

Mapping the impact of home and host-country institutions on HRM
in emerging market MNCs: A conceptual framework

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Executive Summary

While there is a growing literature concerned with multinational companies from emerging markets (EMNCs), it does not contain a robust conception of how institutions shape human resource (HR) practices in such firms. We contribute to filling this gap through developing a framework of how institutions create a range of constraints and opportunities for EMNCs. Specifically, our framework contains three key elements of how MNCs from emerging markets interact with institutions: EMNCs develop approaches that to some extent reflect the perceived strengths and weaknesses of the institutions in the home country (*institutional conditioning*); the strategies of actors in EMNCs can overcome the weaknesses of the home country by drawing on institutions in other countries (*institutional arbitrage*); and the actions of EMNCs can reinforce, or create pressures for change in, the institutional context in the countries in which they operate (*institutional change / consolidation*). By mapping this set of strategies of EMNCs, we contribute to a fuller understanding of the relationship between institutions and HR practices, and we outline how the rise of EMNCs reshapes the global landscape by adding new kinds of firm behavior to capitalist diversity.

Keywords

Emerging markets, emerging market multinationals (EMNCs), institutions, comparative institutional analysis, HRM

Introduction

There is a large literature on the ways in which multinational companies (MNCs) manage their workforces, including such issues as whether and how they diffuse practices across their international operations (e.g. Chiang *et al.* 2017), their impact on labor standards (e.g. Locke *et al.* 2007), and the nature of ‘global leadership’ (Mendenhall *et al.* 2017). While this literature has been enlightening in many ways, there are notable weaknesses. First, the focus is largely on ‘western’-style practices such as talent management and formal performance appraisal systems and, accordingly, largely on western MNCs. MNCs from emerging economies (EMNCs) now account for nearly a third of total FDI, up from less than 10% in 1990 (UN 2017), suggesting that research in international HRM (IHRM) needs to be reoriented to take account more fully of this powerful trend (cf. Cooke *et al.* 2018). Second, the literature provides instances of how MNCs sometimes engage in ‘forward’ diffusion of HR policies and practices, indicating that transfer is conditioned by home country institutions, and sometimes of ‘reverse’ diffusion, suggesting that transfer may be compensating for what the MNC sees as deficiencies in the home country context (e.g. Edwards and Ferner 2004). The latter point is particularly important for EMNCs from contexts where institutions are often considered to be wanting (cf. Fainshmidt *et al.*, 2017). However, there is little research on how the motivation and ability of firms to engage in one or the other (or a mixture of both) is shaped by their roots in institutional configurations of their home country, and there is almost nothing in this regard relating to EMNCs (see however Deng, 2009; Khan *et al.* 2018). For example, the IHRM literature often observes a country-of-origin effect (e.g. Ferner, 1997), but there are significant gaps in our understanding of how exactly the presence or absence of this effect is grounded in institutional conditions at home and abroad. Third, there are instances in the literature of how distinctive HR practices employed by MNCs can become a pressure for change in the wider economies in which they operate (e.g. Morgan 2012). For example, previous research shows how MNCs trigger institutional dynamics by introducing new training practices into their host environments

(Fortwengel and Jackson 2016). Again, most of this work has looked at developed economies and ‘western’ MNCs, but the question has particular relevance for EMNCs whose practices may have disruptive effects in developed host countries. Conversely, in developing countries, the practices of EMNCs may create an alternative pressure for change to those created by MNEs from developed countries. Given the rapid transitions that many emerging economies are going through, the potential for EMNCs to influence, even initiate, changes in the economies in which they operate is significant.

To cover these gaps in the IHRM literature, we draw on the broader literature on EMNCs, which provides evidence of the influence of distinctive national contexts on firm level strategies and practices. For example, there is a growing literature that sheds some light on the distinctiveness of the internationalization process of EMNCs and how it is affected by the home country (e.g. Panibratov 2012; Williamson *et al.* 2013). One strand of this literature demonstrates that EMNCs are at a disadvantage compared with those from advanced countries in terms of developing competitive strengths because of the unpredictability of the institutional context, giving rise to a ‘liability of emergingness’ (Madhok and Keyhani 2012). A different strand of research has turned this idea on its head, arguing that EMNCs are experienced in countries characterized by ‘challenging institutional environments’ (Carney *et al.* 2016; Cuervo-Cazurra and Genc 2008; Cuervo-Cazurra, 2006) and that this allows them to operate more effectively in economies in transition when compared with MNCs from developed economies. Moreover, associated with the growing global influence of a range of actors from emerging markets, EMNCs are increasingly likely to be self-confident concerning their position within the international economy and calculating about the opportunities it presents. This suggests that the institutional pressures from the home country are becoming more in evidence in the various host countries in which EMNCs operate. More broadly, the unique contextual conditions of EMNCs offers considerable promise to refine and enrich current theorizing.

For example, the growth of EMNCs has implications for the convergence and divergence debate in HRM (Farndale *et al.* 2017). EMNCs add new institutional influences to the global economic mix and reduce the dominance of MNCs from the ‘liberal’ market economies (LMEs, which include the US, UK and other developed, largely English-speaking countries), and ‘coordinated’ market economies (CMEs, including Germany, Scandinavia, and Japan) (Hall and Soskice 2001). While the institutional frameworks of emerging economies share some characteristics with each other, such as the tendency towards rapid transition, there are also important differences of course (cf. Witt *et al.* 2018, Fainshmidt *et al.*, 2017). To some extent, these differences revolve around regional characteristics. For instance, Schneider (2009) argues that a reliance on non-market, hierarchical relations within large business groups is key to understanding the allocation of capital in Latin America, leading to the term ‘hierarchical’ market economies (HMEs) to describe Brazil and its neighbors. Further distinctiveness arises from the national as opposed to regional characteristics of institutions. For example, Russia’s economic transition has involved some liberalization of markets but with the dominance of the state over big business (Lane and Myant 2007), while India and China have taken somewhat different reform paths in recent decades (Witt and Redding 2013). To the extent that MNCs from emerging economies act as bearers of these distinctive institutional influences, the implication is that the growth of FDI from them does not drive convergence but rather introduces even greater institutional diversity into the global economy. This may include new and particular kinds of institutional dynamics, driven by EMNCs.

Most work on institutional diversity and institutional approaches more broadly sees institutions as constraints for MNCs concerning such issues as governance mechanisms and the nature of HR practices (e.g. Kostova *et al.* 2008; Peng *et al.* 2008). From this perspective, institutions largely prescribe particular forms of accepted and expected behavior, and deviations from these institutionalized practices are sanctioned by relevant stakeholders (e.g. Pinkham and Peng 2016). While these constraining effects of institutions are important, recent research has

drawn attention to the strategic responses to these institutional pressures (Regner and Edman 2014). Going beyond this, work informed by comparative institutional analysis (CIA) offers a theorized understanding of how institutions both at home and abroad enable certain kinds of responses, not least due to their competence-creating nature (Jackson and Deeg 2008; Saka-Helmhout *et al.* 2016). From this perspective, the complex institutional environments that MNCs face due to their presence in different contexts does not only – and possibly not even primarily – constitute a constraint, but also presents firms with opportunities to shield themselves from institutional pressures (Kostova *et al.* 2008) and build capabilities (Ferner *et al.* 2004; Westney 1993; Regner and Edman 2014). In relation to emerging markets, a good illustration of how institutions act as resources is the so-called ‘developmental state’ that characterizes many East Asian countries in which the state is pro-active in mobilizing resources that allows certain corporate strategies to be developed at the firm level that would otherwise have been difficult to follow (e.g. Xia 2017).

However, while institutional studies have been used to study developed country MNCs, it scarcely features in analysis of EMNCs’ HRM practices (Chiang *et al.* 2017: 248); at best, there are some indications of how institutions might condition the way that EMNCs manage their international workforces (e.g. Zhu and Jack 2017). We lack a framework that allows us to analyze the ways in which institutions in emerging economies affect the way that MNCs from these countries manage their staff and give rise to distinctive strategies in HR. In our view, the task of constructing such a framework can only be achieved through establishing the necessary elements of institutional theory, taking us outside of the mainstream of HRM.

Based on such a conceptual framework, this paper develops a typology of the ways in which EMNCs interact with their institutional environments both at home and abroad. Our typology distinguishes three different foci: the development of approaches by EMNCs that reflect the perceived strengths and weaknesses of the institutions in the home country (*institutional conditioning*); the strategies of EMNCs in overcoming the weaknesses of home

country institutions by drawing on institutions in host countries (*institutional arbitrage*); and the consequences of the actions of EMNCs in reinforcing, or creating pressures for change in, the institutional context in the countries in which they operate (*institutional change / consolidation*). These foci emerge from a theoretical position that sees actors as conditioned by institutions in a range of ways; institutions entail taken-for-granted expectations that shape what is legitimate and they often incorporate – formal or informal – sanctions on those who depart from these expectations. But we also see actors as creative and inventive, able to exploit ambiguities in institutions and mobilize resources in order to create novel ways of doing things (Crouch 2005; Peck and Theodore 2015). This has implications at the firm level, but also at the level of national systems which can potentially be changed by the actions of MNCs. Notably, we argue that the plasticity of emerging economies has unique implications for the effects of MNC behavior, both abroad and at home. EMNCs may enjoy greater leeway vis-à-vis institutions, compared to MNCs from advanced economies, as a function of their large size and dominance at home and their rather low visibility abroad. Emerging markets and EMNCs thus constitute a fascinating setting to explore the complex relationship between institutions and firm-level behavior within MNCs.

To explore this relationship, the domain of HRM is particularly suitable. This is because institutional differences are notable in the area of HRM (Rosenzweig and Nohria, 1994), not least because of the strong embeddedness of HRM governance and HR practices in country-level institutions, involving rules and regulations but also norms and cognitions. We differentiate between HRM governance as capturing the overarching logic or approach that MNCs take and HR practices as the materialization on the ground in terms of actual behavior. We are sensitive to the varied degree to which HR practices are dependent on the surrounding institutional environment as this highlights the varying ways in which patterns of institutional conditioning, institutional arbitrage, and institutional consolidation/change play out in practice. For example, training practices are highly interdependent on the institutional environment, while

appraisal practices may be less so (Edwards, 2015). Combined, these two dimensions involving governance and practices promise to offer a fuller picture of the way institutions interact with firm-level behavior in this important domain of business activity.

The paper is structured as follows. Given the limitations of institutionalism within the IHRM literature, in the following section we review the main strands of institutional theory that have been used in the broader international management field, and in the subsequent one we consider how CIA in particular can be applied to emerging markets. In the main section of the paper, a framework for understanding the various forms of interaction is developed and in the discussion we develop propositions concerning how these are related to one another. Here, we consistently theorize these relationships in the sphere of HR governance and HR practices in firms. We finish with some concluding remarks, where we position the contribution of our paper within the broader stream of emerging research on EMNCs and point to remaining questions.

Institutional Approaches to Cross-National Analysis

Institutional approaches draw – albeit not always explicitly – on three different traditions of institutional analysis. Firstly, new institutional economics (NIE), which is oftentimes associated with North’s (1990) definition of institutions as the ‘rules of the game’, formal and informal constraints that shape actors’ behaviors by offering particular incentive structures (cf. Meyer and Peng 2016). Secondly, new institutionalism in organizational sociology (DiMaggio and Powell 1983), which focuses on isomorphic tendencies among organizations due to legitimacy-seeking behaviors in reaction to institutional pressures at the regulatory, normative, and cognitive levels (Scott 2008). Thirdly, the comparative institutional analysis literature (CIA) (Fainshmidt *et al.* 2018; Hall and Soskice 2001; Jackson and Deeg 2008; Whitley 1999), which focuses on the analysis of how country-level institutional configurations shape firms’ competitive advantage by supporting certain types of economic activities and corporate strategies.

All three perspectives share the fundamental insight that institutions create pressures and/or incentives to which organizations have somehow to adapt – or at least find strategies to accommodate (Oliver 1991). This applies not just to domestic firms, but also to MNCs, which are particularly interesting organizations to analyze from an institutional perspective because they are, by definition, ‘boundary-spanning’ organizations (e.g. Regner and Edman 2014) and are, hence, embedded in ‘complex institutional environments’ (Saka-Helmhout *et al.* 2016) that entail various, sometimes conflicting, institutional pressures. This complexity and multiple embeddedness raises unique challenges for MNCs (Meyer *et al.* 2011), but it can also offer additional room of maneuver. Therefore, MNCs offer a uniquely promising research setting to explore the interrelationships between institutions at the macro level and firm behavior at the micro level (Fortwengel 2017).

Different concepts have been developed to capture this complexity, the most prominent of which are ‘institutional duality’ and ‘institutional distance’. Those drawing on new institutionalism – both in economics and sociology – have argued that the subsidiaries of MNCs are subject to the pressures of ‘institutional duality’ in that they must balance the need for legitimacy within the MNC by adopting globally standardized norms yet at the same time gain legitimacy in their local environment by going with the grain of local norms (e.g. Kostova and Roth 2002). The greater the degree of difference between the arrangements in the two countries, the larger is the ‘institutional distance’; the greater the extent of institutional distance, the more difficult it is for MNCs to standardize norms across countries (e.g. Kostova 1999). While this approach has become very popular, it suffers from problems. As Ferner *et al.* (2012: 164) argue, in the new institutionalist perspective ‘there is little sense of what is “at stake” for actors in the confrontation of cognitive, normative and regulative frameworks that arise when practices are transferred’. Following through what is ‘at stake’, actors do not simply select positions on a spectrum in which the effects of home and host country institutions are traded off against one another, but rather they can strategize in order to use institutions creatively, overcoming the

deficiencies or barriers presented by some institutions and selectively engaging with others, in order to further their interests (Jackson and Deeg 2008).

Comparative institutionalism helps provide this fuller picture by conceiving of institutions not just as constraints, but as supportive capability-providing devices. As Jackson and Deeg (2008: 541) argue, by focusing on ‘generic sets of constraints related to broad constructs such as “distance”’ the mainstream approaches in IB miss ‘important ways in which institutions impact on MNEs and particularly how strategy is shaped by institutionally available resource capabilities and governance structures’.

Here, the CIA approach does not focus on individual institutions as single variables, but stresses the inter-dependencies of institutions in different spheres of economic life, with the complementarities or conflicts between them creating ‘configurations’ of institutions (Fainshmidt *et al.* 2018; Jackson and Deeg 2008). This ‘thick’ approach sees institutions as ‘bundles of traits’, with these bundles being specific to various ‘types’ of capitalist society (Fainshmidt *et al.* 2018; Witt *et al.* 2018). A key methodological implication is that analysis must be sensitive to the specificities of each form or type of national system (Fortwengel and Jackson 2016). Next, we outline how this approach can be applied to the particular context conditions of emerging markets.

Comparative Institutional Analysis and Institutional Configurations in Emerging Economies

While much of the comparative institutional analysis agrees on a fundamental difference between two broad types of capitalism – for example, between the market-based ‘liberal market economies’ of the Anglophone countries and more ‘coordinated market economies’ in mainland Europe and Japan (Hall and Soskice 2001) – this dichotomy is clearly too limited for developing countries where different types of actors and different patterns of control are in evidence. (Fainshmidt *et al.* 2018, Witt *et al.* 2018).

Indeed, emerging market business systems diverge from the ideal-typical developed ones in various ways. Firstly, certain ‘social actors’ that are crucial “drivers of economic activity” in developing countries, are not included in Hall and Soskice’s (2001) typology, or even in the somewhat more complex National Business Systems typology of capitalisms (Whitley 1999). The state and / or the extended family are largely neglected (although they are included in recent attempts to classify national business systems, see Fainshmidt *et al.* 2018). Secondly, personal and inter-firm networks – a hallmark of the CME variety of capitalism – are an important mode of governance in most developing countries too (Ahmadjian 2016). Thus, Boisot and Child (1996) have termed the emerging Chinese business system ‘network capitalism’, which they define as a reliance on personal and inter-firm networks, the limited extent of codification of information, and the relatively high degree to which property rights are communal, giving rise to a distinctive ‘economic order’. Yet, relationships and networks in developing countries tend to be less transparent and more exclusionary / particularistic (Peng 2003: 283). Thirdly, and related to the previous point, at least one additional mode of governance – besides those found in LMEs and CMEs – is found in emerging markets, namely governance through particular kinds of organizational hierarchies. This additional dimension leads different authors to identify further types of economies, such as ‘dependent market economies’ (DMEs) in East Central Europe that are characterized by a dependence on FDI as a form of cross-border hierarchical governance (Nölke and Vliegenthart 2009), and the hierarchical market economies (HMEs) of Latin America that are typified by large, diversified, family-owned groups of firms which are ‘imbued with a hint of coercive hierarchy’ (Schneider 2009: 560). Notably, these forms of firm governance have important implications for a wide range of firm-level behavior in the area of HR, including the extent and nature of consultation and negotiation with employee representatives (Schneider 2009).

Finally, and more fundamentally, developing country business systems differ from developed ones not only in the mode of governance that their institutions privilege, but also in

the nature of these institutions themselves. In relation to India and China, Witt and Redding (2013: 286) argue that ‘perhaps the most significant (aspects) are the inefficiency of the state institutions on which the economy depends [...] and debilitatingly weak institutional trust’. In other words, even where western-style, market-supporting institutions exist, at least pro forma, they may not develop similar effects as in advanced countries because the institutional system – or its enforcement – is inherently weak. However, much institutional analysis is largely premised on the idea that ‘hard’ institutions – such as laws and regulations – are generally stable, or at least ‘sticky’ in that they evolve in a controlled, and largely path dependent manner (Peng 2003).

The inherent weakness of institutions in emerging economies has been expressed through the development of the concepts of ‘institutional voids’ (Khanna and Palepu 1997, 2010) and ‘institutional uncertainty’. The former – voids – concerns ‘the failure of market-supporting and contract-enforcement institutions to efficiently facilitate exchange between firms’ (Pinkham and Peng 2016: 1). A problem with this concept is that it implies that institutions in one country should be benchmarked against those in another, and the contrast – implicitly or explicitly – is with an ideal-typical market-based, liberalized system. Thus, Khanna and Palepu quite explicitly acknowledge that the benchmark in this respect is the US system; they define institutional voids as the ‘[...] absence in emerging markets of things we take for granted in our backyard in Boston’ (2010: xi). There is an evident danger of ethnocentrism in research here. The related concept of institutional uncertainties (Henisz 2000; Delios and Henisz 2003; Bruton, Lau and Obloj 2014; Dixon *et al.* 2010) focuses not so much on the content of the institutions in a country, but rather on their stability, the predictability of any changes in their character, and their enforcement. Emerging countries are particularly prone to fast, radical, and at times unpredictable changes in the institutional set up (Meyer and Peng 2016). Yet, beyond their impact on transaction costs or market exchanges, the IB literature does not provide a comprehensive theorization of instability and uncertainty of institutional environments.

These features of developing country business systems, particularly that concerning institutional uncertainty and evolution, have obvious consequences for MNCs entering these countries. However, they also condition the governance approaches and HR strategies of MNCs *from* these countries that invest in other developed and developing markets. For example, Zhu and Jack (2017) show that the ‘indifference to employers associations’ in their foreign operations was a result of the mindset of home-country nationals and the transfer of managerial norms by these key individuals.

In applying comparative institutional analysis to HR in EMNCs, there are three key issues. First, the bundles of institutions in the home countries of EMNCs are distinct from one another, indicating that, as well as distinguishing EMNCs from advanced country MNCs (AMNCs), we must also distinguish the challenges facing each national group of EMNCs (Chinese, Indian, Brazilian, etc.). This contrasts with authors who argue that MNCs from all countries can use similar strategies when interacting with institutional challenges in host countries (Regner and Edman 2014: 278). Second, institutions in emerging markets are often considered to be in a transitional phase, giving rise to the concepts of ‘institutional voids’ or ‘institutional uncertainties’. Here, we argue that the concept of voids is problematic, but that the notion of institutional uncertainty can help us understand the particular features of EM institutions, and how this translates into particular kinds of interdependencies and interaction patterns between EMNCs and their surrounding institutions—both at home and abroad. Third, there is a need to develop the implications of this approach for the particular case of HR as this is an area in which institutional differences are particularly marked and in which practices are strongly dependent on institutional context (e.g. Gooderham *et al.* 1999). Here, we consider both the governance of HR issues and particular practices.

Concerning this issue of how institutions affect HR, we identify two ways in which this can occur. First, they shape the priorities that senior staff have in managing their staff. For instance, they shape the extent to which decision-making on HR issues is centralized at the

corporate HQ or decentralized to local level. As Ferner *et al.* (2004) demonstrate, the centralized pattern of decision-making in US MNCs is facilitated by the institutional framework in the US, particularly the way in which it enabled the development of large corporate HQs with professionalized management structures which are capable of exerting control over operations in different countries. Another illustration concerns who are considered to be legitimate stakeholders. Here, a distinction is often drawn between those systems in which shareholders' interests are clearly dominant over other groups and those in which a range of stakeholders have institutionalized rights to influence decision-making, with this shaping the way in which a firm conceives of its social responsibility and how this is expressed. We consider these issues to constitute the 'governance of HRM' (Almond and Gonzalez Menendez 2014).

The second way in which institutions affect HRM is through a more direct influence over particular practices. For example, the institutional framework governing training will determine whether employers are obliged to pay a training levy, whether the state subsidizes training within firms, whether employers' associations accredit training, and so on. A second illustration concerns consultation. Institutions in some countries afford employees and their representatives with rights to be consulted before a change can be implemented, and in some cases this extends to the right to negotiate, and potentially block, management's plans. In other countries managers are able to make changes in ways that are not constrained by rules and norms, and they therefore enjoy more discretion.

To the extent that these relationships between institutions and firm-level behavior take a distinct form in the context of EMNCs, their rise toward becoming an integral part of the global economy will have distinct implications for the convergence and divergence debate in the international and comparative HRM literature. In the following we map the interaction between institutions and firm behavior, and how this shapes HRM in EMNCs in complex ways.

Mapping the Impact of Home and Host-Country Institutions on HRM in Emerging Market MNCs

As we argued above, emerging markets are characterized by certain idiosyncrasies, making it likely that EMNCs will be shaped in distinct ways, compared to AMNCs. This section considers the impact that these characteristics have on EMNC governance and practices in the domain of HRM. We develop a model with three dimensions to capture the interactions between EMNCs and the institutions they face, both at home and abroad.

Institutional Conditioning

All MNCs are conditioned by the institutions in their country of origin which feeds through into the extent and nature of standardization of HR practices across borders (Chiang *et al.*, 2017; Edwards *et al.* 2016). The extent to which the home-country institutional environment influences MNCs depends, however, on the kind of institutions in which they are embedded. Here, EMNCs differ markedly from AMNCs in the contextual conditions they face.

Partly, the variation is a function of the role that national governments play in the economy. While the role of the state varies among developed economies – for example, the ‘interventionist’ tradition in France and the ‘facilitating’ role of that state in Germany contrast with the more ‘hands off’ role in Anglophone countries – all developed countries share the common feature that state intervention has declined in important ways since the early 1970s, be this through privatization, the disappearance of active industrial policies, and the tendency towards avoiding direct intervention in pricing. Emerging economies diverge from developed ones in all of these respects; the level of activity and intervention of governments in the economy is much higher and more direct in emerging economies, leading to the idea of a ‘return of state capitalism’ (Kurlantzcik 2016; Hemphill and White 2013).

There are various ways in which activist governments attempt to shape their country’s economic development, constituting sources of institutional conditioning. These include tariff and non-tariff barriers, hidden or open subsidies, the regulation of labor markets, and the state

allocation of key resources including financial capital. Many interventionist countries have established state-owned banks (or nationalized formerly private ones), or have development banks, such as the Brazilian BNDES, in order to channel bank credit into specific sectors or companies (national champions) (Finchelstein 2017). Perhaps the most ‘hands-on’ tool of state capitalism constitutes the direct ownership by the state of non-financial companies, which can then be used to pursue the government’s development plan. Not all of these tools are limited to developing countries, but their use is more widespread than in developed ones. In relation to HR, one illustration of state influence is employers’ associations in China, which operate like a ‘state-owned management consultancy bureau rather than as a representative of employers’ (Zhu and Jack 2017: 1773) and which conditions their ‘indifference’ to other types of associations that they encounter in other countries that we noted earlier.

Whatever the mechanism of state influence over the economy in developing countries, the ‘political embeddedness’ (Kilduff and Brass 2010) of EMNCs in general, and the close ties that they have with the state bureaucracy and politicians (Andreff 2015) in particular, give rise to specific forms of institutional conditioning. One shift in this respect in many emerging markets has been away from protectionist industrial policies towards those that explicitly aim at making national companies successfully compete in global markets (e.g. Trubek *et al.* 2013). Hennart *et al.* (2017) have coined the term ‘International Champions’ for the new state-supported ‘Multilatinas’ MNCs emerging in Latin America resulting from this policy shift. Similarly, the Chinese government has exercised a notable influence on the internationalization of many Chinese MNCs (Liang *et al.* 2015). Moreover, Panibratov (2012) identify the oil MNCs in Russia as a clear example of state influence, arguing that Gazprom, while privately owned, has become seen as the ‘powerful arm of Russia in foreign affairs and foreign conflicts’ (2012: 63). In sum, while there is variation between MNCs from any one country concerning the extent of state influence (Li *et al.* 2014), and there are many different forms of ‘state capitalism’

(Kurlantzeik 2016; Sallai and Schnyder 2015), it is certainly the case that the role of the state is more keenly felt in EMNCs.

A further element of institutional conditioning is corporate ownership, which is a key dimension of corporate activity that varies across countries. The fundamental difference with developed countries, and especially Anglophone ones, is the high concentration of ownership in most developing countries (La Porta *et al.* 1998). Contrasting with the dispersed ownership typical of the Anglo-American system, many EMNCs have a controlling shareholder, sometimes through complex structures of ownership pyramids and/or cross-shareholdings within business groups in which familial links are to the fore. These characteristics have important implications for the behavior of EMNCs as they internationalize. Most fundamentally, the concentration of share ownership in the hands of committed, strategic shareholders leads to longer time-horizons and less pressure to maximize profits and/or shareholder value compared to firms with dispersed ownership (Aguilera and Jackson 2003; Deeg and Hardie 2016). Furthermore, the presence of certain types of investors – notably the government, and family-based foundations – may lead companies to pursue strategic and political goals rather than purely economic ones in foreign markets (for China, see Cui and Jiang 2012). For example, Thite (2013: 106) shows how one element of the impact of Indian institutions on MNCs is the role of owners in generating ‘a distinct emphasis on long-term orientation to business strategy in general and HR in particular, underpinned by firm commitment to core organizational values, employee development and welfare’.

The complex ownership structures involving pyramids, circular-, and cross-shareholdings that are present in emerging markets are often combined with other types of network ties. Thus, board overlaps, or personal relationships – such as *guanxi* in China – often overlay ownership ties and form part of a complex network of relationships in which EMNCs are embedded (cf. Peng 2003). Such relationship-based systems may be further strengthened by an ethical and moral support structure. Thus, Lau and Young (2013) argue that *guanxi*

relationships are not simply based on personal knowledge of business partners, but are underpinned by the values of mutual commitment, reputation, and trust, which are crucial for doing business in China. At the intra-firm level, this translates into hierarchical, quasi-military organizational structures and paternalistic styles of management, focusing on ‘harmony’ and the benevolence of the company owner-manager towards the employees. This paternalistic, as opposed to individual rights-based, approach to employees, also affects the staffing practices of EMNCs, a key HR practice. For instance, Hsu (2008) argues that processes of knowledge accumulation in ‘Chinese family businesses’ that internationalize are influenced by the home country. He found that individuals belonging to the founding family, and those that have gained proximity to the ‘inner circle’, are often given key positions in foreign operations and take on central roles in knowledge accumulation. In this way, *guanxi* affects succession and influences staffing decisions within the international operations of Chinese MNCs.

The degree to which relations between business partners rest on hierarchy is a further source of institutional influence on EMNCs. As argued above, firms in Latin America can be distinguished from those elsewhere through the prevalence of large firms that operate with a strong element of ‘coercive hierarchy’ (Schneider, 2009). Accordingly, Geary and Aguzzoli (2016) demonstrate the way in which management style in Brazilian MNCs is influenced by the institutional context of the home country, including in their case of ‘MiningCo’. As they put it: ‘MiningCo’s style of management bore distinct Brazilian hallmarks. It was highly centralized and coercive and forceful in a manner consistent with Schneider’s (2009) conceptualization of firms originating in HMEs’ (2016: 986).

However, there are also grounds for arguing that EMNCs will not always experience strong institutional conditioning. While some institutional effects may be constraints that MNCs cannot hide from, there are others from which they can use their initiative to escape. In such cases, MNCs may look to engage with institutions in other countries as a way of solving their coordination problems at home.

Institutional Arbitrage

We refer to the processes through which many MNCs from emerging economies seek to utilize institutions in other countries as institutional arbitrage. This is linked to the existence and nature of institutional uncertainty in that if institutions are perceived as subject to change in unpredictable ways then firms may react by disengaging with this institutional environment and engaging with institutions elsewhere. Cuervo-Cazurra and Ramamurti (2015) discuss the idea of firms from emerging markets escaping the ‘problem of weak institutions’, including ambiguous laws, problematic enforcement of these laws, or the judiciary being subordinate to politicians. One response is ‘institutional escape’ in which firms ‘conclude that it is prudent to diversify their assets by investing in countries with more secure property rights and a stronger rule of law’ (Cuervo-Cazurra and Ramamurti 2015: 1).

Cuervo-Cazurra and Ramamurti (2015) cite the case of Russian MNEs expanding their companies’ assets in Western Europe to avoid the ‘expropriation hazards’ of the domestic context. Also focusing on Russia, Sharafutdinova and Dawisha (2016: 371) chart the ways in which ‘new capital owners cleverly engage in institutional arbitrage to make profits at home and use foreign institutions to protect their assets abroad, in more politically secure and institutionally-stable countries’. The precise techniques used by Russian firms included the use of foreign corporate structures, stock market listings in other countries such as the UK, the ‘round-tripping’ of foreign direct investment in which Russian firms invest in firms in other countries that then re-invest in Russia in order to secure the advantages of being a foreign firm, the development of contracts in other legal jurisdictions and the use of foreign courts for dispute resolution. Another example comes from companies using binding international commercial arbitration (BICA), which constitutes an instrument for international joint venture partners to ‘opt out’ of a country’s institutions and borrow institutions from another jurisdiction (or the international sphere) (Pinkham and Peng 2016). Subjecting the firm to foreign jurisdiction through cross-listings and arbitration is also likely to affect HR practices, because the

regulations governing stock-markets often include provisions that affect workers' rights and hence HR practices. We can conceive of the location of such activities in other business and legal contexts as *direct* institutional arbitrage.

Direct institutional arbitrage is also evident in Chinese MNCs in the field of HRM. Fan *et al.* (2013) refer to the 'organizational transformation' that many Chinese MNCs go through during internationalization, reflecting their attempts to overcome the 'international human resource deficiency' arising from the policy of the state until recently of restricting the internationalization of firms. Thus, many Chinese MNCs are using 'outward investment as a learning process' (2013: 538; see also Meyer and Xin 2018). Zhang's (2003) study of Chinese MNCs in the UK found that there were some instances of 'UK practice' being implemented into Chinese MNCs at home, going as far as to argue that 'the Chinese management system is gradually being replaced by UK practice' (2003: 623). Similarly, Thite (2012: 245) argued that their case study firm demonstrated an 'adaptive or polycentric approach' to learning from what they perceive to be 'best practices' in their subsidiaries in advanced economies.

Arbitrage can be less direct, however. Smith and Meiskins (1995) identify a key dynamic among firms and actors in the global economy being a widespread perception that one particular economy has developed strategies and practices that provide the most efficient way of responding to common challenges. Whatever the limitations to such a notion in practice – for example, actors' perception as to what actually constitutes the precise actions of firms in the economy they see as dominant may be very partial indeed – it nevertheless creates an interest among firms in borrowing and emulating elements of what firms in the dominant economy are perceived to do. Consequently, firms in other countries may implement practices that have been developed in other institutional contexts and can do so without necessarily locating their own operations in the countries concerned. When such 'isomorphism' occurs across national borders, we refer to it as *indirect* institutional arbitrage. It is obviously constrained and limited by what practices the home country's institutional setting allows companies to mimic from other

institutional settings. However, in the case of emerging markets, we suspect that there may be considerable room for indirect arbitrage, as a function of the home-countries' uncertainty and plasticity.

One instance from the area of HRM concerns Brazilian MNCs and skill acquisition. The country's poor record of investment in education and training, high proportion of workers operating outside formal regulations and centralized and hierarchical style of management may be seen as a 'weak link' (Thite 2013), with international firms reacting by basing international policies on those that were developed in other institutional environments. Accordingly, Geary and Aguzzoli (2016) note that the specific content of their case study company's HRM policies were informed by US practice, influenced in this direction by the development of American-influenced business schools and consultancy firms and by American MNCs in Brazil (see also Mellahi *et al.* 2016). In subsequent analysis, Geary and colleagues argue that while the particular practices that formed the company's approach were not discernibly 'Brazilian', they were nevertheless implemented through a style of management that was deeply rooted in Brazil's national business system (Geary, Aguzzoli and Lengler 2017).

Where EMNCs engage in direct or indirect arbitrage there is potential for this to transform their strategies and practices, with potentially profound implications for their domestic operations. However, evidence from AMNCs indicates that this will not always be the case; new strategies and practices being implemented in the home country may have to be adapted to fit with existing institutions (Chiang *et al.* 2017; Edwards *et al.* 2005). This suggests that there is a need to understand the range of ways in which the actions of EMNCs may produce a feed-back loop and cause institutions to change or not, to which we now turn.

Institutional Change / Consolidation

The forces created by institutional conditioning and the opportunities for institutional arbitrage can create a range of feedback pressures onto the institutions themselves. This can be the result of conscious strategies by firms to change their institutional environment. This is

sometimes referred to as institutional ‘work’, whereby actors engage in actions whose purpose is to create, maintain or disrupt institutions (McGaughey, Kumaraswamy and Liesch 2016).

Organizations can also have effects on institutions that are unintended.

These pressures affect both the institutions in the country of origin and those in the host countries. Considering the former, one consequence of institutional arbitrage can be that firms bring back practices from their foreign operations into the domestic context with these subsequently diffusing to other firms. The cases of Brazilian and Chinese MNCs developing new HR practices in their domestic operations which are the product of either direct or indirect institutional arbitrage demonstrate how this may occur. While studies of the knock-on effects of this are absent, we may speculate concerning the consequences for the wider domestic context. Where high profile multinationals from a country introduce novel practices, these can be emulated by other firms. This process of change in practices among a significant number of firms can lead to different forms of institutional change. Firstly, it can lead to what Streeck and Thelen (2005: 25) call ‘drift’ whereby ‘the world surrounding an institution evolves in ways that alter its scope, meaning and function’ and ultimately erode support for the institution despite formal stability. For instance, if a significant number of Brazilian MNCs adopt performance-related forms of remuneration in their domestic operations, and if their suppliers and other partners emulate them, then these practices may become sufficiently widespread to alter the norms in Brazil concerning pay practices with these practices becoming a (semi-) legitimate part of the business system. Secondly, adoption of new practices that are not directly contrary to existing institutions may trigger a process of ‘institutional layering’ (Streeck and Thelen 2005) whereby new institutions are added on top of existing ones (rather than replacing them). More generally, new, ‘voluntary’ practices that become accepted among firms, may ‘trickle up’ through the formal institutional system. Thus, it has been observed that western practices of good corporate governance that companies adopted voluntarily in different African countries

were first formalized in voluntary codes, then integrated into binding stock market listing requirements, and finally incorporated in company law (Rossouw 2005).

The impact of the process of bringing back practices from other institutional contexts may not have a transformative effect, however, particularly if the practices that are brought back, or ‘reverse diffused’, lack the support of compatible institutions (Edwards *et al.* 2005). Here, the uncertainty associated with institutions may be an important factor determining to what extent ‘reverse diffusion’ of practices by MNCs into the home country will actually lead to institutional change. While it may be the case that the more ambiguous are home country institutions, the more leeway there is for new practices to trigger wider change, it may also be the case that high uncertainty may actually restrict reverse diffusion because sustained support for a new practice is lacking (cf. Fortwengel 2017). Furthermore, recent research has shown that state capacity plays a moderating role in processes of diffusion of new institutional practices across countries (Guillen and Capron 2016). More capable states can selectively adopt institutional arrangements that diffuse across countries through international pressures. Given that weak states are often in developing countries, we expect them to be more susceptible to institutional change induced by EMNE-led reverse diffusion of practices.

To the extent that practices are dependent on *configurations* of institutions – a central tenet of the CIA approach, of course – then the transfer of a particular practice may not operate in the domestic context in the way that it did in the ‘donor’ unit, a phenomenon known as the ‘transplant effect’ (Berkowitz *et al.* 2003). Such practices may be reinterpreted by local actors in ways that mesh with pre-existing norms. One instance is in Chinese MNCs; Zhang and Edwards (2007) argue that the impact of Chinese firms introducing novel recruitment practices into China which they had utilized in their British operations was constrained by the incorporation of *guanxi*, which limited the pool of potential applicants. As they argue, ‘the substantial economic and cultural differences with the UK [...] hinder progress in reverse diffusion’ (2007: 2162). In such cases, the nature of institutional change may be modest.

Elsewhere, institutional arbitrage may actually consolidate the existing institutions in the home country. Where EMNCs can solve their coordination or governance problems through locating distinct functions in other countries, there may be no knock-on effect on the home country. The case of Russian MNCs using institutions in London to overcome the institutional uncertainties at home is a case in point. Indeed, where this process of arbitrage may obviate the pressure for change in domestic institutions that these firms would otherwise have exercised, then this process actually reinforces the weaknesses that led to these strategies of arbitrage. As Sharafutdinova and Dawisha (2017: 374) put it, the incentives for Russian MNCs to ‘organize and engage in collective action to reform institutions at home could be expected to decline considerably’. They argue that those Russian MNCs engaging in institutional arbitrage actually benefit from the unpredictable institutional environment and ‘have stakes in maintaining it in its present, highly suboptimal, state’ (2017: 374), as competitors may continue to be exposed to it.

Turning to the impact on institutions in host countries, there are two reasons why we might see little knock-on impact from the action of EMNCs. One relates to the strength of institutional conditioning. If EMNCs suffer from a ‘liability of emergingness’ then there may be particular pressures to conform in order to gain legitimacy and credibility in the eyes of potential partners and intermediaries in developed economies. Therefore, the liability of emergingness constrains the extent to which the impact of the institutions in the EMNCs’ country of origin is felt in other countries. This effect may be specific to EMNCs, because AMNCs may not suffer from these kinds of disadvantages related to their foreignness and can turn it to their advantage.

The other source of a limited impact on host countries concerns the consequences of EMNCs engaging in institutional arbitrage. As they do so, they are deliberately going with the grain of the host country in which they operate, thereby consolidating the host system rather than challenging it with new influences. Similarly, where EMNCs localize their governance and employment practices in order to learn about local practices, and subsequently absorb them and utilize them back at home, then they are going with the grain of the host systems.

However, there are situations in which EMNCs might bring about change in host countries. Geary and Agozzoli's (2016: 990) study of a Brazilian MNC, for example, demonstrated the ways in which the firm went to some lengths to 'contest the institutional fabric of its host subsidiaries' which they argued reflected the 'prerogative to manage' that is a feature of the HME of Brazil. A related aspect of a country of origin influence in EMNCs concerns the influence of different forms of ownership. If one distinguishing characteristic of many emerging economies is the more concentrated patterns of ownership, and in many cases the more committed, strategic shareholders, then we may expect EMNCs to be less concerned with short-term indicators of shareholder value and more concerned with a long-term approach to business strategy (Thite 2013). This may make them more resilient than local firms to institutional pressures, favoring shareholder-orientated short-term strategies. This contrast with local firms is particularly likely to be evident in countries with liberalized systems of finance and governance, such as the UK and US. Where EMNCs bring distinct institutional influences to bear on host countries, they are contributing to greater institutional diversity in that country, with this growing diversity itself a form of institutional change.

A further instance of how EMNCs interact with host countries concerns the way in which they distinguish themselves from western MNCs in a given context, potentially leading to some interesting knock-on effects. Nyiauwung and Geary's (2017) analysis of MNCs in the oil sector in Cameroon provides a fascinating case. While the long established American and French firms in their study had challenged many aspects of local institutions and succeeded in introducing their desired practices, the Chinese MNC deliberately positioned itself differently by adapting to the local context, using this to curry favor with local politicians. As the authors put it, the firm 'played the PR game cleverly' by funding local community projects, recruiting a high proportion of local workers, engaging in training, using these tactics to garner 'a reputation of being a good employer'. This strategy of differentiating themselves from the approach of western MNCs, which had introduced many novel practices, had the consequence, intended or

otherwise, of encouraging local actors – politicians, union representatives and employees – to pursue with greater vigor the ‘Cameroonisation of employment policy’, an attempt to push a stronger identification with local solutions to problems in the labor market. The western MNCs in the sector subsequently came under greater pressure than hitherto to abide by local institutions, something they had been ‘unwilling to do until the arrival of the Chinese in the sector’. In other words, the strategy of localization by the Chinese entrant disrupted the ‘settlements’ that other MNCs had managed to secure with local actors and gave renewed strength to local institutions.

Discussion

In this section we summarize the inter-relationships among the three dimensions of how EMNCs interact with their environment. We develop propositions concerning how HR governance and practices may be influenced by the range of institutional effects identified in this paper.

There are clear links between the first two dimensions. The extent and nature of institutional conditioning shapes the incentives that firms have to engage in institutional arbitrage, and the ease with which they can do so. Where the institutions at home provide firms with the resources and practices that they require, then conditioning is strong and there is little incentive to engage in arbitrage. In addition, some types of institutions in the home country may close off scope for engaging in arbitrage. For example, state ownership or control will heavily constrain arbitrage strategies should state actors see it as against their interests. In other cases, the barriers to arbitrage may be partial, such as *guanxi* in China (see Chen 2017), meaning that some practices operate differently to the way they do elsewhere. Where there are governance or other coordination problems at home, on the other hand, then this will make firms keener to utilize institutions in other countries to help solve these problems. In these ways, home country institutions condition the scale and nature of arbitrage, the two are inextricably linked. This leads us to formulate the following propositions:

P1: The extent of institutional conditioning will be shaped by the firm-level perception of the institutions in the home country; where these are seen as effective resources by EMNCs, and where they encourage firms to base their international HR strategies on the preferences of actors (e.g. the state) in the home country, then conditioning is stronger.

P2: The extent to which EMNCs from a given country engage in institutional arbitrage of HR practices will depend on the strength of institutional conditioning; stronger conditioning makes institutional arbitrage less likely.

These dimensions are linked to processes of change and consolidation and we can consider them in relation to home country and host country institutions. Strong institutional conditioning restricts the scope for arbitrage, making it unlikely that EMNCs will be introducing novel practices at home. The consequence is that the internationalization process is likely to consolidate the pre-existing institutions.

P3a: EMNCs facing strong institutional conditioning will have less leeway to introduce HR practices from host country institutional contexts in their home countries, contributing thus to stabilizing – rather than changing – the home country institutional environment.

The consequences for institutions in the country of origin may be significant in other situations, however. Where arbitrage leads to international policies being modelled on practices that were developed in other institutional contexts, the resulting practices are sought to be implemented in the country of origin. The effect can be profound, particularly where the practices gain a foothold among a wider set of firms, thereby undermining pre-existing institutions or adding new legitimate behaviors to existing ones. The effect will be less significant where states are capable and institutions are resilient enough to act as partial barriers to the introduction of new practices, shaping the way they operate and minimizing the disruption they bring. However, a key premise of our theorization is that institutions in emerging markets, generally speaking, tend to be weaker, more ambiguous, and undergoing more frequent and rapid change, compared to advanced markets—an observation which can be captured with the

notion of institutional uncertainty. We argue that this makes processes of institutional dynamics and change more likely in these settings, and EMNCs can be important drivers and carriers of these changes.

P3b: Weak institutional conditioning favors institutional arbitrage, which also increases the likelihood of EMNCs' 'reverse diffused' HR practices contributing to changing the home country institutional environment.

Moreover, the effect of arbitrage on the home country may be limited where the process means that the EMNC resolves its governance or coordination problem without recourse to diffusing practices to the country of origin. Here, it is precisely the *difference* or distance between home- and host country institutions that provide EMNCs with a competitive advantage, and they will not want to reduce this difference. This can even result in the home country institutions – however suboptimal for purely domestic firms or suboptimal at the aggregate level – being consolidated.

P3c: Institutional arbitrage by EMNCs will lead to home country institutional consolidation where institutional differences between home and host country provides EMNCs with a competitive advantage.

The implications of strong institutional conditioning on the behavior of EMNCs in host countries may be varied. As we have argued above, where institutional conditioning is strong, this can cause change through introducing greater institutional variety in host countries. Where institutional conditioning is weak, however, the scope for arbitrage is correspondingly higher. This is likely to mean that EMNCs largely go with the grain of the host countries in which they operate, serving to consolidate the host country institutions. A further, and rather intriguing, possibility is that the influence from the parent business system is a conscious attempt on the part of management in EMNCs to distinguish themselves from AMNCs by a clear strategy of localization, which has the effect of reinvigorating local institutions. This analysis leads us to make the following propositions:

P4a: EMNCs facing strong institutional conditioning will contribute to altering their host country institutional environment by transferring home country HR practices to the new context.

P4b: EMNCs pursuing strategies of institutional arbitrage will largely consolidate the host country institutional environment.

P4c: Where EMNCs attempt to gain competitive advantage in a host country over AMNC competitors by adopting a strong localization strategy their actions will serve to strengthen local institutions.

We depict the proposed relationships below (see Table 1): P1 links the first and second columns, showing the likely effect of differences in perceptions of institutional configurations on the strength of institutional conditioning; P2 links the nature of conditioning to the likelihood that EMNCs pursue strategies of institutional arbitrage (the second and third columns); P3a-c highlight the range of ways in which these combinations of conditioning and arbitrage shape the extent to which there will be institutional change or consolidation in the home country (linking the first three columns with the fourth); and P4a-c do the same for whether there will be institutional change or consolidation in the host countries (the fifth column).

Firm-Level Perception of Home-Country Institutions	Institutional Conditioning	Institutional Arbitrage	Institutional Change / Consolidation	
			<i>Effects on home country</i>	<i>Effects on host country</i>
Institutions seen as providing a competitive advantage	Strong country of origin effect	Limited incentive or scope for arbitrage	Consolidation – the effects of outward investment does not challenge exiting institutions	<p>Potential for change as EMNCs add to the diversity of strategies and practices of firms (bottom up institutional change)</p> <p>Also, there is potential for further change if this diversity adds to erosion of support for existing institutions</p>
Institutions seen as a source of disadvantage	Weak country of origin effect (due to institutional uncertainties)	Major incentive and scope to compensate for institutional weaknesses and uncertainties through arbitrage	<p>Potential for change where arbitrage leads to new strategies and practices being brought into the country (bottom up institutional change)</p> <p>Arbitrage results in consolidation where the resolution of the problem occurs without the need for strategies and practices to be brought back home</p>	Consolidation – including through those MNCs which deliberately adapt to the host country disturbs ‘settlements’ between long-established MNCs and local actors

Table 1: Mapping the relationship between home- and host-country institutions and EMNC behavior: A conceptual framework.

Implications and Conclusion

Starting from the empirical observation that EMNCs enter the international stage with increasing force, this paper has sought to develop a conceptual framework that allows us to map the complex relationship between home- and host-country institutions and firm behavior. A key argument of the paper is that comparative institutional analysis can greatly contribute to our understanding of how the home country context of EMNCs affects their internationalizing behavior and how this may in turn change or consolidate labor market institutions and HR practices in home and host countries. We have reviewed the available evidence which is only indicative of the nature of these institutional influences. The limited evidence concerning the governance of HR issues suggests that there may be a distinctively Indian element to social responsibility for instance, and a notable hierarchical element to management style in Brazilian MNCs, but whether these are regular patterns needs to be verified empirically. Similarly, the literature is suggestive, but certainly not conclusive, of a distinct national element to institutional arbitrage, with indications that a process of organizational learning is shaped by perceptions among MNCs of the strengths and weaknesses of the home country. In relation to HR practices the literature is similarly suggestive, but not conclusive, of nationally distinct patterns of practice. For example, Chinese MNCs appear to be distinctive in seeking to recruit and develop a group of managers in their international operations who possess strong social ties to the governing group in the home country and Brazilian MNCs approach to the generation of skilled labor is shaped by the negative perceptions that senior managers have of the system of skill development at home. But are such elements of national distinctiveness in evidence across a set of MNCs? Verification of these possible patterns through a comparative program of research which compares EMNCs of different nationalities needs to be undertaken.

Such a program of research must take seriously the institutional idiosyncrasies of EMs. Our framework constitutes a first step towards conceptualizing how the idiosyncrasies of the institutional contexts in emerging markets influence aspects of HR in qualitatively different ways from those in AMNCs. To develop this framework, we have leveraged work outside of the mainstream IHRM research. Firstly, drawing on CIA we argued that the type of institutional bundles in EMs, and hence the nature of the business system, are distinct from those that characterize advanced economies. This is to an important extent due to the more interventionist role of the state, the nature of ownership and the opaque and particularistic networks that often accompany them. Overall, this leads to the prevalence of different modes of governance – notably particular kinds of hierarchies – alongside the established modes that prevail in different types of developed countries. Secondly, EM home country institutions differ from advanced economies not only in the type of bundles and business systems that exist, but also in terms of their governing capacity. Institutions in EMs – especially formal ones – are often unclear, weakly enforced, uncertain, rapidly changing and often remain opaque. This can be captured with the concept of institutional uncertainty.

These characteristics of EMs have an impact on both how EMNCs as employers are influenced by the home country's institutions, and on how they react to and engage with the institutions in other countries. We argued that strong conditioning creates fewer incentives or opportunities for firms to use institutional arbitrage to deal with (perceived) shortcomings of the home country context; in contrast, where the institutional context at home is characterized by governance or coordination problems the incentives to engage in arbitrage are correspondingly higher. We also argued that institutional arbitrage by EMNCs and other aspects of their internationalization will – in turn – have a feedback effect on their home country's institutional environment. The precise nature and extent of that impact – whether it leads to institutional change or rather consolidates existing features – will depend on the

strength of conditioning and strategies concerning arbitrage, but we can speculate a little further concerning the aggregate effects of these interactions. As we argued in the introduction, the growth of MNCs from emerging economies can introduce even greater diversity into the global economic system, and the subsequent analysis has provided a nuanced assessment of this. While some combinations of institutional effects may cause little change in institutional frameworks, other combinations do indeed drive change; they do so in varied ways, with the precise effects contingent on the nature of the pre-existing frameworks. Thus, the processes we are analyzing certainly do not constitute convergence on global norms but rather introduce ever greater variation within and across economies. Our conception of actors using institutions creatively suggests that this may result in ‘crossvergence’ (Ralston *et al.* 1997, 2006) in which complex interactions between different forces result in the creation of ‘something different’ rather than ‘something in between’ pre-existing sets of values. Moreover, the process of greater variation within countries in EMs resonates with Katz and Darbshire’s (2000) argument concerning ‘converging divergences’ in which a common trend across countries is for growing divergence within them. As the sources of FDI become more varied, there are more institutional influences that are felt in other countries through the role of MNCs as ‘emissaries’. Our expectation is that the growth of EMNCs will bring these processes to bear: a growing diversity of practices within countries that cannot simply be seen as practices reflecting ‘half way houses’ between different types of pre-existing practices.

Researchers studying MNCs in general have not focused on ways in which these firms bring about processes of change or consolidation in their home country, and our framework provides a way of advancing this topic. To push the boundaries of our understanding in this regard, EMNCs offer unique opportunities because they originate in environments that are arguably more uncertain and rapidly evolving compared to advanced economies, thus potentially allowing for greater digression from, and experimentation with,

institutions. The growing prominence of EMs in general and of EMNCs in particular means that the issues discussed here should be to fore in the work of (I)HRM scholars. Here, future research could leverage the conceptual framework developed in this paper, and combine it with a focus on firm-level factors, such as the motivation and ability of EMNCs, to engage in the institutional strategies we mapped. This would offer a rich picture of EMNCs and how they interact with institutions both at home and abroad.

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