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INSTITUTIONAL DISTANCE AND SUBSIDIARY PERFORMANCE OF MULTILATINAS: MODERATING EFFECTS OF OWNERSHIP STRATEGY AND GOVERNMENT SUPPORT

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ABSTRACT

Purpose: In this article we investigated the effects of regulatory and normative institutional distances on Emerging Market Multinational Enterprises (EMNEs) subsidiaries performance, and the moderating roles of the ownership strategy and the government support.

Design/methodology/approach: We applied fixed-effects regression models for panel data to analyze a sample of 296 subsidiaries of 32 Brazilian EMNEs, from 2006 to 2015.

Findings: We found that institutional distance positively affects subsidiary performance. Although, full ownership, and government support positively affects subsidiary performance, subsidiaries with partial ownership located in more developed and institutionally distant host countries presents superior performance. We also found a positive relationship between government support, regulatory distance, and subsidiary performance. However, the same relationship with normative distance was not statistically relevant.

Originality/value: By analyzing different ways in which the institutional context affects subsidiary performance and different approaches to increasing or mitigating those effects, this study contributes to furthering the understanding of how institutional issues affect EMNEs, and the role of the home country government.

Conclusions: The findings of this study could help policymakers make informed decisions about investments in EMNEs. This is achieved by analyzing the impact of government financial aid on the performance of subsidiaries.

Keywords: Normative institutional distances. Effects of regulatory. Emerging Market Multinational Enterprises. Subsidiaries performance. Government support.

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DISTÂNCIA INSTITUCIONAL E DESEMPENHO DE SUBSIDIÁRIAS DAS MULTILATINAS: OS EFEITOS MODERADORES DA ESTRATÉGIA DE PROPRIEDADE E APOIO GOVERNAMENTAL EM MERCADOS EMERGENTES

RESUMO

Objetivo: Neste artigo, investigamos os efeitos das distâncias institucionais regulatórias e normativas no desempenho das subsidiárias das Empresas Multinacionais de Mercados Emergentes (EMNEs), e os papéis moderadores da estratégia de propriedade e do apoio governamental.

Design/metodologia/abordagem: Aplicamos modelos de regressão de efeitos fixos para dados em painel para analisar uma amostra de 296 subsidiárias de 32 EMNEs brasileiras, de 2006 a 2015.

Resultados: Descobrimos que a distância institucional afeta positivamente o desempenho da subsidiária. Embora a propriedade total e o apoio governamental afetem positivamente o desempenho da subsidiária, as subsidiárias com propriedade parcial localizadas em países anfitriões mais desenvolvidos e institucionalmente distantes apresentam desempenho superior. Também encontramos uma relação positiva entre o apoio governamental, a distância regulatória e o desempenho da subsidiária. No entanto, a mesma relação com a distância normativa não foi estatisticamente relevante.

Originalidade/valor: Ao analisar diferentes maneiras pelas quais o contexto institucional afeta o desempenho da subsidiária e diferentes abordagens para aumentar ou mitigar esses efeitos, este estudo contribui para aprofundar a compreensão de como as questões institucionais afetam as EMNEs e o papel do governo do país de origem.

Conclusões: As descobertas deste estudo podem ajudar os formuladores de políticas a tomar decisões informadas sobre investimentos em EMNEs. Isso é alcançado analisando o impacto do auxílio financeiro governamental no desempenho das subsidiárias.

Palavras-chave: Distâncias institucionais normativas. Efeitos regulatórios. Empresas Multinacionais de Mercados Emergentes. Desempenho das subsidiárias. Apoio governamental.

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1. INTRODUCTION

The set of factors that affect the performance of foreign subsidiaries of multinational enterprises (MNEs) is a recurring theme in international business research (Gundelach & Nielsen, 2023; Pudelko, 2024). What determines the international success or failure of companies has been, for many years, the key question in this field of study (Ma, Tong & Fitza, 2013; Meyer *et al.*, 2023; Peng, 2004; Zainudin, Mahdzan & Mohamad, 2021). The prominence of emerging-market multinationals enterprises (EMNEs) has led to new approaches to the analysis of institutional contexts and their effects on managerial strategies and performance results (Bıçakcıoğlu-Peynirci, 2023).

When compared to developed countries, emerging countries tend to have a more turbulent institutional environment, which is less favourable to industrial and innovation development (Cuervo-Cazurra & Genc, 2008; Kafouros *et al.*,2024). However, foreign direct investment (FDI) flows from emerging countries have grown exponentially in recent years (Bhattacharjee, 2023). One of the main differences between EMNEs and developed-market multinational enterprises (DMNEs) lies in their FDI motivations (Wu et al., 2023). Occasionally, the FDI of EMNEs results from the search for more stable institutional environments and for strategic assets unavailable in their home countries, enabling these companies to acquire the necessary resources to compete with DMNEs in the global market (Foroudi *et al.*, 2023; Luo & Tung, 2007; Mathews, 2006). However, the establishment of EMNEs subsidiaries in developing or emerging countries tends to be positive for these corporations given that the institutional proximity facilitates the adaptation to the local environment (Cuervo-Cazurra & Genc, 2008; Delios & Beamish, 2001; Mazé *et al.*, 2024; Shirodkar & Konara, 2017).

Given this setting, which circumstances are determinant of a positive or negative impact of institutional distance on subsidiary performance? The ownership strategy of the subsidiary can be way to deal with institutional distance, impacting performance (Chung & Dahms, 2018; Gaur & Lu, 2007; Park et al., 2023; Querino & Calegario, 2023; Shirodkar & Konara, 2017). In a subsidiary stablished through a partnership, for example, local partners may play a role in bridging the institutional gap (Ando, 2012; Lee, et al., 2014; Xu et al., 2004). Another factor with institutional implications mostly overlooked in the literature is the home country government support that can be a strategy for compensating the institutional gaps of emerging countries (Du & Zhao, 2023; Fonseca et al., 2023; Wei & Nguyen, 2017). Government support can take effect through financial or political incentives (Foroudi et al., 2021; Wei & Nguyen, 2017), which helps EMNEs in their internationalization processes (Lazzarini et al., 2015).

Therefore, government support may be a key role in moderating institutional distance effects on performance (Correa da Cunha et al., 2023).

In light of this framework, we argue that entering countries with stronger institutional environments than the home country – that is, a positive institutional distance – can result in performance gains for EMNEs' subsidiaries. We also argue that under certain circumstances (e. g. joint ownership with local partners and home-country government financial support) the positive association between institutional development of the host country and subsidiary performance of EMNEs will be stronger. We posit the relevance of this analysis as in EMNEs, specially from Latin America – the Multilatinas –, the relationship between institutional distance, ownership strategy, government support, and financial performance is still an underexplored topic (Kaltenecker & Montoya, 2023; Pla-Barber et al., 2024). We choose to analyze Brazilian MNEs because Brazil is an important and influential economy in the Latin American region, and research on Brazilian MNEs is relative scarce. We test our hypotheses on a panel dataset of 296 subsidiaries of 32 Brazilian MNEs, established in 40 countries in a period of 10 years, from 2006 to 2015.

In this paper, we seek to contribute to the international business literature in the context of EMNEs in two main ways. Empirically, our research shows the moderating effects of ownership strategy and government support providing deeper insights on how EMNEs can deal with institutional distances on their host environments. We show that institutional distance positively impacts the performance of subsidiaries of Brazilian EMNEs, which is accentuated by joint ownership and home-country government financial support, contradicting findings in the literature that indicate preference and better performance of EMNEs in host countries with more similar institutional environments (Cuervo-Cazurra & Genc, 2008; Peng et al., 2021). These results can help EMNEs align internalization motives with subsidiaries mandates. Theoretically, we extend the comprehension of the financial performance of subsidiaries of EMNEs drawing on the institutional theory. We show that the strategic decisions of EMNEs, such as the ownership choice, are important tools to manage uncertainties of the external context in which the EMNEs are embedded. Furthermore, it confirms the positive role of the home-country government financial support as important funders of EMNEs, especially Multilatinas, not limited to state-owned EMNEs (Hennart, Sheng & Carrera, 2017; Lopez-Morales, 2018).

2. LITERATURE REVIEW AND HYPOTHESES

Institutional distance refers to the difference between the institutions of two countries (Kostova & Zaheer, 1999; Zhang et al., 2023) and is regarded as one of the most used types of distance in the international business research (Kostova et al., 2020). The institutional theory posits that institutions are not only secondary characteristics for firms, but they are direct determinants in the formulation and implementation of strategies for the creation and maintenance of competitive advantages (North, 1990; Peng et al, 2008). Therefore, global managers must understand the differences between countries and their impact on business, in order to successfully navigate diverse institutional environments (Kostova et al., 2020).

Institutions are usually divided into three pillars: regulatory, normative, and cognitive (Kostova & Zaheer, 1999). A country's regulatory institutions refer to the rules and laws that exist to ensure the stability and order of a society; normative institutions concern the norms and habits that guide the behaviour of individuals in a society; cognitive institutions, on the other hand, are composed of values and beliefs that individuals in a society choose to follow (Palthe, 2014). Despite these three institutional pillars, the annual changes in regulatory and normative institutions are easier to be perceived, as cognitive institutions, by incorporating cultural aspects, tend to undergo smaller and less frequent changes (Konara & Shirodkar, 2018; Chao & Kumar, 2010; Kafka, 2024). For this reason, this work considers regulatory and normative institutions to analyse the performance of EMNEs' subsidiaries.

Given that institutions shape the context of a country, the characteristics of the institutional context are crucial for MNEs in determining the possibilities of firms to implement strategies to create competitive advantages (Röell et al., 2024). Consequently, institutional conditions, also called the "rules of the game" (North, 1990), can influence the entry mode, ownership, and performance of MNEs' foreign subsidiaries (Peng et al., 2008).

The literature has pointed out advantages for the entry of EMNEs in institutionally closer countries and in institutionally distant countries (Donnelly et al., 2024). In other emerging countries, EMNEs may have competitive advantages in relation to DMNEs, due to their ability to deal with turbulent institutional environments like those in their home countries and, consequently, perform better in countries institutionally closer (Cuervo-Cazurra & Genc, 2008; Fuentelsaz et al., 2022). EMNEs from Brazil, specifically, usually expand internationally in search of new markets, and preferably in culturally closer markets (Bueno & Domingues, 2011). However, the entry of EMNEs in countries with stable institutional environments usually means the possibility of acquiring assets, necessary for the development of innovations, not available in their home countries (Luo & Tung, 2007; Mathews, 2006; Reddy et al., 2023). Investigating subsidiaries of Brazilian EMNEs, Bortoluzzo et al. (2014), indicated that the financial performance tends to be positive when the institutional context of the acquired company is more developed. In a similar result, Buckley et al. (2013) point out that acquisitions conducted by EMNEs in developed countries tends to increase the performance of the acquired companies. Thus, we propose the following hypotheses:

H1a: The positive regulatory institutional distance between the home and host country is positively related to the performance of subsidiaries.

H1b: The positive normative institutional distance between the home and host country is positively related to the performance of subsidiaries.

2.1 Moderating role of ownership strategy

When entering a new market by establishing a subsidiary, MNEs must make decisions on the degree of ownership, which will be a determinant for the subsidiary, affecting its probability of success and long-term survival (Delios & Beamish, 1999; Du & Zhao, 2023). The main ownership strategies of MNEs include wholly owned subsidiaries and joint ventures (Jung et al., 2008; Sestu et al., 2023). The ownership strategy determines the extent to which the headquarters controls the subsidiary (DiGuardo et al., 2016; Li et l., 2023). In wholly owned subsidiaries, the headquarters has full control; whilst, in joint ventures, the control is shared with a partner (Jiang et al., 2023). The equity ownership decisions in the subsidiaries comprise trade-offs between risks and benefits (Chhabra et al., 2021).

EMNEs tends toward full acquisitions of firms in other countries (developed or emerging) to quickly expand their operations and to acquire strategic assets for competitiveness gains while retaining full control of their operations (Liou et al., 2017; Wu et al., 2021). Most studies aimed at assessing ownership strategy effects on subsidiary performance have indicated that subsidiaries with higher degrees of ownership tend to outperform those with lower degrees of ownership (Gundelach & Nielsen, 2023; Jung et al., 2008; Li et al., 2023; Woodcock et al., 1994;). Nevertheless, partial ownership is often the preferred approach to overcoming obstacles, mostly institutional (Ando, 2012; Gatignon & Capron, 2023; Lee et al., 2014a; Xu et al., 2004).

Establishing partnerships in distant institutional environments is a complex process and the benefits often do not exceed the difficulties, giving monitoring and coordination costs (Gaur & Lu, 2007; Konara & Shirodkar, 2018). Nevertheless, EMNEs tend to establish subsidiaries in partnership with local firms in more developed and institutionally distant countries as a strategy for acquiring knowledge and strategic assets in the host environment (Hitte al., 2000; Lee et al., 2014b; Scalera et al., 2020; Zhou, 2024). Shared ownership can also reduce the costs and risks of innovating in an institutionally distant environment (Konara et al., 2022). In addition, considering that the influence of home country's institutions on the subsidiary is primarily manifested through headquarters control (Clark et al., 2002; Geppert, Williams & Matten, 2003; Stavrou et al., 2023), a more distant relationship with the headquarters is a way of removing the subsidiary from the turbulent institutional environment of the home country (Hurst & Sutherland, 2024; Wang et al., 2014).

When it comes to subsidiary performance, joint venture has been reported as a way of positively moderating the effect of institutional distances (Chung & Dahms, 2018; Liu et al., 2023; Shirodkar & Konara, 2017). Generally, joint ventures have a positive moderating effect on institutional distance because, when considering institutional issues as part of the motivation for FDI in developed countries, EMNEs regard institutional distance not only as a legitimacy threat but also as an opportunity to offset the unsatisfactory conditions of their home market (Depperu et al., 2024; Liou et al., 2016). Based on these arguments, we propose the following hypotheses:

H2a: Partial ownership positively moderates the effect of regulatory institutional distance on the performance of subsidiaries.

H2b: Partial ownership positively moderates the effect of normative institutional distance on the performance of subsidiaries.

2.2 Moderating role of government support

The rapid and profound institutional changes experienced by emerging countries, mainly in the beginning of the 1990s, led the governments of these countries to adopt a series of measures to strengthen their national industries (Agarwal & Kumar, 2023; Li et al., 2018). Among these measures, "national champions" policies implemented by the governments of several countries, including Brazil, stand out (Ricz & Schedelik, 2023). "National champions" are corporations that receive financial and political incentives from the government primarily to strengthen these companies internally and subsequently help them in their internationalization processes toward becoming globally recognized (Chu, 2009; Ricz & Schedelik, 2023). In this scenario, home country government support emerges as a way of compensating for the disadvantages of EMNEs, given the institutional restrictions of these countries that limit the growth of their local corporations (Ricz, 2020).

Government support is perceived as one of the reasons why EMNEs manage to quickly internationalize without following the traditional trajectories of DMNEs (Lu et al., 2014; Fonseca et al., 2023). Through policies such as "national champions", the governments of developing countries can shape the strategic intentions of EMNEs, influencing their internationalization choices (Angulo-Ruiz et al., 2019; Foroudi et al., 2021; Yan et al., 2022). The government support influences these companies into acquiring technological assets through FDI, often by establishing international strategic alliances (Narula & Dunning, 1998).

The effect of home-country's government actions on the performance of EMNEs remains an overlooked topic in the international business literature (Wei & Nguyen, 2017; Foroudi et al., 2023). Some studies have analysed how the home-country government, through financial and political support and state ownership, influences EMNEs internationalization strategies (Angulo-Ruiz et al., 2019), subsidiary strategies in host countries (Wei & Nguyen, 2017) and subsidiary performance (Han et al., 2018).

The Brazilian government, primarily through the National Bank for Economic and Social Development, has subsidized the international operations of several Brazilian EMNEs, leading researchers to analyse the effectiveness of such investments (Ricz & Schedelik, 2023). Bazuchi et al. (2013) indicated that the Brazilian government uses a series of formal and informal mechanisms to boost the international expansion of MNEs in both the subsidiary entry and consolidation phases. Lazzarini et al. (2015) indicated that BNDES loans to Brazilian MNEs are not a performance determinant of the whole MNE. However, the individual performance of subsidiaries was not analysed. Lazzarini et al. (2015) also emphasized that although these loans are not relevant to performance, BNDES does not tend to give loans to underperforming enterprises.

Government support usually aims to increase organizational capabilities to enable EMNEs to take greater risks when they are still at the early stages of internationalization (Velez-Ocampo & Gonzalez-Perez, 2022), and combined with developed institutions in host countries, reduce the need for previous experience in entering similar contexts and increases the likelihood of FDI in some countries (Lu et al., 2014). Based on these arguments, we propose the following hypotheses:

H3a: Financial support from the home country's government positively moderates the effect of regulatory institutional distance on the performance of subsidiaries.

H3b: Financial support from the home country's government positively moderates the effect of normative institutional distance on the performance of subsidiaries.

3. MATERIALS AND METHODS

The research population consists of subsidiaries of publicly traded Brazilian multinationals. We identified and selected MNEs through the list of Brazilian multinationals made by the Internationalization Ranking of Brazilian Multinationals of the FDC and by the Observatory of Brazilian Multinationals of the ESPM. To compose the sample, we selected companies that appeared at least once in the ranking during the period from 2006 to 2015. It should be noted that inactive companies, duplicates and those from the financial sectors were removed from the initial sample. Thus, the research sample is made up of 296 subsidiaries, belonging to 32 Brazilian multinationals, located in 40 countries. Financial subsidiaries and subsidiaries located in tax havens were not included in the sample. In total, 1,612 records were obtained for a period of 10 years, covering the years 2006 to 2015. The research began in 2006, due to institutional changes that occurred in Latin American countries, such as the adoption of intellectual property rights laws, and ends in 2015 due to the availability of data on institutional distances. However, Aguilera et al. (2017) emphasizes that between 2005 and 2015 were the years in which most national companies among the 500 largest in Latin America internationalized their activities and, since then, their degrees of internationalization has increased. Table 1 presents the list of host countries for the subsidiaries.

Table 1- List of host countries of the EMNEs in the sample.

Host Countries			
Argentina	France	Mozambique	Sweden
Australia	Germany	Netherlands	Switzerland
Austria	Hungary	Norway	Thailand
Belgium	India	Paraguay	Turkey
Canada	Italy	Peru	United Arab Emirates
Chile	Japan	Portugal	United Kingdom
China	Lebanon	Russia	United States
Colombia	Luxembourg	Singapura	Uruguay
Denmark	Malaysia	South Africa	Venezuela
Egypt	Mexico	Spain	Zambia

Source: The authors.

The dependent variable is the financial performance of the subsidiaries, given by the return on equity (ROE). We obtained the ROE of each subsidiary from the explanatory notes to the financial statements of each MNE, published by the B3 stock exchange. Several studies have used ROE as a measure of firms' financial performance (e.g., Shirodkar & Konara, 2017; Konara & Shirodkar, 2018; Chan et al., 2010; Pattnaik & Elango, 2009; Park et al., 2023). ROE is a measure of the profitability of a business in relation to the book value of equity, and its use as a performance measure in this study is justified by the fact that it is considered one of the main performance measures, as it provides an indication of the effectiveness of the capital management for income generation (Pattnaik & Elango, 2009; Park et al., 2023).

We used two measures of institutional distance as explanatory variables: regulatory distance (REG) and normative distance (NOR). To calculate these distances, we measured the regulatory and normative indexes of each country using information provided in The Global Competitiveness Report, made available annually by the World Economic Forum. We selected the survey items from this report that describe a country's regulatory and normative systems.

To determine the regulatory index, we selected six items from the survey related to the regulatory environment of a country: effectiveness of anti-monopoly policy; judicial independence; efficiency of legal framework in challenging regulations; efficiency of legal framework in settling disputes; regulation of securities exchanges; and reliability of police services. Factor analysis confirmed a one-factor solution. Factor loadings for all items are equal or superior to 0.79. The six items have a Cronbach's alpha of 0.957. The regulatory index of a given country is the simple numerical average of the six items.

To determine the normative index, we selected seven items from the survey related to the normative environment of a country: value chain breadth; degree of customer orientation; extent of staff training; willingness to delegate authority; pay and productivity; reliance on professional management; efficacy of corporate boards. Factor analysis confirmed a one-factor solution. Factor loadings for all items are equal or superior to 0.74. The seven items have a Cronbach's alpha of 0.948. The normative index of a given country is the simple numerical average of the six items.

After the measurement of the indexes, we calculate the regulatory and normative distances between the home (Brazil) and the host countries. Bustamante et al. (2021) point out the importance of asymmetric institutional distance and how its directionality influences the results associated with the construction of location capabilities. In this way, we used Konora and Shirodkar (2018) as reference to calculate the distances, since the authors consider whether the subsidiary is operating in a country institutionally inferior or superior to the home country. Thus, we calculated the distances by subtracting the institutional indexes of Brazil from the institutional indexes of the host countries. Thus, a negative institutional distance indicates that the subsidiary is operating in an institutionally inferior country, and a positive distance indicates that the subsidiary is operating in an institutionally superior country. Since the annual variations of institutional distances are not noticed by companies in the same year they occur, we lagged the indices in one year. So that, when observing the dependent variable referring to the year 2015, for example, the distance referring to the year 2014 will be inserted.

Our other two explanatory variables were: the degree of ownership (OWN), which refers to the Brazilian MNE's shareholding in subsidiaries; and the financial support of the home-country government to the MNE (GOV). The ownership strategy variable consists of a dummy that assumes a value of 1 for full ownership (between 98% and 100% ownership) and 0 for partial ownership (at least 10% ownership). We measured the financial support of the home country government by the amount of BNDES loans raised by the Brazilian MNEs, obtained from the explanatory notes of the financial reports published by B3, referring to each company. As it is a variable with high monetary values, we used it in the form of a natural logarithm, in order to narrow its amplitude.

We included control variables following previous literature and empirical evidence. To control for the effects of the firm, referring to the MNE, we included variables for the size of the headquarters (SIZ), the degree of indebtedness of the MNE (IND) – both obtained from the Economatica database. We also control for the host country's gross domestic product per capita, calculated at current prices (GDP) – obtained from the World Bank database. Table 2 presents the study variables, its description, and the data.

Table 2- Variable description, measurement, and sources.

Variable	**Description/ Measurement**	**Data Source**
Subsidiary performance (ROE)	Return on equity of subsidiaries, given by the ratio between net income and equity	Financial Reports
Regulatory distance (REG)	Regulatory institutional distance of the host country in relation to the home country	*The Global Competitiveness Report*
Normative distance (NOR)	Normative institutional distance of the host country in relation to the home country	*The Global Competitiveness Report*
Ownership strategy (OWN)	Dummy referring to the form of wholly owned subsidiary by the MNE	Financial Reports
Government support (GOV)	Natural logarithm of the amount of loans received from the government by the MNE	Financial Reports
MNE size (SIZ)	Natural logarithm referring to the MNE's total assets	Economatica
Degree of indebtedness (IND)	The MNE's indebtedness ratio given by the ratio between third-party capital and total assets	Economatica
GDP per capita (GDP)	Host country's gross domestic product in USD, measured at constant prices, per capta	*World Bank*

Source: The authors.

4. RESULTS

We estimate our specification based on a fixed effects model for panel data (determined by a Hausman specification test) with robust standard errors, to mitigate heteroscedasticity problems. The descriptive statistics and the correlation matrix are presented in Table 3. We verified, through a Spearman's correlation test, that the institutional variables, normative and regulatory distance, are highly correlated with each other, as consequence we have used each indicator in a separate regression model. Table 4 presents the results of the fixed-effect regression models. Models 1 to 6 tested the research hypotheses. Model 7 is the complete model.

Models 1 and 2 verified how regulatory and normative institutional distances, ownership strategy and government support influence the performance of subsidiaries of Brazilian MNEs. Model 1 refers to the regulatory distance effect, and Model 2 refers to the normative distance effect. In the Models 3 to 6 the interactions between variables are used to analyse the moderating effect of ownership strategy and government support on regulatory and normative distances.

Regarding the direct effect of institutional distance on the performance of subsidiaries, Models 1 and 2 show that the coefficients of the two institutional variables, regulatory distance (DREG) and normative distance (DNOR), are positive and significant. This result indicates that greater and positive institutional regulatory and normative distances positively impact the performance of subsidiaries. Therefore, Hypotheses 1a and 1b were supported. With regard the effect of the ownership strategy on the performance of subsidiaries, both Model 1 and Model 2 show that the coefficient of the dummy variable that takes value 1 for full ownership (OWN) was positive and significant. This result indicates that full ownership has a positive effect on the performance of subsidiaries. Regarding the effect of government support on the performance of subsidiaries, Models 1 and 2 show that the coefficient of the variable referring to the amount of loans received from public banks by the MNE (GOV), which constitutes government support, has a positive and significant coefficient. This result indicates that government support is positively related to the performance of subsidiaries.

To observe whether, and in what way, the ownership strategy and government support moderates the effect of institutional distances on the performance of subsidiaries, we interacted the institutional variables, regulatory distance (REG) and normative distance (NOR) with the ownership strategy variable (OWN), and the government support variable (GOV). As shown in models 1 and 2, regulatory and normative institutional distances are positively related to the performance of subsidiaries. Therefore, the purpose of Models 3 to 7, in Table 4, was to verify whether these effects are maintained or changed in the presence of full ownership strategy (PROP) and government support (GOV).

The interactions in Model 3 (OWN × REG) and Model 4 (OWN × NOR) presented negative and significant coefficients, whereas these same isolated variables (REG, NOR and OWN) presented positive coefficients, according to Models 1 and 2, in Table 4. These results indicate that, although full ownership and large positive institutional distances positively impact the performance of subsidiaries, when interacted, their effect on performance becomes negative. That is, full ownership in countries with stronger institutions and institutionally distant from the home country is detrimental to the performance of subsidiaries. Hence, full ownership negatively moderates the effect of regulatory and normative institutional distances on the performance of subsidiaries. Consequently, partial ownership positively impacts the performance of subsidiaries located in developed host countries with greater institutional regulatory and normative distance. Therefore, Hypotheses 2a and 2b were supported.

Model 5, in Table 4, considers government support as a moderating variable of regulatory distance (GOV × REG). The interaction of Model 5 (GOV × REG) has a positive and significant coefficient. This result indicates that government loans are positively related to the performance of subsidiaries located in host countries with large and positive regulatory distances. Therefore, Hypothesis 3a was supported. Model 6, in Table 4, considers government support as a moderating variable for the normative distance (GOV × NOR). The interaction of Model 6 (GOV × NOR) was not statistically significant, indicating that loans granted by the government to MNEs were not relevant for the performance of subsidiaries located in host countries with large normative and positive distances in relation to the country of source. Therefore, Hypothesis 3b was not supported.

Table 3- Descriptive statistics and correlation matrix**.**

Variable	Obs	Mean	SD	Min	Max							
ROE	1612	1.284	41.445	-575	1315.5							
REG	1612	0.708	1.1542	-2.083	2.872	1.0						
NOR	1612	0.493	0.819	-1.059	2.373	0.948 0.000	1.0					
OWN	1612	0.818	0.385	0	1	0.344 0.000	0.333 0.000	1.0				
GOV	1612	981609.7	1867729	0	2.18e+07	0.100 0.000	0.079 0.001	0.015 0.535	1.0			
SIZ	1612	4.44e+07	1.19e+08	308671.5	9.24e+08	0.167 0000	0.192 0.000	0.005 0.821	0.115 0,000	1.0		
IND	1612	63.867	15.543	17.2	139.4	-0.107 0,000	-0.094 0.000	-0.074 0.002	0.232 0.000	-0.187 0.000	1.0	
GDP	1612	28438.39	22002.95	526.531	119225.4	-0.046 0.061	-0.040 0.101	0.059 0.017	-0.148 0.000	-0.034 0.163	-0.124 0.000	1.0

Source: The authors.

Table 4 Fixed-effect regression models results**.**

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
REG	8.287094** (3.940443)		26.28138*** (6.284678)		6.710143* (4.039912)		16.86817 (13.83484)
NOR		12.1375* (6.17385)		34.46672*** (9.580759)		14.14574** (6.371525)	6.640006 (20.80928)
OWN	23.68569** (9.70109)	22.57302** (9.668041)	37.00719 (10.31718)	32.8626*** (10.21443)	23.35841** (9.695362)	22.70991** (9.666374)	33.49839*** (10.07571)
GOV	7.93e-06*** (1.32e-06)	7.84e-06*** (1.31e-06)	7.77e-06*** (1.31e-06)	7.76e-06*** (1.31e-06)	5.04e-06** (2.12e-06)	9.56e-06*** (1.88e-06)	-2.52e-07 (2.16e-06)
OWN × REG			-21.9018*** (5.977198)				-39.48866*** (14.43174)
OWN × NOR				-27.31567*** (8.982246)			30.01613 (21.66822)
GOV × REG					2.24e-06* (1.28e-06)		0.0000306*** (3.64e-06)
GOV × NOR						-1.91e-06 1.50e-06	-0.0000353*** (4.24e-06)
SIZ	1.28e-07*** (4.51e-08)	1.22e-07*** (4.46e-08)	1.20e-07*** (4.49e-08)	1.18e-07*** (4.45e-08)	1.76e-07*** (5.27e-08)	8.81e-08* (5.20e-08)	1.30e-07** (5.15e-08)
IND	-0.0410077 (0.1379803)	-0.0548176 (0.1380266)	-0.0507433 (0.1373562)	-0.059273 (0.1376019)	-0.0377459 (0.1378857)	-0.0594894 (0.1380432)	-0.0937053 (0.1343815)
GDP	8.76e-06 (0.0001662)	0.0000113 (0.0001662)	-0.0000103 (0.0001655)	-0.0000113 (0.0001659)	-2.95e-06 (0.0001662)	0.0000206 (0.0001663)	0.0000156 (0.0001616)
Constant	-35.06825*** (13.32567)	-33.1058** (13.11676)	-40.98842*** (13.36096)	-37.4448*** (13.15328)	-34.88103*** (13.31574)	-33.20717** (13.11393)	-34.13888*** (13.05513)

Robust standard errors in parentheses; *p<0.10; **p<0.05; ***p<0.01.

Source: The authors.

5. DISCUSSION

Supporting Hypotheses H1a and H1b proposed in this study, the results show that the regulatory and normative institutional distances positively affect subsidiary performance. These results differ from those from studies that indicate that subsidiaries located in institutionally distant countries tend to underperform (e.g., Gaur & Lu, 2007; Shirodkar & Konara, 2017; Pattnaik et al., 2015; Park et al., 2023). However, most of those studies analyzed DMNEs subsidiaries. This implies that EMNEs regard institutional distance not as a legitimacy threat, but as an opportunity to neutralize the inferior institutional conditions of their home countries (Liou et al., 2016; Depperu et al., 2024).

According to Kostova et al. (2020) adapting to new institutional environments can be more challenging to MNEs moving from a more institutionally developed country to a less institutionally developed one. For example, Hernández et al. (2018) pointed out that Italian MNEs are more likely to choose host countries with greater positive institutional distance, that is, host countries that are more developed than their home country. Konara et al. (2022) argue, in the context of innovation performance, that subsidiaries face higher transaction costs with greater negative institutional distance due to the weaker formal institutional support and the needs to adapt to complex informal mechanisms.

Although some studies (e.g., Cuervo-Cazurra & Genc, 2008) indicate that EMNEs presents better performances when operating in institutionally closer countries, avoiding risks associated with greater institutional distance (Peng et al., 2021), once they are used to turbulent institutional environments, the advantages of entry into an institutional environment that brings strategic gains to these subsidiaries must be consider. In light of the motivations of EMNEs to enter developed countries, seeking strategic assets and technological capabilities, in this specific case, institutional differences may benefit the subsidiary and the EMNE as a whole. This argument is supported by theories about EMNEs, such as the LLL Framework by Mathews (2006) and the Springboard Theory by Luo and Tung (2007).

Studies specifically on Brazilian MNEs (e.g., Borini et al., 2008) indicate that subsidiaries located in developed host countries have stood out in the development of new capabilities and innovations and in the acquisition of strategic assets, in addition to evaluating the external environment more positively; that is, subsidiaries located in developed countries and, consequently, with more stable institutions, have shown greater strategic relevance. These subsidiaries of strategic relevance, in turn, often financially outperform other subsidiaries

(Borini et al., 2012). Therefore, subsidiaries located in developed countries are more likely to develop strategic capabilities, which, in turn, explain their superior financial performances.

The results indicated that wholly owned subsidiaries, in addition to being the preferred ownership strategy of Brazilian MNEs, also tend to outperform joint ventures. The preference for full ownership reflects the propensity of MNEs to have a greater degree of control over their subsidiaries. Establishing wholly owned subsidiaries brings several benefits to MNEs. Such benefits tend to translate into enhanced subsidiary performance (Woodcock et al., 1994; Gaur & Lu, 2007). Among other advantages of the full ownership strategy, MNEs can more easily transfer capabilities, maintain subsidiary alignment in global integration projects, and choose managers who guarantee that headquarters decisions will be followed (Kafka, 2024; Konara & Shirodkar, 2018; Gaur & Lu, 2007). Full ownership of the subsidiary also has the advantage of decreasing partner monitoring costs, as MNEs become less hesitant to transfer strategic assets to the subsidiary (Ando, 2012; Gaur & Lu, 2007). Furthermore, full ownership also increases the degree of MNE commitment to the subsidiary because the success of the subsidiary depends exclusively on the actions of the headquarters, tending to result in superior subsidiary performance (Woodcock et al., 1994).

However, full ownership will not always be advantageous for subsidiaries and MNEs. Supporting Hypotheses H2a and H2b, the results showed that although full ownership is positively related to subsidiary performance, in host countries with large positive institutional distances, this relationship becomes negative. In other words, wholly owned subsidiaries located in countries with more developed institutions than their home country presents worst performances than joint ventures. This result is corroborated by some studies (e.g., Shirodkar & Konara, 2017; Chung & Dahms, 2018).

As discussed above, the partner of most joint ventures in the study sample are originally from the host countries. For this reason, one of the possible explanations for these results is that in institutionally distant countries, local partners facilitate the adaptation to the host country (Konara et al., 2022). The institutional environment of developed countries has numerous opportunities for EMNEs. Among the advantages of locating EMNEs subsidiaries in developed countries, the literature emphasizes the possibility of acquiring strategic assets and the distancing from the turbulent institutional environment of the home country (Luo & Tung, 2007; Mathews, 2006; Cuervo-Cazurra, 2012; Wang et al., 2014; Hurst & Sutherland, 2024). In addition, these opportunities can be maximized when the subsidiary has a partner with knowledge of the institutional environment and local market, thus reducing liabilities of foreignness because the adaptation process can be expensive (Konara & Shirodkar, 2018; Konara et al., 2022).

The existence of local partners provides several opportunities for subsidiaries, including an easier integration into external networks in the host country. External integration has a positive effect on subsidiary performance given the exposure to new knowledge, ideas, and opportunities in the host country (Andersson et al., 2002). However, the main advantage of establishing a partnership lies in the possibility of learning from the local partner while being able to enjoy the technological resources and capabilities that will be shared (Lee et al., 2014b; Hitt et al., 2000). Such an advantage is viewed as one of the main motivators for the internationalization of EMNEs to developed countries (Luo & Tung, 2007; Mathews, 2006) because the acquisition of technological resources becomes less complex and expensive when establishing strategic alliances (Lee et al., 2014b; Hitt et al., 2000; Scalera et al., 2020). Hence, the joint ownership of subsidiaries is an effective way for EMNEs to deal with institutional distance in their host countries with better institutional environments.

According to our results government loans are positively related to subsidiary performance. This finding is in line with the argument that government support compensates for the lack of competitive organizational capabilities of EMNEs (Lu et al., 2014), thereby generating positive effects on subsidiary performance. Despite the limited number of studies assessing the effect of government financial support on subsidiary performance, some studies indicate that other forms of support (such as bilateral agreements) are positively related to performance (Han et al., 2018). Whereas Fonseca et al. (2023) pointed to a negative impact of government support on subsidiary long-term survival, they measured governmental financial support either by funding or by state ownership.

Given that government support to EMNEs is also regarded as a way of compensating for institutional problems (Wei & Nguyen, 2017), Hypotheses 3a and 3b proposed that government loans attenuated regulatory and normative institutional distances, respectively, resulting in positive subsidiary performance. Hypothesis 3a was supported, whereas Hypothesis 3b was not supported. These results imply that receiving financial support from the government is positively related to the performance of subsidiaries located in countries with large regulatory institutional distances. However, the same relationship was not observed in relation to normative distance. Ergo, the financial support from the home-country government is another way in which EMNEs can deal with institutional distances in host countries with more developed regulatory institutions.

This divergence in results is possibly due to the characteristics of these distances, so that government financial support is more useful to overcome difficulties in dealing with laws and regulations different from those of the home country. However, this support is insufficient to overcome issues related to behaviors and habits of individuals in society. Furthermore, annual changes in regulatory institutions are easier to perceive because normative institutions incorporate social aspects and thus tend to undergo less frequent and more tenuous changes (Konara & Shirodkar, 2018; Chao & Kumar, 2010; Kafka, 2024). The result for Hypothesis 3a corroborates studies indicating that government support to EMNEs, combined with the developed institutions of host countries, reduces the need for prior experience in entering similar institutional contexts and increases the likelihood of FDI in specific countries (Lu et al., 2014). In addition, government support is also associated with decisions of locating EMNEs in developed countries searching for strategic assets (Angulo-Ruiz et al., 2019).

6. FINAL CONSIDERATIONS

In this study, we argued that positive regulatory and normative distances between home and host countries would positively affect the subsidiary performance of EMNEs. Additionally, we investigated the moderating role of the subsidiary ownership strategy and the support from the home-country's government in the relationship between subsidiary performance and regulatory and normative distance. The study sample consisted of 296 subsidiaries, located in 40 countries, belonging to 32 Brazilian MNEs.

As expected, the results indicated that positive regulatory and normative distances are positively related to subsidiary performance. This positive relationship implies that subsidiaries located in countries with higher levels of institutional development than the home country outperform subsidiaries located in countries with lower levels of institutional development than the home country. Regarding the moderating effect of the ownership strategy, the results showed that the partially owned subsidiaries located in countries with higher levels of positive institutional distance outperform wholly owned subsidiaries. Lastly, home-country's government financial support to EMNEs, through loans from public banks, was also positively related to the performance of subsidiaries located in countries with higher levels of regulatory institutional distance. The moderating effect of government support in the relationship between normative distance and subsidiary performance was not statistically significant.

Through the analysis of Brazilian EMNEs, one of the main contributions of this study to the literature is the deepening of the understanding of EMNEs subsidiaries. In recent years, the number of research studies on EMNEs has increased considerably. However, subsidiaries of Multilatinas remain largely understudied. By analysing different ways in which the institutional context affects subsidiary performance and different approaches to increasing or mitigating those effects, this study also contributes to furthering the understanding of how institutional issues affect EMNEs. In addition, the current literature does not yet exactly clarify the ways in which the governments of emerging countries are responsible for the success of EMNEs. Therefore, such an input is another contribution of this research.

This article has significant implications for the international business literature. Drawing on institutional theory, we show that institutional distance positively affects subsidiary performance, especially for subsidiaries with partial ownership and those of EMNEs that received financial support from their home-country governments. Accordingly, this study extends research on how EMNEs differ from DMNEs (Sutherland, Anderson & Hu, 2020). Specifically, Multilatinas adopt heterogeneous strategies in their internationalization processes, and their relationships with their home-country governments are significantly different from those of other EMNEs (Cuervo-Cazurra, 2008). Furthermore, this study contributes to understanding the impact of government financial support on subsidiary performance, a topic that is not yet fully comprehensive in the international business literature (Fonseca et al., 2023), demonstrating that Multilatinas achieve better performance in their subsidiaries when they internationalize their activities in countries with more developed institutional environments.

These findings enable corporate managers to understand, more deeply, the contingencies for achieving the best operating results from their subsidiaries according to the host country institutional context. These results may also help enterprises decide on subsidiary locations, choose ownership strategies, and establish partnerships. Moreover, this study underscores the importance of developing best management practices to incorporate institutional factors, such as government support and regulatory and normative distances. Analyzing and predicting conditions that enhance subsidiary performance leads to reflections on the role of a company's relationship with the external environment in gaining competitive advantages, particularly for enterprises in emerging markets like the Latin American region.

This study may also help policymakers decide on investments in EMNEs based on the analysis of effects of government financial support on subsidiary performance. This is important specially because subsidiaries are, currently, at the forefront of value creation in modern MNEs (Dahms et al., 2022). Moreover, for society, this study is useful because it assesses the effectiveness of this financial support, given the investment of public resources in these companies.

One of the limitations is the relatively small study sample given the availability of data, with institutional variables being the main limiting factor. Another limitation related to the data consists of measuring performance only based on return on equity (ROE), as a joint analysis with other financial indicators can provide a more complete overview of the subsidiary context. In addition, this study only covers the context of Brazilian EMNEs. Therefore, generalizing these results to other developing countries should be done with caution. Ergo, future research could address these limitations, expanding our study sample, including other Latin American home countries, and using different measures to our main variables.

Disclosure statement

No potential competing interest was reported by the authors.

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