



The impact of host and home country democratization on multinational enterprises' performance[☆]

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ABSTRACT

In international business literature, limited attention has been paid to the role of democratization and its impact on firm-level outcomes. This study examines the relationship between democratization and market share gain as a performance indicator of multinational enterprises operating across seven industries in six emerging markets and six advanced economies. We differentiate between advanced economy multinational enterprises (AMNEs) and emerging market multinational enterprises (EMNEs) to compare their relative performance. Utilizing data on democracy indices, FDI inflows, and firm market share from *Our World in Data*, World Bank Data, and Euro-monitor Passport, we explore the impact of both host and home country democratization on MNE performance using multiple linear regression. Drawing on institutional theory, our findings reveal that host country democratization may positively influence MNE performance, while home country democratization has a negative effect. Furthermore, EMNEs outperform AMNEs, demonstrating their adaptability in diverse political environments. We provide implications of our findings for research and practice.

1. Introduction

The impact of democracy as a system of governance has been extensively studied across various disciplines, including political science, economics, and international business (IB) (Audretsch & Moog, 2022; Balding, 2011; Colagrossi, Rossignoli & Maggioni, 2020; Goel & Nelson, 2023; Hadjikhani & Ghauri, 2001; Pinar & Stengos, 2021). Democracy influences critical dimensions of a nation's institutional framework, shaping the environment in which businesses operate. In the field of IB, democratization or the presence of democratic institutions often correlates with foreign direct investment (FDI) flows (Contractor et al., 2020; Yang, 2007) and multinational enterprise (MNE) internationalization decisions (cf. Arregle et al., 2013; Carballo & Corina, 2024; Duran et al., 2017; Harms & Ursprung, 2002). While these macro-level links are well-documented, the implications of democracy for firm-level performance, particularly in the post-internationalization phase, remain underexplored. Despite these established connections, few

studies have examined how democracy influences firm-level performance outcomes (Arregle et al., 2013; Beugelsdijk & Luo, 2024; Johnson & Tellis, 2008; Karabag, 2019; Okoroafo, 1993) during the post-internationalization period—a crucial phase when MNEs consolidate their presence in foreign markets, adapt to local conditions, and strive to develop sustainable competitive advantages.

The performance of MNEs under varying political regimes, specifically democratic and autocratic has received limited scholarly attention, with conflicting findings in the literature (Bucheli, 2008). Some scholars argue that autocratic regimes offer more stable environments for MNEs (Bucheli, 2008; O'Donnel, 2023; Rodrik, 1999), while others find democracies more conducive to business success (Blanton & Blanton, 2007; Henisz, 2008). Although prior work has explored institutional distance and host country effects (cf. van Hoorn & Maseland, 2016; Shirodkar & Konara, 2017; Wu et al., 2022), little research has examined how the democratic characteristics of an MNE's home country shape firm performance abroad. Against this backdrop, the current study

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investigates the influence of both host and home country democratization on MNE performance, measured as market share gain. To address these gaps, we draw on institutional theory to examine the impact of host and home country democratization in tandem on MNEs' market share gain performance.

By examining the dual role of host and home countries on firm performance, we shed light on the dialectic nature of institutional environments in both contexts—an understanding that is vital for effective international strategy (Gammeltoft, Pradhan & Goldstein, 2010; Kostova & Zaheer, 1999). We aim to provide new insights into the institutional dynamics of democracy and IB, differentiating between MNEs originating from democratic versus less democratic countries, and highlighting the importance of the institutional interface between home and host environments. Accordingly, the current study challenges traditional theories that assume symmetrical institutional differences between two countries (Golesorkhi, Mersland, Randoy & Shenkar, 2019; Xu & Shenkar, 2002). Instead, we conceptualize institutional differences as asymmetric, arguing that home and host country environments do not exert equivalent influences on all firms. We explore this asymmetry as shaped by both the host country's institutional context and the MNEs' country of origin, thereby aligning with the cultural friction perspective (Luo & Shenkar, 2011; Shenkar, 2024).

We posit that host country democratization enhances MNE performance by promoting stable legal environments and productivity through political rights, and civil liberties. Conversely, home country democratization negatively affects MNE performance in foreign markets by reducing the adaptability of firms accustomed to high democratic standards. This proposition draws on the notion of institutional embeddedness (cf. Saka-Helmhout et al., 2016; Meyer et al., 2011), where firms strongly socialized in stable democratic contexts may struggle to adapt to markets with less institutional maturity or more fluid regulatory norms. This is an important contribution, as scholars are keen to understand the implications of differing political regimes for MNEs (Beugelsdijk & Luo, 2024). We also explore how AMNEs and EMNEs differ in their performance under these conditions, hypothesizing that EMNEs' greater adaptability and flexibility (e.g., locational resilience) give them a competitive edge in host countries (Ozkan et al., 2022). We, then, incorporate FDI inflows to host country as a contextual factor, examining its potential role in shaping MNE performance across both autocratic and democratic regimes, thereby challenging the assumption that democracy automatically boosts FDI-driven performance. Lastly, we also shed light on the possible impact of industry as another contextual factor. These additions recognize the complexity of institutional environments and help move beyond linear assumptions about democracy's effects on firm performance.

In the context of our study, market share gain of an MNE refers to its year-over-year increase in market share within each host country-industry. For the concept of democracy (or democratization), we adopt a disaggregated definition that distinguishes between two key components: (i) political rights, and (ii) civil liberties (Adam & Filippaios, 2007; Filippaios, Annan-Diab, Hermidas & Theodoraki, 2019). This disaggregation enables more effective theoretical argumentation by offering a more fine-grained understanding of democracy's impact on firm-level outcomes. By separating these component, we can more precisely test their distinct effects on MNE behavior. Accordingly, we operationalize democracy using the democracy index provided by the Economist Intelligence Unit, which “combines information on the extent to which citizens can choose their political leaders in free and fair elections, enjoy civil liberties, prefer democracy over other political systems, can and do participate in politics, and have a functioning government that acts on their behalf” (Our World in Data).

Our analysis utilizes a rich dataset from Euromonitor Passport, covering seven industries across six advanced economies and six emerging markets. This diverse sample enhances the generalizability of our findings, enabling a comprehensive examination of how both host and home country democratization influence MNE performance across

different industry-country contexts. The inclusion of cases from different regime types and levels of economic development further strengthens the study's empirical validity.

This study contributes to IB literature in several important ways. First, we extend institutional theory by conceptualizing democratization as a dynamic, non-linear process that unfolds unevenly across regulatory, normative, and cognitive pillars, offering a more nuanced understanding of how institutional differences across cultures affect MNEs' performance (Scott, 1995). Second, we reconceptualize institutional difference as an asymmetric construct, emphasizing that institutional differences between home and host countries may influence the performance of AMNEs and EMNEs differently (Kostova & Roth, 2002). In this context, we give support to the related but distinct roles of cultural difference and friction. Even if an AMNE and an EMNE may encounter similar differences when entering each other's markets, they may not encounter same degree of friction. Third, we highlight the dual role of home and host country democratization in shaping MNE performance, providing important insights into how the relationship between these institutional environments may affect firm strategies. Finally, we examine the role of FDI inflows, challenging the assumption that democracy automatically leads to improved business conditions and FDI-driven performance. These contributions underline the need for more differentiated views of institutional environments and firm capabilities. We emphasize that the relationship between democracy and firm performance is contingent on various contextual factors, such as industry, and the stage of democratization in the host and home countries. In doing so, our study advances understanding of the nuanced role political regimes play in shaping MNEs' global strategy and performance.

The remainder of this paper is organized as follows: First, we present a literature review, highlighting the gaps in the existing research. Next, we provide the theoretical background and develop our hypotheses, underscoring the main constructs and their definitions related to the main topic. We then detail our methodology and present the results in light of institutional theory. Finally, we conclude with a discussion that includes theoretical and managerial implications, as well as limitations and directions for future research.

2. Literature review

Table 1 provides an overview of the literature. There is limited empirical research and understanding regarding the impact of host country democratization on MNE performance. Existing studies primarily focus on the internationalization decision of firms, FDI inflows to a host country, or the democracy in neighboring countries and its impact on FDI inflows (cf. Pinar & Stengos, 2021).

Referring to Table 1, a significant stream of existing research links political factors, such as political uncertainty and political distance (Cuervo-Cazurra, 2016; Nguyen et al., 2022), politics and government political ideology (Clegg et al., 2018; Cuervo-Cazurra et al., 2023; Duran et al., 2017), political democracy in the region (Arregle et al., 2013), and civil and political freedom (Harms & Ursprung, 2002), to the internationalization of MNEs or family-controlled firms. These studies explore the democracy-related factors that attract foreign investors, and therefore, take democracy into account when evaluating the attractiveness of a country. The theoretical implications of these studies suggest that democracy not only impacts the decision to enter a market but may also influence post-entry outcomes, including firm performance.

Another prominent stream of research explores the relationship between political regimes (Jiang & Zhang, 2023; Yang, 2007), democracy or democratization (Asiedu & Lien, 2011; Basu, Mitra & Purohit, 2020, 2023; Li & Resnick, 2003), democratic institutions (Bailey, 2018; Holmes et al., 2013; Jensen, 2003), democratic rights (Busse & Hefeker, 2007; Paniagua & Sapena, 2014), and political risk factors (Agarwal & Feils, 2007; King, Loncan, & Khan, 2021; Munjal et al., 2022) and FDI inflows. The arguments in this stream of literature may also help explain firm performance. For example, a restructured legal environment

Table 1
Selected Studies – Democracy and Internationalization / Internationalization Decision of MNEs.

No	Study	DV	IVs, Mediator, Moderator	Findings
1	Arregle et al. (2013)	– The propensity of MNEs to internationalize into a country – Internationalization of State-Owned Enterprises	IV1: Political Democracy of Region	Not supported
2	Clegg et al. (2018)		IV1: Autocracy in Home Country	
3	Cuervo-Cazurra (2016)	– Internationalization of Family-controlled Firms	IV1: Government Political Ideology	Future studies may explore the relationship between political uncertainty and internationalization of firms
4	Cuervo-Cazurra et al. (2023)			Studies the impact of host country politics on internationalization
5	Duran, Kostova & van Essen (2017)			It is suggested that Governments' socially conservative and family-oriented ideology is supportive for FCFs. Family owners are more open to internationalization, feeling safe and protected.
6	Harms & Ursprung (2002)			MNEs seem to be attracted by countries in which there is civil and political freedom.
7	Nguyen et al. (2022)			The dimensions of institutional differences, such as economic and political distances, do not influence firm internationalization in the same way.

TABLE 1 Selected Studies – Democracy and FDI

NO	STUDY	DV	IVs, Mediator, Moderator	Findings	
8	Agarwal & Feils (2007)	– FDI	IV1: Political Risk Factors	IVs and DVs are provided.	
9	Asiedu & Lien (2011).	– FDI	IV1: Democracy Moderator: Value of resources		
10	Bailey (2018)	– Host Country FDI Attractiveness.	IV1: Institutional Factors		
11	Basu et al. (2023)	– FDI Inflow	IV1: Democratization		
12	Busse & Hefeker (2007))	– Foreign Direct Investment	IV1: Basic democratic rights IV2: Ensuring law and order		
13	Contractor et al. (2020)	– FDI	IV1: Regulatory Variable		
14	Holmes, Miller, Hitt & Salmador (2013)	– Inward FDI	IV1: Democratic Political Institutions		
15	Jensen (2003)	– FDI	IV1: Democratic Institutions		
16	Jiang & Zhang (2023)	– Cross-border acquisitions	IV: Political Ideology		
17	Li & Resnick (2003)	– FDI	IV1: Democracy		
18	Munjal et al. (2022)	– Indian FDI Streams	IV1: Better Governed Host Country		
19	Paniagua & Sapena (2014)	– FDI Capital Flows	IV1: Level of Democratic Rights		
20	Yang (2007)	– FDI	IV1: Political Regime		
					Focuses on Chinese cross-border acquisitions. This remains an understudied and poorly understood topic within the literature.
					Suggests no significant relationship

TABLE 1 Selected Studies – Democracy and Firm Success/Performance

NO	STUDY	DV	IVs, Mediator, Moderator	Findings
21	Osei-Tutu & Weill (2023)	- Credit Constraint (negative impact on growth)	IV1: Democracy	In the current study, the authors suggest a negative relationship between democracy and credit constraints faced by firms. In addition, they find a positive relationship between access to credit and firm growth.
22	Johnson & Tellis (2008)	– Success in emerging markets	IV1: Openness	“Firms entering more open emerging markets have less success.”
23	Karabag, 2019	– Firm Success	IV1: National Economic and Political Regime	There is also a short-term debate
24	Okoroafo (1993).	– Firm Performance	IV1: Liberalized Business Environment	
25	Current Study	– Market share gain of MNEs in a foreign host market	IV1: Degree of democratization in host markets EMNEs vs AMNEs IV2: Degree of democratization in home markets IV3: FDI inflows	Market share gain, as a measure of MNE performance in foreign host markets, is positively associated with the degree of democratization in host countries. However, the performance of EMNEs in host markets with varying levels of democratization exceeds that of AMNEs, indicating greater adaptability. Conversely, market share gain is negatively associated with the degree of democratization in home countries, suggesting that firms originating from highly democratic environments may face challenges in less democratic markets. Lastly, our results do not support the assumption that FDI inflows are a significant driver of market share gain.

designed to attract FDI may support firms by enabling them to protect their intellectual property in countries with strong legal systems.

Finally, there is limited research exploring the relationships between political regimes and firm success or growth (Karabag, 2019; Osei-Tutu & Weill, 2023), openness and success in emerging markets (Johnson & Tellis, 2008), and a liberalized business environment and firm performance (Okoroafo, 1993). This study addresses both empirical and theoretical gaps by examining how democratization in host countries shapes MNEs' post-entry performance, thereby moving beyond firm entry decisions to focus on actual performance outcomes.

3. Theoretical background

Institutional theory is widely used as an anchor theory in IB research, as institutions have been suggested to shape firms' strategic choices (Peng, 2003; Scott, 1995). Democracy is a key construct that defines formal and informal institutions within a country (Basu et al., 2020). Arregle et al. (2013) suggest that MNEs consider three formal institutions—regulatory control, political democracy, and capital investments—when targeting foreign markets. Therefore, political democracy or a democratic regime (O'Donnell, 2001) is a critical factor in the

development of an international expansion strategy. This construct is associated with countries that are more accountable, credible, stable, and well-governed. As a result, democratic host markets are often seen as more attractive and promising. Scholars have already explored the role of democracy in shaping the attractiveness of a country or international market entry. We argue that the same factors that create an attractive market entry environment also contribute to the success of MNEs.

From the perspective of institutional theory, firms need to adapt their strategies to the institutional environment in order to succeed (Björkman, Fey & Park, 2007; Scott, 1987, 1995, 2001). DiMaggio and Powell (1983) and Scott (1995) identify the key pillars that firms use to adopt the structures and practices necessary for adaptation (Peng, Sun, Pinkham & Chen, 2009). While the former suggests coercive, mimetic, and normative isomorphisms, the latter uses the terms regulatory, cognitive, and normative pillars for a similar purpose. To gain legitimacy, firms have to find and follow the right path under these institutional forces (Deligonul, Elg, Cavusgil, & Ghauri, 2013). In this context, firms develop their strategies in host countries based on both formal and informal institutions (cf. Peng, Wang, & Jiang, 2008; Wang et al., 2024). As political regimes shape these institutions, the degree of democratization may significantly influence the performance of MNEs in foreign markets. We argue that regulatory pillar plays a key role in democratic regimes in terms of enforcing rules, laws, and regulations, thereby offering a stable and favorable business environment that enhances MNEs' performance. By strengthening the regulatory pillar, democracy serves as a key mechanism that facilitates firms' adaptation to the institutional environment of the host country.

4. Hypotheses development

4.1. Political regimes – democratization in a host country

Political regimes are fundamental to understanding firm performance, as they shape the degree of certainty and productivity within a country (Arregle et al., 2013). From an institutional theory perspective, institutions—both formal and informal—shape the strategic choices of firms (Peng, 2003). Democratic regimes, characterized by respect for political rights and civil liberties through stronger and enforcing regulatory pillar, are associated with stronger, more stable institutions that are conducive to business success (Adam & Filippaios, 2007). Political rights which are linked to government policies and decision-making processes, ensure accountability and transparency. Civil liberties, on the other hand, provide economic and organization rights to workers. While political right nurtures stability in the legal environment, civil liberty fosters productivity through rights (Filippaios, Annan-Diab, Hermidas & Theodoraki, 2019). Democratic regimes thus contribute to a more predictable and rule-based institutional environment, allowing MNEs to develop long-term strategies and reduce the liabilities of foreignness (cf. Muratova et al., 2025; Zaheer, 1995).

According to the institutional theory, MNEs need to adapt their strategies to the institutional environment of a host country in order to develop legitimacy (Björkman et al., 2007; Kostova & Zaheer, 1999; Kostova et al., 2020; Scott, 1987, 1995, 2001). The level of democratization influences this adaptation process by providing a predictable, stable environment where firms can thrive. Political rights and civil liberties create conditions of legal certainty and economic stability that are essential for the internationalization and long-term success of MNEs (Cuervo-Cazurra et al., 2023; He & Cui, 2012; Peng et al., 2009). Therefore, democracy plays a key role in facilitating MNEs' adaptation to the institutional environment of a host country, making democratic markets more attractive for entry. Similarly, we argue that such a legally stable and productive environment will lead to better firm performance after market entry. MNEs benefit from the favorable democratic business environment stemming from stability and certainty to adapt and conduct their operations in accordance with the local conditions.

Political right is associated with elections through which governments and political leaders act more responsibly considering the welfare of the nation and citizens (Drazen, 2000; Ferejohn, 1986). They aim to achieve stability in legal environment, flourishing fair business, and fostering economic development. Consequently, MNEs can feel confident that they are protected equally by law, better analyze the market environment, identify effective strategies, compete fairly, and make longer term plans. On the contrary, instability may pose an important business risk in non-democratic countries (Olson, 1993; McGuire and Olson, 1996). Autocratic leaders may deviate from stability and take decisions considering their own benefits, favouring certain groups or firms and triggering corruption. Therefore, democracy leads to fair competition and better MNE performance, whereas autocracy may influence negatively the outcomes.

In general terms, civil liberty leads to economic growth (Alfonso, Lacalle-Calderon, & Sanchez, 2014). Even if civil liberty may have a negative influence on bargaining power for the MNE, it fosters productivity and better performance through higher incentives and co-operation among workers (Adam & Filippaios, 2007; Filippaios, Annan-Diab, Hermidas, & Theodoraki, 2019; Friedman, 1962). Workers may tend to participate more in decision-making process and suggest new ideas (Levin, 2006). It is important for firms to benefit from the participation and ideas of their workers to eliminate waste and non-value-added activities, improve efficiency and achieve better outcomes. In this context, human capital becomes a critical differentiator for firms. Building on this, we argue that democracy leads to market share gain performance of MNEs in host markets with favorable institutions through political rights and civil liberties. Simply put, MNEs operating in democratic environments benefit from lower transaction costs, greater employee engagement, and reduced institutional voids—all of which contribute to market share growth. Thus, we suggest that:

H1: Market share gain as a performance measure of MNEs in a foreign host market is positively related to the degree of democratization in host markets.

4.2. FDI Inflow

The relationship between democratization and FDI inflows is a key area of research in IB. Drawing from institutional and macroeconomic theories, extant studies either do not find a clear relationship between democracy and FDI inflows (Yang, 2007), or provide partial support (Alfaro, Kalemli-Ozcan & Volosovych, 2008; Filippaios et al., 2019; Lu, Liu, Wright, & Filatotchev, 2014; Pajunen, 2008). Some scholars suggest that democracy fosters FDI inflows due to favorable regulatory environment (Jensen, 2003; Li & Resnick, 2003). Conversely, other scholars argue that MNEs may prefer to enter autocratic countries, as they can build relationships with autocratic leaders and benefit from their political power to operate more smoothly (Greider, 1998; Haggard, 1990; O'Donnel, 1978). Thus, the findings regarding the relationship between political regimes and FDI inflows remain mixed (Contractor et al., 2020; Yang, 2007).

Given the importance of MNEs' investments in IB literature considering political economy perspective (cf., Corina et al., 2025; Li et al., 2022), it is plausible that FDI inflows, along with the political regime, may influence the market share gain performance of MNEs. Drawing from institutional theory, a stable and favorable regulatory environment, which is often associated with democratic regimes, may lead to higher FDI inflows. This regulatory stable environment also helps MNEs operate effectively and improve their performance. Alternatively, according to autocracy-related explanations, MNEs may leverage their relationships with autocratic leaders to secure higher market shares, as autocratic regimes may provide MNEs with certain advantages, such as preferential treatment and protection (cf. Greider, 1998; Haggard, 1990). The importance of FDI as a strategic tool for growth,

competitiveness, and innovation is well established in the existing literature (Narula & Driffield, 2012; Wilson & Baack, 2012).

Governments, whether democratic or autocratic, recognize the importance of attracting FDI and aim to create favorable conditions for MNEs through various policies. These policies often include fostering stability, enforcing laws (including intellectual property protections), and offering fiscal incentives and investment promotions to attract foreign investments (Wint & Williams, 2002). Thus, both democratic and autocratic governments, though through different means, create institutional environments designed to attract FDI. This inflow of foreign capital and investment not only benefits the host country but also enhances the market opportunities and performance potential of MNEs. Therefore, we argue that there is a positive relationship between the degree of FDI inflows and the market share gain performance of MNEs in the host market. This led us to suggest that:

H2: *Market share gain as a performance measure of MNEs in a foreign host market is positively related to the FDI inflows to this market.*

4.3. AMNE vs EMNE performance

The performance of an MNE is influenced by a variety of factors, including dynamics related to their home and host countries, as well as firm-specific characteristics (Cavusgil, Ghauri & Akcal, 2013; Cavusgil, Deligonul, Ghauri et al., 2020; Ozkan et al., 2022; Rangan & Drummond, 2004; Rugman, Oh & Lim, 2012; Zou & Cavusgil, 1996). The rise of emerging markets and the increasing prominence of new global challengers have reshaped the competition between AMNEs and EMNEs in international markets. Scholars argue that firms from both developed and emerging economies face unique challenges and opportunities that shape their success in competitive global markets (Awate, Larsen & Mudambi, 2012; Awate, Larsen & Mudambi, 2015; Cano-Kollmann, Cantwell, Hannigan, Mudambi & Song, 2016; Luo & Tung, 2007; Lorenzen & Mudambi, 2013; Perri, Scalera & Mudambi, 2017; Ramamurti, 2012; Ramamurti & Williamson, 2019; Schotter, Mudambi, Doz & Gaur, 2017). Given these dynamics, it is plausible that the performance of AMNEs and EMNEs may differ in foreign markets that vary in terms of their varying degree of democratization.

In general, democracy indexes tend to be higher in advanced economies than in emerging market economies. As a result, AMNEs often operate in markets that are less democratic or similarly democratic, while EMNEs typically operate in more democratic environments or those with similar levels of democratization. Building on existing literature (Ozkan et al., 2022), we argue that EMNEs perform better in foreign markets for several reasons. First, EMNEs can rely on their home-grown advantages, having developed distinctive capabilities such as agility and adaptability while operating in relatively less institutionalized home markets (Buckley, Cross, Tan et al., 2008; Cuervo-Cazurra & Genc, 2008; Luiz & Barnard, 2022; Luo et al., 2021).

Second, EMNEs have historically learned from the experience of AMNEs and have often achieved technological leapfrogging (Hennart, 2012; Rugman & Li, 2007; Lee, Liu, & Yang, 2023). These firms have developed the capacity to innovate rapidly and adapt to global standards, often outperforming AMNEs in emerging markets due to their enhanced ability to learn and adapt quickly. Such capabilities position EMNEs to succeed in foreign markets, particularly in those with more democratic regimes, where governance and institutional stability support innovation and competition. Therefore, we hypothesize that EMNEs are likely to achieve higher market share gains in foreign markets with varying degrees of democratization compared to AMNEs, due to their ability to leverage these advantages. Based on this, we propose the following hypothesis:

H3: *Market share gain as a performance measure of EMNEs in foreign host markets with varying degrees of democratization is higher than that of AMNEs.*

4.4. Political regimes – democratization in home country

Existing studies reveal that both home and host countries' factors can influence the performance of MNEs for several reasons (Hawawini, Subramanian & Verdin, 2004; Krammer, Strange & Lashitew, 2018). While it is expected that the degree of democratization of the host country influences MNE market share performance, it is also important to consider how the degree of democratization in the home country may affect the performance of MNEs in foreign markets. In the context of this study, we argue that the arguments related to political rights and civil liberties (Adam & Filippaios, 2007; Arregle et al., 2013) presented in Hypothesis 1 are still relevant, but they work in the opposite direction when considering the home country context. Specifically, we propose that MNEs from countries with high levels of political rights and civil liberties, where the institutional environment is more stable and less risky, may encounter challenges when operating in less democratic or autocratic host countries.

When MNEs originate from democratic countries, they are accustomed to working in a formal, stable institutional environment with established legal protections for property rights, labor rights, and efficient governance structures. Democratization strengthens the regulatory pillar that benefits firms' operations through legal predictability and stability. Workers in democratic settings are more likely to be motivated and productive due to the protection of civil liberties and the presence of legal frameworks that ensure fairness and accountability (Adam & Filippaios, 2007; Arregle et al., 2013). However, when these MNEs operate in host countries with lower democratic standards or autocratic regimes, they may face difficulties in adapting to environments that lack these features. For the autocratic or less democratic countries, MNEs suffer from relatively unfavorable institutional environment, where regulatory pillar is weaker and organizational practices are subject to instability. Besides, when "institutions" are in "transition" (Scott, 1995), such an environment is not favorable for an MNE success (Peng, 2003). This misalignment between the home and host country institutional environments can reduce the MNE's ability to perform at optimal levels.

For instance, civil liberties play a crucial role in supporting innovation and productivity (Hurtado et al., 2024). MNEs from democratic home countries may develop innovative capabilities within a free, transparent, and accountable environment. However, transferring these capabilities to more restrictive, autocratic host countries may not be feasible due to location-bound nature of such practices. The home country culture, which encourages openness and creativity, may not align with the, for instance, repressive or corrupt business practices common in less democratic environments (cf. Islam, Islam, & Khan, 2025). The corrosive effects of corruption in host countries can undermine firm performance (Bahoo, Alon, & Paltrinieri, 2020; Galang, 2012). Firms accustomed to a high level of institutional integrity in their home countries may face ethical dilemmas and pressures to engage in corrupt practices, which could conflict with their organizational culture (Uhlenbruck, Rodriguez, Doh & Eden, 2006). This inability to transfer home country routines and adapt to conflicting host country cultures may negatively affect the MNE's performance.

Drawing from institutional theory, firms need to adapt their strategies keeping in view the institutional norms of the host country to establish legitimacy (DiMaggio & Powell, 1983; Scott, 1995; Kostova & Zaheer, 1999). For MNEs from democratic home countries, the shift from a stable, high-trust environment to one that may be characterized by political instability, corruption, and limited freedoms may result in difficulties in maintaining performance levels. Thus, we hypothesize that MNEs from democratic home countries, when entering less democratic or autocratic host markets, may experience a negative impact on their market share performance due to the challenges in adapting to the host country's political and institutional environment.

H4: Market share gain as a performance measure of MNEs in a foreign host market is negatively related to the democratization in the home market.

5. Methodology

We investigate the relationship between host country democratization, home country democratization, FDI inflows and MNE performance. We include an EMNE dummy in our model to differentiate between AMNEs and EMNEs. To determine the significance and strength of relationship between these independent and dependent variables, we use multiple linear regression analysis, which is a widely used technique for this purpose.

5.1. Data sources

Our focus is on the market share gain performance of MNEs originating from advanced and emerging economies under democratization. First, market share data is drawn from a proprietary database, Euro-monitor Passport. This database provides firm-level market shares for the ten successive years (e.g. 2013–2022) in several countries and industries. Therefore, the database enables us to calculate the market share gains of AMNEs and EMNEs entering a certain country-industry. Second, the democratization indexes for the home and host countries in the context of our study were identified from [Our World in Data, based on the Economist Intelligence Unit \(2006–2023\)](#). Third, FDI inflows for the host countries were drawn from the [World Bank Data – Foreign direct investment, net inflows \(BoP, current US\\$\) \(1970–2024\)](#). Fourth, we assigned the EMNE/AMNE dummy according to the origin of MNEs. The data sources utilized for FDI inflows ([Contractor et al., 2020](#)), democracy index ([Stojčić et al., 2024](#)), and market shares ([Ozkan et al., 2022](#)) are also used in these previous studies.

Euromonitor Passport provides market share data for several industries and countries worldwide. First, we aimed to identify different industries, ranging from service to high-tech in accordance with the literature for generalizability purposes ([Ozkan et al., 2022](#)). The industries in our dataset include retail, ready meals, apparel, soft drinks, beauty and personal care, home appliances, and electronics. Second, to maintain consistency with the extant literature, we selected the same representative set of advanced economies and emerging markets ([Ozkan et al., 2022](#)). We identified six emerging and six advanced economy markets with abundant market potential from the Group of Twenty (G20) to: i) include the major economies contributing to world GDP (the selected G20 countries constitute a major proportion of global GDP), and ii) represent geographies and cultures from different parts of the world sufficiently for generalizability purposes. Canada, France, Germany, Japan, the U.K., and the U.S. are the advanced economies, while Brazil, China, India, South Africa, South Korea, and Turkey represent the emerging markets in our study. Even though South Korea is part of the 38-member OECD group of advanced economies ([Collins-Investment Magazine, 2024](#)), it continues to be classified as an emerging market by several institutions due to various factors, such as capital market accessibility, and other constraints related to regulation and foreign investor participation ([Collins-Investment Magazine, 2024](#); [Lee-Bloomberg, 2024](#); [MSCI, 2025](#); [Suk-ye-Business Korea, 2024](#)).

5.2. Variables

Firm Performance – Market Share Gain: Market share is one of the most widely used measures of firm performance ([Katsikeas, Morgan, Leonidou, & Hult, 2016](#); [Talay, Townsend, & Yeniurt, 2015](#); [Szymanski, Bharadwaj, & Varadarajan, 1993](#)). We calculate MNE market share gain for each year by subtracting the market share of an MNE in the current year from that of the previous year, where first year is 2013 and the last year is 2022 in our dataset. Thus, for the market share gain

in Year₂₀₁₄, we subtract the market share in 2013 from the market share in 2014 according to the below formula. We standardized the data for effectiveness.

$$(\text{Year-to-Year}) \text{ MShG of an MNE in Year}_N (\text{where } N \text{ is } 2014\text{--}2022) = \text{MSh in Year}_N - \text{MSh in Year}_{N-1}$$

where MSh and MShG denote Market Share and Market Share Gain, respectively.

Political Democracy/Democratization – Democracy Index: Our main independent variable is the degree of democratization. We operationalize democratization using the democracy index provided by [Our World in Data based on the Economist Intelligence Unit \(2006–2023\)](#). This database provides all the democracy index data for the home and host countries in our dataset. We standardized the democracy indexes for the effectiveness of our regression analysis.

FDI Inflow: We used the actual FDI inflow figures provided by World Bank Data – Foreign direct investment, net inflows (BoP, current US\$) (1970–2024). This database provides all the FDI inflow data for the host countries. We standardized FDI inflows for the effectiveness of our regression analysis.

EMNE_{Dummy}: In creating this dummy variable, we assigned 1 to EMNEs and 0 to AMNEs to assess the relative contribution of EMNEs in year-to-year market share gain.

Control Variables: We introduced a set of control variables: i) *industry* (separately for consumer electronics, home appliances, beauty and personal care, soft drinks, apparel, ready meal, and retail), and ii) (standardized) number of years of operation of an MNE in a host country (Yrs-in-host). Industry is a dummy variable that takes 1 for the subject industry (e.g., Retail) and 0 for all the others in the Retail column of our data table. Yrs-in-host is a continuous variable. We identified market entry years through secondary sources. Two co-authors worked independently on the market entry years, then double-checked each other's findings randomly for verification.

5.3. Analyses

We utilized IBM SPSS Statistics software version 28.0.1.1 for multiple linear regression analyses. We employed two models to test the hypotheses for the impact of host country democratization and the home country democratization on market share gain performance of MNEs.

Model 1

$$(\text{Year-to-Year}) \text{ Market Share Gain} = \beta_0 + \beta_1 DI_{\text{HOST}} + \beta_2 FDI_{\text{IN}} + \beta_3 EMNE_{\text{Dummy}} + \beta_n CV$$

Market Share Gain refers to the year-to-year market share gain of an MNE in a host country-industry market from 2013 to 2022. DI_{HOST} represents the standardized democracy index in the host country for the year of the market share gain of an MNE. FDI_{IN} represents the standardized USD-value of FDI inflows to the host country for the year of the market share gain of an MNE. $EMNE$ is a dummy variable that takes the value of 1 for the EMNEs and 0 for the AMNEs. CV represents the control variables of i) industry (dummy variables for each industry), and ii) (standardized) number of years of operation of an MNE in a certain country-industry market as of the year of the market share gain of that MNE. β_0 denotes the constant, $\beta_1 - \beta_n$ denote the regression coefficients. A positive regression coefficient indicates an increase in market share, whereas a negative regression coefficient indicates a decrease in market share.

Model 2

$$(\text{Year-to-Year}) \text{ Market Share Gain} = \beta_0 + \beta_1 DI_{\text{HOME}} + \beta_n CV$$

Market Share Gain refers to the year-to-year market share gain of an MNE in a host country-industry market from 2013 to 2022. DI_{HOME} represents the standardized democracy index in the home country for the year of the market share gain of an MNE. CV represents the control variables of i) industry (dummy variables for each industry), and ii) (standardized) years of operation of an MNE in a certain country-

industry market as of the year of market share gain of that MNE. β_0 denotes the constant, $\beta_1 - \beta_n$ denote the regression coefficients. A positive regression coefficient indicates an increase in market share, whereas a negative regression coefficient indicates a decrease in market share.

6. Results

Table 2 provides the correlation matrix for our variables in Model 1. There is no multicollinearity in our data as all the correlations are less than ± 0.316 . In addition, VIF statistics is less than ten, where the maximum value is 1.580.

Table 2
Correlation matrix.

Correlation Matrix – Model 1		1	2	3	4	5	6	7	8	9	10	11	12
1	Standardized Market Share Gain	1.000											
2	Standardized Years of Operation in the Host Country	-0.069**	1.000										
3	Consumer Electronics Industry	-0.013	-0.097**	1.000									
4	Home Appliances Industry	0.022*	-0.017*	-0.187**	1.000								
5	Beauty and Personal Care Industry	-0.008	0.074**	-0.316**	-0.170**	1.000							
6	Soft Drinks Industry	-0.018*	0.177**	-0.194**	-0.104**	-0.176**	1.000						
7	Apparel Industry	0.018*	-0.104**	-0.259**	-0.139**	-0.234**	-0.144**	1.000					
8	Ready Meal Industry	-0.030**	0.136**	-0.098**	-0.053**	-0.089**	-0.055**	-0.073**	1.000				
9	Retail	0.018*	-0.055**	-0.241**	-0.129**	-0.218**	-0.134**	-0.179**	-0.068**	1.000			
10	Standardized Host Country Democracy Index	0.010	0.078**	0.075**	0.021*	-0.056**	-0.043**	-0.046**	0.041**	0.023**	1.000		
11	Standardized FDI Inflow	-0.003	0.059**	0.012	0.012	0.022**	-0.008	-0.039**	0.039**	-0.022*	-0.265**	1.000	
12	EMNE Dummy	0.048**	-0.172**	0.280**	0.197**	-0.148**	-0.101**	-0.135**	-0.030**	-0.096**	-0.011	0.051**	1.000
Correlation Matrix – Model 2		1	2	3	4	5	6	7	8	9	10		
1	Standardized Market Share Gain	1.000											
2	Standardized Years of Operation in the Host Country	-0.069**	1.000										
3	Consumer Electronics Industry	-0.013	-0.097**	1.000									
4	Home Appliances Industry	0.022*	0.017*	-0.187**	1.000								
5	Beauty and Personal Care Industry	-0.008	-0.074**	-0.316**	-0.170**	1.000							
6	Soft Drinks Industry	-0.018*	0.177**	-0.194**	-0.104**	-0.176**	1.000						
7	Apparel Industry	0.018*	0.104**	-0.259**	-0.139**	-0.234**	-0.144**	1.000					
8	Ready Meal Industry	-0.030**	0.136**	-0.098**	-0.053**	-0.089**	-0.055**	-0.073**	1.000				
9	Retail	0.018*	-0.055**	-0.241**	-0.129**	-0.218**	-0.134**	-0.179**	-0.068**	1.000			
10	Standardized Home Country Democracy Index	-0.119**	0.191**	-0.250**	-0.096**	0.106**	0.087**	0.101**	0.035**	0.070**	1.000		

* Correlation is significant at the 0.05 level (two-tailed).

**Correlation is significant at the 0.01 level (two-tailed).

Our model is statistically significant ($R^2 = 0.008, p < 0.001$).

In Hypothesis 1, we suggest a positive relationship between host country democratization and market share gain. As shown in the Table 3, the corresponding coefficient is positive and partially significant ($\beta = 0.019, p = 0.053$). Therefore, we find partial support for H1.

In Hypothesis 2, we suggest a positive relationship between host country FDI inflows and market share gain. As shown in the Table 3, the corresponding coefficient is positive but statistically insignificant ($\beta = 0.005, p = 0.575$). Therefore, H2 is rejected.

In Hypothesis 3, we suggest market share gain is higher for EMNEs compared to AMNEs. As shown in Table 3, the corresponding coefficient is positive and statistically significant ($\beta = 0.123, p < 0.001$). Therefore, we find support for H3.

Table 2 provides the correlation matrix for our variables in Model 2. There is no multicollinearity in our data as all the correlations are less than ± 0.316 . In addition, VIF statistics is less than ten, where the maximum value is 1.525. Our model is statistically significant ($R^2 = 0.019, p < 0.001$).

In Hypothesis 4, we suggest a negative relationship between home country democratization and market share gain. As shown in the Table 3, the corresponding coefficient is negative and statistically significant ($\beta = -0.122, p < 0.001$). Therefore, we find support for H4.

7. Discussion and implications

The aim of this study is to advance our understanding about the multifaceted relationship between democratization and firm performance, with a particular focus on post-internationalization dynamics. While the existing literature has explored democracy's impact on FDI and internationalization, important gaps remain in understanding how democratization influences firm performance once firms have expanded into foreign markets. This study addresses this gap by focusing on market share gains—a widely recognized indicator of firm performance—while considering the effects of democratization in both the home and host countries. By clearly distinguishing between AMNEs and EMNEs, we provide important insights into how firms from politically

distinct environments perform in foreign markets. This distinction enables us to examine the influence of different democratic regimes on MNE performance, showing both the opportunities and challenges firms face based on their home country political environment.

This study contributes to the existing literature by exploring how democratization, political openness, and a liberalized business environment influence firm performance and growth post-internationalization (Johnson & Tellis, 2008; Karabag, 2019). While previous studies have produced conflicting findings regarding the democracy-firm performance relationship, with some associating political regimes with success in the short term (Karabag, 2019) and others finding a negative relationship between openness and firm success in emerging markets (Johnson & Tellis, 2008), our study offers clearer empirical evidence that clarifies these complexities.

In addition, the literature on firm success includes various measures, such as profitability and market share, each capturing different aspects of performance (Li, 1995; Luo, 1998; Pan, Li, & Tse, 1999). In this study, we specifically focus on market share gain as an indicator of firm performance, using institutional theory as the framework to understand how democratization influences firm performance. First, our study provides empirical results investigating the impact of both host and home markets in tandem. By conducting our analysis across seven industries and twelve host markets (six advanced and six emerging economies), we enhance the generalizability of our findings. Our results contribute to the literature by providing: i) empirical evidence for the negative relationship between the degree of democratization in the home country and MNE performance, and ii) partial support for the positive impact of democratization in the host country.

Second, a natural extension of our study is the differentiation between AMNEs and EMNEs. This distinction arises naturally in our dataset, as AMNEs and EMNEs originate from more democratic and less democratic nations, respectively. In general, the democracy indexes of advanced economies are higher than those of emerging markets, typically ranging between 8.0 and 10.0 based on established measures such as the Economist Intelligence Unit's Democracy Index. As a result, EMNEs predominantly operate in equally or more democratic host markets, whereas AMNEs tend to operate in equally or less democratic countries. Our findings suggest that market share gain performance is better for EMNEs, which is consistent with the notion that these firms benefit from their adaptation skills and perform better in equally or more democratic environments. This supports the argument that the home country environment plays a role in shaping MNE performance. Higher democratic standards in AMNEs' home countries may inhibit their adaptation abilities, which, in turn, may negatively affect performance. This highlights the significant role that the home country political environment plays in shaping MNE performance.

7.1. Theoretical implications

The findings provide important theoretical implications. First, this study extends institutional theory (Scott, 1995) by conceptualizing democratization as a dynamic process rather than a static factor. Institutional theory typically assumes that institutions undergo a uniform transformation across the regulatory, normative, and cognitive pillars. However, this study challenges such assumptions. Specifically, democratization tends to initially strengthen the regulatory pillar, fostering greater legal predictability and stability, which benefits firms' operations in the early stages. In contrast, the normative and cognitive pillars evolve more slowly, leading to an incremental and often delayed adjustment of societal values, business norms, and organizational practices.

Second, the study offers a reconceptualization of institutional difference (Golesorkhi et al., 2019; Xu & Shenkar, 2002), particularly in the context of democratization. Traditional theories of institutional difference focus on the misalignments between home and host country institutions, often assuming that these differences are symmetrical. In

Table 3
Regression models.

Model	Estimates	Coef.*	Std. Error	t-Stat	Sig.	
1	Constant	-0.077	0.021	-3.712	<0.001	
	Standardized Years of Operation in the Host Country	-0.059	0.010	-6.012	<0.001	
	Home Appliances Industry	0.091	0.036	2.535	0.011	
	Beauty and Personal Care Industry	0.064	0.028	2.268	0.023	
	Soft Drinks Industry	0.050	0.037	1.367	0.172	
	Apparel Industry	0.099	0.031	3.213	0.001	
	Ready Meal Industry	-0.071	0.061	-1.174	0.241	
	Retail	0.103	0.032	3.250	0.001	
	Standardized Host Country Democracy Index	0.019	0.010	1.938	0.053	
	Standardized FDI Inflow	0.005	0.010	0.561	0.575	
	EMNE Dummy	0.123	0.028	4.478	<0.001	
	2	Constant	-0.081	0.019	-4.327	<0.001
		Standardized Years of Operation in the Host Country	-0.043	0.010	-4.402	<0.001
		Home Appliances Industry	0.110	0.036	3.072	0.002
Beauty and Personal Care Industry		0.096	0.028	3.492	<0.001	
Soft Drinks Industry		0.082	0.036	2.266	0.023	
Apparel Industry		0.139	0.030	4.616	<0.001	
Ready Meal Industry		-0.037	0.060	-0.609	0.543	
Retail		0.141	0.031	4.508	<0.001	
Standardized Home Country Democracy Index		-0.122	0.010	-12.434	<0.001	

*Non-standardized Coefficients.

contrast, this study highlights the asymmetrical nature of these differences for MNEs from democratic versus autocratic home countries. The findings suggest that EMNEs, which originate in less stable environments, possess greater resilience and adaptability in democratic host countries. These firms are more accustomed to operating in unstable or less predictable environments, which allows them to manage the evolving institutional environments of democracies with greater agility. On the other hand, AMNEs face significant challenges in less democratic host markets. These MNEs often struggle to adapt their home-country practices and norms to host countries with different levels of institutional development. This insight advances institutional theory by emphasizing that institutional difference should be understood not only as a measure of misalignment but also as a dynamic construct that varies based on the type of MNE and the institutional context. This asymmetry in institutional difference introduces a more contextualized view of how institutional differences shape MNE strategies and performance (Kostova & Roth, 2002).

In this context, we also give support to the perspective of cultural friction approach (Luo & Shenkar, 2011; Shenkar, 2024; Shenkar, Luo & Yeheskel, 2008; Tallman, Shenkar & Wu, 2021). We highlight the importance of the process and context of contact and interaction between cultures or cultural systems (Shenkar, 2024). While the cultural difference between interacting parties or systems are important, the origin of MNEs, resources, capabilities, and nature and duration of interactions can also be the key (Shenkar et al., 2008). The current study gives support to the complementary role of cultural difference and cultural friction (Luo & Shenkar, 2011). They are related but distinct. Cultural difference, alone, may not be sufficient to explain the consequences. For instance, from the perspective of an American company entering China, or a Chinese company entering the U.S.A, the difference may be perceived as the same and they both have to take this difference into account in their operations, strategy and actions. However, the findings of the current study highlight the importance of the i) origin of an MNE (EMNE or AMNE) in terms of its capabilities and interactions, and ii) specificities of the destination (autocratic or democratic) for the same cultural differences.

Third, in examining the dual role of home and host countries, this study highlights that MNEs from democratic home countries often face difficulties when operating in less democratic host countries. These firms may struggle to transfer their home-country institutional norms and practices, such as transparency, corporate governance, and labor standards, to host environments characterized by weak rule of law, corruption, or authoritarian regimes. Conversely, MNEs from autocratic home countries often exhibit greater flexibility and strategic agility in adapting to the evolving and often predictable institutional environments of democratic host countries. The study thus suggests the needs to account for the dialectic nature of home and host institutional environments, where the relationship between these environments plays a vital role in shaping firms' strategies.

Lastly, this study contributes to the literature on FDI, democracy, and firm performance. Many studies have posited that democratization leads to improved business environments, thus promoting greater FDI and enhanced firm performance. However, our findings suggest that this relationship is far more context-dependent than previously assumed. Specifically, the positive impact of host country democratization on market share gain was found to be only marginally significant, suggesting that the effects of democratization on MNE performance are not straightforward. The findings also indicated that FDI inflows did not have a significant impact on market share gain in democratic host countries, challenging the prevailing assumption that democracy automatically boosts FDI-driven performance. This suggests that in some cases, sectoral dynamics and competitive pressures in democratic markets may counterbalance the benefits of political stability and openness. Thus, the findings emphasize that the relationship between democracy and firm performance is contingent upon a variety of contextual factors, including the industry, market maturity, and the stage of

democratization in the host country.

7.2. Managerial implications

This study offers important practical insights for managers, particularly those responsible for international strategy and expansion.

First, our findings highlight the dual role of democracy in shaping the performance of MNEs, thus managers in charge of market entry and international expansion need to understand this dual role and adjust corporate strategies accordingly. In democratic host countries, MNEs generally benefit from a stable legal system, transparent governance, and favorable working conditions, all of which can positively influence market share gains. However, the degree of democratization in the home country can significantly impact performance in less democratic or politically volatile host markets. Specifically, AMNEs originating from democratic countries may face challenges in adapting to the institutional and political frameworks of autocratic markets. Thus, managers must not only consider the home country's political environment when making internationalization decisions but also account for potential difficulties in less democratic contexts (cf. Ozkan, 2020). This nuanced understanding will allow firms to adjust their strategies and adapt more effectively to local political dynamics.

Second, while host country democratization appears to positively correlate with market share gains, it is not the sole factor driving MNE success. Our study demonstrates that the political environment in the host market is important, but the relationship is partial and context dependent. High FDI inflows to a country do not automatically guarantee performance improvements. Thus, managers responsible for corporate strategy and international expansion should therefore be cautious of overvaluing FDI as a signal of market attractiveness. Instead, they should focus on performing due diligence, considering both political stability and market-specific variables such as regulatory frameworks, competitive environment, cash holdings, and country-level risk (King et al., 2021; King et al., 2025).

Third, our results suggest that EMNEs tend to outperform AMNEs in democratic host markets. This is likely due to the greater adaptability (e.g., locational resilience) of EMNEs, which are used to operating in less stable environments (cf. Cuervo-Cazurra & Genc, 2008; Luiz & Barnard, 2022; Luo et al., 2021). In contrast, AMNEs may struggle in these environments due to their experience in operating in highly regulated home markets. Top management of AMNEs should take note of the increasing competition from EMNEs, particularly in democratic markets, and adjust their strategies accordingly. This might include enhancing their organizational flexibility, developing local partnerships with family firms and business groups. These strategies will help AMNEs compete more effectively against EMNEs in politically dynamic environments.

In this context, we also draw attention to the varying performance of EMNEs from relatively democratic (where the democracy index is greater than 6.5), transition or hybrid (where the democracy index is between 4.0 and 6.5), and more autocratic countries (where the democracy index is less than 4.0). Table 3 illustrates that the coefficient of EMNE dummy is positive and significant, giving support to the third hypothesis that EMNEs gain higher market shares than AMNEs. Cluster analysis for EMNEs reveals that the impact of EMNEs from i) relatively democratic countries is negative, ii) autocratic countries is positive, and iii) transition or hybrid countries is positive but insignificant. Keeping in mind that the findings for the EMNEs from hybrid countries may be because of the least number of observations (1.3 % of the dataset), we can also argue that the insignificant results may stem from the association of transition with the highest uncertainty.

Lastly, our findings indicate that the relationship between host country democratization and market share gain is generally consistent across industries, yet industry-specific factors should still be considered. For example, in industries like retail or consumer electronics, where transparency, trust, consumer confidence, and political stability are key

to success (PwC, 2024), managers of these firms may benefit from operating in democratic markets. Thus, managers should tailor their market entry and expansion strategies to the specific needs of their industry, taking into account both the political and regulatory context of host markets.

7.3. Policy implications

The study offers valuable implications for both home and host markets' policymakers. First, given the negative relationship between home country democratization and market share gain, policymakers in home countries should recognize that overly democratic environments might hinder MNEs' adaptability when operating in less democratic or politically unstable host markets. To mitigate this challenge, policymakers could focus on supporting the adaptability of MNEs by implementing flexible trade regulations, providing institutional support mechanisms (e.g., advisory services for market entry and political and legal risks management). Second, policymakers in host countries should prioritize strengthening democratic institutions, such as political freedom, civil liberties, and transparency. By promoting a stable, predictable political environment, host countries can create conditions conducive to FDI.

Third, the study highlights that EMNEs perform better than AMNEs in host markets. Accordingly, policymakers in host countries should consider tailoring policies to attract EMNEs by promoting institutional reforms that align with democratic values and ensure a more welcoming environment for these firms. Conversely, AMNEs, which originate from highly democratic countries, may encounter challenges in less democratic host countries. Therefore, policymakers in these markets should provide targeted support for AMNEs, such as flexible regulatory frameworks or bilateral agreements, to help them adapt to politically dynamic environments. Fourth, we do not find support for the relationship between FDI inflows and market share gain. It suggests that FDI alone is insufficient to guarantee MNE success. Policymakers should focus on creating an environment where FDI is accompanied by structural reforms that enhance the overall business environment. This could involve promoting greater competition, improving infrastructure, and developing sound regulatory frameworks that create a favorable environment for MNEs, ensuring that FDI leads to sustainable economic development and better performance for foreign firms.

Finally, the findings highlight the importance of institutional differences in shaping MNE success, particularly their ability to adapt to foreign markets, especially when entering from democratic to less democratic markets. Policymakers should invest in capacity-building programs to help MNEs manage institutional differences effectively. Such programs could include training on local regulations, developing international networks, and facilitating knowledge-sharing platforms to help firms understand and manage the challenges posed by institutional and political variations across markets.

7.4. Limitations and future research

Despite its contributions, the study has limitations that suggest avenues for future research. First, as detailed in the methodology section, our study includes the market share gain as a measure of MNEs performance from 2013 to 2022 across seven consumer markets within twelve countries. Since performance dynamics may vary considerably in other contexts, such as business-to-business (B2B) markets—where longer sales cycles and closer client relationships prevail—future research could extend this study by examining different market types, countries, and time periods. Second, another important step would be to explore the performance of: i) MNEs from non-democratic countries operating in both democratic and non-democratic host markets, and ii) MNEs from democratic countries in both democratic and non-democratic host markets. This would help further elucidate how different political regimes in home and host countries jointly affect

MNEs' performance.

Third, non-democratic regimes themselves can be further studied by considering different types of authoritarian governance, such as: i) dominant-party, ii) military, iii) personalist, iv) monarchic, v) oligarchic, and vi) indirect/hybrid military regimes (Geddes et al. 2014). Each type of non-democracy may exert distinct effects on the international performance of MNEs. For example, military regimes may introduce abrupt policy changes that increase risk, whereas political-party government might offer relative stability but impose tighter controls. Understanding these differences would enhance our understanding of political environments and firm strategy. Fourth, firms from hybrid/transition countries might not be well-established globally and encounter more challenges in foreign markets than firms from autocratic or democratic countries. It seems that the relationship between host country democracy and EMNE performance might be more complex than currently understood, therefore, scholars should look at a wide range of firm, home, and host country factors. Future studies could explore this complexity by combining dynamic capabilities perspective with institutional theory in order to fully understand firms' adaptive responses.

Fifth, the current study is quantitative, and a qualitative multiple case approach could provide more fine-grained insights into the democracy-related experiences of AMNEs and EMNEs in extreme political environments. Specifically, examining countries with democracy index extremes, below 3 (least democratic) or above 8 (most democratic), according to the Economist Intelligence Unit ranking could offer valuable perspectives on how firm objectives, strategies, and interactions differ in highly autocratic versus highly democratic contexts. Sixth, existing studies suggest that historical ties play an important role in internationalization decisions (Makino & Tsang, 2011). Accordingly, bilateral ties between countries or the existence of bilateral investment treaties (Desbordes & Vicard, 2009) may influence firm performance as well. Therefore, future research could explore how such factors interact with democratization and shape firm performance across different markets.

Seventh, while our findings do not support a significant relationship between FDI and market share gain, the impact of FDI inflows may vary across markets, countries and subnational regions. Finally, our study includes firms that are already operating in host countries and are thus familiar with these markets. To build upon this work, future studies could focus on the period immediately following market entry, when MNEs are less familiar with the host environment. Comparing MNE performance in unfamiliar settings at the time of market entry and in the years that follow could provide further insights into the dynamics of firm performance in the context of democratization. In addition, future studies should not only focus on MNE adaptation and performance but also on the broader societal consequences of the democratization process on MNEs' operations. For example, they could investigate how political instability or uncertainty during democratization impacts the internationalization and post-internationalization strategies of different types of firms.

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CRedit authorship contribution statement

Kubilay S.L. Ozkan: Conceptualization, Data curation, Formal analysis, Investigation, Methodology, Project administration, Writing – original draft, Writing – review and editing. **Huda Khan:** Writing – review & editing, Conceptualization, Writing – original draft. **Zaheer Khan:** Validation, Supervision, Writing – review & editing. **Oded Shenkar:** Validation, Supervision, Conceptualization, Writing – review & editing.

Data availability

The authors do not have permission to share data.

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