Home Institutional Support in Firm Internationalization:

Varieties of Home Country Measures

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Abstract

The rising focus on emerging market multinationals has corresponded with to an increasing attention to the role of the home country in firm internationalization. While this development has produced important insights as to how home country embeddedness relates to firm internationalization, *significant gaps* in our explanations of OFDI remain. First, research on how and, importantly, why countries differ in the internationalization support for firms is still limited. Second, our understanding of how countries differ in the penetration of their internationalization support into host countries is limited. Third, there is only scant research on how and why developed countries differ in their internationalization support to domestic firms investing in emerging markets. We seek to address these gaps by developing a conceptual paper. Specifically, we combine recent insights into the variation of home country measures (HCMs) with the comparative capitalism literature (CC) to better understand how and why HCMs differ. We introduce six proposition that theorize how differences in the type of home country market economy are related to HCM variation in terms of their directness or indirectness, their objectives, their extension into host contexts, their underlying institutional actors and their transparency and integration.

Please note that this work is still very much work in progress and not to be cited without the permission of the authors.

1. Introduction

Scholars from the field of comparative institutionalism have theorized the relationship between home country embeddedness and the behavior of multinational companies (MNC) for some time (e.g. Whitley, 1999). It is only recently, however, that the role of the home country has moved into the mainstream of International Business (IB) research. A case in point is the call for papers by Cuervo-Cazurra et al. (2017) entitled "How Does a Multinational Company's Home Country Matter?" calling for a deeper theorization of location and home countries effects in MNC theories (Global Strategy Journal) (see also Peng 2012a/b, Sauvant et al. 2014, Aharoni 2014).

These calls and contributions are largely connected to the rise of emerging market MNCs (e.g. Cuervo-Cazurra, 2006; Garcia-Canal & Genc, 2008; Holburn & Zelner, 2010; Hoskisson et al., 2013; Luo & Wang, 2012, Peng 2012a/b). Specifically, scholars focusing on emerging market firm internationalization have come to emphasize the important role of home country conditions as both enablers and constraints on emerging market firm internationalization. Importantly, we have seen the first efforts in IB to map the portfolio of home-country measures (HCMs) and institutions that serve to support the internationalization of firms from emerging markets (e.g. Luo et al. 2010).

While these are important moves to gain a better understanding of how home country embeddedness relates to firm internationalization, *significant gaps* in our explanations of OFDI remain. First, research on how and, importantly, why countries differ in the internationalization support (both with regard to HCMs and their institutional underpinnings) for firms is limited. Second, our understanding of how countries differ in the penetration of their internationalization support into host countries is limited. Third, there is only scant research on how and why developed countries differ in their internationalization support to domestic firms that enter emerging markets.

To analyze how HCMs and supporting institutions differ across countries we draw on OECD and UNCTAD policy papers. We draw here particularly on Sauvant et al.'s (2014) work that comprehensively reviews OECD and UNCTAD policy papers. Sauvant et al.'s (2014) discussion allows us to distinguish HCMs along key dimensions. To analyze why HCMs and supporting institutions differ across countries, we draw on insights from the comparative capitalism literature. We draw on this literature as it allows us to link types of market economies, that is, their dominant form of economic coordination, with HCM patterns.

Our work makes three crucial contributions to the field of IB. First our work specifies our understanding of the home country effect in firm internationalization by taking a closer look at the antecedents and the variation of HCMs. Second, our contribution suggest that home country support is not only relevant to emerging market MNCs, but relevant to developed country MNCs as well, particularly if outward foreign direct investments targets emerging markets. Third, we make a first suggestion as to how and why home country support may vary in its extension into host contexts.

The paper is structured as follows. In the first step, we review two bodies of literature: internationalization theories within the field of IB and policy paper on HCMs by international organizations. This is followed by a discussion of the comparative capitalism literature and the development of six propositions that relate variations in HCMs to different types of market economies. We conclude our paper by outlining directions for future research.

2. Review of internationalization support

In the following literature review we focus on two bodies of literature: internationalization theories within the field of IB and policy paper on HCMs by international organizations. We show that, while IB theories, particularly recent theories on the internationalization of emerging market firms, have started to explore home country influences and home country support for internationalization, it is mainly policy papers by international organizations – notably by UNCTAD & OECD – that have conceptualized HCMs and how they differ across countries.

2.1 Theories of internationalization

Most classical theories on firm internationalization initially showed little concern for the role of the home country, let alone home country support, in understanding prerequisites and patterns for firm internationalization. For instance, neither Johansson and Vahlne's (1977) Uppsala Model nor Dunning's OLI paradigm assessed how home countries effected the prerequisites or patterns of firm internationalization. In both models home countries played a rather indirect role as the reference point for the 'physic distance' experienced by the internationalizing firm (Johansson and Vahlne 1977) or the locational advantages (Dunning 1988) to be seized in a given host context. It was probably Rugman's CSA-FSA matrix (1981) that came closest to considering the role of the home context in firm internationalisation. In his CSA-FSA framework, country-specific advantages, including home country advantages, were from the outset theorized as possible drivers for firm internationalization.

Emerging market multinationals and the ‘discovery’ of the home country

The growing importance of FDI by emerging market multinationals led to analyses of home countries and how they conditioned firm internationalization. More specifically, it was difficult to account for these firms’ internationalization without reference to their home country conditions. The global shift in FDI patterns gave rise to two changes in theory development. First, it led proponents of classical theories of internationalization to insert or pay closer attention to the role of the home countries and their institutions (e.g. Dunning, Kim and Park 2007, Dunning and Lundan 2008, Rugman 2009). Second, it led to the emergence of a new class of theories specifically tailored towards understanding the internationalization of emerging market firms (e.g. Hennart 2012, Cuervo-Cazurra und Genc 2008, Ramamurti 2009, 2012, Mathews 2002, 2006, Luo and Tung 2007).

While amended classical theories and new theories on emerging market multinationals held different positions on the drivers of and their competitive advantages in internationalization (cf. Hennart 2012), they shared the close attention to the *constraining or enabling* role of home country conditions. These home country conditions were often seen as directly linked – if not equated – with the behaviour of home country governments.

Where home country conditions or institutions are seen as constraining, we typically find two arguments in how they influence firm internationalization. The first is the ‘escape’ argument (Luo and Tung 2007; Luo and Rui 2009, Peng 2012a/b, Cuervo-Cazurra and Ramamurti 2014). Firms in this perspective internationalize because home country conditions constrain the growth and the development of business (see also Dunning & Lundan 2008, Hoskisson et al. 2013, Peng 2012a/b). The second argument sees the constraining conditions in the home contexts as a learning opportunity that allows these firms to develop special capabilities that can be exploited elsewhere, typically in other emerging markets with similar characteristics (Cuervo-Cazurra and Ramamurti 2014). Ramamurti (2009, 2012) argues that challenging home-country institutional environments, including potentially economic, political and social systems, allow emerging market firms to develop internationalization advantages that are different from those of Western or developed country MNEs (Cuervo-Cazurra und Genc 2008, Guillén und García-Canal 2009, Holburn and Zelner, 2010, Ramamurti 2009, 2012, Cuervo-Cazurra 2011, Cuervo-Cazurra and Ramamurti 2014).

Where home country conditions or institutions are seen as enabling internationalization, we typically find three arguments. In the first argument, home countries in emerging markets often provide firms with a privileged or even monopolistic access to resources or other advantages (e.g. Ramamurti 2009, Hennart 2012). This perspective holds that many emerging market firms owe their international competitive advantage to privileged access to natural resources, cheap capital and/or cheap labor, embeddedness in home country networks, preferential regulations or a large and growing home market (e.g. Buckley et al. 2007, Elango and Pattnaik, 2007; Li and Yao, 2010, Yiu et al. 2007, Ramamurti 2009, Williamson and Zeng 2009). Such home country advantages are often not available to all firms in or entering the country in question (see also Hennart 2012, Peng 2012a/b, Wang et al. 2012, Narula 2014).

The second argument emphasizes learning opportunities for local firms in the home country. This is, for instance, facilitated through the presence of international players in the home market (Luo and Tung 2007). While these international players may stimulate learning through stiff competition, they may also play a role as partners and collaborators. In the latter cases they are crucial in helping emerging market firms to catch up and to acquire internationally exploitable capabilities (Luo and Tung 2007, Luo and Rui 2009, Hennart 2012, Luo & Wang 2012). In this view, home country policy regimes that foster market liberalization, inward internationalization and national innovation all function as important stepping stones for emerging market firms to catch up and gain competitive advantage for internationalization (Buckley et al., 2008). Governments may also invest in the national innovation system, providing firms with local learning opportunities that increase their international competitive advantage.

The third argument takes a closer look at the proactive role that home governments play in directly supporting the process of internationalization. This can take different forms. It may range from a portfolio of special internationalization incentives, the provision of subsidies or infrastructure to a very direct involvement through state owned enterprises (SOEs) (Luo and Tung 2007, Ramamurti 2009, Wang et al. 2012, Peng 2012a/b, see also Li at al. 2013, Hope et al. 2011, Hoskisson et al. 2013, Zubkovskaya and Michailova 2014).

Hence, the importance of home country conditions and institutions for emerging market firm internationalization has gained increasing attention. These home country conditions are often seen as directly linked - if not equated - to the behaviour of home country governments. In the constraint perspective failing governments and poor institutions explain challenging business conditions pushing firms out for internationalization. In the enabling perspective, governments provide economic policies and infrastructure development that are conducive to firm internationalization. Governments also shape learning conditions for firms through market liberalization and FDI policies fostering inward-internationalization (Luo and Tung 2007, Luo & Wang 2012). In all these contributions, governments pursue policies that either directly or indirectly support or constrain domestic firms' internationalization.

First conceptualizations on the home country measures and what is missing

The IB literature has started to acknowledge the crucial role of home country measures (HCMs) for the internationalization of emerging-market firms. However, while a range of contributions introduce a set of HCMs deemed important, few provide a systematic account of the different measures that home countries actually employ. What is more, the existing literature typically focuses on just a few countries, often one of the BRICS, especially China.

Luo and colleagues' (2009, 2010) work is among the few contributions that provides an overview of HCMs and the institutional setting that supports them. Specifically, Luo & Rui (2009; see also Luo et al. 2010) discuss a wide range of HCMs including:

> "(a) fiscal incentives (e.g., tax incentives, tax deductions, low-interest loans), (b) insurance against political risk, (c) assistance for the private sector in international expansion through government agencies (e.g., a Chamber of Commerce or National Business Council), (d) double taxation avoidance agreements, (e) bilateral and regional treaties to protect investment abroad, (f) bilateral or multilateral frameworks to liberalize investment conditions in host countries, (g) assistance in dealing with host country governments or legislative institutions, and (h) conformity with international agreements required for free trade access, such as WTO protocols and the U.S. Foreign Corrupt Practices Act (Luo & Rui 2009: 57)."

Importantly, focusing on political and regulatory institutions in China, Luo et al. (2010) provide a detailed account of the Chinese government's institutional support infrastructure.

In summary: Internationalization theories have started to acknowledge the important role of the home country in explaining firm internationalization. However, with the notable exception of Luo et al.'s (2009, 2010) work internationalization theories have so far paid little systematic attention to the portfolio of home-country measures. While there are some first considerations of home-country measures, these show little systematic concern for the question how and why these measures and their institutional constitution differ across countries. Relatedly, there is even less concern to what extent home-country support extends into host countries. Lastly, as this body of literature has focused on emerging market firm internationalisation, there was naturally little concern for the role of home country support in developed economies.

2.2 Towards a Conceptualization of Home Country Measures

HCMs defined

International organizations, most notably policy papers of the Organisation for Economic Co-operation and Development (OECD) and United Nations Conference on Trade and Development (UNCTAD) were among the first to acknowledge the importance of home-country measures in explaining FDI flows. The initial focus rested on the question of how MNCs could be incentivized to invest in developing countries (UNCTAD 2001, OECD, 1983, 1993). This work highlighted how “[a]n FDI transaction establishes a triangular relationship involving three main actors: the TNC investing funds; the capital-importing host country; and the capital-exporting home country” (UNCTAD 2001: 4). While the MNC-host country relationship had received much attention, the role of home-country measures was generally neglected in past research (UNCTAD 2001, see also Kline 2003). Against this gap, UNCTAD published a number of papers defining HCM and discussing their possible effect on FDI in terms of quality and quantity to developing countries. Despite some variation within UNCTAD publications, UNCTAD generally understood HCMs as:

> [A]ll policy measures taken by the home countries of firms that choose to invest abroad designed to encourage FDI flows to other countries. Their formulation and application may involve both home and host country government and private sector organizations. (UNCTAD 2000: 2)

UNCTAD further qualified HCMs as follows:

> HCMs exist at the national, regional and multilateral levels and involve a broad variety of measures, ranging from information provision, technical assistance and capacity-building, to financial, fiscal and insurance measures, investment-related trade measures, and measures related to the transfer of technology. (UNCTAD 2000: 2)

Elsewhere, UNCTAD slightly modified this list into including: “policy pronouncements, information and technical assistance, transfer of technology, financial and fiscal incentives, investment insurance and market access regulations” (UNCTAD 2001: 11).

HCMs extended

Given the initial focus on HCMs that were meant to stimulate FDI flows from developed countries to developing countries, UNCTAD policy papers put much emphasis on measures that mitigated investment risks and contributed to human or institutional capacity building in the host context.

Regarding the former, it was acknowledged that such measures not only needed to mitigate entry costs, but also post-entry risks through improved institutional conditions in the host contexts. Such improved institutional conditions in the host context were seen to be particularly salient for encouraging investments into least developed countries (Kline 2003). In this regard, the discussions in UNCTAD policy papers generally revolved around capacity-building through technology transfer and technical assistance. Such measures tend to imply home country measures enacted in the host context or in other words, extended HCMs.

The UNCTAD (2001) policy paper explains the intentions of technology transfer and technical assistance as follows:

> Technical assistance to promote FDI in developing countries covers a wide range of applications, including assistance to host Governments to improve regulatory regimes and enhance institutional capabilities to attract, receive and utilize FDI. Technical assistance may also be provided to investing enterprises, particularly SMEs, as well as to local joint venture partners. (UNCTAD 2001: 31)
>
> Technology transfer represents a conceptual step beyond the sharing of know-how entailed in most technical assistance programmes, implying a more substantial application to business operations. Measures to transfer technology may still be aimed initially at developing or strengthening a host Government's receptive capabilities to attract and utilize newer commercial technologies, including through regulatory reforms that establish the framework for transferring competitive privately-held technology (UNCTAD 2001: 33)

Host country extended HCMs rest on a wide range of institutional exchanges and knowledge transfer mechanisms between the home and the host country (UNCTAD 2000, Mistry 2003).

> Such assistance would include long-term partnership arrangements for institutional and capacity building between counterpart ministries in donor countries and LDCs (with each donor picking no more than two LDCs or vice versa), as well as between their parliaments; ombudsmen and watchdogs such as central auditing and accounting agencies; judiciaries; labour unions; chambers of commerce and industry associations; and between their NGOs (although these would need to be carefully selected to ensure that these partnerships are productive rather than counterproductive). (Mistry 2003: 126).

> [I]nstituting regular home–host country exchanges, including through the financing of home country personnel in investment-support and business facilitation functions in host countries. (UNCTAD 2000: 3).

In summary: OECD and UNCTAD policy papers provide a clear conceptualization of HCMs and even suggest their potential extensions abroad. The latter include measures of either improving extant institutions or establishing new institutions in the host context (e.g. investment promotion agencies and industry associations). HCM extensions typically aim at capacity building in the host context. HCM extensions can be limited or wide in focus. For instance, capacity building can involve sponsoring specialized training programmes as much as the establishment of large scale industry-related scientific, educational or technical infrastructure in the host context (UNCTAD 2001). It may even involve concerted efforts by different home countries for the establishment of firm consortia that are willing to invest in major infrastructure projects in a certain host context (UNCTAD 2000). It is important to note that the extended HCMs discussed in policy papers cannot always be neatly told apart from more generic developmental programs. While policy papers give a first insight of HCMs and their potential extensions, they provide only limited understanding of how and why HCMs vary across home countries. We have in particular little understanding of how countries differ in the scale and scope to which they extend HCMs into the host countries.

2.3 Variations in Home Country Measures

Sauvant and colleagues (2014) provide the most comprehensive review of HCMs and their institutional underpinnings. Drawing primarily on a review of policy papers from a wide range of international organizations, they provide an elaborate list of HCMs and how they differ across countries. While not the main focus of their work, they also highlight why such measures might differ across countries.

Sauvant et al. (2014) see HCMs to support OFDI as an underexplored area. This is all the more surprising as “HCMs can potentially influence, among other things, the volume, quality, mode of investment, type of investor, sector of investment, and location of OFDI” (3). Importantly, Sauvant et al. (2014) point out that while there is some recent attention to HCMs, their institutional underpinnings of OFDI have received scant coverage.

Sauvant et al. (2014) define HCMs as “as the granting of specific advantages by the home country government (or one of its public institutions) in connection with the establishment, acquisition and expansion of an investment by a home country firm in a foreign economy […]. They are meant to facilitate, support or promote outward FDI – in other words, to help firms establish foreign affiliates” (Sauvant et al. 2014:10). Institutions to support OFDI are defined as “those whose objectives or functions involve the facilitation, support or promotion of outbound investment by domestic enterprises” (Sauvant et al. 2014: 26).

HCMs and their variation

Sauvant et al.’s (2014) work suggest HCM variation across five dimensions. These include differences in 1) the directness of measures, 2) the type of measure, 3) scale, integration/coherence of measures, 4) the degree of private sector involvement in their provision, and 5) the objectives of measures. We shall discuss there in more detail below.

Directness of measures: Sauvant et al. (2014) distinguish indirect and direct HCMs. Indirect measures are in their view subsidies or measures that are related to trade and market access. General economic policies or conditions of a country’s OFDI regime are also seen as more indirect in nature. They also disregard “political efforts by home countries to influence decisions by destination countries (e.g., in the context of privatizations) and business people accompanying diplomatic missions to destination countries” (Sauvant et al. 2014: 19). In a similar vein, technology transfer as a measure to improve host countries’ absorptive capacity and attractiveness for OFDI are also seen as non-core HCMs.

Types of measures: Sauvant et al. (2014) suggest that government related HCMs can be divided into 5 broad categories of support and 6 types of institutional actors. The 5 categories include information and support services, financial measures, fiscal measures, investment insurance measures and treaties as their main dimensions. The related institutional actors are:

governmental departments and ministries, export credit agencies and development finance institutions, investment & trade promotion agencies as well as private organizations fulfilling governmental mandates (see table 1).

- Insert table 1 about here -

Scale, integration/coherence of measures: Sauvant et al.'s (2014) work also suggests that HCMs vary with regard to their scale, coherence and transparency. This variation can be related to the condition that the institutions supporting HCMs can be more or less developed, integrated or fragmented (e.g. overlapping responsibilities), specialized, concentrated (i.e. few or many institutions) and at different institutional levels within a country (e.g. national and subnational).

Private sector involvement: While Sauvant et al. (2014) are primarily interested in government-led or mandated HCMs, they acknowledge that the private sector may have role to play in stimulating OFDI. They state:

> A home country's private sector itself may also facilitate investment in potential destination countries, for example, by seeking to improve formal and informal business ties and establishing bilateral chambers of commerce or business councils. The capacity of the private sector to so facilitate OFDI is typically greater in developed countries than in emerging markets. (Sauvant et al. 2014: 20)

Objectives of measures: Finally, the objectives of HCMs differ, ranging from more developmental goals for the host country to efforts to promote primarily the home country's economic interest. These objectives are not least reflected in the eligibility and conditionality that are often attached to HCMs. Eligibility implies that not all firms will be able to qualify for, or benefit from, HCMs. In terms of eligibility "[t]he most important criteria pertain to the nationality of the foreign investor, the sector of investment in the home or host country, the ownership of the firm, the size of the firm [e.g. SME focus], and the host country destination" (Sauvant et al. 2014: 21). Conditionality involves conditions that firms have to meet to qualify for OFDI support. This might entail economic conditions (e.g. protecting the home-country's economy) as much as non-economic conditions such as developmental, environmental, cultural or social considerations.

Causes of their variation

While not the focus of their review, Sauvant et al. (2014) put forward some ideas to explain why HCMs may vary across countries. They note, for instance, that proactive policies to support OFDI are rather uncommon in many emerging markets and that they often do not have a coherent and transparent OFDI strategy in place, let alone a developed set of HCMs, suggesting a relationship between types of economy, their development, level of liberalization and in turn the existence or coherence of HCMs. Without providing further detail, Sauvant et al. (2014) also propose that different patterns of OFDI promotion are connected to different understandings of business-government relations and economic priorities of home countries.

In a similar vein, reflecting home countries' economic priorities or structures, HCMs often have a sectoral focus. These economic priorities may aim to support "OFDI in such specific sectors as natural resources that are scarce at home (e.g., Republic of Korea, China), sectors where OFDI will increase the competitiveness of home country firms (e.g., Malaysia) or sectors that involve future-oriented industries, such as renewable energy (e.g., Japan)" (Sauvant et al. 2014: 21).

In summary: Building on the above mentioned policy papers, it was primarily the work of Sauvant and colleagues (2014), which not only provided a differentiated framework of HCMs but also suggested the importance of paying more attention to their institutional underpinnings. Contrasting with earlier policy papers, this work started to unravel factors responsible for variations in HCMs and supporting institutions. However, while pointing to the potential relationship between a home country's economic constitution and approaches to promoting OFDI, Sauvant et al. (2014) fell short of elaborating the relationship any further. Similar to most work on HCMs[1], Sauvant and colleagues paid little systematic attention to the question as to how the type, structure or organization of a national economy and political system relate to a country's HCMs, their extensions and the corresponding supporting institutions at home and abroad.

[1] Luo et al. (2010) are among the few who clearly spell out the link between the political economy and HCMs. Focussing on China, they explicitly link the HCMs and supporting institutions to the political economy of the country. However, while their work suggests that China's HCMs and supporting institutions can only be understood in conjunction with political economy of the country, they - similar to UNCTAD frameworks (e.g. UNCTAD 2000) - do not refrain from seeing China's support portfolio as a best practice model ready for emulation by other emerging markets.

3. Comparative capitalism and patterns of HCMs

Comparative capitalism (CC) approaches share an interest in understanding the societal constitution of economic activities across countries and sectors. This interest implies a central concern with the societal constitution of firm behaviour (Hotho and Saka 2016). While specific conceptualizations of the societal constitution may vary (e.g. Hall and Soskice, 2001; Maurice & Sorge, 2000, Whitley 1999), CC approaches tend to focus on how economic actors and institutional settings relate to or constitute each other. Such economic relations often entail an elaborate understanding of relations among economic actors, between economic actors and institutions as well as between different institutional domains (Hall and Soskice, 2001; Whitley, 1999).

CC approaches highlight how national institutions constitute as well as constrain or enable firm behaviour both at home and abroad (Allen & Aldred, 2013; Lane & Wood, 2009; Wood, Dibben, & Ogden, 2013). While the key economic actors considered are typically the firm, national institutions or institutional settings often cover a wide range of formal institutional domains including the nature of the legal system, the industrial relations system, training and education system, the financial systems or the political system (Hall and Soskice, 2001; Whitley, 1999). Based on cross-national differences in the societal constitution of economic activities, CC approaches have come to distinguish different types of market economies (Amable, 2003; Hall and Soskice, 2001; Maurice & Sorge, 2000, Whitley 1999).

CC approaches have seen some substantial critique and revision in the last decade. These changes involved revised perspectives on the behaviour of economic actors, the stability of institutional settings and the homogeneity of market economies (e.g. Crouch, 2005; Deeg and Jackson, 2007; Hall and Thelen, 2009; Jackson and Deeg, 2008; Streek and Thelen 2005). Specifically, recent developments see: 1.) firms not as passive agents merely adapting to institutional systems but rather as proactive agents; 2) institutional systems as dynamic , and 3) emphasize institutional diversity and related sectoral diversity within national market economies (Hall and Thelen, 2009; Allen, 2013; Whitley, 2007).

Notwithstanding the recognition and evidence that market economies are rarely constituted by homogeneous modes of economic coordination (Deeg and Jackson, 2007), there is also ongoing evidence that market economies differ substantially in terms of dominant modes of economic coordination (Hotho, 2014; Schneider and Paunescu, 2011). Indeed, there is a developed body within the CC literature highlighting the ongoing importance of the type of home market economy for the behaviour of MNCs (Djelic and Ainamo, 1999; Geppert et al., 2003; Harzing and Sorge, 2003). In the following we shall draw on the approach by Hall and Soskice (2001) because it is one of the most widely cited CC approach and provides a clear conceptualisation of how economic relations – including business-government relations – differ across market economies.

Liberal vs. coordinated market economies

Hall and Soskice's (2001) Varieties of Capitalism (VoC) approach distinguishes two types of market economy. These are coordinated market economies (CME) and liberal market economies (LME). Hall and Soskice (2001) put the firm center stage. Comparing market economies, Hall and Soskice (2001) find that firms vary correspondingly with regard to their capabilities or competencies. They attribute these differences to different types of internal and external relationships that national institutions shape. The principal idea of the approach is that the coordination of economic relationships is either by markets and hierarchies (market coordination) or by non-market and collaborative mechanisms (strategic coordination). While the former typifies LMEs, such as the UK or the USA, the latter characterizes CMEs, such as Germany or Japan. These different forms of dominant economic coordination rest and rely, in turn, on different kinds of complementary organizations and institutional arrangements (Hall and Soskice, 2001). Hence, different types of economic coordination and relations are constituted by corresponding institutional arrangements (Hotho, 2014) (table 2).

- Insert table 2 here -

The types of market economy (Hall and Soskice, 2001; see also Woodward, 2001) also differ with regard to their typical business-government relations and patterns of policy intervention. Specifically, LMEs tend to show more arm's length government-business relations and economic policies that focus on the functioning of markets (e.g. deregulation, anti-trust and tax break) (Hall and Soskice, 2001; Whitley, 1999). By contrast, CMEs tend to have more intertwined business-government relations (often mediated through support or encouragement of business associations) and economic policies that foster the capacity of actors for non-market coordination. Hall and Soskice (2001) and Wood (2001) also relate these differences to the nature of political systems (e.g. variation in the structural influence of producer groups on the government through political parties and different levels of power concentration in the political executive).

Development of Propositions

Drawing on Hall and Soskice (2001) we develop in this section a set of six propositions that relate the two types of market economies to the likely variation in HCMs. We argue that the dominant type of economic coordination, government-business relations and general policy orientation will also be reflected in divergent HCMs when comparing LMEs and CMEs. Furthermore, we assume that these differences in economic coordination are particularly salient when MNCs from developed countries invest in emerging markets or developing countries that are marked by institutional voids, that is, a lack of complementary institutions.

As the economic coordination of LMEs rest primarily on the functioning of market competition, arm's length government-business relations and market facilitating policies, we also expect HCMs to be generally more indirect, that is, measures that aim to promote trade and market access. This may involve the development of more general economic policies or conditions of a country's OFDI regime. We also expect that LMEs apply direct measures only modestly and where market mechanisms fail.

Regarding the type and objective of direct measures, we expect LMEs to focus mainly on informational support to support internationalization. LMEs will tend to provide only direct and customized resources to firms or sectors where market mechanisms fail (i.e. a higher propensity in emerging markets). This rather limited provision of direct HCMs in LMEs implies, in turn, more room for market-based actors in the provision of internationalization support measures. For this reason, we expect that institutions supporting internationalization are to a larger extent likely to be private actors in LMEs.

As government-business relations are less intertwined in LMEs and as private actors take on a more important role in internationalization support, we expect the development and provision of LME HCMs to be less coordinated between private and public actors and therefore less transparent and integrated (i.e. more fragmented) than in CMEs.

Lastly, as LME firm's capabilities and competences (switchable assets) are less embedded in non-market and collaborative relationships and as their governments are more reluctant to directly support firms through HCMs, we expect LME governments to perceive less need to extent HCMs host contexts. Where institutional voids are perceived such as market failure or poor legal frameworks in emerging markets, we expect HCMs extensions, to be mainly in the form of indirect measures to open markets or improve their functioning.

CMEs economic coordination rests mainly on strategic coordination; that is, on non-market and collaborative relationships. This is complemented by closer government-business relations, mainly through business associations, and coordination-oriented policies or policies that target rather directly specific firm needs and competency enhancement. We therefore expect CMEs to focus more on direct than on indirect HCMs. Moreover, direct HCMs will not only address market barriers and failure, but also the development of non-market coordination as well as specific needs and competencies for firm internationalization. This can involve, for instance, the support of chambers of commerce that provide networking platforms for internationalizing firms or the provision of vocational training programs abroad.

As CME governments typically have closer business-government relations, their HCMs are likely to target specific firm types and sectors more directly, reflecting the more direct influence of the dominant economic actors on policy making. Finally, the stronger involvement of public or semi-public actors in providing HCMs, leaves less room and need for private or market-based actors to provide internationalization support.

Finally, we expect CME HCMs to extend more into host contexts. CME's direct measures will strongly support the development of collaborative relationships with business partners and institutions in the respective host context because such a provision is vital for the internationalization of CME firms. This will be particularly true for emerging markets and developing countries, were they perceive few collaboration partners and institutions to build on. The underlying rationale is that the competitive advantage of CME firms rests and relies in large part on non-transferable or co-specific assets, that is, on relationship embedded capabilities (Hall and Soskice, 2001; Whitley, 1999). It is these relationships that CME direct HCMs help establishing abroad.

In contrast to LMEs, we expect CMEs to provide more direct HCMs, to have direct HCMs address next to market barrier and failure also non-market coordination as well as firm and sector specific needs, to extend HCMs more into the host environments, and HCMs to rest institutionally more on public or semi-public actors.

We can summarize these assumptions into the following six propositions.

Proposition 1: In contrast to LMEs, CMEs employ a higher scale and scope of ***direct*** HCMs.

Proposition 2: In contrast to LMEs, the ***objective*** of CMEs HCMs is not only to address market failure and barriers, but also non-market coordination as well as the internationalization needs of specific firm types and sectors.

Proposition 3: In contrast to LMEs, in which ***private actors*** are of more relevance, CME institutions supporting internationalization are to a larger extent public or semi-public actors.

Proposition 4: In contrast to LMEs, CME HCMs will be more coordinated among public and private actors and therefore more ***transparent and integrated***.

Proposition 5: In contrast to LMEs, CME governments employ HCMs that extend more into the ***host context***.

Proposition 6: In contrast to LMEs, CME HCMs extensions will support more the establishment of institutions for strategic coordination (institutions that facilitate collaboration) in the host context.

4. Conclusion

Compared to host-country factors affecting FDI, home country factors have received comparatively less attention in the field of IB. This imbalance has shifted, however, with the advent of emerging market multinationals. IB scholars came to realize that the prerequisites and patterns of internationalization can hardly be explained without reference to the enabling and constraining conditions in the respective home countries.

While IB scholars started theorizing the enabling and constraining home country conditions for emerging market firm internationalization, there were, with some exceptions, few attempts to provide a systematic account of home country measures and their supporting institutions. Importantly, there was little concern for the question at to how and why HCMs differed across countries.

Contrasting with IB scholarship, international organizations such as the OECD and UNCTAD started already in the 80s to consider the relation between home country measures and OFDI. With the intention to stimulate FDI from developed to developing countries, international organizations started conceptualizing HCMs and comparing them across countries. However, while these papers discussed cross-country variation in HCMs and suggested the extension of some HCMs into host countries, there was again generally little systematic concern for why HCMs and their extensions differed across countries.

The main contribution of our paper lies in addressing IB's blind spot on how and why countries differ in supporting firm internationalization. Apart from some contributions within the context of emerging market firm internationalization, there is remarkably little knowledge on the portfolio of home country measures in support of firm internationalization. As we have shown policy papers and Sauvant et al.'s (2014) work provide us here with a first systematic account.

Building on policy papers and Sauvant et al.'s (2014) insights on HCM variation, we draw on CC literature to better understand why HCMs differ. Specifically, we theorize exemplarily that differences in the type of market economy, that is, their dominant forms of economic coordination as well as related differences in business-government relations and economic policy, are likely to have systematic consequences for HCMs variation in terms of: their directness or indirectness, their objectives, their extension into host contexts, their underlying institutional actors and their transparency and integration.

A major limitation of our paper is that it is purely conceptual level at this point and lacks empirical support. Additionally, we also have to explore further contributions from CC or political economy that provide a deeper theorization of the role of the state within the economy. Typologies on the role of the state in the economy vary from 'predatory' states (Carney & Witt, 2014; Evans, 1995) to 'segmented business systems' (Wood & Frynas, 2006) to 'arm's length', 'dominant-developmental' and 'corporatist' states (Whitley, 2005). However, what these types of states imply for HCM variation and patterns of firm internationalization is still rather unclear. The future research in this area will therefore have to focus on a more encompassing review of the CC literature on the role of the state and, most important of all, engage in the empirical exploration of propositions suggested above. This would entail in a first step examining and comparting the HCMs of contrasting market economies. For instance, comparing the HCMs of Germany and the UK as typical cases for CME and LME.

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Table 1

Institutional framework	1. Governmental departments/ministries, e.g., a. Ministries of foreign affairs b. Ministries of commerce/trade/business c. Ministries of industry/economy/competitiveness 2. Export credit agencies d. Export-import banks e. Trade/investment insurers 3. Development finance institutions 4. Investment/trade promotion agencies f. Central offices on the national level g. Foreign offices set up abroad to help investors located in host countries 5. Local trade/investment promotion agencies 6. Private organizations fulfilling governmental mandates
Information and other support services	1. Information support a. Data on the economic and investment climate, legal environment, political situation in the host countries, business opportunities in particular economic sectors, etc. b. Information and data on outward investment, e.g., i. Publications on the benefits of internationalization, legal and economic aspects of international expansion, etc. ii. Statistics c. Information on existing HCMs and services available for outward investors 2. Investment missions 3. Match-making services d. Organization of contacts with government officials and entrepreneurs in host countries e. Maintaining business matchmaking databases 4. Educational services f. Seminars, webinars and conferences on OFDI- related topics
Financial measures	1. Grants a. Feasibility studies, market research and other pre-investment activities b. Costs of setting up overseas offices i. Rent ii. Employee salaries c. Training and human capital development i. Training staff for employment in a foreign affiliate (e.g., immersion program, foreign language classes)

	ii. International human resources strategy and related third-party consultancy fees iii. Executive programs for managers iv. Internships v. Customized training programs 2. Loans a. Concessional loans b. Non-concessional loans c. Structured financing options d. Currency options e. Syndication, public-private/public-public risk-sharing arrangements f. Development financing 3. Financial guarantees 4. Equity participation a. Direct equity financing b. Quasi-equity financing c. Development financing
Fiscal measures	1. Tax exemptions a. Exemption from corporate income tax on certain incomes i. Tax exemption of foreign spin-offs' income ii. Tax exemption of start-up expenses of foreign operations b. Tax deductions for qualifying expenditures 2. Corporate tax rate relief a. Corporate tax rate relief for enterprises in particular sectors of economy 3. Tax deferral for qualifying income earned overseas 4. Tax credits for certain credits of expenditures a. Interest expenses allocation 5. Allowances for qualifying activities
Investment insurance measures	1. Investment insurance a. Range of investment insurance products/coverages b. Expropriation c. War damage d. Political violence e. to convert local currency or transfer currency out of the host country f. Suspension of remittance g. Forced abandonment
Treaties	1. Bilateral investment treaties 2. Other international investment agreements 3. Double taxation treaties

- Table 2 –

	LME (e.g. UK, USA)	**CME (e.g. Germany, Japan)**
Dominant form of coordination in firm relationships	Hierarchies and competitive market arrangements Arm's length exchange in context of competition and formal contracting (Market competition)	Non-market and collaborative relationships Long-term exchange based on extensive relational or incomplete contracting, network monitoring (Strategic interaction)
Supporting institutions and organisations	Market coordination rests primarily on institutions that support high market competition and arm's length relations through formal and complete contracting E.g. Markets and legal system, antitrust regulations	Strategic interaction rests primarily on institutions that encourage (deliberative institutions) and support collaboration relations among actors by providing exchange of information among actors, monitoring of behaviour, and sanctioning defective behaviour E.g. Business or employer associations, trade unions, business networks, legal or regulatory systems
Competitive advantage and competencies of firms	Easily transferable and switchable assets (i.e. assets whose value can be realised if diverted to other purposes)	Non-transferable or co-specific assets (i.e. assets that cannot be readily used for another purpose and assets whose returns depend heavily on the active cooperation of others)
Policies	Market incentive policies	Coordination-oriented policies Targeted on firm needs and competency enhancement

Source: Based on Hall and Soskice (2001)