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A double-edged sword? The moderating effects of control on firm capabilities and institutional distance in explaining foreign affiliate performance

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ABSTRACT

By drawing from the internalisation and institutional theories, as well as the organisational capability perspective, the paper analyses the moderating effects of parent control over foreign affiliates in relation to firm capabilities and institutional distance and their performance effects. These relationships are explored in the context of new MNEs from Poland as a mid-range emerging economy, for which ownership choices constitute critical decisions given their early stage of internationalisation. Our findings show that while firm capabilities drive foreign affiliate performance, the increase of parent control limits this beneficial effect, suggesting the potential occurrence of organisational inertia and reduction of learning in foreign markets. On the contrary, we also find partial evidence that the increase of parent control reduces the negative effect of institutional distance computed based on the Mahalanobis formula. Accordingly, the study suggests a certain ambiguity of parent control in affecting affiliate performance.

1. Introduction

The rise of multinational enterprises (MNEs) and the proliferation of their internationalisation strategies, particularly in the form of foreign direct investment (FDI), has resulted in a vast literature examining strategic decisions, among which ownership modes of foreign affiliates and their determinants have been an influential issue (Agarwal & Ramaswami, 1992; Cui & Jiang, 2010; Erramilli & Rao, 1993; Gomes-Casseres, 1989; Kaynak, Demirbag, & Tatoglu, 2007; López-Duarte & García-Canal, 2002; Meyer, Estrin, Bhaumik, & Peng, 2009). Indeed, corporate governance of the headquarters–subsidiary relationship constitutes an integral part of the strategic fit between the firm and its external environment (Filatotchev, Jackson, & Nakajima, 2013; Hoskisson, Wright, Filatotchev, & Peng, 2013). A part of the studies centred around foreign market entry modes has focused upon foreign affiliate performance and its determinants (Brouthers & Nakos, 2004; Brouthers, Brouthers, & Werner, 1999; Brouthers, Brouthers, & Werner, 2008; Chan, Isobe, & Makino, 2008).

Apart from exogenous influences on foreign expansion success at firm- and host country-level, it has been argued that the entry mode itself, with ownership as the manifestation of parent firm control over foreign market operations, is one of the important drivers of performance in foreign markets (Beamish & Lee, 2003; Gaur & Lu, 2007; Kim & Gray, 2008). Control can be defined as authority over decision making (Driscoll & Paliwoda, 1997; Hill, Hwang, & Kim, 1990), which allows firms to secure essential inputs to production, co-ordinate activities, ensure end products quality, and influence logistics and marketing activities for the product. Moreover, it enables the firm to identify more precisely the expectations of the market adapt the offering accordingly (Anderson & Gatignon 1986). Not least, firms choose a given organisational structure to minimise transaction costs and to maximise long term risk-adjusted efficiency (Anderson & Gatignon, 1986).The ownership mode of foreign affiliates, as expressed by different institutional arrangements such as joint ventures (JV) and wholly-owned subsidiaries (WOS), or equity stake of the parent in the affiliate, has occasionally been used as a moderating variable on the relationships of affiliate performance with its determinants, such as distance (Dikova, 2009; Dow & Larimo, 2011), environmental complexity (Luo, 2002) or host-country experience (Gaur & Lu, 2007).

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However, while theoretical concepts and empirical studies alike have pointed to the relevance of firm capabilities for succeeding in international operations (Fang, Wade, Delios, & Beamish, 2013; Luo, 2002; Xia, Qiu, & Zafar, 2007), much less attention has been paid to the role of the ownership mode on leveraging these capabilities (Chang, Chung, & Moon, 2013). Moreover, there is also contradictory evidence as to the propensity of firms to assume higher or lower ownership of foreign affiliates given particular constellations of firm capabilities and host country environments (Brouthers & Nakos, 2004; Brouthers, Brouthers, & Werner, 1996, 1999; Mani, Antia, & Rindfleisch, 2007). The performance implications of the governance mode of foreign transactions in different institutional contexts have remained rarely explored (Filatotchev, Strange, Piesse, & Lien, 2007; Gaur & Lu, 2007). Not least, we follow Brouthers (2013) in the assertion that while performance is affected by objective variables, such as the possessed capabilities or the environment for doing business (Meyer et al., 2009), ownership choices as strategic decisions are affected by managerial perceptions (Acedo & Jones, 2007). Hence, we argue that the level of parent control as achieved by assuming a given ownership over the foreign affiliate by the parent firm should be explored for its moderating effect on the firm- and country-level determinants of performance. This differs from a frequent perspective in earlier research in which the degree of internalisation is affected by a number of objective factors (Cui & Jiang, 2010; Meyer et al., 2009), The present study builds on internalisation theory which addresses the cross-border control over firm-specific assets, and incorporates the argumentation ofinstitutional theory and organisational capability (OC) perspective in order to explore how ownership choices affect the ability to leverage their capabilities in foreign markets, as well as to cope with institutional distance.

We do so based on a study of foreign affiliates of Polish MNEs in different host countries. While empirical studies on emerging MNEs have predominantly focused on Asian economies, FDI from Central and East Europe (CEE) has received far less scholarly attention due the novelty of the phenomenon and its still limited albeit dramatically rising scale. We focus on the context of Poland since it is a post-communist emerging economy (see e.g., MSCI, 2015) and a leading source of FDI from Central and Eastern Europe (CEE) (National Bank of Poland, 2015). Hoskisson, Eden, Lau, and Wright (2000, p. 249) define "an emerging economy" as a country "that satisfies two criteria: a rapid pace of economic development, and government policies favouring economic liberalisation and the adoption of a free-market system". Hoskisson et al. (2013) propose that Poland can be classified as a mid-range emerging economy.[1] "Compared to many other Central and Eastern European (CEE) transition economies, Poland has been able to foster better institutional development post breakup of the Soviet bloc." (p. 1299). However, while its institutional framework may be relatively advanced as compared to some traditional emerging countries, it is still underdeveloped in terms of factor markets and in terms of infrastructure. The mid-range positioning of the country accounts for the fact that FDI of firms from Poland is spread over a balanced portfolio of advanced and emerging markets, posing a promising empirical context for the exploration of expansion into different institutional contexts, which is relevant for the institutional aspects of the present analysis.

More importantly, however, the context of a mid-range emerging economy is of particular interest for studying ownership decisions in foreign expansion due to the nature of the MNEs from these countries. Ramamurti (2010: 419) distinguishes stages of MNE development, the first one being the 'infant' MNE which "*is a firm taking the first steps toward internationalization, with a heavy reliance on exports, modes overseas production in a few countries, and unknown brands*". The second, "adolescent" stage of MNE internationalisation involves manufacturing in several countries, though still concentrated in the home region, and up-and coming brands.[2] It is these types of immature MNEs that Hoskisson et al. (2013) collectively refer to as "new MNEs". As these firms from emerging markets may be at different stages of their lifecycle related to international operations, they also differ in the ways in which they access and configure resources and capabilities required for internationalisation, as well as modes of foreign market entry.

While there has been a wealth of studies devoted to such phenomena as early internationalisation (e.g., Li, Qian, & Qian, 2012), born globals (e.g., Gabrielssona & Gabrielsson, 2011), or international new ventures (e.g., Schwens & Kabst, 2009), they have not focused on MNEs as the object of interest, focusing on aspects related to international entrepreneurship and the role of individuals and their cognition (Acedo & Jones, 2007), rather than emergent MNE strategy. Indeed, as Ramamurti (2010: 423) points out, while mainstream IB theoretical concepts have focused on separate aspects of firm internationalisation in isolation, the study of early-stage MNEs allows exploring "*internally consistent why-where-and-how strategies for internationalization. Research on EMNEs provides the opportunity to make such horizontal connections between islands of IB theory*". Amongst these "how" questions, Hoskisson et al. (2013: 1314) highlight the fact that "*the effectiveness of a firm's FDI decisions may also depend on its governance characteristics, such as the distribution of ownership and control*" and that it is in the context of new MNEs that the knowledge on such choices can be enhanced.

The study begins by framing the theoretical discussion around internalisation theory and institutional theory in order to formulate baseline hypotheses on direct effects. Subsequently, the conceptual discussion draws on the organisational capability perspective and empirical studies on ownership decisions in foreign affiliates, leading to the formulation of hypotheses on the moderating effects of parent control. The next sections contain, respectively, the methodology and principal findings of our empirical study, as well as a discussion about their relevance and implications.

2. Theoretical background and research hypotheses

2.1. Internalisation theory, institutional theory and foreign affiliate performance

The concept of firm-specific assets (FSA) as the main drivers of firm success in foreign markets has long constituted a major tenet of some key concepts of international business (Caves, 1971; Hymer, 1976; Rugman & Verbeke, 1992). According to the monopolistic advantage theory, firms require the possession of value-generating assets in order to overcome their liability of foreignness (Hymer, 1976). Firm capabilities are also a central construct of the resource-based view which regards a firm as a bundle of capabilities and knowledge where individual skills, organisation and technology are inextricably woven together

[1] By mid-range emerging economies they understand emerging economies which may be relatively advanced either in terms of institutional development, or infrastructure and factor market development, but not both of them simultaneously, which would then be a feature of newly developed economies.

[2] It is not before the third stage of mature MNE that it operates in most major markets and regions, with advanced value adding activities transferred abroad and recognised international brands. It can be argued that it is this stage of MNE development that mainstream IB theory and research has focused on.

(Barney, 1991; Cui & Jiang, 2010). One of the most influential approaches in IB focused around firm-specific assets is internationalisation theory based on the premise that the international market for know-how is imperfect (Buckley & Casson, 1998). As a consequence of market imperfections, firm-specific knowledge would not be sold on the market at all or at its actual value, which makes the use of the market impossible or costly (Hennart, 2010).

This raises the incentive to internalise the knowledge transfer by extending the own firm across national borders, instead of allowing foreign partners to exploit firm-specific know-how. The use of the firm instead of the market can also be more efficient in a more extreme case where the market for a specific good is non-existent. In either case, the MNE can be conceptualised as an international, internal market for intermediate goods in which the MNE "reduces transaction costs by buying up complementary assets located in different nations and integrating their operations within a single unit of control" (Hennart, 1986: 792). Accordingly, given the existence of cognitive market imperfections, the creation of a foreign affiliate aims at reducing transaction costs by replacing market transactions, which can be inefficient under certain conditions, with more efficient transactions within the MNE boundaries (Rugman, Verbeke, & Nguyen, 2011). MNEs strive at profit maximisation through cross-border internalisation of the market for intermediate goods in order to ensure protection for such assets as knowledge in the areas of production, marketing and organisation, etc. Accordingly, the internalisation approach is preoccupied with the protection of rent potential (Madhok, 1998).

The internalisation theory in its extended version refers more explicitly to firm-specific advantages (FSAs), which constitute a source of competitive advantage in foreign markets (Rugman & Verbeke, 1992). Several scholars contributing to this theoretical stream have sought to shed more light on the role of FSAs in the context of MNEs. A particular emphasis on the exploitation of a distinct competitive advantage in the form of unique assets is made by Teece (2006), who sees it as a source of quasi-rents of MNEs. He goes a step further in specifying the unique assets which are a source of competitive advantage, differentiating between factors of production, resources, organisational routines or competences, core competences, dynamic capabilities, and products (Teece, Pisano, & Shuen, 1997).

Empirical research on foreign affiliate performance, drawing on the said approaches analyses the capabilities at the parent firm or foreign affiliate level, which can affect affiliate performance. At the level of the parent company, research confirmed the positive effect of such resources as firm size, product differentiation, international experience and host-country experience (Vega-Cespedes & Hoshino, 2001), firm performance and ownership structure (Ghahroudi, 2011), technological and marketing knowledge (Fang et al., 2013), or ethnical ties of managers with foreign business partners (Jean, Tan, & Sinkovics, 2011). Thus, it can be argued that:

H_1: Foreign affiliate performance is positively related to parent firm capabilities.

As discussed above, it must be more profitable to the firm to use the said ownership advantages on its own rather than externalising them via contractual agreements with external parties (e.g., licensing). An important location variable is related to the quality of the business environment, which affects firm productivity (Filatotchev et al., 2013; Meyer et al., 2009). Hereby, institutional theory draws attention to "rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction" (North, 2011: 3). Institutional frameworks can be divided into formal and informal constraints (North, 1991). Formal constraints include political rules, judicial decisions, and economic contracts, which affect firm behaviour alongside resource-based determinants (Peng, Sun, Pinkham, & Chen, 2009). Particularly in the context of emerging economies, institutional change tends to be more extensive than in developed countries and frequently results in significant differences in institutional infrastructures between the two groups of countries (Peng, Wang, & Jiang, 2008). Weak institutional arrangements may reinforce information asymmetries so firms face higher partner-related risks (Meyer et al., 2009) and need to spend more resources searching for information (Tong, Reuer, & Peng, 2008). The strengthening of the institutional framework thus lowers costs of doing business, affecting foreign affiliate performance.

Empirical research on foreign affiliate performance has indicated that host-country effects can be equally relevant in explaining FDI performance as industry- or firm-level effects (Chan et al., 2008). Related studies have analysed the impacts of psychic distance (Gaur & Lu, 2007), economic or institutional development (Chung & Beamish, 2005), yet again reaching inconclusive evidence. Several studies drawing on institutional theory found out that the level of institutional development of host-countries is positively related to affiliate performance (Chan et al., 2008). This results from the fact that the institutional environment of host countries can affect the costs of affiliate operations (Demirbag, Tatoglu, & Glaister, 2007). Formal institutional distance pertains to the differences between countries in terms of regulative aspects of the business environment. An underdeveloped institutional framework can have a negative influence on the level of FDI activity in a given country (Globerman & Shapiro, 1999; Wei, 2000). In a similar vein, Lee and Hong (2012) found that foreign affiliate performance is higher in countries with lower corruption. Thus, it can be generally argued that a more developed institutional environment provides more favourable conditions for foreign affiliate performance.

On the other hand, if a foreign affiliate is located in a host country that is more institutionally advanced than home country, this may actually afflict foreign affiliate performance. Advanced markets require meeting higher standards, continual product innovation and upgrading of resources to meet consumer expectations (Chari, 2015). Hence, such affiliates would find it challenging to catch-up and upgrade their capabilities quick enough (Luo & Tung, 2007). Moreover, the highly formalised labour and capital markets can constitute another challenge (Chacar, Newburry, & Vissa, 2010). In advanced markets, commercial transactions are based on formal written contracts rather than informal relational capital at which firms from institutionally less advanced settings may actually be more adept at (McMillan & Woodruff, 2002). Due to their unfamiliarity with such strict procedures, firms from less developed contexts may need to incur additional legal expenses to draft the contracts in the right format and meet stringent antitrust requirements. Such firms would also find it challenging to transfer and adapt their low-cost business models to such high-end advanced markets, creating a legitimacy deficiency (Phillips, Tracey, & Karra, 2013). Thus, on the whole, in line with the above reasoning, we propose that:

H_2: Foreign affiliate performance is negatively related to institutional distance.

2.2. Organisational capability (OC) perspective and the moderating effects of parent control

In the context of firm capability deployment and its performance repercussions, while some attention has been devoted to resource transfers between the parent and the affiliate (Fang, Jiang, Makino, & Beamish, 2010), the relatedness of marketing and technological knowledge between the parent and the affiliate (Fang et al., 2013), or the cultural distance effects on the capability-performance relationship (Qin, Ramburuth, & Wang, 2011), relatively little effort has been made to explore the effects that the mode of entry has on the ability to leverage firm capabilities

(Aulakh & Kotabe, 1997; Erramilli, Agarwal, & Seong-Soo, 1997; Nakos & Brouthers, 2002). In fact, an entry mode is characterised by a certain degree of resource commitment, as well as control of the foreign business by the parent (Anderson & Gatignon, 1986; Buckley & Casson, 1998; Gatignon & Anderson, 1988).

Based on the apparent benefits of control outlined at the outset, early studies of foreign affiliate performance frequently raised the argument that wholly-owned subsidiaries would outperform joint ventures (Nitsch, Beamish, & Makino, 1996; Woodcock, Beamish, & Makino, 1994), or that a higher level of parent ownership in general results in higher affiliate performance due to more managerial commitment (Beamish & Lee, 2003; Gaur & Lu, 2007). However, later research on affiliate performance points increasingly to the situational role of control as determined by a number of firm-specific and environmental variables (see e.g., Brouthers et al., 2008; Kim & Gray, 2008). In the meantime, entry mode research has been predominantly occupied with the determinants of ownership level (Chen & Hennart, 2002; Cui & Jiang, 2009; Pla-Barber 2001). Less attention has been paid to the role of ownership for the ability of firms to deploy their capabilities (Brouthers et al., 2008; Chang et al., 2013), or to mitigate the effects of the institutional environment (Dikova, 2009) on foreign market performance.

These issues are the more so important given the reasoning of the internalisation theory discussed above. In fact, for a given set of firm capabilities, as well as embeddedness of foreign affiliates in specific institutional contexts, the extent of internalisation of firm-specific capabilities in a foreign market by recurring to more integrated (i.e. higher control) modes of entry is contingent upon the existence of certain internalisation advantages (Dunning, 2000). In a similar vein, Shaver (1998) underlines that strategies are chosen based on firm attributes and environmental conditions, whereby strategy choice is endogenous and self-selected. Thus, Agarwal (1986) and Driscoll and Paliwoda (1997) regard internalisation factors not as an exogenous variable, but a set of criteria of entry mode choice, such as control, dissemination risk, resource commitment and flexibility, which are considered depending on firm-specific resources and host-country variables. Hence, in the ensuing reasoning we go on to regard parent control of the foreign affiliate as a moderating variable on the baseline effects proposed in the two previous hypotheses.

It can be argued that the possession of higher control over foreign affiliates allows for a more effective exploitation of firm-specific capabilities transferred from the headquarters (Chen & Hu, 2002; Cui & Jiang, 2010; Erramilli et al., 1997; Kim & Gray, 2008; Luo, 2002). Apart from the argument of more effective management due to control, it has also been pointed out that the lack of protection would make sharing of specialised knowledge risky (Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986). Previous findings have indicated that MNEs possessing strong R&D or advertising capabilities choose wholly-owned subsidiaries to exploit proprietary technology abroad, while those facing high technological barriers prefer joint ventures to obtain technological assets from foreign partners (Chen & Hennart, 2002). In fact, a firm that is able to develop differentiated products may be well positioned to exploit its capabilities in different markets due to its successful deployment of the same technology, its marketing and distribution in other markets (Aulakh & Kotabe, 1997; Nakos & Brouthers, 2002). Hence, firms may be inclined to invest in fixed costs of channel integration (Harrigan, 1985).

More differentiated products require higher consumer awareness due to unique features, as well as necessitate higher levels of after-sales service. Given such expectations, marketing activities may more effective when performed in-house rather than be outsourced to external parties. In fact, integrated channels provide more control with regard to foreign distribution and production activities (Pla-Barber, 2001). Likewise, if firms follow strategy based on a consistent product image, technology, or service features, they may wish to integrate end channels internationally, which is also reinforced by consumer mobility across countries and their access to information (Erramilli et al., 1997).

However, the organisational capability (OC) approach posits that firms are restricted in their structural and experiential capabilities to operate in foreign markets and hence their ownership decisions are constrained by the resource endowments and results from the past, such as international experience or intangible assets (Aulakh & Kotabe, 1997). Large and internationally experienced MNEs are more capable of dedicating their assets to FDI projects and operating through wholly-owned subsidiaries. Smaller and less experienced firms frequently need to enhance their capability by those of other firms that also face certain capability constraints (Madhok, 1998). Therefore, collaborative governance modes are not merely selected due to cost effectiveness, but due to knowledge acquisition and deployment (Hamel, 1991). Accordingly, following this conceptual perspective, a crucial shortcoming of an integrated ownership mode is that specialised market knowledge about the foreign market is not available within the foreign unit (Agarwal & Ramaswami, 1992; Brouthers et al., 1996; Kim & Hwang, 1992). In fact, success in a host country is contingent on the ability to learn and to adapt to its institutional system which particularly refers to regulatory, political and economic institutions (Xu & Hitt, 2012). With a higher degree of control in the MNE framework, particularly inexperienced MNEs can face the challenge of organisational intertia (Wu & Lin, 2010a, 2010b), as the adoption of certain patterns or routines from the parent firm can constrain firm behaviour and shift attention to short-term conditions in the host country rather than exploring its distinctiveness (Gao, Pan, Lu, & Tao, 2008). In this context, the use of local partners to overcome knowledge deficits on the specificity of the market can be favourable to capability building (Luo, 2002). Moreover, a local partner's network and the related access to local business knowledge can be supportive in adapting MNE knowledge to local conditions. In the absence of local partners, MNEs may fail to adequately address the local market's business specificity both as a source of additional necessary efforts and of new opportunities, thus affecting performance (Pangarkar & Lim, 2003).

In the same vein, Hennart (2009) argues that the degree of control of the parent MNE over the foreign affiliate ultimately results from the interaction between the firm deploying its capabilities and a local owner of complementary assets. Thereby, both parties combine resources to create value in a foreign market. In his bundling approach, he argues that the optimal level of control is determined by transaction costs related to acquiring complementary local assets, and incurred in markets for asset services, market assets and markets for firms in general. The degree of efficiency of these markets co-determines the need for foreign affiliate control. López-Duarte and García-Canal (2002) find that firms that have a higher degree of accumulation of technological competencies prefer foreign entry modes that imply combining their resources with those of other firms. This points to the fact that firms may look for complementary know-how, adding to their existing capabilities. Firms with a higher degree of technological competencies may be better predestined to absorb other firms' competencies (Cohen & Levinthal, 1994). On the whole, therefore, we propose that:

H_3: The positive relationship between firm capabilities and foreign affiliate performance is moderated by the ownership level, such that for higher ownership levels it becomes weaker.

In relation to the effects of the host country environment, it has been argued that firms entering riskier markets would prefer less control through ownership (Brouthers & Nakos, 2004; Brouthers

et al., 1996, 1999; Cui & Jiang, 2012; Shrader, Oviatt, & McDougall, 2000). In more uncertain environments firms may find it more favourable to recur to low control modes (e.g., JV instead of WOS) due to the increased flexibility related to a low control mode (Anderson & Gatignon, 1986; Aulakh & Kotabe, 1997; Delios & Beamish, 1999; Demirbag et al., 2007, 2009; Lopez-Duarte & Vidal-Suarez, 2013). Indeed, when risks are high, the MNE may prefer to increase its ability to exit while minimising losses (Hill et al., 1990). Thus, firms will tend to incur lower transaction costs by limiting their control in host countries with greater political risk and uncertainty. Moreover, an MNE can reduce the liability of foreignness in an institutionally distant country by cooperating with local partners, which may help to offset some regulatory requirements to a larger extent than if the foreign affiliate was owned by the MNE alone (Meyer et al., 2009; Quer, Claver, & Rienda, 2007; Yiu & Makino, 2002). A shared ownership mode is less subject to discriminative treatment by the host country government (Ando, 2012; Cui & Jiang, 2010), or expropriation resulting from opportunistic behaviour of local authorities or changes in trading agreements and investment regulations (Chan & Makino, 2007).

However, there is another, prevalent perspective. As it has been argued in line with internalisation theory, a higher equity stake helps to evade host-country risks (Luo, 2002) and reduce costs related to contracting with external parties (Dikova, 2009). Given that foreign firms do not necessarily need to recur to local partners to reduce unfamiliarity with formal institutional aspects, they can instead choose to enter foreign markets through more integrated ownership modes, such as wholly-owned subsidiaries. Thereby, they can also evade relational hazards resulting from cooperation with local partners (Aulakh & Kotabe, 1997). For the case of entering an institutionally more advanced setting than the home country of the MNE, De Beule, Elia, and Piscitello (2014) observe that emerging MNEs show a higher propensity to control a local partner with the increase of institutional distance, arguing that a better institutional environment in advanced countries actually reduces the need a local partner. As institutional distance increases, it is more effective for MNEs to have higher levels of ownership in order to reinforce control over their foreign affiliates, which can subsequently enhance their survival chances (Gaur & Lu, 2007). On another note, the use of high control modes has also been suggested in emerging host markets with deficient intellectual property protection frameworks (Chen & Hu, 2002; Dikova & Van Witteloostuijn, 2007). Under an institutional setting where the protection of property rights is weaker, the costs of recurring to shared ownership modes rises due to risks of unintended dissemination of proprietary know-how to competitors, suppliers, and buyers (Delios & Beamish, 1999).

Regardless of the direction of distance (i.e. whether institutionally more or less advanced markets are being entered), Estrin, Baghdasaryan, & Meyer (2009a) Estrin, Baghdasaryan, & Meyer (2009b)argue that first-time investors are more likely to opt for higher ownership levels with the increase of institutional distance. In fact, shared ownership modes can be may be more difficult to design if the partners operate under different legal systems, either it less or more advanced than those of the home country (Chari, 2015; Sarathy & Banalieva, 2014). Differences in institutions may hinder the transfer of business practices to foreign affiliates (Kostova & Roth, 2002). Thus, on the whole, while the detrimental effect of excessive control over foreign operations for organisational flexibility and an adapted usage of firm-specific assets in new contexts was proposed above, in the case of institutional distance it can be argued that higher control alleviates environmental adversity due to creating a cross-border market substitute. Thus, we propose:

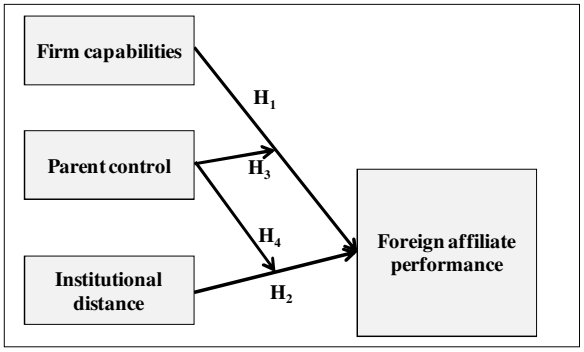

Fig. 1. Analytical framework for studying foreign affiliate performance of new MNEs.

H_4: The negative relationship between institutional distance and foreign affiliate performance is moderated by the ownership level, such that for higher ownership levels it is weaker.

Fig. 1 above summarises this theoretical discussion in the form of an analytical framework for the present empirical study described in the ensuing sections.

3. Research methods

3.1. Sample and data collection

Our hypotheses are tested on a sample of new MNEs with headquarters based in Poland. Since no precise firm-level data on outward FDI are publicly available in Poland, several data sources were combined, including Bureau van Dijk's Amadeus, as well as press articles and company reports. The key criterion to construct the database of new MNEs from Poland was the possession of foreign affiliates (i.e. a capital share of at least 10%, regardless of entry mode). Moreover, to ensure a reliable interpretation of findings. The triangulation of sources allowed creating a final proprietary database of 823 firms having actual foreign operations (i.e. excluding subsidiaries that were closed or sold). The quantitative study started with pre-tests. The first one featured 5 senior IB scholars and verified the survey in methodical and conceptual terms. In a second step, it was dispatched to 10 managers working in 6 countries in order to improve the clarity and precision of survey items.

Between May 2013 and January 2014 a web-based survey (see Appendix A for the operationalisation and exact sources of items used in this study) was sent to top managers directly responsible for foreign operations, or to other managers with a request to forward it to the former. A single key informant approach was followed for each firm (Sousa, Ruzo, & Losada, 2010). Due to frequent concerns about the technical reliability, response rates or security of electronic surveys (Kim & Gray, 2008; Sills & Song, 2002), an IT services agency was entrusted with the preparation of the survey, its execution and dispatch of regular reminders. These efforts were supported by a significant amount of direct contacts with the sample MNEs in order to identify and persuade the most suitable key informants to participate. Moreover, additional interviews and secondary sources including corporate annual reports were used to complete missing survey data, if necessary. Finally, a total sample of 100 complete usable surveys was obtained, which corresponds to a usable response rate of roughly 11.3%.

With a view to securing the generalisability of our results, we used an extrapolation method based on the test for significant differences between early and late respondents, defined as the first

75% and the last 25% of returned surveys, respectively (Armstrong & Overton, 1977; Johnston, Khalil, Jain, & Cheng, 2012; Sousa et al., 2010). T-tests for such firm characteristics as firm size, firm age, share of foreign ownership, sector, number of foreign affiliates, or length of foreign operations, revealed no significant differences at 0.05 level, suggesting that the non-response bias is not affecting the representativeness of the sample. However, to further ensure that our sample is representative for the population of Polish new MNEs, we additionally gathered objective information from the Amadeus database about the 823 firms in terms of the knowledge-intensity of the sector of activity. The Mann-Whitney *U* tests for the difference between respondents and non-respondents revealed no significant differences at 0.001 level, thus corroborating the previous checks and confirming the representativeness of our sample.

Furthermore, we recurred to several techniques to minimise the possibility of common method bias (CMB) (Podsakoff, Scott, MacKenzie Lee, & Podsakoff, 2003), such as changes in the question order and item order so that no answers are implied, nor any concepts implicitly linked to each other, placement of questions related to the dependent variable at the end of the survey to reduce the effects of consistency artifacts, as well as the use pre-validated measures and including comments from experienced scholars in the aforesaid pre-test. In order to test post-hoc whether CMB affects the present findings, Harman's one-factor test was performed (Podsakoff & Organ, 1986). Factor analysis without rotation, as well as using the principal axis factoring method without rotation and involving all predictor variables did not lead to identification of a single factor. Moreover, none of the factors accounted for the majority of covariance in all variables. Thus, CMB is not likely to be an issue.

3.2. Dependent, independent and control variables

The dependent variable for all hypotheses is the performance evaluation of the largest foreign affiliate in terms of total assets in the last fiscal year (see Appendix A). Subjective performance measures have been used, expressed as managerial evaluations of the analysed dimensions in relation to the initial objectives determined by the parent firm (Dikova, 2009; Kwon, 2010; Slangen & Hennart, 2008). The nine items employed to establish the performance measure relate to both financial and non-financial indicators, in line with earlier research (Brouthers & Nakos, 2004; Brouthers, 2002) and averaged to create an aggregate index. The said scale displays a high degree of reliability, with the Cronbach's α=0.93 (see Appendix A). While the collection of objective quantitative data might reduce the response rate due to the sensitive character of such information, subjective data also allow to account for performance evaluation from the headquarters perspective, since the parent company is aware of the objectives' set for the foreign venture. Moreover, as subsidiary performance is often determined by uncontrollable factors (such as transfer pricing, subsidies, management fees or exchange rates), perceptual measures have been used to overcome this limitation. Prior research also suggested that the use of subjective measures is particularly desirable in studying companies from emerging markets and that these measures correlate with objective measures with a high degree of reliability (Luo & Peng, 1999). Thus, we decided to apply a holistic approach to measuring performance, the more so that factor analysis using different extraction methods did not yield fully unambiguous performance categories.

The first explanatory variable is related to the ownership level measured as a self-reported percentage of foreign subsidiary capital held by the parent firm, expressed as an ordinal variable, which is a well-established measure established in extant literature (e.g., Ghahroudi, 2011; Ogasavara & Hoshino, 2007). Secondly, firm capabilities of the studied new MNEs were evaluated on a five-point bi-polar scale with reference to each firm's closest competitor in regards to different capabilities (*technological capabilities, new product development capabilities, marketing capabilities, managerial capabilities and product adaptation capabilities*) (Agarwal & Ramaswami, 1992; Brouthers et al., 2008). The construct showed a value of Cronbach's α of 0.88, indicating high of the aggregate measure(see Hair, Anderson, Tatham, & Black, 1998). Bowling (2002) even regards values over 0,5 as acceptable.

Institutional distance was computed based on the 10 items of the economic freedom index developed by the Heritage Foundation, embracing property rights, freedom from corruption, fiscal freedom, government spending, business freedom, labour freedom, monetary freedom, trade freedom, investment freedom, as well as financial freedom (Elia, Piscitello, & De Beule, 2012; Estrin & Uvalic, 2014; Estrin et al., 2009a,b). Each item shows results between 0 and 100 for 184 countries available from 1995 to 2013. In line with recent arguments raised by Berry et al. (2010), institutional distance was computed by using the formula of Mahalanobis. We chose this method for calculating distance due to the fact that the Euclidean method does not take into consideration the correlation between indicators used to measure it. This is the case of variables characterising different levels of country development. Moreover, the Mahalanobis distance is not affected by variables for which higher variance or higher ranges of values can be observed, since the use of the covariance matrix in its computations allows to standardise data by using variance located on the diagonal. Thus, the Mahalanobis distance was found to be a robust measure of country distances (Berry, Guillen, & Zhou, 2010).

Given the multitude of potentially relevant factors affecting foreign affiliate performance and documented in earlier studies, mostly in the context of MNEs from advanced economies, several control variables were introduced. We also controlled for affiliate size (Gaur & Lu, 2007), both measured as the current employment, as well as affiliate and firm age (Kwon, 2010). Due to the presence of outliers in the size-related variables, their natural logarithm was used. In line with earlier research, an industry dummy is included with 0 = manufacturing and 1 = non-manufacturing (Brouthers, 2002).

4. Results

4.1. Descriptive statistics

The distribution of sample new MNE characteristics is to a large extent similar to that of the entire population with regard to industry classification and parent nationality. Thus, the collected data enable a detailed exploration of the sectoral, geographic, modal and size structure of Polish OFDI (see Table 1). The studied sample was dominated by manufacturing industries (61% of firms), followed by services (39%). In terms of firm size, companies with over 500 employees constituted 50% of the sample. In order to qualify for inclusion in the database, the firms had to (1) possess at least 10% of shares in an affiliate located abroad, and (2) be registered in Poland, while their ultimate owners might be located abroad. In case of 54% of the parent firms in the sample, the share of foreign equity capital does not exceed 10%. While 46% of firms reported shares of over 11% of foreign capital, only 18% of sample firms simultaneously indicated both over 11% of foreign capital and the existence of another dominant entity in their capital group. Moreover, case-by-case evidence suggests that many of these foreign dominant entities were in fact Polish-owned entities, located abroad for fiscal reasons. Therefore, it can be stated that in the case of the vast majority of FDI projects in the sample, decision-

Table 1
Features of new MNEs in the sample (N = 100).

MNE size (# employees)	N	Sector of MNE	N	Ownership in major affiliate	N	Number of affiliates	N
0–99	15	Manufacturing	51	11–49%	21	0–3	69
100–249	14	Wholesale and retail trade	14	50–95%	21	4–7	22
250–499	21	Information and communication	8	95–100%	58	Over 8	9
500–999	13	Financial and insurance activities	8				
1000–1999	15	Agriculture, Forestry and Fishing	4				
>1999	22	Other	15				

making, managerial capabilities and coordination of the relationship between the Polish and foreign entity were located in the Polish firm.

The studied firms located their major FDI projects mostly in Germany (16%), Ukraine (16%), the Czech Republic (13%), Romania (10%) and Russia (9%). This reflects the fact that the respondents were requested to refer to subsidiaries engaged in manufacturing and distribution, as opposed to special purpose vehicles and other elements of corporate financial structure, thus diminishing the notable role of such locations as Luxembourg, Switzerland or the Netherlands (Zimny, 2011). The still limited scope of foreign operations is reflected by the fact that 68% of these new MNEs have foreign affiliates in only up to 3 countries, whereby sales and marketing activities are predominant (for more information on the sample, see Trąpczyński & Banalieva, 2016).

4.2. Hypotheses testing

In order to test our four hypotheses, we ran a series of ordinary least-squares (OLS) regression models by using the SPSS 23 software package (see Table 3). The choice of the model form is based on the premise that linear regression models are econometrically appropriate, when the performance of affiliate is treated as the dependent variable (e.g., Carlsson, Nordegren, & Sjoholm, 2005; Demirbag et al., 2007; Dikova, 2009; Kim & Gray, 2008; Slangen & Hennart, 2008). Hereby, it is assumed that the Likert-scaled dependent variable is treated as continuous rather than ordinal due the nature of the underlying construct, which can be appropriate if the data stem from a single homogeneous population and under the assumption of multivariate normality (Lubke & Muthén, 2004). The application of OLS regressions to Likert-scaled explanatory performance variables has been deemed acceptable in earlier studies (Ahammad, Tarba, Lui, & Glaister, 2016; Kawai & Strange, 2014; Larsen, 2016; Nguyen & Rugman, 2015). In order to ascertain the appropriateness of the OLS models, several assumptions had to be validated. Firstly, before running the regressions, several statistical checks (correlation analysis, independent sample tests) were conducted in order to detect multicollinearity between the explanatory variables, as well as to provide an initial understanding of the relationships between foreign affiliate performance and both independent and control variables. Descriptive statistics on all variables are provided in Table 2. The analysis of variance inflation factors (VIF) for all regression models revealed no major problems with regard to multicollinearity, as VIF values for all variables in all models were within acceptable thresholds (Chiao, Yu, Li, & Chen, 2008; Georgopoulos & Preusse, 2009), except for equations with multiple interaction effects. However, to address the latter, the variables involved in interactions (firm capabilities, ownership and institutional distance) were mean-centered in all models (Gaur & Lu, 2007). At the same time, data were checked for any outliers. In order to alleviate these concerns, affiliate and firm age, as well as affiliate size were all transformed using the natural logarithm. Secondly, to verify the appropriateness of the model form, the assumptions of the linear relationship and the normal distribution of the explanatory variable were positively verified by dedicated checks. In order to exclude the problem of autocorrelation in the residuals, the Durbin-Watson statistic for all models was computed, reaching values of approximately 2, thus raising no concerns (see Table 3).

The modeling process started with the inclusion of all control variables in the initial model and continued by a gradual expansion of the model with the aim of testing the effect of the variables included in the research hypotheses (e.g., Gaur & Lu, 2007; Kwon, 2010). While the obtained adjusted-R^2 values are not high in absolute terms, they are higher than in case of some earlier studies on affiliate performance (compare e.g., Dikova, 2009; Ogasavara & Hoshino, 2009). In all models, firm capabilities turned out to be positively related to foreign affiliate performance and statistically significant (at least $p < 0.05$), thus providing strong consistent support for Hypothesis 1. The direct effect of ownership level turned out to not to be statistically significant in any of the models, which is in line with the present paper's conceptual assumption that it is an intervening variable. The negative direct effect of institutional distance on performance was statistically significant only in the full model which takes into

Table 2
Descriptive statistics and Pearson correlations (N = 100).[a]

Variables	Mean	Std. Dev.	1	2	3	4	5	6	7	8
1. Foreign affiliate performance	2.77	0.68	1							
2. Firm capabilities	0.0	0.74	0.22*	1						
3. Ownership	0.0	1.47	0.09	0.09	1					
4. Institutional distance	0.0	0.64	−0.12	0.04	0.14	1				
5. Affiliate age	5.90	3.64	−0.25*	−0.08	−0.04	−0.08	1			
6. Affiliate size	3.81	1.94	0.14	0.01	0.02	−0.07	0.16	1		
7. Industry dummy	0.61	0.49	−0.23*	0.02	−0.02	0.27**	0.28**	0.16	1	
8. Firm age	25.21	19.86	−0.28**	0.02	0.05	0.08	0.26*	0.19†	0.19†	1

***$p < 0.001$; **$p < 0.01$; *$p < 0.05$; †$p <= 0.10$; N = 100.
[a] Descriptive statistics include variables transformed for the purpose of data analysis (see Section 4.2).

Table 3
OLS regression results related to foreign affiliate performance (*standardised* β).

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Main effects					
Firm capabilities		0.21*	0.78**	0.24*	0.96***
		(0.08)	(0.21)	(0.09)	(0.24)
Ownership		0.08	0.05	0.08	0.06
		(0.04)	(0.04)	(0.04)	(0.04)
Institutional distance		−0.07	−0.15	−0.10	−0.22*
		(0.10)	(0.10)	(0.11)	(0.11)
Interaction effects					
Firm capabilities x Ownership			−0.62*		−0.75**
			(0.05)		(0.06)
Institutional distance x Ownership				0.08	0.18†
				(0.09)	(0.09)
Control variables					
Affiliate age	−0.18†	−0.17†	−0.23*	−0.16	−0.24*
	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
Affiliate size	0.24*	0.28*	0.19*	0.23**	0.19*
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Industry	−0.17†	−0.15	−0.09	−0.15	−0.07
	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Firm age	−0.24*	−0.25*	−0.26**	−0.25*	−0.27**
	(0.09)	(0.09)	(0.08)	(0.09)	(0.08)
R^2	0.18	0.24	0.29	0.24	0.31
adjusted R^2	0.15	0.18	0.23	0.18	0.24
Std. error	0.63	0.61	0.59	0.62	0.59
F	5.33**	4.12**	4.64***	3.67**	4.54***

Standard errors in parentheses. ***$p < 0.001$; **$p < 0.01$; *$p < 0.05$; †$p <$ =0.10. N = 100.

account both moderating effects, hence Hypothesis 2 found partial support. As far as the hypothesised interaction effects are concerned, the term of the interaction between firm capabilities and ownership level is negative and significant in both the partial and full models, thus providing support for Hypothesis 3. Conversely, the interaction of institutional distance and ownership level has a positive sign, as predicted, yet this finding is statistically significant only in the full model. Hence, Hypothesis 4 can be partially supported. In order to provide a more complete understanding of the hypothesised moderating effects, interactions were plotted by fitting trend lines for different levels of ownership (see Fig. 2). They visualise that – in line with predictions – the increase in ownership level reduces the positive performance effect of firm capabilities, although at the same time it reduces the negative impact of institutional distance.

As far as the control variables are concerned, the coefficient of firm size was negative and statistically significant, while a reverse effect can be observed for affiliate size. Interestingly, younger new MNEs tend to outperform older ones, as the coefficient of firm size is negative and statistically significant. The industry dummy

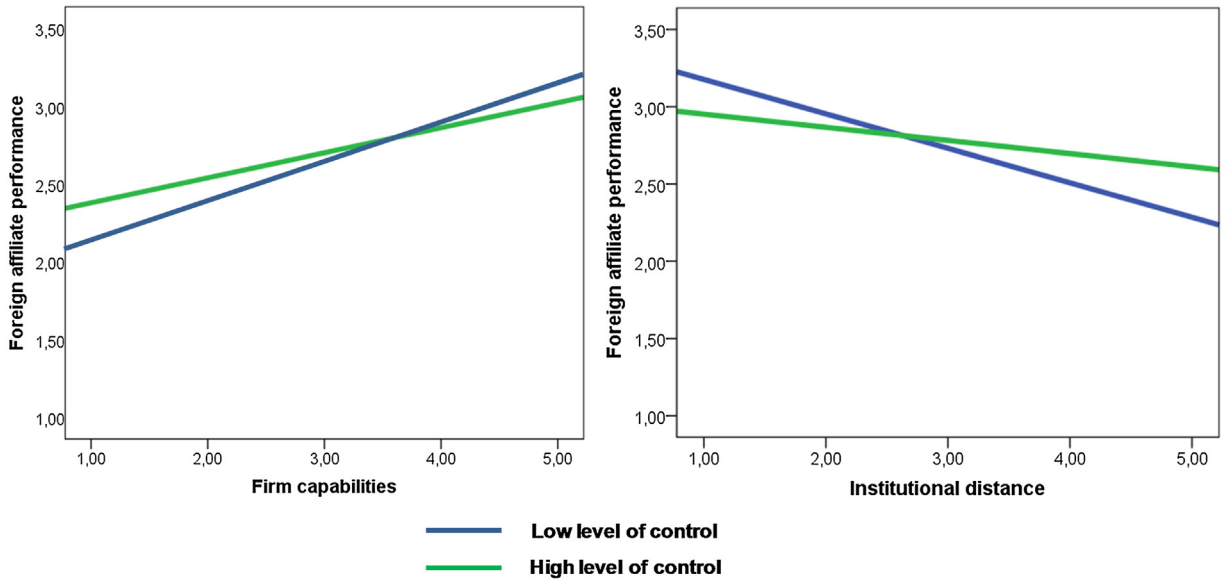

Fig. 2. Moderating effects of parent control (ownership).

showed negative values, suggesting better performance in case of non-manufacturing sectors, although this effect is not significant.

4.3. Robustness checks

In order to ensure the reliability of the obtained results, a series of post-hoc tests were conducted with regard to two key aspects. The first one pertains to the appropriateness of the chosen econometric models in explaining the phenomenon under study. Given the aforementioned divergent views among statisticians as to the treatment of Likert scale data (see e.g., Jamieson, 2004), we have computed ordinal regression models with the probit link function for the same variables, assuming that performance can be treated as an ordinal variable. For this purpose, we decomposed the aggregate performance index (which is continuous due to averaging its constituent integer values) into specific performance dimensions measured with integers (i.e. 1–5). While all computed models had statistically significant values of the goodness of model fit measures, their explained variance was on par that of the OLS equations, the Cox & Snell pseudo R^2 values reaching 0.28 while the Nagelkerke pseudo R^2 reaching 0.30 for the full model. For profitability, cost efficiency, sales to employment ratio as the dependent variables, in models with analogical variables to the OLS equations, the same variables turn out to be significant, as well, although institutional distance is only significant for profitability. The effect of firm capabilities is consistently significant across all performance variables. On the contrary, the hypothesised interactions do not turn out significant for the non-financial items of sales growth, market share, reputation, product quality, new product development capability, as well as perceived success (for the latter only for interaction of ownership with distance). To conclude, the strong results for the financial measures do provide support for the fact that the investigated relationships can be supported also by using an alternative methodology based on the assumption that performance is treated as an ordinal variable and thus modeling the probability of several events in an ordinal ranking. At the same time, these additional insights raise an important point that while the findings may hold overall, a more nuanced view on the performance construct reveals that the studied effects do not concern specific dimensions of performance to an equal extent.

The second aspect is related to the measurement of institutional distance. The aforementioned limitation of new MNEs to their regional markets may limit the variance in the institutional distance across the sample host countries, which is an issue also seen in earlier studies of affiliates in the CEE region (see e.g., Dikova, 2009). In order to ensure that the lack of consistent significance of institutional distance is related to sampling rather than measurement approach, we re-ran the OLS and ordinal regressions with alternative measures of institutional distance. This involved the data source and computation approach. Alternative sources involved World Governance Indicators of the World Bank (see e.g., Dikova, 2009), while alternative measurement approaches included the regular Kogut and Singh (1988) formula, as well as our own modification of the latter which takes its root in order to uncover the directionality of distance (see e.g., Zaheer, Schomaker, & Nachum, 2012). We expected that accounting for directionality may provide more texture to the present analyses in that expansion to an institutionally more or less advanced host country (e.g., expansion to Germany as opposed to Russia) constitutes a vastly different situation (also see Trąpczyński & Banalieva, 2016 for more details). Nonetheless, in all mentioned combinations of data sources (Heritage and World Bank) and measures (Mahalanobis, Kogut and Singh, as well as Kogut and Singh with uncovered directionality), the findings remain the same. Thus, we acknowledge the limitation of the sample whose choice was determined by conceptual reasons laid out at the outset rather than mere variance maximisation principle, a deficiency that ought to be addressed by future studies.

5. Discussion and implications

5.1. Theoretical contribution

Most importantly, our study draws attention to the frequently overlooked fact that internalisation (as expressed by control over foreign affiliates) may actually have conflicting effects on performance. Therefore, decisions related to internalisation should be based on trade-offs between opposing forces. In our conceptual and empirical design, we posit that internalisation is not necessarily an exogenous variable, as it has been commonly assumed (Dunning, 2000). Instead, Dunning (2001: 183) himself also argues that the extent, pattern and form of MNE activity is affected by the interaction between firm capabilities and location-specific variables. In light of the present findings, we do concur with scholars advocating internalisation theory as a useful approach to understanding FDI decisions, as well as their performance, however we also do think that there should be more prudence in Rugman's (1980) claim that it is a general theory of FDI, while other theories constitute its sub-sets. Clearly, the approach shows significant potential, if not need, for extensions by the organisational capability approach, as well as institutional theory, which draw attention to interactions between the degree of internalisation and its relevant determinants.

More specifically, the essential contribution of this study to the internalisation theory pertains to the ambiguous consequences of parent firm control over the foreign affiliate. Our findings show that the increase of parent control over foreign affiliates can actually have a two-sided effect. On the one hand, we demonstrate that capabilities have a stronger bearing on affiliate performance for lower degrees of parent firm control (or internalisation). This contradicts some limited earlier research showing a positive interaction of capabilities and ownership level on affiliate performance (Chang et al., 2013). Earlier studies which found that the possession of capabilities requires higher control to leverage them, have - with some exceptions (Aulakh & Kotabe, 1997 Brouthers et al., 2000, 2008; Kim & Gray, 2008) – not tested for the performance outcomes of this aspect (Agarwal & Ramaswami, 1992). It appears that particularly at early stages of MNE formation, parent firms may still recur to catch-up mechanisms such as partnering up with local firms in order to bridge gaps in know-how related to international markets.

Not least, as opposed to the vast majority of IB research, this study makes a methodical contribution by implementing the Mahalanobis formula of calculating distance in order to account for correlations between distance constituents and thus ensuring more robust findings. We find partial support, supported with robustness tests, for the positive moderating effect of ownership on institutional distance (see Fig. 2), which supports earlier arguments on the appropriateness of higher control in case of more distant environments (Chen & Hu, 2002; Dikova, 2009; Luo, 2002). Particularly early-stage MNEs turn out not to be in need of foreign partners to cope with formal institutional frameworks, which also pertains to their predominantly regional focus and ability to cope with difficult and changing institutional conditions (Cuervo-Cazurra & Genc, 2008; Del Sol & Kogan, 2007; Trąpczyński & Banalieva, 2016).

5.2. Context-specific implications

The objective of this paper is by no means to theorise narrowly about new multinationals. On the contrary, the early-stage character of their expansion and their still limited international experience make internationalisation decisions even more significant for their international competitiveness than in the case of their advanced country counterparts. Therefore, it poses a useful empirical setting to enrich existing more universal concepts (Hoskisson et al., 2013). The studied context is peculiar and distinct from the hitherto explored settings of typical emerging markets, such as BRIC countries (see e.g., Child & Rodigues, 2005; Luo & Tung, 2007). As Hoskisson et al. (2013) argue, business strategies of firms from mid-range economies may be determined not merely by their capabilities and institutions which they face, but also, the firms' ability to appropriately organise the deployment of these resources.

Thus, the present study raises some interesting comparisons. In fact, extant literature on the capabilities of emerging MNEs has frequently accentuated the lack thereof (Cantwell & Barnard, 2008; Chen, Li, & Shapiro, 2012; Child & Rodigues, 2005; Deng, 2007; Dunning, Kim, & Park, 2008; Luo & Tung, 2007) and underlined the importance of FDI as a means of closing this competitiveness gap. Instead, it has been argued, their strength may be seen in production and operational excellence, which can be also related to their latecomer character and the adoption of state-of-the-art business processes (Ramamurti, 2010). However, there is increasing evidence that new MNEs from the mid-range economies of the CEE region can leverage certain resources in their expansion. This is supported by the present analysis, contrary to a frequent assertion related to emerging MNEs (Ramamurti, 2010). Thus, our study reinforces the notion that the strongest early-stage multinationals are capable of undertaking sustainable and high-performing FDI projects. Accordingly, the current contribution echoes with the argument of Hennart (2012) that there can be no foreign expansion without pre-existing capabilities, which can subsequently be recombined in higher-order capability bundles. Hence, the present study complements, and not necessarily contradicts, the existing debate on the nature of foreign expansion of new MNEs.

Not least, it can be noted that while mainstream research on foreign affiliate performance has already used samples of affiliates located in emerging markets (Cui, Griffith, & Cavusgil, 2005; Gao et al., 2008; or Luo, 1998), there is a striking paucity of samples featuring parents from emerging markets. Among these rare studies, Kwon (2010) finds for Korean multinationals in China and India that an increased market orientation in combination with superior technology advantages increase affiliate performance. Hence, the present study is among the few ones studying the success factors of early-stage MNEs.

5.3. Managerial implications

The findings of this paper also bear managerial implications, particularly in the case of managers of new MNEs which are still learning to coordinate their emerging portfolios of foreign affiliates. The objective of this analysis is to account for the role of parent control over foreign operations as expression of cross-border internalisation and its consequences for foreign expansion success. Accordingly, the findings reinforce the point that excessive centralisation of international operations may not be an optimal solution for leveraging firm capabilities, as it can reduce an MNE's adaptability to foreign conditions. Even firms with a good endowment in managerial, technological or marketing-related assets may not achieve optimal results in foreign expansion if a sufficient degree of autonomy is not granted to the affiliates. This is of relevance in less advanced host countries, in which early-stage multinationals have to cope with less stable and less transparent institutional frameworks in order to move forward with their operations. However, it also matters in more advanced economies, where the competitiveness level poses a challenge for new contenders and pressurises them to seek capability upgrading.

On the other hand, as in the case of many managerial decisions, there are trade-offs to be made based on a specific business situation, since higher ownership at the same time helps to reduce the negative effect of institutional distance. While allying with foreign partners may – particularly at early stages of foreign expansion – lead to superior performance outcomes due to bundling own resources with local knowledge, in case of imperfect business environments it can actually expose particularly inexperienced firms to multiple risks. Conversely, in advanced economies firms from less developed markets may struggle to seek market position being weaker-brand contenders frequently recurring to efficiency-based strategies, thus consolidating international activities and implementing consistent strategies of competition across different foreign markets may require higher control.

5.4. Future research

Our study is burdened with several methodical limitations, one of them being limited sample size. Thus, its results should be regarded as exploration of the ambiguous effects of parent control, here explored based on the decisions of new MNEs from a mid-range emerging economy from the CEE region. A complementary future analysis would need to shed more light on the antecedents of assuming lower or higher control over foreign operations of new MNEs, by conducting sub-group analysis on larger samples taking into account the length and intensity of international experience, which may play a role in ownership decisions. Further research should reaching out beyond the still limited population of new MNEs from one country in order to capture more variation in both home and host country institutional settings. Further, a study of internalisation decisions could include other entry modes (such as exports) and their performance. Another limitation refers to the predominant use of survey data in measuring the concerned variables. While the intention was to capture managerial perceptions relevant in expansion decisions, the use of secondary data apart from formal institutional distance in future studies will improve the reliability and robustness of the studied performance effects.

With regard to research scope, the present paper focused on the dual effect of parent control as an intermediate variable on performance. Meanwhile, it is known that firm capabilities can have a different bearing on performance depending on their context of application (Brouthers et al., 2008; Makino, Isobe, & Chan, 2004; Pehrsson, 2008). Hence, future research could include more compound interactions between these variables for a more nuanced understanding of ownership modes and their performance implications in a specific market context. Moreover, the relationship between firm capabilities and ownership mode choice may actually be moderated by factors which either raise the costs of integration, or hinder the ability of firms to increase integration, such as capital intensity, product type, firm size, or country risk (Aulakh & Kotabe 1997; Erramilli & Rao, 1993). In situations where the costs are low or the ability to integrate is high, firms less endowed with intangible assets may still opt for full-control like those with higher firm-specific capabilities (Erramilli & Rao, 1993).

Our findings related to institutional distance constitute an interesting starting point for further research efforts. In line with the theoretical discussion in the conceptual part of the paper, it would appear that in host countries burdened with institutional voids, the effect of stronger parent firm control over the affiliate may contribute to internalising local business practice knowledge,

which allows improving performance despite certain objective impediments to doing business. Conversely, firms also seek institutionally more developed frameworks in order to benefit from environments which facilitate business operations owing to their institutional transparency. Thereby, the logic of ownership decisions may be more related to capability enhancement than asset protection and exploitation. The implication of this assertion for subsequent empirical studies is twofold. The analysis of ownership decisions should take into account the direction of distance, in order to distinguish entry into more vs. less developed countries. As Estrin et al. (2009a, 2009b) proposed earlier, institutional distance might be subject to asymmetric effects in that adaptation from high economic freedom to low economic freedom would occur in different ways, which should be controlled for in further studies. What is more, the motive of moving abroad should be considered in future sub-sample analysis in order to shed more light on the logic of assuming lower or higher control and the resulting direction of resource flows within the MNE.

Finally, as strategic decisions are dynamic by nature, more research into the evolution of ownership modes and the changing performance outcomes will be insightful. Currently rare examples of determinants of ownership mode transition include Puck, Holtbrügge, and Mohr (2009) and Swoboda, Olejnik, and Morschett (2011), however the link to affiliate performance or MNE performance is yet to be established.

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Appendix A.

Operationalisation of variables

SURVEY ITEMS		
Question	Scale	Cronbach's Alpha
Foreign affiliate performance: managerial evaluations as related to initial targets *(profitability, cost efficiency, sales to employment ratio, sales growth, market share, market reputation, product quality, new product development capability, overall success evaluation)* Sources: Dikova (2009), Kwon (2010), Slangen and Hennart (2008), Brouthers (2002), Brouthers and Nakos (2004)[3]	Five-point Likert scale (1-below expectations, 5-above expectations)	0.93
Firm capabilities in relation to major competitor *(technological capabilities, new product development capabilities, managerial capabilities, ability to adapt market offering)* Source: Agarwal and Ramaswami (1992), Brouthers et al. (2008)	Five-point Likert scale (1-far worse, 5-far better)	0.88
Ownership(*percentage of parent firm in the capital of the largest foreign affiliate*) (e.g., Ghahroudi, 2011; Ogasavara & Hoshino, 2007).	N/A	
Affiliate age (*years of operation*) (Kwon, 2010)	N/A	
Firm age (*years of operation*) (Kwon, 2010)	N/A	
Affiliate size (*Natural log of current employment*) (Gaur & Lu, 2007)	N/A	
Industry (*0 – non-manufacturing, 1 – manufacturing*) (Brouthers, 2002)	N/A	
SECONDARY DATA		
Institutional distance: *property rights, freedom from corruption, fiscal freedom, government spending, business freedom, labour freedom, monetary freedom, trade freedom, investment freedom, financial freedom* Sources: Berry et al. (2010), Elia et al. (2012), Estrin and Uvalic (2014), Estrin et al. (2009a, 2009b)[4] Data Source: Heritage Foundation		

[3] Repeated 1-values for items on a 5-point scale for a given respondent were not treated as missing values for the purpose of the present analyses since 1 was the default value in the survey.

[4] Mahalanobis distance scores were obtained from the software package PQStat (2016).

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