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Exploitation-exploration balance and its performance outcomes: A study of FDI portfolio decisions of new multinationals

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ABSTRACT

Objective: The objective of the article is to explore how new multinationals construct their FDI location portfolios and what the performance outcomes of these decisions are.

Research Design & Methods: Building our conceptual framework on the organisational learning theory, we conduct regression analysis based on data from 394 subsidiaries of new Polish multinationals.

Findings: We find that the possession of superior capabilities by new multinationals enhances their ability to reap benefits from investing in more advanced markets in their portfolios and hence engaging in higher ambidexterity, i.e. the combination of exploration and exploitation. This effect is further reinforced by experience with foreign investment.

Implications & Recommendations: Investment in more advanced economies as compared to the home country entails the possession of higher-order capabilities, as it requires higher ambidexterity from new multinationals.

Contribution & Value Added: A lot of existing IB research focused on discrete location choices in internationalisation, remaining oblivious of the broader strategic logic. Moreover, it has been assumed that – particularly for new multinationals from emerging countries – entries into advanced host countries are related to exploration rather than exploitation, whereby the latter is the domain of similar or less developed markets.

Article type:	research article
Keywords:	new multinationals; location choices; portfolio perspective; firm capabilities; firm performance; Central and Eastern Europe
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INTRODUCTION

New multinationals, i.e. firms from mid-range emerging economies with an often accelerated speed of internationalisation (García-Canal, Guillén, Fernández, & Puig, 2018; Guillén & Garcia-Canal, 2009; Hoskisson, Wright, Filatotchev, & Peng, 2013; Kumar, Singh, Purkayastha, Popli, & Gaur, 2020; Lee & Fernando, 2020; Polowczyk, Zaks, & Trąpczyński, 2021), have emerged on a global scale, therefore challenging existing academic and practitioner wisdom. Their importance has been continually increasing, even though new multinationals are still in general less known internationally for their brands (Ramamurti, 2012; Maciejewski & Wach, 2019; Barłożewski & Trąpczyński, 2021b). Because of their relatively weaker intangible resource base, new multinationals have been facing a strategic dilemma to what degree host markets that are more advanced than the domestic market should prevail in their foreign direct investment (FDI) portfolios.

Extant research has suggested that firms that cannot "exploit" their existing firm-specific advantages could potentially "explore" for a new advantage in foreign markets (Banalieva & Dhanaraj,

2013; Hernandez & Guillén, 2018; Ramamurti, 2012; Wu & Ang, 2020). However, other scholars have cautioned that learning from sophisticated foreign markets is fraught with uncertainty due to liability of foreignness and highly formalised labour and capital markets with which new multinationals have little, if any, experience (Zaheer, 1995; Zahra *et al.,* 2000). Thus, international exploration may not necessarily lead to success (Hennart, 2012). Indeed, there are signals that early successes of early-stage MNEs (multinational enterprises) can lead to cognitive biases and over-optimism (Thomas, Eden, Hitt, & Miller, 2007). In fact, it has been found that traditional FDI into a developing country can actually create more firm value that strategic asset-seeking FDI into developed countries (Yang, Martins, & Driffield, 2013). Thus, a vital question arises as to the boundary conditions of new multinationals' location choices and their outcomes.

Quite strikingly, a systematically missing feature of existing research on new multinationals (and MNEs in general) is the treatment of location choices as parts of overall global strategy of the firm rather than merely looking at discrete choices (Kim, Hoskisson, & Lee, 2015; Głodowska, Pera, & Wach, 2019). While it has been – quite simplistically – argued that firms choose more advanced countries so as to obtain new assets, and less advanced countries exploit existing ones (Makino, Lau, & Yeh, 2002; Tsang & Yip, 2007), few studies have reached beyond discrete location decisions and viewed the learning process of new multinationals as a phenomenon from a location portfolio perspective (Kim, Hoskisson, & Lee, 2015). While this approach to firm analysis is well known from research on portfolios of strategic alliances (e.g. Asgari *et al*., 2017), or international equity investments (e.g. Ozmel & Guler, 2015), it is yet to be applied to the location choices and performance of new multinationals.

Thus, drawing insights from the exploration-exploitation literature (Anand, Mesquita, & Vassolo, 2009; Gupta, Smith, & Shalley, 2006; Rivkin & Siggelkow, 2003; Siggelkow & Rivkin, 2006; Tsang & Yip, 2007), we seek to address the aforesaid deficiencies in extant scholarship by exploring the duality of foreign market exploration and exploitation in establishing FDI market portfolios, as most firms do have to engage in both (Miller, Zhao, & Calantone, 2006), and how FDI market portfolio composition can provide a dynamic way to achieve this. This research question is challenging because to date, the exploration-exploitation literature has limited its analysis to a simplified explanation of how intangible resources affect FDI (Makino, Lau, & Yeh, 2002), or how the choice of host market affects firm performance (Kim, Hoskisson, & Lee, 2015), but not both simultaneously. To be best of our knowledge we are the first scholars studying location choices to examine not merely discrete market entry choices, but the prevalence of particular location choices in the overall internationalisation strategy. In doing so, contrary to most studies, we do not look at single decisions to enter a foreign market, but rather at motivations to compose a portfolio of markets of a certain type.

We pursue these objectives based on a sample of new multinationals from a post-transition economy. Due to their early-stage international strategy, managers of new multinationals often insist on establishing overseas operations in the most developed markets like the USA or Western Europe (Khan, 2020). Indeed, a significant part of research on emerging country MNEs has revolved around the still nascent firm capabilities and expansion into more advanced markets as a way of overcoming this weakness (Crescenzi, Pietrobelli, & Rabellotti, 2015).

LITERATURE REVIEW

Locational ambidexterity and firm performance

The perspective of exploitation and exploration has been influential in different subdisciplines of organisation and management (e.g. Lavie & Rosenkopf, 2006; Rivkin & Siggelkow, 2003). These two concepts are originally rooted in the area of organisational learning and their distinction has traditionally relied on the type of learning, or rather presence or absence thereof. While the concepts of exploitation and exploration in organisational studies have frequently been applied to the field of innovation (e.g. He & Wong, 2004; Paliokaite, 2019), particularly, in knowledge-intensive and innovation-absorbing industries (Braja & Gemzik-Salwach, 2020), their application in the context of international business, particularly geographic expansion of firms, has been much more seldom (Rudawska, Frąckiewicz, & Wiścicka-Fernando, 2018; Kim, Mahoney, & Tan, 2015; Makino, Lau, & Yeh, 2002). As international

business research has shifted from a predominantly headquarters-focused perspective to more attention to the significance of foreign affiliates (Rugman & Verbeke, 2001), the issue of explorative rather than merely exploitative FDI has surfaced in a number of studies (Galan *et al.,* 2007).

In reality, international expansion is driven by diverse motivations, which lead to different effects on firm performance (Li, 2007; Verbeke & Brugman, 2009; Verbeke, Li, & Goerzen, 2009; Barłożewski & Trąpczyński, 2021). However, in spite of extant evidence that FDI is driven by bundles of motivations (Demirbag, Tatoglu, & Glaister, 2007; Hennart, 2012; Cieślik & Hien Tran, 2019; Cieślik *et al*., 2019), most studies have focused either on exploitative or explorative FDI, with few attempts at considering these perspectives jointly (Kim, Mahoney, & Tan, 2015). Meanwhile, scholars have argued that the key to reconciling both perspectives lies in "ambidexterity" (Benner & Tushman, 2003; March, 1991; Stjepić *et al*., 2020). Ambidexterity as a mechanism of achieving balance is related to achieving exploitation and exploration synchronously through different loosely connected organisational units or individuals, specialising in one of the aforesaid learning modes (Raisch & Birkinshaw, 2008). In the context of location choices by MNEs, the network of foreign affiliates can be considered as a system of differentiated subunits with specialised mandates allocated by the parent firm (Rugman & Verbeke, 2001). Thus, we argue that by constructing geographic portfolios of affiliates, MNEs can seek balance between relying on their experience and exploiting their existing capabilities in less demanding markets than the home country, and upgrading their capabilities by establishing presence in markets that are more challenging. Henceforth, we shall refer to this balance as locational ambidexterity.

As exploitation and exploration cannot ensure sustained performance in isolation, we argue that an excessive focus on explorative FDI can be detrimental to MNE performance insofar as performance, particularly financial, is driven by fundamentals such as market size or cost efficiency (Demirbag, Tatoglu, & Glaister, 2007). We expect that pursuing more developed markets (vs. home country) in location portfolios with a sole focus on exploration is likely to be challenging, as developed countries necessitate regular product upgrades in order to match the requirements of end users (Hamzaoui & Merunka, 2006). Conversely, an excessive reliance on exploitation may result in quick performance gains which persuade managers about the legitimacy of following the same strategy, therefore often leading to the so called "success trap" (Gupta, Smith, & Shalley, 2006). In fact, some new MNEs find it easier to operate in less developed countries (Cuervo-Cazurra & Genc, 2008). These possibilities are available in inmmature markets considering the current state of their regulation (Bilan *et al.*, 2020; Mishchuk *et al.*, 2020). It is conceivable that significant previous success, as expressed by MNE performance, will lead to exploitation of their advantageous position in markets with lower entry barriers (Del Sol & Kogan, 2007). A frequent trajectory of new MNEs is to exploit their successful products in markets at different stages of their industry lifecycle (Kim, Mahoney, & Tan, 2015). However, the sole focus on exploitation may not pay off in the long run (Benner & Tushman, 2003).

Hence, we propose that the more ambidextrous the international expansion is, the better for the performance of new multinationals. While the focus on less developed markets would typically mean a predominance of exploitation, we simplistically assume that as the composition of foreign market portfolios of new multinationals becomes more skewed towards more developed markets, also the extent of the combination of exploration and exploitation increases (Hennart, 2012). Thus, we posit:

H1: The higher the locational ambidexterity of new multinationals, the higher their performance.

The moderating role of firm capabilities

While exploration and exploitation are both instrumental for performance, they also compete for limited organisational assets, whereby an organisation has to share the available resources between exploration and exploitation (Levinthal & March, 1993; Kim, Mahoney, & Tan, 2015). Yet, whether an organisation is able to reconcile these two learning modes may be contingent upon its knowledge pool or the ability to gain access to new knowledge (Levinthal & March, 1993). Moreover, entering more developed markets that facilitate exploration, requires overcoming entry barriers in the first place (Hymer, 1976).

We expect that new multinationals with stronger capabilities will be better able to address the challenges of more sophisticated markets than their own country (Chan, Isobe, & Makino, 2008). Such

firms are better able to communicate their value propositions to their customers and differentiate from competitors (Kohli & Jaworski, 1990). They can also more easily develop new products, adapt to the more competitive markets in the developed world, and develop product warranties to assure more experienced customers about the quality of their products. Hence, we argue that the appropriability of new knowledge by new multinationals, while simultaneously exploiting existing capabilities, will be more effective for new multinationals possessing superior capabilities. Thus, we propose:

H2: The effect in H1 is stronger for new multinationals which possess superior capabilities.

The boundaries of locational ambidexterity: portfolio management experience and portfolio complexity

Experience in managing FDI portfolios is crucial from the perspective of cross-border learning (Luo & Tung, 2007). Particularly for new MNEs, learning in foreign markets is not necessarily doomed to succeed (Zahra, Ireland, & Hitt, 2000; Zaheer, 1995). If new multinationals enter more advanced markets, they are likely to face some difficulties in coping with these countries' formalised labour and capital markets (Chacar, Newburry, & Vissa, 2010), as well as the reliance on formal written contracts instead of informal arrangements (McMillan & Woodruff, 2002). Experience of operating through FDI, both in similar and dissimilar markets to the ones being currently entered, may be crucial for both explorative and exploitative FDI and its performance (Trąpczyński & Banalieva, 2016).

Furthermore, a rising level of locational ambidexterity may in consequence lead to the dispersion of managerial attention. In fact, particularly for early-stage MNEs making their first genuine decisions about the composition of their geographic portfolios, such a dual focus may be challenging (Luo & Tung, 2007). Previous research has provided evidence for a tendency to rely on established organisational routines established in the course of earlier experience with geographic expansion (Pattnaik, Choe, & Singh, 2015; Perkins, 2014). Indeed, the ability to successfully engage in exploration in foreign markets is typical of more mature, advanced MNEs rather than the entire population of MNEs (Dunning, Kim, & Park, 2008). We argue, accordingly, that the experience of managing FDI projects allows new MNEs to allocate better their managerial capabilities and balance different involvements in their locational portfolios more successfully. Therefore, we propose that:

H3: The moderating effect in H2 is stronger for new multinationals with a higher portfolio management experience.

Figure 1 summarises our conceptual framework.

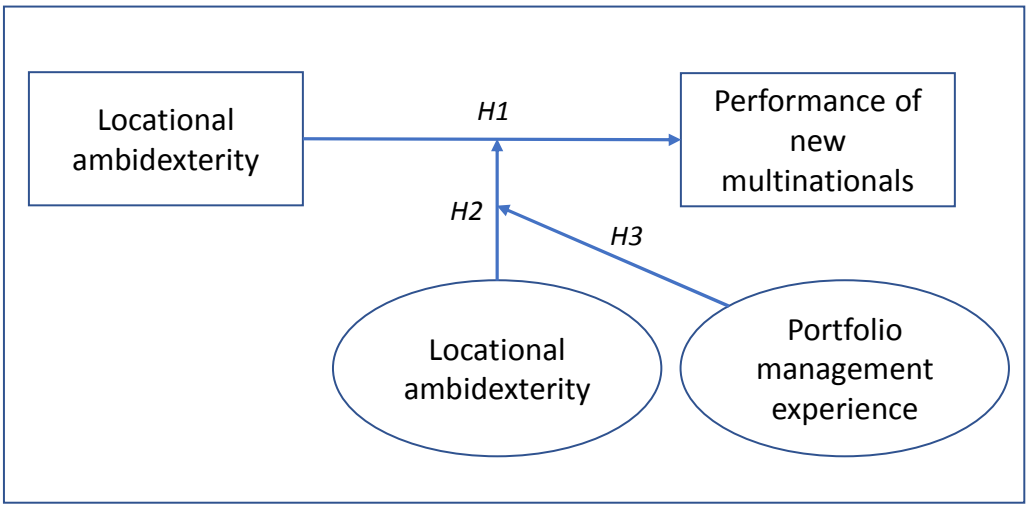

Figure 1. Conceptual framework
Source: own elaboration.

RESEARCH METHODOLOGY

Data and sample

We tested the above hypotheses by using a CATI study of foreign outward investors from Poland (2013-2014). We shortlisted the Polish firms suitable for our survey from a variety of secondary sources (including the Amadeus, BPR Benchmark Poland, and corporate communications). In order to be included in the database, the companies had to be registered in Poland and hold a minimum of 10% of shares in a subsidiary located abroad (Padmanabhan & Cho, 1999). Thus, we obtained a shortlist of 882 Polish firms with actual FDIs in the period under investigation.

A single key informant approach was adopted, by inviting executives directly responsible for the foreign activities of the firm to take part in the CATI study (Sousa, Ruzo, & Losada, 2010). A sample of 100 complete surveys was obtained, corresponding to an effective response rate of 11.3%, which remains in line with prior research on transition economies (Kriauciunas, Parmigiani, & Rivera-Santos, 2011). Accordingly, all the firm-level data are survey-based, except for country-level data. The country-level institutional data come from the World Bank's World Governance Indicators, World Bank's open Database, Hofstede's cultural database, and Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) database of geographic distance (Mayer & Zignano, 2005).

Statistical Analysis

We tested our hypotheses with OLS regression models in Stata/MP 15.1. We estimated OLS regression models because of the cross-sectional structure of our dataset. We started our analysis with a baseline model (Eq. 1). In Eq. 2, we added measures for the economic, institutional and cultural compositions of the MNEs' country portfolios. Next, we tested the interaction between MNE resources and the economic country portfolios (Eq. 3). We estimated the final equation for the full sample as well as for a split of the sample into groups of MNEs with an above (below) average number of FDIs. This sub-group analysis aims to test H3.

$$MNE\ Overall\ Success = Constant + \beta 1\ FDI\ Experience + \beta 2\ MNE\ Reputation + \beta 3\ MNE\ Size + \beta 4\ MNE\ Age + \beta 5\ MNE\ Capabilities + \beta 6\ Industry \quad (1)$$

$$MNE\ Overall\ Success = Constant + \beta 1\ FDI\ Experience + \beta 2\ MNE\ Reputation + \beta 3\ MNE\ Size + \beta 4\ MNE\ Age + \beta 5\ MNE\ Capabilities + \beta 6\ Economic\ Portfolio + \beta 7\ Institutional\ Portfolio + \beta 8\ Cultural\ Portfolio + \beta 9\ Industry \quad (2)$$

$$MNE\ Overall\ Success = Constant + \beta 1\ FDI\ Experience + \beta 2\ MNE\ Reputation + \beta 3\ MNE\ Size + \beta 4\ MNE\ Age + \beta 5\ MNE\ Capabilities + \beta 6\ Economic\ Portfolio + \beta 7\ MNE\ Capabilities\ x\ Economic\ Portfolio + \beta 8\ Institutional\ Portfolio + \beta 9\ Cultural\ Portfolio + \beta 10\ Industry \quad (3)$$

Measures

Performance

We captured performance with a subjective measure (see e.g. Brouthers, Brouthers, & Werner, 2008; Brouthers, Nakos, Hadjimarcou, & Brouthers, 2009), MNE overall success. Respondents were asked to evaluate on a 5-point Likert scale (1=we are much worse; 2=we are worse; 3=we are at the same level; 4=we are better; and 5=we are much better) how they perform relative to their closest rival. The aforementioned scale demonstrates a decent level of reliability, with the Cronbach's Alpha=0.84.

Capabilities

Respondents were requested to evaluate on a 5-point Likert scale (1=we are much worse; 5=we are much better) how the capabilities (market adaptation, new product introduction, marketing, managerial, technological and operational efficiency) of their company compare to those of their closest competitor. Capabilities for each firm were obtained by averaging the Likert scores of all five capabilities. For the analysis, we mean-centred the average scores. The construct showed a value of Cronbach's Alpha of 0.88.

FDI Experience

To capture the experience with FDI of our sample firms, we used the maximum number of years each firm was operating any FDI.

Locational ambidexterity

We proxied locational ambidexterity with the economic portfolio composition, using GDP per capita as the measure of economic development. To compute the distance between the home country and each of the host countries of the subsidiaries of the sample firms, we applied the Kogut and Singh (1988) formula, which was rooted in order to account for the direction of the distance. The host country scores were summed up to obtain the FDI portfolio composition and divided by the number of countries in the portfolio in order to eliminate outliers. Thus, more positive values of this continuous index indicate that the FDI portfolio of the Polish firm is dominated by countries more advanced than Poland. Conversely, more negative values of the continuous index indicate that the FDI portfolio of the Polish firm is dominated by countries less developed than Poland. To summarise, this variable can be expressed by the following formula:

$$LocAmb_N = \sum_{n=1}^{N} [\{\sum_{i=1}^{6} (I_{in} - I_{ik})/S_i\}/6]/N \quad (4)$$

where:

I_{in} - is the economic development score of the *i* th item for the nth country;
k - is Poland;
S_i - stands for the standard deviation of the *i* th score;
N - is the number of countries in which the firm has foreign affiliates.

Control variables

For the Institutional Portfolio we computed the institutional development difference for each host country, using the World Governance Indicators for 2011-2012. We performed the same computation for cultural portfolio based on Hofstede's six cultural dimensions. Moreover, we controlled for Industry (equal to 1 for manufacturing, 0 for services, Brouthers, Brouthers, & Werner, 2008); Firm Size (total years of FDI experience); Firm Age (years of operation); Firm Reputation (5-point Likert scale, where 1=we are much worse; 5=we are much better) how the perception and image of the MNE compare to those of their closest competitor).

RESULTS AND DISCUSSION

Common method bias

In order to avoid common method bias, the order of questions and items was varied so that no responses were suggested in the survey. The questions pertaining to the dependent variable were placed in the final part of the questionnaire. To test for common method bias, we conducted a post-hoc Harman's one-factor test (Podsakoff & Organ, 1986). The unrotated principal component analysis showed four factors with eigenvalues greater than 1.0, which collectively accounted for 66.6% of the total variance. The first and largest factor did account 24.1% of the variance.

Descriptive statistics

64% of the sample are made up of companies operating in the manufacturing industry. 47% of the sampled firms have predominantly advanced economies in their FDI portfolios (i.e., FDI Economic Portfolio Composition is positive), giving sufficient variation to test our framework. The average multinational is about 25 years old with an average of 9 years of international experience on a range of 2 to 27.

Table 1 presents the variety of host countries in which the Polish new multinationals invest, and the total subsidiaries per host country in the sample. Overall, the FDI portfolios in the sample are quite heterogeneous: there are a total of 62 different host countries and 394 subsidiaries. The sam-

ple is also dominated by European investments (45 European countries or 72%, and 361 European subsidiaries or 92%), in accordance with earlier studies of European multinationals (e.g., Dikova, 2009; Pollard & Simberova, 2014).

Table 1. The FDI host countries and subsidiaries of the Polish new multinationals

Host country of FDI	Number of subsidiaries per host country	Host country of FDI	Number of subsidiaries per host country
Albania*	**2**	Macedonia*	**1**
Argentina	**1**	Malaysia	**1**
Armenia*	**1**	Moldova*	**3**
Austria*	**7**	Montenegro*	**2**
Azerbaijan*	**2**	Netherlands*	**2**
Belarus*	**7**	Norway*	**4**
Belgium*	**2**	Panama	**1**
Bosnia & Herzegovina*	**2**	Portugal*	**1**
Brazil	**2**	Romania*	**30**
Brunei Darussalam	**1**	Russia*	**30**
Bulgaria*	**9**	Serbia*	**2**
Canada	**2**	Singapore	**1**
China	**7**	Slovakia*	**21**
Croatia*	**3**	Slovenia*	**2**
Czech Republic*	**40**	South Africa	**2**
Denmark*	**6**	South Korea	**1**
Estonia*	**2**	Spain*	**7**
Finland*	**1**	Sweden*	**6**
France*	**13**	Switzerland*	**4**
Georgia	**1**	Tajikistan*	**1**
Germany*	**42**	Tunisia	**1**
Greece*	**1**	Turkey*	**6**
Hungary*	**15**	Turkmenistan*	**1**
Ireland*	**1**	Ukraine*	**33**
Israel	**1**	United Arab Emirates	**2**
Italy*	**8**	United Kingdom*	**15**
Japan	**1**	United States of America	**7**
Kazakhstan*	**5**	Uzbekistan*	**1**
Kosovo*	**1**	Vietnam	**1**
Kyrgyz Republic*	**1**	**62 Host Countries**	**394 Subsidiaries**
Latvia*	**4**	**indicates the European investments*	
Lithuania*	**13**		
Luxembourg*	**1**		

Source: survey data.

Econometric findings

Tables 2 and 3 present the descriptive statistics and correlations table. Table 5 show the findings of the different OLS regression models. The direct effect of Economic Portfolio was only marginally significant in Model 3B in Table 5 but non-significant in any other model. Thus, we did not find support for Hypothesis 1 in our sample. Yet, the interaction between the economic composition of the portfolios and the MNEs' capabilities was positive and significant in the full model (Model 2 in Table 5) as well as in the sub-group models of MNEs with high and low FDI experience (Models 3A and 3B in Table 4). This supports Hypothesis 2. Our findings suggest that locational ambidexterity should not be regarded as a capability in its own right but rather as a moderator for the remaining MNE capabilities. This moderating role is further highlighted by the marginal effects graph in Figure 2. For high levels of economic portfolios (dashed line in Figure 2), the effect of capabilities on MNE clearly exceeds the

effect of the same level of capabilities of MNEs with low levels of economic portfolios (solid line in Figure 2). For low levels of capabilities, the graph shows reversed effects, emphasising the relevance of capabilities in FDI portfolios that require ambidexterity.

Table 2. Descriptive statistics

Variables	N	Mean	Std. Dev.	Min	Max
MNE Overall Success	100	3.282	0.743	1	5
FDI Experience	100	9.380	4.947	2	27
MNE Reputation	100	3.413	0.866	1	5
MNE Size	100	6.346	1.654	2.995	10.434
MNE Age	100	25.210	19.862	1	95
Industry	100	0.610	0.490	0	1
Capabilities	100	0.000	0.650	-2.1922	1.474
Locational ambidexterity	100	0.439	2.280	-6.4394	9.776
Institutional Port.	100	-0.939	2.506	-18.7136	2.803
Cultural Port.	100	5.737	6.753	0.4950	34.312

Source: own study.

Table 3. Correlations between key variables

Variables (and their numbers)		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1)	MNE Overall Success	1									
(2)	FDI Experience	0.12	1								
(3)	MNE Reputation	0.35 ***	0.11	1							
(4)	MNE Size	0.09	0.31 ***	0.01	1						
(5)	MNE Age	-0.03	0.19*	0.01	0.38 ***	1					
(6)	Industry	0.05	0.27 ***	-0.02	0.28 ***	0.19 *	1				
(7)	Capabilities	0.55 ***	0.09	0.38 ***	-0.02	0.11	0.09	1			
(8)	Locational ambidexterity	0.00	-0.01	-0.07	-0.14	-0.13	-0.03	-0.05	1		
(9)	Institutional Port.	-0.10	-0.22 **	-0.06	-0.23 **	-0.25 **	-0.09	-0.05	0.51 ***	1	
(10)	Cultural Port.	0.16	0.32 ***	0.11	0.38 ***	0.07	0.03	-0.15	0.09	-0.38 ***	1

Notes: ***: $p < 0.01$; **: $p < 0.05$; *: $p < 0.1$
Source: own study.

Jointly, our findings regarding the first two hypotheses provide some additional insights on the mechanisms how locational ambidexterity affects firm performance. While our data confirm that MNEs pursue an international expansion combining exploration and exploitation, or ambidexterity (Raisch & Birkinshaw, 2008), the lack of significant direct effects of locational ambidexterity differs from previous findings such as Kim, Hoskisson and Lee (2015) or Makino, Lau and Yeh (2002). Moreover, our results reinforce previous studies which identified resources and capabilities as crucial prerequisites for successful locational ambidexterity (Kim, Mahoney, & Tan, 2015). In particular, we contribute to previous research by shedding light on the role of experience in managing various, often contradictory, international commitments within a firm's portfolio. This finding strengthens the role the resource-based-view plays in internationalisation processes towards different institutional contexts (Brouthers, Brouthers, & Werner, 2008).

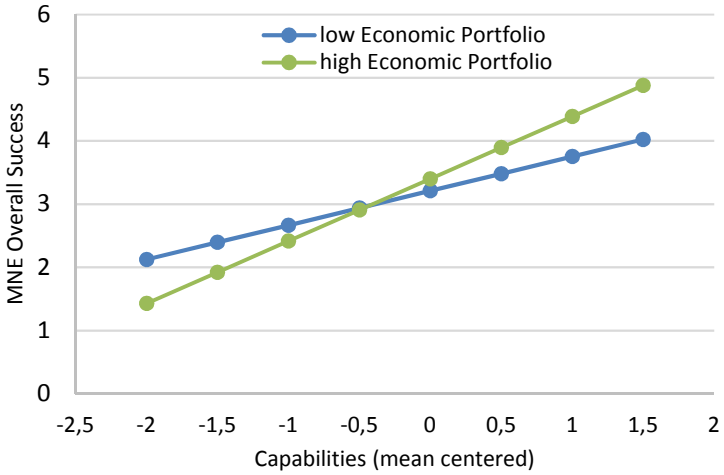

Figure 2. Marginal effects graph
Source: own elaboration.

Table 4. Regression models (MNE performance)

Variable	**Base model**	**Model 1**	**Model 2**	**Model 3A** *(high Exp FDI)*	**Model 3B** *(low Exp FDI)*
Constant	2.535 *** (0.3600)	2.758 *** (0.378)	2.793 *** (0.369)	3.475 *** (.599)	2.169 *** (0.682)
FDI Experience	0.007 (0.014)	-0.002 (0.014)	-0.008 (0.014)	0.001 (0.022)	-0.006 (.046)
MNE Reputation	0.129 (0.078)	0.099 (0.079)	0.116 (0.077)	0.075 (0.093)	.210 (.131)
MNE Size	0.063 (0.043)	0.029 (0.046)	0.015 (.045)	-0.045 (0.067)	.042 (.066)
MNE Age	-0.005 (0.003)	-0.005 (0.003)	-0.004 (0.003)	-0.004 (0.005)	-0.005 (0.005)
Capabilities	0.581 *** (0.105)	0.634 *** (0.106)	0.668 *** (0.105)	0.827 *** (0.129)	0.599 *** (0.182)
Locational ambidex-terity		0.004 (0.034)	0.036 (0.036)	-0.021 (0.039)	0.138 * (0.091)
Locational ambidex-terity x Capab.			0.082 ** (0.036)	0.068 * (0.034)	0.240 (0.145)
Institutional Port.		-0.001 (0.034)	-0.036 (0.036)	0.004 (0.036)	-0.142 (0.096)
Cultural Port.		0.024 ** (0.012)	0.021 * (0.012)	0.030 ** (0.012)	0.046 (0.036)
Industry Dummy	yes	yes	yes	yes	yes
N	100	100	100	43	57
Prob. F-test	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.018 **
Adj.R2	0.312	0.329	0.359	0.539	0.211

Notes: ***: $p < 0.01$; **: $p < 0.05$; *: $p < 0.1$
Source: own study.

In Hypothesis 3, we argued that the enhancing effect of locational ambidexterity on the performance impact of superior capabilities is stronger for new MNEs with a higher portfolio management experience. To test Hypothesis 3, we split our sample of new MNEs into more experienced MNEs (above average number of years of experience with FDI) and less experienced MNEs (below average number of years of

experience with FDI). For more experienced MNEs we found a significant result (Model 3A in Table 4) whereas the result for less experienced MNEs is only marginally significant (Model 3B in Table 4). Thus, the findings of Models 3A and 3B support Hypothesis 3. These findings highlight the complexity of managing locational ambidexterity. Unexperienced new MNEs lack the competence to pursue a dual strategy and might be better advised to gain experience with a focus on either exploitation or exploration (Luo & Tung, 2007). Enhanced FDI experience, nevertheless, enables new MNEs to exploit their capabilities in more complex country portfolios (Trąpczyński & Banalieva, 2016).

CONCLUSIONS

The added value of our study is that it enhances earlier studies devoted to FDI location choices of multinationals from developed markets (Galan, González-Benito, & Zuñga-Vincente, 2007; Kumar, 2001), newly industrialised countries (Makino, Lau, & Yeh, 2002), or traditional emerging markets like China (Ramaswamy, Yeung, & Laforet, 2012). Conversely, the knowledge about the location choices of new multinationals from mid-range economies has still remained limited. New multinationals' choices about the level of market sophistication in their FDI portfolios differs from the FDI choices other multinationals make due to the different level of factor market development conditions in their home countries (Hoskisson *et al.*, 2013; Kim, Hoskisson, & Lee, 2015).

Our study advanced two key theoretical contributions. First, few studies have adopted an integrative portfolio perspective on geographic portfolio choices, and have instead focused on discrete FDI location choices at a point in time (Nielsen, Asmussen, & Weatherall, 2017). Equally few studies have consistently considered location choices from the point of view of broader corporate strategy, linking location choices to other strategic decisions like, e.g., building intangible resources. Second, while earlier research has conceptualised entry into advanced countries and emerging markets as two mutually exclusive strategic choices, we proposed instead that firms can pursue both at the same time. We believe this approach reflects a more realistic representation of the complex optimisation decisions new multinationals make with respect to the level of market sophistication in their FDI portfolios that has evaded prior research.

Further, there is no direct performance effect of adding more advanced markets to the portfolio, as this relationship depends on the possessed capabilities. Thus, we caution new MNE managers that chasing after the glamour of advanced host countries is a double-edged sword: it can significantly improve firms' intangible resource base, but also significantly hurt performance, at least in the short term. Managers of new multinationals should carefully balance their exploration-exploitation activities so as to reduce the negative effect on performance.

Our research is obviously limited in a number of aspects which nevertheless pose fruitful areas for further efforts. First, consistent with prior quantitative studies on companies' internationalisation (e.g., Carlsson, Nordegren, & Sjoholm, 2005; Hernandez & Nieto, 2015; Liu, Gao, Lu, & Lioliou, 2016), our study relies on a survey-based cross-sectional sample of FDI portfolios. Thus, we were not able to perform panel data regression analysis to test for possible longitudinal shifts in the new multinationals' FDI strategies over time. Thus, future research can test the generalisability of our findings on longer time frames as more data become publicly available. Second, future research can expand ours by analysing larger firm samples. Since we were only able to capture short-term performance, it would be useful for upcoming studies to expand our work by analysing the long-term performance implications from the FDI portfolio optimisation of new multinationals. Third, despite the notable heterogeneity of host country locations in the Polish firms' FDI portfolios (62 countries, 394 subsidiaries), most FDI in the sample was in Europe, hence further research could recur to larger and more diversified portfolios which would help to corroborate our findings.

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Conflict of Interest

The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

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