Title: Hybridization as a Coping Mechanism to Institutional Challenges in Emerging Market Firms Outward Foreign Direct Investment

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Abstract

Institutional challenges are an inevitable component of foreign direct investment (FDI). Such challenges are more salient in emerging market firms' outward foreign direct investment (OFDI) due to the underdevelopment of the home institutional setting, and the perception this creates across a variety of host countries. Our study proposes ownership hybridization in the home market as a mechanism through which emerging market firms can counteract institutional challenges in OFDI. Specifically, we extend studies on how state and private firms experience different home and host country institutional support and challenges and propose that through hybridization (mixing state and private ownership), emerging market firms can benefit from the unique resources brought into the mixture by the different actors and strengthen their ability to overcome institutional challenges in their OFDI. Furthermore, such benefits are likely to vary in magnitude in relation to the degree of hybridization; suggesting an optimal blend of state and private ownership in a hybrid firm. We predict that hybridization effects are contingent on host country institutional environments with varying levels of risk and legitimacy hurdles. Our approach differs from existing studies that view home and host country institutional challenges in isolation. Rather, we recognize the inter-related effect of these institutional challenges and propose ownership hybridization as a strategy that simultaneously counteracts both of them.

Keywords: Ownership, hybridization, hybrid ownership, State owned enterprises, private owned enterprises, internationalization, emerging markets

1. INTRODUCTION

Outward foreign direct investment (OFDI) by emerging market firms (EMFs) has been on a constant rise over the past two decades. In 2016, for instance, OFDI by firms from China contributed one third of the global OFDI (UNCTAD, 2017), and some EMFs such as Lenovo, Huawei and Tata have grown into leaders in the global stage. Despite these wins, EMFs are still facing challenges coping with the complexity of the global marketplace. Scholars adopting an institution-based view suggest that EMFs face a myriad of home and host country institutional challenges that critically affect firm-level behaviour, performance and internationalization ability (Luo, Xue & Han, 2010; Peng, Wang & Jiang, 2008; Wu & Chen, 2014).

From a home country perspective, capital market imperfections, ineffective legal systems, government interference in business, and overall institutional underdevelopment are typical voids that increase the cost of doing business and impede entrepreneurial activity of EMFs (Stoian & Mohr, 2016: Witt & Lewin, 2007). From a host country standpoint, emerging market firms experience legitimacy barriers due to practices that may not be aligned with host countries (Meyer, Ding, Li & Zhang 2014) and discrimination resulting from the assumption that products from emerging markets are inferior in quality (Cuervo-Cazurra & Ramamurti, 2015). In addition, studies (e.g. Cui & Jiang, 2012; Meyer et al. 2014) show that these home and host country institutional challenges are not homogenous to all firms. Specifically, state-owned firms (SOEs) and private-owned firms (POEs) have idiosyncratic interactions with home and host country institutions, generating different institutional challenges (Cuervo-Cazurra, Inkpen, Mussachio & Ramaswamy, 2014; Meyer et al. 2014; Pan, Teng, Supapol, Lu, Huang & Wang, 2014). Consequently, extant research investigating institutional challenges has adopted a 'black and white' approach - dichotomizing firms as either state or private-owned and analysing their challenges and responses in relation to this ownership concentration.

The prevalence of these institutional challenges has attracted scholastic attention, with researchers discerning a few mechanisms through which they can be circumvented. They highlight alliance with foreign firms (Siegel, 2004), escape OFDI (Witt & Lewin, 2007), geographic clustering (Lundan, 2012), increased horizontal scope (Peng, Lee & Wang, 2005), partnering with local incumbents in host countries (Meyer et al. 2014; Yiu & Makino, 2002) and collaborative networks and business groups (Khanna & Palepu, 2000; Khanna & Yafeh, 2007), as responses to institutional challenges. Unfortunately, these coping mechanisms address home and host country institutional challenges in isolation. In reality, these institutional challenges are interrelated, requiring a holistic coping mechanism that simultaneously counteracts their effects. Thus, in this study, we propose ownership hybridization in the home country as a coping mechanism for EMFs to address both institutional challenges in home and host countries, simultaneously.

An important phenomenon in emerging economies is the growing presence of 'hybrid-ownership structures' (Bruton, Ahlstrom, Stan & Xu, 2015; Delios, Zhou & Wu, 2006; Economist, 2012). These hybrid firms combine varying degrees of state and private ownership in one firm and do not fit precisely into established categories of organizational forms, sectors or institutional domains (Panche & Santos, 2013; Schmmitz & Glanzel, 2016). While such hybrid ownership structures, and the process of hybridization have received limited attention in IB research (Bruton et al. 2015), scholastic work from the *organizational studies* and the *public administration* offers useful insights. Hybrid organizations can exploit complementary characteristics of the different ownership domains and implement strategies that each partner could not have done individually (Mair, Mayer & Lutz, 2015; Panche & Santos, 2013). In other words, hybrid ownership structures may cultivate more competitive advantages and organizational capabilities than non-hybrid firms. Despite the importance of ownership hybridization in emerging markets, IB research has been slow in responding to this phenomenon (Bruton et al. 2015). Much more effort is needed to conceptualise the process of ownership hybridization from an OFDI perspective and evaluate its impact on OFDI strategies. Therefore, we make a pioneering effort by asking the following question: "Is ownership hybridization a coping mechanism to the institutional challenges facing emerging market firms OFDI?"

While the legitimacy perspective of institutional theory informs the primary argument of this conceptual paper, we also draw insights from the resource-based theory, specifically in relation to the link between resource constraints and legitimacy enhancements (Delios & Henisz, 2003; DiMaggio & Powell, 1991). We argue that hybridization simultaneously counteracts home and host country institutional challenges in emerging market firms' OFDI, by generating legitimacy enhancing benefits, resource benefits, and operational autonomy. Our contribution however is not to merely propose the benefits of hybridization, but also to identify the institutional conditions under which such benefits accrue.

Our study thus makes two major contributions. Our first contribution is that we develop an institution-based view of ownership hybridization as a coping mechanism to institutional challenges in OFDI. Our theoretical extensions offer novel insights by highlighting the necessity to adopt a hybrid perspective to ownership structures and its strategic implications for EMFs' OFDI. Consequently, we advance the understanding of ownership structure and internationalization of EMFs by investigating the internationalization impact of a manifest yet underexplored ownership characteristic of EMFs. Unlike previous studies that tended to treat different ownership categories separately, we suggest that doing so ignores the potential complementarity among ownership types, and the benefits of hybridization.

Secondly, we articulate the boundary institutional conditions for the hybridization effect in EMFs' OFDI. Extending research streams indicating that ownership is not fully determinative of a firms OFDI behaviour, we identify host country institutional environment as conditions under which hybridization achieves desired results. By so doing, we contribute to the literature on the interactive effect of home and host country institutions on firms OFDI decisions.

2. THEORETICAL FOUNDATION AND RESEARCH BACKGROUND

2.1 Institutional Theory as a Lens

Institutional theory has emerged as probably the most influential theoretical foundation to explain the behaviour of emerging market firms. It integrates distinct scholarly perspectives notably institutional economists, who conceptualize institutions as rules of the game shaping economic activity (North, 1990) and organizational sociologists who consider institutions as shared beliefs and norms that affect legitimacy of behaviours in terms of their acceptance by the environment (DiMaggio & Powell, 1983; Scott, 1995). Here, legitimacy refers to a "generalized perception that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Suchman, 1995, p.574). Consequently, legitimacy leads to institutional support and the lack of legitimacy becomes an institutional challenge for firms. Individuals and firms are thus under pressure to adapt their practices and strategies to patterns deemed legitimate within an institutional environment (Lu & Xu, 2006). Drawing from both perspectives, institutions can promote or impede firm activities by determining resources, exerting pressures for legitimacy, and shaping ownership types and governance structures.

As EMFs conduct OFDI, institutional challenges can arise from both home and host countries (Meyer & Peng, 2016). From a home country perspective, emerging market firms suffer from institutional voids characterized by underdeveloped capital markets, lack of market supporting institutions, and regulatory systems (Child & Rodrigues, 2005; Cuervo-Cazurra & Genc, 2008; Gammeltoft, Filatotchev & Hobdari, 2010) which leads to competitive disadvantages in the global market. For instance, capital market imperfection presents challenges in the access to financial resources in emerging markets (Morck, Yeung & Zhao, 2008; Voss, Buckley & Cross, 2010). This impedes overall OFDI of EMFs, as overseas expansion is a financially intensive strategic activity that requires stable and predictable financial inputs.

Home country institutional challenges also arise from government intervention in business. Emerging market governments are active in the business environment through regulations and policies regarding OFDI (Luo et al. 2010). While the surge in OFDI by EMFs has been linked to a variety of government regulative policies, emerging market governments also implement policies that constrain OFDI activities such as capital control and various approval processes (Cui & Jiang, 2010; Luo et al. 2010). Such processes scupper the internationalization process of EMFs leading to loss of unique opportunities (Cui & Jiang, 2010).

From a host country perspective, emerging market firms are subject to host country regulatory restrictions on inward foreign direct investment (IFDI) and the host country level of development (Cui &Jiang, 2012; Gatinon & Anderson, 1988). Host countries apply formal rules and regulations to restrict IFDI, safeguard national interests, and to maximize local benefits (Cui & Jiang, 2012). Within this context, institutional challenges facing EMFs mostly arise from legitimacy barriers and discriminatory perceptions about investors from emerging markets. Host country legitimacy barrier is related to the extent with which the actions of emerging market firms are perceived as desirable, proper or appropriate by the relevant stakeholders in a host country (Li, Xia & Lin, 2017; Suchman, 1995). The greater the legitimacy concerns over the actions of EMFs in host countries, the stringent the regulatory restrictions the firm will experience. Therefore, EMFs can be subject to restrictive policies that impose difficulty in entering some host countries, limit their access to local resources and interfere with their operational matters (Globberman & Shapiro, 2009; Meyer, Estrin, Bhaumik & Peng, 2009). In addition, the level of risk and instability in host countries presents institutional challenges for EMFs. Risky and unstable institutional environments are associated with additional costs requiring additional funding (Zaheer, 1995) combined with resource barriers plaguing EMFs, such host country challenges become prominent.

These home and host country institutional challenges however, do not apply homogenously to all emerging market firms; they differ, for example with ownership types (Cui & Jiang, 2012; Meyer et al., 2014; Pan et al., 2014). The dual and conflicting role of emerging market governments as regulator and player in the business setting, leads to the preferential treatment of state-owned enterprises (SOEs) and discrimination against private-owned enterprises (POEs.) Thus, SOEs and POEs differ with regards to their access to resources and internationalization objectives at home which shape the extent to which their activities are perceived as legitimate in host countries (Cuervo-Cazzura et al. 2014; Li et al. 2017; Meyer et al. 2014) as well as their ability to withstand risky host country environment (Duanmu, 2012, 2014). These inherent differences in SOEs and POEs lead to different institutional challenges and consequently different coping mechanisms.

2.2 Firm Level Institutional Challenges and Coping Mechanisms

2.2.1 SOEs Institutional Challenges and Coping mechanisms

In emerging economies, SOEs are firms owned by the central or state government and its agencies (Stan, Peng, & Bruton, 2014), for engaging in commercial and political activities (Cuervo-Cazurra et al. 2014). The combination of government affiliation and political objectives in SOEs, allows them to enjoy soft budget constraints and preferential treatment such as government aid and subsidized loans (Buckley, Clegg, Cross, Liu, Voss & Zhen, 2007; Morck et al., 2008). SOEs, therefore, tend to face fewer financial constraints in their OFDI

(Hong, Wang & Kafouros, 2015). Accordingly, capital market imperfections and resource constraints in emerging economies do not present institutional challenges for SOEs.

On the other hand, government ownership can be a source of disadvantage and present institutional challenges for emerging market SOEs' OFDI. Particularly, government ownership can be a source of legitimacy barriers in host countries. Due to their affiliation with the government, SOEs are perceived as political actors rather than purely business entities (Cui & Jiang, 2012). As a result, their OFDI activities constitute a threat to the national security and business interests of host countries (Globberman & Shapiro, 2009). These perceptions of SOEs spawn resentment from politicians and the public in host countries, thus subjecting SOEs to stringent scrutiny and restrictive policies (Li et al. 2017; Meyer et al., 2014) which hinder OFDI.

The detrimental effect of government intervention in SOEs is another institutional barrier plaguing OFDI by emerging market firms (Huang, Xie & Reddy, 2017). SOEs are particularly susceptible to domestic government intervention because they heavily depend on governments for vital resources (Xia, Ma, Lu, & Yiu, 2014). Emerging market governments intervene in SOEs decisions and operations via imposing policy burdens over SOEs to keep their activities aligned with national objectives (Buckley et al. 2007; Deng, 2013). Because of these, SOEs experience reduced operational autonomy (Song, Wang & Cavusgil, 2015) and loss of market orientation. Operational autonomy and market orientation are essential for firms to seize, leverage and respond to market intelligence timely. Thus, government intervention presents an institutional barrier for SOE's OFDI.

Studies (e.g. Lu & Xu, 2006; Meyer & Rowan, 1977; Yiu & Makino, 2002) have identified coping mechanisms through which SOEs can alleviate these home and host country institutional challenges in their OFDI. SOEs can enhance their host country legitimacy by cooperating with domestic firms that enjoy high levels of legitimacy in host countries (Lu & Xu, 2006). By partnering with local firms in host countries, SOEs can transfer the local partner's legitimacy to their operations and signal to the host countries' stakeholders, of their alignment to the regulatory and institutional preferences (Lu & Xu, 2006; Meyer & Rowan, 1977; Yiu & Makino, 2002). Regarding government intervention as an institutional challenge facing SOEs, studies present the "power escape" argument or "avoidance strategies" as possible coping mechanisms (Cuervo-Cazurra et al. 2014; Pfeffer & Salancik, 1978). Building on OFDI by EMFs as an escape response to institutional constraints, Choudhury & Khanna (2014) argue that by investing in other countries and obtaining alternative source of revenue through OFDI, SOEs can reduce their dependence on the government and thus the power that the government exercises over them.

While these proposed coping mechanisms provide significant insights into how SOEs can counteract home and host country institutional challenges, they leave gaps for criticism and opportunities for development of alternative coping mechanisms. For instance, while studies empirically support partnership-based strategies like joint ventures as means to enhance host country legitimacy (Yiu & Makino, 2002; Meyer et al. 2014), such partnership-based entry strategies prevent SOEs from exploiting their resource endowment. Joint ventures involve sharing the costs and benefits of the business whereas, SOEs possess the resources to fully own a foreign venture and be entitled to all the returns. Therefore, coping mechanisms that allow SOEs to exploit their resource endowment and still enjoy legitimacy benefits would further increase their competitive advantages in OFDI.

Secondly, the power escape and avoidance strategy face criticism for focusing on the resource component of firm-government relationship, while ignoring the discretion component of this relationship (Aharoni, 1982; Xia et al. 2014). The resource importance and discretion components of dependence (Pfeffer & Salancik, 1978) suggest that a firm's dependence on the government arises from the extent to which (1) the government controls important resources the firm requires or (2) the government has discretion over the use of the resources needed by the firm. Considering the extent to which emerging market governments are highly involved in the decision process of SOEs, the extent to which SOEs can escape government involvement through OFDI, becomes questionable as such decisions are subject to approval by the government. In other words, firms in which managers enjoy operational autonomy from political influence are likely to implement ‘power escape’ (Aharoni, 1982; Cuervo-Cazzura, 2014).

2.2.2 POEs Institutional Challenges and Coping mechanisms

In emerging markets, POEs are firms owned and controlled by private entities. They have no formal links to the government and are typically smaller than SOEs (Peng, 2004). Due to the absence of government affiliation, POEs possess operational autonomy and strategic flexibility over their decisions and pursue purely economic activities. As a result, institutional challenges arising from government interference plaguing SOEs are not applicable to POEs (Liang, Ren & Sun, 2014).

However, studies find that the OFDI of emerging market private firms are constrained by the prevailing domestic capital market imperfection, discriminatory OFDI polices, and overall home country underdevelopment (Chen et al. 2016; Cui & Jiang, 2010; Voss et al. 2010). Weak financial systems in China and other emerging economies have been one of the greatest challenges for the growth of emerging market POEs (Feng & Wang, 2010). Based on political rather than economic concerns, state-owned financial institutions are prone to grant loans to SOEs (Huang & Renyong, 2014; Morck et al. 2008). By contrast, they often exercise a ‘tight fist’ when lending to private firms. This discrimination is attributed to the lack of government support and assurance of repayment due to POEs smaller size in tangible and intangible assets (Huang & Renyong, 2014; Voss et al., 2010).

Regarding host country institutional challenges, unlike SOEs, POEs are more at liberty to obtain institutional legitimacy due to the absence of political affiliations and objectives. However, host country institutional challenges also arise from the negative image of emerging markets and the assumption that products by EMFs are inferior in quality and less technologically sophisticated (Cuervo-Cazurra & Ramamurti, 2015). Such perceptions about EMFs, negatively affect their international competitive advantages, and hinder their OFDI endeavours.

A major coping mechanism to domestic institutional challenges facing POEs identified in literature, is the “escape OFDI” (Stoian & Mohr, 2016; Witt & Lewin, 2007). Identifying institutional and discriminatory escape, this stream of literature suggests that EMFs can engage in OFDI to circumvent domestic institutional constraint and the negative image associated with originating from emerging markets. Such escapist OFDIs are usually implemented through the acquisition of foreign brands and technologies. By acquiring Western-based brands and technologies, and diversifying their assets to developed economies, POEs are associated with superior brands, and this negates the liability of origin.

Another coping mechanism through which POEs deal with institutional constraint especially resource limitations is through business group affiliations (Khanna & Palepu, 2000; Hobdari. Gammeltoft, Li & Meyer, 2017). Business groups, are collections of individual firms, linked by formal and informal obligations to achieve an economic purpose (Yaprak & Karedimir, 2010). Such linkages from multiple networks provide firms with access to shared financial, managerial and organizational resources (Deng, 2012) that reduce the liability of foreignness in OFDI. Consequently, POEs can overcome institutional voids and financial constraints through their business group affiliation.

While these coping mechanisms generally receive empirical support, they face some limitations that affect their applicability. For instance, studies show that resource endowment is critical for the firms to implement internationalization strategies (Liang, Lu & Wang, 2012).

Consequently, the “escape” OFDI is contingent on firm’s availability of resources. If POEs are already resource constrained, how then can they carry out an escape OFDI? Wu and Chen (2014), who highlight that whilst home-market underdevelopment promotes OFDI through escape motives, a volatile home institutional environment distorts resources and prevents firms from developing ownership advantages associated with OFDI, support this argument. In addition, studies record some disadvantages to business group affiliations (Khanna & Yafeh, 2007). As firms benefit from business groups, they are obliged to contribute resources when needed, which might hinder the overall resource benefits achieved.

The above analysis of the limitations to existing coping mechanisms of both SOEs and POEs to institutional challenges is the impetus for this study. We build the argument from OFDI literature in combination with insights from *organizational studies* and *public administration.* We seek to inform and expand the discourse on coping mechanisms by underlining unique elements that allow emerging market firms to maximize their internationalization abilities while mitigating host and home country institutional challenges simultaneously.

In summary, domestic capital imperfection, host country legitimacy barriers and domestic government interference hinder EMFs’ ability to internationalize. Although earlier studies have identified coping mechanisms through which EMFs can navigate these challenges, these studies are limited by assumptions and counter arguments that reduce their power. Therefore, this research proposes ownership hybridization as a strategic response to internalize resources, reduce home and host country institutional barriers, and increase EMFs’ overall internationalization propensity. Below, we elaborate on this point by, first, an overview of hybridization, followed by the drivers of this phenomenon within the context of emerging markets. Subsequently, we elucidate how hybridization can alleviate challenges to EMFs’ internationalization, and identify conditions under which desired results occur.

3. EMERGING MARKET INSTITUTIONS AND OWNERSHIP HYBRIDIZATION

At the basic level, hybridization is an amalgamation of disparate “elements” (Schmitz & Glanzel, 2016). Literature from *organizational studies* defines hybridization as the combination of different institutional logics in one firm to come up with a hybrid organization (Battilana & Lee, 2014; Pache & Santos, 2013). SOEs and POEs consist of different institutional logics making a combination of both ownerships a hybrid organization (Bruton et al. 2015; Inoue, Lazzarini & Mussachio, 2013).

Recent studies indicate a growing presence of hybrid organizational structures within emerging markets (Bruton et al. 2015; Estrin et al. 2016; Li et al. 2017; Inoue et al. 2013; Musacchio, Lazzarini & Aguilera, 2015). A review by Li et al. (2017b) found that according to data by the China Bureau of National Statistics, by 2008, hybrid organizations accounted for 26% of firms with assets of five million RMB, 35% of all revenue earned, and 31% of all employment. In addition, a survey conducted by the OECD in 2012 across members of the Latin American SOE network reveals that, 34% of SOEs are wholly owned, while 66% have hybrid ownership structures. These numbers thus lead us to raise the question of what factors are driving the rise of ownership hybridization within the context of emerging market institutions.

3.1 Drivers of Hybridization within the Context of Emerging Markets

3.1.1 Macro-level institutional drivers of hybridization

Following institutional theory, we suggest three macro-institutional regulatory factors that propel EMFs to hybridize: (1) overall institutional underdevelopment, (2) institutional transitions and reforms, (3) inward FDI and increased domestic competition.

Previous studies on ownership structures conclude that hybrid firms perform worse than non-hybrid firms (Boardman & Vining, 1989; Economist, 2012). However, these studies focused on developed institutions. On the contrary, Chen, Li, Shapiro and Zhang (2014) note that within the context of emerging market institutions, firms may benefit from ownership hybridization. This proposition derives from the contention that emerging markets comprise institutional voids and a lack of market supporting institutions, which obstruct the internationalization ability of EMFs (Luo & Wang, 2012; Voss, Buckley & Cross, 2010). On the other hand, a major component of such institutional void is the dominant role of government in the allocation of resources.

This proposition is based on the contention that emerging markets are characterized by scarcity of resources and governments power over the allocation of these resources. These two factors make government ties valuable to the success and internationalization of EMFs, often through favourable access to resources, diplomatic support and the alleviation of external uncertainties (Fang & Wang, 2010; Morck et al. 2010; Sun, Mellahi & Wright, 2012). This is further evident in research streams emphasizing political connections as nonmarket strategies EMFs adopt to increase their OFDI capabilities (Mellahi, Frynas, Sun & Siegel, 2016). In other words, factor market imperfections and the active role of government in business propel some EMFs to hybridize through some level of state ownership or maintain some degree of state ownership.

Institutional transitions and reforms within emerging markets also drive ownership hybridization of EMFs. The past two decades have seen emerging economies such as China, Russia, Vietnam and many Eastern European countries, transitioning from centrally planned economic systems to more market-based approaches (Caseiro & Maseiro, 2014; Megginson & Netter 2001). The key task of these transitions is the restructuring of SOEs through privatization and the reduction of government interference in business to promote competition among firms. While Russia and many Eastern European countries adopted a radical approach towards transition, countries like China, India and Brazil adopted a more gradualist approach (Valeer & Schrage, 2009). Gradualism implies that the ownership reform for many SOEs, did not result in outright full sale but rather, a diversification in ownership structure that progressively decreased the proportion of state-ownership in SOEs was implemented. As a result, hybrid organizations with the state holding various proportions of shares across EMFs emerged (Cuervo-Cazzura & Dau, 2009; Xia et al. 2014). Furthermore, such a gradualist approach allowed the government to maintain power and influence in business to some degree. In fact, some scholars suggest that China adopted a gradualist approach towards transition due to the government's reluctance to relinquish total control (Zhang, 2011). Because of the government's sustained control, political ties to the government also remained valuable for private-owned enterprises, leading to the advent of hybrid ownership structures.

In addition, increased domestic competition within emerging markets can also be considered a driver of hybridization. While emerging economy governments have actively welcomed inward FDI to bolster domestic economic growth, such influx of IFDI increases competition within emerging markets. Navigating an increasingly dynamic market characterized by surges in the entry of highly profit driven and more advanced multinationals, has important consequences on the organizational logic and structure of EMFs (Li et al. 2017). Similarly, studies show that multinationals often respond to competitive pressure by seeking markets, resources, efficiency or strategic assets (Dunning, 1993; Kedia & Bigili, 2015). Therefore, as competition increases within emerging markets and as EMFs feel the need to internationalize and compete with advanced multinationals, hybridization for the purpose of government support and preferential resources becomes a viable strategy for consideration.

3.1.2 Micro-level firm drivers of hybridization

Firms are unique with regards to resources, objectives and orientation towards internationalization. This results in different motives of hybridization. We argue that there are two firm-level factors that drive hybridization of emerging market firms: (1) global pressure for internationalization (2) strategic assets and strategic intent motives.

The current wave of OFDI from emerging economies can be interpreted as a firm-driven process of establishing global presence and global competitiveness. In the quest to survive and compete more effectively against global rivals, EMFs need not only possess conventional ownership advantages as prescribed by FDI theories, but also need to embrace flexible strategic options that cater to their unique domestic environment as well host country institutions (Child & Rodriguez, 2005). Luo and Rui (2009) explain that EMFs' international expansion maybe somewhat dependent on their ability to act ambidextrously. "Organizational ambidexterity is a four-dimension construct which "deals with a firm's ability to pursue two disparate things at the same time, such as exploitation and exploration, efficiency and flexibility, low cost and customer responsiveness, global integration and local responsiveness, stability and adaptability, and short-term profit and long-term growth" (Luo & Rui, 2009, p.51). Focusing on the co-opetition component of organizational ambidexterity, Kedia and Bilgili (2015) suggest that through coopetition with the governments, EMFs can supplement resource endowment, benefit from government diplomatic relations and privileged information. This will allow them to compete more effectively and increase their global presence beyond what they could accomplish alone. Consequently, hybridization is driven by firm level internationalization goals and the desire to be compete on the global market scale.

In addition, drivers of hybridization in emerging markets firms can be closely linked to unique drivers of emerging market firms' internationalization – the strategic intent view and the springboard perspective (Child & Rodrigues, 2005. Luo & Tung, 2007; Matthews, 2002, Rui & Yip, 2008). The springboard perspective and the strategic intent view of EMF internationalization highlight the strategic importance of cross-border acquisition for EMFs to overcome latecomer disadvantage and acquire strategic assets from Western brands. However, CBAs are resource intensive strategies and subject to complex host country legitimacy barriers. As private firms face more resource constraints relative to state firms, hybridization becomes a viable strategy to benefit from government ties and gain access to resources to match the resource requirements of CBAs. Similarly, as SOEs face more host country legitimacy barriers in CBA relative to private firms, hybridization becomes a feasible strategy through which SOEs can reduce legitimacy barriers and implement CBA. In other words, the strategic intent and springboard characteristic of emerging market firms' OFDI, propel hybridization.

In summary, the institutional configuration of emerging markets as well as firm-level characteristics of emerging market firms propel hybridization for good reasons. Next, we dissect the role of hybridization in the internationalization of emerging market firms.

3.2 Ownership Hybridization and the Internationalization of EMFs

Hennart (1988) proposed that mixed ownership is an efficient mode when: (1) markets fail for the key resources held by each owner; and (2) replicating these resources is expensive. To this end, we conceptualize hybridization by emphasizing the mixture of unique resources brought into the entity by the different actors. We argue that hybridization creates the opportunity for EMFs to leverage the synergy effect gained from the combination of the different advantages of both private and state firms in their OFDI. Through hybridization, EMFs can benefit from SOEs' entitled special resources; and POEs' operational autonomy, and low host country legitimacy barriers. Consequently, hybridization may confer varying degrees of institutional and competitive advantages for EMFs' overseas expansion by generating legitimacy enhancing benefits, resource-enhancing rewards, and operational autonomy advantages. This will create an opportunity to simultaneously alleviate both home and host country institutional challenges facing EMFs internationalization. To give a detailed analysis of our arguments, we look at the role of hybridization in the internationalization of both private and state-owned enterprises.

3.2.1 Hybridization as Coping Mechanisms for SOEs

Conventional SOEs enjoy preferential government resources but operate under the strategic directives of the government to fulfil political objectives such as economic development, social welfare, low consumer prices, orderly execution of the government economic policies, amongst others (Deng, 2009; Hong et al. 2015; Inoue et al. 2013). State ownership is therefore associated with lower autonomy to pursue business goals which reduces market sensitivity and profit seeking behaviour (Li, Cui & Lu, 2017). In addition, political objectives and government interference in SOEs present ideological inconsistencies in countries with minimal SOEs, thereby creating legitimacy challenges (Globberman & Shapiro, 2009).

However, we suggest that hybridization can simultaneously mitigate the home and host country institutional challenges facing SOEs by providing the opportunity to exploit host country legitimacy benefits and operational autonomy inherent in POEs. Firstly, the introduction of external and profit-seeking private investors into conventional SOEs reduces government control and improves the profit-seeking behaviour of SOEs (Mussachio et al. 2015). Consequently, hybridization will mitigate the government's inclination to use SOEs as vehicles to pursue political and social objectives at the expense of profitability. This is in line with empirical evidence showing that governments hold different expectations for SOEs and marketized-SOEs, such that the pressure to carry out political objectives reduces for marketized-SOEs (Li et al. 2017a; Mussschio et al. 2015). Reduced political objectives and government intervention will encourage a closer alignment with market incentives, which will positively affect the ability to identify and respond to domestic and international market opportunities.

Moreover, hybridization allows SOEs to carry out "power escape" coping mechanism identified by prior studies. Cuervo-Cazurra et al. (2014) suggest that power escape is more apparent in firms that already enjoy a degree of autonomy from political influence. Therefore, as SOEs hybridize and benefit from reduced government interference and increased operational autonomy, they ultimately increase their ability to implement more strategies to reduce government interference.

In addition, host country legitimacy barriers to SOEs' OFDI arise from their political affiliation and perception as agents of the government carrying political objectives. Therefore, reduced political objectives and increased private ownership interest through hybridization will signal to host country stakeholders of market orientation and reduction of political agenda (Wang, Feng, Lui, & Zhang, 2011). For instance, because of hybridization, SOE-hybrids will need to implement mechanisms that attract private investors such as adopting improved governance practices, board composition with independent and external members, recruitment of professional managers with market orientation and improved transparency. This process will ultimately downplay government affiliation and control, which causes legitimacy barriers in host countries. Studies such as Cuervo-Cazurra et al. (2014) and Sun, Tong and Tong (2002) which demonstrate that publicly traded SOEs, at home or in other stock exchanges, adopting corporate governance practices that align with market objectives, may be perceived as less of a threat by host country governments, corroborate this line of reasoning.

3.2.2 Hybridization as Coping Mechanisms for POEs

Hybridization can alleviate the home and host country institutional challenges in POEs by creating the opportunity for them to exploit the political connection and associated resource advantage inherent in state ownership.

In emerging markets, political connections are a vital source of social and financial capital (Meyer & Peng, 2016). Therefore, as POEs hybridize through partial state ownership, they establish political connections that they can leverage to expand their scope of domestic legitimacy (Battilana & Lee, 2014), which increases their access to resources. Accordingly, researchers (e.g. Meyer & Peng, 2016; Song et al. 2016) suggest that partial state ownership in POEs informally substitutes the absence of formal market supporting institutions and gives POEs access to financial support (Boubakri et al. 2013; Chen, Shen, & Lin 2014) and government subsidies (Wu & Chen, 2014). Such government-affiliated capital supports riskier, longer-term projects for POEs that would otherwise remain unfunded, ultimately increasing their OFDI endeavours (Inoue et al. 2013).

Furthermore, increased home country legitimacy and resources empower POEs to acquire western brands, technologies and implement R&D investments. As discussed earlier, EMFs are constrained by the negative image associated with brands from emerging markets (Cuervo-Cazurra & Ramamurti, 2015). They, therefore, seek to acquire western brands and technology to overcome these discriminatory perceptions. The resource benefits of hybridization in POEs will strengthen their ability to carry out such acquisitions. Liu, Wang, and Zang (2013), who highlight that politically connected firms with a predisposition towards engaging in M&As, tend to engage in larger scale M&As, support this perspective.

Combining the above discussion of SOEs and POEs, we argue that ownership hybridization creates an opportunity for acquiring and leveraging key resources required for internationalization, in a combinatorial way that makes hybrid organizations more capable of internationalization compared to non-hybrid firms. Therefore, we propose that

Proposition 1: Ownership hybridization at home will increase the internationalization ability and propensity of emerging market firms.

Some studies on hybrid organizations (e.g., Battilana & Dorado, 2010; Pache & Santos, 2010; 2013) highlight that hybrids are by nature arenas of contradiction because of the possibility of dual and conflicting internal demands from the multiple logics within the firm. Therefore, for hybrid firms to benefit from the positive synergy and complementary resource of both state and private ownership, it is important to strike an optimal balance in the degree of hybridization. Other studies (e.g., Chen, et al. 2014; Zhou & Li, 2008) propose equal ownership amongst different stockholders as the ideal configuration, in a hybrid firm. However, we propose that an optimal degree of hybridization does not necessarily mean equal ownership. We re-define optimal balance as the configuration of state and private ownership that ensures the unique resources brought into the collaboration can be leveraged while minimizing possible conflicting internal demands (Mair et al. 2015).

With the logic discussed above, we argue that hybrid firms will benefit the most in their OFDI if they reach an optimal balance of hybridization in the home market. However, outside the optimal level of hybridization, hybrid firms will suffer from the challenges of conflicting internal demands (Pache & Santos, 2013) and the unique institutional challenges of each individual ownership form. For instance, while certain levels of state-ownership are required to ensure government support is gained for private-hybrids or maintained for state-hybrids; higher levels of state ownership beyond the optimal level will lead to increased government intervention and susceptibility to pressures for political objectives.

In other words, we expect that an optimal level of ownership hybridization exists to minimize conflicting internal demands as well as ensure resource synergy and capabilities towards the internationalization efforts of EMFs. We therefore posit:

Proposition 1b: There is a curvilinear (inverted-U shape) relationship between hybridization and internationalization of EMFs. Hybridization will have a positive effect on internationalization as the degree of hybridization increases towards the optimal level. Beyond the optimal degree of hybridization, a negative effect will be realized.

3.3 Boundary Conditions Of The Hybridization Effect – Host Country Institutions

While ownership structures undoubtedly play a significant role in the internationalization of EMFs, we believe that this influence is more significant under specific conditions. In line with this observation, we identify contingent host country institutional factors.

Institutions differ with regards to what is considered legitimate behaviour and the criteria through which they confer legitimacy (Kostova & Zaheer, 1999). One of such institutional differences is evident in the regulative institution, which prescribes the extent to which countries are open to state-owned enterprises (Globberman & Shapiro, 2009). As discussed in the research background, some institutions have a strong preference for limited government participation in economic activities. Such free-market host institutions will perceive investments by foreign SOEs as undesirable and inappropriate, leading to legitimacy hurdles. In addition, countries also differ in terms of their level of risk for FDI (Duanmu, 2012). Risky environments require more resources, which affects a firm's willingness and ability to invest. Taking this legitimacy and risk perspective of host country into consideration, it becomes evident that the legitimacy-enhancing benefits and resource-enhancing rewards of hybridization will be salient or undermined under different host country institutional settings.

The perception of SOEs' illegitimacy in a host country is contingent on the institutional conditions of that host country (Meyer et al. 2014). Consequently, the legitimacy enhancing benefits of hybridization in SOEs' internationalization is dependent on the host country institutional settings. SOEs generally have easier entry into countries with weak and undeveloped institutions (Kolstad & Wiig, 2012). This is evident in the dominant presence of Chinese SOEs in African countries like Nigeria, South Africa, Zambia and Egypt (MOFCOM, 2015). These countries benefit significantly from the Chinese governments' provision of aid and infrastructure (Ramaswamy, 2012) and are thus less concerned about investments affiliated with the government. On the other hand, developed institutions are more apprehensive towards investments by foreign SOEs. The dominant ideology in these institutions promotes free competition between privately owned firms such that, government interference in business is minimal and state-ownership in business is rare (Enderwick, 2017). Therefore, state-ownership presents legitimacy barriers under such institutional settings. For instance, news agencies quote Dennis Shea, Chairman of the Economic and Security Review Commissions, (USA) saying, "Chinese state-owned enterprises are arms of the Chinese state." "We don't want the U.S. government purchasing companies in the United States, why would we want the Chinese Communist government purchasing companies in the United States?" (Lawder & Thomas, 2016). Hence, the legitimacy enhancing benefits of hybridization in SOEs may be more valuable when the host country is characterized by strong institutional development. Following this logic, we propose that:

Proposition 2a: The positive effect of hybridization on the internationalization of emerging market SOEs is more significant in developed institutions.

Adopting the risk perspective, developed institutions characterized by market supporting institutions present a less risky environment for firms to invest in. On the other hand, studies show that underdeveloped institutional environments increase the risk, uncertainty and costs associated with internationalization (Pan et al. 2014). Unlike SOEs that benefit from domestic government support, emerging market POEs bear a high-risk exposure when they invest in such institutional environments. Due to lack of government support and resources, emerging market POEs are more susceptible to the negative effect of host country underdevelopment and the associated risks. Although POEs can leverage their context familiarity in similar emerging markets (Ang & Michailova, 2008), the additional funding required to counteract the additional cost of investing in an undeveloped institutional setting is lacking. Therefore, we propose:

Proposition 2b: The positive effect of hybridization on the internationalization of emerging market POEs is more significant in undeveloped institutions.

4. DISCUSSION

4.1 Main theoretical Contribution

Prior studies on the role of ownership in the internationalization of emerging market firms have identified how state and private-owned enterprises have unique interactions with both home and host country institutions that generate contravening circumstances affecting their cross-border activities (Cui & Jiang, 2012; Meyer et al. 2014; Pan et al. 2014). However, this research stream largely overlooks the prominent effects of macro institutional configurations and firm level internationalization orientation in catalysing ownership diversity among EMFs and the resulting consequences for EMFs internationalization. To deepen this stream of investigation, we unravel regulative institutional mechanisms and firm level objectives by which state and private-owned enterprises evolve characteristics and capabilities that foster their overseas expansion.

Our theoretical framework draws from and integrates research streams that emphasize the broader implications of institutional diversity and ownership structures for international business studies. Rather than adhering to static perspectives on ownership structures, we advance a configurational approach to examine the internationalization outcome of combining complementary advantages of different ownership structures in one hybrid firm. Adopting this approach offers a comprehensive portrayal of how EMFs adapt their internal structures to sustain hybrid models, capable of greater responsiveness to global integration.

More specifically, we develop a dynamic model to illustrate how hybridization may emerge due to the transformative nature and gradualist approach of reforms in emerging economies. The mixing and merging of elements from central planning and market-based coordination, rearrange the pattern of state actors into a hybrid structure capable of exhibiting economic orientation and global competitiveness. Consequently, through the prism of varieties in state capitalism, we theoretically map the effects of macro-level institutional changes to SOE firm-level attribute (Li et al. 2014). Furthermore, we extend theories on SOEs overseas expansion by showing how underlying organizational differences can regulate their ability to obtain host country institutional legitimacy for foreign investment. SOEs intending to invest in some foreign locations are under magnified pressure from host country institutions to demonstrate credible investment motives. We underline how their restructured ownership form through hybridization can signal credible motives to host country constituents. More so, extending the domestic legitimacy challenges plaguing emerging market private firms and the associated resource constraint, we delineate the resource enhancing benefits and home country government relational benefits of hybridization for private EMFs' internationalization.

4.2 Managerial Implications

Hybridization is a coping mechanism for firms from emerging markets to internationalise in a challenging global business environment. This significance of this coping mechanism is even more highlighted in the current political and economic climate. For instance, the trade war between the USA and China has had strong impacts on the investments of Chinese-origin SOEs in the US markets. The recent blocking of Chinese firms' (e.g. ZTE, Huawei and Alibaba) acquisitions of high-tech firms in the U.S by the U.S government provide evidence of the legitimacy barriers faced by these internationalising Chinese firms. As recent as April 2018, the U.S government banned U.S companies from selling their hardware and software technology components to ZTE (a Chinese SOE in the telecommunication device sector) for 7 years (Bloomberg, 2018). Considering that most ZTE products utilize American technologies, this ban meant that ZTE was no longer able to acquire key components central to the manufacturing of its products. American suppliers providing key components for ZTE include Qualcomm Inc, Intel Corp, Acacia communications Inc and Lumentum Holdings Inc. Although the ban was eventually lifted, the impact on ZTE was disastrous. For instance, less than one month after the ban, ZTE announced that it was shutting down its entire smartphone business since it had no viable way to continue operating without processors and modems from Qualcomm (Su, 2018). Also, ZTE shares were downgraded to underperform and their price target on its stock was cut by more than half (Su, 2018).

Prior to the commencement of this trade war between the U.S and China, Huawei, a privately-owned Chinese company with backing from the Chinese government in overseas expansion, had attracted lesser scrutiny from the U.S government on their in-bound investment into the U.S. market. This can be attributed to the private and hybridized nature of their ownership composition. However, recently, Huawei has experienced numerous failures trying to distribute its smartphones through U.S telecommunication carriers AT&T and Best Buy (Tao, 2018; Wu, 2018). This shows that private-hybrid firms with significant government interference can also face substantial legitimacy complications in host countries.

Applying the analytical framework proposed in this study, we recommend that through hybridization firms prone to political scrutiny in developed country can engage a dialogue with the host country government, and explicitly communicate the firm's effort of a market-oriented and commercial focus as reflected in the hybridized ownership. Furthermore, significant evidence of the firm's compliance with the prevailing institutional practice in developed country markets, together with a sound, balanced governance structure would strengthen the firm's hybridization signal in the host country market.

4.3 Implications for Host and Home Country Governments

In recent years, with the advancement of foreign investments by emerging economy SOEs, many host governments have enforced a wave of bureaucratic restrictions and review procedures on SOEs. By and large, the attitudes of host country governments towards these investments from EMFs are quite different, and even contrasting. Overall, developing host countries have a favourable attitude towards investment from Chinese SOEs because these investments are not perceived as contrary to the institutional logic in developing country (Ramaswamy, 2012; Kolstad & Wiig, 2012). Applying our analytical perspectives of the hybridization effect in international expansion, the Chinese SOEs would have lesser benefits to hybridize their ownership for the purpose of investing in these developing countries. However, caution from these developing countries with regard to Chinese in-bound investments is growing due to their fear of losing control and sovereignty. This is evident in the recent decision by the Malaysian government to pull out of the "Belt Road' initiative by the Chinese government. The Malaysian leader is quoted to have warned against "a new version of colonialism" opting for "fair trade" in place of "free trade" (Richard Heydarian, 2018).

Furthermore, Chinese SOEs are facing an increasing level of scrutiny while investing in the USA, EU, and Australia, among other Western markets, for the political threat and ideological challenges that these investments may carry. Policymakers of these Western countries, by and large, are very alert to the hybridization effect that this study is focused on. These policy makers may evaluate whether they should have a more explicit policy for scrutinizing the hybrid ownership structure of the overseas acquirers, find some proxies to detect the level of control by the foreign government in these hybrid firms, and gauge the need for policy adjustments to constrain the hybridization effect of the EMF investments.

4.4 Future Research Directions

First, future research may develop and empirically test the propositions offered in this study. Special attention may be given to the operationalisation of the optimal balance of hybrid ownership. We suggest the optimal balance can be approached from a controlling stakeholder perspective. This is based on the rationale that only active, controlling shareholders matter in corporate governance, and can act as a clear signal to the market and regulators in international expansion. Also, further conceptual effort may be given to the combination of financial, institutional and market resources when specifying the mediators of hybridization effects on international business performance.

Second, from a signalling perspective, top management characteristics need to be included into the research for testing the hybridization effects. While hybrid ownership may send out a strong signal to the market, this signal will be further strengthened if characteristics of the top management team (TMT) align with the hybrid ownership structure. Other organization factors such as decision-making styles of the TMT of a hybrid firm, the legitimacy pressures from home and host country regulators perceived by the top management team on international decisions, the management capabilities of dealing with institutional pluralism and ambiguity, could be included to evaluate the hybridization effect in future studies.

Third, future research may benefit from investigating how hybrid firms may implement particular OFDI strategies with regard to entry mode, establishment mode and location choices. For example, can hybrid private firms invest in more risky locations than purely private firms? Will an EMF's ownership hybridization in the home market lead to a high or low ownership control in OFDIs? Will hybridized EMFs perform better than state-owned EMFs or private-owned EMFs? It would significantly progress our understanding of the hybridization effect in IB if these questions can be explored and examined in future research.

Lastly, this conceptual paper has been largely motivated by the previous studies drawn on the context of China. While it can be argued that China has emerged as a global economic power despite its developed country status, it is imperative to incorporate the perspectives of other emerging economies and their unique institutional configurations into future studies, to generate a larger and more representative pool of insights about the hybridization effect. Specifically, inclusion of the institutional distance between the home and host country institutions and the direction of the institutional distance, would be valuable in future studies.

5. CONCLUSION

The complex nature of foreign direct investment involves a firm's interaction with at least two distinct institutional environments. In these multiple environments, organizations are exposed to different prescriptions of what constitutes legitimate behaviour, what goals are appropriate and what means are effective to achieve these goals. Firms are therefore constantly striving to balance these conflicting institutional pressures in a manner that fosters their overall OFDI activity. Our contribution lies in identifying and exploring hybridization as a mechanism through which emerging market firms can achieve such balance.

Our overarching argument is that hybrid organizations are likely to emerge and thrive in complex environments because they incorporate elements prescribed by various institutional logics and are therefore likely to project at least partial appropriateness to a wider set of institutional referents (Kraatz & Block, 2008; Pache & Santos 2013). In other words, combining and straddling state- and private-ownership through hybridization, may allow emerging market firms to navigate institutional complexities in OFDI, by exploiting advantages and complementary characteristics of the different ownership features.

Specifically, through hybridization EMFs can leverage government affiliation to mitigate financial constraints and domestic legitimacy challenges and benefit from the operational autonomy in POEs, which will reduce the negative effect of political goals and increase host country legitimacy. Consequently, hybridization presents a coping mechanism that simultaneously counteracts the integrated home and host country institutional challenges facing EMFs.

We have highlighted how hybridization can overcome some of the limitations in coping mechanisms to institutional challenges, proposed for SOEs and POEs solely (Choudhury & Khanna; Khanna & Palepu, 2000; Cuervo-Cazurra et al. 2014; Pfeffer & Salancik, 1978; Wett & Lewin, 2007). The precept that SOEs possess operational autonomy to engage in OFDI, thereby reducing the government's power over them, limit the "power escape" coping mechanism proposed for SOEs in OFDI. However, the government controls OFDI decisions of firms. We show how hybridization leads to reduced government intervention which creates the operational autonomy for firms to carry out OFDI. Ultimately, hybridization creates the stepping stone for firms to further seek more freedom from the government through power escape.

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