12.23**	**1.39**	**12.18**	**33.76**	**18.95**	**37.66**
China and Hong Kong as total foreign countries (%)	**0.00**	**0.03**	**0.42**	**0.23**	**1.23**	**4.51**	**4.30**	**7.20**

Source: Based on data from Spanish Foreign Investment Registry (DataInvex)

We identified 97 Chinese capital firms in Spain in 2015 in the SABI database[16]. These subsidiaries represent 17.81% of employees, 6.12% of operating revenue and 4.26% of assets of all the EMNEs with a direct presence in Spain (see **Table 3.2**). In terms of mean size, Chinese firms have caught up with their counterparts in other emerging Asian countries, including Korea. Therefore, among the many emerging countries included in this study, China is increasingly establishing itself as a highly relevant

[16] The SABI database (Iberian Balance Sheets Analysis System) includes financial data from more than 2,000,000 Spanish companies. The firms selected in our sample had to be subsidiaries in which at least 50.01% of their capital belonged to MNEs from the emerging countries selected. Note, we do not differentiate between investments from China and Hong Kong, given that Hong Kong serves as an important bridge for Chinese firms wishing to venture overseas (Aminian et al. 2008), providing a platform for tax purposes and allowing them to avoid Chinese Government regulations (Ramasamy et al. 2012). Besides, given Hong Kong's role in round-tripping, we have sought to exclude investments from developed economies or other foreign countries.

player in Spain. However, if we compare Chinese MNEs located in Spain with their counterparts from other developed countries, they still represent just a small fraction. This is in line with the data described above for Chinese outflows from the country. Indeed, the vast majority of Chinese subsidiaries featured only established in Spain from 2007 onwards. Consequently, the Chinese presence in Spain is a nascent phenomenon, particularly when compared with FDI from developed economies.

Table 3.2. Comparison: Chinese subsidiaries versus other foreign MNE subsidiaries in Spain (2015)

		Chinese subsidiaries (including Hong Kong)	Emerging Asian subsidiaries (including China and Hong Kong)	EMNE subsidiaries	Total foreign subsidiaries	% Chinese subsidiaries as total Asia	% Chinese subsidiaries as total EMNEs	% Chinese subsidiaries as total foreign
Companies	Absolute values	97	276	694	15,231	35.14	13.98	0.64
Employees	Absolute values	11,219	20,747	62,993	1,373,614	54.08	17.81	0.82
	Average values	138.51	93.04	128.04	150.80			
Operating revenue*	Absolute values	5,271	13,183	86,114	530,423	39.98	6.12	0.99
	Average values	67.58	60.19	148.67	52.52			
Total Assets*	Absolute values	3,744	8,692	87,806	782,796	43.07	4.26	0.48
	Average values	44.58	36.07	142.64	76.96			

*Absolute values in EUR million

Source: Based on data from SABI

Chinese firms operate mainly in the services sector, 83.51%, compared to 12.37% in manufacturing industries[17]. Within the services sector, most companies operate in less knowledge-intensive activities (69.14%) as wholesale traders of a diverse range of products (electronic, chemical and different types of industrial materials), while the remaining Chinese firms (30.86%) operate in knowledge-intensive sectors, such as financial or technical activities (**Table 3.3**). As for those operating in the industrial sector, a half of Chinese EMNEs work in medium-high-technology industries (50.00%), such as chemical or machinery and equipment manufacturing. However, a fairly large proportion operate in medium-low-technology industries (41.67%), such as metal products.

Table 3.3. Classification of Chinese subsidiaries in Spain by level of technology and knowledge intensity (2015)

	Companies	%
Industries without technological classification (fishing, electricity)	**4**	**4.12**
Manufacturing industries	**12**	**12.37**
Medium-high-technology (manufacture of chemicals and chemical products, machinery and equipment, electrical equipment)	**6**	**6.19**
Medium-low-technology (manufacture of fabricated metal products, basic metals, rubber and plastic products)	**5**	**5.15**
Low-technology (manufacture of food products)	**1**	**1.03**
Services	**81**	**83.51**
Less-knowledge-intensive services (wholesale trade - except of motor vehicles and motorcycles, warehousing and support activities for transportation, retail trade - except of motor vehicles and motorcycles, wholesale and retail trade and repair of motor vehicles and motorcycles, accommodation, office administrative and other business support activities)	**56**	**57.73**
Knowledge-intensive services (management consultancy activities, financial service activities, activities auxiliary to financial services, architectural and engineering activities, information service activities, cultural activities)	**25**	**25.77**
TOTAL	**97**	**100.00**

Source: Based on data from SABI and Eurostat

[17] To analyse these companies at the sector level, we opted to apply Eurostat (2011) criterion. This approach leads to a classification based on different levels of technology and knowledge intensity of the vast range of economic activities. Thus, services are divided into knowledge intensive and less-knowledge intensive, and manufacturing industries comprise high technology, medium-high technology, medium-low technology and low technology.

If we examine the degree of diversification of Chinese EMNEs in Spain, over half the subsidiaries (60.82%) are active in just one sector, preferring to focus their efforts on just one business and tending not to diversify[18]. Among diversified subsidiaries (39.18%), 15 firms (15.46%) have opted for a relational diversification strategy, while the remaining 23.71% have opted in favour of non-relational diversification. This latter strategy is a typical characteristic of EMNEs (Khanna and Palepu, 2006; Cuervo-Cazurra, 2007).

An analysis of the capital ownership of Chinese subsidiaries in Spain reveals a degree of balance between public and private equity firms. While 57 firms (58.76%) are wholly owned by private investors, the remaining 40 companies (41.24%) are state-owned enterprises (SOEs). In general, the Spanish subsidiaries of SOEs tend to be larger than privately owned enterprises, with a few exceptions, including Hutchison, Huawei and Lenovo.

About half of the Chinese subsidiaries do not engage in any form of international commerce (49.48%) or are involved solely in the import trade (8.25%). This might indicate that their primary motive for investing in Spain is market-seeking (ESADE, 2014; Nicolas, 2014). In contrast, the other half do operate an export business (with 12.37% engaged just in exports and 29.90% in exports and imports). As such, their presence in Spain extends beyond the seeking of new market opportunities and these Chinese EMNEs consider Spain a channel for accessing adjacent markets as well as for acquiring strategic assets.

[18] In line with Hitt et al. (1997) to measure the degree of diversification we adopt the following criteria: a firm presents no diversification if it does not have a secondary NACE classification; a firm implements a relational diversification strategy if it has a secondary NACE that differs from its primary NACE at the three-digit level and which is equal at the two-digit level; finally, a firm presents non-relational diversification if its secondary NACE differs from its primary at both the two- and three-digit levels.

3.3. THEORETICAL FRAMEWORK

The success of EMNEs in advanced countries challenges present FDI paradigms. The traditional theories that explain the activities of MNEs, and which were originally developed using empirical evidence from advanced economies, may be insufficient to account for the experiences of EMNEs (Buckley et al., 2007; Child and Rodrigues, 2005; Gaffney et al., 2014; Guillén and García-Canal, 2009; Mathews, 2002; 2006; Ramamurti, 2009). As a result, in recent years diverse EMNE-specific FDI theoretical perspectives have emerged (see Mathews, 2006; Luo and Tung, 2007; Luo and Rui, 2009), which seek to explain the internationalisation of EMNEs as a process for acquiring globally competitive resources and capabilities. These perspectives suggest that EMNEs differ from traditional multinationals in one key respect: their accelerated pace of internationalisation. In order to expand more rapidly they sometimes prefer to enter developed markets first using cross-border acquisitions rather than to enter other similar developing economies (Luo and Tung, 2007). By so doing, EMNEs can quickly acquire the strategic assets required to compete more effectively against global rivals at home and abroad, while avoiding institutional and market constraints.

Among the many emerging countries, China is the most active in outward FDI (MOFCOM, various). In 2014, China and Hong Kong alone accounted for 48% of the emerging economies' FDI outflows, 41% of stock and 64% of the value of cross-border mergers and acquisitions (M&As) (UNCTAD, 2015). In contrast to the FDI from developed countries and from other emerging economies, Chinese FDI presents a number of distinctive characteristics. On the one hand, the main motivation of Chinese EMNEs is the opportunity to expand their market share in other host economies (see Luo and Tung, 2007). This is confirmed by various econometric tests conducted on Chinese investment patterns (Buckley et al., 2007; Kolstad and Wiig, 2012). According to Nicolas (2014), the European Union is no exception and market seeking is found to be the main motivation for Chinese investment, with strategic asset seeking being ranked second. Indeed, Chinese MNEs are especially interested in acquiring natural resources and superior managerial and marketing skills in order to improve their competitive advantage in manufactured products (Chen, 2008; Cui and Jiang, 2010; Deng, 2009; Rui and Yip, 2008; Nicholson and Salaber, 2013; Wang et al., 2012).

However, the Chinese government plays a major role in its MNEs and its state-owned enterprises (SOEs) dominate the scene. Before 2004, private firms were not permitted to invest overseas and access to foreign exchange was allowed only to approved SOEs (Ramasamy et al., 2012). Thus, Chinese SOEs have been the main driver of the country's FDI, accounting for more than two thirds of total Chinese FDI worldwide (MOFCOM, various; Morck et al., 2008). Given this legacy of institutional dependence, Chinese FDI projects today continue to be subject to governmental approval (Child and Rodrigues, 2005) as it seeks to ensure that investments are made in line with its resource allocation plans and priorities and that they reinforce China's global influence (Luo et al., 2010). For this reason, the government monitors all foreign exchange outflows and all firms are required to report data to their corresponding provincial Bureau of Commerce (Hong et al., 2015). The Chinese government strongly encourages outward FDI in those sectors considered a priority and these firms receive greater backing in terms of organizational support, access to capital and other key inputs than their counterparts in sectors where FDI is not a priority (Ramasamy et al., 2012; Si and Liefner, 2014).

Given the active role played by the Chinese government in the FDI processes, institutional theory (North, 1990; Scott, 1995) provides a good explanation of its overseas investments, highlighting the marked differences in the institutional frameworks of the emerging and developed economies. Indeed, several authors stress this perspective in seeking to understand the EMNE phenomenon (Gaffney et al., 2013; Wei et al., 2015). For example, Peng et al. (2008) argue that the institution-based view constitutes, along with the industry- and resource-based views, the third leg of the EMNE strategy tripod. Institutions are "the humanly devised constraints that structure human interaction" (North, 1990), and according to Scott (1995) they can be conceptualized as a set of three pillars (regulative, normative and cultural-cognitive)[19]. These three elements generate isomorphic pressures that may either encourage or constrain the behaviour of a subsidiary in a host environment, thus affecting the firm's legitimacy in that setting (DiMaggio and Powell, 1983; Scott, 1995), where legitimacy refers to "actors' perceptions of the organization, as a judgment with respect to the organization, or as the behavioural consequences of perception and judgment, manifested in actors' actions—'acceptance, endorsement, and so forth'" (Bitektine, 2011). As such, firms achieve legitimacy by means of becoming isomorphic as a result of their adopting practices and structures that are institutionalized in a certain environment (Kostova et al., 2008).

According to Wong (2012) adaptation to local institutional pressures is more challenging when having to contend with normative and cognitive differences than when facing regulative differences. While regulatory features tend to be more formalized and more widely accepted as a motive for local adaptation, norms and cognitive elements require intensive cross-cultural communication as they tend to be more difficult to grasp, and local knowledge is largely tacit (Boyacigiller et al., 2004). Moreover, the governments of emerging countries may influence the inclination of EMNEs to expand abroad by placing SOEs under regulative and normative pressures to accommodate political objectives and "wave the national flag" (Deng, 2009; Peng et al., 2008; Wang et al., 2012). Thus, the pressures that SOEs face are great when they have to make their location decision and may not be relevant to their local adaptation in the host country. For these reasons, it is our contention that the cultural-cognitive pillar takes on considerable importance when these Chinese subsidiaries interact to become isomorphic in the host environment.

Given their distinctive institutional and social environments, Chinese MNEs face a considerable cultural distance when making cross-border acquisitions in Europe. The Chinese institutional environment is characterized primarily by a centralized, state-controlled, authoritarian culture (Hofstede, 2001), and the importance of *guanxi* (the ancient system of personal relationships

[19] The regulative pillar consists of formal institutions and related rule systems, such as laws and regulations as well as State-sanctioned enforcement mechanisms. The normative pillar comprises institutions, such as professional societies, that specify roles and guidelines for their members. The cultural-cognitive pillar consists of the shared social beliefs and values of a society's culture.

and social connections based on mutual interest and benefit) in business dealings (Hwang, 1987; Kipnis, 1997; Wang, 2007; Yang, 1994). Basically, *guanxi* can be considered to comprise various elements, including *renqing* (similar to the owing of a 'favour'), *ganqing* (translated into English as 'feelings') and *xinren* (closely related to 'trust'), which together are considered as reflecting the quality or strength of *guanxi* (Chen and Chen, 2004; Kipnis, 1997; Wang, 2007; Wang et al., 2008).

Because of the cultural distance between their respective institutional environments, Chinese companies entering the European market for the first time face what is known as a 'liability of foreignness' (Buckley and Casson, 1976; Hymer, 1960; Zaheer, 1995), a heavy burden that is not easily shed and which may result in additional costs for those firms that are new to a foreign market. The greater the cultural distance, the greater this liability of foreignness will be. According to Zaheer and Mosakowski (1997), there is a close link between the liability of foreignness and the need of legitimacy of foreign firms in different cultural and institutional environments. By entering a host country by means of an M&A, foreign firms seek to overcome their lack of local knowledge and these liabilities (Klossek et al., 2012).

Additionally, the subsidiaries of EMNEs in developed countries not only have to achieve external legitimacy (i.e., the acceptance of local players in the host country), but also retain internal legitimacy (i.e., the adoption of the institutionalized practices of the parent company and conformity with its cultural values) (Kostova et al., 2008). These often diametrically opposed environments can simultaneously exert isomorphic pulls on foreign subsidiaries, in what has been described as an 'isomorphic conflict' (Forsgren, 2013). This seems to be especially challenging for Chinese subsidiaries as their requisites of internal legitimacy can differ substantially from those of their external legitimacy, because of the great institutional distance between China and Europe. Therefore, a balance has to be struck between the two pressures in order to achieve the right levels of external and internal legitimacy and, so, ensure the subsidiary's success in the host country. In this context, subsidiary managers play a key role in adapting the multinational to the new institutional environment. Specifically, they have to promote the integration of the Chinese multinational within a distant institutional environment while, at the same time, seeking to understand *guanxi* practices so as to maintain good relations with their multinational corporation.

Comparatively little research has been conducted to illustrate how Chinese subsidiaries struggle to adapt to their host environment, and even less research has been devoted to examine how *guanxi* business practices are adapted to western business styles. Of the few existing studies, Si and Liefner (2014) introduced the concept of cognitive distance into the analysis of Chinese subsidiaries to study the knowledge gap that exists between parent and subsidiary; and, Wong (2012) analysed the difficulties faced by a Chinese SOE seeking to acquire a company in Australia due to institutional frictions and fear amongst the host population. Here, it is our contention that an exploration of the use of *guanxi* outside Chinese borders may help explain how a Chinese subsidiary in a developed country balances its need to manage globally (alignment of practices with parent organization culture) with its need to manage locally (conformity to institutional pressures of the host country) as it seeks to resolve issues of isomorphic conflict and achieve both internal and external legitimacy.

3.4. METHODOLOGY

Given the current lack of understanding of the isomorphic conflict faced by Chinese subsidiaries in developed countries, we adopt a qualitative case study methodology to examine the cultural adaptation of Chinese subsidiaries to the host country. This is particularly apposite when seeking to further our understanding of a phenomenon employing an inductive approach, since it allows us to address more fully the complexity of the problem, the nature of the context and the behaviour of the agents involved and the relations between them (Gummesson, 2006).

The case study includes two Chinese subsidiaries based in Spain. The selection of these two cases fulfils the criteria of theoretical sampling, given that they were chosen for their relevance and expected contribution to the objectives of the research (Eisenhardt, 1989). More specifically, the criteria guiding the choice of the two subsidiaries were: (1) they had to be state-owned enterprises, since the government has considerable influence over Chinese MNEs; (2) both service and manufacturing industries had to be represented; (3) they had to be located in the same geographical area, so that they enjoyed the same opportunities for integrating within the local environment and establishing *guanxi* connections; and finally (4) they had to be managed by both local and expatriates managers, so that they were exposed to similar cognitive differences. **Table 3.4** provides an overview of the two companies selected and their basic characteristics.

Table 3.4. Characteristics of the two subsidiaries

Organisation	Year of entry into Spain	Industry	Subsidiary Activity	Location in Spain	Interviewees
China Shipping Spain Agency, SL[20]	1999	Service	Public shipping agency, international freight forwarding and related extension services, with its headquarters in Shanghai.	Barcelona	General Manager
Huayi Compressor Barcelona, SL	2013	Manufacturing	Designing, manufacturing and selling hermetic compressors and condensing units for the light commercial refrigeration market.	Sant Quirze del Vallés (Barcelona)	Human Resource Manager

The data were collected through in-depth, personal, semi-structured interviews (conducted between April and November 2015) that lasted approximately three hours. Meetings were held with local managers of the

[20] We keep the name of this firm because the case analysis was done in 2015, even though since September 2016, this subsidiary has been integrated into Cosco Shipping Lines Spain, S.A. due to the merger of the two Chinese giants corporations, China Shipping and COSCO.

Chinese subsidiaries (see **Table 3.4**). These informants were selected on the basis of their being directly involved in the integration process of the subsidiary within Spain, their close relationship with Chinese managers both in the subsidiary and the MNE, and their first-hand knowledge of the subsidiary's *guanxi* practices.

The interviews were structured in two blocks in accordance with a predetermined script based on a review of the literature: the objective of the first block was to obtain an overview of the firm's entry strategy and development, the difficulties encountered in integrating within the host institutional environment and the dynamics associated with their strategies and interactions with the parent office. In the second block, respondents were asked to describe the dynamics associated with the subsidiary's *guanxi* practices, the motives for applying them in Spain and the way in which this was achieved.

Once the data had been collected we began our analysis by processing all the information and filtering out any irrelevant content. All the interviews were recorded, transcribed and coded in order to structure the data and to make sure that they could be reassessed if inconsistencies were found. We used narrative techniques to construct the story of the Chinese subsidiaries in Spain from their arrival to the present day. Subsequently, we identified the three component elements making up *guanxi* (that is, *renqing*, *ganqing* and *xinren*) based on the conceptual framework provided by Yen et al. (2011) and Wang (2007). Any inaccuracies identified were resolved through mail exchange and direct phone calls.

These data was triangulated with information taken from complementary sources. We contrasted our results by conducting three in-depth, personal interviews with Chinese FDI experts holding positions of responsibility in local public organisms. Specifically, we met with the business intelligence director of *Acció-Invest in Catalonia (*Government of Catalonia)*,* the city promotion advisor of *Barcelona Activa* for the Asian region (Barcelona City Council) and the economic manager of *Casa Asia*. These official organisations are responsible for attracting FDI to Spain and so they are also actively involved and have an in-depth understanding of Chinese investment processes.

3.5. RESULTS

3.5.1. Entry strategies: motivations and entry mode

The entry strategies of the two Chinese MNEs in Spain are similar despite the 14-year gap separating the two experiences. China Shipping entered the Spanish market in 1999 via a joint-venture with Pérez y Cía. The main purpose of this local alliance was to promote the commercial interests of China Shipping Group in Spain, whereby the local company serves as the consignee of the Chinese shipping company in the port of Barcelona. In Spain, as in many other countries, the law of maritime traffic obliges shipping companies to operate in ports through local consignees that act as mediators with port authorities, performing custom duties and being responsible for loading and unloading cargo and all commercial activity in the host country. Thus, the entry of China Shipping Group into Spain was a strategic response to the barriers of entry (Dunning, 1979) to the Spanish market protected as it was by the legislative requirements of maritime transit. The enterprise's motivation to enter the market fits well with what Luo and Tung (2007) refer to as seeking new market opportunities for two reasons.

First, China Shipping vertically integrates upstream activities by establishing its own consignee agencies in host countries so as to achieve absolute control. According to the general manager of China Shipping Spain, "*All the big shipping companies try to cover all activities of the value chain* [fully integrated logistics, consignment and containerized transportation] *to communicate better orders and meet with quality standards and commitment requirements. It is the best way to impact on clients and capture the whole margin"*. Second, the fact that market entry was overseen by a local partner alleviated the firm's lack of knowledge of the Spanish environment and, at the same time, provided it with immediate access to strategic resources so that it could compete with its global rivals. As the general manager mentioned, *"… it was a simultaneous process which they repeated around the world, they were looking for local partners to create companies, joint ventures, around the world…"*. These comments provide evidence of an accelerated internationalisation typical of EMNEs (see Luo and Tung, 2007), often strengthened by the application of springboard strategies. Indeed, the introduction of the Chinese group in Spain was motivated in large measure by a springboard strategy, as *"the country has an excellent image in Arab and Latin American countries [...] and also the connections of the Spanish ports with Latin America and the Middle East are strategic"*.

In contrast, the FDI history of Huayi Compressor in Europe began just a few years ago in 2013, when it took over a well-known Catalan company, Cubigel, in Sant Quirze del Vallès (Barcelona), which was experiencing financial problems. During almost three decades, Cubigel had been completely Catalan-owned, but in 1988 it joined the Swedish group, Electrolux Compressors. In the years that followed the firm changed hands several times: in 2003 it was acquired by the Italian group, ACC Appliances Components Companies; in 2009 it was bought by the North American private equity firm, AIAC; and, then, in 2013 Huayi Compressor gained control. The acquisition of Cubigel by the Sichuan Changhong Group, a leader in consumer electronic products and appliances, was the Chinese company's first incursion into manufacturing activity outside China. Huayi's activity in Spain is closely linked to its operations in China; however, there are differences in the application of the compressors manufactured[21]. Thus, while the subsidiary focuses its efforts on compressors for industrial and commercial refrigerators, the activity in China focuses on producing domestic compressors for home appliances.

Huayi's reasons for investing in Spain coincide in some respects with those of China Shipping. Thus, the firm was also seeking new market opportunities (Luo and Tung, 2007), but here it not only targets the Spanish market but other adjacent markets too. Indeed, in 2014 the Chinese subsidiary exported 98% of its production to European countries as well as to Turkey, Israel, Russia and Latin American. In this respect, Barcelona acts as a springboard subsidiary of Huayi activities to Latin America. As the HR

[21] A compressor is a component of a vapor-compression refrigerating machine for engines, lowering the temperature of an enclosed space by removing heat from that space and transferring it elsewhere.

manager reported: "*We have sales agents exclusively devoted to Latin American markets who sell the products of both businesses (commercial and domestic compressors). For us, it is easier to sell there since we share the same language and culture*".

However, unlike China Shipping, in this case access to technology acquired special relevance as a motivation for investing in Spain. Thus, the arrival of Huayi in Spain responded to the horizontal diversification of its business portfolio, which had previously been focused solely on domestic compressors, to include commercial/industrial compressors. Despite the shared technology of commercial and domestic compressors, the components have different specifications: first, technological characteristics, such as size, power and energy consumption, are more highly valued in industrial compressors than they are in domestic compressor; and, second, commercial elements, including, for example, the client profile, distribution methods and sales agents, differ considerably from domestic to industrial compressors. Consequently, new knowledge with regards to technology, operations, logistics, suppliers and commercial activities was required. In addition, Barcelona boasts highly trained R&D personnel while China operates some of the most advanced laboratories and infrastructure in the world; therefore, mutual knowledge transfer is extensive and frequent. Indeed, the HR manager reported, *"Exchanges between Chinese and Spanish engineers are very common in Huayi"*.

3.5.2. Institutional distance and liability of foreignness: isomorphic conflict

Once Chinese investors are physically present in a developed market, they encounter a considerable cultural distance due to markedly different institutional and social environments. Despite choosing external entry modes (as illustrated by China Shipping Group and Sichuan Changhong) to overcome the liability of foreignness and to access local institutional knowledge, EMNEs face a major cultural clash, which makes the integration of their subsidiaries a highly complex affair. Chinese culture contrasts with Spanish culture in many respects; according to the general manager of China Shipping: *"We are not only talking about the language problem as a major constraint to communication; gestures, manners and non-verbal communication are also really difficult to understand ... everything is new for both parties".* At the outset, in both EMNEs, the Chinese managers had a poor command of English and spoke no Spanish, making language skills the most obvious manifestation of the liability of foreignness suffered at the subsidiary level. In China Shipping, despite the broad internationalisation of the company group, corporate communications are still sent to foreign subsidiaries in Chinese. The general manager explained: "*Translating letters and internal communications all the time implies a loss of time when it would be easier if everything was written from the beginning directly in English*". In Huayi, we observed that most Chinese expatriates consider the Chinese subsidiary a temporary destination, and so have little motivation to learn Spanish given that they have no intention of staying in the country long. As the HR manager pointed out: *"We roughly understand each other in English because they hardly speak Spanish".* A further obstacle for Chinese managers is attributable to problems of non-verbal communication. In fact, this mode of communication, which differs greatly in the two cultures, often hinders the exchange of views and, hence, the possibility of coming to a rapid understanding. In Huayi, the HR manager mentioned that: *"The things that are very common for us are not so common for them; on the contrary, they do not assimilate certain modes of conduct that are quite distinct from their own forms of behaviour".*

In addition to these communication barriers, other key factors highlight the distance between Chinese and Spanish cultures. One such factor is the great power distances that characterize Chinese MNEs, which means hierarchies can never be called into question (Hofstede, 2001). Overall, the respect for the hierarchy and authority is an essential value in China Shipping Group. For instance, the general manager explained, "*For Chinese managers it is difficult to understand that Spanish employees will not wear the same corporate T-shirt to work on casual Fridays, just because a top executive has come up with this idea*". Likewise, in the Sichuan Changhong firm, the vertical hierarchy and the horizontal organizational structure are clearly defined and cannot be transgressed. In relation to the vertical hierarchy, the HR manager reported: "*It is a question of authority, you can never* *challenge a decision that comes from above. If your boss orders you to do something, however trivial it might seem, he expects you to stop the job you have in hand immediately and to do it without discussion*". These boundaries, moreover, are also very evident at the horizontal level. For instance, the scope of human resources management in European countries is much broader than in China (for a review see Cooke, 2009). At Huayi, the HR staff are actively involved in all functional areas of the subsidiary, in line with western leadership styles; however, this clashes with perceptions of the role of HR management in Sichuan Changhong where functions are carefully delimited in just one department. Thus, they are forever saying "*you are Human Resources, do not get involved in anything else".*

Another important difference is the selflessness of Chinese workers. Unlike western employees, the Chinese have a high spirit of self-denial and are highly committed to their work. The general manager of China Shipping reported that: "*In China there is no separation between life and work. For Chinese employees, work is more than work, it means their life and there are no borders between them. They are unable to say NO to work."* In a similar vein, the Huayi HR manager explained that *"Chinese managers do not understand why Spanish employees do not want to work at the weekend and why they do not consider working overtime as a great honour and as an opportunity to show the bosses how hard they work".* In contrast to China, European societies place great value on their free time and, hence, strive to find a good work-life balance. Thus, these two different points of view are evidence of conflicting isomorphic pressures that are likely to result in misunderstandings.

Finally, the degree of centralisation of decision-making at the multinational level is a further factor that reflects the marked power distances in Chinese culture (Hofstede, 2001) and which gives rise to the evident subordination of the Chinese subsidiaries. It should be noted that this relationship is further strengthened in the case of SOEs. Consequently, our two Chinese subsidiaries have very little room for manoeuvre. In this respect, the general manager of China Shipping reported: "*We receive very clear guidance regarding how to work, how to report and how to proceed. We only have* *some leeway in aspects associated with the links established with local authorities, human resources and national suppliers and sales issues".* Likewise, the HR manager of Huayi noted: *"We have zero autonomy. In the Chinese subsidiary everybody does what the general manager says, and the general manager only does what the parent company orders".* Contrary to this approach, a European management style advocates the creation of more horizontal relations where the power distance between a group's companies is not so obvious. Here again, there is a risk of isomorphic conflict due to the differences between the two environments and the great cultural distance that separates them. All in all, these circumstances highlight the difficulties the Chinese expatriate managers face in adapting to the host country. Although these managers are willing to adapt for the sake of the subsidiary's performance, their deep-rooted cultural values prevent them from full integration into the new environment. In the words of Huayi's HR manager *"Although Chinese managers are open to adaptation, their habits and values are so different and well established that when they come back from China, after a long time, you have to remind them and explain it to them again and again*". Once again, these differences between the two cultures accentuate the isomorphic conflict which has to be tackled in order to facilitate understanding.

3.5.3. Mitigating isomorphic conflict

The differences characterizing the two institutional environments, that is, the specific requirements for achieving both external and internal legitimacy, make cultural integration a great challenge. In their awareness of this, parent companies typically appoint mixed Chinese and Spanish subsidiary boards of directors. For example, in the case of Huayi, while the board is predominantly Chinese, the managers of the R&D and sales departments are Spanish, while in the case of China Shipping, although the board of directors is made up primarily of Spanish managers, the Managing Director and Financial Controller are Chinese. Similar evidence has been reported by Si and Liefner (2014) and Klossek et al. (2012) in Germany, who likewise report the existence of mixed teams.

In China Shipping, the Spanish managers play a key role as enablers of the adaptation of Chinese expatriates, acting as a bridge between the local way of behaving (embedded in relationships with local agents) and the parent office's values (embodied in the Chinese expatriates). In this regard, the general manager explained: "*We have to remind Chinese managers that they have no choice other than to adapt to certain cultural or legal norms if they want to operate with success in Spain"*. In order to ensure adaptation, local subsidiary managers have to make great efforts to understand the will and actions of Chinese expatriates and, at the same time, teach them which procedures are welcome in the new environment and which are not. Moreover, local subsidiary managers also have the responsibility to learn from the Chinese culture and its values and to transfer an awareness of them to the local employees. According to the manager of China Shipping Spain: *"We try to transfer Chinese customs and modes of conduct to our local employees. We celebrate the Chinese New Year, we hold dinners together […] We try to transfer all this information and at the same time we also try to communicate to them our habits, customs and Spanish ways of behaving […] all this is very different for them"*.

A useful way to approach Chinese cultural values is via the adoption of *guanxi* – the ancient system of personal relationships and social connections based on mutual interest and benefit (Hwang, 1987; Kipnis, 1997) and one of the more deep-seated business practices in China – by local subsidiary managers. In the cases analysed, local subsidiary managers are encouraged to promote *guanxi* in their local relations so as to give a Chinese meaning to their actions, to increase their legitimacy in the eyes of expatriate managers and to win the favour of the parent company. However, to avoid becoming overly detached from their Spanish environment, they must at the same time adapt *guanxi*, as far as it is possible, to the local requirements of business relationships. We found that both Chinese subsidiaries seek to implement the three components of *guanxi* identified above (i.e., *renqing*, *xinren* and *ganqing)* in their attempts to respond to different institutional forces and, in short, as a vehicle to resolve the isomorphic conflict.

For Chinese managers, reciprocity and empathy are essential for the success of their commercial relationships (Hwang, 1987), which are based on the continuous exchange of favours (*renqing*). Although it would seem that these principles form part of the universal language of business, in China personalized networks of influence, largely based on understanding and long-lasting linkages, constitute an especially strong guiding principle. As explained by the local subsidiary managers interviewed here, the subsidiaries have internalized these ways of proceeding and adhere to these rules of favours. In the case of China Shipping, *"If you have a good commercial relationship it is normal to do favours in a business context; however, the Chinese have a longer conception of time due to the social beliefs of Confucianism. You are under no obligation to return the favour immediately, on the contrary, years may pass until you pay back the favour".* According to Huayi's manager, *"In business, you have to take care of your commercial networks and knit good relationships with costumers. That sometimes implies doing favours. Nevertheless, Chinese businessmen never forget. If somebody owes you a favour, even if it was a long time ago, you expect it to be returned".*

As a matter of fact, in the Chinese culture, the exchange of favours often transcends business dealings into personal relationships. Here, the relationships forged between Chinese expatriate and Spanish managers acquire particular prominence. For example, we found evidence in both companies of local subsidiary managers solving the day-to-day problems of their Chinese counterparts. *"They usually ask you if you can introduce them to a person of interest to them or help them with a personal matter ... anyway, Chinese managers tend to rely on us",* explained the general manager of China Shipping. In this way, over time, by means of repeated favours, a useful channel of communication is opened up between the Spanish managers and the Chinese expatriates. In other words, Spanish managers have learnt to successfully apply the *guanxi* code of conduct in their dealings with Chinese expatriates and have, thus, built strong relationships of trust.

The essence of any business relationship for a Chinese manager is continuous and repeated evidence of trust. Only over time and with the achievement of good outcomes is it possible to gain credibility (*xinyong*) and, so, build the bases of mutual trust and confidence (*xinren*) (Yen et al., 2011). In this respect, the general manager of China Shipping claims: *"Trust is a basic aspect of successful professional relationships, but for the*

Chinese it is much greater than this. It is very difficult to enter in their circle of trust; you have to gain it day by day, gradually, by demonstrating good results. In that sense, the Spanish subsidiary has won considerable credibility within the Chinese MNC, obtaining better quality indicators than those obtained by other European subsidiaries". And he adds: *"Once you have eventually won their confidence it becomes a much deeper friendship than others".*

Therefore, it is not until Spanish managers manage to win the confidence of Chinese expatriates that they can enter into their closed circle and develop friendly ties, thus increasing understanding between Chinese expatriates and local employees and fostering cultural integration. To this end, local managers also take great care in getting Chinese managers emotionally involved (*ganqing*) with the Chinese subsidiary by promoting regular social interactions. For instance, the general manager of China Shipping reported, *"In order to work properly with Chinese managers you have to respect and show interest in their culture and life style. Going out for dinners, tasting Chinese food or going singing are things that you must do to be kind and make things work".* In a similar vein, Huayi's HR manager noted: *"Huayi shows great concern for its employees, giving them many gifts on different occasions (fruit, wine, 'jamón serrano', chocolates, etc.). The intention is to get them involved and to be grateful to the firm".* He added, *"Huge meals, toasts of friendship and football matches between the Spanish and Chinese take place often. Since the Chinese managers are a long way from their country and families, they feel the need to make friends* here". This common ground serves as a 'social glue' for the sharing of experiences and for learning more about each other's culture, prompting mutual adaptation and resolving isomorphic conflicts (Forsgren, 2013).

Thus, thanks to the efforts of the Spanish managers and their attempts at promoting *guanxi* practices a mutual adaptation and rapprochement of cultures that facilitate understanding can be achieved. Indeed, by balancing these two forces, Chinese subsidiaries attain both internal and external legitimacy. In this context, and given the great cultural distance between China and Spain, Spanish managers have to be very careful to manage in accordance with the parent company's culture (internal legitimacy) without neglecting local requirements (external legitimacy) if they want to guarantee the success of the investment in the host country. In short, our results indicate that the greater the institutional distance between the MNE's home country and the subsidiary's host country, the more the subsidiary will seek to adapt the parent office's practices to the host country environment in an attempt at resolving the isomorphic conflict.

3.6. CONCLUSIONS AND FUTURE RESEARCH

Our findings show that, in line with the growth in global FDI from emerging countries, Chinese direct investment in Spain has experienced an upward trend in the last decade, above all during the period of international financial crisis. The phenomenon remains new and is relatively small compared to the investment of multinationals based in developed countries; however, there is evidence that it is set to become more and more important in the future, despite the forecasts of a slowdown in the China economy.

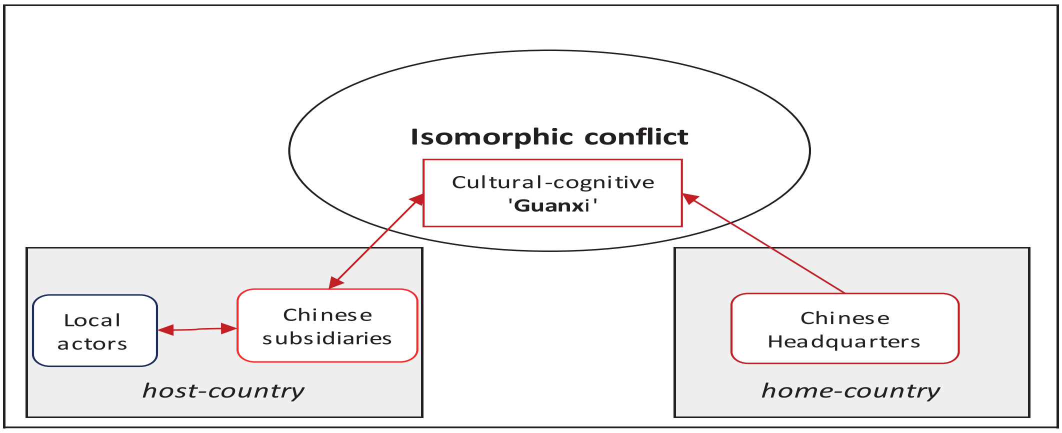
Much of the success of Chinese FDI in Southern Europe is attributable to the integration of cultures in contexts where the distance between the respective institutional environments is great (Kostova and Zaheer, 1999) and the way in which they go about resolving their isomorphic conflicts (Forsgren, 2013). In this respect, previous research has highlighted the significance of the Chinese tradition of *guanxi* and its widespread use in Chinese society (see, for example, Hwang, 1987; Yang, 1994; Lee and Dawes, 2005; Huang et al., 2010). However, to date little has been written about how Chinese firms interact with the cultures of their host environments and how they deal with *guanxi* in foreign countries. In that sense, this article goes some way to filling this gap through its analysis of two Chinese subsidiaries located in Spain.

Our results show that *guanxi* is in widespread use beyond the borders of China too. Although Chinese expatriates are fully aware of their liability of foreignness in developed markets precisely because of the marked cognitive-cultural distance between both environments, they are unable to discard *guanxi* practices as they are deeply-rooted in the Chinese way of doing business and, moreover, they do not wish to jeopardise headquarters' confidence in them as most hope to take up a position there on their return home.

This being the case, foreign subsidiaries adopt and adapt *guanxi* practices, insofar as this is permitted by the institutional environment of the host country. Local subsidiary managers play a role in converting the *guanxi* practices of Chinese expatriates in legitimate actions in relation to the rest of the local employees and local actors, including suppliers, customers and the public administration. To do so, Spanish managers have to involve themselves in *guanxi* practices in order to win the confidence of Chinese expatriates. It should be noted that without the rapprochement of cultures that facilitates mutual understanding, the communication channel between the two parties would remain quite ineffectual for transferring knowledge and resolving the isomorphic conflict (Forsgren, 2013).

The adaptation of *guanxi* practices to the local cultural environment can act as a 'social glue', allowing the subsidiary to align itself with the culture of the parent organization at the same time as it embeds itself in the host environment. Indeed, the subsidiary has to strive to achieve this balance between home- and host-country institutional contexts by adapting *guanxi* practices to local requirements. Within this process of isomorphic conflict resolution, local subsidiary managers take on a key role in the success of Chinese FDI in developed countries. They act as a bridge, reducing the cultural-cognitive distance by transferring mutual knowledge between the host's institutional environment and that of the corporation. Here, we have highlighted the fact that adapting *guanxi* practices to the context of a developed country, such as Spain, is essential in enabling Chinese subsidiaries to balance their need to manage globally (in accordance with their parent organization's culture and, hence, to ensure their internal legitimacy) with the need to manage locally (in accordance with the social beliefs and values of the host country and, hence, to ensure their external legitimacy) (see **Figure 3.1**). In short, this study provides additional insights to the *guanxi* literature by exploring how Chinese MNEs, and in particular their western subsidiaries, adjust their *guanxi* practices outside China in order to resolve the isomorphic conflict.

Figure 3.1. Conceptual framework



Source: own elaboration

Finally, we need to acknowledge certain limitations of the present study, which in all circumstances provide clear indications for future research. First, in our analysis we have only examined the point of view of local managers of Chinese subsidiaries. The present results would undoubtedly be greatly enriched by integrating the opinions of Chinese expatriates as well as those of members sitting on the boards of directors back at the Chinese headquarters. These additional perspectives would provide us with a more complete vision of cultural integration. Second, as in other studies based on a sample of just two firms, our results cannot be generalized. In that sense, a broader sampling of Chinese subsidiaries in other countries of Southern Europe is needed. Finally, we have opted to focus solely on Chinese FDI; however, extending the research to include other emerging countries would enable us to compare the EMNEs from different environments and report more compelling findings about the legitimacy-seeking behaviour of EMNEs in developed markets. Indeed, a quantitative study would further mitigate this limitation by enabling us to test hypotheses related to the resolving of isomorphic conflicts via cultural adaptation and the achievement of internal and external legitimacy.

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CHAPTER 4.

EMNE SUBSIDIARIES: MITIGATING LIABILITY OF ORIGIN IN DEVELOPED COUNTRIES

4.1. INTRODUCTION

For some years now, EMNEs (Emerging Market Multinationals) have increased their presence not just in emerging countries but in most of the developed countries as well (Buckley et al., 2014; Luo and Tung, 2007; Parthasarathy et al., 2017; Yang and Deng, 2017). According to the UNCTAD (2016), the value of cross-border M&As and greenfield projects from emerging countries has risen dramatically in just 12 years (2003-2015) (greenfields by 97.81% and M&As by 616.75%). Furthermore, in 2015, 63.83% of the total value of cross-border M&As was invested in developed countries, and 40.12% in the European Union, which established this region as a serious destination for this FDI (Foreign Direct Investment) from emerging countries (UNCTAD, 2016). In spite of this upward trend, however, there are significant differences at both institutional and cultural level between developed and emerging countries which make it particularly difficult for EMNEs to adapt to the new environment (Klossek et al., 2012; Meyer et al., 2014; Miller and Eden, 2006; Muralidharan et al., 2016; Si and Liefner, 2014). New entrants have to make considerable efforts to overcome their lack of host-country knowledge, learn the rules of the game in developed countries, and familiarize themselves with local customs in order to compete more effectively with both local and other foreign players.

Furthermore, the inherited negative image of EMNEs often makes it more difficult for them to be successful in developed countries (Bartlett and Ghoshal, 2000; Pant, 2012; Pant and Ramachandran, 2012). This cross-border disadvantage, called liability of origin, is exclusive to EMNEs; stakeholders in developed countries are likely to have an unfavourable opinion of firms from emerging countries because of the insufficient institutional development of their countries of origin (Bartlett and Ghoshal, 2000; Musteen et al., 2014). The assumptions regarding the poor level of EMNEs in terms of product quality, service, R&D, safety measures, and so on, create this negative perception about investments from emerging countries to developed markets (Yu and Liu, 2016). Consequently, EMNEs in developed countries suffer discrimination from customers and suppliers as these local agents may have serious doubts about their competitiveness (Held and Berg, 2014; Yu and Liu, 2016).

Faced with this challenging scenario, it is necessary to reflect on the way how EMNEs can effectively solve these conflicts in developed countries. Accordingly, this study raises the following research question: How can EMNEs mitigate this liability of origin in these markets? Responding to this question is extremely important given the growing interest of EMNEs in the International Business (IB) literature and their increasing direct investment in developed countries. In the context of the recent crisis during which many companies experienced considerable financial difficulties, these FDI inflows from emerging countries have provided them with significant help so as to survive or simply to move forward in their expansion plans. Thus, in order to study in detail the obstacles encountered by these foreign investments and to identify possible remedies to overcome their liability of origin, it is crucial to tackle the barriers that prevent their success in the host country.

Few studies to date have analysed this issue, especially from the subsidiary perspective. This point is of particular relevance since subsidiaries from EMNEs located in developed countries are the visible face of these multinational corporations in these settings and are thus the ones that experience the effects of liability of origin at first hand. And only a few studies descend to the EMNE's subsidiary unit of analysis: from a qualitative perspective, Panibratov (2015) analyses the main drivers of the negative effects of country-of-origin suffered by Russian IT firms when internationalizing, but almost all via exporting. Also, based on secondary data, Nguyen and Larimo (2015) examine the acquisition strategies of Brazilian MNEs in US, Canada and Japan and how they control the units they acquire to gain support from local stakeholders and to avoid discrimination. Finally, Yu and Liu (2016) follow a single case study of a Chinese acquisition in New Zealand to explain the major drivers behind local stakeholders' negative attitudes toward new entrants. However, although they focus on the EMNE's subsidiary side and try to explain the problem of liability of origin by means of qualitative cases, these articles do not test empirically the ways of overcoming it through the application of a quantitative methodology.

Our study aims to narrow this gap by developing a model based on Institutional Theory that explains how subsidiaries can reduce their liability of origin in developed countries by achieving good levels of embeddedness, legitimacy and autonomy. To address the research question we adopt a mixed approach combining quantitative and qualitative methods. Fundamentally, we apply a PLS-SEM method to estimate the hypothesized model based on a sample of 116 EMNE subsidiaries, from a vast range of emerging countries, located in five developed European countries (Germany, United Kingdom, France, Italy and Spain). Moreover, our qualitative results, obtained from ten cases through in-depth interviews with managers of EMNE subsidiaries in Catalonia, corroborate the quantitative findings and also provide more comprehensive and enlightening information on this phenomenon.

As a result, the main contribution of this paper is its creation of an original model that assesses EMNE subsidiaries' levels of embeddedness, legitimacy and autonomy to explain how they combat their liability of origin in developed countries. More specifically, we find that higher levels of subsidiaries' internal and external embeddedness increase their levels of internal and external legitimacy respectively, which together favour a greater degree of subsidiary autonomy. Likewise, our findings suggest that subsidiaries that enjoy more freedom to make decisions in these host countries are less likely to suffer discrimination from their local partners.

The article proceeds as follows. The next section contains the theoretical framework on the FDI context of EMNEs, introducing some particularities that describe this investment. In section 3 we develop the hypotheses that should serve to explain how EMNE subsidiaries in developed countries can face their country-of-origin effects. The fourth section details the quantitative and qualitative methodology of this study, while sections 5 and 6 include the results of the analysis from the survey instrument and case study respectively. Finally, the discussion is presented in section 7 and the conclusions in section 8.

4.2. THEORETICAL FRAMEWORK AND CONTEXT OF FDI FROM EMNES

The traditional IB literature has emphasized that firms operating in foreign countries face disadvantages relative to their domestic counterparts (Buckley and Casson, 1976; Forsgren, 2013; Hymer, 1960; Kindleberger, 1969; Kostova and Zaheer, 1999; Zaheer, 1995). These studies focus mainly on the liability of foreignness (Buckley and Casson, 1976; Hymer, 1960; Zaheer, 1995): that is, the costs stemming from the unfamiliarity with the local environment due to the existence of the institutional distance. Any foreign firm, regardless of its origin, that sets up a subsidiary in a new country suffers cross-border disadvantages. Potential entrants face greater inefficiency due to the lack of access to information about local legislation, suppliers and competitors, or simply because of local customers' preferences for home-grown products and brands (Hymer, 1960; Kindleberger, 1969; Zaheer, 1995). To mitigate these costs, foreign firms must learn about local customs, institutions and markets in order to understand how to compete in the new environment on the same footing as their domestic competitors.

The effect of liability of foreignness is even more accentuated in the case of EMNEs entering developed countries, because of the higher institutional distance between home and host countries (Klossek et al., 2012; Si and Liefner, 2014; Wong, 2012). Whereas institutions in developed economies play an important part by facilitating the effective functioning of market transactions without incurring excessive costs and risks (North, 1990), in emerging economies they are typically underdeveloped or even absent (Khanna and Palepu, 2006; Meyer et al., 2009).

Table 4.1 shows the institutional gap between European developed countries and emerging ones in 2015, by comparing a composite measure developed by Kaufmann et al. (2009) of six institutional factors drawn from the World Bank. These six dimensions – control of corruption, government effectiveness, political stability and absence of violence, regulatory quality, rule of law, and voice and accountability – are commonly used to measure institutional quality at the country level (Linders et al., 2005; Malhotra and Gaur, 2014; Slangen and Beugelsdijk, 2010). Contrasting the average scores of the index, we can see that developed countries score higher for every institutional factor, indicating a higher institutional quality. For instance, in relation to the dimension of control of corruption, we see that no group of emerging countries has a score exceeding 0.3500, while European developed countries obtained a mean score of 1.6078. This means that cases of corruption are more frequent and have a more severe effect in emerging countries than developed ones. Large differences between developed and emerging countries also become apparent in the dimension of the rule of law. This reflects the quality of contract enforcement and property rights and interestingly the Asian region achieves the maximum score (0.5154), but this figure is far below the rating obtained by European developed countries (1.6285). This evidence suggests that unlike developed economies, emerging countries are generally characterized by poor enforcement of the rule of law (Gao et al., 2010; Luo and Tung, 2007), often with the result that private property is not respected.

Table 4.1. Institutional gap between European developed countries and emerging regions (2015)

		Control of corruption	**Government effectiveness**	**Political stability and Absence of violence**	**Regulatory quality**	**Rule of law**	**Voice and accountability**
European Developed countries (1)	Average values	**1.6078**	**1.5623**	**0.8035**	**1.4787**	**1.6285**	**1.3838**
	Standard Deviation	0.70	0.39	0.33	0.40	0.52	0.22
United States, Canada and Australia	Average values	**1.7147**	**1.5951**	**0.9477**	**1.5998**	**1.7545**	**1.2929**
	Standard Deviation	0.29	0.15	0.27	0.27	0.13	0.19
Emerging countries of Latin America (2)	Average values	**-0.1369**	**-0.0033**	**-0.2023**	**-0.0525**	**-0.2838**	**0.2551**
	Standard Deviation	0.90	0.62	0.70	0.98	0.94	0.71

(Continued on the next page)

Emerging countries of Asia (3)	Average values	**0.3444**	**0.8345**	**-0.0512**	**0.7105**	**0.5154**	**-0.0252**
	Standard Deviation	0.94	0.83	0.84	1.00	0.90	0.75
Emerging countries of Middle East and Africa (4)	Average values	**0.1292**	**0.3298**	**-0.3477**	**0.2436**	**0.1952**	**-0.8120**
	Standard Deviation	0.56	0.66	0.83	0.59	0.43	0.68
Emerging countries of Eastern Europe (5)	Average values	**-0.0926**	**0.4070**	**0.0848**	**0.5233**	**0.2235**	**0.2940**
	Standard Deviation	0.60	0.61	0.93	0.68	0.71	0.81

Notes: scores goes from -2.5 to 2.5. Higher scores indicate higher institutional quality

(1) Includes as European developed countries the member states of EU-28, excluding emerging countries such as Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, and Romania

(2) Includes Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay, and Venezuela

(3) Includes China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand

(4) Includes Bahrain, Egypt, Kuwait, Morocco, Qatar, Saudi Arabia, South Africa, Turkey, United Arab Emirates

(5) Includes Bulgaria, Czech Republic, Hungary, Kazakhstan, Latvia, Lithuania, Poland, Romania, Russia, and Ukraine

Source: Compiled by authors based on World Governance Indicators database (World Bank)

Differences between developed and emerging economies arise not only for institutional factors but for cultural dimensions as well. The norms of behaviour, customs and shared social beliefs and values vary considerably among countries, so they can affect the liability of foreignness of potential entrants. Cultural disparities hinder the adaptation of EMNEs' products or services in developed host countries and complicate headquarters-subsidiaries communication due to the potential emergence of misunderstandings among managers and employees from both units (Wang and Noisser, 2008). Hence, the existence of cultural differences is also a real challenge that EMNEs have to overcome.

Following Kogut and Singh's (1988) index to measure cultural distance based on Hofstede's (2010) six dimensions (power distance, individualism-collectivism, masculinity-femininity, uncertainty avoidance, long term-short term orientation, and indulgence-restraint), in **table 4.2** we compare the cultural gap existing between European developed countries and emerging ones. Considering only the member countries of EU 28 (excluding European emerging countries such as Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, and Romania) as a point of reference, we observe clear differences. While the cultural distance between European countries and the United States, Canada and Australia is small (0.60), the gap with regard to several emerging regions is substantially higher, with Asian emerging countries being the most culturally distant (1.32), and Eastern European countries the closest (0.89).

Table 4.2. Cultural distance between European developed countries and emerging regions

	Cultural distance index*
Emerging countries of Asia (1)	1.32
Emerging countries of Latin America (2)	1.25
Emerging countries of Middle East and Africa (3)	1.21
Emerging countries of Eastern Europe (4)	0.89
United States, Canada and Australia	0.60

Notes: * Kogut and Singh (1988) used Hofstede's (2010) six cultural dimensions to calculate the overall difference between two countries as $CD_j = \sum_{i=1}^{6}\{(I_{ij} - I_{ia})^2 / V_i\} / n$,

where CD_j is the cultural differences of the jth country from the ath country, I_{ij} Hofstede's score for the ith cultural dimension and jth country, I_{ia} Hofstede's score for the ith cultural dimension and ath country, V_i the variance of the index on the ith dimension, n the number of cultural dimensions

To calculate these cultural differences, we first collected the data individually by countries and regrouped them in regions (Asia, Latin America, etc.), obtaining the average scores needed to apply Kogut and Singh's (1988) formula.

(1) Includes China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand

(2) Includes Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay, and Venezuela

(3) Includes Bahrain, Egypt, Kuwait, Morocco, Qatar, Saudi Arabia, South Africa, Turkey, United Arab Emirates

(4) Includes Bulgaria, Czech Republic, Hungary, Kazakhstan, Latvia, Lithuania, Poland, Romania, Russia, and Ukraine

Source: Compiled by authors based on Hofstede's six dimensions (2010)

According to these larger institutional and cultural differences between developed and emerging markets, EMNEs suffer higher costs in their internationalisation strategies. When operating in developed host markets they have greater difficulties than other much institutionally closer foreign companies in understanding the dynamic of local business (Miller and Eden, 2006). This greater unfamiliarity with the legal and regulatory frameworks, business practices and cultural values that enable business transactions boosts liability of foreignness, increasing the costs of doing business overseas and worsening performance (Kostova and Zaheer, 1999).

Moreover, EMNEs' liability of foreignness is even more acute because of country-of-origin effects (Bartlett and Ghoshal, 2000; Held and Berg, 2014; Marano et al., 2017; Moeller et al., 2013; Nguyen and Larimo, 2015; Panibratov, 2015; Pant and Ramachandran, 2012; Yildiz, 2014). These effects refer to how individuals perceive the value of products or brands emanating from a particular country (Balabanis and Diamantopoulos, 2011; Chattalas et al., 2008). According to Moeller et al. (2013), the country-of-origin information has a significant impact on the quality perception of a product/brand as well as the corporate reputation in the host country. Consumers of developed countries usually expect poorer features from products or services associated with EMNEs, due to the lack of maturity of the institutions in emerging countries, which in turn often results in low legal quality requirements. In this regard, EMNEs are likely to possess an inherited negative image, making it more difficult for these firms to successfully operate in advanced economies. For example, products provided by companies from emerging countries such as China, India, Mexico or Turkey, among others, are typically considered to be of lower quality by first world customers (Bartlett and Ghoshal, 2000; Wang et al., 2014).

The IB literature has labelled these negative perceptions of EMNEs expanding into developed economies as liability of origin (Bartlett and Ghoshal, 2000; Pant, 2012; Pant and Ramachandran, 2012; Yildiz, 2014). This concept is defined as the additional disadvantage that EMNEs tend to suffer (compared with other foreign multinational enterprises from advanced economies), simply because they belong to an emerging economy (Held and Berg, 2014; Ramachandran and Pant, 2010). While liability of foreignness can be associated with any MNE, the liability of origin and specifically, the disadvantages due to the perceived weakness of the home country's economy, are particularly associated with EMNEs.

As noted above, this is due to the fact that local stakeholders often have negative stereotypes towards firms from other institutionally and culturally distant countries, which are influenced by their perceived underdevelopment (Held and Berg, 2014; Marano et al., 2017; Moeller et al., 2013; Musteen et al., 2014; Nguyen and Larimo, 2015; Yu and Liu, 2016). In this regard local stakeholders may be concerned about the levels of technological development, quality of products or services, accountability and trustworthiness of EMNEs, and hence be reluctant to interact with them. Consumers disapprove of EMNEs' products or services, preferring to buy the goods of local companies or other foreign firms from developed countries with better reputations. This negative image can also complicate interactions between customers and suppliers in the host country because of this possible discrimination. For example, suppliers may have doubts about the financial soundness of these new actors because of the lack of transparency that often characterizes emerging countries. Moreover, in the case of Business-to-Business relationships, EMNEs' potential customers may feel distrustful of the quality of inputs provided, refusing to work with them. In addition, host public administrations may also be reluctant to attract EMNEs' inward investment simply because of the lack of confidence in their capabilities or due to geopolitical considerations (De Beule et al., 2014; Pant, 2012; Yu and Liu, 2016): for example, the fear that extracting resources from the host country might damage its economic infrastructure and possibly even threaten its national security (Cui and Jiang, 2012; Globerman and Shapiro, 2009; He and Lyles, 2008; Meyer et al., 2014). Hence, EMNEs in developed countries could be seen as 'Trojan horses' stealing knowledge from local partners, and therefore local stakeholders might see these foreign investments in an unfavourable light.

3. HYPOTHESES

In order to overcome the liability of origin in developed host countries, EMNEs have to gain external legitimacy and make themselves known in the new environment, demonstrating their competitiveness and seriousness in doing business abroad. Subsidiaries located in these host countries are the organizational units responsible for undertaking this assignment, since they are the ones in closest contact with the new environment and local stakeholders. A useful way to earn credibility in the host country is by knitting networks with local partners in order to share information and establish constant interactions. These relationships are conceptualized as external embeddedness, and are defined as close relations between a subsidiary and its local business partners (Andersson et al., 2007; Uzzi, 1996; Nell and Ambos, 2013).

Some studies stress the positive effects of being part of a dense network of partners in which frequent and repeated cooperation is facilitated (Andersson et al., 2002; Figueiredo, 2011; Uzzi, 1996). In the particular case of EMNE subsidiaries, there are several advantages of being highly embedded in the local environment. On the one hand, face-to-face contact permits close communications between agents, which is the best way to become known to local stakeholders. Moreover, subsidiaries may have better access to valuable resources outside the organization, such as new knowledge and ideas (Andersson et al., 2005; Mu et al., 2007) coming from key suppliers and customers that can be used to develop and accumulate the capabilities required to overcome their possible weaknesses (Andersson et al., 2002; Mudambi and Navarra, 2004). On the other hand, EMNE subsidiaries with close relationships have the chance to better understand the specific needs of new local stakeholders. Therefore, the underlying idea is that a deeper insight into the local players' dynamic will provide useful information to EMNE subsidiaries about how to gain acceptance by these agents. Using this information in a smart way, they are able to deploy effective adaptation measures to establish external legitimacy and thus enhance their acceptance in developed host countries (Kostova and Zaheer, 1999; Peng et al., 2008; Wong, 2012).

Consequently, subsidiaries who know their local stakeholders better and make themselves known will be able to achieve a better reputation in the host country and increase their external legitimacy. For instance, through constant communication with customers, subsidiaries can convince them of their products' quality and their ability to deliver on time, thus overcoming customers' potential negative preconceptions of EMNEs. Therefore, by maintaining these close relationships in which frequent exchanges of information and concerns abound, subsidiaries build up a mutual trust with their local partners (Andersson et al., 2002; Uzzi, 1996).

Then, forging good relationships in the host country makes the corporation identity known in the local community and in turn improves its reputation and its corporate image. Further, EMNE subsidiaries feel a greater need to use external embeddedness as a mechanism to achieve external legitimacy in the host country than other foreign companies that are much closer institutionally to the target country. EMNEs crave to be more embedded because of their greater necessity to be recognized and acknowledged by local players, thus combating their negative stereotypes. For this reason, EMNE subsidiaries in developed countries have to make greater efforts than other MNEs to overcome this resistance in order to build trust and developing long-term business relationships. Thus, arguably, the possession of a high level of external embeddedness by these subsidiaries can translate into a good external legitimacy. Hence, we posit:

> **H1.** The greater the external embeddedness of EMNE subsidiaries, the greater their external legitimacy in their developed host countries.

It can also be assumed that EMNE subsidiaries with a high external legitimacy due to their good local reputation and their acknowledgement among their local stakeholders are less likely to face the problem of liability of origin. EMNE subsidiaries which are unable to adapt appropriately to the developed country are in a worse position to combat this problem successfully; this means that local stakeholders will continue to view these firms negatively due to their inability to meet the host-country requirements (Kostova and Zaheer, 1999; Wong, 2012). The liability of origin is partly based on stereotypical judgments related to product quality and lack of transparency in business activities due to the inherited negative image of the country of origin (Marano et al., 2017; Nguyen and Larimo, 2015; Panibratov, 2015; Wang et al., 2014). Given these prejudices that several host-country stakeholders may have towards firms from emerging countries, EMNE subsidiaries are especially interested in gaining a favourable reputation in the host country as quickly as possible. Therefore, once these subsidiaries have achieved legitimacy with their customers or suppliers, they will overcome the initial negative stigmatization caused by their status as belonging to EMNEs. In other words, only when local stakeholders truly know these subsidiaries do they realize the real competitiveness of these EMNE subsidiaries. As a result, their country of origin would no longer be a matter of importance, since stakeholders will be more interested in the positive things rather than in the nationality of these corporations.

Moreover, the fact that subsidiaries achieve this reputation in their host country enhances the legitimacy of the whole multinational group to which they belong, and thus establishes them as ambassadors in developed countries. This can be particularly valuable for mitigating the EMNEs' bad image in those countries (Ramachandran and Pant, 2010). According to Kostova and Zaheer (1999) and Li et al. (2016), when people judge the credibility of a particular organizational unit (e.g. the subsidiary of an EMNE) they automatically extrapolate their opinion to the rest of the corporation, as both parent company and subsidiaries belong to the same multinational. Therefore, when doing business with a local subsidiary, local stakeholders not only ascertain the EMNE subsidiaries' capabilities, but also assess the business achievements of its multinational group; this may open their eyes to the great potential of EMNEs and cause them to forget the negative biases about their country of origin. Hence, thanks to the validity of the subsidiary, they see that being from an emerging country is not synonymous with low competitiveness. Therefore, host-country stakeholders become more fair and objective when it comes to judging EMNE subsidiaries, leaving aside their possible prejudices before starting business relations. Seen in this way, a significant reduction in the liability of origin can be expected through a higher degree of external legitimacy. This leads us to propose the following hypothesis:

> **H2.** The greater the external legitimacy of EMNE subsidiaries, the lesser the effect of their liability of origin in their developed host countries.

Not only do EMNE subsidiaries have to focus on building cohesive relationships with their host-country stakeholders, but they also have to develop and maintain close interactions with other units within their own corporation and especially with the parent company. The intensity of the frequency, depth and quality of these relations (Ciabuschi et al., 2011, 2014; Hallin et al., 2011; Li et al., 2013; Schmid and Schurig, 2003) is what the IB literature terms internal embeddedness. EMNE subsidiaries forge close links with headquarters through constant contact in the form of face-to-face meetings or other formal communication systems. As the frequency and intensity of these relationships increase, the good understanding between the two parts will rise (Gulati and Sytch, 2007). Over time, these good relations will deepen the engagement between managers and employees, which in turn will help to develop a mutual trust (Andersson et al., 2002) that improves subsidiary-headquarters interaction. Therefore, subsidiaries, and in particular the members who maintain direct and regular interactions with headquarters, should strive to increase their communication with them. Learning a little more about the parent firms' cultural values, such as certain local customs or more appropriate ways of expressing things, will strengthen the emotional and communication ties between the two parts. Indeed, cultural proximity between subsidiary and headquarters will be crucial for the frequency of interactions since it improves understanding (Harrison et al., 2000), and increases the levels of collaboration between the two (Li et al., 2016).

Close relationships of this kind are important for EMNE subsidiaries in developed host countries, since they are young entrants which may well need more support from their headquarters. In the case of local companies acquired by EMNEs, resources are central for restructuring subsidiaries' accounts and organizational structures, whereas in greenfield projects this support is critical for new investment in human resources and infrastructure. Consequently, by means of internal embeddedness, EMNE subsidiaries seek the trust and approval of their headquarters in order to obtain the parent firm's assistance. The EMNE subsidiaries' motivation for achieving this acceptance lies in the idea of gaining internal legitimacy with their headquarters in order to access scarce organizational resources and receive more support (Ciabuschi et al., 2011; Kostova and Roth, 2002; Lu and Xu, 2006; Westney, 1993; Zaheer, 1995). Thus, subsidiaries gain internal legitimacy through a high level of internal embeddedness in order to obtain their headquarters' support. Therefore, we posit:

> **H3.** The greater the internal embeddedness of EMNE subsidiaries, the greater their internal legitimacy with respect to their headquarters.

Due to the structural complexity of a multinational corporation, foreign subsidiaries are situated in both external (host country) and internal environments (the EMNE corporation) which demand different requirements and support from both settings (Forsgren, 2013; Kostova and Zaheer, 1999; Lu and Xu, 2006). Because of the great institutional differences between developing and developed countries, EMNE subsidiaries face great challenges in attempting to give a simultaneous response to both contexts (Kostova et al., 2008). These environments, which are often quite different from one another, can simultaneously exert isomorphic pulls on EMNE subsidiaries, in what has been described as the 'isomorphic conflict' (Forsgren, 2013). Therefore, a balance has to be struck between the two pressures in order to achieve appropriate levels of external and internal legitimacy and thus, ensure the EMNE's success in the host country.

However, as many authors have pointed out, it would be difficult for subsidiaries to achieve full external and internal legitimacy simultaneously (Kostova and Zaheer, 1999; Li et al., 2016; Lu and Xu, 2006; Xu and Shenkar, 2002). On the one hand, according to Li et al. (2016), the increase in a subsidiary's internal legitimacy brought about by raising the level of institutionalization of their headquarters' practices and by narrowing internal interaction makes the external legitimacy process more challenging. Subsidiaries which are internally integrated and also wish to be accepted by local actors in the host country must be fully aware that some parent firms' practices can be in conflict with local ones. As a result, it may create tensions between home and host countries institutions within the EMNE subsidiaries. An excess of internal with respect to external legitimacy will not help to combat the negative perceptions of local stakeholders towards

EMNEs' investments. In that case, local players would consider that foreign subsidiaries are not doing enough to adapt to the developed host country and hence, this situation would not resolve the effect of the EMNE's liability of origin. On the other hand, EMNE subsidiaries that prioritize achieving external legitimacy at the expense of internal legitimacy, are also mistaken. In such cases, headquarters may be increasingly far away from their subsidiaries, even reaching a point where they would not identify them as members of the same corporate group. As a result, these subsidiaries will progressively lose the confidence of their headquarters and subsequently the necessary endorsement to be successful in the host country. Consequently, subsidiaries need to achieve both types of legitimacy since they possess valuable information about both environments and are the most qualified to fulfil internal and external requirements.

As a result, subsidiaries have no option but to meet all host-country stakeholders' requirements by trying to reach the highest possible degree of external legitimacy in order to gain a good reputation in local markets, which in turn also influences their internal legitimacy. Subsidiaries that have gained external legitimacy report satisfactory results in the local market, and so the parent company has more confidence in their competitiveness and potential for obtaining higher profitability in future. When this happens, subsidiaries' internal legitimacy improves due to their increased reputation in the host country. Accordingly, as the parent company feels proud of the performance and the image of the foreign subsidiary it will be more satisfied and more committed to it. Hence, we argue that good external legitimacy will increase the level of internal legitimacy. We therefore hypothesize that:

> **H4.** The greater the external legitimacy of EMNE subsidiaries in their developed host countries, the greater their internal legitimacy with respect to their headquarters

Subsidiaries achieving the correct level of internal legitimacy increase the confidence of the parent company in their capabilities, and thus obtain greater recognition of their responsibility; this in turn increases their decision-making power. When a subsidiary gains internal legitimacy within the corporation it attracts more attention and resources, and also receives greater freedom to manage them. This refers to its decision-making power: that is, the extent to which subsidiary managers are able to make decisions without headquarters' involvement (Roth and Morrison, 1992). In this regard, until the subsidiary has achieved a satisfactory level of legitimacy from its parent firm, the latter exercises great control over it and does not allow it to make many decisions by itself.

A subsidiary's good reputation and mutual trust with the parent company leads to greater autonomy. Subsidiaries' managers can assert their valuable local market knowledge to convey to their headquarters that they are the best qualified to make decisions about local resources (Cavanagh et al., 2017; Schüler-Zhou and Schüller, 2013; Tong et al., 2012). The potential importance of EMNE subsidiaries within their multinational groups for expanding the overseas businesses in developed countries, helps them to gain more decision-making power in the eyes of the parent company (De Jong et al., 2015; Rabbiosi, 2011; Tong et al., 2012). In consequence, since headquarters are responsible for delegating more decision-making power to their subsidiaries, they have to be satisfied with the goals accomplished. The fact that headquarters trust their subsidiaries means that the latter have shown their worth, and have reached a high internal legitimacy. Once the headquarters' trust is won, EMNE subsidiaries enjoy some leeway to decide about the resources assignment and the different strategies for expanding business in the host country. This leads us to the following:

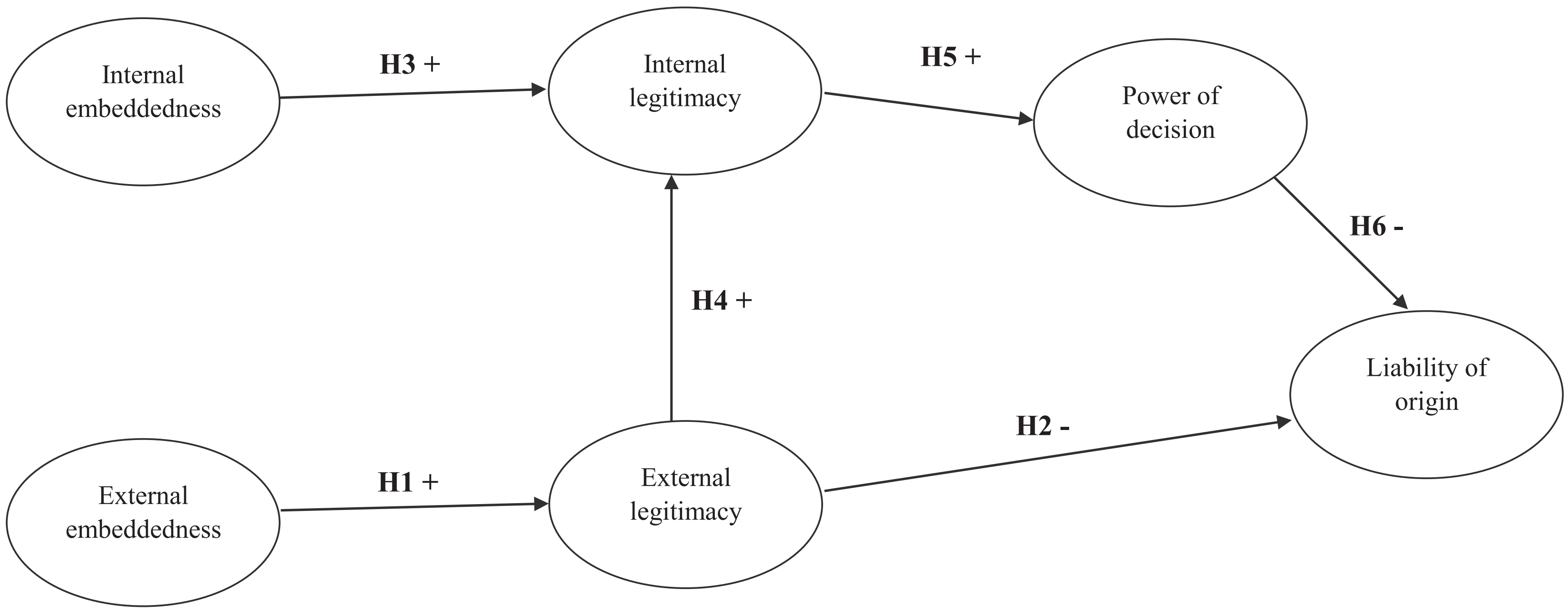
> **H5.** The greater the internal legitimacy of EMNE subsidiaries in the eyes of their headquarters, the greater their decision-making power.

The possession of greater decision-making power offers benefits for EMNE subsidiaries. In particular, greater autonomy enables subsidiaries to behave in their host countries like any other local company. This is because the possibility of making decisions freely allows subsidiaries to blend better into the host country (Yeheskel et al., 2004). This choice is especially attractive to these firms because of their negative domestic institutional heritage, which make them potential sufferers of liability of origin in developed countries (Marano et al., 2017; Bartlett and Ghoshal, 2000; Luo and Tung, 2007). Accordingly, delegating decision-making power provides an opportunity for EMNE subsidiaries to differentiate themselves from their parent company and overcome the possibly negative perceptions towards the latter (Luo, 2003; Wang et al., 2014). By acting as local firms, subsidiaries would avoid being labelled pejoratively. More autonomous local managers can more easily undertake measures to raise transparency, improve accountability in order to reduce EMNEs' liability of origin (Luo and Tung, 2007). Further, Nguyen and Larimo (2015) and Wang et al. (2014) have already suggested that foreign subsidiary autonomy is one of most important mechanisms for overcoming EMNEs' home-country disadvantages after foreign entry. Therefore, we argue that EMNE subsidiaries with higher decision-making power will provide an improved response to their host environment, by mitigating stereotypical judgments that in turn reduce their liability of origin. Hence:

> **H6.** The greater the degree of EMNE subsidiaries' decision-making power, the lesser the liability of origin suffered by EMNE subsidiaries in their developed host countries.

Figure 4.1 summarizes the conceptual model integrating the six hypotheses developed. The model assumes that the higher possession of external and internal subsidiaries' embeddedness increases their levels of internal and external legitimacy. Moreover, subsidiaries that achieve good external legitimacy will obtain higher internal legitimacy. Furthermore, subsidiaries with higher internal legitimacy will be rewarded by headquarters with greater autonomy to make their own decisions in the host country. And in turn, this decision-making power will help EMNE subsidiaries to combat the liability of origin they suffer in developed host countries.

Figure 4.1. Hypothesized model



4.4. METHODOLOGY

In order to establish how EMNE subsidiaries can mitigate their liability of origin in developed European countries, the analysis adopts a mixture of quantitative and qualitative methodologies. On the one hand, drawing on the research framework, we conducted a survey in order to obtain empirical evidence to contrast our research hypothesis. On the other, we complement these quantitative results with a case-study methodology, which is also appropriate for answering research questions that try to know “how” things happen (Yin, 1990). To focus on the issue at stake, we extend the quantitative results by recording the perceptions of different EMNE subsidiaries’ managers through several in-depth interviews.

Mixed method research is a growing methodological approach in many areas (Adobor, 2005; Creswell and Plano Clark, 2011; Luomala, 2007; Schelfhaudt and Crittenden, 2005) as it provides several benefits to the analysis. Combining quantitative and qualitative methodologies leads to a more comprehensive account of the matter at hand, thus enhancing the integrity and credibility of the findings (Bryman, 2006; Harrison III, 2013). The triangulation of different empirical sources corroborates the results and subsequently increases the construct validity (Yin, 2003).

4.4.1. Quantitative study

4.4.1.1. Questionnaire and data

4.4.1.1.1. Population and sampling

The target population included EMNE subsidiaries located in the most important European developed countries in terms of nominal GDP, such as Germany, United Kingdom, France, Italy, and Spain (IMF, 2016) which operate in both industrial and services sectors. We identified our target population in the *Analysis System of Iberian Balances* (SABI) database and the *Analyse Major Databases from European Sources* (AMADEUS). First, to ascertain the emerging country of origin of the multinationals we selected

39 countries[22] whose real GDP growth rates, according to the IMF (2016) for the period 2007-17, were above 4% for at least three periods. Thus, we only included multinationals from the most important emerging countries in terms of their ability to generate business, excluding countries which, though considered as emerging, are merely developing economies whose contribution to the international business world is quite limited. Second, we defined foreign-owned subsidiaries whose parent firms were located in the targeted emerging countries previously selected which held at least 50.01% of their shares (Bouquet and Birkinshaw, 2008). This criterion was used to ensure that the EMNE exercised an absolute control over the European subsidiary.

As a result, a preliminary list of 3,021 foreign-owned subsidiaries from emerging countries were identified in Germany, France, United Kingdom, Italy, and Spain. We reduced the number of subsidiaries by establishing several strict criteria in order to identify the population relevant to our research. First, we excluded both non-active and holding companies (383 companies in all) because these cases do not result in productive real activity. Second, we also eliminated firms after correcting for conflicting ownership information or discrepancies caused by errors in the foreign shareholder's origin by triangulation of data with other sources (including websites of the companies themselves, newspaper articles, etc.). As a result, 118 firms were removed from the list. Third, we did not consider firms owned by personal shareholders since they do not reflect a genuine subsidiary-headquarter linkage (541 firms were omitted). Fourth, we did not include investments categorized as very recent because we required at least three years have elapsed, to ensure that the EMNEs had sufficient experience in the new environment of the host country. We therefore eliminated 566 more subsidiaries which were founded after 2014. After applying all these criteria we obtained a final population of 1,413 EMNE subsidiaries.

[22] Argentina, Bahrain, Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Czech Republic, Ecuador, Egypt, Hong Kong, Hungary, India, Indonesia, Kazakhstan, Korea (South Korea), Kuwait, Latvia, Lithuania, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, Singapore, South Africa, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, Uruguay and Venezuela

In some cases, due to time and labour limitations we were unable to survey the entire population under consideration. Consequently, a sample of the population was obtained by means of the non-probabilistic sampling technique called proportional quota sampling. Applying this technique, first we chose the relevant stratification, in this case certain fixed characteristics such as subsidiaries' business sector, their host country and the origin of their headquarters, and divide the population accordingly. Second, we carefully calculated a quota for each stratum based on the proportion of the selected characteristics amongst the 1,413 EMNE subsidiaries. Finally, after estimating the number of firms needed in each stratum, we selected non-randomly subsidiaries to take part in our research until each of these quotas was filled. Specifically, we only included the subsidiaries that explicitly mentioned the country-of-origin of their headquarters in their websites, a criterion which was necessary given the purpose of our research. This meant that our sample was as representative as possible of the population being studied. In fact, using quotas provided us with a certain degree of control over the biases that may arise from the selection method used, since it ensures that in a key series of variables the composition of the population will be faithfully reflected in our sample.

This process provided us with a final sample of 746 firms. We telephoned all the firms in this sample to ask them to participate in the study and to identify a possible respondent from each firm. For this process, we were assisted by two persons who were fluent in English, German, French, Italian, Spanish and Portuguese. Finally, 169 subsidiaries declined our invitation to participate.

4.4.1.1.2. Data collection and characteristics of the sample

In the telephone pre-screening we requested that the potential respondent should be the CEO, general manager or someone in a position of responsibility within the subsidiary because this person would have a wide knowledge and overall vision of the firm (Frost et al., 2002). We recorded the name and email address of the possible respondents in order to customize the email soliciting their participation in our study (Dillman, 1991). To increase trust and legitimacy and thus improve the response rate, we explained the purpose of the research and stressed its institutional endorsement and also assured prospective participants that we would not disclose any information that might reveal the identity of the subsidiary (Harzing, 1999).

Based on the information obtained from the phone calls, we sent online questionnaires to the potential respondents. One round of reminders was sent to all target respondents when necessary. Following data collection over a four-month period (from November 2016 to February 2017), replies were received from 127 respondents, of which 116 were found to be usable. The other eleven were excluded as they had large portions of incomplete data. Hence, we obtained a net response rate of 15.55%, which is relatively satisfactory in surveys of subsidiaries with high-level executives as respondents. The vast majority of the respondents were subsidiary CEOs (87.07%); Managing Directors accounted for 9.48% and the remaining respondents held posts of responsibility such as Business Developers and Financial and Human Resources Managers (3.45%). Most of the respondents were local (70.69%); expatriates from the parent firm's country of origin accounted for 29.31%.

We tested for non-response bias by comparing the subsidiaries' number of employees, subsidiaries' age, and subsidiaries' origin (Gerbing and Anderson, 1988) of respondents with those of the non-respondents. The t-statistic was used to test the non-response bias for both the number of employees (in log scale) and age (log scale), and the Chi-square test for the subsidiary origin (classifying the following emerging regions: 1= Asia, 2= Latin America, 3= Middle East, 4= Eastern Europe), as the nominal variable. The results showed no significant differences between responding and non-responding subsidiaries at a 5 per cent significance level (*p*-value=0.826; *p*-value=0.675; *p*-value=0.142, respectively) and so we can conclude that non-response bias did not represent a problem in our study.

Our final sample represents 25 kinds of business sector. The industrial sectors predominated, with 87.07% of the sample, while service sectors accounted only for 12.93%. More specifically, subsidiaries from the machinery and equipment (13.79%), chemical (11.21%), and automotive components (9.48%) industries were the most numerous (see **table 4.3**). According to Eurostat industry classifications of technology and knowledge intensity, subsidiaries belonging to high or medium-high technological and knowledge-intensive sectors and the ones operating in low or medium-low technological and less-knowledge-intensive industries were represented more or less equally. With respect to the size, 20.68% were small (<50 employees), 58.62% medium-sized (51-250 employees), and 20.70% large (>250 employees), the average being about 265 employees. As regards age, subsidiaries held by EMNEs for less than 11 years (80.18%) clearly predominated, thus indicating that most investments are relatively recent. Headquarters' origin was distributed over nine emerging countries: China (25.00%), India (24.14%), Turkey (12.93%), Brazil (11.21%), Mexico (11.21%), South Korea (6.03%), Poland (5.17%), Czech Republic (2.59%), and Chile (1.72%). Also, with regard to the entry mode, the vast majority of subsidiaries were the result of acquisitions (82.76%) while the remaining 17.24% were greenfield investments. Although this may seem to represent a bias, this preferred entry mode is fully consistent with the EMNE literature since these firms rely more on acquisitions to gain the resources and capabilities they need to compensate their late-mover disadvantages (Child and Rodrigues, 2005; Goldstein and Pusterla, 2010; Luo and Tung, 2007; Mathews, 2006; Nicholson and Salaber, 2013).

Table 4.3. Sample characteristics

Description	Percentage	Description	Percentage
Industry-sector		**Subsidiary origin**	
Machinery and equipment	13.79	China	25.00
Chemical	11.21	India	24.14
Automotive components	9.48	Turkey	12.93
Fabricated metal products	8.62	Brazil	11.21
Rubber and plastic products	7.76	Mexico	11.21
Basic metals	7.76	South Korea	6.03
Wholesale trade, except for motor vehicles and motorcycles	6.90	Poland	5.17
Pharmaceutical	5.17	Czech Republic	2.59
Food products	3.45	Chile	1.72
Other non-metallic mineral products	3.45	**Entry mode**	
Electrical equipment	3.45	Acquisition	82.76
Others	18.96	Greenfield	17.24
Technology and knowledge-intensity industry classification (Eurostat's criterion based on two-digits NACE)		**Subsidiary size (No. of employees)**	
High-technology manufacturing	5.18	< 50	20.68
Medium high-technology manufacturing	43.97	50–100	17.24
Medium low-technology manufacturing	28.45	101–200	35.35
Low-technology manufacturing	9.48	201–500	18.97
Knowledge-intensive services	0.86	> 500	7.76
Less knowledge-intensive services	12.06	**EMNE subsidiary age**	
Subsidiary location		3–5 years	27.59
Spain	28.44	6–10 years	52.59
Germany	23.28	11–15 years	10.34
United Kingdom	18.97	16–20 years	5.17
Italy	15.52	> 20 years	4.31
France	13.79		

4.4.1.1.3. Design of the survey

We designed our survey's questions according to an exhaustive literature review of EMNE subsidiaries as well as subsidiary-headquarters relationships, in order to identify a suitable group of variables that might play a role in the liability of origin. The use of a single respondent by each subsidiary may cause a common method variance bias (Chang et al., 2010; Podsakoff et al., 2003); we take steps to reduce this possibility in the ex ante and ex post statistical analyses (Chang et al., 2010; Podsakoff et al., 2003). The ex post analysis is explained in the next section. With regard to the ex ante procedures, the design of our survey took certain concerns raised by previous authors (Chang et al., 2010; Podsakoff et al., 2003) into consideration. Firstly, we assured all respondents (at both individual and firm levels) that their data would be treated confidentially, and questions were presented in an impartial way so as not to bias respondents' answers (Harzing, 1999). Second, we designed a relatively brief online questionnaire occupying only four screenshots which could be completed in no more than 15 minutes. Third, we maintained the same Likert scale, but varied the series of the responses (e.g., strongly disagree to strongly agree; not at all to very much; and very unsatisfied to very satisfied) (Podsakoff et al., 2003).

Further, the questionnaire was divided into four sections: (a) questions collecting subsidiary and respondent information, (b) questions concerning the relationship between the subsidiary and the headquarters, (c) questions concerning the relationship between the subsidiary and local stakeholders, and (d) questions as to whether the subsidiary perceived differences in treatment due to their headquarters' origin. Finally, the questionnaire included 30 items, which correspond to six constructs: 'external embeddedness' (7 items), 'internal embeddedness' (2 items), 'external legitimacy' (6 items), 'internal legitimacy' (2 items), 'power of decision' (8 items), and 'liability of origin' (5 items). The online questionnaire provided to respondents is shown in **annex B**.

4.4.1.2. Measures

Based on the literature review, we identified the measures best suited to meet the specific requirements of our research purpose. The study measured each questionnaire item on a five-point Likert scale, ranging from 1 (lowest score) to 5 (highest score). The list of items for each measurement scale is presented in **table 4.4**. The approach to the measurement for each construct in the model is described below.

4.4.1.2.1. External embeddedness

External embeddedness was measured using four items, reflecting the subsidiary manager's perception of the quality of their interactions with their major stakeholders like suppliers and customers. To measure the strength of these interactions we adapted the scales of Ciabuschi et al. (2014) and Hallin et al. (2011) focussing on the frequency of communication and the degree of valuable knowledge gained by subsidiaries through these business relationships. Our initial idea was to consider subsidiaries' stakeholders in a broad sense, also embracing public administrations and research centres or universities. However, due to the low load on the construct of the three items concerning these local partners, we finally excluded them from the analysis. Consequently, the construct 'external embeddedness' finally contained four items regarding suppliers and customers.

4.4.1.2.2. Internal embeddedness

In the same way as external embeddedness, internal embeddedness was constructed based on the subsidiary manager's opinion of the strength of the relationships with their headquarters. We gauged this opinion from two questionnaire items which are based on the scale by Ciabuschi et al. (2014) and inspired by Forsgren et al. (2005), Nohria and Ghoshal (1994), and Hallin et al. (2011). Specifically, we draw attention to two basic elements of internal embeddedness – the frequency of communication, and the existence of good understanding in the interaction between subsidiaries and their headquarters.

Table 4.4. Constructs and measures

Construct/indicator	Definition
External embeddedness (EE)	**Respondents assessed the strength of the following aspects in the interaction with their following local partners.**
	(1= very low interaction (yearly); 5= very high interaction (weekly))
• EE1	• Frequency of communication with suppliers
• EE2	• Frequency of communication with customers
• EE3	• Frequency of communication with public administrations
• EE4	• Frequency of communication with research centres or universities

(Continued on the next page)

	(1= not at all; 5= very much)
• EE5	• Valuable knowledge acquired from suppliers
• EE6	• Valuable knowledge acquired from customers
• EE7	• Valuable knowledge acquired from research centres or universities
Internal embeddedness (IE)	**Respondents assessed the strength of the following aspects in the interaction with their headquarters.**
	(1= very low interaction (yearly); 5= very high interaction (weekly))
• IE1	• Frequency of communication
	(1= strongly disagree; 5= strongly agree)
• IE2	• Good understanding
External legitimacy (EL)	**Respondents assessed to what extent they feel their subsidiaries are valued by the following local partners.**
	(1= not at all; 5= very much)
• EL1	• Acknowledgement from suppliers, based on the maintenance of a good relationship
• EL2	• Acknowledgement from customers, based on the maintenance of a good relationship
• EL3	• Acknowledgement from public administrations based on the maintenance of a good relationship
• EL4	• Acknowledgement from research centres or universities based on the maintenance of a good relationship
	(1= strongly disagree; 5= strongly agree)
• EL5	• The subsidiary has a good reputation among suppliers
• EL6	• The subsidiary has a good reputation among customers
Internal legitimacy (IL)	**Respondents assessed to what extent they feel their subsidiaries are valued by their headquarters.**
	(1= strongly disagree; 5= strongly agree)
• IL1	• The subsidiary has a good reputation with its headquarters
	(1= very unsatisfied; 5= very satisfied)
• IL2	• The headquarter is satisfied with the subsidiary's business performance

(Continued on the next page)

Power of decision (PD)	**Respondents indicated how decisions are made regarding the following business operations carried out by the subsidiary.**
	(1= decided by headquarters without consulting subsidiary; 5= decided by subsidiary without consulting headquarters)
• PD1	• Formulating the annual budget
• PD2	• Purchasing activities
• PD3	• Sales and distribution
• PD4	• Regional marketing
• PD5	• Hiring and firing of the subsidiary's workforce
• PD6	• Manufacturing process (modifying the production methods)
• PD7	• Manufacturing process (increasing/decreasing level of production)
• PD8	• Monitoring and controlling quality of products/services
Liability of origin (LO)	**Due to the fact that the main shareholder of their subsidiaries is from an emerging country, respondents assessed the following aspects.**
	(1= strongly disagree; 5= strongly agree)
• LO1	• Differences in treatment in the relationships maintained with suppliers
• LO2	• Differences in treatment in the relationships maintained with customers
• LO3	• Brand acceptance by local consumers is more complicated
	(1= not at all; 5= very much)
• LO4	• Negative perception of the quality of the products or services among local customers
• LO5	• Discriminatory treatment by public administrations in relation to local competitors and to other foreign MNCs from developed countries

4.4.1.2.3. External legitimacy

The external legitimacy variable was measured using four items, taking into account the subsidiaries' managers' opinion of the extent to which their firms were valued by their suppliers and customers. In line with Hsu (2012), Petrick (2002) and Zheng et al. (2015), we specified this measure focusing on both reputation and acknowledgement. In this case, we also asked our respondents about these concepts with regard to other stakeholders such as public administrations and research centres or universities, but these two items were excluded during the analysis because of their low load on the construct. As a result, external legitimacy finally comprised four items.

4.4.1.2.4. Internal legitimacy

Respondents were asked two questions to measure their subsidiaries' degree of acceptance by their headquarters. These two items illustrate the subsidiaries' managers' perception of the level of satisfaction of the parent company regarding the accomplishment of their goals and the reputation achieved. We adapted our measures from Hsu (2012), Lai et al. (2010) and Wang et al. (2006).

4.4.1.2.5. Power of decision

Power of decision was evaluated using a total of eight indicators. Following previous studies (Edwards et al., 2002; Schüler-Zhou and Schüller 2013), we defined power of decision as the extent to which the subsidiary can make decisions about its business operations. To quantify this, we adopted measures from Dimitratos et al. (2014), Edwards et al. (2002), Ghoshal and Nohria (1989) and Taggart (1997) that determine the capability of a subsidiary to make eight important decisions regarding corporate functions in the firm, such as financial, commercial, human resources, and production (for more details, see **table 4.4**).

4.4.1.2.6. Liability of origin

The liability of origin construct comprises five items measuring (from the subsidiary manager's point of view) the possible discrimination suffered by the EMNE subsidiaries in their developed host countries merely due to their belonging to a corporation from an emerging country. We focused on the potential discriminatory treatment that these subsidiaries experience in the relationships maintained with their main local partners. Since, to our knowledge, there are no scales for measuring this kind of liability, we created an original construct based on the existing literature that investigates the subject from a qualitative perspective (Kolk and Curran, 2015; Moeller et al., 2013; Nguyen and Larimo, 2015; Panibratov, 2015; Ramachandran and Pant, 2010) (see **table 4.4** for specific details).

4.4.1.2.7. Control variables

The study incorporates several control variables associated with liability of origin in order to manage possible biases. First, we controlled for entry mode using a dummy variable as a control for the subsidiary's type of establishment in the host country (1= greenfield investments and 0= acquisition). The choice of entry mode can affect the results, since an acquired subsidiary could benefit from several resources that enable its adaptation to the host country and mitigate the liability of origin (Deng, 2013; Goldstein and Pusterla, 2010; Peng, 2012). Second, we incorporated the EMNE subsidiary's age (i.e., the natural logarithm of the number of years that the subsidiary is held by a firm from an emerging country). Foreign affiliates allocated in host countries for many years have had more opportunities for interacting with other local partners. Third, we introduced the subsidiary size (measured as the natural logarithm of the number of the subsidiary's employees) to control any possible influence on the liability of origin because of the fact that larger subsidiaries with higher levels of business activity may have a greater influence among a larger number of local stakeholders. Fourth, to capture any potential influence of the specific country of origin of the subsidiaries, we entered a nominal variable 'subsidiary origin' sorting the following emerging regions (Asia, Latin America, Middle East, and Eastern Europe). Fifth, we created a dummy variable considering the potential industry effects (Gupta and Govindarajan, 2000). In terms of the two-digit NACE classification we followed the Eurostat's criterion technology and knowledge- intensity industry classifications (1= high-tech or medium-high-tech, and 0= low-tech or medium-low-tech). This control variable is relevant since negative stereotypes towards EMNEs' products are more likely to appear in high-tech industries. Finally, in order to determine whether the direct presence of expatriates from emerging countries working and controlling foreign subsidiaries might alter liability of origin, we used a Likert-scale called 'subsidiary degree expats'. Following Harzing and Sorge (2003), we asked respondents to indicate the degree to which their headquarters uses expatriates to directly control the subsidiary's operations (scores: 1= not at all; 5= very high degree). Prior studies suggest that the nationality of a subsidiary manager nay have significant implications (Gupta and Govindarajan, 1991; Li et al., 2016) because host-country managers are more familiar with the local environment.

4.4.2. Qualitative study

4.4.2.1. Case selection

The ten EMNE subsidiaries analysed in this part of the research were selected from the Analysis System of Iberian Balances (SABI) data base. On this occasion, we follow a proximity criterion, analysing subsidiaries allocated in Catalonia. Cases were chosen based on their suitability to the issue addressed in our study (Eisenhardt and Graebner, 2007). We chose the subsidiaries based on the following criteria: (1) similar to our quantitative sample data, subsidiaries must have operated for at least three years under EMNE ownership in order to ensure a long experience dealing with host-country stakeholders; (2) they had to represent all emerging country regions: that is to say, their parent company's origin had to be Asia, Latin America, Middle East, and Eastern Europe; (3) they had to be located in the same geographical area, i.e., the metropolitan area Barcelona, so that they enjoyed the same opportunities for interacting with local stakeholders. As a result, the selected subsidiaries were representative of both service and manufacturing industries, and also covered many entry modes to the host country, i.e. acquisitions or joint ventures and greenfield investments. **Table 4.5** summarizes the profiles of each of these cases.

Table 4.5. Information on the ten EMNE subsidiaries analysed

Company	Headquarter origin	Year of entry into Spain	Entry mode	Activity sector	Interviewees
Accord Healthcare, S.L.	India	2009	Greenfield	Wholesale pharmaceutical products	General manager
Ceilhit, S.L.U.	Czech Republic	2010	Acquisition	Radiant heating production	General manager
Cosco Shipping Lines Spain, S.A.	China	1999	Greenfield	Shipping and related extension services	General manager
Ekol Spain Logistics, S.L.	Turkey	2014	Greenfield	Transport and logistics	Development manager Spain
Huayi Compressor Barcelona, S.L.	China	2012	Acquisition	Compressors and condensing units manufacturing	Human Resources manager
Motherson Sintermetal Products, S.A.	India	2011	Acquisition	Automotive components manufacturing	General manager
SQM Iberian, S.A.	Chile	1988	Joint-venture	Wholesale fertilizers	General manager
Stabilit, S.L.U.	Mexico	2000	Greenfield	Plastic laminates manufacturing	Human Resources manager
Unión Químico Farmacéutica, S.A.	India	2011	Acquisition	Pharmaceutical manufacturing	General manager
UPL Iberia, S.A.	India	2006	Greenfield	Seeds and crop protection products manufacturing	General manager

4.2.2. Data collection and analysis

Data were collected through in-depth, personal, semi-structured interviews (conducted between November 2016 and March 2017) that lasted on average 90 minutes. As can be seen in **table 4.5**, interviews were conducted with seven general managers and three middle managers, chosen on account of their thorough understanding of the subsidiary and their important role during its process of establishment in Spain. All the interviews were recorded and transcribed, summarized chronologically, and the crucial aspects of the interviews highlighted and divided into different sections which are explained in the following paragraph (Strauss and Corbin, 1998; Yin, 2003).

The structure of the interviews was similar to the quantitative survey but aimed to attain a deeper understanding of the hypothesized causal relations. Accordingly, unlike the online questionnaire, the questions of personal interviews were open-ended for respondents. In this way, as the questions of the survey were the same but the format varied, managers were able to provide their impressions in detail as well as to give us several examples that gave a fair reflection of the EMNE subsidiary's situation. First of all, respondents were asked to provide an overview of the subsidiary's specific activity, entry strategy and development. We also asked for a brief description of the multinational corporation and parent company in order to understand the role played by the subsidiary within the group. Additionally, they were asked about their perception of potential discriminatory treatment suffered in the host country merely by belonging to an EMNE. This possible difference in treatment was understood in a broad sense, and included a vast range of local stakeholders such as customers, suppliers, public administrations, and research centres or universities. Next, interviewees were asked to describe the strength of subsidiary-headquarters linkages, and to provide some examples to illustrate this relationship and the degree of headquarters' satisfaction with the subsidiary's performance. Finally, we also asked about the quality of relationships built by subsidiaries with their main local partners such as suppliers, customers, public administrations, and research centres or universities, in order to know whether these subsidiaries are rewarded in the host country. Any subsequent doubts about specific explanations were resolved through mail exchange and direct phone calls (Yin, 1990).

4.5. RESULTS

4.5.1. Quantitative results

Structural Equation Modelling (SEM) using Partial Least Squares (PLS) was applied to analyse the quantitative data collected (Lohmöller, 1989; Wold, 1985). This technique was selected because of its usefulness when hypothesized relationships between variables have not been tested, as in the current case (Ainuddin et al., 2007; Abu Bakar et al., 2016). Moreover, PLS analysis is a variance-based technique (Henseler et al., 2009) which is more suitable than covariance-based models due to the exploratory character of EMNE's liability of origin (Chin, 2010; Levy et al., 2006). Also, the PLS approach to SEM is particularly suited for conditions when data are not normally distributed and for small sample sizes (Chin and Newsted, 1999; Hair et al., 2011), as in the present research.

Smart PLS Version 2 Software (Ringle et al., 2005) was used to carry out the two types of assessment in PLS analysis (Barclay et al., 1995; Chin, 2010; Gefen et al., 2010): the analysis of the measurement model, which identifies the relationship between a latent variable and indicators, and the analysis of structural model, which pinpoints the relationships among latent variables.

4.5.1.1. Analysis of measurement model

The quality of the latent variables must be checked before they can be used in the analysis of structural model. The two major criteria used to test the adequacy of the measurement model are reliability and validity. Reliability tests the extent to which the latent variable is measured by its items, while validity checks the degree to which any instrument succeeds in quantifying what it is designed to measure (Sekaran and Bougie, 2010). For this purpose, we assessed individual item reliability, internal consistency reliability, convergent validity, and discriminant validity (Chin, 2010; Hair et al., 2010).

First, individual item reliability was evaluated by examining the outer loadings, which represent the loadings of each item with their respective latent variable (**table 4.6**). A loading higher than 0.7 demonstrates the item's reliability (Hulland, 1999). All the loadings were above this minimum value except for items PD7 (0.6657) on the power of decision scale, EL5 (0.6932) and EL6 (0.6086) on the external legitimacy scale, and LO5 (0.6270) on the liability of origin scale. We decided to include these items because they exceeded the minimum admissible value of 0.55 suggested by Falk and Miller (1992). Some researchers recommend retaining, as far as possible, items from the original measurement scale in order not to lose useful information (Chin, 1998). However, it should be further noted that three items of the external embeddedness construct (EE3, EE4, EE7) and two of the external legitimacy (EL3, EL4) scales were eliminated because their loadings did not meet the minimum acceptable value of 0.55 (Falk and Miller, 1992).

Table 4.6. Results of outer loadings for checking individual item reliability

Construct / Indicator	Loading	Standard Error	t-value
Power of decisión			
• PD1	0.7096	0.0561	12.7721
• PD2	0.7703	0.0491	15.7239
• PD3	0.7041	0.0553	12.7017
• PD4	0.7859	0.0317	24.7046
• PD5	0.7991	0.0356	22.3722
• PD6	0.7620	0.0430	17.7316
• PD7	0.6657	0.0643	10.4378
• PD8	0.7048	0.0711	10.0082
External embeddedness			
• EE1	0.9298	0.0180	51.6406
• EE2	0.8957	0.0213	41.9529
• EE5	0.8453	0.0407	20.7663
• EE6	0.8456	0.0332	25.4871
External legitimacy			
• EL1	0.8822	0.0236	37.4607
• EL2	0.8231	0.0421	19.6486
• EL5	0.6932	0.0572	12.1215
	0.6086	0.0736	8.2914

(Continued on the next page)

Internal embeddedness			
• IE1	0.8775	0.0319	27.4974
• IE2	0.8582	0.0447	19.3398
Internal legitimacy			
• IL1	0.8972	0.0267	33.7538
• IL2	0.9210	0.0145	63.2994
Liability of origin			
• LO1	0.8048	0.0345	23.3389
• LO2	0.8093	0.0436	18.5227
• LO3	0.8414	0.0366	22.9425
• LO4	0.7882	0.0429	18.3522
• LO5	0.6270	0.0695	9.1235

Second, internal consistency reliability was assessed through composite reliability, thereby complementing Cronbach's alpha. Both criteria serve the same purpose (Furrer et al., 2012) but in PLS path models, Cronbach's alpha underestimates internal consistency reliability as it assumes that each item makes an identical contribution to the latent variable (Chin, 1998). Therefore, we used composite reliability as it takes account of the fact that indicators have different correlations or loading values. All the latent variables ranged from 0.9318 to 0.8435 (**table 4.7**), exceeding the recommended value of 0.7 (Hair et al., 2010; Nunnally, 1978; Rahman et al., 2013); thus, we found support for the reliability of the measures.

Third, the average variance extracted (AVE) measures are useful to assess the convergent validity of the latent variables. **Table 4.7** shows that the AVE values in our study vary from 0.5490 to 0.8286, thus passing the threshold value (0.5) that Fornell and Larcker (1981) recommend.

Finally, all latent variables used in this analysis differed substantially from each other, thus achieving discriminant validity. **Table 4.8** shows the assessment of discriminant validity, which can be obtained by examining the cross-loadings of indicators (Hulland, 1999). In this regard, each item within the construct loaded highly on the construct that it is intended to measure, and the cross-factor loadings were lower than the intra-construct item factor loadings. Furthermore, we followed the Fornell and Larcker (1981) criterion which also evaluates the fulfilment of discriminant validity and suggests that the AVE (i.e., the diagonal elements in **table 4.9**) should be greater than the variance between the latent variable and the other latent variables in the model (i.e., the squared correlation between two latent variables) (see **table 4.9**). Thus, both cross-loading tests and the Fornell-Larcker criterion confirm the discriminant validity of the constructs in the model. Overall, the measurement model demonstrated adequate reliability and convergent and discriminant validity.

Table 4.7. Results of internal consistency reliability and convergent validity

Construct	AVE	Composite Reliability	Cronbach's Alpha	Redundancy	Number of items
Power of decision	0.5490	0.9066	0.8833	0.1427	8
External embeddedness	0.7739	0.9318	0.9022	n.a.	4
External legitimacy	0.5789	0.8435	0.7479	0.2645	4
Internal embeddedness	0.7580	0.8623	0.6808	n.a.	2
Internal legitimacy	0.8286	0.9062	0.7937	0.0752	2
Liability of origin	0.6056	0.8839	0.8339	0.1270	5

Table 4.8. Results of cross loading test for checking discriminant validity

	Power of decision	External embeddedness	External legitimacy	Internal embeddedness	Internal legitimacy	Liability of origin
PD1	**0.717**	0.300	0.205	0.314	0.308	-0.419
PD2	**0.773**	0.208	0.268	0.336	0.358	-0.331
PD3	**0.702**	0.216	0.224	0.243	0.433	-0.372
PD4	**0.783**	0.316	0.366	0.326	0.502	-0.406
PD5	**0.797**	0.236	0.388	0.326	0.468	-0.498
PD6	**0.763**	0.226	0.178	0.352	0.402	-0.300
PD7	**0.671**	0.091	0.143	0.373	0.312	-0.315
PD8	**0.712**	0.122	0.084	0.078	0.220	-0.295
EE1	0.262	**0.931**	0.626	0.112	0.154	-0.516
EE2	0.274	**0.893**	0.624	0.115	0.159	-0.532
EE3	0.243	**0.846**	0.523	0.301	0.231	-0.512
EE4	0.276	**0.846**	0.608	0.213	0.184	-0.517
EL1	0.260	0.610	**0.883**	0.212	0.312	-0.580
EL2	0.313	0.464	**0.827**	0.298	0.326	-0.550
EL3	0.225	0.507	**0.693**	0.044	0.239	-0.485
EL4	0.217	0.478	**0.611**	0.195	0.102	-0.420
IE1	0.353	0.218	0.228	**0.877**	0.516	-0.267
IE2	0.351	0.136	0.203	**0.864**	0.493	-0.287
IL1	0.419	0.082	0.184	0.566	**0.900**	-0.370
IL2	0.530	0.280	0.408	0.494	**0.921**	-0.450
LO1	-0.416	-0.638	-0.683	-0.317	-0.340	**0.806**
LO2	-0.412	-0.418	-0.474	-0.308	-0.313	**0.807**
LO3	-0.397	-0.359	-0.441	-0.183	-0.340	**0.840**
LO4	-0.436	-0.391	-0.435	-0.124	-0.363	**0.787**
LO5	-0.300	-0.451	-0.555	-0.296	-0.404	**0.634**

Table 4.9. Fornell-Larcker criterion for checking discriminant validity

	1	2	3	4	5	6
1. Power of decision	**0.5490**					
2. External embeddedness	0.0902	**0.7739**				
3. External legitimacy	0.1118	0.4613	**0.5789**			
4. Internal embeddedness	0.1633	0.0418	0.0614	**0.7580**		
5. Internal legitimacy	0.2748	0.0417	0.1100	0.3358	**0.8286**	
6. Liability of origin	0.2568	0.3470	0.4531	0.1009	0.2053	**0.6056**

Note: Diagonal (in bold) represents the average variance extracted; while below the diagonal the shared variance (squared correlations) is represented.

4.5.1.2. Analysis of common method variance

In order to minimize the common method variance bias, we followed the ex post approach suggested by Podsakoff et al. (2003). Specifically, using the common method factor approach, we added a 'latent method factor' with all the items of all the constructs in our structural model. Thus, in assessing the method bias, the amount of the variance in the items, explained by their latent variables (on average 0.6827) was significantly higher than those explained by the common method factor (on average 0.1331). Further, we re-estimated the structural model to compare the results of our two models (the original and the other model including this latent method factor). Comparing the total results of both models, we observed that the overall pattern of significant/insignificant paths did not change. These results suggest that the common method bias does not seem to represent a threat in our study.

4.5.1.3. Analysis of structural model

After validating the measurement model, the next stage is to assess the structural model results by examining the model's predictive capabilities and the relationships between latent variables. The model's predictability is evaluated through the coefficient of determination (R^2), which is the important criterion for the analysis of the structural model. The R^2 values for the four dependent latent variables significantly exceed the threshold value (0.1) that Falk and Miller (1992) suggest (see **table 4.10**), indicating that our research model is well suited to explain the relationships between our constructs. Moreover, the R^2 value for the final latent variable, i.e., 'liability of origin', was 0.6061, suggesting that 60% of the variance of this construct can be explained by the model proposed – a very satisfactory level of predictability. In PLS path models, the R^2 value of liability of origin is considered to have substantial predictive capacity and the R^2 values of external legitimacy, internal legitimacy, and power of decision are moderate (Chin, 1998).

Also, we evaluated the quality of the PLS path model by calculating Q^2 statistics (Geisser, 1974; Stone, 1974), by assessing the predictive capability of the model by repeating the values observed by the model itself using blindfolding procedures (Tenenhaus et al., 2005). In SEM, Q^2 greater than zero means that the model has predictive relevance, and less than zero means the model lacks predictive relevance. The results of the blindfolding procedure – ‘internal legitimacy’ (Q^2=0.2939), ‘external legitimacy’ (Q^2=0.2530), ‘power of decision’ (Q^2=0.1171) and ‘liability of origin’ (Q^2=0.3355) – provide support for the model’s predictive relevance.

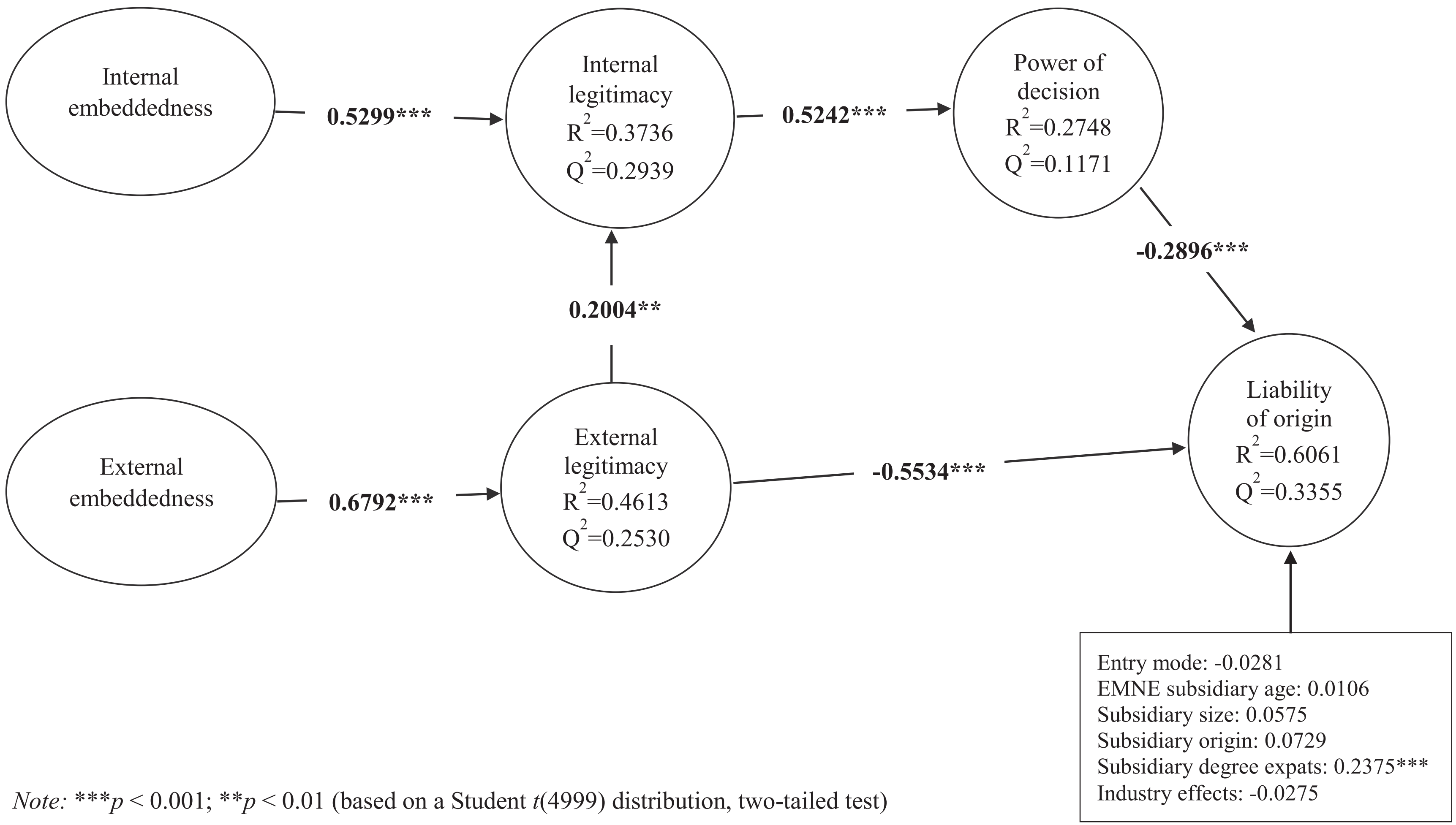
Finally, we determined the significance level of the path coefficients (β value) using a resampling bootstrap procedure with 5000 subsamples (Chin, 1998). The student’s t-test was used to determine the significance of the path coefficients. As can be observed in **table 4.10**, which summarizes the results, ‘liability of origin’ was directly and negatively influenced by both ‘power of decision’ (β=–0.2896, *t*=4.1346) and ‘external legitimacy’ (β=–0.5534, *t*=9.1680), which in their turn, were directly and positively influenced by the ‘internal legitimacy’ (β=0.5242, *t*=8.8321) and ‘external embeddedness’ (β=0.6792, *t*=14.9765) respectively. Interestingly, ‘internal legitimacy’ was also positively related to ‘internal embeddedness’ (β=0.5299, *t*=5.4139). There was also a significant relationship between the two legitimacy variables: that is to say, ‘internal legitimacy’ was positively influenced by ‘external legitimacy (β=0.2004, *t*=2.8897). It can therefore be established that all the hypothetical paths in the conceptual model are supported and significant, with each t-value higher than the minimum cut-off value 2.58 at the 1% level of significance (Hair et al., 2011). **Figure 4.2** shows these paths and the explained variance of the latent variables. With regard to the control variables (‘entry mode’, ‘EMNE subsidiary age’, ‘subsidiary size’, ‘subsidiary origin’, ‘subsidiary degree expats’ and ‘industry effects’), we found a significant positive relationship only between ‘subsidiary degree expats’ and ‘liability of origin’ (β=0.2375, *t*=3.8284). Then, following the principle of parsimony, as adopted in other studies (Achcaoucaou et al., 2016; Berghman et al., 2013; Scott et al., 2010), we excluded these five insignificant control variables from all further analyses.

Table 4.10. Analysis of structural model

Effects on endogenous variables	**Path coefficient**	**Standard Error**	**t-value (bootstrap)**	**R^2**	**Stone-Geisser Q^2**
Effects on External legitimacy				0.4613	0.2530
• External embeddedness → External legitimacy	0.6792***	0.0453	14.9765		
Effects on Internal legitimacy				0.3736	0.2939
• Internal embeddedness → Internal legitimacy	0.5299***	0.0979	5.4139		
• External legitimacy → Internal legitimacy	0.2004**	0.0694	2.8897		
Effects on Power of decision				0.2748	0.1171
• Internal legitimacy → Power of decision	0.5242***	0.0594	8.8321		
Effects on Liability of origin				0.6061	0.3355
• External legitimacy → Liability of origin	-0.5534***	0.0604	9.1680		
• Power of decision → Liability of origin	-0.2896***	0.0700	4.1346		
Control variables on Liability of origin					
• Entry mode → Liability of origin	-0.0281	0.0814	0.3456		
• EMNE subsidiary age → Liability of origin	0.0106	0.0744	0.1428		
• Subsidiary size → Liability of origin	0.0575	0.0739	0.7782		
• Subsidiary origin → Liability of origin	0.0729	0.1035	0.7044		
• Subsidiary degree expats → Liability of origin	0.2375***	0.0620	3.8284		
• Industry effects → Liability of origin	-0.0275	0.0656	0.4193		

Note: ***$p < 0.001$; **$p < 0.01$ (based on a Student $t(4999)$ distribution, two-tailed test

Figure 4.2. Structural model results



Note: $^{***}p < 0.001$; $^{**}p < 0.01$ (based on a Student $t(4999)$ distribution, two-tailed test)

4.5.2. Qualitative results

In this section, we complement the quantitative results by presenting our qualitative findings obtained through the ten case analyses undertaken. By studying the perceptions of EMNE subsidiary managers of their experiences within their multinational corporations in the host country, we aim to provide a deeper understanding of the causal relationships which were previously demonstrated. According to our theoretical framework and hypothesized model, we compile the following narrative qualitative evidence that illustrates and nuances our tested hypothesis.

4.5.2.1. Subsidiaries' general profile

Accord Healthcare, S.L.

Accord Healthcare is a greenfield operation which was founded in 2009 in Spain and belongs to the private Indian group Intas Pharmaceuticals, dedicated to researching, manufacturing and marketing a wide range of generic pharmaceuticals. Accord Spain commercializes a broad portfolio of oncological products for hospital use, and is one of the Indian multinational group's 19 subsidiaries located throughout Europe to cover its market-seeking needs.

Ceilhit, S.L.U.

Ceilhit, the first manufacturer of underfloor heating cable in Spain, was acquired in 2010 by the private Czech Fenix Group, one of Europe's largest producers of electric surface heating systems. The investment in Spain was part of the Czech group's process of market expansion. Currently, the corporation comprises eleven companies, exporting to over 50 countries worldwide.

Cosco Shipping Lines Spain, S.A.[23]

Cosco Shipping Lines, a state-owned Chinese company active in the containerized marine shipping, arrived in Spain in 1999 via a greenfield investment in search of new market opportunities. The Spanish subsidiary serves as the consignee of the Chinese shipping company in the port of Barcelona. Since September 2016, as a result of the merger of Chinese shipping giants COSCO and China Shipping, Cosco Shipping Lines Spain

[23] Previously named Cosco Iberia, S.A.

makes up the China Shipping Spain Agency, which entered into Spain in 1999 via a joint-venture with Pérez y Cía[24].

Ekol Spain Logistics, S.L.

Ekol Spain belongs to the private Turkish group Ekol Logistics, an integrated logistics company which set up in Spain in 1990. The Spanish subsidiary is the result of a greenfield investment in 2014 and operates in the international road transport industry. The Turkish multinational has 14 other locations in Europe and its main reason for investing in Spain was to cover another European market.

Huayi Compressor Barcelona, S.L.

Cubigel, a local manufacturer of compressors for industrial and commercial refrigerators, was acquired in 2013 by the state-owned Chinese Sichuan Changhong group, and adopted the name of Huayi Compressor. The China-based company is also engaged in the manufacturing of compressors but traditionally has focused on producing domestic compressors for home appliances. The major reasons for investing in Spain were to seek new markets, i.e., Spain and other adjacent markets such as Latin America, and also to acquire new knowledge regarding industrial compressors.

Motherson Sintermetal, S.A.

Motherson Sintermetal, a manufacturer of powder-metal sintered parts for the automotive industry supplies, has belonged to the private Indian group Samvardhana Motherson since its acquisition in 2012. The Indian company is a leading supplier to the global automotive industry. Its main reason for buying the Spanish plant was to acquire technical knowledge of powder-metal part manufacturing.

SQM Iberian, S.A.

SQM Iberian is the Spanish subsidiary of the private Chilean group SQM, a chemical company and a supplier of plant nutrients, iodine, lithium, potassium and industrial chemicals. SQM Iberian is responsible for commercializing these fertilizers and for providing solutions in the application of these products for the agricultural sector in Spain. In this case, Spain's status as the major European agricultural market was the

[24] However, after only a few years the Chinese group bought almost all the shares.

reason for the creation of a subsidiary in 1988 through a joint-venture with another Spanish partner. However, for more than ten years this subsidiary has been wholly owned by the Chilean group.

Stabilit, S.L.U.

Stabilit Mexico is a private group which manufactures and commercializes plastic laminates. Its arrival in Spain dates back to 2000 as the result of a greenfield investment, although two years later Stabilit Mexico acquired the Spanish company Lightfield, so the current Spanish subsidiary is the result of the merger of the two companies. Stabilit Spain manufactures and markets a wide range of translucent and opaque laminates, and also plays a major role in the internationalisation plans of the Mexican group. The intention of investing in Spain was to use this subsidiary as a springboard to other European markets.

Unión Químico Farmacéutica, S.A.

Unión Químico Farmacéutica (UQUIFA), a manufacturer of Active Pharmaceutical Ingredients (API) for both generic and innovator drugs, has been the Spanish subsidiary of the private Indian group Vivimed Labs since its acquisition in 2011. The main aim of this operation for the India-based healthcare and speciality chemicals company was to access the API domain by acquiring knowledge from an experienced manufacturer like UQUIFA.

UPL Iberia, S.A.

UPL Iberia is the result of a greenfield investment made in 2006 by the private Indian group UPL, which is engaged in the manufacture and supply of crop protection products. The Spanish subsidiary is dedicated mainly to marketing these products. The India-based company decided to set up a sales office in Spain due to Spain's global importance in the agricultural industry.

4.5.2.2. Results from the ten cases analysed

Liability of origin suffered by EMNE subsidiaries in the developed host country

The disadvantages of EMNEs in developed countries are more pronounced because the greater institutional and cultural distance between emerging and developed countries makes it harder for them to adapt to the host-country environment (Klossek et al., 2012; Si and Liefner, 2014; Wong, 2012). Once EMNEs set up in the host country, the cultural and institutional differences between the two environments become evident for the subsidiaries' day-to-day business. These disparities come to the fore in the interactions of subsidiaries' local staff with their headquarters.

On the one hand, the cultural differences between emerging and developed countries may create barriers in communication and expression (Hofstede, 2010). For example, Indian culture differs from with Spanish culture in many respects; the general manager of Accord Healthcare explained: *"Culturally speaking, the main constraint with our Indian peers, particularly in the beginning, was the way of communicating…they communicate in a different way than we do; also they write emails in a way that we do not do"*. Indeed, the language problem could be a major obstacle to smooth communication since some managers from emerging countries, especially from China, have a poor command of English and Spanish (Wang and Noisser, 2008). In the words of the general manager of Cosco Shipping: *"The language issue is a very important handicap because despite the fact that the more recent generations of Chinese are better prepared, some managers continue to have limited English proficiency and do not speak any Spanish"*.

Institutional differences may also cause problems for adapting to the new environment since rules and norms relating to business sectors and the working conditions in the two environments may differ significantly (Luo and Tung, 2007). Sometimes EMNEs find it difficult to understand why they cannot behave in the same way as in their home country. The existence of rules restricting activities in developed countries may disconcert expatriates from EMNEs who manage foreign subsidiaries. In this respect, the general manager of Motherson Sintermetal reported: "*The laws in India are very different from those we have in Spain; for example our Indian managers find hard to understand the Spanish limit of extra hours per year...they do not entirely comprehend it because in India there is no limit of hours"*. Likewise, the HR manager of Huayi noted that lower ranking workers who come from China to work at the subsidiary also feel disconcerted by their new working conditions: *"At our subsidiary we have hired Chinese workers from the parent's corporation and they did not understand why they had so many rights as workers; they felt very strange, especially at the beginning"*. However, this institutional shock is most noticeable at the beginning of their time in the host country; EMNEs have no choice but to accept the new rules of the game, since local laws must be respected. In the words of the HR manager of Stabilit: *"Our Mexican managers at the parent firm were surprised by the existence of the possibility of working day reductions for mothers with children under 12 years old, as this does not exist in Mexico. Nevertheless, they know that we are subject to our sector agreement so they absolutely accept and respect that"*.

Furthermore, greenfield or acquired EMNE subsidiaries suffer potential discrimination from their new local customers or suppliers due to the negative institutional image of the headquarters' country of origin (Bartlett and Ghoshal, 2000; Nguyen and Larimo, 2015; Panibratov, 2015; Pant and Ramachandran, 2012; Wang et al., 2014; Yildiz, 2014). There may be doubts and concerns about a country's political stability, the degree of red tape, and other possible risks. As a result, host-country stakeholders may have negative stereotypes and perceptions regarding the new subsidiaries implanted in developed countries, thus increasing the EMNEs' liability of origin. EMNE subsidiaries are responsible for combating this prejudice. For instance, the development manager of Ekol in Spain explained, *"With some Spanish customers it is sometimes better not to mention that we belong to a Turkish multinational so as to avoid problems and prejudices in this regard. We say that our headquarters are located in the Netherlands (and not in Turkey). Because of the unstable political situation in Turkey customers may fear that their merchandise will be seized at the border, or something like that"*.

Moreover, at the beginning of their European adventure EMNE subsidiaries must overcome serious doubts on the part of their potential customers regarding their products' quality. These potential customers may be reluctant to buy their products because they have very little faith in them merely because of their country of origin. As the general manager of the Indian multinational Accord pointed out: *"At the beginning, 12 years ago, we suffered some discrimination because we belonged to an Indian multinational"*. This subsidiary had great difficulty in persuading the customers of the effectiveness of their products, and it took them longer than another foreign firm from a developed country: *"Indeed, it took us three or four years to convince laboratories that we were able to manufacture their medicines...My feeling is that to gain customers confidence required much more effort on our part…if we had been a German multinational we would have surely sold more easily"*.

We also observed other negative reactions to EMNEs' investments in developed countries, particularly in cases of acquired subsidiaries. These reactions are mainly due to the uncertainty generated by this kind of entry-mode. In other words, some host-country stakeholders feel uncomfortable since they feel that the presence of new owners may lead to significant changes, for example, in the current quality of products, or they may simply have doubts about the creditworthiness of the new investors. In the words of the general manager of UQUIFA: *"When the Spanish subsidiary was bought by the Indian group Vivimed in 2011, there were negative reactions from our customers and suppliers. For example, our large American customers were worried about what was going to happen to the quality of our products and the timeliness of our deliveries. Our suppliers were also concerned about the Indian financial situation"*.

The threat of offshoring of production activities is another aspect that prompts controversy surrounding EMNEs' investments in developed countries. In this regard, when a local firm is acquired by an EMNE, their host-country customers and suppliers initially assume that new shareholders will move the manufacturing plant to their home emerging country in order to cut costs. This situation compels the subsidiary's managers to explain clearly that this is not the goal of the new shareholders, but rather the purpose in the near future is to increase investments so as to expand the business in the host country. Nevertheless, in some cases the fear continues for some time and EMNE subsidiaries have to carry out specific actions to ensure long-term continuity. As the general manager of Motherson Sintermetal said: *"Our suppliers feared that the intention of the new shareholders was to relocate the production plant to India, so that we had to make supply contracts with a longer duration, which meant higher costs*".

By the same token, suppliers of EMNE subsidiaries may also fear a potential threat of upstream vertical integration due to the lower production costs of emerging countries. Suppliers may suspect that EMNEs are interested in acquiring knowledge from them in order to replicate the manufacturing activity in their countries of origin, taking advantage of lower production costs. However, in our cases analysed we found that this was not a major concern. In this regard, the general manager of Ceilhit explained: *"We have never been able to access the manufacturing plant of one of our suppliers, and I think it is because of the fear that we might reproduce their production cheaper in the Czech Republic…but it has only happened in this particular case"*.

Achieving external legitimacy through external embeddedness (hypothesis 1)

Owing to the great need of EMNE subsidiaries to adapt to their developed host countries as soon as possible and to reduce liability of origin, they try to establish good relationships with local stakeholders. The quantitative results presented above makes it clear that building closer relationships with host-country stakeholders is a very useful way to achieve their acceptance. Accordingly, EMNE subsidiaries which have been able to make themselves known to their local partners through strengthening their links with them have been rewarded with higher reputations and better sales in the host country.

Information and resource exchange through close interaction seems important in consolidating long-term relationships with customers, benefiting both sides and contributing to achieving mutual trust (Andersson et al., 2002; Uzzi, 1996). In the words of SQM Iberian's general manager *"The relationship with our customers is very close. We have built strong bonds of confidence over the last few years. We really have brought positive things to each other; for example they have always given us very good feedback that has helped us to improve our products and we have provided them with technological skills that have enable them to export more. So our growth has gone hand in hand with their growth"*. Further, in these win-win relationships not only technical information or other feedback flows occur; there is also the possibility of sharing contacts by opening up new market opportunities. And he adds: *"Within these close relations, we have provided our clients with new contacts in Latin American countries where we have a strong presence, so that they can set up new businesses. In this way, we have earned the respect and acceptance of our clients"*.

As regards suppliers, local embeddedness is also a basic element for good understanding and comprehension. Frequent and close contacts between EMNE subsidiaries and local suppliers create an effective dialogue and a positive environment that can improve their image in the eyes of these local stakeholders. According to the Stabilit HR manager, *"As we come to know one another better, we get better understanding. We try to put ourselves in their shoes and that is why we frequently visit them to see their facilities and observe what internal changes they make. We often eat out together so that these close relationships improve the quality of the service and at the end achieve a better business result. They also appreciate this, because it is good for their business and at the same time we improve our reputation with them"*. Moreover, subsidiaries make their customers and suppliers feel especially valued by communicating the importance they have for the company. For example, Huayi celebrates a customers' and suppliers' day every year in Barcelona. They invite them to their facilities, explain the latest improvements at the factory, offer them dinner and go to see a professional football match. By means of these activities and constant communication a climate of mutual confidence is built up, which increases the level of acceptance among local players and in turn improves the reputation of EMNE subsidiaries in the host country.

Reducing liability of origin through external legitimacy (hypothesis 2)

As EMNE subsidiaries increase their external legitimacy with local customers and suppliers through close interactions, their corporations' country of origin becomes of secondary importance. Subsidiaries enhance their reputation, and thus reduce their liability of origin, by demonstrating their value and commitment. Achieving external legitimacy is one way of shifting host-country stakeholders' attention away from the negative stereotypes that they initially have towards EMNE subsidiaries. In this respect, the general manager of Accord reported: *"Once you have already proven that because of being an Indian firm you are no worse than other companies from Germany or France, that is when you can demonstrate to others that your products are good and effective, so your Indian origin is no longer a problem"*. This also appears to be the case of SQM Iberian, as the Spanish subsidiary currently has no problem with local suppliers and customers in spite of belonging to a Chilean group. After years of hard work, this subsidiary has been able to show its competitiveness at local market, thus gaining a good reputation and this acknowledgement enables the company to remove all possible misgivings about the quality of its products due to its origin.

EMNE subsidiaries that achieve internal legitimacy through internal embeddedness (hypothesis 3)

Subsidiaries also focus on achieving their headquarters' acceptance since they need their headquarters' support in order to develop their business in the host country. To this end, it is vital that EMNE subsidiaries forge close links with headquarters through frequent communication and good understanding (Andersson et al., 2002; Ciabuschi et al., 2014; Uzzi, 1996). By building up a good climate of communication, the esteem within this interaction will increase and as a result, the subsidiary will be viewed favourably by its parent company (Kostova and Zaheer, 1999). Cosco Shipping is a good example of this; the Spanish subsidiary has a good relationship with its Chinese parent firm and together they have generated an atmosphere of mutual appreciation.

Furthermore, subsidiaries are keen to integrate into the multinational group to which they belong. Their staff, in constant contact with headquarters, show respect towards the manner of communicating things. To quote the development manager of Ekol in Spain: *"The frequent and good communication that we maintain with our Turkish headquarters has helped us to gain their acceptance. We have shown an interest in Turkish values and even learned a few words in Turkish…this has brought us closer to our headquarters"*. Good communication is not the only reason for the effective embedding of this Spanish subsidiary in the Turkish corporation. The development manager added: *"Our multinational's corporate slogan, 'One Ekol', arose from a comment made by our subsidiary's general manager at a meeting attended by all the subsidiaries and the Turkish headquarters. During the meeting, various general managers referred all the time to 'my' subsidiary, but our local general manager said 'we should say 'we' instead of 'my'…' as a result, we coined the slogan 'One Ekol' which really symbolizes the excellent relationship we have with our headquarters"*. This illustrates how subsidiaries that care about forging good relationships with headquarters can earn their appreciation and trust.

In addition, mutual cooperation between subsidiaries and headquarters is driven by the frequent sharing of internal information and knowledge (Ciabuschi et al., 2014; Forsgren et al., 2005). This mutual support represents a great advantage to subsidiaries because they receive important resources for their business activities, while headquarters also benefit from subsidiaries' knowledge. This win-win relationship within developing internal embeddedness improves the subsidiary's reputation in the eyes of its parent company. For example, Stabilit maintains a very fluent relationship with its headquarters, and they provide each other with knowledge and resources concerning production activity. In fact, some Stabilit engineers have gone to Mexico to set up projects and production lines designed at the subsidiary; and in turn, Mexican engineers came to Spain in 2005 to implement a new acrylic manufacturing line. Thus, this mutual exchange of knowledge and constant good communication improve their reputation with the Mexican headquarters.

EMNE subsidiaries that achieve internal legitimacy through external legitimacy (hypothesis 4)

In order to gain internal legitimacy, subsidiaries not only take care to build close relationships with headquarters but also try to win them over by demonstrating their level of adaptation in the host countries and their good local business performance. EMNE subsidiaries can achieve good internal legitimacy by showing clear evidence of their high external legitimacy in developed countries in Europe, driven by their good reputation among local stakeholders and their outstanding performance. To quote the development manager of Ekol in Spain: *"The fact that in our sector we have a very high acceptance and good corporate image, particularly among customers and suppliers, has certainly enhanced our reputation with our headquarters since the Turkish managers feel very proud of us"*.

The general manager of Accord corroborates the above: *"Our legitimacy with the Indian parent company is also the result of our good performance in the market, and therefore the positive outcomes obtained are fruit of our success with our customers"*. Moreover, in these cases when the headquarters are satisfied with the subsidiary's accomplishment of the goals they are able to attract more resources from their parent firms for developing their businesses. SQM Iberian illustrates this situation well, since the acknowledgement achieved in its market and its great business growth has won the subsidiary greater support from its corporation. The parent firm has demonstrated its satisfaction with the good work done by the Spanish subsidiary by investing heavily on it. Specifically, it chose Spain in preference to other countries as the site of a blending factory.

EMNE subsidiaries that achieve power of decision through internal legitimacy (hypothesis 5)

In conditions of good foreign business performance and close corporate relationships, the parent company builds up confidence in its subsidiaries and is more likely to delegate more power of decision. Thus, gaining the trust of headquarters is a key requirement for subsidiaries keen to enjoy greater autonomy when making decisions in the host country.

In the words of the general manager of Accord: *"The prize for our past hard work is the autonomy we currently have to operate in the local market"*. This hard-won autonomy is visible in many corporate functions such as commercial or production areas. The general manager of SQM Iberian said *"for example, at the commercial level we have a spectacular degree of autonomy and this is so because the Chileans are happy with us"*. In the case of Stabilit we see the same situation: *"We have enough freedom to make decisions such as withdrawing the product from the market, so they trust our opinion fully, because they are really satisfied with our results"*.

Moreover, subsidiaries have not just won the option to decide about distributing or withdrawing products, but their headquarters' commitment gives them full and complete freedom to negotiate important agreements with suppliers or customers, as is the case with Ekol. Even more interestingly, in some cases such as Accord Healthcare and UQUIFA we found evidence of subsidiaries that made the decision to acquire other companies, which reflects the great autonomy they enjoy in their host countries.

EMNE subsidiaries that mitigate their liability of origin through achieving power of decision (hypothesis 6)

The fact that EMNE subsidiaries have the chance to make their own decisions in many functional areas in the company can ease their adaptation in developed countries in Europe. This autonomy in decision-making is a useful tool for these subsidiaries in order to mitigate their potential liability of origin in developed countries. Subsidiaries' managers can make decisions in order to bring their subsidiaries more into line with other local firms, and are in a better position to do so than the parent company from the emerging country. That seems to be the case in Accord Healthcare, since they have freedom to hire whom they want; their recruitment of local people, who come into immediate contact with customers like European laboratories, has really helped them to combat possible prejudices arising from their Indian origin. The idea behind this is that the presence of local faces in these subsidiaries increases the sensation that these firms are no different from other local firms. This idea is reinforced by the general manager of UPL Iberia: *"Having a great autonomy and making important decisions regarding the development of products or enlargement of distribution agreements enable us to offer faster solutions and supplies to our customers, thereby avoiding any perception of late delivery time…so our local partners regard us as a local firm"*.

In the case of subsidiaries acquired by EMNEs, their customers or suppliers fear that ways of doing things will change dramatically with the arrival of these new shareholders. If subsidiaries have enough autonomy to make decisions about their business dealings, their host-country partners will feel more at ease. Motherson Sintermetal were obliged to assure their customers that the Indian owners would allow the Spanish subsidiary to make its own decisions. Indeed, this issue was of great importance to them, and the subsidiary's high level of autonomy avoids any negative comment regarding the fact that it is owned by an Indian multinational.

All in all, subsidiaries must develop good links with their local partners and headquarters in order to increase their levels of both external and internal legitimacy, and in turn raise their level of autonomy. Subsidiaries' decision-making power is necessary to dilute the possible liability of origin in developed countries, helping them to convince local customers and suppliers that their behaviour is not necessarily different from that of other local firms.

4.6. DISCUSSION

This study demonstrates the rationale behind the ways in which EMNE subsidiaries located in developed countries are able to mitigate their liability of origin. Based on the analysis of a PLS path model, it was found that the setting of subsidiaries' external and internal embeddedness (in the host country and in the multinational corporation) has a significant positive influence on their external and internal legitimacy respectively, and in turn increases their power of decision and reduces their liability of origin. The results of our quantitative analysis show that the six hypotheses presented in the conceptual model are all significant and show how EMNEs can reduce their liability of origin in European countries. Complementarily to these findings, our qualitative study examined these causal relations in more depth, exploring several cases based on the experiences of managers of EMNE subsidiaries located in Catalonia. To the best of our knowledge, this article is the first contribution in the EMNE stream of literature to examine empirically the relationship between embeddedness, legitimacy and liability of origin.

In particular, our results show a positive relationship between external embeddedness and external legitimacy. As the interaction between a subsidiary and its local agents intensifies, it creates a perfect environment in which to share useful information and make the firm better known. Thus, subsidiaries that develop a good level of external embeddedness can achieve better reputations among host-country stakeholders, helping them to intensify their commercial ties. In these close links, win-win relationships arise and the EMNE subsidiary can become a key ally for its local suppliers and customers.

We also show that there is a significant and negative link between an EMNE's external legitimacy and its liability of origin. Although this relationship seems logical, this article represents the first attempt to prove it empirically. Subsidiaries that have achieved a good reputation among local stakeholders have been able to demonstrate their competitiveness and professional insight; therefore, the reputation gained denies possible myths and stigmas associated with the parent company's country of origin. Just because they are subsidiaries of Chinese or Indian multinationals does not mean they are less qualified than German or British corporations.

Furthermore, within the multinational corporation our results suggest that a greater level of internal embeddedness positively influences internal legitimacy. Good relationships with headquarters enable subsidiaries to understand their corporations' goals and desires and create better mutual understanding. The greater contact and exchange of information and experiences facilitates comprehension between the two parts and allows subsidiaries to do more to attend to their headquarters' needs and improve their reputations. In fact, our qualitative results provide empirical evidence of subsidiaries' attempts to bridge the cultural gaps with their headquarters within their communications, raising their degree of acceptance and esteem.

This study also confirms a positive relationship between external and internal legitimacy. Prior research has suggested that it is difficult to achieve adequate levels of both simultaneously (Kostova and Zaheer, 1999; Li et al., 2016; Lu and Xu, 2006; Xu and Shenkar, 2002). However, this article shows that subsidiaries' external legitimacy increases their internal legitimacy. So far, no relationships, either positive or negative, have been demonstrated between achieving a good reputation in the host country (external legitimacy) and achieving greater parent firm satisfaction (internal legitimacy); and what is more, there is no empirical evidence of which kind of legitimacy comes first. So the qualitative study in this paper sheds light on the direction of this causal relationship and offers some clues to explain the logical sequence set out in the theoretical model. A good internal reputation in the eyes of the headquarters does not come automatically by itself; on the contrary, demonstrating host-country success takes time. Only when the subsidiary gains a good reputation in its host market will it become a lucrative business for the EMNE, improving its legitimacy in the eyes of the parent company. Hence, EMNE subsidiaries have to earn internal legitimacy by showing their high degree of adaptation in the foreign environment, making parent companies feel proud of them.

Our results also reveal that subsidiaries that gain greater internal legitimacy obtain more autonomy to make decisions in their host countries. In their study of Chinese multinational subsidiaries located in Germany, Schüler-Zhou and Schüller (2013) show that the greater the dependence of the headquarters on its subsidiary with regard to technology and knowledge, the more the autonomy the subsidiary is granted. Complementarily, we argue that for the parent firm to delegate more autonomy to its subsidiary, the subsidiary must gain its trust by earning a good reputation, i.e., internal legitimacy. A possible explanation for this is found in our case study, which offers evidence that headquarters give greater autonomy when subsidiaries demonstrate their worth; the parent firm looks favourably on delegating this power of decision when it is sure that its subsidiary is able to use it effectively.

Finally, our data stress that subsidiaries which enjoy greater autonomy suffer less liability of origin. Earlier studies such as Wang et al. (2014) confirmed that EMNEs which perceive serious institutional constraints in their countries of origin are more likely to delegate more autonomy to their foreign subsidiaries in order to distance them from the negative image associated with their country-of-origin. Moreover, these authors demonstrate that this mechanism for reducing institutional distance is accentuated in the case of acquired subsidiaries. Nguyen and Larimo (2015) also indicate in a case study that Brazilian multinationals tend to grant greater autonomy to their acquired units in developed countries in order to mitigate their liability of origin. In our study we did not find differences between acquired and greenfield subsidiaries. To explain the negative relation between subsidiaries' autonomy and liability of origin, we suggest that subsidiaries with more power of decision are able to blend better into the developed host country (Yeheskel et al., 2004). Indeed, the result obtained with our control variable 'subsidiary degree of expatriates' indicates that when subsidiaries are closely controlled by local managers they suffer less liability of origin. Furthermore, our qualitative findings show that greater autonomy not only enables the subsidiary to offer a quick response to its local partners, but also helps to allay fears about the possibly drastic changes caused by EMNE subsidiary acquisitions.

4.7. CONCLUSIONS AND FUTURE RESEARCH

Previous studies have not offered a full empirical examination of the liability of origin suffered by EMNE subsidiaries in developed countries and the way to overcome it, since it is a relatively recent phenomenon. Instead, they have focused on laying the theoretical foundations (Bartlett and Ghoshal, 2000; Luo and Tung, 2007; Held and Berg, 2014; Pant and Ramachandran, 2012; Ramachandran and Pant, 2010). There are few studies that apply an empirical approach to the issue, and the ones published have focused solely on one emerging country: Nguyen and Larimo (2015) in Brazilian EMNEs, Panibratov (2015) in Russians, Yu and Liu (2016) in Chinese EMNEs, or Muralidharan et al., (2016) which only analyse the effects on Chinese-acquired units in developed countries. Thus, our study is one of the few to assess whether EMNE subsidiaries (regardless of their specific country of origin and if they are acquired or greenfield) suffer liability of origin in developed countries in Europe, and how they might dilute it. Moreover, as far as we know, we present the first attempt to shape the construct of EMNE liability of origin by establishing a preliminary scale of five items which should be considered and possibly refined in further empirical works. This research also proposes a framework, that for the first time, has brought together a number of well-known factors in the IB literature, such as embeddedness, legitimacy and power of decision in order to explain how EMNE subsidiaries mitigate their liability of origin.

In the light of these results, this study offers several implications for academics and practitioners. On the one hand, with regard to theoretical implications, our results stress the relevance of considering the concepts of embeddedness and legitimacy when addressing the liability of origin of EMNE subsidiaries in developed countries. Specifically, the inclusion of embeddedness and legitimacy at both internal and external levels reflects the importance of the quality of the subsidiary's relationships with its parent company and with host-country stakeholders. Previous work examining the issue has focused the attention on explaining the main drivers of this liability of origin and has given some clues about how the subsidiary should interact with its local partners in order to mitigate its effect (Panibratov, 2015; Yiu and Liu, 2016); but has neglected the key role of the parent-subsidiary relationship. In order to combat liability of origin, EMNE subsidiaries need to maintain close links not just with local partners, but also with the parent company, since only the parent company can grant them the greater autonomy they require to reduce this liability. In fact, we hold that subsidiaries which achieve good external legitimacy will increase their levels of internal legitimacy with headquarters, and will subsequently achieve higher power of decision. Indeed, our results contribute to the literature by highlighting the role played by greater subsidiaries' autonomy in mitigating liability of origin. Following on from the studies by Nguyen and Larimo (2015) and Wang et al. (2014), our findings show that a high degree of autonomy allows subsidiaries to mimic local companies' behaviours, thus avoiding prejudices and stigmas. In the light of our results, future empirical studies on liability of origin should consider subsidiaries' autonomy as a key feature.

With regard to managerial implications, our results show that the specific country of origin is not a crucial factor in determining an EMNE's liability of origin. In fact, all the emerging home-countries considered in this research (such as China, India, Turkey and Brazil, among others) have the same chance of suffering discrimination. Moreover, the appointment of EMNE expatriates to control foreign subsidiaries' operations in developed countries is counterproductive, since our results demonstrate that it increases the liability of origin. Hence, EMNEs should be aware of this and should try as far as possible to appoint local managers to direct their subsidiaries in order to enhance their local acknowledgement. Local subsidiary managers know the host-country dynamics better than expatriates from emerging countries and are 'familiar faces' to local stakeholders, which helps to neutralize negative country-of-origin effects and increases sales.

Finally, this study has some limitations which at the same time are the source of possible opportunities for future research. First, the size of our sample is relatively small, and so our results should be interpreted with the appropriate level of care. Further, our sample focuses on the most important emerging countries of origin, but they are few in number: the same is true of the countries used as developed host environments. Thus, it is necessary to expand the current sample of emerging countries to make it more representative. Also, it would be interesting to extend the number of host countries outside Europe, including other developed regions such as the United States and Japan, to observe whether their perceptions of EMNEs are actually different. Indeed, we might assess whether EMNEs' liability of origin is larger or smaller between countries that are neighbours countries in geographical or cultural terms but have different levels of development, e.g., between the United States and Latin American countries, or between Japan and China. The aim would be to establish whether vicinity between countries implies more rivalry and therefore greater liability of origin; or whether, on the other hand, in neighbouring countries that share a similar culture, the liability of origin might be lower.

Secondly, another limitation of the study is the cross-sectional nature of the quantitative analysis. Specifically, our model reflects managers' perceptions of the topic at a certain moment in time. However, the concepts considered in our model, such as legitimacy, embeddedness, power of decision and liability of origin, embrace aspects of the firm that are constantly undergoing change. Accordingly, we included case analyses in our qualitative study to enhance its longitudinal character, but this remains insufficient. In order to obtain more substantive quantitative results, future studies should analyse the phenomenon through the use of panel data in order to monitor the changes made in the subsidiaries and thus to examine the evolution of the EMNEs' liability of origin at different moments in time.

Taken as a whole, this article represents the first attempt in the EMNE literature to go beyond a mere explanation of the liability of origin experienced in developed countries. The model presented here, which includes important concepts of the IB field such as embeddedness, institutional distance and subsidiaries' autonomy, may encourage future studies to incorporate new elements which have not been considered before and may help to explain how EMNE subsidiaries can overcome their liability of origin in different host countries.

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CHAPTER 5.

CONCLUSIONS

5.1. CONCLUDING REMARKS

As it had been mentioned throughout the present dissertation, EMNEs have gained increasing presence in most developed countries and hence are more deserving of scholarship attention. Accordingly, the IB literature has tried to explain EMNEs internationalisation processes, as well as their motivations to invest in both emerging and developed countries (Buckley et al., 2007; Guillén and García-Canal, 2009; Luo and Tung, 2007; Rugman, 2009; Ramamurti, 2012). Although the vast majority of EMNEs' studies have focused on the headquarters as the unit of analysis, this thesis is predicated on the importance of the subsidiaries in the global expansion of these multinational groups (Child and Rodrigues, 2005; Luo and Tung, 2007; Mathews, 2006). Because EMNEs are latecomers in the international global arena, generally their overseas subsidiaries allocated in developed countries are usually entrusted with developing or acquiring strategic assets, such as new technological knowledge and/or management and marketing skills, to be able to compete more efficiently internationally (Ciabuschi et al., 2017; Rabbiosi et al., 2012). Hence, it is of great importance that these EMNEs' units achieve a good adaptation in developed countries, overcoming the difficulties associated with the existence of large institutional and cultural distance. However, there is still a shortage of studies that examine the barriers experienced by EMNE subsidiaries in developed host countries. Moreover, only a few articles have explicitly addressed how these subsidiaries can diminish these adjustment problems in order to gain legitimacy in such environments, albeit with certain limitations as they provide just some clues about it (see Klossek et al., 2012; Nguyen and Larimo, 2015; Si and Liefner, 2014).

With the aim of covering this gap, contributing to the EMNE's literature and progressing in knowledge about the cross-institutional disadvantages faced by EMNE subsidiaries in developed countries, this thesis focus on different aspects based on this unit of analysis, by making a compendium of three different contribution connected to one another in order to make all pieces of the puzzle fit together. Each contribution includes answers to diverse questions, giving detailed explanation of results, limitations and avenues for future research, and also providing implications for different types of practitioners (a summary is presented in **table 5.1**).

The first essay (second chapter), has examined the direct presence of FDI from emerging countries in Spain at both macro and micro level. The results prove that although the presence of EMNEs in Spain is an incipient phenomenon, it is showing a strong upward trend. Particularly, Spain is a prominent destination for *multilatinas,* which contemplate the country as a springboard to access other markets, and also for Chinese investment, that is experiencing the largest growth with more and more number of EMNEs subsidiaries setting.

The distant origin of these corporations raises a big issue that led us to the second essay (third chapter), which explores how these firms mitigate their liability of foreignness and manage their cultural adaptation in a developed country. Based on the case study of two Chinese subsidiaries in Spain, our findings reveal that Chinese cultural values (*guanxi*) play an important role for achieving internal (within the MNE) and external legitimacy (in the host country) at the subsidiary level. The point here is that local subsidiary managers are the main implementers of this adaptation by acting as a bridge between Chinese interests and local stakeholders. Therefore, *guanxi* acts as a 'social glue' that creates an atmosphere of trust between both sides, solving like this the possible isomorphic conflicts (Forsgren, 2013).

In light of this result, and to deepen on the EMNEs adaptation at developed host countries, in the next essay (fourth chapter) we focus on the analysis of the potential negative image of EMNEs caused by their liability of origin (Bartlett and Ghoshal, 2000; Pant, 2012; Ramachandran and Pant, 2010). This chapter analyses how EMNE subsidiaries in developed countries can overcome the possible discrimination suffered from their host-stakeholders. In this sense, our contribution here is the creation of an original model based on Institutional Theory that states the importance of subsidiary embeddedness, legitimacy and power of decision, in order to mitigate the liability of origin of EMNEs in European developed countries. Thus, the possession of high levels of embeddedness, both internal and external increases the level of internal and external legitimacy, respectively, which in turn, allows subsidiaries to have more autonomy and thereby, enables to overcome their liability of origin.

Once the contributions of each central chapter have been briefly mentioned, it is now time to assess its usefulness for advancing in the International Business literature and specifically in the understanding of the EMNE's phenomenon. In the first place, bearing in mind Tallman and Pedersen (2015)'s concern about what can be really considered as international strategy research, this dissertation accomplishes great part of the requirements that papers must meet to be labeled as an 'international study'. Firstly, the main target of our study is the analysis of subsidiaries' strategy located in foreign countries, which is a unit of analysis clearly international in its essence. Secondly, we specifically address the concept of cultural and institutional distance, which is often a traditional indicator of an 'international study'. Thirdly, we also fulfill the important condition to collect empirical evidence about the interactions between these subsidiaries and their local stakeholders, which implicitly involve cross-border transactions. For all these reasons, we can state that this thesis fits well with the contents that are expected from an 'international study', since the analysis of the presence of EMNE subsidiaries in developed countries and, particularly, their strategies to overcome the constraints derived from the high institutional distance, are issues that do not appear in domestic studies.

Table 5.1. Summary of the conclusions presented in the central chapters

	Essay 1 (Chapter 2)	**Essay 2 (Chapter 3)**	**Essay 3 (Chapter 4)**
Title of the chapter	Spain as a host country for emerging market multinational enterprises	Mitigating the isomorphic conflicts faced by EMNEs in Southern Europe: The case of Chinese subsidiaries in Spain	EMNE subsidiaries: mitigating liability of origin in developed countries
Main finding	The presence of EMNEs in Spain is significant and increasing. For most EMNEs, FDI in Spain does not constitute a major part of their overall strategy, with the exception of *multilatinas*, for whom Spain occupies an important position, constituting a springboard into other countries.	*Guanxi* plays a major role in the search for legitimacy undertaken by Chinese subsidiaries located in Spain. The adaptation of *guanxi* practices to the local environment allows the subsidiary to align with the culture of the parent corporation and at the same time-embeds itself in the host environment.	EMNE subsidiaries suffer liability of origin, particularly at the beginning of their arrival to developed countries. Our model suggests that subsidiaries joying of greater degree of autonomy are less likely to suffer discrimination by their host-country stakeholders.
Main implications for practitioners	For policy makers, an effective long-term policy needs to be implemented so that Spain can attract new investments of EMNEs. To do this, it is essential a fluid dialogue and close institutional collaboration with the managers of the EMNE subsidiaries in Spain, as well as with the promotion agencies of emerging countries.	For subsidiary managers, the results highlight their key role to act as a bridge between subsidiaries and headquarters, adapting the *guanxi* practices to the local cultural environment, thereby they should continue to do it to assure the success of this FDI in developed countries.	For EMNE headquarters, the results show that the specific country of origin is not a crucial aspect that determines EMNE's liability of origin. Instead, the use of EMNE expatriates controlling foreign subsidiaries increases the liability of origin. Hence, EMNEs should try to use as far as possible local managers to direct their subsidiaries in order to get better local acknowledgement.

In the second place, this dissertation also is aligned with some of the methodological demands in the literature of EMNEs. Indeed, we have taken into account some suggestions made by several authors in the EMNE's literature. On the one hand, given the relatively recent phenomenon and the exploratory stage of its research, the majority of articles so far are grounded on theoretical approach or empirical work based on qualitative methodology. This makes sense especially at the first steps of approaching a new reality, because it is necessary to provide the basis of understanding needed to advance in its knowledge. However, as time passes and the phenomenon becomes better known, the methods of analysis must be expanded, implementing other tools that permit a deeper comprehension of it. With regard to this, there are studies such as Budhwar et al. (2017) and Panibratov (2015) that highlighted the necessity to go beyond case studies and interviews in the research of EMNEs. Further, Budhwar et al. (2017) suggest that future studies should be based on quantitative analysis, but combining it with a qualitative approach, since this helps to better understand the phenomenon studied, and in the end to make the data collected quantitatively more meaningful. On the other hand, regarding data collection for empirical work, Zheng et al. (2016) indicate the need to extend the research to a broader range EMNEs' countries of origin. Currently, in the EMNEs' literature there is a clear bias to study only Chinese International companies, since are the most prominent players (Li et al., 2016; Liu et al., 2016; Luo and Zhang, 2016). Although, it is virtually impossible not to include Chinese EMNEs in the research studies, these authors call for taking more emerging countries into consideration, since comparative analysis of EMNEs remain insufficient.

All in all, the present dissertation has met these methodological demands. As a start, the research has followed a logical sequence in terms of applied methodology, since it begins with a descriptive analysis to contextualize the phenomenon of the rise of EMNEs in a concrete territory such as Spain. Next, a qualitative study based on cases analysis is carried out to get first-hand knowledge of the experience of EMNE subsidiaries adapting to a developed country. After this, for the last contribution, we have chosen a mixed approach including quantitative and qualitative methods. Thus, we have gone beyond a qualitative analysis, following the suggestion of

Budhwar et al. (2017). The need to obtain as conclusive results as possible pushed us to conduct a survey analysis complemented with the case study of ten EMNE subsidiaries. In this way, including quantitative data from 116 subsidiaries also helped us to meet the demand of Panibratov (2015) who pointed out the necessity of analyzing the concept of liability of origin through a quantitative tool. Moreover, we have incorporated valuable nuances of face-to-face interviews with general managers to understand better the how and why of the causal relationships developed in our hypothesized model. In fact, combining quantitative and qualitative methods lead to a more comprehensive account of the issue, thus enhancing the integrity and credibility of the results (Bryman, 2006; Harrison III, 2013). Furthermore, the triangulation of different empirical sources corroborates the findings and subsequently increase construct validity (Yin, 2003).

Moreover in response to Zheng et al. (2016) demands we have expanded the number of EMNEs' countries of origin analysed, going beyond China. Although, in the second essay we focus only on Chinese subsidiaries, the first and third essays analyse a wider range of emerging home countries. Specifically, at the contextual analysis of EMNE subsidiaries located in Spain, we have made an original comparison among Asian, Latin American, Middle Eastern and African, and Eastern Europe EMNEs, including a total of thirty-nine emerging countries of origin. Additionally, our survey sample includes nine different EMNE's home countries and realize that the emerging country of origin does not influence the degree of liability of origin suffered. That is to say, that all the emerging home-countries considered in our sample such as China, India, Turkey and Brazil, among others, have the same chance of suffering discrimination in Europe.

In the third place, another critical question to consider in this final conclusion section is whether this dissertation contributes to enrich with some relevant theory on EMNE's literature and in short if it brings interesting novelties in the current understanding of the behavior of these companies. In this sense, the present thesis provide two main theoretical contributions aimed to explain how EMNE subsidiaries achieve legitimacy in host developed countries.

On the one hand, we analyse the influence of the role of home country cultural values in resolving the isomorphic conflict faced by EMNE subsidiaries located in developed countries. We approach this issue from the Institutional Theory perspective, since one of the major problems that these investments from emerging countries face is to cover the local institutional pressures in order to achieve legitimacy in developed countries (Li and Oh, 2016). Our main contribution is to highlight the crucial role of Chinese cultural values (i.e. *guanxi)* to achieve simultaneously subsidiary's external legitimacy (i.e., the acceptance of local players in the host country) and internal legitimacy (i.e., the adoption of the institutionalized practices of the parent company and conformity with its cultural values). Our results suggest that *guanxi* practices are very present in the day-to-day operations of subsidiaries and, local managers play an important role in this. They act as enablers of the adaptation of Chinese expatriates, acting as a bridge between the local way of behaving (embedded in relationships with local players) and the parent office's values (embodied in the Chinese expatriates). Consistently, we discover the valuable utility of home country cultural values to strengthen the adaptation of the EMNEs in developed countries, and this is quite novel, since apparently could seem just the opposite. Therefore, it is the first time that a research shows how cultural values of the country of origin can help to achieve not only internal but external legitimacy.

On the other hand, another important theoretical contribution to the EMNE's literature lies in the elaboration of a theoretical model based on the integration of Institutional Theory and Network-based Theory that considers the influence of legitimacy and embeddedness on the liability of origin of EMNE subsidiaries in developed countries. The originality of this model consists in the consideration of such elements at a double level, internal and external. Unlike previous studies on the issue, we argue that the quality of the relationships knitted by the subsidiaries, both with their host-country stakeholders and their headquarters, are crucial for EMNE subsidiaries to enjoy greater autonomy and mitigate their liability of origin in the local markets. All in all, we feel that future empirical analyses in liability of origin should contemplate subsidiaries' levels of autonomy, legitimacy and embeddedness. From this broader perspective, one important lesson we can draw is that the mixture of theories can prove enriching in terms of providing solutions to complex problems such as the EMNEs' lack of legitimacy.

In the fourth place, another important point at this stage of the dissertation, is to determine whether the results obtained in our research provide relevant practical implications. In this regard, in the IB field also there is some concern about the way of providing real-world recommendations for decision makers. In this vein, Cuervo-Cazurra et al. (2013) noted that many academic IB articles tend to be theoretically and empirically relevant but often do not properly explain the practical relevance for managers or policy makers. Although articles published in indexed journals are written for an academic audience, the implications should be stated in a manner that does not require specialist expertise to understand. According to these authors, when the objective is to improve the usefulness of the research practical recommendations we must ensure that the information offered mentions the importance of the topic for decision makers, the specific actions that these can take to achieve the desired outcome, and the ways in which decision makers should think about the issue differently. Following these recommendations we provide different implications for the different groups of actors involved.

Firstly, policy makers of host countries should be aware that foreign investment from emerging countries is an increasing trend that brings positive benefits. In a context where many developed countries are slowly waking up to the recent crisis, attracting EMNE's investment is especially necessary for raising levels of overall growth. In order to carry out effective policy to attract EMNE's inward foreign investment, it is crucial to keep a fluid dialogue and close institutional collaboration with the managers of the EMNE subsidiaries allocated in the host country, as well as with the promotion agencies of emerging countries, which are becoming increasingly more numerous and active. Their experience and knowledge about the decision-making processes of EMNE's headquarters should be of great help in guiding policies to attract and retain this foreign investment. Furthermore, even the most reluctant of local stakeholders should change their vision and keep in mind several advantages that these new players could bring in terms of internal job creation, stimulus for competitiveness of local businesses and greater possibilities of building international networks in distant markets.

Secondly, EMNEs subsidiaries' local managers should be conscious of how important is for their corporations to achieve enough legitimacy in their host countries and their own corporations. Coherently, subsidiaries have no choice but to meet local requirements and at the same time pay attention to all the requests from their headquarters. Then, local managers play a key role in converting home cultural practices of expatriates in legitimate actions in relation to the rest of the local employees and local partners such as customers, suppliers or public administration. For this reason, it is recommended that local managers make a special effort to understand the meaning of these practices obtaining the necessary rapprochement of cultures that facilitates mutual understanding. This good atmosphere of understanding can enhance a beneficial transferring of knowledge in both directions. In short, local managers should know that their effort can be rewarded in the long term, since building trust with their headquarters can lead them to greater autonomy and ultimately greater resources to carry out their plans for local expansion.

Thirdly, the potential discrimination suffered by EMNEs' subsidiaries in developed countries is an issue that should be of great concern for multinationals parent companies, since it can jeopardize their international expansion. In this sense, our research provide plausible actions to help EMNEs to dilute their negative image towards host local stakeholders. In that sense, one of the key pieces of this puzzle is the use or non-use of expatriate managers directly controlling subsidiary's operations in the host developed countries. Interestingly, our results demonstrated that an excessive use of expatriates is counterproductive for achieving legitimacy in the host environment. Therefore, EMNE headquarters would do well to entrust the handling of their subsidiaries to local managers. In fact, local subsidiary managers know better host-country dynamics than expatriates from emerging countries, as well as they are ‘familiar faces’ to local partners. Using local managers helps to combat negative country-of-origin effects and enhances business development. All in all, this information should give headquarters’ managers pause for thought in the sense of dare to ‘westernize’ as far as possible their foreign subsidiaries.

Finally, apart from stating the main contributions and practical implications of this thesis, we cannot neglect to mention some fruitful avenues for future research. Firstly, in order to give continuity to the present research, future studies should analyse the potential differences among EMNEs regarding the legitimacy-seeking behavior in developed countries. Because EMNEs are a heterogeneous group, which includes several emerging countries, each with their particularities at cultural and institutional level, it would be necessary in each case to determine the influence of home country cultural values in the adaptation of EMNE subsidiaries in developed countries. In this regard, in this dissertation we found that in the case of Chinese subsidiaries, *guanxi* plays an important role, bringing Chinese headquarters and host-local stakeholders’ positions closer. Then, it would also be a matter of examining the role played by other cultural practices such as *jeitinho* in Brazil (Amado and Brasil, 1991), *blat/sviazi* in Russia (Michailova and Worm, 2003) and *jaan-pehchaan* in India (Zhu et al., 2005), in reducing their cultural or institutional distance in developed countries. Thus, an interesting question research would be whether or not these cultural values act as 'social glue', bringing the EMNE subsidiaries closer or further away from their new host environments. To answer this question we suggest that future studies apply a mixed approach including quantitative and qualitative methods. In this way, these investigations would make an appropriate comparison among the largest possible number of EMNE subsidiaries as well as collect in detail the perceptions of the protagonists which would give more meaning to the quantitative results.

Secondly, another avenue for future research would be to see if gaining legitimacy in developed host countries has a positive impact on the global reputation of the whole EMNE corporation. As we argued in this dissertation, the external legitimacy achieved by EMNE subsidiaries helps to reduce their liability of origin in the host country, and may result in an improvement of their corporation's global image, acting as good ambassadors of the EMNEs in other developed countries. It would, therefore, be appropriate to ascertain the role played by EMNE subsidiaries for increasing the reputation of the rest of their multinational corporation, that is, if increasing external legitimacy on a certain developed host country can influence the legitimacy of the whole corporation, in the country of origin and in other target countries where it has direct presence. To cover this purpose, it is necessary not only to consider the subsidiary's perspective but also to contemplate the parent company and other subsidiaries counterparts' view (since they are the potential recipients of this positive effect). Answering this matter would make novel contributions about how EMNEs articulate their strategies aimed at gaining global legitimacy.

Thirdly, since the possession of higher internal legitimacy is what directly enables subsidiaries getting more power of decision in order to mitigate liability of origin, future studies should add depth in the understanding of how this kind of legitimacy can be achieved. This is a challenging task since internal legitimacy is based largely on personal perceptions about whether the subsidiaries' actions are desirable and appropriate by headquarters. Hence, the conception of this acceptance which relies on a good standard of reputation and satisfaction may vary depending on whom you ask. For this reason, to better understand this concept, it would be interesting to expand the current vision and to change the unit of analysis from the firm to the persons concerned. To this end we suggest that future case studies collect through interviews or internal surveys the individual impressions of the different actors involved. In turn, the analysis would enable valuable comparisons between the perceptions of both subsidiaries' and headquarters' managers. Thus, this research would provide clear clues to subsidiaries' managers about how to manage their operations in the host country to better fulfill the headquarters' needs, and thereby gain more autonomy and, in the end achieve more importance within their multinational groups.

Finally, the assessment of the contributions made by this dissertation has proven that our main findings are useful to improve the understanding of the EMNE subsidiaries, since they address current concerns not only in the academic literature but also in the practitioner arena. Further, the results obtained inspire interesting new future research lines aimed to enrich the current vision of the EMNE's phenomenon.

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ANNEXES

ANNEX A. PEER-REVIEWED OUTCOMES OF THE PhD DISSERTATION

FIRST ESSAY: Spain as a host country for emerging market multinationals

Journal Papers

Title: España como destino de las multinacionales de países emergentes

Authors: Barahona Márquez, F.; Miravitlles Matamoros, P.

Source: Información Comercial Española (ICE). Revista de Economía

Volume: 880 **Issue:** Septiembre-Octubre **Pages:** 167-183 **Published:**2014

Indexed in: CIRC, CARHUS+, Dialnet

SECOND ESSAY: Mitigating the isomorphic conflicts faced by EMNEs in Southern Europe: The case of Chinese subsidiaries in Spain

Journal Papers

Title: Mitigating the isomorphic conflicts faced by EMNEs in Southern Europe: The case of Chinese subsidiaries in Spain

Authors: Barahona Márquez, F.; Achcaoucaou, F.; Miravitlles Matamoros, P.

Source: Journal of Evolutionary Studies in Business

Volume: 1 **Issue:** 2 **Pages:** 201-234 **Published:** 2016

Indexed in: DOAJ, ERIH PLUS, Dialnet, Latindex, Google Scholar, RACO

Title: The presence of EMNEs in Southern Europe: The case of Chinese direct investment in Spain

Authors: Barahona Márquez, F.; Achcaoucaou, F.; Miravitlles Matamoros, P.

Conference: 1st International Business in Southern Europe in a long term perspective

Venue: Barcelona **Year:** 2015

ANNEX B. ONLINE QUESTIONNAIRE

UNIVERSITAT DE BARCELONA

Foreign firms reputation in the host market

This survey has been designed to assess how foreign subsidiaries located in some European countries achieve or maintain legitimacy in the host markets. Please answer the questions below, which address the type of relationship that your subsidiary has with its headquarters as well as its main local partners (suppliers, customers, local administrations).

The University of Barcelona complies with Spanish legislation regarding personal data protection. No information will be disclosed that might reveal the identity of your company. The results will be presented in an aggregate manner.

In this part of the survey, please provide the following data (do not give your name or that of the firm):

(just write a few words)

1. **Activity sector of your subsidiary (e.g. Wholesale of industrial machinery)**

2. **Origin of your main shareholder (country) (e.g. China, India)**

3. **Position held by respondent (e.g. general manager)**

4. **Nationality of the respondent**

5. **Please specify whether your subsidiary is the result of a greenfield investment, or a merger, or an acquisition:**

   ○ Greenfield investment
   ○ Merger
   ○ Acquisition

   Other (please specify)

6. **Indicate the degree to which your headquarter uses expatriates to directly control the subsidiary's operations:**

Not at all	Small degree	Moderate degree	High degree	Very high degree
○	○	○	○	○

Secondly, assess the strength of the relationship that your subsidiary has with its headquarter:

Please answer the questions using the scale indicated, with 1 representing the lowest possible score and 5 the highest

7. **Please describe the interaction and frequency of communication between your subsidiary and its headquarters, in terms, for example, of exchanging information about your business:**

Very low interaction (yearly)	Low interaction (quarterly)	Medium interaction (monthly)	High interaction (bi-weekly)	Very high interaction (weekly)
○	○	○	○	○

8. **Do you feel that there is a good understanding in the interaction between your subsidiary and its headquarter?**

Strongly disagree	Disagree	Neither agree nor disagree (neutral)	Agree	Strongly agree
○	○	○	○	○

9. **Does your subsidiary have a good reputation at headquarters?**

Strongly disagree	Disagree	Neither agree nor disagree (neutral)	Agree	Strongly agree
○	○	○	○	○

10. **To what extent do you feel that your headquarters is satisfied with the goals you have accomplished regarding your business performance?**

Very unsatisfied	Unsatisfied	Neutral	Satisfied	Very satisfied
○	○	○	○	○

11. **Among the following business operations carried out by a subsidiary, please indicate how decisions are made:**

	Decided by headquarter without consulting subsidiary	Decided by headquarter after consulting subsidiary	Decided by both with roughly equal influence	Decided by subsidiary after consulting headquarter	Decided by subsidiary without consulting headquarter
Formulating the annual budget	○	○	○	○	○
Purchasing activities	○	○	○	○	○
Sales and distribution	○	○	○	○	○
Regional marketing (for example, advertising, promotion decisions)	○	○	○	○	○
Hiring and firing of the subsidiary workforce	○	○	○	○	○
Manufacturing process: modifying the production methods	○	○	○	○	○
Manufacturing process: increasing/decreasing the level of production	○	○	○	○	○
Monitoring and controlling quality of products/services	○	○	○	○	○

Third, to answer this block of questions, choose your four most important local partners and respond with reference to your relationship with them:

Please answer the questions using the scale indicated, with 1 representing the lowest possible score and 5 the highest

12. **Please describe the interaction and frequency of communication between your subsidiary and the following local partners in terms, for example, of exchanging useful business information:**

	Very low interaction (yearly)	Low interaction (quarterly)	Medium interaction (monthly)	High interaction (bi-weekly)	Very high interaction (weekly)
Suppliers	○	○	○	○	○
Customers	○	○	○	○	○
Public Administrations	○	○	○	○	○
Research centres or Universities	○	○	○	○	○

13. **Has your subsidiary has benefited from valuable knowledge acquired from the following local partners?**

	Not at all	Not really	Moderate	Somewhat	Very much
Suppliers	○	○	○	○	○
Customers	○	○	○	○	○
Research centres or Universities	○	○	○	○	○

14. **To what extent does your subsidiary in order to achieve the acknowledgement of the following local partners, tries to maintain good relationships with them?**

	Not at all	Not really	Moderate	Somewhat	Very much
Suppliers	○	○	○	○	○
Customers	○	○	○	○	○
Public Administrations	○	○	○	○	○
Research centres or Universities	○	○	○	○	○

15. **Does your subsidiary has a good reputation among the following local partners?**

	Strongly disagree	Disagree	Neither agree nor disagree (neutral)	Agree	Strongly agree
Suppliers	○	○	○	○	○
Customers	○	○	○	○	○

Finally, focusing on the fact that your main shareholder is a company from an emerging country that belongs to a multinational group headquartered outside Europe:

Please answer the questions using the scale indicated, with 1 representing the lowest possible score and 5 the highest

16. **Due to the fact that your main shareholder is from an emerging country, do you perceive a different treatment in your relationships maintained with the following local partners?**

	Strongly disagree	Disagree	Neither agree nor disagree (neutral)	Agree	Strongly agree
Suppliers	○	○	○	○	○
Customers	○	○	○	○	○

17. **Does the fact that your main shareholder is from an emerging country complicate acceptance of your brand among local consumers?**

Strongly disagree	Disagree	Neither agree nor disagree (neutral)	Agree	Strongly agree
○	○	○	○	○

18. To what extent do you feel any negative perception about the quality of your products or services among your local customers merely because your main shareholder comes from an emerging country?

Not at all	Not really	Moderate	Somewhat	Very much
○	○	○	○	○

19. To what extent do you feel some kind of discriminatory treatment by public administrations in relation to local competitors from other foreign MNEs from developed countries?

Not at all	Not really	Moderate	Somewhat	Very much
○	○	○	○	○