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Assets of Foreignness: A Theoretical Integration and Agenda for Future Research

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ABSTRACT

International business scholars are increasingly focusing on the unique advantages of being foreign, or assets of foreignness (AOFs). Although scholars have identified a broad range of AOFs, it is unclear why they exist. In this paper, we bring together extant yet disparate literature and integrate insights from the institution-based view, resource-based theory, and transaction cost economics to advance theory of the underlying sources and workings of AOFs. In doing so, we elucidate the conceptual underpinnings of AOFs as well as their relation to multinational enterprise (MNE) success, complementing scholarship regarding the liability of foreignness. Critically, we also distinguish AOFs from related concepts, such as ownership advantages, explaining how and why they differ conceptually. We put forth several testable propositions that stem from our synthesis of theory in this research stream, bolstering the conceptual foundations of the drivers, dynamics, and longevity of AOFs. Finally, we draw attention to under-researched aspects of AOFs, thereby propelling a theory-based agenda for future research on AOFs and, consequently, MNE success.

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1. Introduction

Much has been said about the disadvantages of foreignness since Zaheer (1995) introduced the concept of liability of foreignness to explain the unique pressures and costs that subsidiaries of multinational enterprises (MNEs) face when operating in a host country (for a review, see Denk et al., 2012). However, scholars have also pointed to the unique *advantages* that may accrue to MNE subsidiaries particularly due to their being *foreign*, which are often referred to as assets of foreignness (AOFs; Sethi and Judge, 2009). Indeed, a broad range of AOFs have been identified, including intangible assets (e.g., Delios and Beamish, 2001), tangible incentives from host-country governments (e.g., Sethi et al., 2002), and freedom from certain local norms (e.g., Gu and Lu, 2014; Regnér and Edman, 2013). Yet, despite this burgeoning stream of research, it is still unclear why AOFs exist, partially because this construct may lack strong theoretical foundations (Shi and Hoskisson, 2012).

In this article, we bring together extant yet disparate literature on AOFs in order to identify their types, underlying sources, and workings. We first take stock of known AOFs rooted in three distinct theoretical lenses, namely, the institution-based view (Peng et al., 2008), resource-based theory (Barney, 1991), and transaction cost economics (Williamson, 1975). Then, we integrate these perspectives to explicate how home-country institutions, host-country institutions, and foreign firms interact to shape AOFs. This synthesis reveals that AOFs arise either directly from economic and/or sociological institutional conditions in the host country, or due to institutional asymmetries between home and host countries, in that different institutional systems favor the

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development of different resources and capabilities, sometimes providing MNE subsidiaries with unique advantages within certain host countries.

Further, we also explicate how AOFs that stem from these institutional asymmetries are more likely to extend over longer periods of time when MNE subsidiaries leverage such asymmetries in unique, firm-specific ways. However, we highlight that AOFs are often not immediately realized, and are susceptible to negation by competitors over time, though acquired subsidiaries are more likely to realize potential AOFs faster than greenfield units. Finally, we illustrate the concepts and workings of AOFs with a short vignette of India-based Tata Global Beverages and its foreign operations in the United Kingdom (U.K.).

Because AOFs contribute to MNEs' competitive advantage vis-à-vis host-country competitors (Sethi and Judge, 2009), a thorough and structured framework of why AOFs exist and how they create value contributes to a better understanding of why MNEs succeed or fail – an important "big question" in international business (Peng, 2004). That is, in order to fully grasp the advantages MNEs may possess and their performance consequences, one must take into account all benefits and costs of foreignness (Nachum, 2010; Sethi and Judge, 2009). There is much research regarding disadvantages of foreignness, but relatively little is known about the workings of AOFs. Hence, we contribute a critical piece to the larger puzzle of MNE success, complementing a robust stream of research regarding disadvantages of foreignness. Finally, we add to the literature by drawing attention to under-researched sources and dynamics of AOFs, thus propelling a theory-based agenda for future research on AOFs and MNE competitive advantage.

2. Literature review and theoretical framework

2.1. Advantages and disadvantages of foreignness

Since Hymer's (1960) introduction of the costs of doing business abroad, international business scholars have discussed the difficulties that MNEs face when operating in foreign countries. Zaheer (1995: 342) defined the liability of foreignness as "all additional costs a firm operating in a market overseas incurs that a local firm would not incur." These include costs related to distance, time, and unfamiliarity with the local environment. Others have also found evidence of the liability of foreignness and its dynamics over time (e.g., Mezias, 2002; Zaheer and Mosakowski, 1997). Moreover, MNEs can have difficulties achieving legitimacy when operating in foreign countries (Kostova and Zaheer, 1999). For instance, Moeller et al. (2013) asserted that an MNE's home country can be a source of liability of foreignness because host-country stakeholder groups (such as vendors and customers) may have varying levels of acceptance of foreign subsidiaries, depending on their country of origin.

In addition to the costs of doing business abroad, international business scholars have also recognized advantages that MNE subsidiaries may have over local firms, such as ownership advantages (Dunning, 1980, 1998) like patents and trademarks (Delios and Beamish, 2001), and bargaining power in negotiations with the host country government (Fagre and Wells, 1982). Sethi and Judge (2009) proposed that foreignness in and of itself can sometimes be a source of advantage because it can entail the possession of unique resources, capabilities, or opportunities that are unavailable to host-country rivals. Thus, they defined an AOF as any advantage or benefit incurred by an MNE subsidiary that domestic firms would not be able to easily access or duplicate, occurring exclusively within the host-country context.

Assets of multinationality (AOMs), on the other hand, are "benefits available to a foreign subsidiary, but outside the host-country's context through the leveraging of the parent MNE's global network" (Sethi and Judge, 2009: 410). Essentially, AOMs arise because of the MNE's international network and occur in the global environment, including economies of scale, the ability to hedge currency risks, and access to knowledge from diverse countries (Doukas, 1995). As another example, foreign subsidiaries may be more successful than domestic firms at turning research and development investments into innovations in some cases because they are under pressure to compete with other units in the parent MNE (Un, 2011). Critically, such advantages arise *outside* of the host-country context. To facilitate a nuanced theory, we focus here only on AOFs and not AOMs. Unlike AOFs, the antecedents, benefits, and costs of multinationality have been discussed at length elsewhere (e.g., Denis et al., 2002; Doukas and Kan, 2006; Hejazi and Santor, 2010; Kirca et al., 2011).

Furthermore, AOFs are distinct from ownership advantages, which entail the possession of assets that are specific to the firm and potentially valuable in many different settings, including the MNE's country of origin (Dunning, 1980). AOFs, on the other hand, may not require the possession of any assets whatsoever (aside from the firm's status as foreign), occur in specific host-country contexts and, as we will discuss below, may vary in their firm-specificity. For example, subsidies from a host government may be available to a broad cross-section of foreign-owned firms, whereas other AOFs may only be available to smaller subsets of MNEs, such as those from the same home country. Additionally, as we will discuss, some AOFs may convey a competitive advantage, and some may convey a *comparative* advantage.

AOFs are also distinguishable from ownership advantages by the traceable and proximal linkage of the advantage to the *foreignness* of a firm, whereas ownership advantages may have little to do with foreignness *per se*. However, as we will show, ownership advantages that are strongly rooted in the foreignness of the MNE within a host-country context could be considered AOFs. Put differently, these two concepts only partially overlap and hence are conceptually distinct. Finally, ownership advantages are primarily grounded in economics, helping to explain why internationalization makes economic sense for firms by indicating whether firm resources are "sufficient to outweigh the costs of servicing an unfamiliar or distant environment" (Dunning, 1980: 9). As we will demonstrate, theory of AOFs embraces insights from not only economic-based theories, but also institutional theory.

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