Explaining outward foreign direct investment from emerging economies:

The role of dynamic managerial capabilities

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Abstract

The aim of this paper is to examine the role of dynamic managerial capabilities in explaining outward foreign direct investment (OFDI) from emerging economies. Drawing insights from the institution-based view and the dynamic capabilities perspectives, a theoretical framework that extends Dunning's *eclectic paradigm* is proposed. In particular, the article expands the concept of institutional ownership advantages (Dunning & Lundan, 2008a), by integrating three specific dynamic managerial capabilities and explains how such capabilities are vital in understanding the phenomenon of OFDI from emerging economies. The study subsequently tests the proposed theoretical framework on a sample of 28 emerging economies and finds that dynamic managerial capabilities (*i.e., managers' international experience* and *managers' adaptability*) play a vital role in enhancing OFDI from emerging economies. By deploying these dynamic managerial capabilities, EMNEs overcome the liability of emergingness associated with their status of late-comers in the process of internationalisation and the competitive disadvantages of hailing from countries characterised by institutional voids (Madhok & Keyhani, 2012; Sun, Peng, Ren & Yan, 2012). However, surprisingly, *managers' awareness of global issues* does not play a role in enhancing OFDI from emerging economies. Finally, the paper draws implications for research and practice.

Keywords: outward foreign direct investment; internationalisation; emerging economies; dynamic capabilities; managerial capabilities; institutions; OLI

INTRODUCTION

With the significant increase in outward foreign direct investment (OFDI) from emerging economies (UNCTAD, 2017), recent research has questioned whether extant theories can explain this phenomenon or whether new theories are required (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Hennart, 2012; Kalotay & Sulstarova, 2010; Luo & Tung, 2007, 2017; Ramamurti, 2012; Zhang & Dally, 2011). This question is particularly important because emerging economies' multinationals (EMNEs) operate in 'institutional voids' i.e., contexts characterised by less developed and frequently very volatile institutions (Khanna & Palepu, 1997, 2006; Wu & Chen, 2014). As a result, EMNEs' ownership advantages and strategies exhibit institutional imprinting (Cheng, Henisz, Roth & Swaminathan, 2009; Doh, Rodrigues, Saka-Helmout & Mahija, 2017; Marquis, 2003; Marquis & Tilcsik, 2013; North, 1990; Peng, 2002).

A central debate within the field of international business and strategy addresses the question of whether firms in emerging economies develop specific ownership advantages that allow them to internationalise (the fostering view of institutions) (Goh & Wong, 2011; Martin, 2014; Stal & Cuervo-Cazurra, 2011; Stoian, 2013) or whether they internationalise to acquire such ownership advantages (Barlett & Ghoshal, 1988; Child & Rodrigues, 2005; Hennart, 2012; Luo, 2000; Luo & Tung, 2007, 2017; Mathews, 2002; Meyer & Peng, 2016; Ramamurti, 2012; Ramamurti & Singh, 2009) and to overcome competitive disadvantages associated with operating in unfavourable domestic environments (Cuervo-Cazzura & Genc, 2008; Luo & Tung, 2007; Weilei (Stone), Sun, Yan & Zhu, 2017; Witt & Lewin, 2007; Yamakawa, Peng & Deeds, 2008) (the escapist view of institutions). Recent scholarship suggest strategic intent on the part of EMNEs to exit home markets and engage in OFDI (Sun, Wang & Luo, 2017).

Furthermore, in the absence of technology-based ownership advantages proposed by mainstream theory (Dunning, Kim & Park, 2008; Kalotay & Sulstarova, 2010; Stoian, 2013;), EMNEs develop other ownership advantages, frequently as a result of operating in "institutional voids" (Cuervo-Cazurra & Genc, 2008; Cui, Li & Li, 2013; Khanna & Palepu, 2006). EMNEs exploit these advantages through OFDI, particularly when expanding into other countries with similar institutional environments (Cuervo-Cazzura & Genc, 2008). In so doing, they transform a competitive disadvantage into an advantage (Cuervo-Cazzura & Genc, 2008) and may overcome the liability of country of origin and emergingness (Madhok & Keyhani, 2012; Sun et al., 2012). The liability of emergingness relates to the competitive disadvantages of EMNEs associated with operating in institutional voids and with the EMNEs' status of late-comers in the process of internationalisation, leading to the firm's lack of international experience and a lack of traditional, advanced ownership advantages (Madhok & Keyhani, 2012; Sun et al., 2012).

The ability of EMNEs to turn competitive disadvantages into advantages (Cuervo-Cazurra & Genc, 2008; Liang, Lu & Wang, 2012) or to escape institutional voids has been widely investigated (Cuervo-Cazurra & Genc, 2008; Luo & Tung, 2007; Sun et al., 2017; Witt & Lewin, 2007; Yamakawa, Peng & Deeds, 2008;). However, the exact resources and capabilities that help EMNEs overcome the competitive disadvantages of home country institutional voids and engage in OFDI are not yet fully understood (Liang et al., 2012; Stal & Cuervo-Cazurra, 2011).

The dynamic managerial capabilities of emerging multinationals are vital in exploiting ownership advantages and counteracting the liability of emergingness, and the role of such capabilities merits further investigation (Cuervo-Cazurra and Genc, 2008). Furthermore, the interaction between institutions in emerging economies and the dynamic capabilities of local entrepreneurs is also essential to explain emerging economies' OFDI (Child & Rodrigues, 2005; Luo & Tung, 2017). It is thus crucial to investigate how dynamic managerial capabilities help EMNEs overcome the liability of emergingness and foster international expansion through

OFDI, as it is managers who ultimately make decisions regarding OFDI (Buckley, Chen, Clegg & Voss, 2017). Such a micro process-based approach adds value to the existing macro level studies explaining the internationalisation of EMNEs.

Dynamic capabilities are important for the development of competitive advantage in dynamic environments (Eisenhardt & Martin 2000; Helfat et al., 2007; Helfat, 1997; Helfat & Winter, 2011; Luo, 2000; Teece, 2007, 2014; Teece, Pisano & Shuen, 1997; Zahra, 2006; Zollo & Winter, 2002). For example, Helfat and Martin (2015) highlight the vital role of dynamic managerial capabilities in explaining firm level outcomes. Most of the research about dynamic capabilities is in the area of strategy (e.g., Ambrosini & Bowman, 2009; Augier & Teece, 2009; Eisenhardt & Martin, 2000; Helfat, 1997; Hodgkinson & Healey, 2011). There is an emerging line of research in the field of international business (IB) that examines the role of dynamic capabilities in MNEs' cross-border activity, its antecedents and consequences and international new ventures' learning, performance and survival (e.g., Al-Aali & Teece, 2014; Lanza & Passarelli, 2014; Lessard, Teece, & Leih, 2016b; Pitelis & Teece, 2010; Prashantham & Floyd, 2012; Teece, 2012, 2014; Weerawardena, Mort, Liesch, & Knight, 2007; Khan & Lew, 2017). However, to date, there is a paucity of studies that apply the dynamic managerial capabilities approach to understanding OFDI by EMNEs (Liu, Jiang, Zhang & Zhao, 2013; Zehra, Petricivic, Luo & Zollo, 2017).

The aim of this paper is to examine the role of dynamic managerial capabilities in explaining OFDI from emerging economies. In particular, we address the following research questions: How do dynamic managerial capabilities such as *adaptability in responding to changing business environments, awareness of global issues* and *international experience* help EMNEs overcome the liability of emergingness and enhance OFDI? How can managers from emerging economies enhance OFDI?

We address these questions by investigating OFDI flows from 28 emerging economies between 2001 and 2014. These countries generated significant OFDI during the investigated period (UNCTAD, 2017) and continue to experience high levels of OFDI (UNCTAD, 2017). Moreover, these countries were characterised by institutional voids during the sample period (Demekas, 2007; Khanna & Palepu, 2006; Meyer & Peng, 2005; UNCTAD, 2017). This has significant implications for understanding firms' ownership advantages and international expansion strategies.

Emerging economies provide an ideal context in which to explore the role of dynamic managerial capabilities in enhancing OFDI because, as late-comers to the process of internationalisation, domestic firms often lack technology-based ownership advantages (Andreff, 2002, 2003; Dunning et al., 2008; Luo & Tung, 2007, 2017; Stoian, 2013). However, they are successfully involved in OFDI. This success suggests that local firms either expand to acquire technology-based ownership advantages (Barlett & Ghoshal, 1988; Child & Rodrigues, 2005; Luo, 2000; Mathews, 2002; Sun et al., 2017), or that firms have special institutional ownership advantages –such as dynamic managerial capabilities- that they leverage when expanding abroad through OFDI.

Moreover, these countries are characterised by rapidly changing environments and increasing openness to global competition (UNCTAD, 2017). Furthermore, organisational and geographical sources of firm innovation and manufacturing are dispersed across emerging economies (UNCTAD, 2017). In such contexts, dynamic capabilities -such as dynamic managerial capabilities- are crucial for firm's sustainable competitive advantages (Adner & Helfat, 2003; Helfat et al., 2007; Helfat & Martin, 2015; Teece, 2007) that can be exploited through OFDI.

Our study makes several contributions to the existing literature regarding EMNEs. Firstly, we contribute to the mainstream view of FDI and particularly to Dunning's (1988a, 1988b, 2000, 2001) *eclectic paradigm* (*OLI*). We extend the concept of institutional ownership advantages (Dunning & Lundan, 2008a), by including three specific dynamic managerial capabilities and by explaining how these dynamic managerial capabilities enhance OFDI from emerging economies. Additionally, by examining the dynamic managerial capabilities, we respond to recent calls for integrating microfoundations in strategy and IB research (Abell, Felin & Foss, 2008; Coff & Kryscynski, 2011; Foss, 2011; Felin & Foss, 2005; Felin, Foss, Heimeriks & Madsen, 2012; Felin & Hesterly, 2007; Zahra et al., 2017). As Foss (2011: 1414) highlights that actions and routines are "rooted in individual action and interaction", and the microfoundations literature indicates a need to examine micro-level processes (Abell et al., 2008; Foss, 2011), and how these interact with organisational level processes (Teece, 2007). Similarly, scholars have suggested that entrepreneurial managers play a vital and central role in the development and deployment of dynamic capabilities in both established and new entrepreneurial firms (Teece, 2012, 2016; Zahra et al., 2006). Thus, understanding the role of dynamic managerial capabilities will provide a finer grained understanding of EMNEs' internationalisation because these firms face the liability of emergingness (e.g., Madhok & Keyhani, 2012).

Secondly, we enrich the *dynamic capabilities approach* by clarifying the impact of the liability of emergingness on firms' dynamic capabilities and exploring how three dynamic managerial capabilities drive OFDI from emerging economies. We explain how managers' *adaptability in responding to changing business environments*, managers' *awareness of global issues* and managers' *international experience* help firms sense and seize opportunities and reconfigure their assets through OFDI. By doing so, we contribute to the understanding of micro-level dynamic managerial capabilities (Helfat & Martin, 2015; Helfat & Peteraf, 2015), and highlight how such capabilities can provide important insights in explaining OFDI from emerging economies.

Thirdly, we extend the *institution-based view* by examining the specific dynamic managerial capabilities that EMNEs need to overcome the liability of emergingness. We thus answer calls for more research regrading the impact of institutional voids on international business (Doh et al., 2017) and in particular on how firms' resources and capabilities help EMNEs overcome the competitive disadvantages of hailing from countries characterised by institutional voids (Cuervo-Cazurra & Genc, 2008). Fourthly, by testing our theoretical framework, we make an empirical contribution and identify the specific managerial capabilities that enhance OFDI from emerging economies. To date, dynamic capabilities-related research is mainly at the conceptual level, and there has been limited research that has empirically tested how dynamic capabilities influence different outcomes, including EMNEs' internationalisation behaviour (Pisano, 2017; Teece, 2007). In doing so, we answer calls by Zahra et al. (2017) for more applied research regarding the impact of dynamic capabilities on international business. Finally, we present several managerial implications, thus contributing to practice. These implications address the need for research with higher impact on practice (Zahra et al. , 2017).

The remainder of the paper is organised as follows: The next section develops our theoretical framework. We then discuss the methodology and our results. Finally, we explain our contributions to theory and practice and present our conclusions and avenues for further research.

THEORETICAL BACKGROUND

Explaining OFDI from emerging economies

We explain the drivers of OFDI from emerging economies through the lens of Dunning's (1988a, 1988b, 2000, 2001) *OLI*. The eclectic paradigm of international production offers a holistic framework that helps identify and evaluate the importance of several factors that influence firms' engagement in foreign production, as well as the growth of such production (Dunning, 1988a, b). Drawing on several theories that offer complementary explanations of foreign direct investment (FDI) and using various units of analysis, the paradigm explains why firms invest overseas (Eden & Dai, 2010).

The *OLI* proposes that the extent, form and pattern of FDI depend on the configuration of three types of advantages as perceived by firms (Dunning, 1988a,b). Firstly, firms must possess certain ownership advantages that allow them to overcome the liability of foreignness when operating in foreign markets. These ownership advantages are anchored in the firm's home country, i.e., they are dependent on the firm's nationality (Dunning, 1988a,b). Secondly, the internalisation advantage implies that it must be in the firm's interest to use these advantages itself rather than sell or lease them (Dunning, 1988a,b). Finally, the presence of a location advantage requires that it must be more profitable for the firm to exploit its ownership advantages with factor inputs from outside its home country and within the host country (Dunning, 1988a,b). Location advantages focus on a country's endowment of natural resources, economic conditions, political, local and national policies, which favour or disfavour FDI; they also include social advantages, such as culture, labour laws and pay level (Dunning, 1980, 1988a,b, 2001). The asset bundling between MNEs' internally owned resources and complementary exogenous local assets that could increase MNEs' efficiency in the host market is also perceived as a location advantage (Hennart, 2012). The three types of advantages discussed above are all at the firm-level and are all necessary for FDI to occur (Eden & Dai, 2010).

Because our study focuses mainly on the ownership advantages of EMNEs, we elaborate further on the notion of ownership advantages. There are three distinct types of ownership advantage: Firstly, asset ownership advantages (*Oa)* advantages involve the exclusive possession of tangible and intangible assets, such as superior technology, economies of scale, product differentiation and distribution networks; these have the propensity to increase firm transaction efficiency (Dunning 2001, 1988a,b, 1980). Path-dependent knowledge has also been regarded as a critical ownership advantage that is a valuable, unique and difficult-to-imitate resource in global competition (Boisot, 1998; Peng, 2001). Other scholars argue that the role of such path-dependent knowledge may depend on the characteristics of the host location (Buckley, 2004; Erramilli, Agarwal & Kim, 1997). Secondly, transactional ownership advantages (*Ot*) advantages refer to a firm's ability to co-ordinate distinct value-added activities across national boundaries and their capacity to reduce environmental and foreign exchange risk through intra-firm and inter-firm transaction activities (Dunning 2001, 1988a,b, 1980).

Finally, Dunning & Lundan (2008a, 2008b) add institutional ownership advantages (Oi), which include the range of formal and informal institutions that govern value-added processes within and across firms; thus, Oi advantages complement asset ownership advantages (Oa) and transactional ownership advantages (Ot) in the '*form of a triumvirate of O: Oa + Ot + Oi*' (Eden & Dai, 2010: 26). The inclusion of Oi advantages addresses previous calls for the OLI paradigm to be extended, to account for the EMNEs' unconventional types of ownership advantages not considered by the original model (Ramamurti & Singh, 2009).

The unconventional traits of EMNEs are often attributed to the unique characteristics of their home countries. Emerging economies are characterised by institutional voids i.e., volatile institutions (Khanna & Palepu, 1997, 2006) or rapidly moving business environments, due to on-going economic reforms (UNCTAD, 2017). Many scholars argue that the ownership advantages of EMNEs exhibit "institutional imprinting" (Cheng et al., 2009; Marquis, 2003; Marquis & Tilcsik, 2013; North, 1990; Peng, 2003; Peng, Wang & Jiang, 2008; Scott, 1995). Indeed, EMNEs' ownership advantages are strongly influenced by the institutions in their home country, particularly by institutional voids. These institutional factors can both promote and hinder the upgrading of existing resources and capabilities, including local firms' innovation (Zhu, Wittmann & Peng, 2012). This leads to competitive advantages or disadvantages.

In particular, institutional voids increase transaction costs and constrain firm resources, leading to competitive disadvantages (Cuervo-Cazurra & Genc, 2008). However, based on their ability to operate in institutional voids, EMNEs develop institutional ownership advantages that they leverage when investing in countries with similar institutional contexts i.e., in other emerging economies. In so doing, EMNEs transform competitive disadvantages into advantages (Cuervo-Cazurra & Genc, 2008; Sun et al., 2017).

Furthermore, whereas EMNE may not possess traditional, ownership advantages, they have internationalised in innovative manners. For example, by developing cost-efficient business processes and managing business groups, EMNEs can expand internationally (Madhok & Keyhani, 2012). In this process, the capability of managers from EMNEs to identify new opportunities and to purposefully extend, create and modify the firms' resources to engage in OFDI is instrumental for success. Based on their ability to operate in institutional voids, managers develop dynamic capabilities that can enhance OFDI. However, the role of dynamic managerial capabilities in supporting OFDI has received very limited attention thus far. This paper expands and builds on the understanding of dynamic capabilities, by exploring the role of dynamic managerial capabilities in driving OFDI from emerging economies.

Explaining OFDI from emerging economies: The role of dynamic managerial capabilities

Dynamic capabilities are crucial for firm expansion (Eisenhart & Martin, 2000). They are represented by the organisational and strategic routines by which managers change the firm's resource base through the acquisition, shedding, integration and recombination of resources to create value (Eisenhart & Martin, 2000). These capabilities are embedded in a company's processes (Khan & Lew, 2017) and highlight the company's ability to reconfigure itself in response to its external environment (Sapienza, Autio, George & Zahra, 2006). In particular, dynamic capabilities are crucial for firm success in rapidly changing environments (Teece et al., 1997; Teece, 2007, 2014; Zahra et al., 2006), such as emerging economies, which are characterised by institutional voids.

In such contexts, according to the dynamic capabilities approach (Cantwell, 2014; Teece et al., 1997; Teece, 2007, 2014; Zahra et al., 2006), a *sustainable* competitive advantage requires more than ownership of difficult-to-replicate (knowledge) assets (Teece, 2007). Indeed, it requires unique and difficult-to-replicate *dynamic capabilities* (Teece, 2007). Dynamic capabilities have been defined as a firm's ability to "integrate, build and reconfigure internal and external competences" to operate in rapidly changing environments (Teece et al., 1997: 516). They reflect the firm's capacity to achieve new and innovative types of competitive advantages, given its market positions and path dependencies (Teece et al., 1997).

Hence, to examine the drivers of OFDI from emerging economies it is crucial to integrate the *dynamic capabilities approach* (Teece, 2007; Teece et al. 1997). Dynamic capabilities can be disaggregated into the capacity to sense and shape opportunities and threats, the ability to seize opportunities, and finally, the capability to maintain competitiveness through enhancing, combining, protecting and -when necessary- reconfiguring the firm's tangible and intangible assets (Teece, 2007). Furthermore, these capabilities reside primarily with the management team, but are influenced by the organisational processes, systems and structures that the firm has generated to manage its operations in the past (Teece, 2007).

However, EMNEs are late-comers to the process of internationalisation (Luo & Tung, 2007, 2017), and hence they lack organisational processes, systems and structures that can allow them to learn from previous international experience.

In this context, it is the EMNEs that benefit from *dynamic managerial capabilities* that engage in OFDI, as these capabilities help EMNEs overcome the liability of emergingness. Dynamic managerial capabilities are the ‘capabilities with which managers build, integrate and reconfigure organizational resources and competences’ (Adner & Helfat, 2003:2012). The managers’ capacity to ensure ‘learning, integration, and, when required, reconfiguration and transformation -all aimed at sensing and seizing opportunities as markets evolve’ (O’Reilly & Tushman, 2008) is crucial in fostering OFDI from emerging economies.

As a result of their status of late-comers to the internationalisation process, EMNEs do not possess traditional ownership advantages (Luo & Tung, 2007, 2017). Instead, they develop unique competitive advantages, mainly based on their ability to operate in institutional voids, such as those existent in their home countries (Khanna & Palepu, 2006). In particular, the *managers’ adaptability in responding to changing business environments* is a dynamic capability that can be leveraged when investing abroad, be it in countries with similar institutional voids or developed economies. If investing in the latter, the difference between the home and host country institutions can constitute a change that also requires *managers’ adaptability in responding to changing business environments.* This dynamic managerial capability captures firms’ institutional ownership advantages developed as a result of operating in institutional voids i.e., contexts with volatile institutions (Khanna & Palepu, 2006) and is one of the crucial dynamic capabilities for sensing and shaping opportunities and threats, seizing opportunities and reconfiguring the firm’s tangible and intangible assets through OFDI (Helfat et al., 2007; Helfat & Martin, 2015; Helfat & Peteraf, 2015). This capability is crucial for EMNEs to overcome the liability of emergingness.

However, for managers to sense and seize opportunities as markets evolve, they require awareness of global issues and international experience because EMNEs often lack international experience (Luo & Tung, 2017) and the ability to align their capabilities more effectively with the environment (Johnson & Vahlne, 2009). Unlike EMNEs, managers from emerging economies may have acquired significant awareness of global issues and international experience from working for incoming MNEs (IMD World Competitiveness Centre, 2016). Knowledge about various opportunities for expansion and a positive attitude towards globalisation are crucial for the capability of managers to leverage the cognition capital associated with their awareness of global issues in sensing and seizing opportunities in a changing market environment. Moreover, awareness of global issues can enhance managers' strategic thinking, which is one of the key dynamic capabilities in responding to changing market conditions (Helfat et al., 2007; Hendry, Kiel & Nicholson, 2010). Furthermore, the capability of managers to leverage the social, human and cognition capital associated with international experience (Adner & Helfat, 2003; Helfat & Martin, 2015; Helfat & Peteraf, 2015) when sensing and seizing opportunities as markets evolve is an important dynamic managerial capability that helps EMNEs overcome the liability of emergingness and engage in OFDI. Human capital is one of the key elements of microfoundations (Coff & Kryscynski, 2011).

To explain OFDI from emerging economies, we focus on three dynamic managerial capabilities that contribute to the firms' ownership institutional advantages: *managers' adaptability in responding to changing business environments*, *managers' awareness of global issues* and *managers' international experience*. These three dynamic managerial capabilities are institutional ownership advantages that are difficult-to-replicate and thus, contribute to EMNEs' sustainable competitive advantage. We summarise our theoretical framework in Figure 1. We then explain our hypotheses.

Insert Figure 1 here.

HYPOTHESES DEVELOPMENT

Managers' adaptability in responding to changing business environments and OFDI from emerging economies

As a result of operating in volatile environments, firms develop institutional ownership advantages related to flexibility (Dunning, 2001) or the level of *adaptability in responding to changing business environments.* To remain competitive, firms must continuously respond to a rapidly changing business environment by renewing or modifying their existing resources and capabilities (Helfat et al., 2007; Teece et al., 1997; Teece, 2007; Zahra et al., 2006; Zollo & Winter, 2002) and managers' dynamic capabilities are crucial in this process.

Managers' *adaptability in responding to changing business environments* is one of the important dynamic capabilities for sensing and shaping various opportunities and threats, seizing new opportunities, and, ultimately, reconfiguring the firm's assets and boundaries, thus positively enhancing OFDI from emerging economies (Luo, 2000; Teece, 2012, 2014). This dynamic managerial capability builds on managerial cognition (Helfat & Martin, 2015) as a result of the managers' knowledge of operating in institutional voids, the managerial social capital (Blyer & Coff, 2003) that is required for firms to operate in institutional voids, and managerial human capital (Becker, 1964), i.e., the managers' ability to operate in institutional voids, developed through their prior experience.

Managers' *adaptability in responding to changing business environments* is leveraged when investing not only in countries with similar institutional contexts (Cuervo-Cazurra & Genc, 2008), but also in countries that are not characterised by institutional voids. The unfamiliarity of such institutional contexts acts as a new challenge that firms manage through their dynamic managerial capabilities (Helfat & Martin, 2015; Teece, 2012, 2014).

However, firms vary in terms of their capacity to develop dynamic capabilities and in their adaptability to the external business environment (Helfat et al., 2007; Teece et al., 1997). This variance leads to firms' unequal involvement in OFDI. Some firms seize OFDI opportunities as a response to sensing the challenge of increasing costs in the home country. Hence, managers relocate manufacturing operations into lower-cost locations (Dunning, 1988a). This reconfiguration of the firms' assets and boundaries leads to efficiency gains.

Other firms engage in OFDI to seize the opportunities arising from the liberalisation of foreign markets. To fully exploit increased demand (Dunning, 1988a,b), managers open sales subsidiaries abroad. This represents a market-seeking reconfiguration of firm's assets through OFDI. Moreover, when managers sense the challenge of insufficient control over foreign suppliers or distributors, they seize the opportunity to vertically integrate the firm's operations along the international supply chain (Dunning, 1988a,b). Hence, they reconfigure the firm's assets and boundaries through OFDI.

Furthermore, when sensing changes in consumer tastes or technology, managers engage in strategic asset-seeking OFDI. By reconfiguring their R&D subsidiaries, multinationals can seize the opportunities resulting from changing consumer behaviour or technological environments. Meeting these new challenges through new product development or new technological processes may also require engaging in resource-seeking OFDI. This further contributes to the reconfiguration of the firm's assets and boundaries through OFDI, based on the managers' *adaptability in responding to changing business environments*. Based on the above discussion, we propose the following:

> **Hypothesis 1:** The level of managers' adaptability in responding to changing business environments positively affects OFDI from emerging economies.

Managers' awareness of global issues and OFDI from emerging economies

To expand internationally, firms require dynamic managerial capabilities related to the level of *managers' awareness of global issues*. This dynamic managerial capability is particularly important for EMNEs because their home institutional environment is distinct from that of developed countries (Peng et al., 2008; *Sun et al.*, 2017; Wu & Chen, 2014). To achieve legitimacy in these new environments and to overcome the liability of emergingness, managers must have awareness (i.e., knowledge) of global issues and a positive attitude towards globalisation. The awareness of global issues may also enhance managerial cognition which may enhance the managerial decision making ability for internationalisation (Adner & Helfat, 2003; Maitland & Sammartino, 2015).

Furthermore, emerging economies are increasingly participating in the globalisation process as a result of the increasing liberalisation of trade and FDI (UNCTAD, 2017). These economies are not merely affected by globalisation; rather, they also shape this process. Thus, managers' awareness of global issues, which includes an awareness of the benefits and costs of globalisation, is essential when firms engage in OFDI. Although the international education of managers does not affect outward FDI (Tan & Meyer, 2010), managers' knowledge of global issues is a valuable dynamic managerial capability that enhances OFDI.

Awareness of global issues enables managers to sense, shape and seize opportunities related to changes in consumer tastes and technology. Managers who are aware of global issues are more likely to acknowledge the benefits of investing abroad and to spot opportunities for such expansion, leading to the reconfiguration of firm resources. These types of managers can identify: new markets to tap into through OFDI, new products to launch on these markets and new R&D subsidiaries investment opportunities, new manufacturing locations to rationalise the supply chain though OFDI, and new opportunities for horizontal and vertical integration through OFDI.

Moreover, managerial awareness of global issues can increase the effectiveness and efficiency with which managers co-ordinate and integrate firm activities or engage in the reconfiguration and transformation of the firm's assets structure (Teece et al., 1997; Teece, 2007) through OFDI. Furthermore, a "global mind-set" is a competitive advantage for EMNEs because it enables managers to effectively leverage international talent across their operations (Contractor, 2013). We thus formulate the following hypothesis:

Hypothesis 2: The level of managers' awareness of global issues positively affects OFDI from emerging economies**.**

Managers' international experience and OFDI from emerging economies

To expand internationally, EMNEs require dynamic managerial capabilities related to the level of *managers' international experience*, as EMNEs themselves have often little or no international experience (Cui et al., 2013). Managers' international experience is valuable, rare and inimitable (Carpenter, Sanders & Gregersen, 2001) and thus represents a crucial dynamic managerial capability that can enhance OFDI. Firstly, based on managerial cognition accumulated through prior international experience, managers develop the ability to sense and shape opportunities and threats to seize opportunities for OFDI (Carpenter & Fredrickson, 2001; Cui et al., 2013; Tan and Meyer, 2010), and to reconfigure firm's assets and boundaries through OFDI, including market, efficiency, resource or strategic asset-seeking OFDI.

Above all, managers' international experience brings crucial knowledge of how to effectively manage operations in foreign markets thus overcoming the liability of emergingness (Madhok & Keyhani, 2012). Such experience has been noted to play an important role in technological learning as firms internationalise (e.g., Zahra et al., 2000). The managerial cognition acquired through the internationalisation process helps firms develop unique sets of capabilities that can be exploited through OFDI. This "learning by doing" enhances the ownership advantages of firms (Pedler, Burgoyne & Boydell, 1997; Senge, 2006; Teece et al., 1997; Teece, 2012, 2014) and fosters further OFDI. Furthermore, the knowledge accumulated by managers through international experience also facilitates learning from competitors or from the firm's own previous internationalisation experience. This learning further enhances managerial social and human capital and facilitates OFDI from emerging economies (Johanson & Vahlne, 1977; 2009).

Secondly, managers' prior international experience is often accompanied by access to networks in various locations abroad that facilitate OFDI (Athanassiou & Nigh, 1999; Holm, Eriksson & Johanson, 1996; Tan & Meyer, 2010). Networks are particularly influential in OFDI decisions of firms from emerging economies (Buckley et al., 2007; Yiu, Lau & Bruton, 2007; Zhan, 1995). The managers' social capital and their ability to leverage networks help reduce the business risks and transaction costs associated with sensing and seizing opportunities in foreign markets. However, when these networks are home country-specific and cannot be leveraged in an international context, their influence on OFDI is not significant (Peng, 2003; Peng & Luo, 2000; Tan & Meyer, 2010). This discussion leads us to propose the following hypothesis:

Hypothesis 3: The level of managers' international experience positively affects OFDI from emerging economies.

METHOD

Sample and data

We include in our study 28 emerging economies from Europe, Asia, Africa, Latin America, and the Middle East (Table 1): Argentina, Brazil, Bulgaria, Chile, China, Colombia, Croatia, the Czech Republic, Estonia, Hungary, India, Indonesia, Jordan, Kazakhstan, Lithuania, Malaysia, Mexico, the Philippines, Poland, Romania, the Russian Federation, the Slovak

Republic, Slovenia, South Africa, Thailand, Turkey, Ukraine and Venezuela. This sample allows us to construct a panel data with a considerable number of observations (330). We thus avoid the statistical problems posed by missing data.[1] Although our sample is relatively small, it is comparable in size with samples used in similar studies (Zhang & Daly, 2011). Furthermore, this sample allows us to join the debate on the determinants of OFDI from emerging economies (Buckley et al., 2007; Buckley et al., 2017; Cuervo-Cazurra & Genc, 2008; Stoian, 2013).

Insert Table 1 here.

Our data sample period ranges from 2001 to 2014, due to data availability constraints. Our beginning with 2001 is further justified by the fact that OFDI from a subset of our sample of emerging economies, i.e., post-communist economies, was extremely limited in the early 1990s due to the political and economic instability that characterised this early transition period (Andreff, 2002; Blanke-Ławinczk, 2009; Rugraff, 2010). Furthermore, the negative public opinion that associated OFDI with capital flight also prevented OFDI from post-communist economies in the early 1990s (Andreff, 2002). The end of the sample period, 2014, is the last year for which reliable data are available.

We test our theoretical framework using variables that are proxies for firm-level behaviour and are measured at the country-level. We adopt this approach for several reasons: Firstly, our main theoretical anchor, the *OLI,* explains aggregate FDI based on firm-level OAs (Eden & Dai, 2010), many of which derive from the level of economic, technological and institutional development of the home country (Dunning, 2000). The *institution-based view* examines how firms' OAs are imprinted by country-level institutions and the *dynamic*

[1] Constraints related to data availability for the variables capturing managerial capabilities also influence the size of the sample.

capabilities approach investigates the sources of firms' sustainable competitive advantages. Consistent with our theoretical framework, our data that capture managers' dynamic capabilities are gathered through a cross-country questionnaire with managers but are aggregated at the country level.

Secondly, theories can be tested with data at various levels of aggregation (Liu, Buck & Shu, 2005); as the level of aggregation increases, the level of integration between various variables that can be accommodated increases (Liu, Buck & Shu, 2005), so country-level data are appropriate. Thirdly, using aggregate data allows us to investigate the determinants of OFDI from 28 emerging economies across 14 years, which enhances the generalisability of our results. Fourthly, this approach allows us to join the debate about the effects of home country institutional voids on EMNEs' investments abroad (Amal, Raboch & Tomio, 2009; Cuervo-Cazurra & Genc, 2008; Stal & Cuervo-Cazurra, 2011; Sun *et al*., 2017; Wu & Chen, 2014). Finally, this approach is consistent with the use of aggregate variables as proxies for firm-level behaviour in extant studies (Buckley et al., 2007; Kolstad & Wiig, 2012; Zhang & Daly, 2011).

We utilise the IMD World Competitiveness Centre database for this study. We complement the IMD data with data on world FDI (captured in our control variable *World FDI*), from UNCTADSTAT, as this information is not available from the IMD database. Using one main database ensures the compatibility of measurements and definitions across various variables and minimises potential data problems. Furthermore, the two databases are compatible, as they use similar country classifications and FDI definitions.

The dynamic managerial capabilities variables, as well as some of our control variables, are derived from a worldwide survey of managers conducted by the IMD World Competitiveness Centre as part of the IMD World Competitiveness Report (IMD World Competitiveness Centre, 2015a). The objective of this survey is to help measure aspects of competitiveness that are not easily quantifiable, such as management practices, labour relations, attitudes and quality of life (cf. IMD World Competitiveness Centre, 2015a). The survey responses capture global business executives' perceptions regarding the present and future of competitiveness. These answers are more recent and more similar to current situations than hard data, which, due to time-lags, provide information about the past (IMD World Competitiveness Centre, 2015a).

The survey is administered to senior business leaders who represent a cross-section of the business community for each country. There are approximately 100 respondents per country, who operate across all industrial sectors i.e., primary, manufacturing and services. The sample is representative: its composition by industry is proportional to the GDP breakdown of the economic sectors of each economy (IMD World Competitiveness Centre, 2015a). The survey is conducted between January and April. Participants return the survey responses directly to IMD, and all responses are treated as confidential.

The respondents are executives, nationals and expatriates who work for foreign companies or domestic firms that generally have an international dimension (IMD World Competitiveness Centre, 2015a). Drawing on their vast international experience, the respondents are asked to evaluate the present and expected aspects of competitiveness of the country in which they have worked and lived during the past year (IMD World Competitiveness Centre, 2015a). Managers must state the extent to which they agree with a sentence that captures a specific aspect of competitiveness, using a scale from 0 to 6: 6 indicates full agreement, whereas 0 represents total disagreement. Respondents choose the most appropriate answer. Rankings of survey questions are obtained from the average value for each country. The data obtained are then converted to a 0-10 scale (IMD World Competitiveness

Centre, 2015b).[2] We describe the variables, their measurement and their data sources in Table 2.

Variables

Dependent variable

Our dependent variable *OFDI* reflects OFDI by emerging economies multinationals. *OFDI* is measured as the annual OFDI as a percentage of the home country's GDP, as provided by the IMD World Competitiveness Centre database (2016). Using this variable rather than total OFDI flows allows us to normalise our dependent variable and to control for the differences in OFDI flows that arise because of differences in the size of the various economies included in our sample.

Independent variables

Our independent variables include the following three dynamic managerial capabilities: *OiAs*: *managers*' *adaptability* is an index that captures the extent to which managers exhibit adaptability in responding to changing business environments. *OiAs*: *managers' awareness of global issues* is an index that reflects managers' awareness of global issues. This variable captures the extent to which managers have awareness of the benefits and costs of globalisation, leading to a positive attitude towards globalisation. *OiAs: managers' international experience* is an index that measures the extent to which senior management has significant international experience (Gill, 2000; Zahra et al., 2000). In terms of OFDI, previous studies have used number of foreign subsidiaries as a measure of internationalisation (e.g., Lu & Beamish, 2001; Ramaswamy, 1995). The full definitions of these variables are provided in Table 2. The three

[2] The following formula is used for this conversion: (x*2)-2 , where x is the average value for each country (IMD World Competitiveness Centre, 2015b).

indices above range from 0 to 10, in which the bottom level denotes negative perception and the upper level indicates the most favourable perception regarding the specific variable.

The variable *OiAs*: *managers' international experience* is derived from the following statement in the IMD survey: 'international experience of senior managers is generally significant' (IMD World Competitiveness Centre, 2016). Regarding the variable *OiAs*: *managers' adaptability*, the statement in the IMD survey is as follows: 'adaptability of companies to market changes is high' (IMD World Competitiveness Centre, 2016). This statement refers to the companies' adaptability to changing business environments. As a firm's processes and routines affect managerial capabilities (Teece et al., 1997; Helfat et al., 2007), we are able to use the IMD variable as a proxy for the *managers' adaptability in responding to changing business environments* (e.g., Fladmoe-Lindquist, 1996). Finally, the variable *OiAs*: *managers' awareness of global issues* is developed based on the following statements in the IMD survey that reads: 'attitudes towards globalisation are generally positive in your society' (IMD World Competitiveness Centre, 2016). This statement refers to the extent to which society has a positive attitude towards globalisation. We assume that managers are a subset of each country's population, and we employ the IMD variable as a proxy for *managers' awareness of global issues.*

Control variables

We use three sets of control variables. The first set of variables includes proxies that account for the OAs of local firms that engage in OFDI, consistent with the *OLI* and its extension, the *Investment Development Path* (Dunning, 1981, 1986, 1988a,b). To capture the OAs derived from the economic development of the home country, we include *OAs based on Economic Development*. This variable is measured as the home country GDP per capita, as provided by the IMD World Competitiveness Centre database (Table 2). We expect *OAs based on*

Economic Development to be positively related to *OFDI* because local firms have higher capital availability and specialised know-how that they can then exploit abroad (Dunning, 1981, 1986, 1988a, b).

To account for the OAs derived from spillovers from incoming multinational companies, we use *OAs based on FDI Spillovers.* This variable measures the annual inflows of FDI, as a percentage of the home country's GDP, as provided by the IMD World Competitiveness Centre database. Using this measurement rather than total FDI flows allows us to normalise our dependent variable and to control for the differences in OFDI flows that arise because of differences in the size of the various economies included in our sample. This approach is also consistent with the measurement used for our dependent variable. We expect *OAs based on FDI Spillovers* to be positively related to *OFDI* because domestic companies enhance their own competitive advantages by imitating MNEs' practices and leveraging the skills of employees and managers with MNE experience (Dunning, 1981, 1986, 1988a,b).

Our second set of control variables includes other variables that are known to influence OFDI. We first control for the OAs derived from human capital (Liu et al., 2005; Porter, 1990). Our *OAs based on Human Capital* variable reflects the extent to which the human capital in the country enhances firms' competitiveness. It is provided by the IMD World Competitiveness Centre database, based on its survey of managers (see Table 2). We expect a positive relationship between *OAs based on Human Capital* and *OFDI* because, as firms' competitiveness increases, their involvement in OFDI increases.

We then control for the impact of infrastructure on OFDI. The quality of home-country infrastructure influences firms' competitiveness and their ability to engage in OFDI (Porter, 1990). Drawing on Wheeler and Mody (1992), our *OAs based on Infrastructure* variable captures the quality of overall infrastructure, including transportation, energy and communication infrastructure. We create a composite variable that averages three basic infrastructure variables provided by the IMD World Competitiveness Centre database, based on its survey of managers (see Table 2). The first variable included captures the extent to which air transportation encourages business development; the second variable reflects the extent to which energy infrastructure is adequate and efficient; the last variable captures the extent to which information technology skills are readily available. Each variable is measured using an index from 0 to 10; higher values indicate a stronger positive impact of the respective type of infrastructure on firm competitiveness, whereas lower values indicate a weaker positive impact. Consequently, our composite variable is also an index from 0 to 10; higher values reflect a stronger positive impact of overall infrastructure on firm competitiveness whereas lower values indicate a weaker positive impact. We expect a positive relationship between *OAs based on Infrastructure* and *OFDI,* with more competitive firms engaging in OFDI to a higher degree (Porter, 1990).

We also account for the impact of the legal and regulatory framework on firms' competitiveness and their ability to engage in OFDI, as reforms are known to enhance OFDI (Stoian, 2013). The *OAs based on the Legal Framework* variable reflects the extent to which the legal and regulatory framework encourages enterprises' competitiveness (IMD World Competitiveness Centre, 2016); it is measured using an index from 0 to 10, with higher values indicating a stronger impact of the legal and regulatory framework on firm competitiveness. This information is provided by the IMD World Competitiveness Centre database, based on its survey of managers (see Table 2). We expect a positive relationship between *OAs based on the Legal Framework* and *OFDI.*

We include *World FDI* to control for the volatility in FDI created by the world financial crisis that began in 2007/2008. This variable is measured as world flows of FDI as a percentage of world GDP, as provided by the UNCTADSTAT database. We expect a positive relationship between *World FDI* and *OFDI.*

Following suggestions from prior research on OFDI (Das, 2013), our third set of control variables accounts for the different geographical sub-groups within our sample of emerging economies. Based on the countries' different institutional contexts, there are significant differences between various sub-groups of emerging economies in terms of OFDI flows and trends (UNCTAD, 2017). The differences between institutional contexts stem from different types of economic reforms, various types of political regimes, cultural differences, and countries' participation in different regional economic agreements.

In particular, European emerging economies represent a distinctive subset of the sample (Meyer & Peng, 2005) as a result of their distinct culture, and their more recent transformation towards democracy and market economy, including their ever-increasing integration with the European Union (Demekas, 2007). Hence, we use *EU Membership* as a dummy variable to account for European emerging economies' membership in the European Union. Similarly, we use *MERCOSUR Membership* as a dummy to account for Latin American emerging economies that are members of MERCOSUR. This variable reflects member states' commonalities in terms of institutional contexts as a result of regional integration (Cavusgil, Ghauri & Agarwal, 2002).

We provide descriptive statistics for our independent variables in Appendix A. We also plot the independent variables in Appendix B to reveal the trends in our data.[3] The correlation matrix in Appendix C indicates that all correlation coefficients are less than 0.70. This finding suggests that there are no collinearity problems and that the coefficients of the variables can be interpreted as the marginal effect of each individual independent variable on the dependent variable, when holding the other variables constant (Cameron & Trivedi, 2005).

Insert Table 2 here.

[3] To check the robustness of our results, an Excel spreadsheet containing our database can be made available on request.

Similar to Buckley et al. (2007), for each model, we use two estimators: the pooled ordinary least squares (POLS) and the random effects (RE) estimators. We cannot use the fixed effects (FE) because we include in our model the dummy *MERCOSUR Membership* which is constant across various years (Cameron & Trivedi, 2005). On one hand, the POLS estimator assumes a constant intercept and slope regardless of the type of country investigated. It provides consistent coefficients if the regressors are not correlated with the error term. (Cameron & Trivedi, 2005). On the other hand, the RE estimator assumes that individual specific effects are uncorrelated with the independent variables (Cameron & Trivedi, 2005). Hence, this method controls for unobserved heterogeneity in the data when such heterogeneity varies over time (Cameron & Trivedi, 2005). This estimator is fully efficient and more efficient than POLS (Cameron & Trivedi, 2005).

We conduct the Lagrange multiplier (LM) test, to examine whether the RE estimator is more appropriate than the POLS. Because the p-value for the LM test is lower than 0.05, we conclude that the RE estimator is more appropriate than POLS. We present our results using the RE estimator in Table 3 and we discuss them in the next section. We also provide the results of using the POLS estimator in Appendix D, to support one of the robustness checks performed, as explained later.

We run four model specifications: model 1 includes only the control variables; model 2 includes the control variables and the *OiAs: Managers' Adaptability* variable*;* model 3 includes the control variables and the *OiAs: Managers' Awareness of Global Issues* variable; and finally, model 4 includes the control variables and the *OiAs: Managers' International Experience* variable.

Furthermore, we conduct several robustness checks: Firstly, we employ an additional estimator, the between group effects (BE) estimator. The BE estimator regresses the mean of the dependent variable on a constant and the means of all independent variables (Cameron & Trivedi, 2005). This estimator is appropriate when there is cross-sectional variation in the data. This method uses aggregate data and reduces the number of observations. The coefficients are consistent if the regressors are independent of the composite error, as in the case of the random effects model (Cameron & Trivedi, 2005). We report the results using the BE estimator in Appendix E. To check the robustness of our results, we inspect the significance and coefficients of the main variables when using the three estimators, i.e. RE, POLS and BE. Overall, we find that overall our results are robust across the RE and POLS estimators and that all independent variables have positive coefficients across all estimators. Although the results using the BE estimator do not support our hypotheses *H1* and *H3*, this may be due to the reduced efficiency of this estimator.

Secondly, we examine whether the relationship between *OFDI* and various managerial capabilities (which we assume to be contemporaneous) can also be explained by using lags of the independent variables i.e., assuming that *OFDI* in year t is influenced by the variables *OiAs: Managers' Adaptability*, *OiAs: Managers' Awareness of Global Issues* or *OiAs:Managers' International Experience* in year t-1. We report the results of this robustness check in Appendix F. Our estimations using lags of our independent variables show that our results are robust, as the independent variables have similar significance and coefficients as they do when assuming a contemporaneous relationship with *OFDI.*

Our last robustness check is to estimate our equations using a hierarchical linear model, to allow for the nested nature of our data (Cameron & Trivedi 2005). This technique is the equivalent of the RE estimator employed in this paper (Cameron & Trivedi, 2005) and in other studies that investigate the determinants of OFDI from emerging economies (Buckley et al., 2007; Stoian, 2013).[4] The results obtained using this technique are consistent with the results reported in Table 3, which are based on employing the RE estimator.

RESULTS

We present our results in Table 3. We find support for *H1*. The coefficient of the *OiAs:Managers' Adaptability* variable is positive and statistically significant. This finding suggests that as a result of operating in volatile environments, domestic firms develop institutional ownership advantages based on *managers' adaptability in responding to changing business environments.* They then leverage these competitive advantages when expanding internationally through OFDI. This finding contrasts with the findings of Wu and Chen (2014), who argue that by having to adapt their strategies to ever-changing institutional contexts, firms misallocate resources that might have been better used to build genuine competitive advantages that could be exploited through OFDI.

Insert Table 3 here.

However, we do not find support for *H2*. The coefficient of *OiAs: Managers' Awareness of Global Issues* is not significant. This finding implies that managers' knowledge about global issues is not sufficient to overcome the competitive disadvantage of operating in underdeveloped and volatile institutional environments. These findings are consistent with Tan & Meyer's (2010) findings that managers' international education does not enhance OFDI. Instead, it is the more specific knowledge acquired by managers through international experience that can be leveraged through OFDI.

[4] The hierarchical linear modelling also allows the variance of components to depend on regressors (Cameron & Trivedi, 2005).

Indeed, we find support for *H3*. The coefficient of the *OiAs: Managers' International Experience* variable is positive and statistically significant. As a result of international experience, managers of both local firms and foreign affiliates have the knowledge necessary for internationalisation. Furthermore, they are able to learn from competitors and to spot opportunities for OFDI. Moreover, they have access to networks of firms or individuals who can facilitate OFDI. These findings complement previous research (Athanassiou & Nigh, 1999; Holm et al., 1996; Tan & Meyer, 2010) by showing how *managers' international experience* helps MNEs overcome the competitive disadvantages of underdeveloped and volatile home country institutions and successfully engage in OFDI.

Our control variables help us account for other factors that may influence OFDI. Consistent with our expectations, OFDI appears to be driven by OAs derived from spillovers from incoming multinationals, as well as by OAs based on the presence of advanced infrastructure in the home country, as both corresponding variables have positive coefficients that are statistically significant. However, other factors such as *OAs based on economic development*, *OAs based Human Capital* or *OAs based on the Legal Framework* do not appear to influence OFDI, as the coefficients of these variables are not significant.

DISCUSSION

Implications for theory

This study aimed to examine the role of dynamic managerial capabilities in enhancing OFDI from emerging economies (e.g., Helfat & Martin, 2015; Teece, 2012, 2014). The motivation behind this study is to shed further light on the specific nature of ownership advantages that EMNEs develop as a result of the institutional voids in which they operate, thus providing important insights into the role of dynamic managerial capabilities in explaining OFDI in such contexts (Helfat et al., 2007; Helfat & Martin, 2015, Helfat & Peteraf, 2015; Teece et al., 1997; Teece, 2007). We argue that to explain OFDI from emerging economies, extant frameworks must be extended to reflect the role of specific dynamic managerial capabilities as ownership institutional advantages i.e., ownership advantages embedded in EMNEs' home countries' institutional voids.

We propose a theoretical framework that extends Dunning's *OLI* (1988a,b, 2000, 2001) by highlighting the role that dynamic managerial capabilities (e.g., Adner & Helfat, 2003; Helfat et al., 2007; Helfat & Martin, 2015) play in overcoming the liability of emergingness and in spurring EMNEs' international expansion through OFDI. The general explanation of FDI is that MNEs possess and leverage superior technological and managerial resources that enable them to enter new markets (Caves and Porter, 1977; Dunning, 1981, 1986, 1988a,b; Dunning & Lundan, 2008a, 2008b; Dunning & Narula, 1994,1998; Hymer, 1976). However, EMNEs typically do not own superior technology and lack world class management capabilities (Barnard, 2010; Luo & Tung, 2017). We focus on dynamic managerial capabilities such as managers' *adaptability in responding to changing business environments, awareness of global issues*, and *international experience* and their effect on OFDI. We find that it is the dynamic managerial capabilities that contribute greatly to the EMNEs' expansion through OFDI.

We find that EMNEs develop managerial capabilities such as *adaptability in responding to changing business environments* and *international experience* to overcome the liability of emergingness. Managers exploit these capabilities through OFDI. However, we find that managers' *awareness of global issues* does not affect OFDI. This knowledge does not appear to be sufficiently specific to constitute a competitive advantage.

Our first contribution is to the mainstream view of FDI according to which firms expand abroad to exploit specific ownership advantages (Caves and Porter, 1977; Dunning, 1981, 1986, 1988a,b; Dunning & Lundan, 2008a, 2008b; Dunning & Narula, 1994,1998; Hymer, 1976). By drawing key insights from the research on *dynamic capabilities,* we expand Dunning and Lundan's (2008a) concept of institutional ownership advantages to account for the role of dynamic managerial capabilities such as managers' *adaptability in responding to changing business environments*, *managers' awareness of global issues* and *managers' international experience* in overcoming the competitive disadvantages from home country institutional voids and enhancing OFDI. We complement the findings of Cuervo-Cazurra and Genc (2008), and demonstrate that ownership advantages that are embedded in the home country institutional context, such as *managers' adaptability in responding to changing business environments*, enhance OFDI. Managers' adaptability is a vital dynamic capability in addressing uncertain and dynamic environment such as those experienced by EMNEs during their expansion into international markets. We also complement the findings of Buckley et al. (2017) who investigate the role of managers in addressing host country risks and enhancing OFDI from emerging economies.

Our second contribution is to provide a fine-grained analysis of dynamic managerial capabilities by clarifying the impact of the liability of emergingness on firms' dynamic capabilities and examining how specific dynamic managerial capabilities drive OFDI from countries characterised by institutional voids. In doing so, we contribute to the debate on the evolutionary fitness of dynamic capabilities in the emerging economies context (e.g., Helfat et al., 2007). Scholars have often devoted attention to the unconventional firm-specific resources and assets of EMNEs, noting the necessity of extending the existing IB theory to account for the new phenomenon (Luo & Tung, 2007, 2017). We explain how managers' *adaptability in responding to changing business environments*, *awareness of global issues* and *international experience* help firms sense and, seize opportunities and reconfigure their assets through OFDI.

Adopting Teece's (2007) dynamic capabilities approach, and specifically Helfat and Martin's (2015) dynamic managerial capabilities view, we argue that for emerging economies' firms to overcome the liability of emergingness, they must develop specific dynamic managerial capabilities when engaging in OFDI. Dynamic managerial capabilities are important in today's changing and dynamic environments, such as those observed in the context of emerging economies. These findings highlight the important role of managers of EMNEs requiring adaptability and international experience to enhance internationalisation of EMNEs and ensure the long-term competitiveness of these firms as they expand in international markets (e.g., Augier & Teece, 2009; Helfat & Martin, 2015; Teece, 2012, 2014). For instance, Teece (2012) highlights the vital role of the manager in the transformation of firms in dynamic and changing environments whereas Clarke, Tamaschke and Liesh (2013) note that there is insufficient research regarding how managers' international experience can act as a substitute for the firms' lack of international experience.

Thus, we complement Luo's (2000) application of the dynamic capabilities approach to internationalisation. We also complement the findings of Cui et al. (2013a) that managers' personal international experience affects OFDI positively, particularly in the absence of organisational international experience. Our results are consistent with the findings of Liu et al. (2013), who show that strategic flexibility is positively related to international venturing and that this effect is enhanced by high levels of institutional support and ties with foreign organisations. We also answer calls by Cuervo-Cazurra and Genc (2008) to investigate the specific capabilities and resources that firms require to transform the competitive disadvantages of operating in institutional voids into competitive advantages.

Our third contribution is to the *institution-based view* (Peng et al., 2008). We extend the *institution-based view* by examining the role of specific dynamic managerial capabilities in addressing volatile and underdeveloped institutions and enhancing OFDI from emerging economies. We argue that home country institutions affect the ownership advantages and disadvantages of emerging economies and that specific dynamic managerial capabilities are needed to ensure sustainable competitive advantages. We address Peng et al.'s (2008) call for more research on *how* institutions affect firm strategy, and we follow Child and Rodrigues (2005), who argue that the interaction between institutions in developing economies and the dynamic capabilities of local entrepreneurs is crucial in explaining emerging OFDI. We also complement the work of Wu and Chen (2014), who distinguish between different types of institutional voids and their impact on MNEs. We thus join the debate on the importance of home country institutions in creating competitive advantages (Dunning, 2001; Meyer & Peng, 2005) or disadvantages (Child & Rodrigues, 2005; Liang et al, 2012; Mathews, 2006; Rui & Yip, 2008) for EMNEs and spurring OFDI.

Our next contribution is empirical in nature. Through our empirical analysis, we identify managers' *adaptability in responding to changing business environments* and *international experience* as dynamic managerial capabilities that enhance OFDI from emerging economies. This finding is a new contribution to the literature that complements the findings of Buckley et al. (2017), Tan and Meyer (2010), Wang, Hong, Kafouros and Boateng (2012), Gao et al. (2013), Cui et al. (2013), Sun et al. (2015), Liu et al. (2013) and Liu et al. (2005).

Managerial implications

Based on our findings, we believe that to facilitate investment abroad, firms from emerging economies must appoint managers who have adaptability in responding to changing business environments and who have international experience. Furthermore, by encouraging learning from foreign companies, managers of firms from emerging countries may further foster OFDI. This learning can be achieved through imitation, collaboration along the supply chain, strategic alliances with MNEs or recruitment of employees with international work experience.

To stimulate OFDI, emerging countries' governments should use financial and fiscal incentives to encourage FDI because many multinationals tend to use emerging countries as springboards for investing in neighbouring or similar economies. Furthermore, through FDI, incoming MNEs may offer domestic managers international experience and awareness of global issues, which can enhance OFDI. To further boost OFDI, policy makers must facilitate spillovers from MNEs by increasing the absorptive capacity of the economy, i.e., by improving the education system, the technological development level of the country and the overall institutional context. However, OFDI should be encouraged responsibly, given its potential negative effect on the home economy.

Limitations and Future Research

Our study has several limitations. Firstly, it focuses on only home country determinants, thus overlooking host country factors. Secondly, like other studies in *International Business,* our study is based on the assumption that firm ownership advantages are imprinted by country-level factors. Although this assumption allows us to use country-level variables as proxies for firm-level behaviour, future research needs to further empirically test this assumption. Thirdly, due to the use of aggregate data, we are unable to distinguish between OFDI originating from domestic companies and that originating from subsidiaries of MNEs. Further research can address the above limitations by investigating the roles of both home and host country factors and by using disaggregated, firm-level data. Finally, further research can investigate the role of other dynamic managerial capabilities, such as cognition, human capital and managerial social capital in enhancing OFDI from emerging economies.

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TABLES AND FIGURES

Table 1 Countries included in the study, by region

Continent	Countries
Africa and the Middle East	Jordan and South Africa
Asia	China, India, Indonesia, Kazakhstan, Malaysia, the Philippines, the Russian Federation, Thailand and Turkey
Europe	Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Lithuania, Poland, Romania, the Slovak Republic, Slovenia and Ukraine
Latin America	Argentina, Brazil, Chile, Colombia, Mexico, and Venezuela

Table 2 Variables, measures and data sources

Variable	Measurement	Data source
Dependent variable		
OFDI	Flows of outward FDI from country (billions of current US dollars) as percentage of GDP (billions of current US dollars)	IMD World Competitiveness Centre (2016).

	FDI outflows are the net value of outward foreign direct investment made by the residents of the reporting economy, including reinvested earnings and intra-company loans, net of receipts from capital repatriation and loan repayment.	
Independent variables		
OiAs: Managers' Adaptability	This variable is an index. It captures the home country's managers' *adaptability in responding to changing business environments*. The variable is derived from the results of a survey of managers' perceptions with regard to the statement: 'Adaptability of companies to market changes is high'. The resulting index used here ranges from 0 to 10. The bottom level (0) denotes negative perception, i.e., low *managers' adaptability*. The upper level (10) indicates the most favourable perception, i.e., high *managers' adaptability*.	IMD World Competitiveness Centre (2016).
OiAs: Managers' Awareness of Global Issues	This variable is an index. It captures the home country's *managers' awareness of global issues*, including their awareness of the benefits and costs of globalisation, leading to their perceptions of globalisation. The variable is derived from the results of a survey of managers' perceptions with regard to the statement: 'Attitudes toward globalisation are generally positive in your society'. The resulting index used here ranges from 0 to 10. The bottom level (0) denotes negative perception, i.e., low *managers' awareness of global issues*. The upper level (10) indicates the most favourable perception, i.e., high *managers' awareness of global issues*.	IMD World Competitiveness Centre (2016).
OiAs: Managers' International Experience	This variable is an index. It captures the home country's *managers' international experience*. The variable is derived from the results of a survey of managers' perceptions with regard to the statement: 'The international experience of senior managers is generally significant'. The resulting index used here ranges from 0 to 10. The bottom level (0) denotes negative perception, i.e., low levels of *managers' international experience*. The upper level (10) indicates the most favourable perception, i.e., high levels of *managers' international experience*.	IMD World Competitiveness Centre (2016).
Control variables		

OAs based on Economic Development	Home country GDP per capita, at purchasing power parity (in US dollars) (in logarithm)	IMD World Competitiveness Centre (2016).
OAs based on FDI Spillovers	Home country inward direct investment annual flows (billions of current US dollars) as a percentage of the home country's GDP (billions of current US dollars) FDI inflows are the net value of inward foreign direct investments made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net capital repatriation and loan repayment.	IMD World Competitiveness Centre (2016).
OAs based on Human Capital	This variable is an index. It captures firms' ownership advantages based on the quality of the human capital in their home country. The variable is derived from the results of a survey of managers' perceptions with regard to the statement: 'The human capital in the country enhances firms' competitiveness'. The resulting index used here ranges from 0 to 10. The bottom level (0) denotes negative perception, i.e., low levels of *firm competitiveness derived from human capital.* The upper level (10) indicates the most favourable perception, i.e., high levels of *firm competitiveness derived from human capital.*	IMD World Competitiveness Centre (2016).
OAs based on Infrastructure	This variable is an index. It captures firms' ownership advantages based on the quality of infrastructure in their home country. Building on Wheeler and Mody (1992), we account for three types of infrastructure: transportation, energy and communications. We build a composite variable by averaging three variables from the results of a survey of managers' perceptions with regard to the following statements:' Air transportation encourages business development.' 'Energy infrastructure is adequate and efficient'. 'Information technology skills are readily available'. Our composite variable, like the three variables that is based on, is an index that ranges from 0 to 10. The bottom level (0) denotes negative perception, i.e., low levels of *firm competitiveness derived from the quality of infrastructure.* The upper level (10) indicates the most favourable perception, i.e., high levels	IMD World Competitiveness Centre (2016).

	of *firm competitiveness derived from the quality of infrastructure.*	
OAs based on the Legal Framework	This variable is an index. It captures firms' ownership advantages based on the quality of the legal and regulatory framework in their home country. This variable is derived from the results of a survey of managers' perceptions with regard to the statement: 'The legal and regulatory framework encourages the competitiveness of enterprises'. The index ranges from 0 to 10. The bottom level (0) denotes negative perception, i.e., low levels of *firm competitiveness derived from the quality of the legal and regulatory framework.* The upper level (10) indicates the most favourable perception, i.e., high levels of *firm competitiveness derived from the quality of the legal and regulatory framework.*	IMD World Competitiveness Centre (2016).
World FDI	This variable controls for the volatility in foreign direct investment created by the world financial crisis started in 2007/2008. It is measured as world flows of FDI as a percentage of world GDP.	UNCTADSTAT (2016).
EU Membership	Dummy: 1 for Romania and Bulgaria for 2007 until 2014; 1 for the Czech Republic, Estonia, Hungary, Lithuania, Poland, the Slovak Republic for 2004 until 2014; else, 0.	Author's own.
MERCOSUR Membership	Dummy: 1 for Argentina, Brazil, and Venezuela for all years in the sample; else, 0.	Author's own.

Table 3 The determinants of OFDI from emerging economies: Random effects estimator

	Model 1	Model 2	Model 3	Model 4
OiAs: Managers' Adaptability		.43**		
		(.23)		
OiAs: Managers' Awareness of Global Issues			.03	
			(.21)	
OiAs: Managers' International Experience				.76**
				(.28)
OAs based on Economic Development.	.87	.69	.90	.63
	(.91)	(.92)	(.92)	(.91)
OAs based on FDI Spillovers	-66**	.67**	.66**	.67**
	(.02)	(.02)	(.02)	(.02)

OAs based on Human Capital	-.14	-.31	-.17	-.35
	(.22)	(.24)	(.23)	(.23)
OAs based on Infrastructure	.35**	.31**	.35**	.27
	(.12)	(.12)	(.13)	(.13)
OAs based on the Legal Framework	-.01	-.13	-.01	-.14
	(.17)	(.19)	(.19)	(.18)
World FDI	.08	.04	.07	.01
	(.10)	(.10)	(.10)	(.10)
EU Membership	.08	.09	.11	.22
	(.50)	(.50)	(.52)	(.50)
MERCOSUR Membership	.94	.12	.95	.41
	(.91)	(1.02)	(.93)	(94)
Constant	-6.92*	-6.67**	-7.03**	-7.27**
	(3.57)	(3.58)	(3.60)	(3.56)
R-Squared	.56	.57	.56	.57
R-Squared (within)	.69	.69	.70	.69
R-Squared (between)	.28	.30	.28	.31
LM test	71.66**	69.62**	71.83**	77.86**
No. Observations	330	330	330	330

Notes: Standard errors are in parentheses.

** - Significant at 10% level.*

***- Significant at 5% level.*

Appendix A Descriptive statistics for the independent variables

Variable	Mean	Standard Deviation	Minimum	Maximum
OiAs: Managers' Adaptability	5.52	1.02	2.79	7.7
OiAs: Managers' Awareness of Global Issues	5.53	1.11	2.46	8.2
OiAs: Managers' International Experience	4.93	0.84	2.80	7.32

Appendix B Independent Variables: Plots

Chart 1 Managers' Adaptability

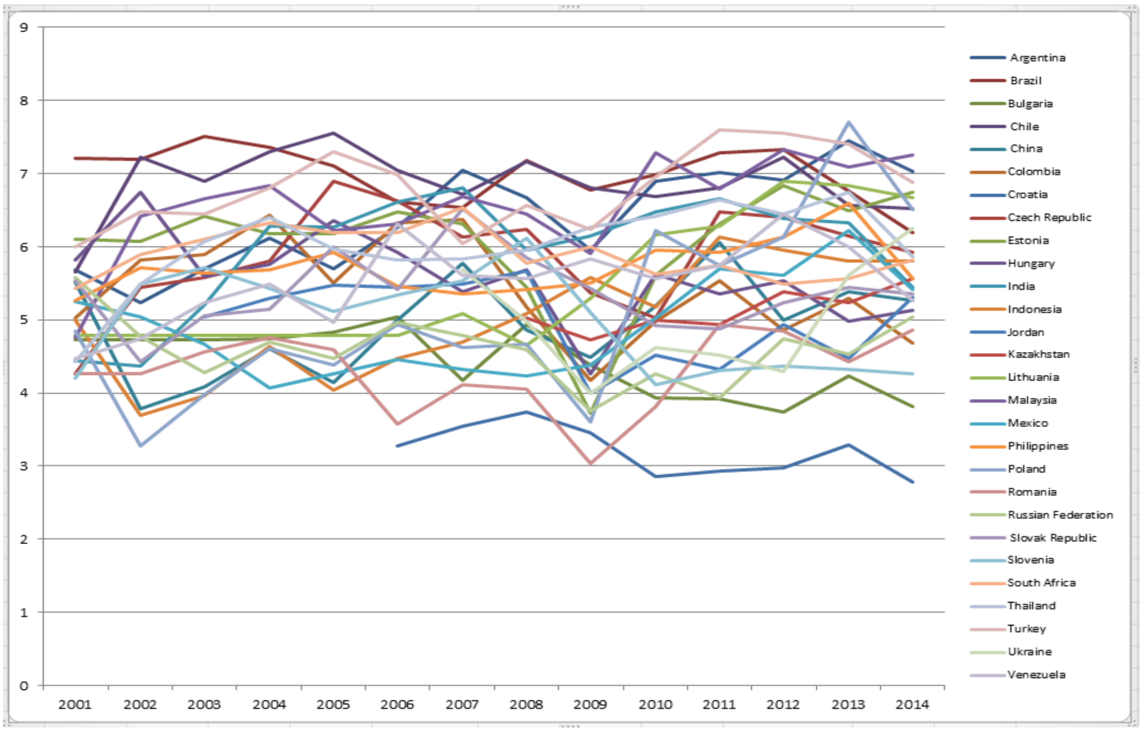


Chart 2 Managers' Awareness of Global Issues

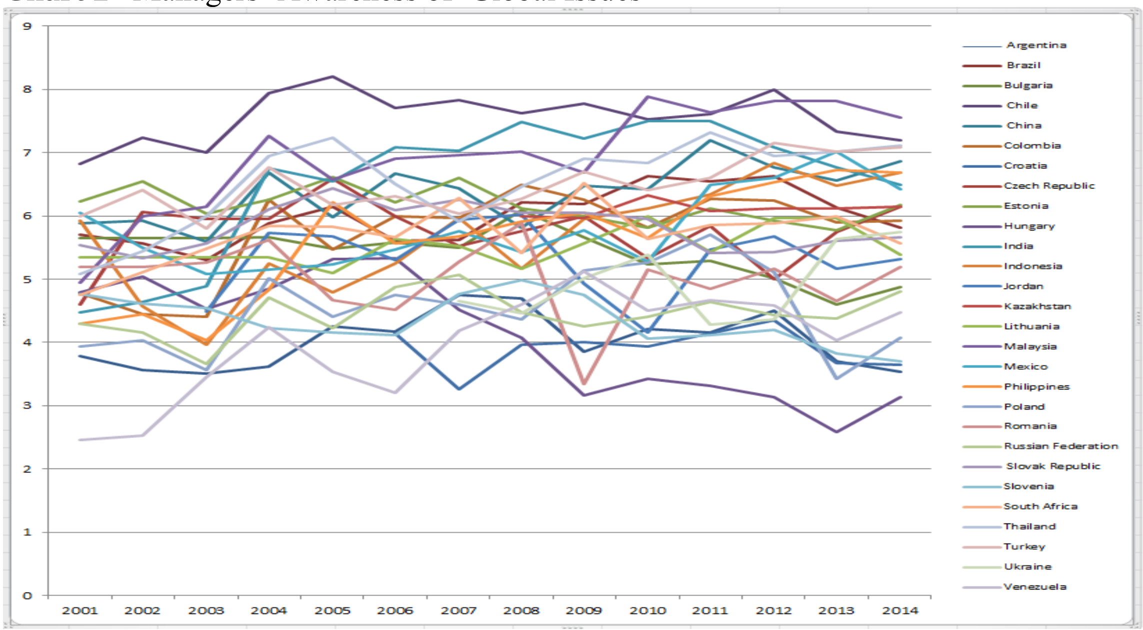
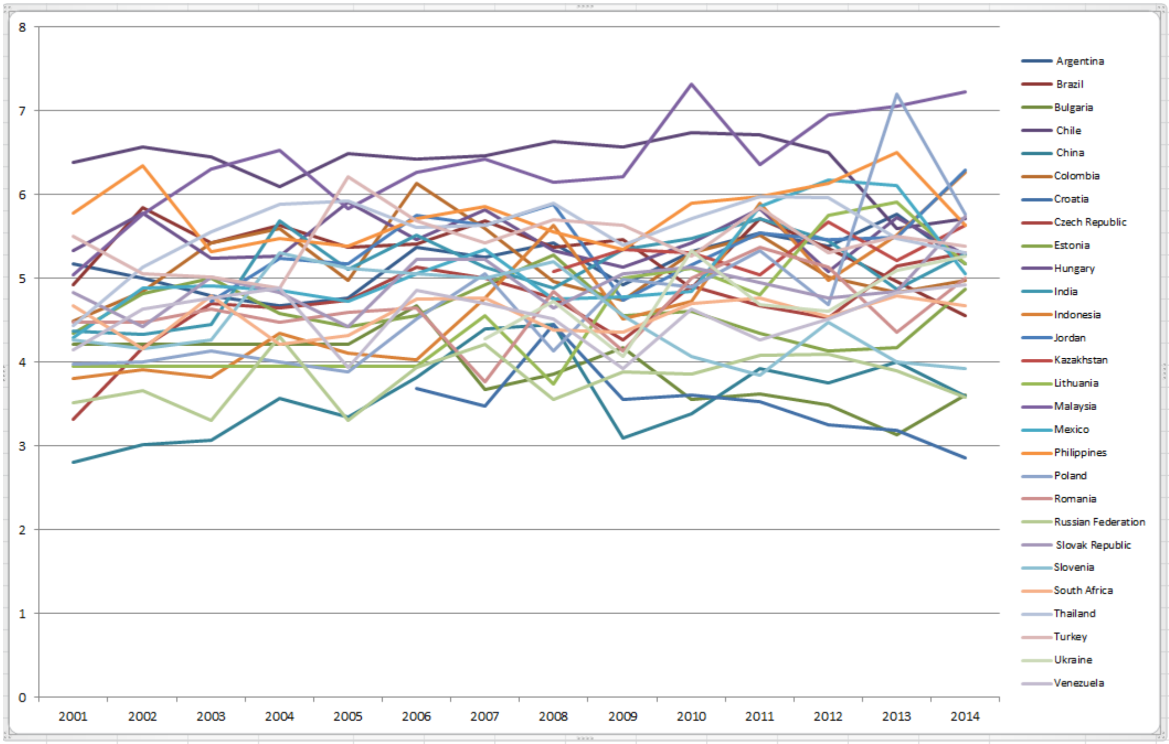


Chart 3 Managers' International Experience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0
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
Argentina
Brazil
Bulgaria
Chile
China
Colombia
Croatia
Czech Republic
Estonia
Hungary
India
Indonesia
Jordan
Kazakhstan
Lithuania
Malaysia
Mexico
Philippines
Poland
Romania
Russian Federation
Slovak Republic
Slovenia
South Africa
Thailand
Turkey
Ukraine
Venezuela

Appendix C Correlation matrix

Variables	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1. *OFDI*	1.00											
2. *OiAs: Managers' Adaptability*	0.08	1.00										
3. *OiAs: Managers' Awareness of Global Issues*	0.09	0.52	1.00									
4. *OiAs: Managers' International Experience*	0.16	0.66	0.45	1.00								
5. *OAs based on Economic Development*	0.15	0.04	-0.07	0.03	1.00							
6. *OAs based on FDI Spillovers*	0.74	-0.06	0.07	0.03	0.15	1.00						
7. *OAs based on Human Capital*	0.16	0.48	0.37	0.51	-0.15	0.11	1.00					
8. *OAs based on Infrastructure*	0.18	0.23	0.36	0.34	0.25	0.11	0.30	1.00				
9. OAs based on the Legal Framework	0.16	0.32	0.59	0.37	-0.08	0.21	0.57	0.30	1.00			
10. World FDI	0.18	0.02	0.13	0.09	0.38	0.15	-0.19	0.22	-0.14	1.00		
11. EU Membership	0.11	-0.16	-0.22	-0.16	0.52	0.15	-0.17	0.22	-0.04	0.22	1.00	
12. MERCOSUR Membership	-0.08	0.26	-0.27	0.01	0.02	-0.14	-0.20	-0.31	-0.53	-0.03	-0.21	1.00

Appendix D Robustness Check: The determinants of OFDI from emerging economies: POLS estimator

	Model 1	Model 2	Model 3	Model 4
OiAs: Managers' Adaptability		.56**		
		(.21)		
OiAs: Managers' Awareness of Global Issues			.01	
			(.19)	
OiAs: Managers' International Experience				.56**
				(.23)
OAs based on Economic Development.	.27	.10	.27	.12
	(.72)	(.10)	(.73)	(.72)
OAs based on FDI Spillovers	.58**	.60**	.58**	.59**
	(.03)	(.03)	(.03)	(.03)
OAs based on Human Capital	.48**	.27	.48	.29
	(.20)	(.22)	(.20)	(.21)
OAs based on Infrastructure	.25*	.18	.25	.18
	(.13)	(.13)	(.14)	(.13)
OAs based on the Legal Framework	-.15	-.34**	-.16	-.24
	(.15)	(.16)	(.17)	(.15)
World FDI	.15	.10	.15	.10
	(.10)	(.10)	(.11)	(.10)
EU Membership	-.14	-.09	-.13	.02
	(.43)	(.42)	(.45)	(.43)
MERCOSUR Membership	.46	-.64	.46	.07
	(.59)	(.72)	(.59)	(.61)
Constant	-6.23**	-6.12**	-6.26**	-6.40**
	(2.89)	(2.87)	(2.93)	(2.87)
R-Squared	.58	.59	.58	.59
No. Observations	330	330	330	330

Notes: Standard errors are in parentheses.

** - Significant at 10% level.*

***- Significant at 5% level.*

Appendix E Robustness check: The determinants of OFDI from emerging economies: Between effects estimator

	Model 1	Model 2	Model 3	Model 4
OiAs: Managers' Adaptability		.28		
		(.50)		

OiAs: Managers' Awareness of Global Issues			-.13	
			(.43)	
OiAs: Managers' International Experience				.22
				(.48)
OAs based on Economic Development.	1.10	1.06	1.04	1.09
	(1.43)	(1.46)	(1.48)	(1.46)
OAs based on FDI Spillovers	.31**	.33**	.31**	.31**
	(.09)	(.10)	(.09)	(.09)
OAs based on Human Capital	1.16*	1.05*	1.12*	1.05*
	(.48)	(.52)	(.51)	(.54)
OAs based on Infrastructure	-.40	-.44	-.37	-.45
	(.54)	(.55)	(.56)	(.55)
OAs based on the Legal Framework	-.04	-.15	.04	-.06
	(.34)	(.39)	(.46)	(.35)
World FDI	-.91	-.88	-.91	-.93
	(.84)	(.86)	(.86)	(.86)
EU Membership	.33	.32	.26	.42
	(.80)	(.82)	(.85)	(.84)
MERCOSUR Membership	-.43	-1.00	-.36	-.59
	(1.07)	(1.48)	(1.12)	(1.15)
Constant	-1.84	-2.24	-1.12	-1.90
	(8.71)	(8.89)	(9.23)	(8.89)
R-Squared	.64	.65	.64	.64
No. Observations	330	330	330	330

Notes: Standard errors are in parentheses.

** - Significant at 10% level.*

***- Significant at 5% level.*

Appendix F Robustness check: The determinants of OFDI from emerging economies: The role of lagged managerial capabilities variables (random effects estimator)

	Model 1	Model 2	Model 3	Model 4
OiAs: Managers' Adaptability (t-1)		.48**		
		(.21)		
OiAs: Managers' Awareness of Global Issues (t-1)			.34	
			(.22)	
OiAs: Managers' International Experience (t-1)				.58**
				(.26)

OAs based on Economic Development.	.87	.79	.89	.62
	(.91)	(.97)	(.96)	(.13)
OAs based on FDI Spillovers	-66**	.67**	.67**	.67**
	(.02)	(.02)	(.02)	(.02)
OAs based on Human Capital	-.14	-.25	-.08	-.26
	(.22)	(.23)	(.24)	(.23)
OAs based on Infrastructure	.35**	.49**	.46**	.29**
	(.12)	(.19)	(.20)	(.13)
OAs based on the Legal Framework	-.01	-.21	-.21	-.11
	(.17)	(.20)	(.21)	(.18)
World FDI	.08	.07	.06	.05
	(.10)	(.10)	(.10)	(.10)
EU Membership	-.08	-.08	.06	.15
	(.50)	(.53)	(.55)	(.50)
MERCOSUR Membership	.94	.03	.93	.47
	(.91)	(1.02)	(.92)	(.93)
Constant	-6.92*	-8.56**	-8.93**	-7.18**
	(3.57)	(3.85)	(3.83)	(3.59)
R-Squared	.56	.59	.58	.58
R-Squared (within)	.70	.70	.70	.70
R-Squared (between)	.28	.31	.28	.30
LM Test	71.66**	56.41**	64.68**	67.46**
No. Observations	330	330	330	330

Notes: Standard errors are in parentheses.

** - Significant at 10% level.**- Significant at 5% level.*

Figure 1 The determinants of OFDI from emerging economies: The role of dynamic managerial capabilities