Re-Examining Dunning's Investment Development Path: The Contingent Effect of Adaptability and Home-Country Institutions on OFDI from Emerging Economies

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Abstract

Purpose – This paper aims to examine the role of home country institutions and firm adaptability in enhancing outward foreign direct investment (OFDI) from emerging economies. We first consider the direct effects of firm adaptability and home country institutions. We then examine whether and how the strength of home country institutions moderates the effect of firm adaptability.

Design/methodology/approach – The paper opted for a quantitative research design using panel data analyses of 36 countries over 27 years, employing the random effects generalised least squares estimator.

Findings – The paper provides empirical evidence suggesting that adaptability increases OFDI. However, it also finds that home-country institutions negatively moderate the effect of adaptability on OFDI from emerging economies.

Research limitations/implications – The findings suggest that governments of emerging economies should be aware that institutional reforms alone do not increase OFDI. Instead, it is the ability of firms to develop both non-traditional and traditional ownership advantages (OAs) that enhances OFDI. A limitation is that this study uses aggregate data, which does not account for differences between the home and host country institutions, which is possible using bilateral flows of FDI.

Practical implications – The paper includes implications for institutional reforms in emerging economies and their impact on the importance of non-traditional OAs of emerging market firms.

Originality/value – This paper shows that the adaptability of emerging market firms is positively related to OFDI. However, this paper shows that the strengthening of home-country institutions reduces EMNEs' reliance on adaptability as a non-traditional OA.

Keywords: investment development path, emerging economies, outward foreign direct investment, institution-based view, institutional quality, ownership advantages, adaptability

Article Type: Research paper

1. Introduction

During the last decades, emerging economies' governments have improved institutional quality (UNCTAD, 2024) to attract foreign direct investment (FDI). FDI can often act as an engine of economic development, through its spillovers in the host economy (Dunning, 1981;1986; Narula & Dunning, 2010). Moreover, through learning from incoming MNEs, domestic firms can develop traditional ownership advantages such as innovation, brand reputation, new business models, and capabilities, and then exploit these advantages through outward foreign direct investment (OFDI) (Dunning, 1981;1986; Narula & Dunning, 2010). Subsequently, emerging economies' multinationals (EMNEs) can further enhance their home country's economic development by learning from their foreign subsidiaries, earning additional profits, or generating exports to their subsidiaries.

Dunning's investment development (IDP) path captures neatly this interaction between inward FDI, OFDI, and economic development (Dunning, 1981;1986; Narula & Dunning, 2010). However, with recent trends in deglobalisation, i.e., slower FDI and increased use of protectionist measures by governments worldwide (UNCTAD, 2024), it is unclear whether inward FDI can continue to facilitate OFDI from emerging economies through spillover effects. This raises the question of how home country institutions affect OFDI by EMNEs and whether Dunning's investment development path (IDP) can fully explain OFDI from emerging economies.

Institutions dictate the 'rules of the game' (North, 1990), and firm strategy shows institutional imprinting (Peng, Wang & Jiang, 2008). This is particularly salient for emerging economies that are characterised by institutional voids, i.e., unstable, missing or ineffective institutions (Khanna & Palepu, 1997). These create turbulent, costly, and unpredictable business environments, hindering planning, managing transaction costs, and the ability to create stable and effective long-term strategies (Khana & Palepu, 2010). Consequently, often EMNEs can develop institutional ownership advantages based on their ability to operate in institutional voids and exploit these through outward foreign direct investment, especially in other emerging economies, thus turning a disadvantage into an advantage (Cuervo-Cazurra & Genc, 2008; Luiz et al., 2021).

Firm adaptability derived from their experience of operating in institutional voids is a non-traditional institutional ownership advantage of EMNEs and a facet of flexibility, i.e. a firm's ability to respond effectively when faced with challenging and changing circumstances (Gerwin, 1987; Christofi et al., 2021). Although developed economies' multinationals may also require a certain level of flexibility in order to engage in OFDI, EMNEs' adaptability is developed based on managers' ability to manage in a learning by doing manner in institutional environments characterised by volatile, missing or inefficient institutions (Cuervo-Cazurra & Genc, 2008), as explained in detail in section 3.

However, the IDP focuses on the ability of domestic firms to develop traditional ownership advantages that could be leveraged through OFDI (Dunning, 1981;1986; Narula & Dunning, 2010; Sawitri & Brenna, 2023) and does not specifically consider the role of adaptability as a non-traditional institutional ownership advantage of EMNEs. Narula and Dunning (2010) argue that, in emerging economies, challenging institutional environments may affect the ownership advantages of domestic firms, yet they do not fully theorise the mechanisms through which this impact occurs, nor do they test empirically the impact of institutional voids on OFDI. This demonstrates the need for extending the IDP with a more nuanced analysis of firm adaptability as a non-traditional institutional advantage of EMNEs. Furthermore, with many emerging economies governments adopting policies to improve the quality of institutions and reduce or close institutional voids (UNCTAD, 2024), it is uncertain whether the non-traditional OAs of EMNEs based on their ability to operate in institutional voids are sustainable, or whether, when engaging in OFDI, EMNEs are likely to increasingly rely on traditional OAs instead.

This paper aims to examine whether the IDP can explain OFDI from emerging economies by focusing on the impact of home country institutions and, in particular, the role of firm adaptability and institutional quality. We ask the following questions: How does firm adaptability resulting from operating in institutional voids affect OFDI? How does the home country's institutional quality affect OFDI? How does home country institutional quality moderate the relationship between firm adaptability and OFDI?

We focus on EMNEs for several reasons. Firstly, OFDI by EMNEs has increased considerably since 2000 and is likely to continue in the future, despite the slowdown caused by the coronavirus pandemic and recent geopolitical crises (UNTAD, 2024). This phenomenon has created a puzzle in the International Business (IB) discipline and has become one of the

most researched topics in our field (Cui et al., 2022; Sengupta et al., 2023). EMNEs originate from countries characterised by institutional voids (Khanna & Palepu, 1997), and their strategies show institutional imprinting (Peng et al., 2008). Hence, the main question is whether classic theories can explain OFDI by EMNEs. Alternatively, do we need new theories to explain this phenomenon, or can we just extend classic theories (Cuervo-Cazurra, 2012) such as the IDP, as this study suggests?

Secondly, the role of the home country government in encouraging OFDI cannot be overstated (Dau, Moore & Kostova, 2020; He & Padron-Hernandez, 2024; Yin, De Propris & Jabbour, 2021; Hanle et al., 2022; Narula & Dunning, 2010). Because most emerging economies experience government intervention in the economy (Meyer & Peng, 2016; UNCTAD, 2024), they offer an ideal context to explore the impact of home country institutions on OFDI. Moreover, although many emerging economies' governments have improved institutions, with deglobalisation, it is unclear whether such improvements will continue and how these may affect OFDI from emerging economies.

Thirdly, OFDI has a significant effect on the home country. On the one hand, OFDI can augment the OAs of home country EMNEs, foster innovation, and enhance economic growth through exports and profit repatriation (Stoian, 2013). On the other hand, OFDI can also lead to capital flight, negatively impacting the home country's economy (Stoian, 2013). Thus, policymakers need to adopt policies to maximise the positive impact of OFDI, whilst minimising its negative effects. Finally, by exploring a data set of 36 countries and 27 years, we answer the calls for multi-country studies that provide generalisable findings (Dau et al., 2020).

We argue that, firstly, based on their ability to operate in institutional voids, EMNEs develop firm adaptability, a non-traditional institutional OA. This can be leveraged through OFDI not only in least developed, developing, or emerging economies (Cuervo-Cazurra & Genc, 2008), but also in developed economies, which, with deglobalisation, are increasingly characterised by government intervention, uncertainty, and volatility (UNCTAD, 2024). However, firm adaptability may not be sustainable in the future. We propose that institutional reforms implemented by governments to attract foreign direct investment increase institutional quality, thus diminishing the EMNEs' need to rely on adaptability as a non-traditional OA and decreasing the role of this OA in enhancing OFDI. Thus, home country institutional quality negatively moderates the relationship between the EMNEs' firm adaptability and OFDI.

Our study makes several contributions. Our main theoretical contribution is to provide a theoretical framework that explains the impact of home country institutions on OFDI from emerging economies. Firstly, we extend the institution-based view (Peng, 2002; Peng et al., 2008, 2009) and contribute to the literature on institutional voids (Cuervo-Cazurra & Genc, 2008; Stal & Cuervo-Cazurra, 2011; Cuervo-Cazurra et al., 2018) by providing a nuanced explanation of how EMNEs leverage adaptability, a non-traditional institutional OA based on their ability to operate in institutional voids, when engaging in OFDI. We also demonstrate that adaptability is not a sustainable OA, as improvements in home country institutions lower its role in OFDI. In doing so, we answer calls for more research into the impact of home country on institutions on multinationals (Cuervo-Cazurra et al., 2018; Adomako et al., 2020; Dau et al., 2020) and we join the debate on the nature of OAs of EMNEs (Adarkwah & Petersen Malonaes, 2020; Bhaumick, Driffield & Zhou, 2016; Mallon et al., 2022; Wu & Ang, 2020; Wan et al., 2024).

Secondly, we augment the investment development path (IDP) (Dunning, 1981;1986; Dunning & Narula, 1994;1998), by using insights from the institution-based view (Peng, 2002; Peng et al., 2008, 2009). We demonstrate that, to explain OFDI from emerging economies, the IDP needs to incorporate non-traditional OAs, such as adaptability. Moreover, within the IDP, the impact of institutions on OFDI needs to be carefully considered. We find that improved home country institutions only affect OFDI indirectly, by lowering their need for adaptability as an OA when investing abroad. In doing so, we contribute to the growing debate on the application of the IDP to understanding the determinants of OFDI (Sawitri & Brennan, 2023; Chen, Zhan, Tong & Kumar, 2020; Filippaios & Kottaridi, 2013; Kalotay, 2004; Stoian, 2013; Stoian & Mohr, 2016; Yeoh, 2011; Filippov, 2010). We join studies that focus on the role of the government (Bonaglia & Goldstein, 2006; Narula & Dunning, 2010; You, 2017) yet do not explore empirically the moderation effect of institutions on the relationship between OAs and OFDI. Finally, we answer calls for more research into the role of institutions in the IDP (Dunning & Narula, 1998; Narula & Dunning, 2010).

The remainder of this paper is organised as follows: We first discuss the theoretical framework, followed by the hypotheses. We then present our methodology and discuss the results. Finally, we explain the contribution to theory and practice, the limitations, and the areas for further research.

2. Theoretical development: The role of home country institutions and the IDP

The International Business (IB) literature tends to discuss inward and outward foreign direct investment separately, yet the two are interlinked (Dunning, 1981, 1986) and are also crucial for economic development, especially for emerging economies (Dunning & Narula, 1998; Narula & Dunning, 2010). Dunning (1981,1986) has captured the interplay between FDI, OFDI, and economic development in the IDP theory. An extension of the eclectic paradigm (Dunning, 1981,1986; Dunning & Narula, 1994, 1998), this theory assumes that, to expand abroad and overcome the liability of foreignness, firms need to possess ownership advantages such as technology, brand, innovation, or business models, also known as traditional OAs. The IDP posits that countries follow five stages regarding their economic development and their net outward investment position (NOI), which is the difference between OFDI and inward FDI stock. Stages 1 to 3 are associated with developing economies, and stages 4 and 5 are associated with developed ones. NOI is 0 in stages 1 and 5, as explained below.

Include Figure 1 about here.

In stage 1, usually displayed by pre-industrial economies, there is neither FDI nor OFDI, because of the country's lack of location advantages and the lack of domestic firms' ownership advantages, be they country or firm-specific advantages. Country-specific ownership advantages are based on the characteristics of the home country, such as the availability of natural resources, and can be exploited by all domestic firms through OFDI. Contrastingly, firm-specific advantages are only available to a handful of firms and distinguish them from other firms that are less successful in OFDI (Dunning, 1981, 1986). In stage 2, industrialising developing economies attract FDI as a result of improved location advantages, and may start generating some OFDI (Narula & Dunning, 2010). Location advantages may include: a larger market and higher purchasing power; government policies aiming to attract FDI; some infrastructure improvements; the presence of cheap, as well as motivated and trained labour (Sawitri & Brennan, 2023). The NOI is negative.

In stage 3, the country attracts significant FDI based on its expanded domestic market for higher-quality products and the improvement of its technological capabilities. OFDI also increases due to innovations and international specialisation. Government policies focus on encouraging specific industries and providing more advanced infrastructure in transportation, communication, and technology (Sawitri & Brennan, 2023). Governments may also put in place reforms that increase the absorptive capacity of the economy, i.e., the ability of domestic firms to develop traditional OAs by learning from incoming multinationals (Narula & Dunning,

2010), albeit the success of these reforms is not always guaranteed (Narula & Dunning, 2010). NOI stays negative, but it decreases as OFDI starts to grow faster than inward FDI.

In stage 4, associated with developed economies, OFDI is higher than FDI, and NOI becomes positive. The demand is sophisticated due to higher wages; the country also offers created assets as location advantages for FDI. The government plays a significant role in protecting the competitive advantage of the country and fostering competition within the market. Domestic companies leverage traditional OAs through OFDI. Finally, in stage 5, the NOI is again 0. A developed economy attracts significant FDI and generates substantial OFDI because of advanced country location advantages and domestic firms' ownership advantages, especially in knowledge-intensive sectors (Dunning, 1981,1986; Sawitri & Brennan, 2023).

The two salient factors that contribute to countries changing from one stage of the IDP to another are the government and the foreign investors and their ability to determine changes in the configuration of the location advantages of the country and the ownership advantages of domestic firms (Dunning, 1981,1986; Dunning & Narula, 1998; Narula & Dunning, 2010). For example, governments can increase FDI by improving the location advantages of the country through reforms aimed at improving institutions (Dunning, 1981, 1986; Dunning & Narula, 1998; Narula & Dunning, 2010). This is how countries start moving from stage 1 to stage 2. Moreover, depending on the absorptive capacity of the host country, foreign investors may increase the ownership advantages of the domestic firms through spillovers, collaborations, transfer of technology, learning by doing, and learning by watching (Dunning, 1981, 1986; Dunning & Narula, 1998; Narula & Dunning, 2010).

Domestic firms can then exploit these traditional ownership advantages when internationalising, at the end of stage 2 and in stage 3 in particular. However, the strengths or weaknesses of the institutions shape the ability of domestic firms to exploit efficiently the spillovers from MNEs (Narula & Dunning, 2010). Overall, the role of the government and of the foreign investors changes through each stage of the IDP (Sawitri & Brennan, 2023). Nevertheless, the inflexion points between stages are underexplored (Narula & Dunning, 2010). Furthermore, each country follows its distinctive IDP, based on its characteristics and development conditions (Sawitri & Brennan, 2023; Narula & Dunning, 2010; Dunning, 1986). Moreover, although the IDP focuses on the country level, the learning and absorption take place at the firm level, depending on the skills of the workforce and management (Narula & Dunning,

2010). This highlights the interconnectedness between various levels of analysis and the relevance of exploring the role of non-traditional institutional OAs within the IDP.

Emerging economies are often in the second or third stage of the IDP (Goryniya et al., 2019a), where domestic firms have started to internationalise, yet these economies appear to move along the IDP faster than the theory predicts (Dunning & Narula, 1998; Goryniya et al., 2019a; Stoian, 2013; Stoian & Mohr, 2016; Mathews, 2006). This suggests that the IDP alone cannot explain OFDI from emerging economies (Stoian, 2013; Stoian & Mohr, 2016; Stal & Cazurra, 2011). Indeed, the IDP has been extended to account for several factors specific to post-communist or emerging economies that may affect OFDI. These studies vary in focus and methodologies. Acknowledging the unique configuration of the IDP for each country, scholars often conduct country-specific analysis (Stal & Cuervo-Cazurra, 2011; Kalotay & Sulstarova, 2010; Kalotay, 2008; Chen, 2015) or comparative analysis between several countries (Dunning et al., 2001; Goldstein & Puserla, 2010; Kuzel, 2017). Others answer the call for multi-country approaches and use panel data analysis for post-communist (Stoian, 2013) or emerging economies (Stoian & Mohr, 2016).

Prior studies include home country institutions in the IDP to explain OFDI from post-communist and emerging economies. Adopting the escapist view of institutions (Witt & Lewin, 2007), Kalotay and Sulstarova (2010) and Kalotay (2008) find that EMNEs engage in OFDI to overcome the disadvantages associated with operating in institutional voids. Contrastingly, concurring with the augmenting view of institutions, Stoian (2013) argues that institutional reforms help MNEs from post-communist economies improve their ownership advantages and invest abroad. Finally, reconciling both views of institutions, Stal & Cuervo-Cazurra (2011) explore two push factors for OFDI from Brazil: pro-market reforms and institutional voids. They find that pro-market reforms help domestic firms upgrade capabilities and engage in OFDI faster than the IDP would predict. Moreover, this effect is intensified by escapist OFDI. Adding to this debate, using panel data analysis for emerging economies, Stoian & Mohr (2016) demonstrate that home country regulative voids force EMNEs to escape through OFDI, and this escapist behaviour is stronger when EMNEs also possess traditional OAs.

Although these studies acknowledge the impact of home country institutions on OFDI from emerging or post-communist economies, the role of non-traditional OAs of EMNEs remains unexplored within the context of the IDP. Indeed, the current debate concurs that although many EMNEs internationalise to augment their often weak traditional OAs (Elian &

Santangelo, 2017; Kumar et al., 2020; Mathews, 2002, 2006; Luo & Tung, 2007; Luo & Wang, 2012; Yoo & Reimann, 2017), some EMNEs have developed traditional OAs (De Beule & Sels, 2016; Lee, Hong & Makino, 2016; Nguyen & Rugman, 2015; Sutherland, Anderson & Hertenstein, 2018), whilst others display OAs that are non-traditional, i.e., specific to EMNEs (Adarkwah & Petersen Malonaes, 2020; Bhaumick, Driffield & Zhou, 2016; Mallon et al., 2022; Wu & Ang, 2020; Wan, Williamson & Pandit, 2024).

These non-traditional OAs are primarily derived from the characteristics of the EMNEs' home countries (Wan et al., 2024) and are collectively referred to as an 'advantage of emergingness' (Mallon et al., 2022). Such non-traditional OAs include cost innovation capabilities, low-cost solutions, superior institutional resilience (Estrin et al., 2018; Holbrun & Zelner, 2010; Luo & Bu, 2018) or government-related advantages (Yin et al., 2021). However, the nature of these non-traditional OAs of EMNEs is underexplored (Adarkwah & Petersen Malonaes, 2020), and these OAs are particularly overlooked within the IDP literature. Moreover, it is unclear whether the non-traditional OAs of EMNEs are sustainable or whether, with improved institutional quality and economic development in their home countries, EMNEs' adaptability becomes obsolete and EMNEs are relying increasingly on traditional OAs.

We extend the IDP by incorporating insights from the institution-based view (Peng, 2002; Peng et al., 2008, 2009), which combines new institutional economic theory (North, 1990) and organisational institutional theory (DiMaggio & Powell, 1983,1991; Meyer & Rowan, 1977). Adopting North's (1990) view of institutions, the institution-based view (Peng, 2002; Peng et al., 2008, 2009) posits that institutions dictate the 'rules of the game' that are informally or formally enforced by the government and its agents (North, 1990). Moreover, different home institutional environments create distinct opportunities and risks for firms (Luiz et al., 2021). Hence, EMNEs' strategies show institutional imprinting (Peng et al., 2008). Furthermore, firms achieve legitimacy through isomorphism, i.e., by conforming to the rules, norms, and expectations in their environment (DiMaggio & Powell, 1983,1991; Meyer & Rowan, 1977).

In particular, EMNEs develop non-traditional OAs based on their ability to operate in institutional voids, and they leverage these OAs when investing abroad, not only in least developed, developing, or other emerging economies (Bilgili, Kedia, & Bilgili, 2016; Buckley, Munjal, Enderwick, & Forsans, 2016; Cuervo-Cazurra & Genc, 2008; Tang, 2021) but also in

developed economies. We thus examine the impact of home country institutions on OFDI by EMNEs. We explore the role of the EMNEs' adaptability, a non-traditional OA, and analyse the moderating effect of institutional quality on this relationship. We explain the argumentation of our hypotheses in the following section.

Include Figure 2 about here.

3. Hypotheses

3.1. The role of adaptability in enhancing OFDI

EMNEs develop adaptability, a non-traditional OA based on their ability to operate in institutional voids, i.e., environments with unstable, missing, or ineffective institutions (Khanna & Palepu, 1997). Firstly, home country unstable institutions, including political instability, require EMNEs to continuously assess the impact of institutional changes and to design effective and flexible strategies to mitigate the risks and capitalise on the opportunities. Thus, EMNEs are better able to understand than developed economies multinationals (DMNEs) the timing and the impact of institutional changes in the home and host countries (Cuervo-Cazurra & Genc, 2008) and have a range of proven strategies that can be then tailored and deployed effectively to their foreign operations (Luiz et al., 2021). Moreover, through operating in institutional voids, managers of EMNEs learn by doing (Narula & Dunning, 2010) and develop mental models that shape their decision making (Fathallah et al., 2018), including OFDI decisions. EMNEs develop the ability to adapt effectively to a variety of changes and new challenges that go beyond mere institutional volatility. This OA allows EMNEs to overcome the liability of foreignness when expanding not only in countries with institutional voids, but also in developed economies, because operating internationally inherently poses different opportunities and risks than expanding domestically (Meyer & Peng, 2016).

EMNEs can adapt better than DMNEs to changes in patterns of demand size, customer demographics, or preferences in the host country when expanding for market-seeking reasons. Adaptability can also enhance efficiency-seeking OFDI, because EMNEs can correctly identify and manage host countries' differences in terms of suppliers' availability, costs, and quality, or can build relationships with both suppliers and distributors. Strategic asset-seeking OFDI is facilitated by the EMNEs' adaptability because EMNEs can spot valuable assets in the host country and adapt to rapid changes in technology trends by acquiring promising brands and technologies. Similarly, EMNEs can invest for resource-seeking reasons based on their ability to adapt to new challenges such as the discovery of new resources, emerging industry standards

in the natural resources sectors or political instability that often characterises natural resources rich countries such as those in Africa, for example (Fon et al., 2021; Getachew et al., 2023).

Secondly, the home country's missing institutions force firms to adapt and find alternative ways of doing business. For example, when specialised intermediaries are not available in certain markets or industries (Cuervo-Cazurra & Genc, 2008), EMNEs adopt vertical integration. Operating as conglomerates can be an OA in other countries with institutional voids, but also when investing in developed economies, as EMNEs can spread risks between industries and can leverage wider cross-country and industry experience than their DMNE counterparts. Furthermore, in the absence of strong rules regarding competition, EMNEs rely more than DMNEs on networks and lobbying (Cuervo-Cazurra & Genc, 2008; Luiz et al., 2021). This experience can facilitate OFDI by minimising costs and improving access to business opportunities in foreign markets.

Thirdly, home country ineffective institutions, such as bureaucratic or corrupt governments, oblige EMNEs to develop adaptability to deal with slow, politically dependent bureaucracy by developing strong relationships with government officials. This adaptability fosters OFDI in similar countries, but also in developed economies where governments are becoming increasingly weary of foreign investors, and lobbying becomes crucial in securing business opportunities. EMNEs also adapt to the lack of high-quality public goods (Cuervo-Cazurra & Genc, 2008). For example, unlike DMNEs, EMNEs often invest in the provision of public goods in their home countries and can do the same in foreign markets to facilitate OFDI (Fishman & Khanna, 2004). In particular, engaging in private-public partnerships for the development of infrastructure can be a valuable OA for EMNEs that can be deployed through OFDI (Luiz et al., 2021).

Furthermore, based on their home country experience, EMNEs can adapt better than DMNEs to poor regulation and market-unfriendly policies such as price controls, poor bank supervision, or bureaucracy related to business development, obtaining licences, or foreign trade (Cuervo-Cazurra & Genc, 2008). Moreover, the EMNEs' adaptability to environments where rules are applied in a discretionary manner or property rights are not fully enforced (Kaufmann et al., 2003) can be leveraged in similar countries, as well as developed economies, which are increasingly implementing protectionist measures (UNCTAD, 2024). Compared to DMNEs, EMNEs can be more flexible with regard to the application of the law and better able to manage when contractual relationships cannot be defended in court (de Cuervo-Cazurra & Genc, 2008). This adaptability also means EMNEs will be better than DMNEs at choosing their business partners in foreign markets, thus facilitating OFDI. Although some EMNEs

may prefer to invest domestically, based on the above argumentation, we propose the following hypothesis:

Hypothesis 1: EMNEs' adaptability positively influences OFDI.

3.2. The role of home country institutional quality in enhancing OFDI

Our second research question asks how home country institutional quality affects OFDI. Improving the country's location advantages through the promotion of strong, stable, transparent, and efficient institutions can attract FDI, thus helping EMNEs develop traditional OAs through spillovers from incoming MNEs. Through efficient institutions and improvements in the education and technological level, key components of a firm's absorptive capacity (Narula & Dunning, 2010), governments can encourage spillovers and implicitly OFDI. Moreover, developing institutions that encourage trade and FDI liberalisation attract FDI and increase exports and imports (Cuervo-Cazurra, 2015). This fosters competition and the need for EMNEs to improve their efficiency (Dau et al., 2020) to compete with domestic firms and incoming MNEs. Through exporting, EMNEs learn about foreign market opportunities and risks and exploit this knowledge through OFDI. Imports also provide EMNEs with valuable resources that they can then exploit through OFDI (Buckley & Casson, 1976). Adopting institutions that encourage the privatisation of state-owned enterprises create new competitors and new pressures for efficiency, thus further encouraging EMNEs to engage in OFDI. Overall, stable, efficient, fair, and transparent institutions that support firm competitiveness encourage OFDI by lowering uncertainty and transaction costs (Stoian, 2013).

Furthermore, improving the effectiveness of institutions by reducing corruption or bureaucracy lowers transaction costs and increases efficiency (Stoian & Mohr, 2016). This creates additional resources that allow EMNEs to invest in innovation and technology that can be exploited through OFDI. Moreover, improving the rule of law and intellectual property rights protection further incentivise firms to innovate (North, 1990), thus leading to more OFDI. By introducing anti-trust legislation, governments can increase competition, spurring EMNEs to innovate (Porter, 1990) and engage in OFDI. Overall, improving institutions and implicitly reducing or closing institutional voids increases EMNEs' competitiveness and their ability to engage in OFDI.

However, due to institutional inertia, some government policies may not be able to deliver the anticipated improvements in the business environment, FDI, or OFDI (Narula & Dunning, 2010). Moreover, spillovers and OFDI may not materialise if governments do not attract the 'right type' of foreign investors (Narula & Dunning, 2010). Alternatively, some EMNEs may choose domestic expansion because of the lower transaction costs associated with the improved institutions in their home markets. Overall, we propose the following hypothesis:

Hypothesis 2: Home country institutional quality positively affects OFDI from emerging economies.

3.3. The moderating impact of home country institutional quality on the relationship between adaptability and OFDI

Finally, we propose that home country institutions negatively moderate the relationship between the EMNEs' adaptability and OFDI. Through the promotion of strong, stable, fair, transparent, and efficient institutions, governments of emerging economies can reduce or close the institutional voids in their countries, thus lowering the need for EMNEs to rely on adaptability as a non-traditional OA. Increased stability, predictability, and transparency of legislation allow MNEs to focus their efforts on developing traditional OAs, hence weakening their need to continuously adapt to new challenges. Improving the quality of public goods, such as infrastructure, may lessen the need for EMNEs to adapt by integrating vertically, thus lowering the role of adaptability in OFDI. Moreover, EMNEs often rely on corruption to be able to navigate the volatile institutions in their home country (Luis & Ruplal, 2013). Government policies that increase the transparency and impartiality of the judiciary system make it more difficult for EMNEs to engage in corruption at home and when investing abroad, as a way of adapting to new challenges. Similarly, EMNEs that rely on government support to manage unstable institutions in the home and host countries (Li & Oh, 2016) may lose the need for adaptability if government policies reduce the role of the state in the economy, business, and OFDI. Finally, improved corporate governance in the home country by increasing checks and balances in firms or tackling corruption and bureaucracy diminishes the need for EMNEs' ability to adapt to new challenges and, implicitly, their role in OFDI. Overall, based on the above argumentation, we propose the following hypothesis:

Hypothesis 3: Home country institutional quality negatively moderates the relationship between the EMNEs' adaptability and OFDI.

4. Methods

4.1.Research context and data

We use a panel dataset for 36 emerging economies and 27 years between 1995 and 2022 to test our hypotheses. The full list of countries is provided in the Appendix, Table A1. Emerging economies are an ideal context to test the boundaries of existing theories, such as the IDP (Dunning, 1981) and the institution-based view (Peng, 2002; Peng et al., 2008, 2009). Because most EMNEs are characterised by institutional voids (Khanna & Palepu, 1997), we can test the impact of home country institutions on OFDI by EMNEs and whether the EMNEs' adaptability is a non-traditional OA for EMNEs that enhances OFDI. Finally, we can explore whether home country institutional quality moderates the relationship between OFDI and the EMNEs' non-traditional OAs.

In line with our theoretical framework, we use aggregate, country-level data. The IDP adopts a country-level perspective (Dunning & Narula, 1998), yet it captures the nexus between country-level and firm-level phenomena by analysing the interaction between a country's economic development level, its location advantages, and the ownership advantages of domestic firms and incoming foreign investors (Narula & Dunning, 2010). Correspondingly, the institution-based view examines how MNEs' OAs are imprinted by country-level institutions (Peng, 2002; Peng et al., 2008, 2009).

We employ data mainly from the IMD World Competitiveness Centre database. Using a main database minimises data problems, ensuring the comparability and consistency of definitions among the variables used. Our use of country-level data allows us to join the debate on the determinants of OFDI from EMNEs (Buckley et al., 2007; Buckley et al., 2018; Cuervo-Cazurra & Genc, 2008; Stoian, 2013; Stoian & Mohr, 2016) and improves the generalisability of our results, especially considering that our dataset includes 36 countries over 27 years.

The variable *Adaptability* is sourced from the *Executive Opinion Survey* database (IMD World Competitiveness Centre, 2024). This is a worldwide cross-country survey of managers conducted by the IMD World Competitiveness Centre as part of the IMD World Competitiveness Rankings (IMD World Competitiveness Centre, 2024). The survey measures competitiveness as it is perceived by business executives who deal with international business.

The strength of the survey is that it quantifies issues that are not easily measured, such as adaptability.

Moreover, investment decisions are often made based on the manager's perceptions of institutions or OAs, and this database enables us to capture these perceptions. The survey is administered to mid and upper-level managers in all countries examined (IMD World Competitiveness Centre, 2024). The sample of respondents is representative of the entire economy: first, it covers a cross-section of the business community in all economic sectors (IMD World Competitiveness Centre, 2024); second, the sample size is proportional to the GDP breakdown of economic sectors in each economy (IMD World Competitiveness Centre, 2024). The respondents are nationals or expatriates who work for domestic or foreign firms with international experience. They are asked to evaluate the present and the future competitiveness conditions in the economy where they work (for at least one year), based on their international and domestic experience. The respondents assess competitiveness by answering questions on a scale of 1 to 6. The average values calculated for each country are then converted into a variable ranging from 0 to 10 (IMD World Competitiveness Centre, 2024).

We extracted information on the quality of institutions from the World Governance Indicators (WGI) database, maintained by the World Bank (Fon & Alon, 2022; Orcos et al., 2018). The World Bank's World Development Indicators (WDI) provided information for some of our control variables. As a result, the final sample for our empirical analysis includes 573 observations of OFDI from 36 emerging economies for the period 1995-2022.

4.2. Measurements

4.2.1 Dependent variable

Our dependent variable is *OFDI*, measured as the natural log of the amount of OFDI flows in billions of US$, as provided by the IMD World Competitiveness Centre database. This aligns with other studies investigating the determinants of OFDI from emerging economies (Buckley et al., 2007; Stoian & Mohr, 2016).

4.2.2. Independent and moderating variables

Our independent variable is *Adaptability,* and it captures the EMNEs' non-traditional OA based on their ability to operate in institutional voids and consequently adapt to new challenges. This variable is an index ranging from 0 to 10, with higher values indicating higher adaptability. This study uses a proxy derived from a statement in the IMD's *Executive Opinion Survey:*

'Flexibility and adaptability of people are high when faced with new challenges.' (IMD World Competitiveness Centre, 2024). Using a proxy is a common practice in International Business research, as there is often some degree of misalignment between comprehensive, trustworthy cross-country databases and research concepts (Aguinis et al., 2023). However, the advantages of using secondary data (including generalisability of results and strong implications for theory) outweigh the disadvantages (Cerar et al., 2021).

This proxy is appropriate, given that firm adaptability stems from people's adaptability, i.e., the mental routines of managers and employees developed in a learning by doing manner through ongoing experience of operating in institutional voids (Narula & Dunning, 2010; Fathallah et al., 2018). EMNEs often employ local managers, and their adaptability is key for firm adaptability. Furthermore, weak corporate governance and firm structures that generally lack checks and balances (Claessens & Yurtoglu, 2013) strengthen the association between managers' adaptability and the adaptability of EMNEs, supporting the use of this proxy. Finally, if managers perceive that people in their country are adaptable when faced with new challenges, they are more likely to harness their own adaptability in decision making, in the knowledge that other business partners employ similar mental models, derived from their own experience of operating in institutional voids. The proxy is a country-level variable, in line with our theoretical framework.

This database has been used to measure regulative voids and their impact on OFDI (Stoian & Mohr, 2016) or to explore the role of institutional factors and managerial capabilities in the development of equity culture in Central and Eastern Europe (Stone, Filippaios & Stoian, 2014). Adopting a survey-based proxy to explore OFDI at the country level is similar to applying Hofstede's cultural dimensions (derived from a cross-country survey with IBM employees) to analyse country-level phenomena, which is the appropriate level of analysis for cultural dimensions research (Hofstede, Hofstede & Minkov, 2010; Beugelsdijk et al., 2018). Moreover, the IDP connects country-level concepts (economic development, inward FDI and OFDI, location advantages, and government policies) with firm-level ownership advantages or strategies (Narula & Dunning, 2010). This demonstrates the inherent interconnectedness between various levels of analysis and supports our choice of variables and proxies.

Our moderating variable, *Home institutions*, captures the quality of institutions in the home country and is derived from the World Bank's six World Governance Indicators: voice and accountability, political stability and absence of violence/terrorism, government

effectiveness, regulatory quality, rule of law, and control of corruption. Each indicator is measured on a scale of -2.5 to 2.5, with -2.5 denoting the weakest institutional environments and 2.5 denoting the strongest. Following prior research (Fon et al., 2021; Getachew et al., 2023), we use the average value of the six indicators to operationalise the quality of the home country's overall institutional environment. To evaluate the reliability of this construct of six indicators, we calculate the Cronbach's alpha (Cronbach, 1951). The alpha coefficient for the six indicators is 0.96, indicating the internal consistency of the independent variable, *Home institutions.*

4.3 Control variables

We chose several control variables based on the extant literature. We include *Home inward FDI*, which captures the crux of the IDP, the role of incoming FDI in improving the ownership advantages of domestic firms, and thus enhancing OFDI (Dunning et al., 2001). It is measured as the natural log of the inward investment amount in billions of US$ (Stoian, 2013; Stoian & Mohr, 2016). The information for this variable is sourced from the IMD World Competitiveness Centre database.

We then include *Home GDP per capita* to account for the level of economic development of the home country. Countries with higher GDP per capita have specialised know-how and more capital available for expanding through OFDI (Dunning, 1981, 1986; Dunning & Narula, 1998). Thus, we expect a positive sign for GDP per capita. This variable is measured as the natural log of the annual GDP per capita in current US$ dollars. Data on this variable are sourced from the WDI database. We also account for the level of competitiveness of the home country by including the variable *Home infrastructure*. Countries with better infrastructure are more competitive and more likely to generate OFDI (Dunning & Narula, 1998). Thus, we expect a positive relationship between infrastructure and OFDI. We measure infrastructure using the quality of energy infrastructure sourced from the IMD World Competitiveness Centre database. The variable is measured as an index based on the managers' perceptions regarding the statement 'Energy infrastructure is adequate and efficient.'. The index ranges from 0 to 10, with higher values indicating a better quality of infrastructure. Because the level of technological development of a country can affect the amount of OFDI (Stoian, 2013), we include *Innovation* to control for the level of the home country's technological development, measured by the home country's R&D expenditure as a percentage of GDP. We expect a positive relationship between innovation and OFDI. Data on this variable are sourced from the WDI database.

We also include *Trade openness* (the sum of a home country's exports and imports as a percentage of GDP) and *Exchange rate* (the natural log of the ratio of the home country's currency relative to the US dollar), as trade liberalisation and the appreciation (depreciation) of a country's currency have significant effects on FDI flows (Buckley et al., 2007; Duanmu, 2014; Nayyar & Mukherjee, 2020). We expect a positive relationship between both variables and OFDI. Data on both variables are sourced from the WDI database. Additionally, we include the variable *Home population* measured as the natural log of the home county's total population, in line with previous research suggesting that population size has a strong impact on FDI flows (Getachew et al., 2023; Stoian, 2013). We expect a positive relationship between population and OFDI. Information on this variable is sourced from the WDI database. Table 1 provides detailed information about all the variables.

Include Table 1 about here.

4.4 Model specification

To test our hypotheses, we utilise the following model:

$$OFDI_{it} = \alpha_1 + \beta_1 Adaptability_{it} + \beta_2 Home\ institutions_{it} + \beta_3 Adaptability_{it} \times Home\ institutions_{it} + Xn_{it} + v_{it} + \in_{it}$$

where $OFDI_{it}$ denotes OFDI flows from home country *i* at time *t*. $Adaptability_{it}$ represents the ability of EMNEs from country *i* to adapt to new challenges at time *t*. $Home\ institutions_{it}$ represent the quality of the home-country institutions for country *i* at time *t*. Both variables test hypotheses 1 and 2, respectively. For hypothesis 3, this model is augmented with the interaction variable $Adaptability_{it} \times Home\ institutions_{it.}$ X_{it} corresponds to *n* individual-level control variables. These factors include the level of inward FDI flows, the level of economic development, the quality of infrastructure, the level of technological development, trade liberalisation, currency fluctuations, and population size (captured by the variables *Home inward FDI, Home GDP per capita, Home infrastructure, Innovation, Trade openness, Exchange rate and Home population).* v_{it} are year-fixed effects to account for global events that affect all countries similarly. $\in_{it}$ is the disturbance term that captures all other omitted variables, i.e., the determinants of OFDI unaccounted for in our model.

We estimate equation (1) using the random effects generalised least squares (RE-GLS) estimator, using a panel structured as country and year. We decide between fixed and random

effects by running a Hausman test (Hausman, 1978). The results of the Hausman test, provided in Appendix Table A2, show evidence in favour of the fixed effects estimator.

However, from a theoretical perspective, we believe that the RE-GLS estimator is more appropriate because this assumes that individual-specific effects are uncorrelated with the independent variables (Cameron & Trivedi, 2005). This estimator controls for unobserved heterogeneity in the data when this heterogeneity varies over time (Cameron & Trivedi, 2005). This is consistent with Dunning and Narula (1998), who argue that the stages and position of the IDP, which is our main theoretical anchor, vary among countries and between years. In the robustness tests, we also employed the fixed effects estimator and obtained similar results.

The inclusion of the independent variable, moderating variable, and their interaction term is likely to result in a high degree of multicollinearity. Hence, we follow previous studies (Wu & Chen, 2014; Fon & Alon, 2022) and use the standardised values of the independent, moderating, and control variables in the cross-effects models (Hofmann & Gavin, 1998) We also create the interaction term by multiplying the standardised values of the independent and moderating variables, further reducing the risk of multicollinearity (Dawson, 2014).

To test the moderation effects hypothesised in H3, we follow a two-step approach, in line with Kingsley et al. (2017), by performing a conditional test that examines the average marginal effects of the independent variable across the entire range of the moderating variable(s) (Fon & Alon, 2022). We first estimate the regressions using the standardised values of the independent variable and moderating variable, then the interaction between these standardised variables. Including the direct and the moderating effects is crucial to fully capture the relationships studied (Andersson et al., 2014). We examine the significance and sign of the interaction term. We also compare the R^2 of the model that includes the interaction term with the R^2 of the model(s) that includes the direct effects only. If the coefficient of the interaction term is significant and the R^2 increases when including the interaction term in the model, then we assume that there is a moderating (negative) effect, i.e., an increase in the quality of home country institutions weakens the role of adaptability in OFDI.

To avoid overestimating or underestimating the moderating effect (Kingsley et al., 2017), we perform a conditional test that examines the marginal effects of the independent variable, Adaptability, over the entire range of the moderating variable, *Home institutions* (standardised values). We plot the marginal effects of the independent variable, *Adaptability*,

at various levels of the standardised values of the moderating variable, *Home institutions*. The figures show the range of values of the moderating variable for which there is a moderation effect. A moderation effect exists for the values of the moderating variables for which the marginal effects of the independent variable on OFDI are statistically different from 0 (at the 95% confidence level), i.e., the upper confidence interval line crosses the red horizontal zero line (Kingsley et al., 2017).

We report these figures, together with the histograms for the moderating variable (*Home institutions*). The histograms show the distribution of the moderating variables and the percentage of the observations that fall within the range of values of the moderating variable for which a moderation effect exists.

5. Results

5.1. Main results

Table 2 presents descriptive statistics and correlation coefficients for the variables in our study. Due to the relatively high correlation coefficients between some variables (for instance, between *Home institutions* and *Home GDP per capita*, r = 0.780), we performed a variance inflation factor (VIF) test. The results show that the highest VIF value is 4.64, indicating that multicollinearity is unlikely to be a concern in our empirical analyses. Moreover, we ran the regression models, excluding variables with correlation coefficients above 0.4, and adding these variables one at a time. Both approaches produced largely similar results.

Include Table 2 about here.

Table 3 shows the main results of our analysis. We report the coefficients, standard errors, number of observations, and p-value. Model 1 includes controls only. Models 2 and 3 test the direct effects of the independent and moderating variables, respectively (*Adaptability* and *Home institutions*). Model 4 includes both variables, and Model 5 includes the interaction term, namely, *Adaptability* × *Home institutions*.

Include Table 3 about here.

Our results support Hypothesis 1. *Adaptability* has a positive and significant coefficient at the 0.05 level (β = 0.004, *SE* = 0.002, p = 0.049) in model 2. This indicates that EMNEs undertaking OFDI utilise non-traditional OAs derived from their ability to operate in institutional voids. Conversely, we find no support for Hypothesis 2. The coefficient for *Home institutions* is negative but not statistically significant in Models 3 and 4. The overall

institutional environment alone does not seem to influence OFDI. This implies that the effect of institutions on OFDI may be indirect, potentially acting as a moderator in the relationship between the EMNEs' non-traditional OAs and OFDI.

Finally, we find support for Hypothesis 3. The coefficient of the interaction variable, *Adaptability × Home institutions*, is negative and statistically significant at the 0.01 level (β = -0.013, *SE* = 0.004, p = 0.000). To assess whether this moderating effect is overstated, we calculate the marginal effects of *Adaptability* on OFDI for different values of the moderating variable, *Home institutions*. Figure 3 shows that the moderating effect of *Home institutions* is negative and statistically significant after the standardised value at about 0.1, because the upper confidence interval line crosses the red horizontal zero line (Meyer et al., 2017). This suggests that stronger home country institutions weaken the role of EMNEs' adaptability as a non-traditional OA that enhances OFDI.

Include Figure 3 about here.

Regarding our control variables, many exhibit the expected signs and significance. For brevity, we focus only on the complete model (Model 5) when discussing the results for these variables. *Home inward FDI* has a positive and statistically significant coefficient (β = 0.106, *SE* = 0.006, p = 0.000). The coefficient for *Home GDP per capita* is positive and statistically significant (β = 0.106, *SE* = 0.006, p = 0.014). *Home infrastructure* also shows a positive and statistically significant coefficient (β = 0.011, SE = 0.003, p = 0.000). The variable *Home population* is positive and statistically significant (β = 0.012, *SE* = 0.005, p = 0.016). The *Exchange rate* variable is positive and statistically significant (β = 0.007, *SE* = 0.003, p = 0.011). *Innovation* demonstrates a positive and statistically significant relationship (β = 0.008, *SE* = 0.003, p = 0.016). Finally, *Trade openness* is positive and statistically significant (β = 0.010, *SE* = 0.003, p = 0.002).

5.2. Robustness tests

5.2.1. Alternative estimation model

We perform additional tests to evaluate the robustness of our results. Firstly, we estimate a fixed effects model, obtaining results that align with our primary findings. The estimation results are included in the Appendix, Table A3.

5.2.2. Are all institutions equal?

Secondly, since we use an overall measure of home country institutions to test hypotheses 2 and 3, some may argue that institutional quality could be measured differently. It is possible that not all aspects of the home country's institutional environment influence outward FDI from emerging economies or shape the effect of adaptability uniformly. Therefore, we repeat our analysis using three separate institutional indicators: *The rule of law*, *Regulatory quality*, and *Investment freedom*. These three variables are commonly used in empirical research on FDI flows. The rule of law and its extensions to property rights is identified as one of the most important institutional factors determining FDI flows, as a strong rule of law that safeguards property rights reduce uncertainty for MNEs by addressing market failures (Globerman & Shapiro, 2002a, 2002b; Khoury & Peng, 2011; Li & Resnick, 2003; Sethi et al., 2002). Regulatory quality and investment freedom reflect the quality of rules and regulations that support MNES' business activities and foster trust in the business environment (Dau et al., 2021; Fuentelsaz et al., 2015; Gastanaga et al., 1998; Liou et al., 2016; Orcos et al., 2018). Data on the rule of law and regulatory quality were obtained from the WGI database, while data on investment freedom came from the Economic Freedom Index maintained by the Heritage Foundation (2025). The investment freedom variable is graded on a scale of 0-100, with the highest value representing the strongest investment climate. The results using these different proxies for the home institutional environment are provided in the Appendix, Tables A4 and A5, and are consistent with the main findings. Additionally, we calculated the average marginal effects of *Adaptability* on OFDI for various values of the *Rule of law, Regulatory quality, and Investment freedom* as alternative measures of the moderating variable (see Figures A1, A2, and A3). This analysis further demonstrates the robustness of our results.

Include Figures A1, A2, and A3 about here.

5.2.3. Does adaptability positively influence OFDI from developed economies?

Thirdly, one could argue that adaptability is not unique to MNEs from emerging economies, but also to DMNEs. To test this proposition, we benchmark our results using a sample of OFDI from a group of developed economies. The full list of developed economies is provided in the Appendix, Table A6. The results for the group of developed economies are reported in Appendix Table A7, providing additional support for our hypotheses. Unlike emerging economies, the results show a negative and statistically significant effect of *Adaptability* on OFDI from developed economies (β = -0.018, *SE* = 0.009, p = 0.048). Also, the interaction

term, *Adaptability × Home institutions,* is negative and statistically insignificant, proving that it is EMNEs that benefit particularly from adaptability.

5.2.4. Do EMNEs transition from non-traditional OAs to traditional OAs as home institutions improve?

Fourthly, an alternative explanation for our results may be that as home country institutions improve, EMNEs progressively shift from non-traditional OAs, such as adaptability, to traditional OAs, including innovation and technological capabilities. This hypothesis is tested by employing the variable of *Strategic agility* as a proxy for traditional OA. Strategic agility (e.g., Ahammmad et al., 2021; Boojihawon et al., 2021; Shin et al., 2015) 'is defined as a firm's ability to renew itself continuously and to maintain flexibility without compromising efficiency.' (Clauss et al., 2021, p.3). Strategic agility requires firms to proactively renew their business models and introduce new product categories rather than reposition existing ones (Arbussa et al., 2017; Hock et al., 2016; Wilson & Doz, 2011). This necessitates the development of the core capabilities necessary to accelerate the ongoing renewal of their existing business models (Battistella et al., 2017). Consequently, the traditional OAs that form strategic agility include innovation and technological capability (Clauss et al., 2021; Shin et al., 2015), which are usually easier to develop in stronger institutional environments (Tarba et al., 2023). To proxy strategic agility, we source data from the IMD World Competitiveness Centre database, which provides information on the "agility of companies." It is measured on a scale of 0 to 10, with the highest value signifying the greatest level of company agility. This variable has been used in prior research on the agility of companies from emerging economies (e.g., Yoshikuni et al., 2024). The results using strategic agility as the independent variable are presented in the Appendix, Table A8.

The results indicate that strategic agility does not directly impact OFDI from emerging economies. However, the rule of law (β = 0.018, *SE* = 0.008, p = 0.024) and protection of property rights (β = 0.001, *SE* = 0.000, p = 0.004) have a positive and significant moderating effect on the relationship between strategic agility and OFDI. These results suggest that as domestic institutions strengthen, EMNEs develop traditional OAs, such as strategic agility, which can be utilised through OFDI, thereby providing further support for our hypotheses. We calculate the average marginal effects of *Strategic agility* on OFDI for various values of the *Rule of Law and Property Rights* (see Figures A4 and A5 in the Appendix), and these also demonstrate the robustness of our results.

Include Figures A4 and A5 about here.

6. Discussion and conclusion

This paper aimed to explore whether the IDP can fully explain OFDI from emerging economies by focusing on home-country institutions and firm adaptability. We asked the following research questions: How does firm adaptability resulting from operating in institutional voids affect OFDI? How does home country institutional quality affect OFDI? How does home country institutional quality moderate the relationship between firm adaptability and OFDI? Using random effects, we tested our theoretical framework on a dataset of 36 emerging economies over 27 years.

6.1. Implications for theory

Our main theoretical contribution is to provide a theoretical framework that explores the impact of home country institutions on OFDI. Firstly, our theoretical framework extends and specifies the institution-based view (Peng et al., 2008). Specifically, our study augments the literature on institutional voids (Cuervo-Cazurra & Genc, 2008; Dieleman et al., 2022; Govindarajan & Ramamurti, 2011; Ramamurti, 2012a; Saeed, Riaz & Baloch, 2022; Stal et al., 2011; Adomako et al., 2019; Liedong et al., 2020; Saka-Helmhout, 2020; Luiz et al., 2021), by providing a nuanced explanation of how, based on their ability to operate in institutional voids, EMNEs develop adaptability, a non-traditional institutional OA. By exploring empirically the impact of adaptability on OFDI from emerging economies, our findings add to research by Panibratov and Klishevich (2019), who argue that Russian and Ukrainian private firms leverage adaptability to expand abroad. Our study also complements Cuervo-Cazurra and Genc (2008) and Luiz et al. (2021) by showing that adaptability, a facet of flexibility, can be leveraged through OFDI not only in countries with similar institutions but also in developed economies. By arguing and demonstrating empirically that adaptability can become less important to EMNEs as an OA when home country institutions improve, we complement Cuervo-Cazurra & Genc (2008), who argue that EMNEs turn competitive disadvantages into advantages, and Leonard-Barton (1992), who finds that ownership advantages may, in time, turn into disadvantages. In doing so, we answer calls for more research on the impact of home country institutions on MNEs (Cuervo-Cazurra et al., 2018; Narula & Hodyiat, 2016) and on the specific nature of the EMNEs' OAs (Adarkwah & Petersen Malonaes, 2020).

Secondly, we extend the IDP (Dunning, 1981;1986; Dunning & Narula, 1994;1998; Narula & Dunning, 2010) by using insights from the institution-based view (Peng, 2002; Peng

et al., 2008, 2009). We explore the role of adaptability, a non-traditional OA, in enhancing OFDI and provide support for the IDP in the context of emerging economies. We demonstrate theoretically and empirically that, for emerging economies, the IDP needs to take into consideration the role of EMNEs' non-traditional institutional OAs acquired as a result of their experience of operating in institutional voids, thus expanding on Narula and Dunning (2010). We complement studies that focus on the institutional ownership advantages of EMNEs in emerging (Stoian & Mohr, 2016; Yaprak, Yosun & Cetindamar, 2018; Pattnaik, Singh & Gaur, 2021) or post-communist economies (Panibratov & Klivesich, 2020; Goryniya et al., 2019; Stoian, 2013) yet overlook the role of the EMNEs' adaptability within the IDP.

Moreover, we analyse the impact of home institutions on the relationship between OFDI and firm adaptability. Although the IDP posits that government policies can enhance OFDI by improving the countries' location advantages, attracting foreign investors, and implicitly improving the OAs of domestic firms (Dunning, 1981, 1986; Narula & Dunning, 2010), the moderating effect of institutional quality on the relationship between EMNEs' OAs and OFDI has been overlooked in the literature.

Despite hypothesising a direct effect of home country institutions on OFDI, we find that institutions affect OFDI only indirectly. This relationship is rather nuanced. Not only do institutions not increase the propensity of EMNEs to carry out OFDI, but institutional quality also weakens the role of adaptability in driving OFDI. When governments improve the institutions and tackle institutional voids, EMNEs become more like developed country MNEs, relying less on their non-traditional OAs, such as adaptability, and relying perhaps increasingly on traditional OAs.

The result of the direct influence of institutional development on OFDI could be because most emerging economies have weak home country location advantages characterised by their lower stages of institutional development (Narula & Kodiyat, 2016). Indeed, a review of the literature suggests that the direct effect of institutions on OFDI in emerging economies can be contingent on the stage of institutional development in the home country (Chen et al., 2016). This complements Zhang et al. (2022), who find that the effectiveness of government policies in encouraging OFDI depends on the effectiveness and ownership of firms. However, to the best of our knowledge, the conceptualisation of the moderation effects of institutions on the relationship between non-traditional OAs and OFDI is a novel contribution of our paper. We thus answer calls by Dunning and Narula (1998), Narula & Dunning (2010), Gorinya et al.

(2019a), and Dau et al. (2020) to explore the interaction between government policies (or institutions) and OFDI in a more systematic and rigorous way.

6.2. Implications for managers and policymakers

The managers of EMNEs should nourish OAs, such as the ability to adapt to new challenges. However, managers of EMNEs need to be aware that such non-traditional OAs are transitory and that institutional reforms may weaken the role of these non-traditional OAs in OFDI. This is concerning because in a global business environment increasingly characterised by uncertainty, the EMNEs' adaptability is likely to be a vital OA when engaging in OFDI.

The policymakers of emerging economies should be aware that institutional reforms alone do not increase OFDI. Instead, it is the EMNEs' ability to develop OAs —both non-traditional and traditional —that enhances OFDI. Thus, policymakers should adopt institutional reforms that encourage spillovers from incoming multinationals and foster the development of traditional OAs, such as technology, branding, marketing, and others. By encouraging inward investment from MNEs and their collaboration with domestic firms across the supply chain, hence increasing the competitiveness of EMNEs and their absorptive capacity, governments can indirectly spur OFDI. Increasing the quality of human capital, infrastructure, and technology can allow EMNEs to learn from incoming MNEs and develop strong traditional OAs that foster OFDI. Furthermore, policymakers should implement policies that encourage EMNEs to preserve, augment, and deploy their non-traditional OAs, such as their adaptability. These OAs are particularly important in a more volatile, uncertain, complex, and ambiguous (VUCA) environment that EMNEs and developed economies are likely to continue to experience in the future.

6.3. Limitations and future research directions

This research has several limitations. Firstly, we have used aggregate data, which is consistent with other similar research. However, future research may use bilateral flows of FDI to account for the differences between the home and host country institutions. Secondly, we explore the EMNEs' ability to adapt to new challenges as a non-traditional OA. Future studies may focus on non-traditional EMNE OAs, such as ambidexterity and government ownership, and their interplay with traditional OAs. Finally, firm-level data may be used in future research to further explore the interplay between traditional and non-traditional OAs in enhancing OFDI from emerging economies.

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FIGURES

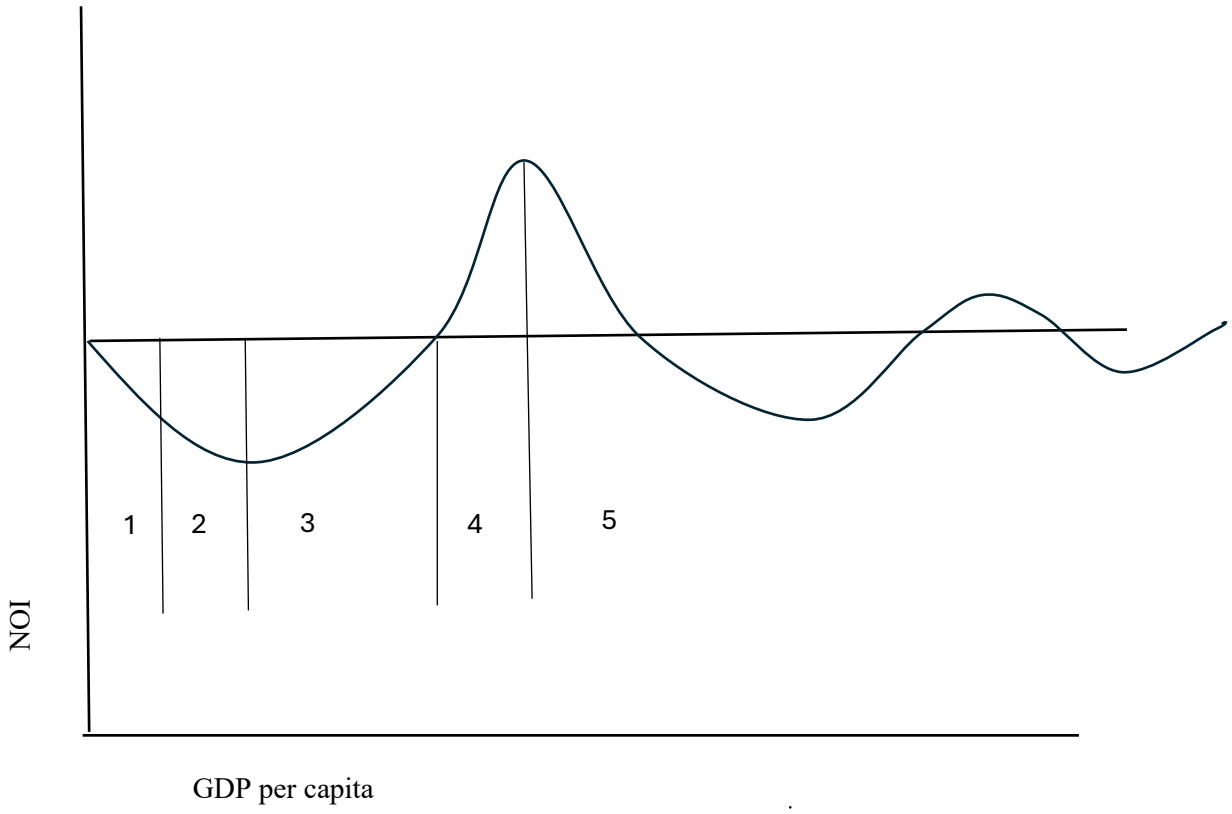

Figure 1: The investment development path and its stages

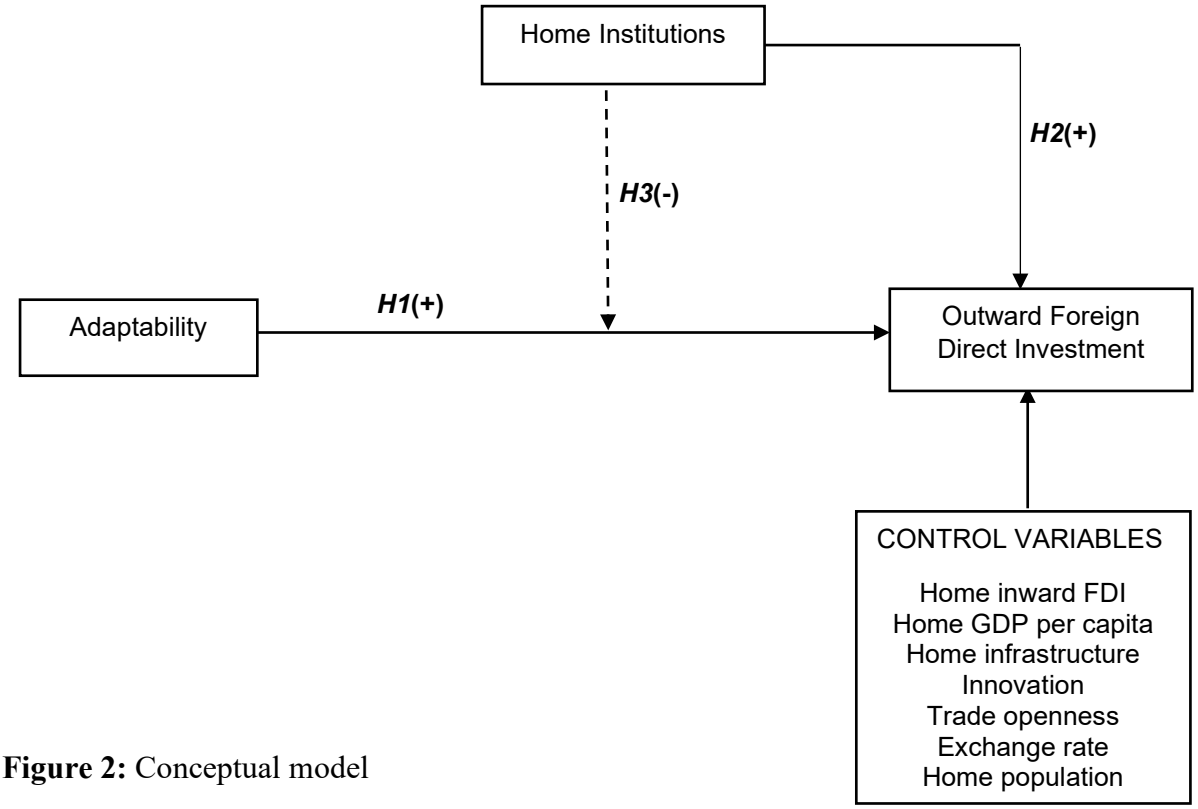

Figure 2: Conceptual model

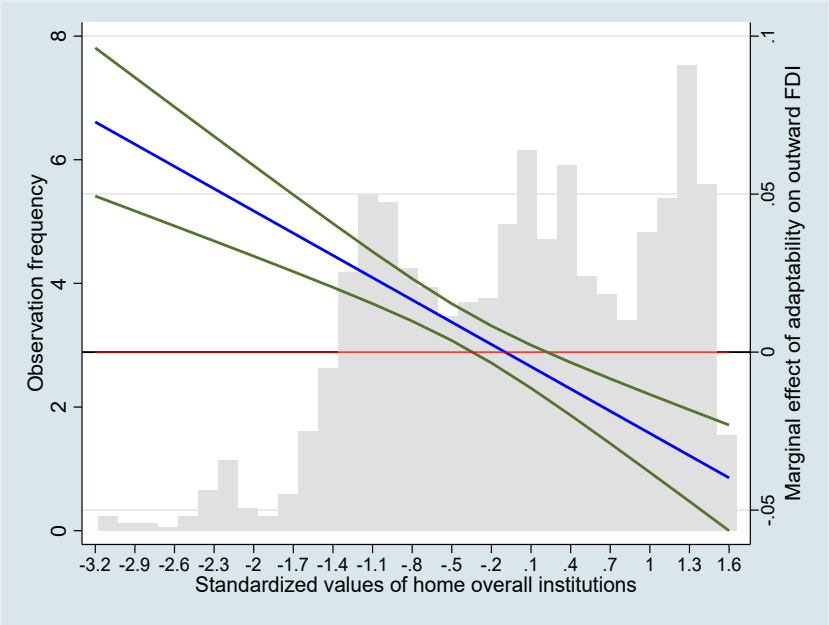

Figure 3
The moderating role of *Home institutions*
Average marginal effect of *Adaptability* on *OFDI* (based upon model 5, Table 3)

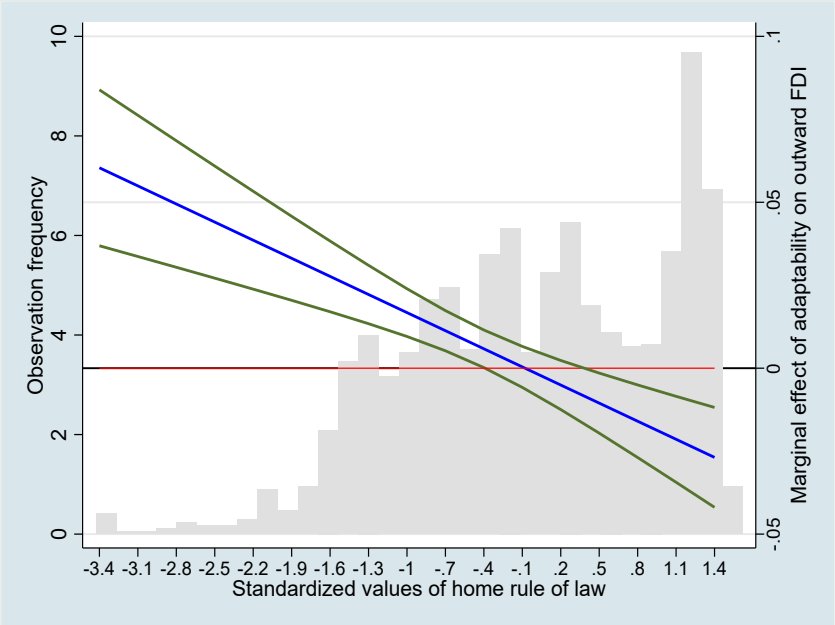

Figure A1
The moderating role of *Home rule of law*
Average marginal effect of *Adaptability* on *OFDI* (based upon model 3, Table A4)

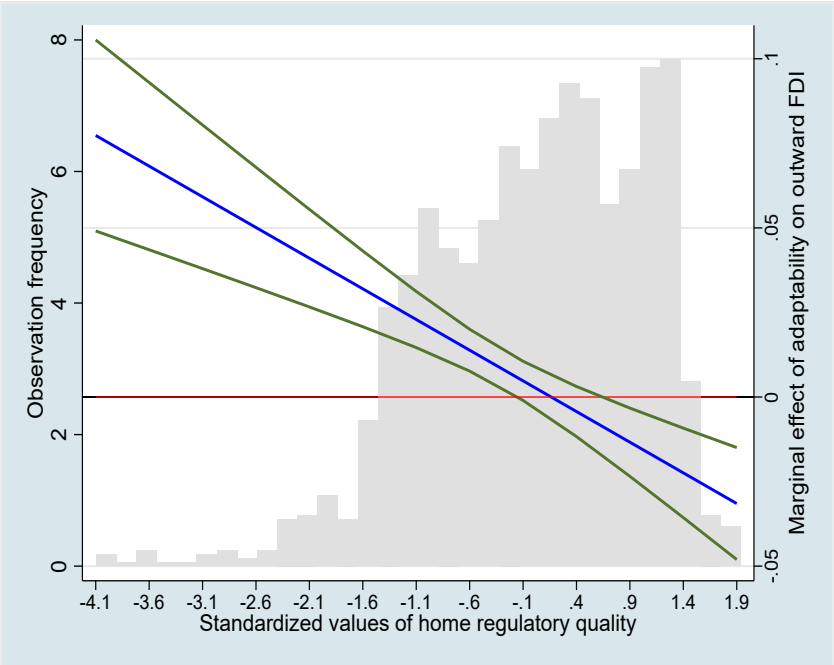

Figure A2
The moderating role of *Home regulatory quality*
Average marginal effect of *Adaptability* on *OFDI* (based upon model 3, Table A5)

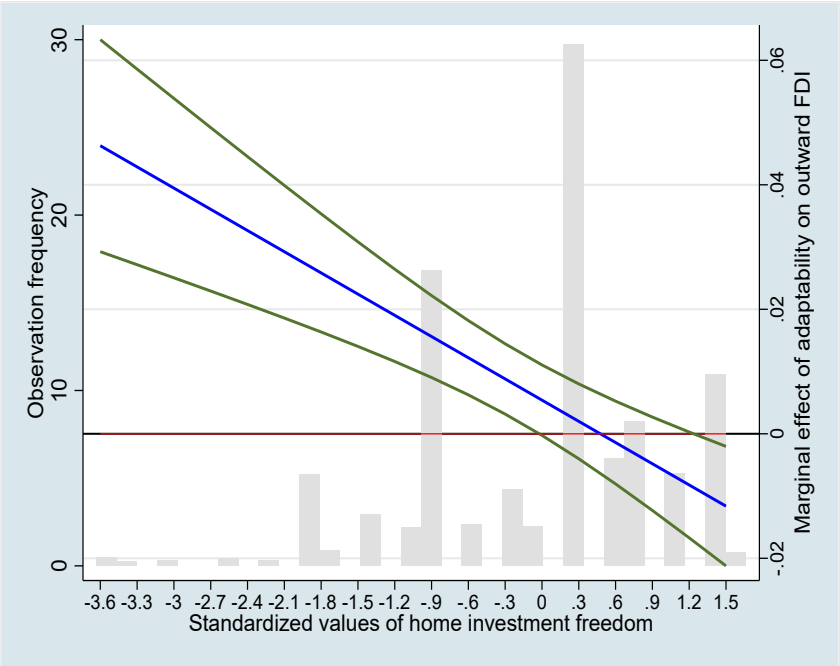

Figure A3
The moderating role of *Home investment freedom*
Average marginal effect of *Adaptability* on *OFDI* (based upon model 6, Table A5)

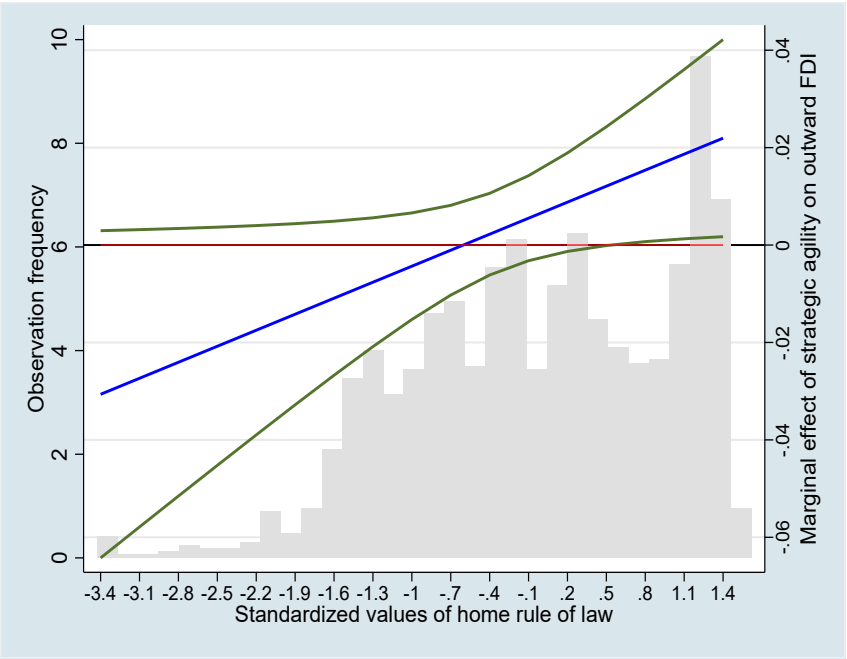

Figure A4
The moderating role of the *Home rule of law*
Average marginal effect of *Strategic agility* on *OFDI* (based upon model 3, Table A8)

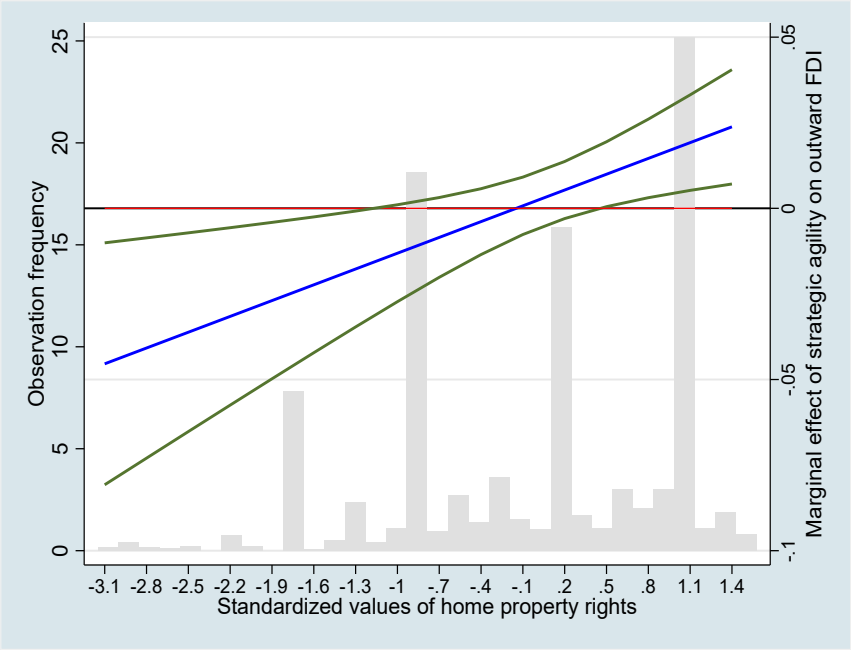

Figure A5
The moderating role of *Home property rights*
Average marginal effect of *Strategic agility* on *OFDI* (based upon model 5, Table A8)

TABLES

Table 1. Measures and sources of the main variables

Variables	Measurement	Sources
OFDI	The natural log of the amount of outward investment flows (in billions of US$).	IMD (2024).
Adaptability	Index with a value between 0 and 10; higher values indicate higher adaptability. This variable is derived from the statement 'Flexibility and adaptability of people are high when faced with new challenges', from the *Executive Opinion Survey.*	IMD (2024).
Home institutions	The average of six governance indicators: rule of law, political stability, control of corruption, regulatory quality, government effectiveness, and voice and accountability. Each indicator is an index with a value between -2.5 and 2.5, with the highest value indicating the strongest home institutional environment.	World Governance Indicators (2024).
Home inward FDI	The natural log of the amount of inward investment flows (in billions of US$).	IMD (2024).
Home GDP Per Capita	The natural log of the home country's GDP per capita (in US$).	IMD (2024).
Home infrastructure	Index with a value between 0 and 10; higher values indicate better home country infrastructure. This variable is derived from the statement 'Energy infrastructure is adequate and efficient' from the *Executive Opinion Survey*.	IMD (2024).
Innovation	The percentage of the home country's R&D expenditure to GDP.	WDI (2024).
Trade openness	The sum of the home country's imports and exports as a percentage of GDP.	WDI (2024).
Exchange rate	The exchange rate of the home country's currency against the US$.	WDI (2024).
Home population	The natural log of the home country's population.	WDI (2024).

Table 2. Descriptive statistics and correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) OFDI	1.000									
(2) Adaptability	-0.006	1.000								
(3) Home institutions	0.161	0.115	1.000							
(4) Home inward FDI	0.858	0.058	0.059	1.000						
(5) Home GDP per capita	0.187	0.111	0.780	0.086	1.000					
(6) Innovation	0.225	0.078	0.607	0.125	0.612	1.000				
(7) Home infrastructure	0.121	0.150	0.680	0.034	0.665	0.516	1.000			
(8) Exchange rate	-0.093	-0.084	-0.335	-0.086	-0.418	-0.126	-0.247	1.000		
(9) Home population	0.225	-0.098	-0.403	0.260	-0.430	0.015	-0.379	0.243	1.000	
(10) Trade openness	-0.061	0.137	0.297	-0.070	0.290	-0.025	0.380	-0.168	-0.484	1.000
Mean	5.621	6.410	.322	5.832	9.297	1.093	5.905	2.580	16.935	109.097
S.D.	.081	1.055	.619	.092	.861	1.029	1.809	2.357	1.714	84.279
VIF		1.19	3.27	2.10	3.78	1.79	2.24	1.24	4.64	2.01

Table 3. Regression results

	Model 1		Model 2		Model 3		Model 4		Model 5	
Home inward FDI	0.572	***	0.588	***	0.568	***	0.583	***	0.106	***
	(0.033)		(0.032)		(0.034)		(0.032)		(0.006)	
Home GDP per capita	0.013	**	0.011	**	0.014	**	0.012	**	0.016	**
	(0.005)		(0.005)		(0.006)		(0.005)		(0.006)	
Home infrastructure	0.007	***	0.006	***	0.007	***	0.007	***	0.011	***
	(0.002)		(0.002)		(0.002)		(0.002)		(0.003)	
Home population	0.008	***	0.006	**	0.008	***	0.006	**	0.012	**
	(0.003)		(0.003)		(0.003)		(0.003)		(0.005)	
Exchange rate	0.003	**	0.003	***	0.003	**	0.003	***	0.007	**
	(0.001)		(0.001)		(0.001)		(0.001)		(0.003)	
Innovation	0.008	**	0.007	**	0.008	**	0.008	**	0.008	**
	(0.003)		(0.003)		(0.003)		(0.003)		(0.003)	
Trade openness	0.000	**	0.000	***	0.000	**	0.000	**	0.010	***
	(0.000)		(0.000)		(0.000)		(0.000)		(0.003)	
H1: Adaptability			0.004	**			0.005	**	0.001	
			(0.002)				(0.002)		(0.003)	
H2: Home institutions					-0.001		-0.002		-0.003	
					(0.008)		(0.005)		(0.006)	
H3: Adaptability × home institutions									-0.013	***
									(0.004)	
_cons	1.952	***	1.892	***	1.968	***	1.912	***	5.622	***
	(0.167)		(0.159)		(0.170)		(0.162)		(0.010)	
Year fixed effects	Yes		Yes		Yes		Yes		Yes	
Number of groups	36		36		36		36		36	
Within R^2	0.438		0.439		0.440		0.441		0.473	
Between R^2	0.879		0.888		0.875		0.885		0.855	
Overall R^2	0.744		0.748		0.743		0.746		0.737	
Observations	573		573		573		573		573	

*** p<.01, ** p<.05, * p<.1

APPENDIX

Table A1: Countries in the sample

Argentina	Brazil	Bulgaria	Chile	China	Colombia
Croatia	Czech Republic	Estonia	Hong Kong	Hungary	India
Indonesia	Israel	Jordan	Kazakhstan	Korea Republic	Latvia
Lithuania	Malaysia	Mexico	Mongolia	Peru	Philippines
Poland	Qatar	Romania	Saudi Arabia	Singapore	Slovak Republic
Slovenia	South Africa	Thailand	Turkey	United Arab Emirates	Venezuela

Table A2: Results of the Hausman Test to decide between fixed and random effects regression

	Coefficients			
Variables	(b) Fixed	(B) Random	(b-B) Difference	sqrt(diag(V_b -V_B)) S.E
Home GDP per capita	.0147307	.0137111	.0010196	.0044683
Home infrastructure	.0041352	.0049641	-.0008289	.000919
Home inward FDI	.4946484	.5592161	-.0645677	.0200158
Innovation	.0246711	.0088192	.0158519	.0049827
Exchange rate	.0034958	.0024463	.0010494	.0020285
Trade openness	.0000408	.0001423	-.0001015	.0000874
Home population	-.0149442	.0084464	-.0233906	.0322522
Adaptability	.0178014	.0134851	.0043163	.0018932
Home institutions	.2524645	.1373666	.1150979	.0252291
Adaptability × home institutions	-.0312623	-.020261	-.0110013	.0028122

b= consistent under Ho and Ha; obtained from xtreg.
B= inconsistent under Ha, efficient under Ho; obtained from xtreg.
Test: Ho: Difference in coefficients not systematic
chi2(10) = (b -B)'[(V_b-V_B)^(-1)](b-B)
= 55.49
Prob > chi2 = 0.0000

Table A3. Regression results of the alternative estimation model using fixed effects regression

	Model 1		Model 2		Model 3		Model 4		Model 5	
Home inward FDI	0.465	***	0.466	***	0.466	***	0.467	***	0.452	***
	(0.039)		(0.039)		(0.039)		(0.039)		(0.038)	
Home GDP per capita	0.078	***	0.073	***	0.072	***	0.069	***	0.059	***
	(0.012)		(0.012)		(0.012)		(0.012)		(0.012)	
Home infrastructure	0.008	***	0.007	***	0.008	***	0.007	***	0.006	***
	(0.002)		(0.002)		(0.002)		(0.002)		(0.002)	
Home population	0.093	**	0.090	**	0.094	**	0.091	**	0.101	**
	(0.041)		(0.040)		(0.041)		(0.040)		(0.039)	
Exchange rate	0.004	*	0.004		0.004	*	0.004	*	0.005	**
	(0.002)		(0.002)		(0.002)		(0.002)		(0.002)	
Innovation	0.035	***	0.035	***	0.034	***	0.035	***	0.032	***
	(0.006)		(0.006)		(0.006)		(0.006)		(0.006)	
Trade openness	0.000	**	0.000	**	0.000	**	0.000	**	0.000	***
	(0.000)		(0.000)		(0.000)		(0.000)		(0.000)	
Adaptability			0.007	**			0.006	**	0.017	***
			(0.003)				(0.003)		(0.003)	
Home institutions					0.022		0.016		0.224	***
					(0.014)		(0.014)		(0.039)	
Adaptability × home institutions									-0.030	***
									(0.005)	
_cons	0.543		0.592		0.575		0.610		0.527	
	(0.708)		(0.705)		(0.707)		(0.705)		(0.684)	
Year fixed effects	Yes		Yes		Yes		Yes		Yes	
Number of groups	36		36		36		36		36	
Within R^2	0.503				0.500		0.504		0.500	
			0.503							
Between R^2	0.535		0.535		0.556		0.547		0.557	
Overall R^2	0.467		0.467		0.485		0.478		0.485	
Observations	573		573		573		573		573	

Robust standard errors are in parentheses*** p<.01, ** p<.05, * p<.1

Table A4: Regression results of alternative proxies of institutions using the rule of law

	Model 1		Model 2		Model 3	
Home inward FDI	0.568	***	0.582	***	0.582	***
	(0.034)		(0.032)		(0.033)	
Home GDP per capita	0.015	**	0.012	**	0.014	**
	(0.006)		(0.005)		(0.006)	
Home infrastructure	0.007	***	0.007	***	0.007	***
	(0.002)		(0.002)		(0.002)	
Home population	0.008	***	0.006	**	0.007	**
	(0.003)		(0.003)		(0.003)	
Exchange rate	0.003	**	0.003	***	0.003	**
	(0.001)		(0.001)		(0.001)	
Innovation	0.008	**	0.008	**	0.008	**
	(0.003)		(0.003)		(0.003)	
Trade openness	0.000	**	0.000	**	0.000	***
	(0.000)		(0.000)		(0.000)	
Home rule of law	-0.002		-0.003		0.066	***
	(0.006)		(0.006)		(0.025)	
Adaptability			0.005	**	0.009	***
			(0.002)		(0.003)	
Adaptability × home rule of law					-0.011	***
					(0.004)	
_cons	1.965	***	1.912	***	1.858	***
	(0.170)		(0.162)		(0.168)	
Year fixed effects	Yes		Yes		Yes	
Number of groups	36		36		36	
Within R^2	0.440		0.441		0.462	
Between R^2	0.875		0.885		0.864	
Overall R^2	0.743		0.746		0.739	
Observations	573		573		573	

Robust standard errors are in parentheses, *** p<.01, ** p<.05, * p<.1

Table A5. Regression results of alternative proxies of institutions using regulatory quality and investment freedom

	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	Regulatory quality						Investment freedom					
Home inward FDI	0.572	***	0.591	***	0.593	***	0.532	***	0.569	***	0.574	***
	(0.033)		(0.032)		(0.032)		(0.035)		(0.032)		(0.033)	
Home GDP per capita	0.017	***	0.013	**	0.015	***	0.017	***	0.011	**	0.012	**
	(0.006)		(0.005)		(0.005)		(0.006)		(0.005)		(0.005)	
Home infrastructure	0.008	***	0.008	***	0.007	***	0.009	***	0.007	***	0.007	***
	(0.002)		(0.002)		(0.002)		(0.002)		(0.002)		(0.002)	
Home population	0.007	**	0.005	*	0.005	*	0.007	**	0.004		0.004	
	(0.003)		(0.003)		(0.003)		(0.003)		(0.003)		(0.003)	
Exchange rate	0.003	**	0.003	***	0.003	***	0.003	**	0.003	***	0.003	***
	(0.001)		(0.001)		(0.001)		(0.001)		(0.001)		(0.001)	
Innovation	0.009	***	0.008	***	0.009	***	0.012	***	0.009	***	0.010	***
	(0.003)		(0.003)		(0.003)		(0.004)		(0.003)		(0.003)	
Trade openness	0.000	***	0.000	***	0.000	***	0.000	**	0.000	***	0.000	***
	(0.000)		(0.000)		(0.000)		(0.000)		(0.000)		(0.000)	
Home regulatory quality		**		**		***						
	-0.012		-0.013		0.082							
	(0.006		(0.006)		(0.027)							
Adaptability			0.004	**	0.014	***			0.004	*	0.032	***
			(0.002)		(0.003)				(0.002)		(0.008)	
Adaptability × home regulatory quality					-0.015	***						
					(0.004)							
Home investment freedom							-0.001	***	-0.001	***	0.002	***
							(0.000)		(0.000)		(0.001)	
Adaptability × home investment freedom											-0.000	***
											(0.000)	
_cons	1.943	***	1.875	***	1.783	***	2.199	***	2.062	***	1.849	***
	(0.169)		(0.159)		(0.166)		(0.184)		(0.166)		(0.183)	
Year fixed effects	Yes		Yes		Yes		Yes		Yes		Yes	
Number of groups	36		36		36		36		36		36	
Within R^2	0.442		0.441		0.474		0.457		0.449		0.476	
Between R^2	0.881		0.893		0.865		0.849		0.882		0.857	
Overall R^2	0.746		0.751		0.742		0.731		0.744		0.738	
Observations	573		573		573		571		571		571	

Robust standard errors are in parentheses*** p<.01, ** p<.05, * p<.1

Table A6. Developed economies in the sample

Australia	Austria	Belgium	Canada	Denmark	Finland
France	Germany	Greece	Iceland	Ireland	Italy
Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal
Spain	Sweden	Switzerland	USA	United Kingdom	

Table A7. Regression results using a sample of developed economies

	Model 1		Model 2		Model 3		Model 4		Model 5	
Home inward FDI	0.948	***	0.958	***	0.948	***	0.960	***	0.960	***
	(0.026)		(0.026)		(0.026)		(0.026)		(0.027)	
Home GDP per capita	-0.057	**	-0.044		-0.067	*	-0.063	*	-0.064	*
	(0.029)		(0.030)		(0.035)		(0.035)		(0.035)	
Home infrastructure	0.013	*	0.011		0.012		0.008		0.008	
	(0.008)		(0.008)		(0.008)		(0.009)		(0.009)	
Home population	0.052	***	0.046	***	0.054	***	0.048	***	0.047	***
	(0.008)		(0.008)		(0.008)		(0.009)		(0.009)	
Exchange rate	0.043	***	0.042	***	0.044	***	0.044	***	0.044	***
	(0.007)		(0.007)		(0.007)		(0.007)		(0.007)	
Innovation	0.004		0.003		0.001		-0.004		-0.004	
	(0.013)		(0.013)		(0.015)		(0.015)		(0.015)	
Trade openness	0.001	***	0.001	***	0.001	***	0.001	***	0.001	***
	(0.000)		(0.000)		(0.000)		(0.000)		(0.000)	
Adaptability			-0.018	**			-0.021	**	-0.011	
			(0.009)				(0.009)		(0.043)	
Home institutions					0.019		0.039		0.085	
					(0.036)		(0.037)		(0.206)	
Adaptability × home institutions									-0.007	
									(0.031)	
_cons	-0.383		-0.306		-0.321		-0.165		-0.214	
	(0.329)		(0.330)		(0.350)		(0.356)		(0.416)	
Year fixed effects	Yes		Yes		Yes		Yes		Yes	
Number of groups	23		23		23		23		23	
Within R^2	0.781		0.781		0.782		0.783		0.783	
Between R^2	0.931		0.937		0.930		0.936		0.937	
Overall R^2	0.812		0.814		0.812		0.814		0.814	
Observations	436		436		436		436		436	

Robust standard errors are in parentheses*** p<.01, ** p<.05, * p<.1

Table A8. Regression results on the moderating role of the rule of law and property rights on the effect of strategic agility on OFDI from emerging economies

	Model 1		Model 2		Model 3		Model 4		Model 5	
Strategic agility	0.003		0.003		-0.004		0.003		-0.064	***
	(0.006)		(0.006)		(0.006)		(0.005)		(0.024)	
Home GDP per capita	0.031	*	0.040	**	0.042	**	0.037	**	0.039	**
	(0.018)		(0.020)		(0.019)		(0.018)		(0.017)	
Home infrastructure	0.006		0.006		0.007	*	0.005		0.008	**
	(0.004)		(0.004)		(0.004)		(0.004)		(0.004)	
Home population	0.040	***	0.039	***	0.040	***	0.040	***	0.042	***
	(0.009)		(0.009)		(0.008)		(0.009)		(0.008)	
Exchange rate	0.001		0.001		-0.000		0.001		0.000	
	(0.005)		(0.005)		(0.004)		(0.005)		(0.004)	
Innovation	0.018	*	0.020	**	0.019	**	0.017	*	0.012	
	(0.010)		(0.010)		(0.009)		(0.010)		(0.009)	
Trade openness	0.000	***	0.001	***	0.001	***	0.000	**	0.000	*
	(0.000)		(0.000)		(0.000)		(0.000)		(0.000)	
Home rule of law			-0.028		-0.135	***				
			(0.022)		(0.052)					
Strategic agility × home rule of law					0.018	**				
					(0.008)					
Home property rights							0.000		-0.006	***
							(0.000)		(0.002)	
Strategic agility × home property rights									0.001	***
									(0.000)	
_cons	4.532	***	4.470	***	4.482	***	4.482	***	4.827	***
	(0.268)		(0.276)		(0.259)		(0.274)		(0.280)	
Year fixed effects	Yes		Yes		Yes		Yes		Yes	
Number of groups	34		34		34		34		34	
Within R^2	0.097		0.109		0.135		0.090		0.135	
Between R^2	0.578		0.577		0.597		0.566		0.589	
Overall R^2	0.566		0.562		0.583		0.535		0.559	
Number of observations	175		175		175		173		173	

Robust standard errors are in parentheses*** p<.01, ** p<.05, * p<.1