Dominant modes of economic coordination and varieties of firm internationalization support

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Abstract

International Business research has focused attention on the role of the home country in firm internationalization. While this has produced insights as to how home countries condition firm internationalization, *significant gaps* remain. We focus on two. First, research on how and why countries differ in their internationalization support is limited. Second, research on how countries differ in the extension of their internationalization support into host countries is scant. Addressing these gaps, we develop a conceptual paper and put forward nine propositions. We theorize how differences in the dominant mode of economic coordination in home countries – in market-, business-, and state-led economies – relate to variation in their internationalization support. Our framework is relevant to developed and emerging economies.

Key words: Comparative capitalism, modes of economic coordination, internationalization support, home country measures.

1. Introduction

The comparative capitalisms (CC) literature theorizes the relationship between home-country embeddedness and the behavior of multinational companies (MNC) (Whitley, 1999; Rana & Morgan, 2019). Country-of-origin perspectives (Harzing & Sorge, 2003; Noorderhaven & Harzing, 2003) have also analyzed the home-country influence on a wide range of organizational dimensions and behaviours, such as human resource management (Ferner & Quintanilla, 1998). However, it is only relatively recently that International Business (IB) scholars have incorporated the home country as a theoretical factor influencing patterns of firm internationalization (Aharoni, 2014; Buckley, 2018; Cuervo-Cazurra, 2011; Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018; Lundan, 2018; Peng, 2012a/b; Wu & Chen, 2014; Yin, De Popris, & Jabbour, 2021).

While these are important moves to understand better how home-country embeddedness relates to firm internationalization, *significant gaps* in our explanations of outward foreign direct investment (OFDI) remain, especially concerning home-country measures (HCMs); UNCTAD (2000) broadly defines HCMs as all policy measures home countries take to encourage FDI flows to other countries. We focus on two important research gaps. First, analyses of how and, importantly, why countries differ in the internationalization support (regarding HCMs and their institutional underpinnings) for firms are limited. Second, our understanding of how and why countries differ in extending their internationalization support (i.e., HCM extensions) into host countries is underdeveloped. 'HCM extensions' refer to the HCMs that home countries offer abroad to support the international expansion of home-country firms into host countries (e.g. overseas chambers of commerce). Addressing these gaps is crucial as HCMs may play a pivotal role in facilitating market entry and mitigating post-entry risks. Understanding their role would help to explain patterns of firm internationalization more fully.

To analyze *how* internationalization support varies across countries, we draw on OECD and UNCTAD policy papers. We focus on the concept of HCMs to capture internationalization support for firms and distinguish between those offered in the home country (domestic HCMs) and those provided in the host country (HCM extensions). We leverage this work on HCMs to understand variations in internationalization support for firms. To analyze *why* internationalization support might differ across countries, we draw on the CC literature, allowing us to theorize the relationship between types of economic coordination in different market economies and divergent HCM patterns. The framework and propositions we put forward are relevant to both developed and emerging economies.

Our work makes two contributions to the field of IB. First, by looking at how and why internationalization support differs across countries, we enhance our understanding of the home-country effect in firm internationalization. Second, we address the much-neglected question of how and why home-countries extend their internationalization support into host contexts. In addressing these two gaps through the concept of HCMs and linking their variations to different forms of home-country economic coordination, our work responds to recent calls in IB for more theorization of the home-country's role in firm internationalization (Cuervo-Cazurra, et al., 2018; Gaur, Ma, & Ding, 2018). Moreover, our work contributes to the growing body of research in IB that leverages the CC literature to understand better how national institutions constitute multinational firm behavior (Hotho & Saka-Helmhout, 2017; Jackson & Deeg, 2019). Finally, by analyzing how and why home-country internationalization support varies, including extensions into host countries, we contribute to the fundamental IB question of why firms expand internationally.

The paper is structured as follows. In section 2, we review IB theories of firm internationalization as well as policy papers on internationalization support, enabling us to distinguish between different types of HCMs (*how question*). Section 3 draws on the CC literature to develop propositions on the relationship between dominant modes of home-country economic coordination and divergent patterns of internationalization support for firms (*why question*). We conclude by outlining limitations and avenues for future research.

2. Review of internationalization support

Multinationals and the 'discovery' of the home country in internationalization theories

The growing importance of emerging-market MNCs' OFDI has led to analyses of home countries and how they condition firm internationalization, developing theory in two ways. First, proponents of classical OFDI have paid closer attention to the role of the home country (Dunning, Kim, & Park, 2007;

Dunning & Lundan, 2008; Rugman, 2009). Second, new theories have emerged tailored explicitly towards understanding emerging-market firms' OFDI (Cuervo-Cazurra & Genc, 2008; Hennart, 2012; Luo & Tung, 2007; Mathews, 2002, 2006; Ramamurti, 2009, 2012).

While amended classical theories and new theories on emerging-market multinationals hold different positions on the drivers of internationalization and their competitive advantages (Hennart, 2012), they both pay close attention to the *constraining or enabling* role of home-country conditions, which research often links directly to the behaviour of home-country governments.

Research typically highlights two aspects of the constraining role. The first is the 'escape' argument (Cuervo-Cazurra & Ramamurti, 2014; Cuervo-Cazurra, et al., 2018; Luo & Rui, 2009; Luo & Tung, 2007; Stoian & Mohr, 2016), with firms internationalizing because home-country institutions constrain their growth and development (Adomako, Frimpong, & Danso, 2020; Dunning & Lundan, 2008; Hoskisson, Wright, & Filatotchev, 2013; Peng, 2012a/b; Wei, Clegg, & Ma, 2015). The second aspect focuses on how the constraining conditions in the home contexts act as a learning opportunity, resulting in firms developing special capabilities that can be exploited elsewhere, typically in similar emerging markets (Cuervo-Cazurra et al., 2018).

Research that highlights the enabling role of the state in emerging markets often emphasizes how domestic firms with privileged access to resources or other advantages internationalize (Hennart, 2012; Ramamurti, 2009). Moreover, home-country policy regimes attract foreign multinationals to invest in the home market and partner with local players, enabling domestic companies to acquire internationally exploitable capabilities (Luo & Rui, 2009; Luo & Tung, 2007; Luo & Wang, 2012). Another argument relates to home governments directly supporting international expansion either through subsidies or direct involvement in state-owned enterprises (Hoskisson et al., 2013; Luo & Tung, 2007; Peng, 2012a/b; Ramamurti, 2009; Wang, Hong, Kafouros, & Wright, 2012; Wei, Clegg, & Ma, 2015).

First conceptualizations of home-country measures and limitations

Recent IB research acknowledges the crucial role of home-country internationalization support for emerging-market firms' internationalization. However, only a few studies provide a systematic account of the different measures that home countries employ. With some notable exceptions (Kline, 2003; Luo & Rui, 2009; Luo, Xue, & Han, 2010; Sauvant, Economu, Gal, Lim, & Wilinski, 2014), IB contributions have offered little elaboration of the portfolio of HCMs to support firm internationalization. Moreover, there is little systematic concern for how and why these measures differ across countries, including developed ones. There is even less emphasis on how HCMs extend into host countries. This is an important lacuna in our understanding of firm internationalization, as HCMs may play a pivotal role in facilitating market entry and mitigating post-entry risks.

2.1 Towards a conceptualization of home-country measures

The Organisation for Economic Co-operation and Development (OECD) and United Nations Conference on Trade and Development (UNCTAD) were the first to acknowledge the importance of HCMs in explaining FDI flows. The initial focus rested on how to incentivize MNCs to invest in developing countries (OECD, 1983, 1993; UNCTAD, 2001). UNCTAD understood HCMs as:

> [A]ll policy measures taken by the home countries of firms that choose to invest abroad designed to encourage FDI flows to other countries. Their formulation and application may involve both home and host country government and private sector organizations (UNCTAD, 2000: 2).

Specific measures by the home country to support FDI include “information provision, technical assistance and capacity-building, to financial, fiscal and insurance measures, investment-related trade measures, and measures related to the transfer of technology” (UNCTAD, 2000: 11). Subsequent conceptualizations of HCMs build on UNCTAD’s definition and portfolio of support measures.

2.2 Variations in home-country measures

While HCMs and their effect on FDI were conceptualized in UNCTAD policy papers as early as 2000, IB scholars have only recently adopted and theorized the concept. Previously, HCMs were either not theorized at all in IB because the focus was on FDI-attracting host-country policies (Kline, 2003; Sauvant et al., 2014) or on home-country effects more generally (Cuervo-Cazurra et al., 2018; Noorderhaven & Harzing, 2003; Sethi & Elango, 1999). UNCTAD-affiliated scholars were among the first to conceptualize HCMs. Kline (2003) and te Velde (2007) explored, for instance, how HCMs in developed home countries incentivize OFDI into developing countries. Similarly, Kline (2003: 101) highlighted HCMs as “laws, regulations, policies and programmes in home countries that affect outflows of FDI”. In IB, Sauvant et al. (2014:10) were among the first to draw on the term, understanding HCMs “as the granting of specific advantages by the home country government (or one of its public institutions) in connection with the establishment, acquisition and expansion of an investment by a home country firm in a foreign economy”. Using other labels, such as “institutional support”, “government promotion”, “internationalization policies” or “economic diplomacy”, Luo et al. (2010), Finchelstein (2017), Nuruzzaman, Singh, and Gaur (2020), and Côté, Estrin, and Shapiro, (2020) have equally theorized home-country support to promote exports and firm internationalization. While scholars associate HCMs with either exports (Nuruzzaman et al., 2020) or OFDI (Sauvant et al., 2014), we conceptualize HCMs to include support for both exports and FDI. We suggest this inclusive definition, as export promotion is often an essential element of firm internationalization and subsequent FDI.

HCMs and their variation

The review of the contributions on HCMs suggests a range of further conceptual variations in HCM provision. These include varying scope and scale, directness, extension, objectives, and actor involvement in providing HCMs.

Scope and scale: Scholars who conceptualize HCMs often highlight the scope of support measures. Kline (2003; see also te Velde, 2007) identify six broad areas of HCMs, including policies (e.g., bilateral investment treaties), information and contact facilitation, technology transfer, financial and fiscal incentives, investment insurance, and market access regulations. For Luo & Rui (2009) support measures include:

> “(a) fiscal incentives (e.g., tax incentives, tax deductions, low-interest loans), (b) insurance against political risk, (c) assistance for the private sector in international expansion through government agencies (e.g., a Chamber of Commerce or National Business Council), (d) double taxation avoidance agreements, (e) bilateral and regional treaties to protect investment abroad,

> (f) bilateral or multilateral frameworks to liberalize investment conditions in host countries, (g) assistance in dealing with host country governments or legislative institutions, and (h) conformity with international agreements required for free trade access, such as WTO protocols and the U.S. Foreign Corrupt Practices Act." (Luo & Rui, 2009: 57)

Sauvant et al. (2014) identify the following measures a) information and other support services, b) financial measures, c) fiscal measures and d) treaties. Finally, Sauvant et al.'s (2014) work suggests that the scale of HCMs varies. While some countries have highly developed HCM providing institutions and measures, others do not. Such divergent institutional structures of HCM coordination and provision have repercussions for their scale.

Directness of measures: A further conceptual distinction in HCMs relates to the directness of measures. Sauvant et al. (2014), Finchelstein (2017) and Nuruzzaman et al. (2020) agree that support measures can take direct or indirect forms, although the latter two sources restrict HCMs to export measures. According to Nuruzzaman et al. (2020: 367), direct measures "are government initiatives that directly help a specific firm or group of firms successfully compete in international markets through exports". Indirect support entails "government initiatives aimed at removing the regulatory obstacles to international trade" (Nuruzzaman et al., 2020: 367). Indirect measures entail indirect interventions that strengthen market mechanisms and have a broader impact on all firms. We draw on Nuruzzaman et al. (2020) and adopt a slightly modified direct-indirect distinction. While direct measures support a specific firm or group of firms to successfully compete in international markets, be it through trade or FDI, indirect measures aim at removing general obstacles to international trade and investment.

HCM extensions: Given the initial focus on HCMs to stimulate FDI flows from developed to developing countries, UNCTAD policy papers emphasized measures that mitigated investment risks and contributed to human or institutional capacity building in the host context. Such measures are not only needed to mitigate entry costs, but also post-entry risks through improved host-country institutional conditions. Thus, we can distinguish between HCMs offered in the home country (domestic HCMs) and HCMs provided in the host country (HCM extensions). Improved institutional host-country conditions are particularly salient for encouraging investments by small and medium-sized companies (SMEs) and investments into least developed countries (Kline, 2003). Such measures tend to imply

HCMs enacted in the host context (UNCTAD, 2000, 2001; Kline, 2003) or, as we put it, HCM extensions. Bertrand and Betschinger (2016) have made a similar argument suggesting that home-country governments foster firm internationalization by adapting infrastructure and factor markets in host countries to “render the business environment in the host country more similar to the one in their home country, reducing the home country firms’ costs of doing business abroad” (Bertrand & Betschinger, 2016: 1). Furthermore, Moons and van Bergeijk (2017) emphazise the role of “international representations”, such as embassies, consulates and other public business support units, as well as trade and state visits to promote trade and investment (Wang, Cui, Vu, & Feng, 2020; Yakop & van Bergeijk, 2011).

Public and/or private-sector involvement: Conceptualizations of HCMs and their provision typically focus on government institutions and programmes (Finchelstein, 2017; Luo et al., 2010; Nuruzzaman et al., 2020; Sauvant et al. 2014,). However, Sauvant et al. (2014) acknowledge that the private sector may have an essential role in stimulating OFDI. Private-sector actors providing HCMs include business associations or consultancy firms. Governments may or may not mandate private-sector organizations to provide, resulting in HCMs that are either ‘semi-public’ or private, respectively. Consequently, we can distinguish between three types of actor involved in providing HCMs: public, semi-public, and private agencies.

HCM objectives: The review of HCM contributions suggests that HCMs can promote different objectives. Initial UNCTAD papers (2000, 2001; Kline, 2003; te Velde, 2007) mainly looked at HCMs from a developmental angle for developing host countries. More recently, studies discuss the role of HCMs in promoting sustainable OFDI (Gabor & Sauvant, 2019). Still, there are few systematic accounts on how the objectives underpinning HCMs vary. Sauvant et al. (2014) suggest that HCM objectives can range from more developmental goals for the host country to goals reflecting the home country’s economic interest. Underlying policy objectives influence the eligibility and conditionality of many HCMs. Eligibility implies that not all firms will be able to qualify for HCMs. In terms of eligibility, “[t]he most important criteria pertain to the nationality of the foreign investor, the sector of investment in the home or host country, the ownership of the firm, the size of the firm, and the host country destination" (Sauvant et al., 2014: 21). Conditionality involves criteria that firms have to meet to qualify for OFDI support. This might entail economic conditions (e.g., protecting the home country's economy) as much as non-economic conditions, such as developmental, environmental, or social considerations.

Political economy and HCM variation

While a growing body of knowledge captures the possible variation in HCMs and their provision, there is comparatively little understanding of why HCMs vary across countries. This is surprising as understanding why HCMs vary across countries can make a crucial contribution to why firms from certain economies have a comparative advantage in firm internationalization.

Current work that captures HCM profiles of specific countries relates these profiles to the state's role in the national economy (Finchelstein, 2017; Gaur et al., 2018; Luo et al., 2010; Nuruzzaman et al., 2020; Sauvant et al., 2014). The underlying rationale is that HCMs are specific policy measures that national governments enact. Luo et al. (2009) adopt a political-economy view, arguing that understanding the interaction of business-government relations and the role of the state is crucial in understanding China's HCM profile and provision. While not a main concern of their work, Sauvant et al. (2014) suggest that different patterns of HCMs may be connected to different business-government relations and home countries' economic priorities. Finchelstein (2017), who is among the few who examine firm internationalization support from a comparative perspective, equally draws on political-economy perspectives and explicitly on Hall and Soskice's (2001) Varieties of Capitalism perspective. He employs the perspective as it allows him to capture divergent roles of the state in the economy and related government-business relations.

Following extant research on HCMs, we draw on a political-economy perspective because differences in HCM profiles and their provision reflect the state's role in the economy. We build on Finchelstein's (2017) work in understanding that varieties of HCM require a political-economy perspective that allows the systematic comparison of the role of the state and types of relationships between economic actors in different economies. However, we depart from Finchelstein (2017) to draw on a broader range of CC perspectives. We do so as it allows us to move beyond the binary understanding of market economies as either 'liberal' or 'coordinated market economies'. CC perspectives offer a wider distinction of market economies, including the state-led economies, which Hall and Soskice's (2001) Varieties of Capitalism framework does not consider.

By drawing on a synthesis of CC perspectives, we are able to distinguish systematically between different types of political economy based on their dominant modes of economic coordination. This entails the development of a theoretical framework that distinguishes between market economies based on the dominant type of relationships among economic actors, the typical role of the state in the economy and, relatedly, the state's usual policy orientation vis-à-vis the economy. In short, we argue that dominant modes of economic coordination in different types of market economy help to explain systematic variation in the content, provision and objectives of HCMs.

3. Comparative capitalisms

CC approaches share an interest in understanding the societal constitution of firms, firm behavior and economic activities across countries (Hotho & Saka-Helmhout, 2017). While specific conceptualizations of the societal constitution of company behaviour may vary (Maurice & Sorge, 2000; Whitley, 1999), CC approaches focus on dominant modes of economic coordination or governance within national economies. This primarily involves how economic actors and institutional settings relate to or constitute each other (Whitley, 2005).

CC approaches conceptualize how national institutions constitute firm capability and enable or constrain firm behaviour both at home and abroad (Lane & Wood, 2009; Rana & Morgan, 2019; Wood, Dibben, & Ogden, 2013). The key economic entities are the firm and national institutional settings. Focussing on formal institutions, CC approaches have considered the nature of the legal, industrial-relations, training and education, financial and/or the political systems of a country (Wood, 2001; Whitley, 2005). Based on cross-national differences in the societal constitution of economic activities, CC approaches distinguish between different dominant modes of economic governance and, consequently, different types of market economy (Maurice & Sorge, 2000; Whitley, 1999, 2005).

Over the last decade, CC approaches have been revised, including amended perspectives on the behaviour of economic actors, the stability of institutional settings and the homogeneity of market economies (Crouch, 2005; Deeg & Jackson, 2007; Hall & Thelen, 2009; Jackson & Deeg, 2008; Streeck & Thelen, 2005). Recent developments conceptualize: 1) firms not as passive agents merely adapting to institutional systems, but rather as proactive, institutionally conditioned agents; 2) institutional systems as dynamic and subject to change, 3) the state as an important element in shaping economic coordination (Hancké, Rhodes, & Thatcher, 2007), and 4) institutional and related sectoral diversity as important aspects of national market economies (Allen, 2013; Hall & Thelen, 2009; Lange, 2009; Whitley, 2007).

In the following, we draw on *two key CC insights* that help to explain HCM variation. First, although market economies are rarely constituted by homogeneous modes of economic coordination (Deeg & Jackson, 2007), CC approaches illustrate that countries differ markedly in their dominant mode of economic coordination (Harzing & Sorge, 2003; Hu, Cui, & Aulakh, 2019; Schneider & Paunescu, 2011). This variation reflects the different *roles of the state* in economic coordination and related policies. We argue that this leads to different patterns of HCMs. Second, CC approaches highlight how firms from different market economies have different *types of firm capability* that are embedded in, and rely on, different complementary institutions (Allen, 2013; Whitley, 2007). This suggests that internationalizing firms from different home countries may rely on different HCM extensions to successfully operate abroad.

3.1 Varieties of economic governance across national economies

Studies on the rapid growth of Southeast Asian economies and firms focused particularly on the role of the state and close state-business relations (Carney & Witt, 2014; Evans, 1995; Zhang & Whitley, 2013). Such work often distinguishes the ‘developmental’ or ‘promotional’ state from the ‘predatory’ state. In the following, we synthesize major CC contributions (Hall & Soskice, 2001; Hancké et al., 2007; Schmidt, 2002, 2003; Whitley 2005) into three ideal types of economic coordination: market-, business- or state-coordination. We draw primarily on CC contributions that distinguish typical actor relations, state roles and policy patterns across market economies (see Table1). The rationale is that these contributions are best suited to aid our understanding of divergent HCM patterns.

- **Insert table 1 here –**

Based on the different dominant modes of economic coordination, the CC literature distinguishes between different relations among key economic actors: *business-to-business* and *state-to-business* relations.

Business-to-business relations can vary from being 1) competitive, arm's length, and short-term contractual relations among individual firms to 2) close, long-term and co-operative, network-based inter-firm relations (Hall & Soskice, 2001; Hancké et al., 2007; Schmidt, 2002, 2003; Whitley, 2005). The latter often coincides with a high degree of interest organization and strategic coordination of business through business associations (Hancké et al., 2007; Whitley, 2005).

State-to-business relations can vary between arm's length relations and the state being more promotional (Evans, 1995; Whitley, 2005). Arm's length relations imply that the state is neutral towards economic actors and avoids building direct continuous links with specific firms or creating business dependence on state agencies (Whitley, 2005). "Effective arm's length states do not seek to structure firms' strategies or behaviour but prefer to operate remotely and allow 'market forces' to determine outcomes" (Whitley, 2005: 196). A promotional state is actively involved in coordinating and steering economic development by providing targeted aid to specific industries or by supporting the development of specific kinds of firm capabilities (Whitley, 2005). In promotional states, the state-business relationship can vary between *close and direct relations*, where the state directly intervenes at the level of the firm (e.g., financial assistance or state-ownership) and more *indirect and mediated relations*, where independent business associations act as intermediaries between firms or sectors and the state (Schmidt, 2003; Whitley, 2005).

Types of market economy and actor relations

In predominantly *market-coordinated* economies, commonly labelled 'liberal market economies', the relations among economic actors are typically arm's length. This is true for both the relations between the state and business as well as between businesses. Business relations between the state and business are marked by low direct state involvement in specific firms or sectors. Relations among businesses are equally arm's length and are generally described as competitive, contractual and individualistic interfirm relations. Interest organisation among businesses tends to be weak and fragmented (Hancké et al., 2007). While business associations do exist, they tend to compete for membership and do not represent all firms in an industry, reducing their capacity to monitor and discipline firm behaviour and, ultimately, to coordinate the strategic actions among firms within a sector (Whitley, 2005). Hence, business associations do not play a key role either as a business-state intermediary or as a strategic coordinator among businesses. Anglophone countries, particularly the USA and UK typify this type of economic governance (Carney & Witt, 2014; Hall & Soskice, 2001; Hancké et al., 2007; Schmidt, 2003; Whitley, 2005).

In market economies that are predominantly *business-coordinated*, alternatively labelled 'coordinated market economies' (Hancké et al., 2007), 'business corporatist' (Whitley, 2005), or 'managed capitalist' economies (Schmidt, 2002, 2003), business relations among firms tend to be collaborative and strong autonomous business associations mediate the relations between the state and business. Relations among business actors are often collaborative (Hall & Soskice, 2001; Schmidt, 2002, 2003). Interest organisation among businesses tends to be strong (Hancké et al., 2007) and integrated with a business association representing most leading firms in a sector. Wide membership and strong sectoral representation give these associations substantial internal (vis-à-vis member firms) and external power (vis-à-vis the state) for strategic coordination. Business associations play a key role as intermediaries between business and the state, and coordinate businesses strategically. Economies typically in this category are Austria, Germany, Sweden and the Netherlands (Carney & Witt, 2014; Hall & Soskice, 2001; Schmidt, 2003; Whitley, 2005).

In market economies that are predominantly *state-coordinated*, labelled as either 'state capitalist' (Schmidt, 2003), 'dominant developmental' (Whitley, 2005), or 'etatist' (Hancké et al., 2007), business relations among business actors tend to be arm's length and the relations between the state and business actors are seen as close and direct. Relations among businesses are generally adversarial with little coordination among firms (unless the state encourages it). Interest organization among businesses tends to be weak and highly dependent on the state (Hancké et al., 2007; Whitley, 2005). Relations between the state and business can be close and direct through direct intervention of the state at the firm level (Schmidt, 2002, 2003; Whitley, 2005). Business-government relations may be very close between promoted firms and the administrative elite or political executives. However, sectors and firms that the state does not promote may have arm's length relations with the state. Business associations neither play a key role as intermediaries between business and the state nor as a strategic coordinator among businesses (Hancké et al., 2007; Whitley, 2005). Economies that tend to conform to this governance type include Korea and China (Carney & Witt, 2014; Hancké et al., 2007; Schmidt, 2002, 2003; Whitley, 2005).

State policy objectives toward business and the role of business associations

Different modes of economic coordination have strong repercussions for the state's role in the economy and its dominant policy orientation, including the use or encouragement of business associations as a partner for policy formulation and implementation.

The *role of the state* can vary from merely regulating the relations of economic actors to facilitating/enabling the relations/coordination of economic actors to directly intervening or involving itself with economic actors (Schmidt, 2002, 2003; Whitley, 2005; Hancké et al., 2007). Relatedly, *policy orientation* varies from safeguarding market coordination to promoting non-market coordination. *Business-oriented policies* can be geared towards realizing *business interests* (e.g. attending to firm needs), *state interests* (e.g. economic and/or political priorities of the state) *or both*. Furthermore, the state's policy orientation can be neutral, generally supportive or selectively supportive towards various types of business actors. The state's orientation towards business associations can range from neutral/arm's length to supportive/partnering or even to adversarial/avoiding (Whitley, 2005). Relatedly, we can conceptualize the *role of business associations in state policy development* and *implementation* in one of three modes: 1) state-independent business associations with little involvement in state policy development and implementation, 2) state-dependent business associations with little involvement in policy development and some involvement in policy implementation, and 3) strong business associations that are in an interdependent or partnering relationship with the state and that are heavily involved in both policy development and implementation (Hancké et al., 2007; Schmidt, 2002, 2003; Whitley, 2005).

Types of market economy and the role of the state

In *market-coordinated economies*, the role of the state is primarily regulatory. The dominant policy orientation provides a framework for market competition: focusing on the functioning of markets and ‘market preservation’ (Wood, 2001). Policy-making, legislation and legislation enforcement strongly emphasize market deregulation while curbing cooperation and collusion of economic actors. Business-oriented policies aim at being neutral towards economic actors and outcomes (Whitley, 2005). As regulatory frameworks militate against forms of deep cooperation, there is no encouragement by the state of business associations. Business associations in this type of economy do not play a strong role and rarely represent all firms in a sector. In highly fragmented interest organisations, the collective interest definition above the company level is difficult to achieve (Hancké et al., 2007), limiting the involvement of business associations in the state’s business-policy making and implementation.

In promotional states that are predominantly *business-coordinated*, the main thrust of policies is the facilitation of non-market coordination among businesses. The state in these economies encourages economic actors to collaborate and share risks in developing new markets, skills and technologies (Whitley, 2005). As the state is not directly involved in the economy, business associations are encouraged by the state as important partners and intermediaries between business and the state (Whitley, 2005). Hence, promotional states that are predominantly business-coordinated view intermediary associations as important vehicles for economic risk-sharing and economic development (e.g. coordination of skill training). Business associations are often encouraged and viewed as important state counterparts in formulating and implementing business policies (Culpepper, 2001). Business associations may take on the role of strong partners who are consulted in developing policies and mandated to oversee their implementation. The latter involves the state’s substantial delegation of power and resources to business associations (Whitley, 2005). Government policy towards business seeks to balance state and business interests, and there tends to be broader support of different firms and sectors. State policies are seen to be effective only if business associations support them (Hancké et al., 2007).

Promotional states that are predominantly *state-coordinated* intervene more directly in the economy, at times down to the firm level. The policy orientation towards business reflects national, political and economic priorities. Interventionist government policies are reflected in direct economic activities such as economic planning schemes, state-investment/ownership or credit provision in targeted sectors or firms (Schmidt, 2002, 2003; Hancké et al., 2007). Business policy tends to be more selectively supportive of specific firms and sectors. In state-coordinated economies, business associations tend to be highly state-dependent or weak (Hancké et al., 2007; Whitley, 2005). Accordingly, the interest organisation of business is fragmented, limiting their ability to coordinate activities among firms strategically as well as their involvement in policy making.

Dominant modes of economic coordination and divergent patterns of HCMs

Drawing on the ideal types developed above, we argue that the dominant coordination mode, i.e. the state's role in the economy, related policy objectives, and typical relations among economic actors, have implications for the nature and provision of HCMs.

We hold that *market-led economies* will engage primarily in indirect HCMs, providing measures that aim at general international market access by addressing market failures and barriers. We expect market-led economies to leave the direct internationalization support to specialized private business actors. We expect this because the state in market-led economies plays a guardian role in the economy, tending to foster arm's length market-relations among economic actors and adopting policies that are neutral towards business actors. This contrasts with promotional states that tend to foster non-market coordination among economic actors through either state facilitation or intervention. In both business- and state-led promotional states, government policies are not neutral towards business actors. While business-led economies' policies rather support particular sectors and certain types of firms (e.g. SMEs), state-led economies tend to support specific firms. For this reason, we also expect business-led and state-led economies to provide more direct HCMs; that is, measures that either support the internationalization needs of certain types of firms and sectors or specific firms. Relatedly, as the state is more directly involved in providing direct HCMs, we assume that public or semi-public actors will play a greater role in providing HCMs.

We can illustrate this by comparing the state's role in internationalization in Chile, a market-led economy (Fainshmidt et al., 2018) and Brazil, which more closely resembles a state-led economy (Nölke & May, 2021). They are two of the most relevant South American economies concerning OFDI (Alcaraz & Zamilpa, 2017; Finchelstein, 2017). In Chile, the state plays a regulatory role in the economy, engaging in indirect HCMs by fostering pro-market institutions, especially the capital market. For instance, reforms promoted pension funds as a critical type of private institutional investor to indirectly improve capital availability. As a result, this financial system enables local firms to raise capital at lower costs than companies in neighbouring countries typically can; this, in turn, helped to accelerate Chilean retailers' internationalization, for instance. In contrast, the Brazilian state plays a promotional role in the economy. Brazil's national development bank (BNDES) is crucial in directly supporting companies' internationalization, particularly by providing long-term capital and equity to establish "national champions". It engages in direct HCMs to ensure the capital availability needed for internationalization. Thus, Brazil's HCMs strongly rely on a public actor (BNDES). In Chile, the state reformed the financial system to improve companies' access to private investors to expand internationally and does not rely on public or semi-public actors in its internationalization support (Finchelstein, 2017). Drawing on our theoretical models and this empirical evidence, we put forward the following three propositions:

> *Proposition 1*: Compared to market-led economies, business- and state-led economies will employ direct HCMs of greater scale and scope.
>
> *Proposition 2*: Compared to business- and state-led economies, market-led economies will employ indirect HCMs of greater scale and scope.

Proposition 3: Compared to business- and state-led economies, market-led economies will a) rely less on public or semi-public actors and institutions to provide HCMs and b) more on private-sector actors.

While market- and business-led economies differ concerning the state's role in the economy (regulatory vs. promotional) and in their general policy orientation towards business (neutral vs discriminatory), both types of economies refrain from state policies that benefit specific firms. Hence, regarding the underlying interests of policies and firm-level intervention, we expect marked differences between state-led economies, on the one hand, and business and market-led economies, on the other. Unlike business- and market-led economies, which tend to refrain from directly intervening at the firm level, we expect state-led economies to directly support specific firms through HCMs, reflecting state-led economies' more narrow focus on state objectives (e.g. securing natural resources). We, therefore, expect state-led economies to stand out in prioritizing state objectives in their policy orientation – rather than being either neutral in market-led economies or balanced in business-led economies – and resulting in more focused HCMs and more narrowly defined eligibility and conditionality criteria. Specifically, in state-led economies, we expect HCMs to be more focused in terms of investor types (e.g. nationality, ownership, sector, and size) and the types of investment the state supports (e.g. specific home-country benefit, geo-political countries or regions of interest).

A case in point is China's state-led economy. State-owned multinational enterprises' (SOEs') internationalization strategies tend to follow policy guidance. SOEs serve as a government tool for political objectives (Clegg, Voss, & Tarios, 2018). Naughton (2015: 89) notes that *"being used as instruments by the central government in pursuit of its goals (...) is not necessarily beneficial to their [SOEs'] long-term growth. In that sense, while China has grown a crop of national champions, those champions are currently working for the government, as much as or more than the Chinese government is working to support the national champions"*. The government regularly issues documents that outline the host countries and industries for which Chinese firms' investments would receive financial support (Lu, Liu, Wright, & Filatotchev, 2014; Tu, Zheng, Li, & Lin, 2021). Also, government regulators scrutinize overseas acquisitions more closely when they target industries deemed non-strategic

(Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2018; Wu & Chaterjee, 2017). Moreover, the Chinese state engages in highly direct HCMs in strategically relevant areas. This is particularly noteworthy in the extractive industries (Orazgaliyev, 2020; Shapiro, Vecino, & Li, 2018), as here the Chinese government organizes the consortia of involved firms and even negotiates with host-country governments on behalf of the firms (Li, Newenham-Kahindi, Shapiro, & Chen, 2013). We suggest the following two propositions.

Proposition 4: Compared to business- and market-led economies, state-led economies will provide more restricted HCMs regarding eligibility and conditionality criteria.

Proposition 5: Compared to business- and market-led economies, state-led economies will provide HCMs with more direct support for specific firms and internationalization projects.

Finally, in different types of market economy, business associations play a substantially different role in the economy. As discussed above, they assume a decisive role in business-led economies. In these economies, they are intermediaries between the state and businesses, playing an important role in developing and implementing state policies. Based on the divergent roles of business associations in different economies, we expect substantial differences in how HCMs are developed and implemented. In comparison to market- and state-led economies, where business associations play a secondary role in HCM policy formulation and implementation (with some exception in state-led economies regarding implementation), we expect their role to be central in business-led economies. Business-led economies will rely strongly on business associations for developing and implementing HCMs as business associations are a constitutive element of the non-market coordination that firms in business-led economies rely on.

A good illustration of business associations' differential role in market economies are chambers of commerce and their involvement in HCM provision. Generally, there are two types of chambers: public-law chambers of commerce, which are common in continental Europe, such as Germany, and rely on compulsory membership, and private-law chambers of commerce, which are voluntary and typical for Anglophone countries, such as the US. In contrast to private-law chambers of commerce, public-law chambers of commerce have close government contact, substantial funding, and play a role in economic decision-making. An excellent example of the central role of chambers of commerce in HCM provision is the business-led economy of Germany. The network of the country's chambers of commerce abroad is a crucial pillar in the country's internationalization support and is partly government funded (Heseltine, 2014). According to the Germany's Federal Ministry for Economic Affairs and Energy (2021), these overseas chambers *"support the activities of German firms on foreign markets […]. They are thus also acting in the public interest by taking responsibility for a major aspect of the promotion of German foreign trade and investment"*. We suggest the following:

> *Proposition 6*: Compared to market-led and state-led economies, business-led economies will strongly involve business associations to develop and implement HCMs.

3.2 Dominant forms of governance and firm capabilities

From early on, the CC literature connected an economies' dominant forms of economic coordination to firm capabilities (Sorge & Streeck, 1988). Firms' capabilities in market-led economies are seen as more transferable. Their competencies and capabilities are firm-specific rather than embedded in cooperative arrangements. This is because of their embeddedness in the internal organizational relations of 'isolated hierarchies' that 'operate as isolated islands of order in a sea of market disorder' (Whitley, 2001: 42).

Firms' capabilities in business-led and state-led market economies are more difficult to transfer as the capabilities of 'cooperative hierarchies' (Whitley, 2001) are embedded in specific economic relationships that stretch beyond the firm's boundaries. Whitley (2001) sees 'cooperative hierarchies' capabilities tied into networks and cooperative institutional arrangements that make their international transfer more challenging. While, in some market economies, the transfer of firm capabilities relies primarily on a legal framework that assures functioning markets, in other market economies, the transfer of company capabilities depends on the presence of special complementary economic relations (Becker-Ritterspach, Lange, & Becker-Ritterspach, 2017; Fortwengel & Jackson, 2016; Geppert, Williams, & Matten, 2003; Jackson & Deeg, 2008). This can be state agencies, educational institutions, other business actors, or business associations giving direction and monitoring business actors. Hence, different forms of dominant economic coordination bring about different capabilities that build, and rely, on different kinds of complementary economic relations and corresponding institutional arrangements (Hotho, 2014). Or by analogy and drawing on a widely used construct in IB, we could also argue that the capabilities of firms from different market economies differ concerning their locational-boundedness (Rugman & Verbeke, 1992; Meyer et al. 2009). Specifically, while capabilities of firms from business-led and state-led market economies are likely to be based on location-bound firm-specific advantages, the capabilities of firms from market-led economies are more likely to stem from non-location-bound firm-specific advantages.

Embedded firm capabilities and divergent patterns of HCMs extensions

As firm capabilities and competencies from market-coordinated economies are less embedded in non-market, collaborative relationships and their governments are more reluctant to directly support firms through HCMs, we expect states in market-led economies to be marginally engaged in directly supporting their firms in host contexts. If anything, it will involve general measures for market access with host governments. Indirect HCMs would possibly involve political pressure to improve legal frameworks, open markets, or market functioning.

In contrast, we expect HCM extensions to be more pronounced in state- and business-coordinated economies. In both instances, firms rely on specific economic relations to reproduce their capabilities abroad. Or, to put it differently, as their capabilities are more location-bound, there will be more of a need to reproduce such locational prerequisites through home country extensions in the host country.

Specifically, firms from business-led economies will require cooperative relations with other firms and institutions in the host environment. Firms from state-led market economies will continue to rely on supportive government relations. We, therefore, expect both business-led and state-led economies to extend HCMs into host contexts considerably. In business-led economies, the HCMs extended into the host context will primarily support collaborative relationships with business partners and host institutions. The extension of business associations and other complementary institutions into the host context will be essential here. Wiemann and Fuchs (2018, see also Fortwengel & Jackson, 2016) analyze the international transfer of dual vocational education training (VET) from Germany to Mexico, which required collaboration between companies, industry chambers, trade unions, employer associations and education providers. They show that many stakeholders from the host and home countries (e.g., the

German-Mexican chamber of commerce, the embassy, a federal institute, and the German Corporation for International Cooperation) were involved in the transfer of the country's VET model. In state-led economies, we can expect home government support to also extend well into the host context. This can be in the form of direct home-government intervention with host governments to support home-country firms from specific industries so that they receive privileged treatment in the host country (Li et al., 2013). Parente, Rong, Geleilate and Misati (2019), for instance, show that some Chinese state-owned multinationals were in a favourable position compared to other companies to compete for construction projects as a result of the Chinese government's decision to invests in infrastructure in Africa in exchange for natural resources. We suggest three propositions:

> *Proposition 7:* Compared to market-led economies, business-led and state-led economies' HCMs will extend more into the host context.
>
> *Proposition 8:* Compared to market- and state-led economies, business-led economies' HCMs are more likely to promote the establishment of business associations and other complementary institutions to facilitate strategic coordination in the host context.
>
> *Proposition 9:* Compared to market- and business-led economies, state-led economies' HCMs will provide more direct, supportive home government intervention in the host context.

4. Conclusion

Compared to host-country factors affecting FDI and international trade, home-country factors have received less attention in the field of IB. There were few attempts to provide a systematic account of how and why HCMs differ across countries. Building on policy papers and extant literature on HCM variation, we synthesized the CC literature to understand better how and why HCMs differ. We theorized that different forms of economic coordination would help us understand the differences between HCMs across countries. We argued that different forms of economic coordination (market-led, business-led and state-led) entail different relations among key economic actors (business, state and business associations) and involve divergent business policy orientations of states and hence different patterns of HCMs. Table 2 below provides a summary of our nine propositions.

- **Insert table 2 here –**

The main contribution of our conceptual paper lies in addressing IB's blind spot on how and why countries differ in supporting firm internationalization. We address this gap through the concept of HCMs, linking their variation to different forms of economic coordination based on CC arguments. Our work responds to recent calls in IB for more theorization of the home-country role in firm internationalization (Cuervo-Cazurra et al., 2018; Gaur et al., 2018). While we build on emergent contributions that seek to capture the portfolio of internationalization support measures (Luo et al., 2010, Sauvant et al., 2014), our work goes beyond this work by 1) theorizing why home-country internationalization support may vary across countries and 2) theorizing how home-country internationalization support may extend into host countries differently. In doing so, our work contributes to the growing body of IB work that leverages CC to understand better the national institutional constitution of multinational firm behavior (Jackson & Deeg, 2019; Hotho & Saka-Helmhout, 2017). By investigating how and why HCMs differ across countries, including host countries, we contribute to the fundamental IB question of why firms internationalize.

Research implications

We have put forward nine propositions that future research could test. This would potentially entail a multi-case study comparing economies that approximate the different governance types discussed above. Contrasting cases in line with our propositions would be countries that differ concerning their dominant modes of economic coordination, for instance, comparing Germany (business-coordinated), China (state-coordinated) and the US (market-coordinated). Finally, home-country support at the sub-national level, such as "city diplomacy" (Côté et al., 2020) or the consequences of a rise in nationalism, populism and sustainability awareness for home-country support (Ghauri, Strange, & Cooke, 2021), would be other fruitful avenues for research.

Furthermore, we acknowledge other factors may be relevant for variations in internationalization support that warrant further exploration. Such factors could be sector-related variation or political and economic shifts within and across countries. Regarding the former, scholars in CC have increasingly emphasized that market economies are rarely marked by just one mode of economic coordination

(Allen, 2013; Evans, 1995; Lane & Wood, 2009; Whitley, 2007). Whitley (2005) argues, for instance, that while market-led economies are generally reluctant to promote specific economic sectors, this is different in the defence sector. Conversely, state-led economies may have strong elements of market-led governance in sectors outside the ambit of government sponsorship. All types of economy will have at least some variance in governance across different sectors (Evans, 1995). Moreover, HCMs, in all economies, will be influenced to some extent by the sectoral structure. Regarding the latter, examining political and economic regime changes holds potential to understand better HCM-related policy developments and shifts. Similarly, geopolitical shifts in nations' economic and political power are likely to play a part in explaining HCM policy changes. Relatedly, paying closer attention to the historico-environmental context (Kobrak, Oesterle, & Roeber, 2018) and current political-economic relations between countries or blocs of countries requires further exploration to understand why HCM policy regimes vary across countries.

Managerial relevance

Our paper aims to understand how and why home internationalization support for firms differs. Our work has significant managerial implications: if we understand better how internationalization support varies, we can explain more fully differences in firm-level internationalization performance. For instance, to what extent can we relate the divergent internationalization performance of certain categories of firms (e.g. SMEs) from different countries that venture into certain types of countries (e.g. developing countries) to their home countries' HCM policy regime? Relatedly, our research framework indicates that there is probably no one best form of internationalization support. As firm capabilities from different market economies have different institutional needs when internationalizing, divergent support measures will also be needed.

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Table 1: Dominant modes of economic coordination

Mode of economic coordination	Market-led	Business-led	State-led
Relations of economic actors	Market-based	Non-market based	Non-market based
Business to business relations	Arm's lengths, short-term, contract-based	Close, long-term and co-operative, network-based	Arm's lengths, short-term, unless state encouraged
State to business relations	Arm's length	Indirect, mediated by business associations	Direct, state intervenes at firm-level / arm's length in sectors or with firms not state-promoted
Role of the state in the economy	Regulatory: Guardian of market coordination, providing legislative and/or framework for market competition, curbing cooperation and collusion of economic actors	Promotional: Non-market coordination through state facilitation	Promotional: Non-market coordination through state intervention
State policies toward business	Market: Neutral towards all business actors	Promotional: Encourage economic actors to collaborate and share risks, broad focus on sectors rather than individual firms, balanced state-business interest	Promotional: Reflect national developmental goals along with political and economic priorities, narrow focus on specific firms and sectors, state-interest focused
State encouragement of business associations	Neutral: State leaves it up to individual firms	Substantial	Adverse or instrumental
Role of business associations	State-independent: Low involvement in policy development and implementation, weak role in strategic coordination among firms	State-interdependent: High involvement in policy development and implementation, strong role in strategic coordination among firms	State-dependent: Low involvement in policy development and some in implementation, weak role in strategic coordination among firms

Table 2: Dominant modes of economic coordination and varieties in firm internationalization support

		Type of Market Economy		
Proposition		Market Led	Business Led	State Led
1	Scale and scope of direct HCMs	–	+	+
2	Scale and scope of indirect HCMs	+	–	–
3a	Reliance on public or semi-public actors and institutions to provide HCMs	–	+	+
3b	Reliance on private-sector to provide HCMs	+	–	–
4	Provision of more restricted HCMs regarding eligibility and conditionality criteria	–	–	+
5	Provision of HCMs with more direct support for specific firms and internationalization projects	–	–	+
6	Involvement of business associations to develop and implement HCMs	–	+	–
7	Extension of HCMs into the host context	–	+	+
8	Establishment of business associations and other complementary institutions in the host country to facilitate strategic coordination in the host context	–	+	–
9	Provision of more direct supportive home government intervention in the host context	–	–	+

Notes: '-' indicates that the type of market economy is, compared to one or both of the other types of market economy, less likely to conform to the relevant HCM expectation. '+' indicates that the type of market economy is, compared to one or both of the other types of market economy, more likely to conform to the relevant HCM expectation.