Núcleo de Estratégias e Economias Emergentes


**The Problem of Control and the Role of Home-host ties in Explaining Multinationals' Foreign Operations, Competitiveness, and Performance**

Abstract:

The existing multinational enterprise (MNE) literature has focused on capabilities and value creation challenges, including related to cultural and other distance. To better understand heterogeneity in the foreign country performance of MNEs, however, we need to go beyond the global strategy challenges of capabilities and coordination. Specifically, we need to explore MNEs' value capture challenges abroad and attend to control as a chronic dilemma that is inadequately addressed by internalization. In operating in foreign host countries, MNEs are chronically exposed to two types of largely uninsurable discretion: sovereign discretion of host governments and delegated discretion of host country employees, partners, suppliers, and such. The problem in the first case relates to power; and in the second it relates to information. Power and information are the sine qua non of effective control. Control is a prerequisite for anticipated value capture, which influences the extent of MNEs' capability transfer, input localization, and output adaptation in a given host country. Transfer, localization, and adaptation are the essence of host country value creation, which influences competitiveness and performance there. Accordingly, beyond differences in MNE capabilities, heterogeneity in access to credible power and reliable information in a focal host country predicts heterogeneity in MNEs' competitiveness and relative performance there. This is why and how heterogeneity in macro-level home–host ties (HHTs) explains durable performance differences among foreign MNEs operating in a focal host country. In terms of global strategy research and practice, this turns the spotlight on macro-level HHTs nonmarket strategy, and, eventually, focused internationalization. It also argues for more microfoundations research on the limits and actual control benefits of internalization.