HOW DOES CORRUPTION DISTANCE AFFECT MNCS' ENTRY
OWNERSHIP STRATEGIES AND ENTRY PERFORMANCE?
-A COMBINED LENS OF TRANSACTION COST ECONOMICS
AND INSTITUTIONAL THEORY

BY

BO NING

A thesis

submitted to the Victoria University of Wellington

in fulfilment of the requirements for the degree of

Doctor of Philosophy

Victoria University of Wellington

2017

ABSTRACT

Purpose—Government determines the rules of the game that influence the strategies and actions of a firm. Government corruption increases the transaction costs and generates institutional pressures for MNCs. Corrupt countries are often economically attractive emerging markets, which are strategically important for foreign entrants. However, little research has been carried out as to discussing the role of market entry strategies in MNCs entering corrupt host markets. In this thesis, we focus on how firms strategically respond to corrupt environments, as well as how they succeed in the corrupt foreign markets.

Theory/Framework—We first scrutinized two fundamental theoretical underpinnings that are pertinent to this research, namely, transaction cost economics (TCE) and the institutional view. Specifically, not only does corruption pervasiveness affect MNCs' entry decisions, corruption arbitrariness and institutional forces also has important implications. Through a TCE lens, we decomposed the “arbitrary corruption” and focus on country-level arbitrariness, i.e., a “lack of political constraint” and “political instability” in a host country. From an institutional view, we analysed the influence of both external and internal institutional forces, that is, the legitimacy pressure from a host government, as well as the internal pressure driven by the ethical identity of a parent firm (based on the organizational identity theory) in the context of corruption. Drawing on the blended perspectives, we filled in the research gaps by constructing a conceptual model that connects corruption distance with entry ownership strategies, and the subsequent entry performance.

Methodology—We manually extracted data regarding foreign market entry behaviours of US listed MNCs from periodical databases using the Event History Analysis (EHA). We ran empirical analysis to demonstrate how corruption and related factors affect MNCs' entry strategies, and how these strategies produce different entry performance.

By using logistic models, the first study examined the impact of corruption distance on MNCs' strategic ownership choices between joint ventures (JVs) and wholly owned subsidiaries (WOSs), and how corruption arbitrariness and institutional forces respectively moderate the corruption-strategy relationship.

The second study employed Heckman two-stage models to examine how corruption distance, selected moderators and entry strategy fit enhance entry performance.

Key findings—Empirical findings in Study 1 suggest that as corruption distance increases, MNCs are more likely to choose the JV mode. They tend to choose strategic alliances when entering a host country with fewer political constraints. The results also indicate that both “lack of political constraint” and “political instability” negatively moderate the positive relationship between corruption distance and MNCs’ strategic preference for a JV entry. From an institutional view, the findings indicate that regulatory pressure driven by political intervention, as well as internal constraints in the form of corporate identity, affect firms’ entry decisions. As corruption distance becomes greater, international firms with less salient ethical identities show a greater inclination for local adaptation, whereas their ethically conscious counterparts show little conformity in their strategic response to host-country corruption.

Study 2 advances the understanding of how corruption distance and entry strategies affect a foreign subsidiary’s entry performance and answers the subsequent “so-what” question. Employing an EHA-based measure of entry performance, we have found that 1) As corruption distance increases, foreign subunits are less likely to be successful. 2) In relation to the WOS entry, local partnership overcomes competitive disadvantages induced by corruption distance and generates more successful host-market entries. 3) As opposed to wholly controlled investment, local partnering would be more successful where a host country is more politically unconstrained. 4) We confirmed a positive effect of corporate ethical identity on entry success.

Contributions/Originalities—Both studies contribute to the marketing strategy research in international markets by linking government corruption and relevant factors with firm strategy and firm performance through dual lenses from TCEs and the institutional theory.

The research does not only have theoretical value in demonstrating the implications of corruption distance, but also sheds light on strategic decisions and foreign entry outcomes for international practitioners entering host countries under various transactional costs and institutional conditions.

DEDICATION

Dedicated to my wife Hong Yuan

whose support was invaluable and consistent during my PhD studies

ACKNOWLEDGMENTS

I would like to thank Kim Fam, Forrest Yang, James Richard, and Yang Yu for their support, advice and encouragement that assisted me tremendously throughout the PhD program. I also wish to thank the reviewers and seminar participants at the Strategic Management Society conference for their valuable comments on my work.

This dissertation would not have been possible without financial support from the Victoria Doctoral Scholarship, without encouragement and advice from colleagues and PhD fellow students from the School of Marketing and International Business, as well as support from my family and friends.

I also wish to express my deepest apologies to my late father-in-law, and my father who was severely ill during this program for not keeping them company when they were in need.

TABLE OF CONTENTS

ABSTRACT	ii
DEDICATION	iv
ACKNOWLEDGMENTS	v
TABLE OF CONTENTS	vi
LIST OF TABLES	x
LIST OF FIGURES	xi
1 Introduction and basic concepts	1
1.1 Introduction	1
1.2 Concepts and nature of corruption	3
1.2.1 Concepts of corruption	3
1.2.2 Characteristics and implications of corruption	4
1.2.3 Types and dimensions of government corruption.....	5
1.3 Modes of entry	9
1.3.1 Entry mode choice: A TCE perspective	10
1.3.2 Entry mode choice: An institutional perspective.....	11
1.4 Thesis structure	13
1.4.1 Overview of Chapter 2	15
1.4.2 Overview of Chapter 3	15
1.4.3 Overview of Chapter 4	16
1.4.4 Overview of Chapter 5	17
2 Theoretical backgrounds, literature review and research framework.....	18
2.0 Abstract	18
2.1 Theoretical perspectives and backgrounds	19
2.1.1 A transaction cost economics perspective on international strategy research	19
2.1.2 An institutional theory perspective on the international strategy of MNCs.....	22
2.1.3 An organizational identity perspective on the international strategy of MNCs.....	31
2.2 A combined perspective of transaction cost economics and institutional theory	32
2.3 Literature review on national corruption and firm strategies.....	34
2.3.1 Literature on corruption and FDI.....	34
2.3.2 Literature on corruption and entry ownership strategies of MNCs	35

2.4 Deconstruction of corruption arbitrariness	43
2.5 Research questions and theoretical framework	47
2.5.1 Research questions for entry strategy research.....	47
2.5.2 Research questions for entry performance research	49
2.5.3 Research framework.....	50
3 Corruption distance and entry decisions: An integrated perspective	52
3.0 Abstract	52
3.1 Introduction	53
3.2 Theories and hypotheses	57
3.2.1 Corruption distance and entry choices.....	57
3.2.2 TCE theory and hypotheses.....	62
3.2.3 Institutional theory and hypotheses	75
3.3 Sample, data and methodology.....	86
3.3.1 Sample and data collection.....	86
3.3.2 Tracking the historical market entry: The EHA technique.....	87
3.3.3 Variables and measurements	90
3.4 Data and Results.....	103
3.4.1 Descriptive statistics.....	103
3.4.2 Model specifications.....	106
3.4.3 Research findings	107
3.5 Robustness checks.....	115
3.6 Discussions on findings.....	118
3.6.1 Findings on corruption distance	118
3.6.2 Findings on political arbitrariness of corruption.....	118
3.6.3 Findings on host-country regulatory pressure	121
3.6.4 Findings on corporate ethical identity	122
3.7 Conclusions	124
3.7.1 Conceptual and empirical contributions	124
3.7.2 Managerial implications	127
4 Corruption distance, entry strategies and entry performance: A combined perspective of TCE and institutional theory.....	130
4.0 Abstract	130
4.1 Introduction	131
4.2 Literature review and theoretical framework	135

4.2.1 Literature review on the performance implications of entry strategies.....	135
4.2.2 Theoretical lenses on strategies and performance	136
4.2.3 An integrated theoretical framework on drivers of performance.....	141
4.3 Theory and hypotheses.....	143
4.3.1 Entry choices and entry performance	143
4.3.2 Corruption distance and entry performance	144
4.3.3 Corruption distance, entry ownership choice and entry performance.....	147
4.3.4 Political constraints of the host country and entry success.....	149
4.3.5 Corporate ethical identity and entry performance	152
4.4 Data, variables and methodology	155
4.4.1 Data and sample	155
4.4.2 Measuring the historical success of a host-market entry: The EHA approach	156
4.4.3 Why use EHA to obtain the subsidiary performance data?	160
4.4.4 Variables	164
4.5 Results of analysis.....	170
4.5.1 Descriptive statistics.....	171
4.5.2 Test of multicollinearity	171
4.5.3 Comparisons of entry performance	172
4.5.4 Model specifications.....	173
4.5.5 Treatment of endogeneity.....	174
4.5.6 Research findings	175
4.6 Robustness tests.....	186
4.7 Discussions.....	191
4.8 Contributions and conclusions	195
5 Limitations and future directions	199
5.1 Limitations of research.....	199
5.1.1 Limitations to the data and measures	199
5.1.2 Limitations to methodology	200
5.1.3 Limitations of modelling	201
5.2 Future outlook	203
5.2.1 Future directions of the strategy research.....	203
5.2.2 Future directions of the performance research	205
Appendix 1 Outline for evaluating entry performance.....	208
Appendix 2 Company list	210

References	212
-------------------------	------------

LIST OF TABLES

Table 2.1 Literature on the relationship between corruption pervasiveness and entry ownership strategy (p.40)
Table 2.2 Literature on the relationship between corruption-related uncertainty (corruption arbitrariness) and entry ownership strategy (p.43)
Table 3.1 Operationalization summary of key variables (p.104-105)
Table 3.2 Composition of MNC entry types (p.105)
Table 3.3 Home country characteristics of market entry cases of MNCs (p.106)
Table 3.4 Host country characteristics of market entry cases of MNCs (p.106)
Table 3.5 Descriptive statistics and correlations (p.107)
Table 3.6 Effects of corruption distance, TCE factors and institutional factors on entry ownership strategy of MNCs (p.109-110)
Table 3.7 Robustness checks of the effects of corruption distance, TCE factors and institutional factors on entry strategy (p.118-119)
Table 4.1 Entry performance categories, key characteristics, and examples (p.161-162)
Table 4.2 Variables, measures and data sources (p.173)
Table 4.3 Descriptive statistics and correlations for the performance model (p.174)
Table 4.4 Comparison between average WOS and JV entry performance (p.175)
Table 4.5 Comparison between average entry performance by industry (p.175)
Table 4.6 Probit estimates for the first-stage entry choice models (full sample) (p.178-179)
Table 4.7 Estimates for the second stage performance models (full sample) (p.180-181)
Table 4.8 First-stage Probit models (non-OECD sample) (p.190-192)
Table 4.9 Estimates for the second stage performance models (non-OECD sample) (p.192-193)
Table 4.10 Summary of hypotheses and results of full sample and subsamples (p.194)

LIST OF FIGURES

Figure 1.1 Research structure of this dissertation (p.15)

Figure 2.1 Multiple driving forces of corruption arbitrariness (p.46)

Figure 2.2 Conceptual framework (p.51)

Figure 3.1 Political constraints (PC), corruption distance (CD), and entry strategy (p.114)

Figure 3.2 External legitimacy pressure (EP), corruption distance (CD), and entry strategy (p.115)

Figure 3.3 Internal legitimacy pressure (corporate identity, CI), corruption distance (CD), and entry strategy (p.116)

Figure 4.1 Conceptual framework of the entry performance model (p.144)

Figure 4.2 Corruption distance (CD), entry decision and entry success (p.186)

Figure 4.3 Interactions of political constraint (PC) and entry choice on entry success (p.187)

Figure 4.4 Corporate ethical identity (CI), entry mode and entry success (p.188)

Figure 4.5 Cultural distance (CultureD), entry mode and entry success (p.189)

1 Introduction and basic concepts

1.1 Introduction

Corruption, defined as the abuse of power or authority for personal gains (Habib & Zurawicki, 2002; Robertson & Watson, 2004; Rodriguez, Uhlenbruck, & Eden, 2005), is a more prevalent and severe issue in emerging markets (EM) than developed countries (DC). Countries with serious corruption are characterized by a lack of effective rules of law, causing rent-seeking, bribery and other corrupt activities to be a rampant social phenomena (e.g., Svensson, 2005). These corrupt EM countries also have less properly defined property rights that cannot effectively protect foreign investments. These institutional characteristics surrounding corruption make foreign investments a risky move with higher transaction costs.

On the other hand, the prevalence of corruption shows signs of deregulation and facilitates trades, which is beneficial. It reflects the loosening of regulatory barriers and serves to “grease the wheels” of the national economy (Wei, 1997). Corrupt national markets, especially transition economies, are usually countries with astonishingly high economic growth. For multinational corporations (MNCs), most corrupt markets are both economically attractive and environmentally risky (Rodriguez et al., 2005). For foreign firms who aim to earn a market share in those markets, especially those from transparent developed countries, how to strategically cope with host-country corruption becomes an important topic.

Corrupt host countries do not only bring about high transaction costs, but also they have uncertainties in national governance that would impede or restrain the entries and expansions of foreign investors (Hoskisson, Eden, Lau, & Wright, 2000). To cope with corruption and institutional uncertainties in these markets, MNCs may have to develop business strategies that are distinct from those used in markets where the level of corruption is deemed to be lower.

This dissertation aims to explore how MNCs and their subsidiaries (primarily market-seeking MNCs) formulate entry ownership strategies when faced with host-country corruption, as well as how to become more successful in entering corrupt markets.

This research has focused primarily on entry ownership decisions over joint venture (JV) and wholly owned subsidiaries (WOS). The two FDI entry decisions are most widely used by MNCs and affect foreign subsidiaries' competitive advantages and performance in a host market. Specifically, we are interested in both the equity and non-equity modes of entry. Therefore, modes of JVs include equity joint ventures and non-equity joint ventures such as co-marketing and licensing. The WOS modes cover both the establishment modes, namely, full acquisition and Greenfield WOS investment.

The implications of corruption can be expressed in different spheres, such as the distinction between organizational corruption and government corruption (e.g., Luo, 2005). Organizational corruption reflects corrupt acts between members within a firm or between firms (Aguilera & Vadera, 2008), whereas government corruption involves unethical activities between a firm and government officials, which is the focus of our research. This research centres on government corruption and how political corruption affects international firms' strategies and performance. We adopt the construct of "corruption distance", which reflects the difference in corruption levels between a home country and a host country. This construct stems from institutional distance, and could more comprehensively indicate how "foreign" and unfamiliar corrupt acts might seem to a foreign entrant in a corrupt environment (Kostova & Zaheer, 1999).

Despite an increasing number of studies on how corruption (or corruption distance) affects FDI and strategies (e.g., Cuervo-Cazurra, 2006; Rodriguez et al., 2005), the research on international firms' strategic reactions to host-country corruption is still lacking and mixed (e.g., Uhlenbruck, Rodriguez, Doh, & Eden, 2006). While some MNCs choose to evade or avoid investing where corruption is pervasive, other foreign firms invest more in corrupt host markets (e.g., Cuervo-Cazurra, 2006; Rodriguez et al., 2005). More importantly, some research find that MNCs would prefer a local partnership where the government corruption is pervasive (e.g., Demirbag, McGuinness, & Altay, 2010; Karhunen & Ledyeva, 2011; Smarzynska & Wei, 2000), whereas an opposite conclusion emerges that in more corrupt host markets, MNCs are more likely to choose the wholly controlled approach rather than a joint venture (e.g., Duanmu, 2011; Rodriguez et al., 2005; Tekin-Koru, 2006). These inconsistent findings may imply that firms respond differently in the presence of local corruption.

Previous research has mostly focused on how TCE factors affect the entry ownership decisions of MNCs and does not delve into the institutional environments in which corruption is embedded. This is why we have chosen a dual perspective from both transaction cost economics (TCE) and the institutional theory. Moreover, although Rodriguez et al. (2005) distinguished between two dimensions of government corruption, i.e., pervasiveness and arbitrariness, to reflect separately the likelihood and uncertainty of corruption, the arbitrary side of corruption is still under-studied. Therefore, we will integrate the implications of corruption pervasiveness and arbitrariness, as well as considering institutional pressures from corrupt environments. We will look at how host-country corruption affects foreign entrants' entry ownership decisions through the aforementioned combined lenses.

Furthermore, the performance implications of host-country corruption have not been studied sufficiently (Brouthers & Hennart, 2007). Accordingly, as another branch of this research, we will bridge the strategy and performance of international ventures in the presence of corruption. We will examine which entry strategy would lead to a higher likelihood of market success in corrupt environments, and delve into the drivers of entry success in such contexts.

1.2 Concepts and nature of corruption

1.2.1 Concepts of corruption

There is a debate over the distinction between broader and narrower definitions of corruption. In a broader sense, corruption encompasses all types of violations and risks, such as infringements of copyright and intellectual property rights, terrorism and violence or even biological risks that might block the international business (Chandler & Graham, 2010). Following a similar logic, scholars such as Venard (2009) define corruption as the transgression of legal regulations or norms. The mainstream studies, however, still stick to a narrower definition that corruption is the abuse of power or authority for private gains (Habib & Zurawicki, 2002; Robertson & Watson, 2004; Rodriguez et al., 2005). The corruption we define and focus here follows the mainstream definition.

We should note that the power or authority discussed here in the definition of corruption does not necessarily originate from the regulating bodies. In all social relationships, as long

as one party has authority to influence, corruption, or equally, the abuse of authority for personal gains might exist. For example, a manager has authority over his or her subordinates and might abuse that authority. Accordingly, corruption can be divided into two types, “private-to-private” corruption and “public-to-private” corruption (Argandona, 2003; Luo, 2005). “Private-to-private” corruption is also referred to as organizational corruption (Aguilera & Vadera, 2008), representing corrupt acts between individuals within a firm or between firms. The second type of corruption, also known as government corruption, involves the unethical/illegal activities between a private entity (such as a firm) and government bodies and officials, which is the focus of our research.

Although some studies have explored the drivers and consequences of organizational corruption (e.g., Luo, 2005), in this thesis, our research attention is primarily placed on government corruption, namely, public-to-private corruption, because of the close relationship between government corruption and foreign entrants’ market strategies.

Of course, there is another type of government corruption that occurs within the political system in the form of the embezzlement of public funds, which is also beyond the range of this research. Our focus is the impact on firm strategies and outcomes of the “manipulation of government power for personal gains” in unofficial transactions. The corruption that we have examined is particularly concerned with unethical or even illegal activities between business organizations and governments or political actors that have public authorities. These unethical/illegal activities can be in many forms, such as bribery, official extortion and favouritism, etc. In these forms of government corruption, bribing government officials is most frequent and popular in private-to-public corrupt practices (Luo, 2005). Having said that, our emphasis on government corruption does not distinguish clearly between various forms of corruption such as bribes, kickbacks, facilitation payment (or, ‘speed money’) and extortion.

Our research interests lie in foreign entrants’ strategic responses and outcomes in the face of host-country corruption.

1.2.2 Characteristics and implications of corruption

Corruption involves unethical transactional behaviours and has country-specific institutional characteristics at the same time. Therefore, corruption is related to both national legal governance and informal institutions.

Firstly, the key driving force of corruption is an ineffective legal framework (Svensson, 2005). Corruption is closely associated with the governance quality of a nation's governments at all levels. At the micro level, corruption involves illicit transactions between government and firms and has the characteristics of transaction behaviours.

Secondly, the prevalence of corruption is also culture-specific, and there is a strong correlation between corruption and national culture. Corruption is associated with collectivist cultures and is more likely to proliferate in a society with a high level of power distance (Husted, 1999). At the macro level, corruption involves unethical business activities that are embedded in a given institutional environment of culture, norms and business routines and therefore is imprinted by specific national institutional characteristics (Rodriguez et al., 2005).

Corruption would affect the distribution of national wealth and lead to a polarization of incomes (Mo, 2001; Pellegrini & Gerlagh, 2004). Corruption also negatively influences a nation's economic development and firms' operations (Shleifer & Vishny, 1993). Corruption imposes additional transactional costs on firms cooperating with the government institutions (Wei, 1997).

Regarding national institutions, corruption is an informal institutional pressure, which does not only shape institutional environments, but also creates institutional pressures on firms within the corrupt environments (Spencer & Gomez, 2011). The corruption level in a given country, or similarly referred to as "corruption pervasiveness", reflects the pervasiveness of corruption in the public sectors. Institutional theorists argue that corruption pervasiveness determines the degree of external institutional pressure on firms to adopt corrupt behaviours (Uhlenbruck et al., 2006).

In the business strategy literature, researchers have placed their interests on how host-government corruption affects foreign direct investment (hereafter FDI) and entry ownership strategies, which will be discussed in the "Literature Review" section. However, studies are lacking on firm-level strategic responses to the pressure of corruption remain insufficient (Uhlenbruck et al., 2006).

1.2.3 Types and dimensions of government corruption

1) Two types of corruption: corruption with or without theft

Corruption is not only about the level of pervasiveness of political actors' involvement in unethical behaviours for personal benefit, it is also concerned with uncertainty relating to institutional profiles and specific corrupt transactions (Shleifer & Vishny, 1993; Wei, 1997).

According to Shleifer and Vishny (1993), government corruption can be divided into two dimensions. The first dimension is related to how the government organizes corrupt activities. In well-organized corruption, higher-ranking officials may centralize the management and distributions of bribes from firms and deliver relevant services based on the bribes received. In organized political regimes of corruption, the risks involving bribing transactions are minimized due to the "organized" nature of the political system. In contrast, where corruption is disorganized, bribes are collected randomly by officials of different levels and echelons as well as various government agencies and departments. This decentralized way of organizing government corruption may give rise to more risks and ambiguity for firms engaging in corrupt acts to get things done. From this perspective, in countries with multiple and perhaps overlapping government functions and tenuous approval processes, the risks involving bribery will be higher than those in countries with fewer echelons and more simplified government procedures.

The second dimension is related to how corrupt officials price government services such as licenses and permits. Accordingly, two scenarios are suggested. The first scenario is called "corruption without theft", in which corrupt government officials often mark up a bribe "price" based on a standard government service. Under this condition, firms ask for an extra price for a standard government service. The second scenario is referred to as "corruption with theft", in which an official "sells" a government service at a price that is under the standard price plus the costs of bribe. In this circumstance, besides the potential high costs for firms, national income will be diverted into the pockets of the corrupt officials. This second case of corruption is dependent on the size of political discretion that an official may have, which is linked to the political systems of checks and balances that may curb or encourage capricious pricing and decision-making (Shleifer & Vishny, 1993). Where officials have adequate political discretion and there are fewer political constraints, it is more likely for corrupt officials to "sell" government services at a price that is below the "par". Critics of this division of government corruption note that despite the fact that the categorization show how government officials extract bribes, this way of separating corruption is more case-specific and too ideal to be operationalized.

Shleifer and Vishny (1993) maintained that for the first type of corruption, “organized” corruption regimes can be less financially extractive and might be less harmful than “disorganized” regimes as far as the costs of bribing are concerned. As for the second type of corruption, the results of bribing might be more unpredictable due to ambiguity and capriciousness in political decision-making.

2) Two dimensions of corruption: pervasiveness and arbitrariness

Stemming from the research of Shleifer and Vishny (1993), an increasing number of scholars realized that to examine government corruption, it is as important to understand the uncertainties or ambiguity involved in corrupt acts, besides the severity of corruption (Shleifer & Vishny, 1993; Wei, 2000). Corruption itself does not only imply different levels of power abuse in political governance, but also is linked to the factors of uncertainties (Acemoglu, Johnson, Robinson, & Thaicharoen, 2003; Rodriguez et al., 2005). It is not enough to understand the challenges foreign firms, especially new foreign entrants may face in the presence of host-country corruption by merely assessing the overall corruption level in a nation (Rodriguez et al., 2005). Rodriguez et al. (2005) distinguished between two aspects of corruption, i.e., pervasiveness and arbitrariness of corruption.

Pervasiveness of corruption reflects the number and the frequency of corrupt acts or transactions (Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003). It demonstrates the likelihood of encountering corruption in interacting with government officials and agents for a business entity. In other words, it symbolizes “the degree to which corruption is a regular and meaningful part of commercial activity in a given country” (Rodriguez et al., 2005). Where a national government is pervasively corrupt, corruption becomes a regular and socialized part of business-government interactions, and therefore places great pressure on firms operating in the political institutions. By and large, emerging economies and less developed countries have higher corruption pervasiveness than developed economies (e.g., Wei, 1997).

Regarding conceptions, pervasiveness is largely synonymous with the widely-acknowledged concept of “the level (or the degree) of corruption” (Kaufmann, Kraay, & Mastruzzi, 2009; Lee & Oh, 2007; Rodriguez et al., 2005).

Arbitrariness of corruption,¹ on the other hand, reflects the degree of uncertainty and capriciousness associated with public sector corruption. Certainty in government corruption is similar to the notion of “organized corruption” proposed by Shleifer and Vishny (1993). Hierarchical and stable corruption leads to predictable and effective government services as long as the bribe is paid.

Arbitrary corruption, on the contrary, reflects all sorts of ambiguity or uncertainties that are associated with a corrupt deal with government officials.

Arbitrariness of corruption can be reflected in uncertainty of how to contact a corrupt official, in the negotiation process and after making the deal. Firms may have difficulty in identifying and coordinating among corrupt agents and they may find themselves uncertain of who to pay, what to pay and how much and so forth. Equally, firms may feel unclear about whether paying a bribe will result in the delivery of the promised government services (Rodriguez et al., 2005).

The ambiguity or uncertainties can be related to the characters and capabilities of the trading parties, as well as some structural uncertainties in political institutions. Government officials serve the roles of formulating policies, enforcement of business contracts and monitoring of unlawful behaviours. Different characteristics of the political institutions enable the government and officials to behave in a way that increase uncertainties and risks in operations, revenues and interests for MNCs.

First, in host-country institutional environments where corruption is arbitrary, MNCs may be unsure how to find political agents that are able to help them achieve business goals through non-market practices. In disorganized institutions, there may be multiple agents with complicated social relationships that may conflict with each other (Rodriguez et al., 2005).

Furthermore, arbitrariness in government policymaking and an unstable political environment may precipitate the arbitrary conditions. Laws and policies may be subject to capricious interpretations and alterations by judges and government officials where corruption is arbitrary (Ahlstrom & Bruton, 2001; Uhlenbruck et al., 2006). Arbitrariness in

¹ In this research, we use the terms “arbitrary corruption”, “uncertainties in corruption” and “arbitrariness (of corruption)” interchangeably.

corruption may also originate from the political discretion of government officials to vary the set of necessary approvals to extract maximum bribes (Rodriguez et al., 2005). Peng and Luo (2000) found that in a heavily corrupt institutional environment, if an inadequate amount of bribes or no bribes are offered, the assets of an MNC may be expropriated.

If the level of corruption arbitrariness is low, the bribery payment to government officials is more like an implicit tax (Wei, 1997). Nevertheless, as the level of arbitrariness rises, firms may need more negotiating and monitoring processes in dealing with government officials.

Generally speaking, corruption pervasiveness enhances the likelihood of encountering and interacting with corrupt officials in a host market, whereas arbitrariness boosts the risks in bargaining and dealing with corrupt government officials (Uhlenbruck et al., 2006). Research indicates that the uncertainties involved with corruption (i.e. arbitrary corruption) have more profound implications on economic actors than pervasive corruption (Shleifer & Vishny, 1993; Uhlenbruck et al., 2006; Wei, 1997). Chapter 2 will discuss the “Deconstruction of corruption arbitrariness” in detail.

1.3 Modes of entry

Modes of entry are fundamental and important decisions for an international firm to make when entering a new foreign market. This strategic decision will also affect the formulation of subsequent marketing strategies such as the product strategy, the marketing channel strategy and the promotion strategy as well as acquiring, developing and exercising competitiveness in the local market (Johnson & Tellis, 2008).

As a foreign firm enters a host market, it may face multiple entry strategies that would facilitate the exchange of products and services. Among the strategies, two of the most commonly studied FDI entry approaches are entry via joint venture (hereafter abbreviated as JV) and entry via a wholly owned subsidiary (abbreviated as WOS hereinafter) (e.g., Brouthers & Hennart, 2007; Gaur & Lu, 2007). We choose JVs and WOSs as the principal entry ownership strategies to research in this thesis.

JVs are strategic alliances that two or more legally independent companies form to share resources and capabilities and jointly develop competitive advantages (Hennart, 1988; Yiu & Makino, 2002b). Forms of these strategic alliances cover equity JVs, as well as non-

equity alliance forms such as collaborative R&D, collaborative manufacturing, collaborative marketing and others. Different forms have different requirements of resource commitments for the partners, and differ in their interdependence and likelihood of opportunism (Kumar & Das, 2007). The joint ventures defined in this research are strategic alliances in a broader sense, encompassing equity JVs and non-equity alliance forms such as licensing and franchising (e.g., Kumar & Das, 2007; Shrader, 2001). We examine broader types of cooperation that serve the purpose of utilizing complementary resources from partners, risk sharing and joint control. Hence the JV in this paper is synonymous to “strategic alliance” or “local cooperation”.²

The wholly owned subsidiaries that we defined, in contrast, involve both Greenfield investments (the establishment of a new venture) and full acquisitions (complete takeover of existing firms in the market) (Brouthers & Hennart, 2007). Both creating a Greenfield venture and taking over an existing firm leads to maximum control and internal consistency to the MNC headquarters. In parallel, partial acquisitions and shared Greenfield investments fall under the category of JV entries.

In our research framework, the categorization of modes of entry is more based on the implications of entry ownership strategies, and hence we do not distinguish between modes of establishment, i.e., Greenfield vs. acquisition (Brouthers & Hennart, 2007). While modes of establishment may be relevant to the host-country corruption factor, they are not in the center of our academic discussion.

The following section reviews how the two modes of entry are conceptualized from TCE and institutional views respectively.

1.3.1 Entry mode choice: A TCE perspective

From the viewpoint of transaction cost economics (TCE), the WOS is viewed as hierarchical governance, while the JV is regarded as a hybrid governance form of market governance and hierarchical governance (e.g., Anderson & Gatignon, 1986; Erramilli & Rao, 1993). The JV mode differs from WOS in resource commitment, control and risks (Davis, Desai, & Francis, 2000; Shrader, 2001). The WOS mode has the most consistent internal control

² We hereafter use the terms “joint venture”, “strategic alliance” and “local cooperation” interchangeably.

but also has the highest level of asset specificity and investment risk (e.g., Anderson & Gatignon, 1986; Erramilli & Rao, 1993).

Nevertheless, other researchers hold that complementary resources constitute the most fundamental basis for establishing a joint venture, therefore the JV is a joint hierarchy governance (e.g., Brouthers & Hennart, 2007; Hennart, 1988). From their viewpoint, the distinction between these two strategic choices is whether a foreign entrant plans to take advantage of complementary resources from a host-country partnership, or to exploit and rely on its own resources.

The mode of JV is a joint ownership in which all collaborative parties invest their complementary resources. Under this mode, parties obtain complementary resources from each other that are difficult to purchase from markets (Delios & Beamish, 2002). For example, many MNCs choose to cooperate with local partners for the purpose of acquiring local knowledge and local resources, whereas local partners rely more on a foreign firm's intangible assets such as technology and branding (Hitt, Dacin, Levitas, Arregle, & Borza, 2000).

WOS, on the other hand, constitutes a high level of internalization. A foreign firm that chooses a wholly controlled mode would rely more on its own resources to expand in the host-country market. It would acquire human resources by hiring employees in a host country and obtain local knowledge through learning by doing, thus taking more time and incurring more financial costs. If a foreign investor could acquire complementary assets via the market, they would prefer a WOS entry.

When entering a corrupt host country, land can be a purchasable complementary asset, whereas local knowledge (such as the knowledge of "know-who", local political ties and networks) are considered a hard-to-transact asset for an international firm. A foreign firm's choice of an entry mode is therefore based on the overall level of difficulty of acquiring strategic assets in the host markets.

1.3.2 Entry mode choice: An institutional perspective

Besides TCE concerns, entry ownership choices can also be deemed as strategic responses under institutional conditions.

MNCs face complex and multiple institutional expectations from different stakeholders and thus encounter various institutional pressures (Kostova & Zaheer, 1999; Oliver, 1991). Three strategies are proposed in relation to how to strategically respond to external institutional pressures, namely, to resist, to conform to, or to manipulate the environment (Oliver, 1991).

As a result, firms' strategic choices of JV and WOS modes are considered strategic responses to institutional environments (Rodriguez et al., 2005; Yiu & Makino, 2002b). The choice of WOS accords a foreign entrant more internal consistency and shows more organizational resistance to external institutions. By comparison, a JV entry demonstrates more conformity to the local environment.

The wholly owned mode entails more utilization of internal standards, routines and practices, granting a foreign subunit limited contact with local institutions and more freedom to operate at its own will. A wholly owned foreign subsidiary could hire more expatriates and train local employees with their own internal standards and practices. As a result, the WOS mode enables an MNC greater institutional resistance to the external environment.

A JV entry, however, may sacrifice a certain level of freedom due to the joint management by partners. A foreign partner could use the linkage between the foreign and local partners to gain local knowledge and social capital, which are crucial to adapt to the local institutions and gain local legitimacy (Yiu & Makino, 2002b).

Furthermore, these entry ownership choices are also strategic responses when an MNC is faced with host-country corruption (Luo, 2006; Rodriguez et al., 2005). The choice of forming a joint venture with local partners is deemed as a more accommodative non-market strategy through which a firm could perhaps leverage local corruption to increase business opportunities (Boddewyn & Brewer, 1994). Forming a joint venture with local firms in a corrupt institutional environment implies more compliance with local corruption practice and a higher inclination of engaging in bribery-related activities (Spencer & Gomez, 2011). Moreover, research suggests that local partners in an international JV could buffer a foreign firm from corrupt practices in a host country (Uhlenbruck et al., 2006). A foreign partner could use a local partner as a political agent so that it might face fewer challenges from host-country corruption (Doh et al., 2003; Uhlenbruck et al., 2006). Thus international joint

ventures can be used as an indirect strategy to evade home country anti-corruption legal requirements, and at the same time make use of host country corrupt institutions.

While the JV strategy shows a stronger propensity of using social connections to cope with institutional environments, wholly owned operations are positively associated with the freedom of arm's length bargaining in the presence of host-country corruption (Luo, 2006).

Under the institutional framework, we conceive of entry ownership strategies as strategic responses to institutional pressures. A WOS entry is more insulating while a JV entry is more adaptive when an MNC is faced with local corruption in a host-country environment.

By combining theoretical ideas on entry ownership choices from TCE and institutional theory, this dissertation aims to address the following two fundamental research questions:

- 1) As corruption distance increases, which mode of entry is more preferable when an MNC enters a host market?
- 2) In the presence of different corruption distances, will choices of entry modes generate different entry performance for MNCs?

1.4 Thesis structure

This thesis is organized into four chapters, and the research structure is presented in Figure 1.1.

The dissertation proceeds in the following order.

After introducing the research foci and fundamental conceptual backgrounds in Chapter 1, Chapter 2 provides the theoretical backgrounds from TCE, institutional theory and organizational identity theory. This is followed by the third chapter, which presents a complete empirical study on how corruption distance affects MNCs' entry ownership strategies. The fourth chapter furthers the strategy research in Chapter 3 and provides an entry performance model that links corruption and entry strategies to a foreign subsidiary's performance implications. Chapter 5 ends by discussing the limitations and showing the future directions. It is evident that the thesis is arranged surrounding the two fundamental research questions regarding "how to enter a corrupt foreign market" and the subsequent "what if" question.

As is seen in Figure 1.1, the research in Chapter 3 and Chapter 4 is relatively independent yet empirically linked. Both research approaches are from a dual perspective of TCE and institutional views and draw on event history analysis (EHA) to track host-market entry information. The framework of Chapter 4 on performance implications is based on the significance levels of factors presented in strategic choice models in Chapter 3. Moreover, Chapter 4 deepens the understanding of MNCs' entry strategies by bringing together corruption, entry strategies and entry performance. Finally, the 5th chapter discusses the overall limitations and future directions of this research.

The detailed chapter structures are as follows:

Figure 1.1 Research structure of this dissertation

1.4.1 Overview of Chapter 2

After the introduction in Chapter 1, Chapter 2 provides an overview of theoretical backgrounds and fundamental concepts of transaction cost theory, the institutional view and organizational identity theory. In order to better understand the problems associated with entry strategies under the influences of corruption distance, an integrated perspective is adopted from both TCE and institutional theory, which is more capable of explaining MNCs' international strategic responses and their consequences. Following this, we provide the literature review with regard to how corruption in a host country affects general FDI decisions as well as modes of entry. We introduce a two-dimensional typology of corruption (pervasiveness and arbitrariness) and review literature on the strategic implications of both pervasive corruption and arbitrary corruption. We deconstruct arbitrariness of corruption into three layers, namely, individual, transactional and institutional, and focus on the institutional arbitrariness that surrounds corruption. Finally, we provide research questions and a theoretical framework to fill in the research gaps shown in the literature.

1.4.2 Overview of Chapter 3

This chapter combines the theoretical lenses of transaction cost economics and institutional theory and examines how corruption distance affects MNCs' strategic ownership choices via joint venture (JV) and wholly owned subsidiary (WOS) by drawing on 529 hand-collected entry data points sourced from US public MNCs. We scrutinize the mechanism of arbitrary corruption, the other important dimension of corruption, by deconstructing the arbitrariness in a host country into a "lack of political constraint" and "political instability" and the effects of both sources of political arbitrariness on ownership mode preferences. Furthermore, we analyse the influence of internal and external institutional forces on a foreign entrant's entry choices in the context of corruption.

Regarding the data employed, all country-level indicators, as well as some firm-level information like corporate ethical identity, are from archival data. The entry information and host country experience of a focal MNC is based on event history analysis.

Results suggest that as corruption distance increases, MNCs are more likely to choose local cooperation. They also tend to choose strategic alliances with a local partner when entering a host country with fewer political constraints. The results indicate that both a "lack of

political constraint” and “political instability” negatively moderate the positive relationship between corruption distance and MNCs’ strategic preferences for a JV entry. From an institutional view, we reveal that regulatory pressure driven by political intervention from a host government affects a firm’s entry choice. More importantly, we discover that as a form of internal institutional constraint, ethical identity affects MNCs’ strategic reactions to a corrupt environment. As corruption distance becomes greater, international firms with less salient ethical identities show a greater inclination for local adaptation, whereas their ethically conscious counterparts show little conformity in their strategic responses to host-country corruption.

This chapter concludes by highlighting the discussions of the empirical results. This chapter also documents theoretical and managerial implications of the strategy study and presents the value of this research.

1.4.3 Overview of Chapter 4

Little research has been conducted into the drivers of MNCs’ market success in the context of corruption.

This chapter presents a framework that combines transaction cost economics and institutional theory and demonstrates the performance consequences of different entry strategies in the face of host-country corruption. We also advance the knowledge by investigating how corruption distance affects a foreign subsidiary’s entry success.

Drawing on a comprehensive literature review and a hand-collected data set of US-listed firms, using event history analysis to measure the historical entry success of a foreign subsidiary, we hypothesize and test the following. 1) As corruption distance increases, the chance of foreign subunits’ entry success lowers. 2) As compared to the WOS entry, joint ventures with local firms could overcome the entry disadvantages induced by corruption distance and lead to more successful market outcomes. 3) We found the main effects of host-country political constraints and proved that as opposed to WOSs, JVs with local partners could be more successful when a firm enters a politically unconstrained host-country. 4) Although we confirmed the positive effect of a firm’s ethical identity on entry success, different entry strategies did not result in a great difference in the performance implication of the identity.

We discuss the endogeneity issue in this research by applying the Heckman two-stage model. This chapter concludes by highlighting the discussions of the results and managerial implications.

This chapter's contribution to the literature is among the first to blend transaction cost considerations with an institutional logic to interpret how successful a foreign firm can be using different strategies to respond to host-country corruption. This research does not only have theoretical values as to answering the “what-if” question in the context of corruption, but also sheds light on strategic solutions for entering host countries of different conditions for international practitioners.

1.4.4 Overview of Chapter 5

This last chapter discusses the limitations of the thesis from the angles of the data, the measure and the methodology, as well as the modelling processes. Furthermore, to enlighten more research on corruption and strategy, Chapter 5 shows future research directions in both the entry mode research and the entry performance research.

2 Theoretical backgrounds, literature review and research framework

2.0 Abstract

Government determines the rule of the game, and establishes the fundamental institutions that influence the strategies and activities of firms. Government corruption increases the transaction costs and the environmental uncertainties and create institutional pressures for MNCs. As MNCs' direct investments and marketing activities permeate in emerging markets, they are highly likely to be faced with challenges from host-government corruption.

In this second chapter, we first go over three fundamental theoretical underpinnings that are pertinent to this research, namely, transaction cost economics (TCE), the institutional view and organizational identity theory. We then review the literature with regard to how corruption affects FDI strategies of foreign entrants. Specifically, not only does corruption pervasiveness affect MNCs' entry decisions, corruption arbitrariness also has important implications.

We propose a deconstruction of arbitrariness of corruption that separates institutional arbitrariness from individual-based and transaction-specific arbitrariness, which is more country-specific and the focus of this research. Based on the problems existing in literature, we fill in the research gaps by constructing a conceptual model that bridges the entry strategy literature and the subsequent examination of entry performance. We focus on how firms strategically respond to corrupt environments, as well as the performance implications.

We follow the conceptual framework and present the empirical results to demonstrate how corruption and related factors affect MNCs' entry strategies, and how these strategies produce different entry performance, in Chapter 3 and Chapter 4 respectively.

2.1 Theoretical perspectives and backgrounds

2.1.1 A transaction cost economics perspective on international strategy research

Transaction cost economics is an extensively used theoretical lens in international market entry strategy research. It has excellent explanatory power in interpreting drivers of entry ownership choices (Hennart, 1988), and has become a mainstream perspective in the international strategy and international business research domains (e.g., Brouthers, 2002).

TCE looks at the relationship between a firm and the task environment in which it operates on the basis of exchange. One of the foci of TCE involves how the task environment (such as various uncertainty factors) affects a firm's planning of strategies as well as attainment of tasks. The task environment directly influences firms' acquisition of external resources.

A central topic surrounding TCE theory is how transaction costs affect the governance modes of firms (Williamson, 1975). Specifically, which mode of governance, market, hierarchy or a hybrid form could generate more market efficiency? TCE theory also considers the interactions between economic agents as well as the associated costs created by asset specificity and opportunism (Williamson, 1985).

Under the TCE framework, three aspects of TCE factors might affect a firm's entry ownership decision: asset specificity, uncertainty (involving both internal and external uncertainty) and exchange frequency (Williamson, 1985).

(1) Asset specificity

Asset specificity is usually defined as the extent to which the investments made to support a particular transaction have a higher value to that transaction than they would have if they were reused for any other purpose (Williamson, 1985). The research on the relationship between asset specificity and entry ownership strategy is somewhat inconclusive. Previous studies indicate that a high level of asset specificity is positively related to the use of high-control modes of entry (e.g., Anderson & Gatignon, 1986; Brouthers & Brouthers, 2003). Alternatively, high level of asset specificity leads to a higher likelihood of using the WOS mode (Erramilli & Rao, 1993). For instance, many firms in the IT (Information Technology) industry with a high level of R&D intensity are less willing to form a joint venture for fear

of technological spillovers. Nevertheless, there are also studies that show the opposite findings. Their findings suggest that even firms with a high level of asset specificity may need to use IJVs to obtain complementary resources (Delios & Beamish, 2002). The diversity of the research outcomes may rest on different definitions of asset specificity and ownership strategies. Considering that both the FDI modes of JV and WOS require moderate or high levels of asset specificity, this factor of TCE is beyond the scope of our research.

(2) Frequency of transactions

The frequency reflects the repeatedness of trade between cooperating partners. In repeated transactions, the incentive to maintain a reputation for fair trading may be sufficient to mitigate opportunism. In high-frequency transactions, therefore, partners do not necessarily need the enforcement of laws or specified contracts.

Accordingly, the frequency of transactions affects firms' governance choices over contractual agreements and equity mode of entry. The key issue is whether to rely on laws or contract enforcement or other safeguarding mechanisms such as relational governance to facilitate inter-firm cooperation (Williamson, 1985). As a consequence, this aspect of TCE framework does not fit in our research framework of WOS or JV entry choices.

(3) Uncertainties

In international entry mode research, a crucial determinant of transaction costs is uncertainty, which has significant explanatory power. Uncertainties in the task environment drive up transaction costs and thus affect market competition as well as cooperation between firms. In corrupt host countries, various sources of uncertainty may arise, bringing about concerns for transaction costs and having implications on MNCs' strategic choices of entry ownership.

The uncertainties are comprised of external as well as internal uncertainties (Brouthers, 2002; Erramilli, 1992). Some scholars also refer to them as environmental uncertainty versus behavioural uncertainty (e.g., Krishnan, Martin, & Noorderhaven, 2006).

External uncertainty or environmental uncertainty examines mainly economic uncertainties (such as market growth, market volatility and economic instability), country risks (or political uncertainties) and cross-cultural uncertainties (Brouthers & Hennart, 2007). By and large, economic risks, country risks and cross-cultural risks increase uncertainties for MNCs

operating in a host country and make allying with local partners a more preferable choice (e.g., Brouthers, 2002; Delios & Henisz, 2003a; Kogut & Singh, 1988). It is generally acknowledged that strategic alliances are a more effective means than wholly owned operations to mitigate external uncertainties for international marketers. Nevertheless, conflicting findings suggest that cross-cultural risks may lower the likelihood of allying with a local partner (Reus & Rottig, 2009). The contradictory arguments rest on the increased inter-partner misunderstanding and distrust as the cultural distance between partners increases.

Internal uncertainty, or behavioural uncertainty, refers to the unpredictable and uncontrollable behaviours of members of a party or parties in a cooperative relationship. The internal uncertainties include perceived difficulties in selecting a partner with adequate competence, qualifications and character, as well as risks in enforcing, overseeing and controlling the cooperation agreement (Brouthers, 2002; Brouthers & Brouthers, 2003; Brouthers, Brouthers, & Werner, 2003). Opportunistic behaviours under the JV mode, such as free-riding of a partner's brand equity or dissemination of a partner's technology or other intellectual properties would have adverse impacts on the collaboration.

Findings on the relationship between behavioural uncertainty and modes of entry, nevertheless, are somewhat conflicting. Some suggest that the WOS mode is preferred in conditions of increased behavioural uncertainty, as the monitoring and enforcement costs will accordingly rise (Brouthers, 2002). Others have found that international partnership is still preferred as the internal uncertainty level increases (Brouthers & Brouthers, 2003).

The conflicting findings leave space for us to study the relationship between specified uncertainties and entry ownership choices in our research contexts.

Of course, the application of transactional cost economics has its limitations. For instance, TCE overemphasizes transaction costs in the task environment but ignores the interplay between an organization and its contexts (Martinez & Dacin, 1999). This limitation is more obvious in the strategy literature involving emerging markets, where the strategies, behaviours and corresponding market performance are shaped by both task environments and institutional environments (Hoskisson et al., 2000; Luo, 2001). Transaction cost theory cannot effectively explain the strategic actions of multinational corporations in developing economies or transitional economies where institutional voids are frequent and market-

supporting institutions are lacking (Hoskisson et al., 2000). In these markets, institutional factors often have more important implications.

2.1.2 An institutional theory perspective on the international strategy of MNCs

Institutional theory highlights the importance of the institutional environment and focuses on how institutions affect organizational behaviours, as well as how organizations and institutional environments co-evolve (Scott, 1994). Institutional environments include political, socio-cultural and cognitive environments such as laws and regulations, cultural norms and values (Scott, 1994). Different institutions or institutional actors indirectly affect firm behaviour through their requirements and expectations. Organizations have to strategically conform to the requirements and expectations from specific institutions to be granted legitimacy from the institutional actors (DiMaggio & Powell, 1983). Consequently, an organization's strategic actions toward the institutional environment determine its survival and development, as well as the roles and relative status of the organization in internal and external institutions.

(1) What are institutions?

North (1990) pointed out that institutions are “the humanly devised constraints that structure human interaction” and compared them to the “rules of the game” (North, 1990, p. 3). North (1990) maintained that the rules of the game set up boundaries for the economic and social activities of human beings and therefore individuals and organizations are confined by the rules, formal or informal, written or unwritten.

Good institutional environments reduce environmental uncertainties and lower transaction costs (Meyer, 2001). Good institutions are also effective in fostering rule-based exchanges by providing clear and stable institutional frameworks (Peng, 2003). On the contrary, a bad or weak institutional environment increases the environmental uncertainty level and might reduce market efficiency. For example, it boosts transaction costs due to information asymmetry and contract enforcement. Essentially, different institutions structure the incentive systems in which various economic actors operate, and different incentive systems influence the governance modes of organizations in different ways.

In addition, institutions affect a firm's resource acquisition and capability development, as well as their strategic actions and practices (Peng, 2003). Institutional theory was initiated and developed from the theories of economics (North, 1990), then neo-institutional theorists expanded the subject into the domain of sociology and psychology (DiMaggio & Powell, 1983; Peng & Heath, 1996; Scott, 1994). Neo-institutionalism maintains that institutional environments consist of three types of institution, i.e., regulatory institutions, normative institutions and cognitive institutions. They are also known as the "three institutional pillars" (Scott, 1994).

Regulatory institutions are referred to as formal institutions, whereas normative and cognitive institutions are categorized as informal institutions, which were highlighted by neo-institutional theorists. The three pillars of institutions impose different sources of pressure on MNCs and their international trading activities (Scott, 1994; Suchman, 1995). Regulatory institutions involve government agencies and related regulating bodies for legislation, regulations and implementation. Normative institutions are from norms and values advocated by key stakeholders of the focal firm. Cognitive institutions involve the commonly shared, taken-for-granted beliefs and mentalities of stakeholders. The norms and cognitions of the society can be influenced by various stakeholders such as the government, media, customers and employees.

These three institutional pillars differ from country to country and thus affect the decisions of foreign entrants in regard to how to do business in a host country.³

In terms of our research context, i.e., government corruption in host countries, OECD countries have similar legislation and regulations on overseas corruption and bribery, which serve as regulatory constraints on MNCs' ethical activities. In the OECD countries, stricter industrial standards and social norms prohibiting unethical activities of key stakeholders such as suppliers, the media and consumers also exert influences on firms and their strategies and behaviours (e.g., Meyer & Thein, 2014; Michailova, McCarthy, Puffer, Karhunen, & Kosonen, 2013).

³ Although the three types of institutional pressure are different in concept, they do influence and depend on each other (Scott, 2001). Over time, formal regulations may change social norms; cognitive and normative pressures from stakeholders may promote enactment of laws and regulations. More importantly, social norms and people's cognitions coevolve. In this research, we did not distinguish between normative and cognitive pillars of institutions.

In emerging economies, by contrast, relationship-based behaviours are prevalent and stakeholders such as the government, the media and the business partners have often ignore business ethics. For instance, gift giving especially giving expensive gifts in business relationships (Peng, 2001), is considered an unethical or even corrupt act in developed countries, while in emerging economies like China, these practices are regarded as appropriate business manners and lubricants of ‘Guanxi’, a Chinese social relationship, which could help facilitate the attainment of business goals (Hoskisson et al., 2000; Peng, 2001). In brief, in terms of corruption, different countries have different regulatory requirements, norms and practices. Accordingly, people think differently with regard to what they consider corrupt acts.

The difference in host and home national institutions regarding corruption, also known as corruption distance, have the potential to pose challenges for MNCs.

(2) Institutional distance and corruption distance

Foreign entrants are subject to the adverse impacts of the liability of foreignness (LOF) and therefore find it difficult to gain local legitimacy (Zaheer, 1995).

Kostova (1996) proposes the concept of institutional distance, and posits that the differences between a home country and a host country in institutional pillars suggest that foreign firms will be likely to incur a higher level of LOF, and make it more difficult to transfer knowledge across the border.

When entering an institutionally distant market, MNCs may face challenges in acquiring, verifying, interpreting and analysing information from local institutions. The challenges are also associated with increased unfamiliarity and complexity as the institutional distance increases.

Inspired by the three pillars categorized by Scott (1994), Xu and Shenkar (2002) divided institutional distance into three types, regulative, normative and cognitive distance. Furthermore, scholars have specified institutional distance in different domains and fields, such as linguistic distance, political distance, education distance and political distance (Eden & Miller, 2004a).

Scholars have studied how different types of institutional distances shape the market strategies and subsidiary performance of multinational firms. One important stream of

research focuses on how particular institutional proximity or differences between a home country and a host country affect MNCs' strategic responses to opportunities and challenges in a host country market (Eden & Miller, 2004b; Xu & Shenkar, 2002), or how MNCs strategically behave under different institutional pressures (Oliver, 1991; Suchman, 1995).

Stemming from institutional distance, the concept of corruption distance reflects the difference between a host country and a home country in terms of national corruption level. Although much research has been carried out with regard to how corruption distance (or local corruption) affects MNCs' entry ownership strategies, the research findings are mixed (e.g., Duanmu, 2011; Karhunen & Ledyeva, 2011; Rodriguez et al., 2005).

Furthermore, although some research suggests that corruption worsens MNCs' performance in a host market (e.g., Chandler & Graham, 2010), to our best knowledge there is a dearth of research scrutinizing the relationship between entry ownership strategy and subsidiary performance in corrupt institutional environments.

(3) Legitimacy and institutional pressures

Some equally important concepts in institutional theory that needs to be clarified are institutional legitimacy and institutional pressure.

The institutional view holds that organizations are under pressure to achieve legitimacy from stakeholders in the institutional environment, which may encourage or block the organizations in exercising certain strategic actions (Kostova & Zaheer, 1999; Oliver, 1991).

Legitimacy is a linking concept in institutional theory that connects the environment as well as the legitimating actors within the environment to the focal organizations. As Suchman (1995) explains, "legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). Simply put, organizational legitimacy refers to the acknowledgement, recognition or endorsement of an organization and its behaviours from relevant stakeholders. Legitimacy is obtained by meeting requirements or expectations of collective constituencies, or rather, the expectations of "the majority", and thus is independent from individual interests (Suchman, 1995).

Corresponding to the institutional pillars, i.e., regulatory, normative and cognitive, a firm may attain three aspects of legitimacy, namely, pragmatic, moral and cognitive legitimacy (Suchman, 1995).

Pragmatic legitimacy rests on the self-interested calculations of a firm's most immediate audiences (Suchman, 1995). For this reason, the audiences (or constituencies) mainly evaluate the benefits of actions and behaviours adopted by the firm. In a host country market, a foreign entrant's investment may make solid contributions to local employment and economic growth. To better achieve this, a host-country government may require or expect MNCs to establish a partnership with a local firm to introduce more advanced technology and managerial experience. This is usually the pragmatic legitimacy concerns of the host-country governments and related institutions, whereas foreign investors are more concerned with issues such as utilizing local labour, raw materials and markets. The attainment of pragmatic legitimacy of both parties is usually the fundamental concern for any foreign direct investment (FDI).

Moral legitimacy refers to the normative/moral evaluation of actions of a firm. For example, a judgement belonging to this category is whether a partner firm's behaviours are normatively proper and stick to socially accepted procedures and practices. In the context of local corruption, either transactional party evaluates whether the actions of the other party is ethically (or normatively) appropriate. Due to the existence of relativism of ethics, stakeholders in a host country may consider gift-giving, or facilitation payments normatively appropriate and ethically appropriate, while firms from a less corrupt home country may have stricter and narrower definitions of "corrupt acts" and prohibit these "grey" forms of corrupt deeds. Discrepancies in normative standards of conduct may result in firms' behaviours threatening moral legitimacy.

Cognitive legitimacy, a third aspect of legitimacy, describes the "taken-for-grantedness" characteristics with regard to the perceptions of a firm and its activities by the society or constituencies. In the local corruption setting, people may find business practices such as entertaining (such as banqueting) and unofficial payment to government officials to "grease the wheels" of business natural and necessary, or even inevitable in some corrupt host countries, in which case the understanding and view regarding these business practices can

be categorized as a cognitive legitimacy concern.⁴ Cognitive legitimacy is based more on internalized knowledge than moral judgements (Suchman, 1995). If a firm does not follow the local practices, the actions of the focal firm may be deemed as improper and challenge the cognitive legitimacy.

(4) Importance of organizational legitimacy

With the endorsement of a variety of legitimacies from the institutional constituencies, firms would gain support and resource provision, which are vital for their survival and development, especially foreign subsidiaries who are new to the local market. Firms without adequate granted legitimacy might be obstructed in accessing critical resources for their development (Kumar & Das, 2007; Scott, 2008).

Legitimation is an interactive process between a firm and the environments in which it is embedded. In this process, a firm's legitimating demands or pressures may create specific expectations or information stimuli from a certain legitimating actor in the environments (Kostova & Zaheer, 1999). If the expectations from the legitimating actor are met, the corresponding institutional pressure might be mitigated. If unmet, the institutional pressure will keep posing pressures for the focal firm to gain legitimacy, especially when the legitimating actor and the resources and support to be granted are important to the focal firm (Kostova & Zaheer, 1999). Firms gain legitimacy in the legitimation process, and if not they are under institutional pressure due to lack of legitimacy.

The pressure for legitimacy from institutional constituencies (abbreviated as "institutional pressure") can arise from either the internal environment or the external environment. External institutional pressures normally arise from regulatory requirements from national authorities and local people's prevalent norms and mind-sets. In contrast, most internal institutional pressures stem from home country institutional environments, where the pressure can be either at the country level or at organizational level. Country-level institutional pressure can be related to the regulations and rules of a home country, while

⁴ The case can also be treated as a normative legitimacy concern. The distinction between normative and cognitive legitimacy are not drawn by a fine line. Although the two types can be interconnected, cognitive legitimacy is more related to what people take for granted based on their own belief systems, whereas moral legitimacy depends more on social norms and ethical evaluations (Suchman, 1995).

organizational-level institutional pressure, can be driven by a parent company or other member subsidiaries (Kostova & Zaheer, 1999).

(5) Linking institutional pressures and strategic responses

The next theoretical issue that is important to our research context is how firms strategically respond to institutional pressures. As discussed, institutional environments indirectly affect the actions of firms in the form of requirements and expectations (DiMaggio & Powell, 1983). In order to respond to institutional pressures and gain legitimacy, a firm may conform to the expectations or adopt isomorphic structures, procedures or practices from the external environments (Suchman, 1995).

In international markets, MNCs are subject to the liability of foreignness (LOF) and hence face a high level of institutional pressure due to an increasing perception of illegitimacy especially in an institutionally distant host country (Zaheer, 1995).

In facing external institutional pressure, firms tend to adopt a compliance strategy by adjusting their organizational structure, procedures and practices to comply with regulations, norms and practices in the host institutional environment to secure local legitimacy (Kostova, 1999).

This compliance strategy may be embodied in two aspects.

1) Some foreign firms rely on a local partner with well-established legitimacy. They trade entry ownership equity for more local legitimacy (Chan & Makino, 2007; Yiu & Makino, 2002a).

2) Firms imitate local competitors' structure, behaviours and processes to gain organizational legitimacy through isomorphism (Deephouse, 1999; Kostova & Roth, 2002). By strategic means such as conforming to demands from social actors or taking isomorphic actions (Suchman, 1995), a firm may be able to obtain acceptance and support from external institutional actors (Scott, 2008).

Besides external institutional pressures, MNCs may also face strong internal legitimacy pressure, which is defined as "the acceptance and approval of an organizational unit by other units within the same firm and, primarily, by the parent company" (Kostova & Zaheer, 1999).

As a result, in the multiple and complex institutional environment, MNCs may be confronted with conflicting institutional pressures. This is particularly the case when a firm from a developed country enters an emerging economy market. Due to different institutional features in an institutionally distant dyad between a host country and a home country, the entering firms may face various sources of pressure that are likely to conflict with each other.

Relevant to our research contexts, MNCs may face contradictory internal and external institutional pressures. For this reason, they do not always passively cope with the pressures in the environments. Besides conforming to external environments, firms may counteract the pressures from the external environments by using alternative strategies driven more by internal values or requirements (Deephouse, 1999; Meyer & Thein, 2014; Oliver, 1991). When external institutional pressure is strong and unfavourable, a firm's strategic actions may also include exiting the environment, relying on its own capability and resources to combat the institutional adversity, as well as adapting its organizational structures or practices to the local market (Oliver, 1991). Intra-firm institutional characteristics may play a role in determining firms' strategic variations in responding to the same external institutional pressure (Yiu & Makino, 2002b). Intra-firm legitimacy pressures may enable foreign subsidiaries to adopt different strategic reactions. Some firms may not prioritize conformance to the local institutions but refuse, insulate from, or counteract the institutional environment (Deephouse, 1996; Oliver, 1991). For example, the corporate culture of an MNC might enable the foreign affiliates to resist local institutional pressures (Hillman & Wan, 2005; Kwok & Tadesse, 2006).

Linking back to our research contexts, we argue that MNCs may have conflicting institutional pressures from the corrupt host-country institutions as well as intra-firm moral standards.

In a corrupt host market, MNCs are under legitimacy pressure to pay bribes (Spencer & Gomez, 2011). In the meantime, some MNC subsidiaries may be constrained by intra-firm institutional constituents such as the corporate ethics, culture or organizational identity of the parent company in strategies and practices as to not engage in unethical activities. In the contexts of corruption, research has shown that some international firms are not willing to engage in local corruption out of ethical concerns (Habib & Zurawicki, 2002). Some parent firms discourage a subsidiary's strategic actions or business practices that may be linked to censures or accusations of "being unethical" (Musteen, Rhyne, & Zheng, 2013). The intra-

firm institutional features may impose pressures on a foreign subsidiary's strategies in foreign countries (Kostova, 1999).

Several studies have been conducted with respect to the strategic implications of home country regulations (e.g., Martin, Cullen, Johnson, & Parboteeah, 2007). So far, however, few studies have been carried out on how the intra-firm institutions affect business strategies (Martin, Johnson, & French, 2011), especially in the local corruption context. Furthermore, little evidence has been provided on whether institutional pressures from the parent firm plays a role in shaping an MNC's strategic behaviour when faced with local corruption.

Suchman (1995) posits that an organization acquires and boosts its legitimacy and improves organizational performance by adopting different organizational strategies (such as different modes of entry). We believe that international marketers have to trade off between internal and external institutional pressures when formulating entry ownership strategies in a given host country (Yiu & Makino, 2002b).

In this dissertation, one of our research interests is to examine how institutional pressures (both external and internal) affect foreign entrants' strategic preferences with regard to entry ownership choices, which reflect different strategic responses to institutional pressures from an institutional view.

Returning to our research questions, we would like to answer the following questions relevant to the institutional theory:

- 1) Will host-country relevant institutional pressures affect MNCs' entry strategies in corrupt host countries?
- 2) Will relevant intra-firm institutional pressures influence MNCs' ethical concerns and entry decisions when MNCs enter a corrupt country market?
- 3) In corrupt environments characterized by multiple and complex institutional pressures, how do MNCs balance different sources of institutional pressure? How do they formulate entry ownership decisions to cope with possibly conflicting legitimacy pressures in the presence of corruption?

2.1.3 An organizational identity perspective on the international strategy of MNCs

Organizational identity theory is important in interpreting how ethical identity act as a source of internal institutional pressure. We need to note in the beginning that while TCE and institutional theory are global to our research framework, organizational identity theory serves as a local theory explaining why firms react differently to institutional corruption. In other words, organizational identity theory is dependent on the institutional perspective in our theoretical framework.

Based on organizational identity theory, we posit that an existing organizational identity is relevant to corruption research, and may serve as strong internal legitimacy pressure for a foreign subunit. To illustrate the possible linkage, we draw on organizational identity theory and suggest the importance of corporate ethical identity, namely, the ethical aspect of corporate identity, in responding to ethical dilemmas in the setting of host-country corruption.

Organizational identity is generally referred to as “what members perceive, feel and think about their organizations” (Balmer, van Riel, Jo Hatch, & Schultz, 1997). It represents what is central, enduring and distinctive about an organization’s character (Albert & Whetten, 1985; Whetten & Mackey, 2002).

The central component of an organizational identity is how the managers and decision makers of an organization define their organization and how internal constituents such as employees perceive its central values (“who we are”) and its activities (“what we do”). Internal perceptions are then conveyed to external constituents and influence how they perceive the organization. Therefore, there are a couple of associated conceptual components involving organizational identity in relation to stakeholders of different kinds. A desired image or projected image refers to how firm decision makers would like the external audience to understand and assess the firm (Whetten & Mackey, 2002). A construed image describes how internal members see a firm, whereas external constituents’ perceptions of the corporate identity is defined as corporate reputation (Brown, Dacin, Pratt, & Whetten, 2006). Both corporate image and corporate reputation are associations of the organizational identity, one from internal constituents and the other from external

constituents (Dutton, Dukerich, & Harquail, 1994). In other words, corporate identity is the nexus of corporate image and corporate reputation.

External stakeholders make subjective associations and appraisals based on the conveyed corporate values and culture from a wide range of corporate activities. For internal constituencies such as employees, organizational identity provides a cognitive framework in which they make decisions (Brown et al., 2006; Whetten & Mackey, 2002).

The influence of organizational identity on its members lies in the fact that top management team members use the organizational identity as a guideline and benchmark for decisions and actions. In this way organizational members deliver decisions, processes and activities that are congruent with the organization's identity (Whetten & Mackey, 2002). Organizational members who truly recognize this organizational identity would embed the identity into their self-definition through reinforced behaviours and become holders of this identity (Ashforth, Harrison, & Corley, 2008). Organizational members would interpret this conveyed organizational identity and enact it by demonstrating behaviours compatible with the identity (Hatch & Schultz, 2002; Whetten & Mackey, 2002). As a result, we expect organizational identity to serve as an internal mechanism that drives a firm's strategic responses. When faced with institutional pressures from the external environment, firms having salient identities are likely to refer to their organizational identity in forming their strategic responses to the environment.

On the theoretical basis of organizational identity theory, we expect to scrutinize the role of corporate ethical identity in determining a foreign subsidiary's strategic responses in the presence of government corruption.

2.2 A combined perspective of transaction cost economics and institutional theory

Most corrupt nations are poorer economically emerging countries with great potential for economic growth (Kwok & Tadesse, 2006). To examine MNCs' entry strategies and market performance in emerging markets, three principal theoretical lenses have been adopted, which are institutional theory, transaction cost economics, and the resource-based view (Hoskisson et al., 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005).

Transaction cost theory is extensively applied in international strategy research in DC economies (Hoskisson et al., 2000), whereas institutional theory is regarded as more appropriate and having more explanatory power in examining multinational corporations' strategies and actions in emerging countries (Wright et al., 2005).

Distinctively different from the institutional arrangements in developed countries (DCs), emerging economies have far more ambiguous legal boundaries and less effective formal regulations, which often constitute a hotbed for corruption (Delios & Henisz, 2000; Hoskisson et al., 2000). In emerging markets, ineffective legal structures and ineffective jurisdictions and legal enforcement force firms to rely on alternative informal mechanisms such as interpersonal relationships to safeguard transactions (Zhou & Poppo, 2010).

Emerging country markets are characterized by massive transaction costs with high levels of environmental uncertainty (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004; Hoskisson et al., 2000). Emerging economies are also characterized by strong regulatory intervention and less transparent formal institutions, as well as stronger social norms (Hoskisson et al., 2000; Peng, Wang, & Jiang, 2008). In the "institutional voids", namely, the absence of effective market-supporting institutions, the development of firm strategies and performance is more related to institutional factors such as government support, social endorsement and institutional transparency, rather than firm-specific transactional costs (London & Hart, 2004).

Institutional theory puts more weight on analysing the institutional environment in which the firms are embedded, as well as the influence of institutional pressures on firm strategies and actions. The difference between institutional theory and TCE lies in the fact that TCE theory focuses more on transaction costs in the task environment in which a firm operates from the perspectives of asset specificity, uncertainty and opportunism, etc. Institutional theory, on the other hand, underscores the environmental factors, such as institutions from the host country, or the home country, or any industrial associations, etc., and asks how these institutions affect firms' adoption of strategic actions and practices (Kostova & Roth, 2002; Scott, 2008; Suchman, 1995). The task environment discussed in the TCE literature directly affects a firm's investment, operations and outputs, while the institutional environment imposes pressure for legitimacy in the form of coercion, requirements and expectations on firms' strategic actions and behaviours.

Linking back to our research context, we argue that it might be partial to deploy a single theoretical perspective to explore how corruption distance affects international firms' entry ownership decisions. Corruption distance often applies to firms from less corrupt countries (often DCs) entering more corrupt countries (often emerging countries), and in this context both TCE elements and institutional factors may play important roles (Wright et al., 2005).

Wright et al. (2005, p. 7) predict that "for researchers interested in tracking the success and failure of these MNEs, it seems that simple application of TCT (Transaction Cost Theory)...is likely to yield limited mileage and that integration among TCT, AT (Agency Theory), RBT (Resource Based Theory), and especially IT (Institutional Theory) promises to yield larger dividends".

To sum up, our research topic requires us to use a combined perspective from TCE and institutional theory to come up with a more comprehensive theoretical framework that could provide broader and deeper insights.

2.3 Literature review on national corruption and firm strategies

2.3.1 Literature on corruption and FDI

The extant research on how FDI firms cope with host-country corruption remains inadequate and conflicting.

To examine how corruption affects foreign investments, scholars first examined how corruption affects general FDI inflows into a host country. A growing body of research has reached a conclusion that rampant corruption in a host country will discourage and thus attract less FDI activity, and also motivate firms that have invested in the host countries to pull out (e.g., Aizenman & Spiegel, 2006; Egger & Winner, 2006; Habib & Zurawicki, 2002; Voyer & Beamish, 2004; Zhao, Kim, & Du, 2003). As for the underlying reasons for the escapism of MNCs in the presence of corruption, Habib and Zurawicki (2002) argued most MNCs' evading actions is based on the facts that local corruption have incurred higher operational risks and transaction costs.

Aizenman and Spiegel (2006) suggested that the FDI retreat of MNCs who are based in developed countries is related to the fact that their home countries have strict legal sanctions on overseas bribery such as the OECD nations.

Besides the strategic implications of corruption pervasiveness, some research suggests that uncertainties surrounding corruption, namely, the arbitrariness of corruption, also deters FDI (Wei, 1997). Both pervasiveness and arbitrariness of corruption explain the avoiding entry or escaping activities of MNCs in the face of corrupt governments and officials.

Nevertheless, we need to note that some research outcomes demonstrate that not all foreign direct investments are averse to host-country corruption (e.g., Cuervo-Cazurra, 2006; Rodriguez et al., 2005). For instance, government corruption lowers the barriers for FDI activities in highly regulated economies (Dreher & Gassebner, 2013). Moreover, evidence has shown that although MNCs from less corrupt home countries seemed to avoid investing where corruption is pervasive, foreign firms from equally corrupt or more corrupt home countries invest more in corrupt host markets (Cuervo-Cazurra, 2006).

These inconsistent findings imply that firms respond differently in the presence of local corruption. When faced with host-country corruption, while some firms see it as an institutional threat, other MNCs might view it as an investment opportunity. This may suggest that some MNCs could use strategies and develop capabilities to circumvent the corrupt environments.

The research of Cuervo-Cazurra (2006) also highlights the importance of scrutinizing simultaneously the host-country corruption and home-country corruption conditions to examine international marketers' strategic actions. The difference between a host country and a home country with respect to corruption levels (which equals the concept of "corruption distance") grasps more comprehensively characteristics of both home and host institutions that an MNC is associated with in coping with government corruption.

Accordingly, in our theoretical framework, which involves MNCs' entry ownership strategies and performance in the presence of government corruption, we employed the focal variable "corruption distance" to simultaneously consider the corruption levels of both a home country and a host country (Cuervo-Cazurra, 2006; Duanmu, 2011).

2.3.2 Literature on corruption and entry ownership strategies of MNCs

(1) Literature on the strategic implications of corruption pervasiveness

There has been considerable empirical research on how host-country corruption (or similarly, corruption distance) affects a foreign entrant's entry ownership decisions, however the findings are somewhat inconsistent.

A group of scholars supported that MNCs would prefer a JV entry where the government corruption is pervasive (e.g., Demirbag et al., 2010; Karhunen & Ledyeva, 2011; Smarzynska & Wei, 2000). Local partnering is beneficial for a foreign firm to access the local network, which is vital to market expansion in market environments with institutional voids (e.g., Zhou & Zhang, 2007; Yiu, Bruton, & Lu, 2005). Moreover, it is also likely for foreign affiliates from a less corrupt home country to use local partnering as an indirect market strategy to cope with host-country corruption (Spencer & Gomez, 2011). This strategy could mitigate the regulatory pressures from the home governments to prohibit overseas bribery, and in the meantime comply with the corruption norms in a corrupt host country to some extent (Spencer & Gomez, 2011).

Smarzynska and Wei (2000) research on Turkish multinational firms' entry ownership decisions into east-European and Central Asian transitional countries suggests that host-country corruption does not only deter FDI, but also leads to MNCs' preferences of international joint venture over wholly owned subsidiaries. The strategic preference, according to the authors' explanations from the TCE view, is related to avoiding or minimizing the excessive transaction costs relating to the corruption of host government officials.

The critique of their research is related to the limited generalizability caused by single-year observations as well as that the host countries (that is, east-European and Central Asian nations) have both medium to high levels of government corruption and political volatility. Smarzynska and Wei (2000) research, however, only considers the corruption level of a host country and ignores the possible influences of corruption-related political risk factors (political arbitrariness) such as political stability.

Meyer, Estrin, Bhaumik, and Peng (2009) examined MNCs in four emerging economies and found that the JV mode is more beneficial for MNCs entering a host country with a weak institutional framework, while full acquisition is preferable for international investors in more effective legal institutions.

Also, primarily through the TCE lens, Javorcik and Wei (2009) study of 720 entry observations from 262 international firms suggested that host-country corruption leads to MNCs' entry preference for JV over WOS. Their findings are robust to three different measures of corruption. Beside this, they found that technology firms are prone to establish wholly controlled businesses in more corrupt nations, partly owing to the high asset-specificity nature of the technology industry.

Two studies examined how corruption affects Turkish MNCs' entry into five Central Asian countries and found similar conclusions that a higher level of corruption pervasiveness in a host country leads to a higher likelihood of JV entry (Demirbag, Glaister, & Tatoglu, 2007a; Demirbag et al., 2010). However, both the studies were bounded by the scope of narrowly-selected host and home countries. Similar findings are drawn from the study of Demirbag, Tatoglu, and Glaister (2009) that examines 522 Turkish foreign subsidiaries' entries into global markets.

Karhunen and Ledyeva (2011) carried out a study to examine how corruption distance shapes international firms' entry decisions into the Russian market, and found similar evidence using a combined theoretical lens from TCE and the resource-based view (RBV).

Another stream of research, however, has discovered quite the opposite results: in more corrupt host country markets, MNCs would be more likely to choose the wholly controlled approach rather than a joint venture with a local partner (e.g., Duanmu, 2011; Rodriguez et al., 2005; Tekin-Koru, 2006).

Rodriguez et al. (2005) proposed that a WOS entry is more likely to be chosen where pervasive corruption exists. They argued that although substantial level of host-country corruption may encourage MNCs' intent to collaborate in corrupt environments to achieve legitimacy, this might cause internal conflicts within MNCs' internal values.

Tekin-Koru (2006) focuses on international investors' entry into the Turkish market. Under a conceptual framework of the bargaining model and TCE, the research revealed that for foreign investors from developed countries, a greater corruption distance leads to a higher likelihood that MNCs will choose a WOS entry.

Tekin-Koru (2012) examines how corruption affected Swedish MNCs' entry mode choices in different host countries. The findings indicate that host-country corruption would lower

the possibility for MNCs to choose Greenfield investment, but is positively associated with the likelihood of acquisitions and mergers.

Duanmu (2011) investigated the impact of corruption on global investors' FDI decisions over WOS and JV in the Chinese market. The research suggested that as corruption distance increases, MNCs would prefer WOS over the JV mode. The underlying reason might be related to a high level of uncertainty in market outcomes such as profits. Furthermore, Duanmu (2011) distinguished the direction of corruption distance, and found that the FDIs of firms entering the Chinese market from less corrupt home countries than China and those of firms from more corrupt home countries are not the same, although the absolute value of the corruption distance may be identical. The significant relationship between corruption distance and a WOS entry does not exist in situations where MNCs from more corrupt countries or equally corrupt countries enter China. As a matter of fact, corruption distance did not affect the entry ownership strategies of MNCs from more corrupt home countries. As a consequence, Duanmu (2011) research warned that it might be erroneous to use absolute values in measuring corruption distance, as the corruption distance measure is assymetrical. Recent research has acknowledged the assymetrical effect of institutional distance on entry modes (Hernández & Nieto, 2015).

Besides the two lines of opposing evidence, there is also research indicating an insignificant relationship between corruption and equity entry decisions. Uhlenbruck et al. (2006) employed data from 220 international telecommunication development projects in 64 emerging markets. Their results suggest that MNCs are more likely to use the mode of non-equity entry rather than equity entry choices such as JV and WOS as the level of government corruption pervasiveness increases. However, Uhlenbruck et al. (2006) findings did not support a significant relationship between corruption pervasiveness and equity entry via JV or WOS. Additionally, Marrocu, Di Guardo, and Paci (2015) found a U-shaped relationship between host-government corruption and entry ownership decisions of European investors.

Table 2.1 Literature on the relationship between corruption pervasiveness and entry ownership strategy

Studies / Year	Research type	Research context	Theoretical lens	Key findings
Smarzynska and Wei, 2000	Empirical, 381 FDI firms	Turkish firms' entry ownership decisions into East-European and Central Asian transitional countries	TCE	Host-country corruption↑, JV↑
Meyer et al., 2009	Empirical	MNCs entering four emerging countries	Institutional theory and RBV	Institutional framework↓, JV↑; Institutional framework↑, acquisition↑
Javorcik and Wei, 2009	Empirical, 262 firms, 720 entry data points	MNCs entering international markets	TCE and RBV	Host-country corruption↑, JV↑
Dermibag et.al., 2007, 2010	Empirical	Turkish MNCs entering five Central Asian countries	TCE	Corruption pervasiveness in a host country↑, JV↑
Dermibag et al., 2009	Empirical, 522 Turkish MNC subsidiaries	Turkish MNCs in international markets	TCE	Host-country corruption↑, JV↑
Karhunen and Ledyeva, 2011	Empirical, 1314 entry data points	MNCs entering the Russian host market	TCE and RBV	Corruption distance↑, JV↑
Rodriguez et al., 2005	Theoretical	How corruption pervasiveness and arbitrariness affect foreign entrants' entry modes	Institutional theory	Corruption pervasiveness↑, WOS↑
Tekin-Koru, 2006	Empirical	International investors entering Turkey	TCE and bargaining model	Corruption distance↑, WOS↑
Tekin-Koru, 2012	Empirical	Swedish MNCs' entering global markets, manufacturing industry	TCE	Host-country corruption↑, M&A↑; Host-country corruption↑, Greenfield↓
Duanmu, 2011	Empirical, single city data	Global investors from 72 countries entering an Economic Development Zone in China	TCE	Corruption distance 1↑, WOS↑; Corruption distance 2↑, WOS/JV→ ⁵
Uhlenbruck et al., 2006	Empirical, over 400 projects	Global investors in 64 emerging countries	Institutional theory	Corruption pervasiveness↑, non-equity entry↑; Corruption pervasiveness↑, WOS/JV→
Marrocu, Di Guardo, & Paci, 2015	Empirical, 10 industries	Firms from seven european countries entering 137 host markets	TCE	A U-shaped relationship between corruption and entry ownership.

It can be observed from Table 2.1 that the mixed research findings are presented on how host-country corruption pervasiveness influences MNCs' entry ownership decisions. This

⁵ In Duanmu's (2011) research, "corruption distance 1" is the general corruption distance whereas "corruption distance 2" refers to the distance in which MNCs from a more corrupt home country enter China.

prompts us to consider the underlying reasons that might show possible research gaps and herald research directions. Basically, there are three rationales that underlie the inconsistency in research findings.

One important reason is related to the wide variety of research contexts and differences in measuring host-country corruption or corruption distance. Some studies investigate MNCs from a variety of home countries enter a single country, while some others target MNCs from a single home country entering different host countries. Apart from a couple of studies such as Duanmu (2011) and Karhunen and Ledyeva (2011), the majority of studies did not simultaneously consider the corruption conditions of both the home and host countries. Additionally, studies show inconsistent applications of archival sources and measuring techniques in terms of the measurements of corruption and corruption distance. For example, Tekin-Koru (2006) research employed the absolute value of corruption distance; however, it would be more appropriate to distinguish the directions of corruption distance (Duanmu, 2011). This is because even when faced with the same host institutional environment, international firms from a more corrupt home country and those from a transparent developed country have distinctively different strategic reactions and underlying motivations (Duanmu, 2011; Tekin-Koru, 2006). Therefore, it might be erroneous to calculate the corruption distance without distinguishing whether it is a firm from a clean home country entering a more corrupt host country, or a firm from a more corrupt home country entering a less corrupt host country.

Secondly, much research is restricted in scope and lacking in data in a greater or more diverse context and thus lack generalizability. For example, Tekin-Koru (2006) focused on how DC-based foreign investors enter Turkey, whereas Smarzynska and Wei (2000) research is based on how Turkish MNCs enter Eastern BLOC countries. Uhlenbruck et al. (2006) employed data from one single industry, namely, the telecommunication construction industry. Tekin-Koru's (2006) research is based on a single host country, whereas Duanmu's (2011) data focus on the FDIs of only one city. The differences in contexts may explain the discrepancies in research findings. Inconsistent findings from different studies may imply that the influence of corruption on international strategy formulation may be contingent on contextual factors. Only a few studies have incorporated contextual factors into their research.

Lastly, a great number of studies have only considered corruption levels (or corruption distance) per se in examining the implications of corruption, while according to Doh et al. (2003), the uncertainties that are related to corruption are vital factors for MNC managers to consider when devising strategies and actions. Without inclusion of these uncertainty factors, research may yield results that lack generalizability (Rodriguez et al., 2005). For example, some sampling host countries have a high level of corruption pervasiveness but a low level of arbitrariness, and it would be uncertain whether conclusions made under such settings can be applied to MNCs' entry into host countries that have both a high level of pervasiveness and arbitrariness. Furthermore, it is apparent that most research listed in Table 2.1 used only the TCE perspective, although a couple of studies incorporate the institutional view into their research framework. We argue that the integration of both TCE and institutional factors may produce more comprehensive and unbiased results.

(2) Literature on the strategic implications of corruption arbitrariness

Besides the conflicting research regarding corruption pervasiveness and corruption distance, studies on the effects of the second dimension of corruption, i.e., arbitrariness of corruption, is equally mixed and more deficient, see Table 2.2.

The majority of research involving arbitrary corruption focused on “the ambiguity associated with corrupt transactions” in a host country, which is also the principal definition of “corruption arbitrariness” (Rodriguez et al., 2005). There are even fewer studies regarding the relationship between arbitrariness of corruption and MNCs' entry strategies with equally conflicting research outcomes.

In Tekin-Koru (2006) research on how corruption distance affects MNCs' entry strategies in Turkey, the author admitted that it would be Turkey's stable political condition that reduces the value of finding a local partner in that host country. In other words, Tekin-Koru (2006) argued that the level of political stability is an important country-level uncertainty factor that may affect both the mode of entry and the relationship between corruption distance and WOS entry. Unfortunately, Tekin-Koru (2006) did not expand the discussion on how political stability (or political instability), as a source of political arbitrariness, influences international strategies in the presence of corruption.

Uhlenbruck et al. (2006) employed survey questions from a large-scale cross-national executive survey seeking respondents' perceptions involving the uncertainty surrounding

corrupt acts to represent corruption arbitrariness. The research suggested that MNCs are more likely to choose local partnering than WOS where a higher level of corruption arbitrariness exists in a host country market. Nevertheless, the authors did not support the moderating role of arbitrariness in the relationship between corruption pervasiveness and the entry ownership strategy of MNCs.

According to Demirbag et al. (2010) research on Turkish MNCs entering Central Asian country markets, MNCs used political constraint as an important source of political arbitrariness and found that the relationship between political constraint and entry strategies is contingent on levels of institutional development. Where political constraint is lacking, the host government could arbitrarily change the rules of the game and foreign investors might be adversely affected (García-Canal & Guillén, 2008). In developed host countries with more political constraints, Turkish MNCs prefer to enter via WOS; while in emerging host markets, MNCs from Turkey are more likely to partner with local firms where there is effective political constraint. Demirbag et al. (2010) also conducted a factor analysis on archival data and named one of the two factors as “corruption arbitrariness”, which encompasses uncertainty in bribing, uncertainty in trading conditions and in business ethics.

Table 2.2 Literature on the relationship between corruption-related uncertainty (corruption arbitrariness) and entry ownership strategy

Studies/ Year	Research type	Research context	Theoretical lens	Key findings
Rodriguez et al., 2005	Theoretical	How corruption pervasiveness and arbitrariness affect foreign entrants' entry modes	Institutional theory	Corruption arbitrariness ↑ , JV ↑ ; Pervasiveness ↑ & arbitrariness ↑ , non-equity entry ↑
Tekin-Koru, 2006	Empirical	International investors entering Turkey	TCE and bargaining model	Political stability is a key determinant of arbitrariness
Uhlenbruck et al., 2006	Empirical, 400+ overseas projects	Global investors in 64 emerging countries	Institutional theory	Corruption arbitrariness ↑ , JV ↑ ; Pervasiveness ↑ & arbitrariness ↑ , WOS/JV →
Demirbag et al., 2010	Empirical, 522 Turkish MNC subsidiaries	Turkish MNCs in international markets	TCE	Corruption arbitrariness ↑ , JV ↑

One important flaw of extant studies on arbitrariness of corruption is that very little research has been carried out to investigate the components of the arbitrariness. In a country with arbitrary corruption, bribery would not necessarily get the promised services (Rodriguez et

al., 2005). However, what causes the uncontrollability and unpredictability of the bribery transaction processes and outcomes remain largely unanswered.

While Rodriguez et al. (2005) failed to further distinguish between different types of corruption arbitrariness, they admitted that different components of arbitrariness may motivate firms to behave differently to local institutions. Rodriguez et al. (2005) stated that “.....because arbitrary corruption increases environmental uncertainty, it provides incentives for a subsidiary to conform to the local conditions. However, arbitrariness also reduces the perceived economic and legitimacy gains from engaging in corruption, encouraging the firm to resist local corruption” (Rodriguez et al., 2005, p. 391). Therefore, it is necessary and meaningful to further explore how arbitrary corruption emerges and its components.

Moreover, so far the only study involving the interaction effect of pervasiveness and arbitrariness of corruption is based on a couple of survey questions from the Business Environment and Enterprise Performance Survey (BEEPS) database from World Bank (Uhlenbruck et al., 2006). To our best knowledge, few study has investigated the drivers or components of corruption arbitrariness. As a matter of fact, delving into what drives the arbitrariness of corruption will lay a fundamental basis to further the research regarding the second aspect of corruption, i.e., the arbitrariness of corruption.

2.4 Deconstruction of corruption arbitrariness

We argue that the arbitrariness of corruption has different levels of determinants. Individual, transactional and institutional factors jointly shape arbitrariness in corrupt acts.

First of all, corruption arbitrariness is associated with characteristics of the corrupt deal itself. Due to the covert and illicit nature (Luo, 2005), corrupt deals generally are not enforced with written contracts and therefore the transactions will not be protected by the law. As Luo (2005) notes, the bribing deal “cannot be documented and used to prosecute a responsible entity”. Besides, the terms and clauses of either party are never stated in black and white in bribery transactions, which might give rise to more ambiguity with regard to the results of bribery. “This non-specification and related uncertainty creates additional costs and difficulties” (Luo, 2005). Because of the covert and non-specific nature of the corrupt deals, opportunism from the bribees, such as not delivering the service after accepting the bribe, or repeatedly asking for bribes, cannot be prevented or forewarned. All

these add to high transactional costs and uncertainties of corrupt activities (Svensson, 2005). Luo (2005) described this risky situation as “the payer places himself in the potential hold of the receiver, who can later demand additional payment or who may not (or insufficiently) perform the agreed service, without fears of countermeasures from the payer. As a result of this opportunism, ex post uncertainty associated with a corrupt transaction is formidable, especially for the bribing party.” Even having not received the expected service, the bribe payer cannot safeguard his or her interests by resorting to the law due to the illicit nature of the deal. The uncertainties related to potential opportunism of bribe receivers are intrinsic and closely related to the characteristics of a corrupt deal.

Worse still, the secrecy of corruption deals may generate more information asymmetry between the bribe payer and the receiver. A lack of insider knowledge and perhaps the presence of a go-between would make the bribe provider feel less control over the bribing processes and results. As a new entrant to a corrupt market, a foreign firm may be further impeded by its unfamiliarity with the “reputations” of the bribe receivers, namely, the political actors in a given host country.

Secondly, the uncertainties surrounding corrupt deals involve individual and interactional factors such as the character, capability and reliability of the bribe receiver.

Corrupt government officials are in most cases bribe demanders as well as receivers. Their character, preferences and capabilities to a large extent determine the forms of the “bribe” and whether the bribe payers would receive the expected service. If the bribing task is outsourced to a third party such as a political agent, the reliability of this agent would also influence the risks involved in the corrupt deal.

Moreover, potential conflicts between the bribe payer and the bribe receiver may also affect the arbitrariness of corruption. For example, despite the fact that firms engage in corrupt acts to acquire the “rent” (i.e., the short-term benefits from the government), the bribe demander and the bribe supplier may have different perceptions with regard to the size (or the value) of the bribe to be paid, which is closely related to the size of the “rent” (Jeong & Weiner, 2012), as well as the efforts to deliver the service. The difference in value perceptions might also result in unexpected bribery outcomes. If conflicts of this kind arise, the bribe demander may request more bribes to execute the transaction.

Last but not least, the arbitrariness is correlated with characteristics of host country government institutions.

Figure 2.1 Multiple driving forces of corruption arbitrariness

Generally speaking, the arbitrariness is related to how the government institutions are organized as well as how much political discretion that political actors might have (Shleifer & Vishny, 1993). “Organized” corruption regimes generally deliver more consistent and stable bribery results than “disorganized” regimes (Shleifer & Vishny, 1993). Bribes under organized government institutions are similar to a “tax” levied on a firm (Wei, 1997). It is

important and meaningful to discern the institutional underpinnings of corruption arbitrariness, which are more comparable across different nations (Uhlenbruck et al., 2006).

The uncertainty in bribing government officials is related to the institutional traits of the government institutions. If bribes are collected randomly by multiple echelons of officials and government agencies, it will increase the unpredictability and overall costs of bribery transactions for foreign investors. Overlapping government functions and tenuous jurisdiction procedures may lead to repeated and ineffectual corrupt transactions (Uhlenbruck et al., 2006). Furthermore, the political arbitrariness is related to the power structure and management styles of government institutions (Cuervo-Cazurra, 2008; Shleifer & Vishny, 1993). An authoritarian or totalitarian polity may have more corruption-related uncertainties due to its capricious policymaking caused by a lack of political checks and balances (Henisz & Delios, 2001). Political arbitrariness in corruption may originate from government officials' capabilities and willingness to vary a set of necessary approvals to extract maximal bribes. In other words, if politicians' discretion is not constrained by the government institutions, they could alter the rules of the game to maximize the rent (Rodriguez et al., 2005). Another aspect of political arbitrariness is linked with political stability. If national regimes change frequently or demonstrate unstable power structures, the bribery "investment" may be at stake due to the potential power loss of existing political actors with which the firm makes corrupt deals (Henisz & Zelner, 2005).

To conclude this section, we put forward the discussions regarding corruption arbitrariness and suggest that there are individual-level, transaction-level and nation-level factors that comprise arbitrary corruption (see Figure 2.1). We emphasize that both individual and transactional factors are related to specific parties in specific transactions and thus are not country-specific, whereas institutional factors underscore the cause of arbitrariness across countries. While it is challenging to distinguish deal-specific characteristics of corruption from country-specific traits regarding where arbitrary corruption stems from (Rodriguez et al., 2005), we manage to discern three different levels of arbitrariness, which is an important step in furthering the understanding of corruption arbitrariness.

In this thesis, we focus more on institutional arbitrariness of corruption (or interchangeably, "political arbitrariness") rather than deal-specific arbitrariness. We propose that there are three aspects/characteristics of the government institutions that jointly determine the overall corruption-related institutional arbitrariness. The three aspects are a lack of political checks

and balances, political instability and complexity of the government divisions and echelons. These three aspects respectively correspond with corruption-related uncertainties with respect to power structure, power shifts and institutional complexity, which may influence MNCs' strategic entry choices of JV versus WOS.

In the end, it is important to caution that corruption pervasiveness and arbitrariness are connected (Uhlenbruck et al., 2006). In reality there is no such nation that is rampant in corruption where there is little uncertainty in engaging in corrupt acts. Although in the empirical study, we analyse the independent effects of corruption arbitrariness, it is the interaction between pervasiveness and arbitrariness that forms the centre of our research attention.

2.5 Research questions and theoretical framework

2.5.1 Research questions for entry strategy research

Research on how corruption affects the entry strategy of MNEs “is still in its infancy” (Duanmu, 2011). Inconsistent findings in the extant research call for research to fill in the gaps.

Our first research answers this question: If some MNCs choose to directly invest in a corrupt country, how do they strategically cope with government corruption? In corrupt environments, a joint venture with a local partner is a more adaptive way to cope with challenges in local institutions and acquire complementary resources (Peng, 2003). A WOS entry, however, insulates a foreign entrant from negative influences of corruption such as shielding from the opportunism in partnership (Uhlenbruck et al., 2006).

Research in Chapter 3 will look at how corruption affects international marketers' entry strategies between JV and WOS. So firstly, our research question involves whether MNCs prefer a JV or a WOS entry in the presence of host-country corruption.

Secondly, research on arbitrariness of corruption is lacking. We believe that the reason for the inconsistent findings on corruption and entry strategies partially lie in that the majority of research focuses on corruption pervasiveness only, and the research has seldom gone so deep as to explore the arbitrary side of corruption and what the arbitrariness consists of (Rodriguez et al., 2005). Also, despite the fact that a few studies have explored the uncertain

nature of corruption (Rodriguez, Siegel, Hillman, & Eden, 2006; Rodriguez et al., 2005), it is still necessary to provide more insights regarding how the juxtaposition of pervasive corruption (or corruption distance) and arbitrary corruption in a host country collectively shape the entry ownership decisions of foreign firms.

We surmise that along with corruption distance, arbitrariness associated with political institutions in a host country also affect foreign entrants' entry strategies. Host countries that are politically unconstrained or have frequent power shifts engender uncertainties surrounding corruption and may have impacts on MNCs' international strategies and outcomes.

Thirdly, to better understand how the difference in corruption levels between a host country and a home country affect international business strategies, a combined lens of the institutional view and TCE theory could provide broader and more comprehensive insights. Our corruption research focuses on the emerging markets where corruption is often more pervasive and arbitrary than that in DC markets, and institutions play greater roles in determining firm strategies and outcomes (Hoskisson et al., 2000). Only a few extant studies look at this topic from a dual perspective of both transaction costs and institutional theory.

From an institutional view, the prevalence of host-country corruption generates normative pressure for MNCs to engage in local bribery (Spencer & Gomez, 2011). At the same time, the focal foreign subsidiary may face institutional pressures from government stakeholders, as well as ethical constraints from the parent firm (Martin et al., 2011). We hypothesize that host country regulatory pressure caused by political intervention and administrative inefficiency will affect a firm's strategic choice. Moreover, intra-firm normative pressures driven by corporate ethical identity may also affect foreign firms' strategic preferences.

Primarily, the following group of research questions in correspondence to the abovementioned issues have been proposed:

First, will corruption distance affect MNCs' entry ownership decisions? Specifically, As corruption distance increases, how is mode of entry affected? A joint venture, or a wholly owned subsidiary?

Second, will TCE factors (specifically arbitrariness of corruption) jointly shape MNCs' entry strategies with corruption distance? How do pervasiveness and arbitrariness of corruption jointly influence MNCs' entry decisions?

Third, when operating in a country with corruption problems, what institutional pressures do foreign entrants face? How do they strategically react to these institutional pressures in the face of host-country corruption? Does corporate ethical identity serve as intra-firm normative constraint to make a foreign entrant respond differently in the face of corruption?

2.5.2 Research questions for entry performance research

Besides our research on how corruption affects international strategies, we will further the research by answering the “so what” question in Chapter 4. In other words, would different strategic preferences lead to more or less success in corrupt host markets? This follow-up research question would shed more light on the consequences of entry ownership decisions in the face of corruption and thus provide more understanding of organizational outcomes under this circumstance.

For international marketers, it is equally important to ask whether a mode of local cooperation, as opposed to a WOS, generates more successful entries in a corrupt host-country market. The extant research has provided little knowledge on how multinational firms' entry ownership strategies affect their entry performance in the face of corruption.

The host-market success of foreign entrants is determined by the fit between the entry mode and the environment (Brouthers, 2002; Martin, 2013). So the main research question in Chapter 4 can be translated as: Which mode of entry fits better in corrupt environments so that MNCs become more successful in the host environment?

Additionally, in connection to our research framework on how corruption distance affects entry ownership decisions, we will search for answers to the following questions that will deepen the research by bridging firm strategy and performance:

First, will corruption distance affect the entry success of a foreign subsidiary?

Second, would different modes of entry affect the entry performance of a foreign entrant in a corruption setting? What are the performance implications of a foreign subsidiary's entry ownership strategy in a corrupt host country?

Third, would corruption-related TCE factors and institutional factors affect the success of a foreign entry?

Finally, what is the role that a foreign firm's entry ownership strategy plays in the relationship between corruption distance and entry performance?

2.5.3 Research framework

Figure 2.2 Conceptual framework

We integrated relevant constructs from a combined lens of TCE and institutional perspectives (with the organizational identity theory nested) and established a conceptual framework with respect to MNCs' entry ownership decisions and outcomes under the influence of host-country corruption. The complete research framework is shown in Figure 2.2.

We need to notice that in these two studies, i.e., the strategy research and the subsequent performance research, both TCE and the institutional theory are applied, as well as the

organizational identity theory. The organizational identity theory is nested in the discussion of internal institutional pressure, as this theory is important in explaining why firms have different strategic reactions to local corruption.

In the next two chapters, we have designed two separate yet linked empirical studies to address the above-mentioned questions in entry strategies and entry performance respectively.

The first study involves the impact of corruption distance on entry strategies and how corruption arbitrariness (lack of political constrain, political instability) and institutional forces (regulatory legitimacy, corporate ethical identity) moderate these relationships. The second study is a Heckman two-stage study to examine how corruption distance, selected moderators and entry strategy fit enhance entry performance.

3 Corruption distance and entry decisions: An integrated perspective

3.0 Abstract

The difference in government corruption levels between a home country and a host country, i.e., corruption distance, would engender increased operational costs and is accompanied by political arbitrariness.

A large corruption distance also produces liability of foreignness (LOF) as well as liability of outsidership for a foreign firm. For ethical firms in particular, they may face ethical dilemmas in strategic choices in entering a corrupt host market. How to choose a proper entry strategy to circumvent the potential adverse impacts of corruption, therefore, becomes a focus for scholars and practitioners.

Since corruption distance is not symmetrical, our research mainly focuses on foreign investors from a less corruption home country entering more corrupt host country.

This chapter combined the theoretical lenses of transaction cost economics and institutional theory and examines how corruption distance affects MNCs' strategic ownership choices between joint ventures (JVs) and wholly owned subsidiaries (WOSs) by drawing on 529 hand-collected entry data points from US public MNCs. Also, we scrutinize the mechanism of arbitrary corruption, an important dimension of corruption, by deconstructing sources of political arbitrariness in a host country into a "lack of political constraint" and "political instability" and investigating the effects of both sources of political arbitrariness on ownership mode preferences. Furthermore, we analysed the influence of internal and external institutional forces on a foreign entrant's entry choices in the context of corruption.

Results suggest that as corruption distance increases, MNCs are more likely to choose local cooperation. They also tend to choose strategic alliances with a local partner when entering host countries with fewer political constraints. The results indicate that both "lack of political constraint" and "political instability" negatively moderate the positive relationship

between corruption distance and MNCs' strategic preferences for a JV entry, despite a weaker and unstable effect of "political instability".

Through the lens of institutional theory, we reveal that regulatory pressure driven by political intervention from a host government affects a firm's entry choice, apart from the normative influences of corruption pervasiveness. More importantly, we have discovered that as a form of internal institutional constraint, ethical identity affects MNCs' strategic responses to a corrupt environment. As corruption distance becomes greater, international firms with less salient ethical identities show a greater inclination for local adaptation, whereas their ethically conscious counterparts show less conformity in their strategic responses to host-country corruption.

We present discussions and implications based on the findings and show the potential limitations and future directions of this research.

3.1 Introduction

Corruption is termed as the use or abuse of one's public or collective authority for private gains (e.g., Duanmu, 2011; Kwok & Tadesse, 2006; Svensson, 2005). Host government corruption would have profound implications on the strategies and behaviours of foreign investors (e.g., Cuervo-Cazurra, 2008; Rodriguez et al., 2005; Uhlenbruck et al., 2006; Zhao et al., 2003).

Corrupt host country markets are often emerging economies, which lack effective governance but are economically attractive for investors from both home and abroad (Smarzynska & Wei, 2000). Consequently, how multinational corporations (MNCs) strategically enter corrupt host countries has become a topic of interest for academics in international strategy and international marketing research (e.g., Chandler & Graham, 2010; Duanmu, 2011; Smarzynska & Wei, 2000; Uhlenbruck et al., 2006).

The literature has increasingly focused on how host-country corruption, or corruption distance, affects an MNC's entry ownership choices of a joint venture (JV) or a wholly owned subsidiary (WOS) (e.g., Collins, Uhlenbruck, & Rodriguez, 2009; Doh et al., 2003; Habib & Zurawicki, 2002; Karhunen & Ledyeva, 2011; Rodriguez et al., 2005; Smarzynska & Wei, 2000; Tekin-Koru, 2006). However, inconsistent research findings were presented on how foreign firms strategically respond when faced with host-country

corruption. Some scholars argue that a greater corruption distance leads to a foreign entrant's preference for JVs (e.g., Smarzynska & Wei, 2000), whereas others show that international firms are more likely to use wholly owned operations in response to a greater corruption distance (e.g., Rodriguez et al., 2005).

We argue that this inconsistency in research findings is partially attributable to the fact that most research has focused solely on the extent of national corruption, or more precisely the pervasiveness of corruption. Few studies, on the other hand, have tapped into how uncertainty involving corruption (i.e., arbitrariness of corruption), in conjunction with pervasiveness of corruption, affects MNCs' entry ownership choices (Rodriguez et al., 2005). Moreover, although Doh et al. (2003) proposed the two-dimensional typology of corruption, i.e., the arbitrariness and the pervasiveness of corruption, the examination on the arbitrariness of corruption remains limited. Although a few studies have explored the uncertain nature of corruption (Rodriguez et al., 2006; Rodriguez et al., 2005), it is still necessary to further explore what components determine the arbitrariness and how the juxtaposition of pervasive corruption and arbitrary corruption in a host country collectively shape the entry decisions of foreign firms.

What is equally important is how host-country corruption affects an international firm's strategic response through the lens of institutional influences. When a foreign subsidiary enters a corrupt host country, the prevalence of host-country corruption will create normative pressure for the focal subsidiary and its members to engage in corrupt acts (Rodriguez et al., 2005; Spencer & Gomez, 2011). At the same time, the focal foreign subsidiary may face institutional pressures from government stakeholders, as well as ethical constraints from the parent firm (Martin et al., 2011). How does a foreign entrant make strategic choices under institutional influences in corrupt environments?

This research aims to explore the relationship between corruption distance and entry ownership strategy by combining perspectives from transaction cost economics (TCE) and the institutional view. The research in this chapter attempts to draw a broader yet clearer landscape on how a foreign subsidiary responds strategically to host-country corruption by examining the corruption distance, corruption-related political arbitrariness, and institutional pressures.

Drawing on event history analysis (EHA), we have manually collected entry mode information of 529 overseas market entry observations from US-listed MNCs. Through several rounds of modelling and analyses, we have found several important findings. Firstly, as corruption distance increases, MNCs are more likely to rely on a local partner. Secondly, as we have decomposed the arbitrariness of corruption in Chapter 2, we focus on the political arbitrariness of corruption, i.e., either the arbitrariness driven by a lack of political constraint, or that driven by political instability. The empirical findings support both the direct effects of the two types of political arbitrariness. Specifically, where there are more unconstrained political institutions, or a higher level of political instability in a host country, MNCs tend to prefer local cooperation as an entry means. Results indicate that both a “lack of political constraint” and “political instability” negatively moderate the positive relationship between corruption distance and MNCs’ strategic preferences for a JV entry, although the effect is weaker and unstable for “political instability”. By and large, the findings on political arbitrariness imply that the uncertainties in host country political institutions would offset the JV preference under a large corruption distance and make MNCs switch to a full-control mode to reduce risks and gain better operational control.

From an institutional view, we have revealed that regulatory pressure driven by political intervention affects a firm’s entry choice besides the prevalence of corruption. The results show that this regulatory pressure from a host country government reversely moderates the relationship between corruption distance and MNCs’ preferences for JVs.

More importantly, we have discovered that ethical identity, measured by firms’ social and ethical rating scores, as a form of internal institutional constraint, plays a role in MNCs’ strategic entry into a corrupt environment. As corruption distance increases, international firms with less salient ethical identities show a greater inclination for local adaptation, whereas those ethically conscious foreign entrants do not manifest an obvious compliance in their strategic responses to host-country corruption.

This research contributes to the literature of international strategy and marketing in the following ways.

(1) We have provided a better understanding regarding the entry strategies of foreign firms in the context of corruption by using an integrated theoretical lens from transaction cost theory and the institutional view. Moreover, it is a new attempt to synthesize corruption,

corporate social responsibility and international strategy research and examine the interplay of corruption, political risks and corporate ethical identity in affecting foreign entrants' strategic decisions.

(2) We have enriched strategy research into emerging markets from the two dimensions of corruption, i.e., pervasiveness and arbitrariness. We have divided the arbitrariness of corruption into two country-level political drivers and examined the impacts of political arbitrariness on foreign firms' strategic entries. Empirically, by delving into the two types of political arbitrariness, we have provided a contingent view in explaining the inconsistencies in "corruption-ownership strategy" research findings from a TCE view.

(3) We have explained how MNCs' foreign market entry strategies vary as corruption distance changes in conjunction with external and internal institutional pressures. We have identified an indication of the regulatory legitimacy pressure in a corrupt host country using bureaucratic delays. We found this host-country regulatory pressure moderates the relationship between corruption distance and entry choices in a way similar to the role of "political arbitrariness". More importantly, we have examined the internal institutional pressure that was overlooked by previous scholars, that is, the firm-level ethical constraint in the form of corporate ethical identity. We have confirmed its role in influencing a firm's strategic actions, especially when a firm is confronted by an ethically-sensitive topic such as corruption. We have shown that organizational identity has important normative influences on an organization's strategic responses. Also, this research sheds light on the dynamics of the relationship between firm heterogeneity manifested in different levels of ethical identity, and the strategic choices of firms in the context of corruption.

The rest of the chapter is arranged as follows. First we develop hypotheses from TCE and institutional perspectives regarding corruption and entry strategies separately. The next section presents the methodology, sampling and research design, which is followed by analytical results. The discussion and conclusion sections conclude the chapter by discussing the research findings, potential value of this research and pointing out limitations and scope for future research.

3.2 Theories and hypotheses

Modes of entry are fundamental strategies an international firm has to make when entering a new market. This strategic choice would affect the subsequent market operations and marketing progress of a foreign subunit. Basically, to form a joint venture with a local firm or to establish a wholly owned subsidiary are two mainstream FDI entry decisions, which constitute the consequence variable for research in this chapter.

The entry decisions of MNCs are driven by both transaction cost concerns and institutional pressures. Uncertainty factors in the task environments may drive up the transaction costs and directly affect a foreign firm's cooperation and competition. Institutional forces, however, affect strategies and practices of a foreign entrant embedded in the institutional environment indirectly through the process of legitimation. (See the conceptual framework in Chapter 2 for an overview of the integration of TCE factors and institutional forces).

The section below first hypothesizes the relationship between corruption distance and entry ownership strategies.

3.2.1 Corruption distance and entry choices

An environment with pervasive corruption is an embodiment of ineffective and inefficient formal institutions and usually incurs additional costs for firms (Wei, 1997). Following the TCE and institutional logic, there are three underlying mechanisms by which a foreign firm might prefer a joint venture with a local partner as corruption distance increases: 1) for complementary resources 2) for capability and organizational learning 3) for institutional endorsements.

(1) For complementary resources

The resource advantages of strategic alliances in corrupt environments lie in the fact that a foreign entrant could use the complementary resources of a capable local partner, such as business-political relationships for a smoother market expansion.

For an international firm from a developed host country, a greater corruption distance implies that the destination market will be a host country with pervasive corruption, often an emerging market. To succeed in a corrupt emerging economy, political connections are important complementary resources that are typically owned by local firms. The local

business enterprises have more institutional privileges (Luo, 2005). These local partners in an emerging economy are very likely to be large-sized domestic firms, especially state-owned enterprises (SOEs), who have strong social capital and business experiences in local institutions (London & Hart, 2004). As a result, these local partners would have much lower transaction costs dealing with the government than a foreign counterpart.

The firms and business groups in the emerging economies are proficient in leveraging their political capabilities to gain government support and access political resources such as tax concessions, tariffs, industry policies, public contracts, licenses and approvals, government funding, financing, or monopolistic rights (Welch & Wilkinson, 2004). They are also able to use ways of corruption and nepotism and relationship-building (such as ‘blat’ in Russia or ‘Guanxi’ in China) to lobby the government to crack down on the opponents and raise barriers for foreign and new entrants. Therefore, the strategic means of allying with a local partner is an important way to overcome the deficiency of formal institutions in a corrupt emerging market (Hitt et al., 2000).

Rodriguez et al. (2005) argued that pervasive corruption in host institutions will not encourage local partnering, in that a local partner may not reduce the required bribe nor will this strategy increase the legitimacy perception of a foreign subunit. However, the fact is that allying with local firms with political connections may reduce or waive the bribing procedures in that a politically connected local partner (especially an SOE) may possess existing political resources and unique intrinsic political advantages (Li & Zhang, 2007). Furthermore, a foreign firm may also “borrow” legitimacy perceptions by allying with a well-established local firm (Dacin, Oliver, & Roy, 2007).

(2) For organizational learning on building relationship and accessing network

A large corruption distance may suggest that a foreign investor has insufficient knowledge about the domestic institutions, especially about local practices, norms and mind-sets regarding corruption, and thus they may suffer from the LOF (Zaheer, 1995). To enter a host market under a large corruption distance, a foreign subunit from a less corrupt home country learns local knowledge more quickly including how to do business in a corrupt environment, and develops better relationship-building capabilities and political capabilities via local partnering to adapt to the local institutions.

To become more successful in a corrupt emerging economy, a firm relies more on political and relational capabilities than market-based competitiveness, such as differentiated products or services (Wan, 2005). Besides professional connections such as relationships between suppliers and buyers or managerial ties (Peng & Luo, 2000), political capabilities are more important in how to get connected with government officials and related networks, and how to acquire government legitimacy to reduce transaction costs and risk (Hillman & Hitt, 1999), especially in institutionally void countries (Peng & Luo, 2000). In most corrupt emerging markets, political ties and business networks greatly influence a firm's competitive advantage and market performance (Khanna & Rivkin, 2001).

Local firms normally have better political capabilities and closer political ties (Zaheer, 1995). Local firms might also have more experiences on how to avoid or mitigate institutional limits when faced with institutional challenges (Peng, 2003). They know better about how to facilitate transactions and influence the local network to reduce potentially adverse impacts of the institutional environment on firms (Peng & Luo, 2000).

Under a greater corruption distance, a foreign entrant may find itself in need of superior processes of learning from local firms who have established legitimate identities regarding how to do business in a corrupt environment. This learning process will be more effective from a JV partner than a local market competitor, because local practices and experiences are tacit knowledge and the practice is difficult to observe and master in the short term.

(3) For institutional endorsement

Corruption develops on the basis of informal societal norms (Eden & Miller, 2004a). The prevalence of corruption in a host country can be viewed as a type of normative pressure (Spencer & Gomez, 2011).

For a foreign firm from a relatively transparent home country, a positive corruption distance symbolizes that the focal firm is about to enter a host country with a higher level of corruption than that of the home country. A higher level of host-country corruption will create greater pressure for MNCs and their subsidiaries to engage in local bribery (Spencer & Gomez, 2011). In other words, when the corruption distance is great, the pervasiveness of local corruption engenders greater institutional pressure for a foreign subsidiary to engage in corrupt acts, whereas there is less pressure for a foreign firm to behave unethically when the corruption distance is small.

According to institutional theory, when corruption in a society becomes systematically pervasive, corruption itself becomes a socialized process. Government corruption and organizational corruption exist at all levels of government and between firms, therefore, frequent involvement in corrupt acts becomes a routine means to obtain social resources. Firms who do not follow corrupt practices will be in a less favourable market position, and be less likely to be considered legitimate by local stakeholders.

When host country institutions are pervasively corrupt, firms are pressured to adopt unethical behaviours with minimal regulatory sanctions from a corrupt host environment. However, a foreign subsidiary may fear that their unethical practices will be prosecuted by the home country. For example, American MNCs are under regulatory constraints from the Foreign Corrupt Practices Act (FCPA), which prohibits MNCs from engaging in host country corrupt practices.

Although theoretically US MNCs may minimize business practices that directly involve host-country corruption, we argue that due to information asymmetry and the difficulty of oversight for home-country regulating bodies, some firms may use indirect approaches to implicitly engage in host-country corruption to gain host-government support and endorsement (Meyer & Thein, 2014). It is likely that foreign affiliates from a less corrupt home country will use local partnering as an indirect market strategy to cope with host-country corruption (Spencer & Gomez, 2011). They might mitigate the regulatory pressure not to engage in bribing from the home governments, but at the same time comply with the corruption norms in a corrupt host country (Spencer & Gomez, 2011). This can be viewed as a decoupling approach to deal with the co-existence of conflicting institutional pressures (Oliver, 1991). Decoupling normally involves using symbolic structures or practices to comply with some institutional stakeholder(s) (such as home country authorities) while concealing some activities that are considered offensive to the stakeholder(s) but appeal to other stakeholders (such as host country norms for corruption) (Meyer & Rowan, 1977) .

In the meantime, according to organizational signalling theory, an interorganizational linkage via a joint venture with a well-established local organization helps to improve the perception of legitimacy from local stakeholders (Dacin et al., 2007), whereas a WOS mode is likely to be discriminated against by host-country government institutions when the corruption distance is great (Xu & Shenkar, 2002).

From the above-mentioned reasoning we propose H1a:

H1a: A greater corruption distance leads to a higher likelihood that MNCs will choose a JV entry.

In view of different host-country conditions (such as different levels of political arbitrariness) we propose a competing hypothesis that presents an alternative prediction.

It is likely that an MNC will prefer the wholly controlled mode when entering a more corrupt host country. Some corrupt countries are associated with weak legal structures and ineffective intellectual protection that may raise concerns for a foreign firm when it chooses to form a joint venture. The concerns are related to the assets or benefits of the foreign investor that are at risk of being expropriated.

A foreign firm has to prevent critical resources such as its technology from leakage or its intangible assets such as its brand from being damaged or infringed by a local partner. It may become more difficult to reduce inter-partner opportunism in countries with weak governance (Barkema & Vermeulen, 1997; Luo, 2007).

Also, we argue that, since foreign firms from a transparent home country may be required to keep away from corrupt acts or ethically suspicious business practices, it become more difficult to find an ethical business match in a more corrupt host country. Therefore, it is also likely that incompatible ethical standards and business norms in the partner selection stage prevent an ethical foreign entrant from local partnering in a more corrupt host country. The wholly controlled entry mode could ensure better internal control in business practices and insulate the focal subunit from corrupt norms and practices in a more corrupt host environment (Rodriguez et al., 2005).

As a result, it is more likely that an MNC from a transparent country will find it so difficult to tolerate or accept illicit political behaviours or opportunism (Kumar & Das, 2007), or to stand the possible conflicts in dealing with corrupt officials from a local partner (Duanmu, 2011), that it would strategize to resist local corruption using a wholly controlled mode. In more effective institutional frameworks, namely, a less corrupt host country, in contrast, legal enforcement costs and negotiation costs between partners in an international joint venture could be lowered, making local partnering preferable among foreign investors (Dikova & Van Witteloostuijn, 2007).

Therefore we propose the competing hypothesis H1b:

H1b: A greater corruption distance leads to a higher likelihood that MNCs will choose a WOS entry.

Despite the arguments on both sides, we believe that the institutional benefits in allying with a local partner may outweigh the benefits of wholly controlled investment when an MNC is to enter a more corrupt host-country market.

3.2.2 TCE theory and hypotheses

When entering a host country market, an international marketer is faced with a wide variety of environmental uncertainties. Political uncertainties, among them, have exerted profound influences on the internationalization strategies of MNCs. Increasing attention from academia has been placed on the influences of uncertainties in more specific political institutions on business strategies and practices (Henisz, 2000a).

In the context of corruption, we have identified two types of political arbitrariness (e.g., a lack of political constraints and political instability) that are closely associated to the corruption conditions of a host country. We will examine the effects of these two types of political arbitrariness of corruption in the following sections.

(1) Lack of political constraint

The first source of political arbitrariness involves whether a host government has an effective system of checks and balances.

Political checks and balances (also known as political constraint) focus on the policymaking process of government institutions in a given host country. To evaluate whether political institutions are politically constrained, there are two factors to consider.

First, politically constrained institutions generally have political structures that symbolize the separation of political power (Henisz, 2000a). Only by separating the political power into different political actors can the political decision-making process avoid being influenced too much by individual political actors and thus reduce the probability of power abuse and its arbitrary consequences.

Second, it is also important to check the heterogeneity of opinions and preferences (or, the veto points) of political actors in the political structure (Henisz & Zelner, 2005; Tsebelis,

2002), which is a more central attribute and component of political checks and balances (Henisz, 2000a). Heterogeneity ensure that in the process of policy formulation different voices are heard and full debates and trade-offs have been done before a policy is open to the public. Only by having consent from multiple political actors in multiple branches can the government effect a shift in policy. Where political opinions are heterogeneous, the possibility of government decisions being altered by a single politician become slim and thus the policymaking of a nation becomes more formalized.

Only by realizing the two characteristics simultaneously can we view a nation's political structure as highly politically constrained.

The arbitrariness in policymaking (abbreviated as “policy uncertainty”) we mentioned here involves a lack of these political constraints so that the government could arbitrarily change the rules of the game in a way that adversely affects the foreign investors (García-Canal & Guillén, 2008). Accordingly this policy uncertainty, also interchangeably referred to as a “lack of political constraints”, or as “political hazards” (Delios & Henisz, 2003a; Henisz, 2000b), focus on the institutional arbitrariness in government policymaking.

This political arbitrariness may have profound influences on the strategies and practices of foreign subsidiaries (Chung & Beamish, 2005; Delios & Henisz, 2000; Knack & Keefer, 1995; North, 1990). There are mainly two aspects of influences.

First is the arbitrariness in policymaking. The fewer political checks and balances, the more likely the government officials possess greater discretion; accordingly, the more likely firms with close political connections are to reap profits by colluding with the officials in influencing the policies and approvals. Without close political ties, firms may find it difficult to gain support from government authorities in gaining licensing and approvals and winning public contracts (Sheng, Zhou, & Li, 2011).

Second is the inconsistency in policy formulation, interpretation and execution. Arbitrary interpretation and implementation is also rooted in the lack of constraints in government authorities at all levels. As a result of this lack of political constraint, the policies are frequently changeable and there are inconsistencies in policy formulation, interpretation and execution at all levels of the government. To begin with, the rules of the game are easier to be altered due to the uncontained discretion of power (García - Canal & Guillén, 2008). Moreover, where arbitrary policymaking prevails, regulations and government policies can

be volatile with various versions of interpretation where some regulations are even in conflict with each other (Ahlstrom & Bruton, 2001). Abrupt changes of policies would be difficult for a foreign firm to interpret and respond to. To make matters worse, local administrations may interpret the execution of policies at will, causing inconsistency and unpredictability in government policymaking.

(2) Host-country policy uncertainty and entry decisions

Generally speaking, MNCs are averse to entering host countries with a high level of policy uncertainty (Henisz & Delios, 2001). The first question is: In the face of policy arbitrariness in a host country, what modes of entry would a foreign firm prefer if they were to enter the market?

As argued earlier, because this political arbitrariness is accompanied by a lack of political constraint in the government institutions, those who can tap into policies and access political resources could reduce the political risks. We argue that allying with a local partner is preferable for MNCs, as this mode of entry provides a foreign entrant with information and network advantages.

1 Information advantage

Because government policies can profoundly affect industry admission, industrial structure and market changes, forming a joint venture could leverage a local partner's business-political liaisons to acquire some early policy information before its official release, so that the foreign firm could overcome the policy arbitrariness and even gain some first-mover advantages (Luo, 2005).

Besides the benefits in information channels, a local partner generally has better business acumen in sensing the changes and directions of government policies than a foreign firm. A local partner could help reduce the uncertainty in interpreting policies and provide early warning of policy change.

2 Network advantage

Governments in most emerging economies have policies that favor local businesses with political resources (Luo, 2005; Peng, 2003). Firms with rich political resources are normally long-standing local enterprises, especially the state owned or controlled enterprises (Henisz & Zelner, 2005). If an MNC could establish linkages with such enterprises, it could gain

institutional benefits such as special treatment or exemption from policies even under unfavourable policy influences (Henisz & Zelner, 2005). By forming a joint venture with a politically connected local firm, a foreign firm could win more bargaining power in negotiating with the local government and gain preferential policy support, such as tax being reduced or fees waived. In a nutshell, a JV entry could bring about great buffering effects on the possible adverse impacts of policy arbitrariness of a host country.

In contrast, we will then look at the strategic choices in a politically constrained host country. In politically constrained host countries, the stability and sustainability of government policies provide firms with a stable structure for development. Firms operate by abiding by market-based mechanisms with less government intervention (Hoskisson et al., 2000). Since the government's decisions and actions are restricted by the formal institutions, it is less likely for these host country governments to make arbitrary policy changes and thus their political commitments are more credible (García - Canal & Guillén, 2008), with less political risk for foreign investors (Delios & Henisz, 2003a; García - Canal & Guillén, 2008; Henisz, 2000a). Moreover, in an institutional environment with political checks and balances, it is very difficult to identify a key influencer for political lobbying because political decision-making has to go through trade-offs and bargaining considering the interests of multiple stakeholders (such as NGOs, interest groups and trade unions) and veto points from different political actors. In such cases, they reduce the value of relying on a local partner as a policy stabilizer.

Therefore, we propose H2a:

H2a: Other things being equal, the greater the lack of political constraints in the host country government, the more likely MNC subsidiaries are to enter the host market via joint venture.

(3) Interaction effects of policy uncertainty and corruption distance on entry strategies

It is worthwhile to first clarify the difference between “corruption” and a “lack of political constraint”. Countries that lack effective political constraint are often authoritarian regimes, which give rise to opaqueness in political decision-making, and are closely linked to the absence of law and order (Henisz, 2000a; Treisman, 2000), whereas political systems with

adequate checks and balances would suppress the corruption of government officials (Kwok & Tadesse, 2006).

Although the two concepts are interconnected, they are not the same. A corrupt country may also have a political structure of political constraints, such as India and Brazil. Less corrupt countries may also have authoritarian political systems such as Singapore and UAE.

Our research foci are not the correlation between the two variables as long as the correlation would not affect our analysis; we are more interested in how the two different political mechanisms jointly shape a foreign subunit's strategic responses. One mechanism involves the pervasiveness of corruption, the other is related to uncertainty in political policymaking, which is a source of political arbitrariness of corruption.

We surmise that the positive relationship between host-country policy uncertainty and a JV entry might become weaker or even turn negative as corruption distance increases for the following reasons.

Firstly, the more pervasive a host country's corruption conditions, the more likely an MNC is to have increased partnership risks and contract risks (Delios & Henisz, 2003b).

In a very pervasively corrupt environment that lacks an effective rule of law, ambiguity in property rights and unenforceability of the law may obstruct a foreign firm's operations. Under an IJV relationship, a foreign partner may fear that its own interests might be expropriated by a local partner through contractual hazards, free riding on brand reputation, and technological leakage etc. (Brouthers, 2002; Meyer, 2001). Where there are institutional voids, it is likely to be a hotbed of opportunism for local partners and local institutions will discriminate in favour of local firms (Delios & Henisz, 2003a; Luo, 2007). So briefly, a weak institutional governance would possibly increase the asymmetry of information and unfairness in policies and arbitration, which engenders a high level of inter-partner risk.

Secondly, if a host country with rampant corruption also happens to be politically unconstrained, the inter-partner risks would be dramatically increased, bringing to MNCs an overwhelming complexity in dealing with local partnerships, as well as local institutions.

The overwhelming complexity we mentioned when a foreign entrant is about to enter a corrupt yet politically arbitrary host-country involves institutional unfairness and opaqueness that obstructs local cooperation.

When facing policy uncertainty due to deficient political constraint, partnering with host-country firms could alleviate the arbitrariness of policymaking. As systematic partnership risk increases with the enlargement of corruption distance, the benefits of joint ventures to defend against the political arbitrariness in the host country could be gradually offset by the possible harm to a foreign entrant's market benefits, under which circumstances a WOS mode of entry is preferred. Therefore, we argue that corruption distance negatively moderates the positive relationship between host-country policy uncertainty and a JV entry.

Above all, in a corrupt host country where government officials have high policy discretion, the legal system could not effectively safeguard the interests of foreign investments. Worse still, these governments are more likely to take on a protectionist stance (Roy & Oliver, 2009). According to the logic of transaction cost economics, a major concern for an MNC of choosing a wholly controlled mode of entry over a joint venture was that the local environments could not effectively safeguard against opportunism. Under circumstances like this a strategic choice to internalize the transactions would be preferred to reduce the costs of monitoring partners and the possible harm to operational results (Oliver, 1991).

Lastly, although participating in political corruption is a means to “invest” in policies of government at all levels (Boddewyn & Brewer, 1994), in a corrupt host-country with political arbitrariness, the value of finding a local partner might be diminished even though the purpose of allying with locals is to indirectly engage in political activities.

Where a political environment is very corrupt and highly unconstrained (or equally, authoritarian), a foreign subunit has to simultaneously cope with behavioural uncertainty from a local partner and political uncertainties in dealing with multiple government agents under a sole decision maker. To begin with, if the local corruption is rampant, it suggests that there are multiple political agents/actors (on behalf of different competing firms) to lobby, and each could use his or her own political resources to influence the political decisions. Second, if the corrupt political system is also highly arbitrary, the decision maker's policymaking process is influenced by multiple competing lobbying groups and political agents who may possibly have conflicts of interest to influence the sole decision maker. As a result, even by leveraging a local partner's political resources to engage in bribing, a foreign firm may encounter uncontrolled policy changes that might act against the interests of the firm due to the competitive and ever-changing multi-agent situation. It would take time and experience for a foreign firm to access and influence the central

network of the political decision maker to avoid the arbitrariness in corruption. Thus, in pervasively corrupt institutions with a high concentration of power, even accessing local political networks via partnering with locals may not yield the promised effects due to a high level of institutional complexity and uncertainty, and a foreign firm's demand for a local partner thus may be diminished.

BP, for example, prepared to buy equity shares in Royal Dutch Shell in an equity JV project in Angola and had signed the agreements. But this new project was aborted by the manipulating behaviour of the local partner, Angola's national oil company Sonangol and the authoritarian Angola government. This local partner colluded with the Angolan government to abolish the existing agreements and chose another partner, a Chinese investor with more solid political resources (Burgis, Sevastopulo, & O'Murchu, 2014). Since institutional voids in a corrupt political system amplify the drawbacks of arbitrary political decisions, allying with locals can be very risky (Henisz & Delios, 2001; Meyer et al., 2009).⁶ Examples like this may indicate the high partner risks and unpredictable results of strategic alliances in a politically unconstrained yet corrupt host country and therefore that the majority of MNCs know better than to be involved in a partnership. The increasing behavioural uncertainty from local partnering could reduce the value of using a local partner for "insider" information and network access. When political risks become enormous, a WOS entry is preferable (Luo, 2001).

As such, despite the fact that the exercise of strategic alliances with a host-country partner could harvest political resources and reduce country risks (Henisz, 2000b), we believe that this strategic choice has its boundary conditions under which the inter-partner risks are controllable and institutional complexity is manageable.

The juxtaposition of rampant host-country corruption and arbitrary political decisions could involve too much inter-partner risk and perhaps even threaten substantial economic loss, especially for investors from a transparent home country. Under these circumstances, MNCs

⁶ That being said, it does not imply that MNCs would be less likely to engage in host-country corruption in a corrupt host-market with policy-arbitrariness. Research has shown that in institutional environment with changeable policies, ethically questionable MNCs might still bribe officials to win advantages in information or network resources (Luo, 2005), but not necessarily through the strategic means of local partnering.

would be less likely to choose a JV entry than a wholly controlled mode in order to resist or insulate from these uncertainties and risks.

Therefore, we propose H2b:

H2b: Other things being equal, corruption distance will negatively moderate the positive relationship between the policy uncertainty of a host country and the entry preference for JV. In other words, a foreign subunit is more likely to enter a more corrupt host country where the policy uncertainty level is high via WOS.

(4) Political instability

Political instability reflects the stability level of a country's government and the risks of a government being destabilized or overthrown by "unconstitutional or violent means" (Delios & Henisz, 2000). Host country political stability is an important factor for an MNC to consider in making internationalization decisions (Delios & Henisz, 2003b). Regarding political instability, little research has been carried out to explore this factor as a key source of corruption arbitrariness or to investigate how this political arbitrariness influences an international firm's entry strategy in the context of corruption.

A high level of political instability suggests a higher probability of a government being overthrown, and therefore, the risks regarding future policy execution and property rights protection are higher. If a political coup is successful, all current policies and regulations are highly likely to be abandoned. This could incur great political risks for a foreign investor.

Frequent changes in host-country political climates might not only bring potential uncertainties to the future returns of investors, but also increase the risks of expropriation by host country stakeholders (Henisz & Zelner, 2005).

(5) Host-country political instability and entry decisions

Besides choosing to keep away from, or to exit from host countries with high levels of political instability, a preferable alternative strategic choice may be to ally with a local partner.

In the face of political instability, local firms would be better informed and respond faster; whereas for foreign entrants, due to their deficiency of local networks and relationships, there will be disadvantages in information acquisition (Delios & Henisz, 2000). In such

cases, local cooperation enables a foreign subunit to obtain more reliable and timely intelligence.

Allying with locals helps a foreign firm to be better aware of complex political institutions, such as how different parties interact and how policies are formulated under influences from different policy influencers, and how political and/or military climate changes could influence industries and firms. When the political institutions are about to change, firms with political ties via partnering are more likely to have better knowledge and intelligence regarding changes in political situations, so that they could prepare for a strategic adaptation.

Furthermore, forming a joint venture with a capable local firm could provide access to a political network, which is helpful for firms in influencing political actors and policies via lobbying. In politically unstable markets, firms with a wide range of political and social connections would triumph over those without (Henisz & Zelner, 2005).

Henisz (2000b) empirically confirmed that joint ventures are more likely to be established than wholly owned subsidiaries in a politically less stable country. Chan and Makino (2007) also revealed that MNCs prefer to form a lower-equity joint venture with local firms to gain political support in host countries with low levels of political stability.

Hence we propose H3a:

H3a: Other things being equal, the more politically unstable a host country government is, the more likely MNC subsidiaries are to enter the host market via joint venture.

(6) Interaction effects of political instability and corruption distance on entry strategies

We predict that when an international marketer enters a more corrupt host country than its home country, a joint venture would be a preferable choice of entry for the reason of gaining local knowledge and access to politics. We also surmise that in a corrupt country (with a high level of political stability), using the existing political connections of a local partner would increase the benefits of political investment and lobbying. However, if an MNC enters a corrupt host country in great political turmoil, the political benefits of joining hands with a local partner might be less pronounced. There are two underlying reasons for this

prediction: 1) greater partner risks 2) connections and political ties may become obstacles in political upheavals.

1 Greater partner risks

A high level of political instability implies that political stakeholders frequently change, which gives rise to information ambiguity in drastically volatile institutions, while a high level of host-country corruption suggests a higher probability of encountering ineffective judiciary and enforcement of law. Both information unverifiability and law unenforceability in an institutional environment would significantly increase the opportunistic propensity of a local partner (Luo, 2007).

In a politically unstable environment, frequent changes of power would make it difficult for firms to identify and verify the effectiveness of information in the environment. Therefore, it requires a great deal of local knowledge to select a qualified local partner in a politically turbulent environment (Anderson & Gatignon, 1986). Even if an MNC decides to form a joint venture, they might be cautious in choosing a local partner, given the partner risks that may be caused by frequent government power shifts.

A great corruption distance implies that the national governance level of a host country is weaker than the home institutional governance, given that the home country is more transparent.

Given that the political upheavals, along with ineffective legal structures of government institutions increase the short-term orientation and a rent-seeking inclination of firms (Delios & Henisz, 2000), a wholly owned investment would be a better option for foreign firms so that they could minimize inter-partner risks.

Therefore, as the information unverifiability level increases due to a high level of political turmoil and a weaker legal governance owing to a great corruption distance, the transaction costs of forming a joint venture would outweigh the potential benefits in cost-benefit calculations. Henisz (2000b) has pointed out that for firms operating under a weak institutional framework with high levels of political risk, the risks and costs for local partnership would be “magnified”.

2 Existing political connections may become obstacles in political turmoil.

There may be conflicts of interest between different power groups, and when the conflict rises to a high level, there might be a change of power in government institutions. Power changes may have negative effects on firms who are politically connected with a prior political group, especially in corrupt countries. Since a politically corrupt and unstable host-country is not governed by rule of law, previous policies, regulations or even business agreements can be easily changed or nullified by the new political actors in office (Delios & Henisz, 2003b).

MNC managers normally are not able to foresee the political changes due to limited intelligence. If they decide to cooperate with a local partner that has closer links with an incumbent political group, the joint venture might run smoothly when the power group is in office. However, when the power was expropriated or overthrown, this political connectivity via a joint venture may become a barrier or a liability for an MNC to survive and thrive in the local market. Disfavoured political networks make a foreign firm an easy target for political discrimination, expropriation or other forms of retaliation from the new regime in power (Siegel, 2007).

Henisz and Zelner (2005) examined overseas investment cases in Malaysia and Indonesia, both of which are comparably corrupt and were politically unstable at one time. “Investors in Malaysia and Indonesia, for example, took on host country partners with privileged political access, ... Following the 1997 financial crisis, however, electricity investors in Indonesia, where the pre-crisis Suharto government had fallen, were labelled as corrupt on the basis of their ties to the government. In contrast, those who were closely linked through local partners to the surviving Matathir government in Malaysia benefited from their ties.” (Henisz & Zelner, 2005, p. 372). They also examined the case of German company Fraport’s entry failure into Indonesia using a JV mode: “Fraport recently wrote off its investment in the new terminal at Manila airport. The German company formed an equity partnership with a prominent local Chinese family and allegedly made substantial payments to cronies of former President Estrada. However, his successor, President Arroyo, made rooting out corrupt dealings the touchstone of her administration. ... She declared the contract null and void, leaving Fraport with a loss of \$318 million.” (Henisz & Zelner, 2005, p. 372).

When a new government is in office, it is highly likely for them not to acknowledge and often nullify foreign investment projects signed and put into effect by the previous government, especially in government-regulated industries. Once a local partnership project

is nullified, it is likely that it will be suspended for years or even terminated indefinitely, causing a foreign entrant investment losses.

It requires a foreign firm to have strong and extensive political connections and relationship-building capabilities not to be negatively affected by the host-country shifts of power. Even if a foreign entrant has a wide array of political connections and capabilities, it may still incur high costs in coordination and re-bargaining, for example.

Therefore it is very risky to choose a JV mode of entry in a politically volatile yet legally weak institutional environment. MNCs might know better the negative consequences of local partnership in such corrupt yet unstable host markets than to choose a JV mode.

Hence we propose H3b:

H3b: Other things being equal, corruption distance negatively moderates the positive relationship between host-country political instability and a JV entry. In other words, a foreign subunit is more likely to enter a more corrupt host country where the political instability level is high via WOS.

7) Clarifications on the relationship between corruption, a lack of political constraint, and political instability

Before we move on to look at the relationship between corruption-related institutional forces and MNCs' entry ownership strategies, it would be useful to make clear the differences between corruption, a lack of political constraint and political instability.

1 The relationship between corruption and political instability

It is argued that corruption affects the distribution of national wealth and leads to a polarization of incomes, which could affect political stability (Mo, 2001; Pellegrini & Gerlagh, 2004).

Also, in a politically unstable country, people would have more concerns over potential losses of personal assets and social status, and thus may engage more in corrupt acts (Husted, 1999). Shleifer and Vishny (1993) argued that an official's termination of tenure (which can be viewed as a manifestation of political instability) would make his or her behaviour less responsible with more rent-seeking inclinations. However, political instability does not necessarily engender a higher level of corruption. The rise of a new political power might be achieved by cracking down on its political opponents based on their corrupt practices.

Notwithstanding that there may be some connections between corruption and political instability, or between corruption and lack of political constraint (as discussed earlier), the associations between these concepts are not our primary research concerns as long as the constructs are not highly correlated to affect the results of analysis. Rather, our research attention is on the idiosyncratic attributes of these concepts.

2 The relationship between a lack of political constraint and political instability

As discussed in Chapter 2, policy uncertainty (or equivalently, a lack of political constraint) and political instability (or interchangeably, power instability) are two country-level sources of political arbitrariness relating to pervasiveness of corruption.

We should note that although policy uncertainty may overlap with power instability, the two constructs have different influencing mechanisms on MNCs' entry strategies. Policy uncertainty is defined as the uncertainties involving a government's policy formulation, interpretation and execution due to a lack of political constraint in political institutions, and it reflects the political arbitrariness of the policymaking process. In other words, the policy uncertainty focuses on the arbitrariness in policymaking, which stems from the internal structure of a government, as well as the relationships between regulatory branches and agencies, and more importantly, whether veto power functions in political institutions.

Political instability, on the other hand, implies the uncertainty related to frequent shifts of power. Policy uncertainty captures the arbitrary nature of a politically unconstrained polity's decision-making process, whereas power instability refers to the uncertainty related to the rotation of political decision maker(s) or political parties in power. Political instability encompasses more institutional complexity and the influence of changes in political stakeholders/decision makers.

These two different constructs may show various patterns in different countries. For example, some countries have lacked effective political constraint but have had a relatively high level of political stability at one time, such as China, Russia and Vietnam, whereas some others have democratic polities but were politically less stable such as India or Brazil. Furthermore, host countries like Philippines and Zimbabwe have historically lacked both political stability and political constraint.

We should take notice of the fact that policy uncertainty, political instability and an institutional force to be discussed (that is, regulatory pressure from a host country) are not

mutually exclusive as concepts. However, our research focus rests more on how these different conceptions influence a multinational's host-country entry decisions in the context of corruption.

Empirically, we ran regressions individually for these two sources of arbitrariness, namely, a lack of political constraint and political instability. We did not run simultaneous regression for these two types of political uncertainties.⁷

3.2.3 Institutional theory and hypotheses

According to institutional theory, organizational structures, processes and practices are all embedded in different institutional environments and are subject to institutional influences (e.g., Kostova & Zaheer, 1999; Zaheer, Schomaker, & Nachum, 2012). Different institutional forces may enable or constrain business strategies and practices (Kostova & Zaheer, 1999; Meyer et al., 2009).

Corruption distance itself measures the degree of corruption pervasiveness of a host country in relation to the home country. Therefore, a great corruption distance implies a source of institutional pressure. A pervasively corrupt environment suggests higher expectations from local constituents that firms operating within that environment should engage in corrupt acts such as giving bribes (Spencer & Gomez, 2011).

In the context of a foreign firm's entering a corrupt host-country, we identify two institutional forces that matter to foreign firms. One institutional influence is regulatory pressure from the host-country government in the form of bureaucratic delays, and the other is an intra-firm institutional legitimacy pressure in the form of organizational identity.

As stated in Chapter 2, entry ownership choices can be viewed as strategic responses to different institutional pressures. In the next two sections, we develop hypotheses based on institutional theory and the organizational identity literature to explore the dynamics between corruption distance, institutional forces and the entry ownership strategies of foreign entrants.

⁷ This practice is commonly used in strategy research. For example, Meyer et al.'s (2014) study on how shareholder protection and rule of law shape different entry strategies used a similar treatment, running regressions on the two conceptually connected focal explanatory variables one at a time.

(1) Host government regulatory pressure

When operating in a host country market, MNCs need to conform to the rules and norms of external stakeholders such as regulators, the media and the community to gain a corresponding perception of legitimacy (Kostova, 1999).

Host-government legitimacy refers to the approval or acknowledgement by the host government and related agencies that an investor's behaviour is appropriate in the host-country market. In the context of corruption, we focus on the regulatory side of the legitimacy pressure from the host government.

Apart from isomorphic pressure for bribing in a pervasively corrupt host market, another corruption-related institutional pressure comes from the regulatory environment of a host country.

A foreign subunit has to obtain consent from all levels of government in the form of licenses and permits, and go through various administrative procedures.

A certain level of government intervention improves the effectiveness of the institutional structure; however, excessive regulation and approval procedures by government officials may imply that the government has apparent rent-seeking inclinations (Svensson, 2005).

In many emerging markets, an MNC has to go through many regulatory procedures and incur tremendous costs due to bureaucratic inefficiency. These inefficient and sometimes functionally overlapping or unnecessary bureaucratic procedures increase the propensity of rent-seeking for government officials (Doh et al., 2003). Government agencies could deliberately cause bureaucratic delays citing the non-complying behaviours of individuals and organizations, and thus generate a regulatory legitimacy pressure that might affect a foreign firm's business strategies and responses (Doh et al., 2003). This regulatory legitimacy pressure arises in different forms, such as administrative delays, government involvement and intervention.

This type of regulatory pressure affects firms through procedural efficiency and monetary costs in market access, capital investment, technological standards and marketing channels and so forth, and therefore would influence firms' local market expansion and competitive advantage development (Peng, 2003).

The strength of the regulatory pressure of a host country can be reflected in the regulatory procedures and complexity of starting a business. According to the data from *Ease of doing business* (2015), on average it would only cost 0.5 days (and 1 procedure) to register a new firm in New Zealand, however, the corresponding commitments for establishing a new venture in China and Zimbabwe are respectively 30 days and 90 days. This regulatory pressure from the host-government may exert more adverse effects on newly established firms or initial foreign entrants. For local market expansions, these new firms need host-government approvals and support in land, infrastructure, natural resources and capital financing, to name a few. Due to the “liability of newness” or “liability of foreignness”, these firms may be discriminated against or even be severely interfered with by government institutions in business operations. For instance, IKEA’s initial entry into the Russian market in 2002 was an illustrative example. Since IKEA refused to pay bribes to local officials, the store was deliberately put into administrative troubles from the government such as having the license for electricity suspended and was adversely affected by unnecessary regulatory procedures. If this regulatory legitimacy from the host country can be secured, a foreign firm may experience fewer regulatory burdens and increased support from the local government.

This political legitimacy pressure not only brings about the need for facilitating payment or other forms of corruption, but also indicates that local political connections may circumvent this situation. In industries and regions with excessive regulatory control, firms are more likely to use corrupt acts to react to regulatory pressures (Luo, 2005).

Bribing officials or paying facilitation costs reduces the hindrance of local regulations and produces gains in efficiency, but the effect is not once-and-for-all.

In host countries with great regulatory pressure of this kind, market rules are manipulated by the “invisible hand” of the host government. This implies that firms operating in such environments have to pay tremendous economic and social costs. If businesses want to avoid being hassled by officials and pay less facilitation costs, deploying strategies to establish connections with officials could be a desirable alternative. In an emerging economy such as China or a LDC such as Zimbabwe, the regulatory pressure from the governments would encourage more firms to rely on ties and relationships rather than rules to do business (Peng, 2003). For example, where there is great pressure from government

intervention in Russia, firms could build ties with government officials to ensure a smooth running of the business (Venard, 2009).

An MNC could work with a politically connected local partner for their help in avoiding some regulatory hassles or expedite the process due to their existing social capital (London & Hart, 2004). A capable local firm may be connected with regulatory bodies or government officials, and could help facilitate regulatory approvals and reduce institutional complexity.

Moreover, allying with locals sends a signal that the focal foreign entrant is willing to adapt to government requirements, making it easier for an MNC to gain government legitimacy (Chan & Makino, 2007).

Previous findings have supported the proposal that in a host-country institutional environment where the level of government intervention is high with more regulatory restrictions, MNCs are likely to choose a joint venture over a wholly controlled entry (Luo, 2001; Yiu & Makino, 2002b).

Therefore, we propose H4a:

H4a: The greater the regulatory pressure from the host-country government, the more likely a foreign entrant is to choose a JV over a wholly owned subsidiary.

We have argued that a great corruption distance for a foreign firm from a DC home country may imply great isomorphic pressure to engage in corrupt acts (Spencer & Gomez, 2011). We predict that the need for a joint venture partner due to rising regulatory legitimacy pressure may not be homogeneous in all institutional environments.

In extremely corrupt host countries, corrupt activities may permeate through every aspect of the society and even become an integral part of a business culture. In these countries, both petty corruption such as facilitation payments, and grand corruption such as kickbacks or extortions in licensing and program approvals become so pervasive that bribes become regulatory requisites. In a severely corrupt host market, officials show a very strong rent-seeking inclination, and firms may experience endless extortions and bribe-seeking behaviours. We suggest that where a high level of corruption distance (indicating a high normative pressure to bribe) as well as a high level of regulatory pressure to bribe co-exist, it is predictable that with or without a joint venture partner, a foreign firm's pressure from corruption cannot be reduced, suggesting that in such institutional environments even

partnering with locals could not effectively reduce regulatory costs and improve efficiency. Under circumstances like this, MNCs' need for a local partner in response to institutional pressures might be diminished. For this reason, we surmised that under an overwhelming external isomorphic pressure to bribe in conjunction with great regulatory hurdles for rent-seeking, engaging in corrupt acts and experiencing regulatory delays are inevitable costs for firms. Simply put, where both normative and regulatory pressures are overwhelmingly great, a foreign firm has to pay high transactional costs with or without a JV partner, and furthermore, managing a JV relationship requires additional coordination and monitoring costs.

When the external legitimacy demands are multiple and at a high level (namely, a high level of normative pressure for engaging in local corruption, as well as a high level of regulatory pressure from the host-country government), it may impose enormous institutional complexity and burdens on the MNCs. Therefore we surmise that in the face of overwhelming institutional pressures, foreign firms may feel too many external expectations to engage in corrupt acts, and it is more likely that MNCs will choose a WOS strategy rather than relying on a local partner.

Therefore, we propose H4b:

H4b: Corruption distance will negatively moderate the positive relationship between regulatory pressure from the host government and an MNC's inclination of entry via JV. In other words, a foreign subunit is more likely to enter a more corrupt host country via WOS where the regulatory pressure is great.

It is important to point out that although pervasiveness of corruption is a source of institutional pressure to bribe, it is different from the regulatory pressure from the host-country government. Corruption pervasiveness is a type of normative pressure rather than a regulatory pressure (Spencer & Gomez, 2011), in that engaging in corrupt acts are non-coercive and also cannot be codified as government regulations in most cases. Pervasive corruption indicates a higher frequency of adopting corrupt practices by local firms, which may incur more isomorphic pressure for a foreign entrant. Therefore, we believe that the institutional pressure driven by pervasive corruption is normative rather than regulatory. In contrast, regulatory pressures take the form of codified government regulations and administrative procedures.

In terms of the relationship between pervasive corruption and regulatory pressure in the form of government intervention, we should admit that the two conceptual components are mildly correlated, as where there is a high level of government intervention, officials have more discretion to deploy social resources and therefore have more room for rent-seeking (Acemoglu & Verdier, 2000). However, it is suggested that heavier government intervention will not necessarily lead to a higher level of government corruption (Li, Moy, Lam, & Chu, 2008). We assume as long as the correlation between the two explanatory variables is not so high as to affect the model estimates, we acknowledge that the regulatory pressure is different from the normative pressure driven by pervasive corruption. We emphasize how this institutional force affects a foreign firm's entry ownership decisions as a type of external institutional pressure.

(2) Corporate ethical identity

To obtain external legitimacy, MNCs have to meet the expectations of host-country stakeholders. In this research context, foreign firms are motivated to engage in bribing activities to meet the expectations of corrupt host-country officials.

At the same time, these multinational firms are under constraints from internal constituents such as their home country, as well as intra-firm institutions, and thus they may face internal legitimacy pressure (Yiu & Makino, 2002b). Internal legitimacy refers to "the acceptance of an organization by its internal constituencies" (Kumar & Das, 2007). As a result, organizational structure, processes and outcomes are under normative scrutiny from the internal institutional constituencies on whether they are appropriate and desirable (Suchman, 1995). For foreign affiliates, the intra-firm institutional constituencies include firm structure, procedures and routines, corporate culture and the managing styles of the top management, and also from a broader sense, regulations, norms and expectations from the home country.

An ethical evaluation of a firm and its activities focuses on whether firm structures and behaviours comply with ethical/unethical norms from institutional constituencies (Martin et al., 2011).

This internal legitimacy pressure, in contrast to the external legitimacy pressure, is often ignored by scholars, and thus there is scarce relevant research (Kumar & Das, 2007; Yiu & Makino, 2002b), especially studies that discuss intra-firm legitimacy pressure.

Parent firms' institutions determine the resource acquisition and overseas strategies of their subsidiaries. Also, the intrinsic requirements, restrictions and expectations of a parent would cause institutional pressures for subsidiaries' practices in foreign countries (Kostova, 1999; Peng et al., 2008). That is why a foreign subunit's strategies and practices must align with the corporate structure, standards, and practices of its parent firm to gain support and acceptance (Chan & Makino, 2007; Kostova & Zaheer, 1999).

Following the same logic, ethical parent firms' institutions would generate pressure on the foreign subunits' ethics-related decisions and actions. As a matter of fact, some multinationals would refuse to engage in corrupt activities for ethical concerns (Habib & Zurawicki, 2002), and some others would discourage or discontinue their subsidiaries' business practices if they were suspicious of unethical behaviours (Musteen et al., 2013).

By and large, little has been studied on how the intra-firm ethical institutions affect a firm's business strategies (Martin et al., 2011; Voss, Cable, & Voss, 2006), let alone in the context of international business and marketing. Furthermore, little evidence has been provided on whether the ethics-relevant institutional pressure from parent firms will play a role in an MNC's strategic behaviours when faced with local corruption.

We argue that as an important mechanism of intra-firm normative judgment, organizational identity may influence the strategic behaviour of firms and guide the decision-making and practices of managers and employees. Organizational identity affects firms' choices and decisions (Voss et al., 2006), as well as forms the judgement basis for firms' normative responses (Martin et al., 2011).

Organizational identity is rooted in, as well as an important representation of, organizational culture and values (Balmer et al., 1997). Corporate culture and values as firm-wide shared memories, norms and beliefs are very likely to incur cognitive sunk costs to the firm managers when they make investment decisions (DiMaggio & Powell, 1983). The managers are inclined to make decisions on organizational structures, processes and practices that are congruent with the corporate culture and values, otherwise the decision may be deemed unjustifiable or illegitimate.

Following a similar vein, we assume that a salient ethical identity, namely the ethical aspect of the organizational identity, may affect a firm's strategic decisions, especially in ethics-relevant scenarios. In particular, we surmise that when ethically conscious firms enter a

corrupt host-country, their ethical judgements and decisions regarding how to enter the market are different from those of ethically-unconscious firms.

1 Definitions of organizational identity

Organizational identity generally is referred to as “what members perceive, feel and think about their organizations” (Balmer et al., 1997). It points to what is central, enduring and distinctive about an organization’s character (Albert & Whetten, 1985; Whetten & Mackey, 2002). Organizational identity includes organizational values, organizational visions and missions, organizational beliefs, organizational knowledge and skills and so on. Accordingly, organizational identity is conveyed through its values, missions, actions and associations of the firm’s values and goals (Brickson, 2005).

The core component of organizational identity is how organizational managers define themselves and how internal constituents perceive its central values (“who we are”) and its activities (“what we do”). It then expands to how external constituents perceive the organization. Conceptually, there are several interconnected conceptual components involving organizational identity in accordance with different stakeholders. A desired image or projected image refers to how firm decision makers wish the external audience to understand and assess the firm (Whetten & Mackey, 2002). A construed image is what internal members see in a firm, whereas corporate reputation is the actual perception of the corporate identity by the external constituents (Brown et al., 2006). In other words, corporate reputation is the feedback from external constituents regarding the credibility of the desired image of a firm (Whetten & Mackey, 2002). Both corporate image and corporate reputation are associations of organizational identities from internal and external stakeholders (Dutton et al., 1994). In other words, corporate identity is the nexus of corporate images and corporate reputation.

For external stakeholders, they make subjective associations and appraisals based on the conveyed corporate values and culture from a wide range of corporate activities. For internal constituencies such as employees, organizational identity provides a cognitive framework in making decisions and behaving (Brown et al., 2006; Whetten & Mackey, 2002).

The influence of organizational identity on an organization’s members is reflected in that TMT (top management team) members would refer to a firm’s organizational identity as guidelines for decision-making and actions. In this way the organizational members convey

decisions, processes and activities that are congruent with the identity (Whetten & Mackey, 2002). Organizational members who truly recognize this organizational identity would embed the identity into their self-definition through reinforced behaviours, and thus become holders of this identity (Ashforth et al., 2008). Organizational members would interpret this conveyed organizational identity and enact it by demonstrating behaviours compatible with it (Hatch & Schultz, 2002; Whetten & Mackey, 2002).

Following the definition of Albert and Whetten (1985), if a firm's ethical beliefs and actions are deemed as "central, enduring and distinctive" to itself, it is a firm with genuine and salient corporate ethical identity. Naturally, firms with genuine and salient ethical identities have higher levels of moral consciousness and proactively engage in a wide array of CSR activities such as protecting the environment, defending human rights and preserving business integrity and so forth. Likewise, these firms should have excellent, consistent and enduring CSR records and reputations (Martin et al., 2011), and they would heed activities that would be detrimental to the ethical images of the firms (Musteen et al., 2013).

These ethical firms would not only establish consistent, distinctive and lasting ethical images for external stakeholders, but also incorporate the ethical culture into their internal system to constrain organizational decisions and practices that may damage the organization's ethical identity and image (Stevens, Kevin Steensma, Harrison, & Cochran, 2005). The more salient a firm's ethical identity, the more likely decision makers are to internalize the ethical requirement as a reference for strategic responses and behavioural guidelines (Martin et al., 2011).

2 Corporate ethical identity and entry decisions

It is very likely that a genuine and salient ethical identity of a parent firm would exert normative pressure on the strategic responses of foreign subunits in their market entries, as foreign subunits are ambassadors of their parent firm's ethical values and are representations of their parent firms' ethical identities. For example, many ethically conscious MNCs have strict ethical codes of conduct for expatriates, and some ethical foreign investors choose to avoid investing in corrupt host-countries (Cuervo-Cazurra, 2008).

According to institutional theory, stronger intra-firm institutional forces (internal isomorphic pressure) would require a firm to have a high level of control; in this case, a foreign subunit would be more likely to adopt a WOS entry (Davis et al., 2000). We believe

that a foreign firm with a distinctive ethical identity would be more inclined to cultivate local employees and instil ethically compatible corporate values, processes and practices. In this way, they could have complete control over the structures, routines and practices of the foreign subsidiary and thus reinforce the ethical identity. From this sense, a hybrid identity established through forming a joint venture with a local firm may threaten a firm's original identity.

For international firms with high moral standards and ethical reputations, the more incompatible the internal values and practices between the focal foreign firm and potential local partners in a host-market, the less likely they would choose to form a joint venture to obtain extra benefits such as local legitimacy (Rao, Chandy, & Prabhu, 2008). We surmise that through forming an international joint venture, local partners' values, routines and practices may jeopardize the well-established existing ethical identity of a foreign entrant. The more salient and remarkable the ethical identity is, the more unlikely they would choose to join with a partner with a different or even incompatible identity.

Hence we propose H5a:

H5a: A more salient ethical identity of a foreign parent firm will give rise to a higher likelihood of WOS entry.

3 Corruption, corporate ethical identity and entry decisions

A greater corruption distance may imply greater differences in ethical values and practices between a foreign entrant and the local firms. A greater corruption distance suggests more pervasive corruption in host institutions, and thus more isomorphic pressure to engage in local bribery for a foreign firm from a less corrupt country (Spencer & Gomez, 2011). We have argued earlier that as corruption distance increases, foreign firms have greater motivation to rely on local partners to indirectly access political resources.

In a rampantly corrupt host market, the local partners are highly likely to engage in bribing activities (Spencer & Gomez, 2011; Wan, 2005). Compared with the internalization mode of governance, allying with locals in a corrupt host-country could put a foreign partner in a position to face greater pressure to engage in unethical or even illegal acts such as bribing officials and giving kickbacks (Spencer & Gomez, 2011).

Therefore, we surmise that the ethical identity of a parent firm may serve as a negative moderator between corruption distance and the likelihood of choosing a JV entry. In other words, for foreign entrants with more salient ethical identities, their likelihood of choosing local partnering falls as corruption distance increases; whereas their ethically unconscious counterparts are more likely to ally as corruption distance increases.

As an internal expectation and requirement, ethical identity may drive a foreign firm and its subunits to follow internal ethical standards when making decisions (Stevens et al., 2005). This is why we believe firms with different levels of ethical standards would have different internal motivations and thus would take different strategic actions toward even the same external institutions (Martin et al., 2011). “For some firms, ethical behaviour appears to permeate their reason for being and is ingrained into the fibre of their identities. For other firms, ethical behaviour simply can be attractive as a source of differentiation that garners a powerful and positive market response” (Martin et al., 2011, p. 575). For ethically unconscious firms, their strategic responses are more adaptive to the external institutions; even if they engage in some CSR activities the underlying reasons are more for gaining competitive advantage (Martin et al., 2011). For genuinely ethical firms, their strategic choices and actions are not merely for the ends of maximizing profits and to “do the things right”, but for pursuing values and to “do the right things” (Livengood & Reger, 2010). As a result, the managers and employees face more intra-firm ethical pressure to make decisions and behave in an ethically compatible manner (Treviño, Weaver, & Reynolds, 2006).

When entering a corrupt host country, an ethical firm may fear that their distinctive and central ethical attributes could be tarnished by unconsciously imitating unethical practices followed by their local partners. Therefore, for ethical firms, full-control modes are preferable in the context of corruption, as the headquarters could have more effective control of the processes and practices. The WOS mode enables a firm to resist being influenced by the unethical practices of local institutions (Luo, 2006). Additionally, some research suggests that MNCs with high moral standards could counteract the local environment (Kwok & Tadesse, 2006; Luo, 2006).

For firms with lower ethical levels, when they enter a host country with a greater corruption distance from the home country, they tend to prefer a localization strategy, i.e., the JV mode. These firms would adhere more to host country institutions and imitate local competitors’

practices, and even unethical acts. For these firms, their purpose of sporadically becoming involved in ethics is mostly for market competition, as managers' decision-making and actions are less likely guided by internalized ethical values. As a result, they are less likely to encounter conflicting ethical expectations from the host country and the parent firm, and thus demonstrate more conforming behaviours toward the host market. Specifically, in the more corrupt host markets, firms with lower ethical standards may prefer allying with locals to access political ties and resources. Evidence has shown that as perceived corruption increases, firms that care less about ethics prefer to utilize social ties and relationships to deal with the government (Luo, 2006).

Hence we propose H5b:

H5b: The ethical identity of an MNC will negatively moderate the positive relationship between corruption distance and JV entry of a foreign subsidiary. In other words, a foreign firm with a more salient level of ethical identity is more likely to enter a more corrupt host country by WOS; whereas their ethically unconscious counterparts are more likely to choose a JV entry as the corruption distance increases.

3.3 Sample, data and methodology

3.3.1 Sample and data collection

Our research focuses on US public firms with overseas subsidiaries. We referred to the name list of over 3,000 parent MNCs in the MSCI ESG 2007 database to build the sample frame. Drawing on the event history analysis (hereinafter, EHA) approach, we obtained data related to foreign market entry strategies in the form of strategic alliances or a wholly owned subsidiary from archival sources such as Lexis-Nexis and AB/Inform.

We focus on foreign subsidiaries' host entry cases in the period of 2000-2013, historically tracking and retrieving host country investment details.

Why do we choose to examine corruption and business strategies from the year 2000 onward? It is since the new millennium that government corruption has become a global issue, receiving attention in worldwide politics and business area, despite the fact that research on country-level corruption became formalized with the establishment of Transparency International in 1983 (Judge, McNatt, & Xu, 2011). From 2000 onwards, major emerging economies such as China and India have become attractive transitional economies (Papyrina,

2007), and LDCs have entered the business agendas of international firms as well (Cuervo-Cazurra & Genc, 2008). As MNCs have entered these emerging and LDC markets, government corruption has become a challenging and unavoidable problem for FDI investments for MNCs from developed economies.

3.3.2 Tracking the historical market entry: The EHA technique

The EHA technique is used to capture the critical details (e.g., modes of entry, year of entry and host country experience, etc.) of an international firm's host market entry. This methodology has received wide-spread acknowledgement and application in marketing strategy and international management. For example, EHA has been adopted in examining entry mode choices (García-Canal & Guillén, 2008), market entry success (Johnson & Tellis, 2008), market survival (Meschi & Riccio, 2008; Thomas, Eden, Hitt, & Miller, 2007) and market exiting behaviours (Perez-Batres & Eden, 2008), as well as IJV performance (Barkema & Vermeulen, 1997; Talay & Cavusgil, 2009). In recent years, the event history methods have been included in research on IJV partner selection (Shi, Sun, & Peng, 2012) and the market entry strategies of SOE firms (Meyer, Ding, Li, & Zhang, 2014).

To perform the EHA technique, we first develop a pool of keywords, and then search and retrieve articles about a given firm's given market entry case from periodical archives LexisNexis and AB/Inform. These two periodical databases encompass a wide range of newspapers and magazines at international, regional and national levels, and have been well established for EHA-based research of this kind (García-Canal & Guillén, 2008; Golder & Tellis, 1993). Furthermore, we use firms' annual reports and company website information to supplement information and triangulate historical facts. After that, we summarize the facts and evidence from the articles, and finalize associated information for analysis such as the entry mode and entry year (García-Canal & Guillén, 2008; Golder & Tellis, 1993).

Drawing on the EHA process from Johnson and Tellis (2008) and García-Canal and Guillén (2008), we took the following steps for the historical tracking and analysing each market entry case of a given international firm:

- 1) After having read news articles on the emergence of a joint venture, a merger, an acquisition or a Greenfield investment, we have developed a keyword list (e.g., "entry", "expand/expansion", "joint venture", "tie-up", "partnership", "merger", "cooperation",

“acquisition/acquire”, “takeover”, “buy”, “affiliate/subsidiary”, “long-term agreement” and “exit market”, etc.), which helped us locate overseas market entry cases.

2) Drawing on the parent firm name list from the MSCI ESG database, we search the combination of “firm name + keyword” in LexisNexis and AB/Inform for each foreign parent firm. In this way, we retrieve articles related to all strategic host entry cases of a given firm. We sort out the articles and confirm the entry events around the focal firm. Afterwards, for each host market entry, we finalize the details on whether the entry is via local cooperation or a full control mode, as well as the time when a foreign subsidiary or a strategic alliance relationship was established, etc. Based on these details, the value for our dependent variable “entry mode” is set (a value of 1 is assigned if the entry is via WOS and 0 if it is a JV entry), and variables such as “host country experience” can be calculated based on “year of entry”.

3) Once the process is completed, we go back to Step 1 and use a different keyword to iterate the process and expand the search scope until sufficient historical facts and records regarding a firm’s host country entry have been collected. To supplement the limitations of news reports, we also draw on various other sources such as company annual reports or company websites, or other means such as using search engines for the purpose of triangulation or obtaining extra intelligence.

In the information searching and extracting process, we have used reports, records and narratives from various global and local well established newspapers and magazines. The most referred publication sources include, but are not limited to:

Bloomberg Business Week, CBN Daily (Beijing), Chicago Daily Herald, China Daily, Daily News (New York), The Daily Telegraph (London), The Deal Pipeline, Economic Observation (Beijing), Edmonton Journal (Alberta), The Daily Telegraph (London), The Economist, The Economic Times, Express Business (Sri Lanka), Financial Times (London), Forbes, Fortune, The Gazette (Montreal), Globes (Tel Aviv, Israel), Harvard Business Review, Herald Sun (Melbourne, Australia), India Retail News, India Energy News, India Pharma News, The International Herald Tribune, Investor’s Business Daily, National Business Daily (Beijing), The New York Times, New Straits Times (Malaysia), The Times of India (India), Manila Standard Today (Manila, Indonesia), Reuters, Sunday Tribune (South Africa), Thompson Financial, People.cn (China), The Pioneer (India), South China

Morning Post, Sunday Observer (Sri Lanka), Telecommunication World (China), Wall Street Journal, The Vancouver Sun (British Columbia), Xinhua News Agency (China)

We maximize the measuring validity in the historical analysis process by strictly sticking to the five critical criteria set up by Golder and Tellis (1993):

- 1) Competence: we have used famous newspapers and magazines for information sourcing.
- 2) Objectivity: we have tried to find third-party unbiased historical accounts from both a home country and a host country perspective.
- 3) Reliability: we drew on multiple reports to verify a fact of foreign market entry, and tracked the entire market entry progress, which laid a foundation for the analysis of the foreign firms' entry performance in Chapter 4.
- 4) Corroboration: we have used evidence from multiple sources to triangulate critical details of the entry cases.
- 5) Contemporaneity: The news reports we referred to do not have a long time lag behind the occurrence of the entry event.

Having controlled the research processes and followed the criteria, we are confident about the validity and reliability of the entry data collected.

As a result, in total we have identified 590 foreign market entries into different countries during the period 2000-2013.

It is important to note that the MNCs in this research are limited to the local market-seeking MNCs. Put another way, we are focusing on MNCs' market entries for the purpose of host market entry and expansion. Only market-seeking MNCs will simultaneously consider boosting local sales and mitigating host country risks. Local market development also has more to do with local government corruption than FDIs with other purposes such as global sourcing (Zaheer, Gözübüyük, & Milanov, 2010). As a result, we have screened out foreign entries whose primary purposes are not market seeking.

In total, 52 foreign entry cases for the purpose of global sourcing or financial arbitrages were taken out, in that these entry objectives are outside our research scope. In addition, we discarded another nine joint venture cases in which a host country partner was not involved.

In the sample, there may be multiple entry cases using different entry modes for the same parent firm; these cases will be treated as multiple observations. Similarly, different local cooperation projects from the same foreign parent will be treated as individual cases.

After the two-round exclusion processes, we have created a sample of 529 overseas subsidiary entries in 71 host countries. Because of the existence of missing values in country-level archival data that are used to match the entry behaviours of MNCs, the sample size for our statistical analyses varies from 508 to 512.

For details regarding the sample characteristics, see the “Data and results” section.

3.3.3 Variables and measurements

Both archival data and manually collected data (i.e., the EHA-based entry-level data) will be used to test the conceptual model. Most of the antecedents and moderating variables are from country-level data sources such as the World Bank and Transparency International, whereas the firm-level “ethical legitimacy pressure” is measured by referring to the social performance recordings from the MSCI ESG database for individual firms. As is explained in the previous section, the entry behavioural data are retrieved from periodical databases. Details of the measures are explained as follows.

(1) Dependent variable: Mode of entry

As joint ventures (JVs) and wholly owned subsidiaries (WOSs) are the two principal and prevailing forms of FDI entry decisions (Brouthers, 2002; Gaur & Lu, 2007; Yiu & Makino, 2002a), we chose these two strategic choices as the research subjects.

MNCs’ foreign market entry can be divided into two types: equity-based entry and non-equity-based entry (Hennart, 1988). The equity entry encompasses equity JV and full-control investment options (i.e., Greenfield investment and full acquisitions); whereas the non-equity entry includes exporting and contractual entry types (e.g., franchising, R&D contracts and production alliances, etc.) (Peng, 2013).

Coupled with equity JV, franchising and long-term co-developing agreements, which are forms of contractual JV, are seen as affiliating to a broader definition of “joint ventures” (Tallman & Shenkar, 1994). Equity JV is an ownership-sharing and independent new organizational entity, while contractual JV involves cooperating relationships only. Our

focus here is on strategic alliances that share knowledge and resources by using the possible types of partnership (such as franchising or equity joint venture). Accordingly, when operationalizing the variables, we categorize an entry behaviour as a “JV” as long as a foreign firm chose a form of local cooperation for the purpose of co-developing the host market.

For the entry forms of WOS, both a full-equity acquisition and a Greenfield start-up are viewed as a “wholly owned operation”. Greenfield investments are a form of foreign investment that establishes a venture from scratch without existing facilities. A full acquisition is carried out by a foreign firm acquiring 100 per cent equity shares (and also existing facilities) in a firm in the host country. In both modes of establishment, a foreign parent has the full control of its local subsidiary.

We use a dichotomous variable to define the dependent variable “mode of entry”. A JV is labelled as “0” and a WOS as “1”. To distinguishing between an equity joint venture and a wholly owned venture, we use the commonly used 95 per cent threshold (Delios & Henisz, 2000; Gaur & Lu, 2007). Market entry cases with a foreign firm taking up 95 per cent or more ($\geq 95\%$) of the local equity will be labelled as a wholly owned subsidiary, and otherwise as a JV.

We did not use 90% or 99% cut-off points to distinguish equity JV and WOS in the robustness checks, primarily because of insufficient equity stakes information acquired in the EHA process.

(2) Explanatory variables

1 Corruption distance

Since corruption is unlawful and under-the-table, it is deemed appropriate to employ proxies to measure corruption and corruption distance (e.g., Smarzynska & Wei, 2000; Svensson, 2005). Corruption distance will be calculated using the Corruption Perception Index (CPI) from Transparency International (TI). CPI is one of the most extensively used means of measuring national corruption (e.g., Duanmu, 2011; Husted, 1999; Svensson, 2005), representing the degree to which corruption is perceived to exist among government officials in a given nation (Kaufmann et al., 2009; Uhlenbruck et al., 2006). Since this notion of “existence of government corruption” in defining the CPI measure is highly congruent

with the concept of “the likelihood of encountering government corruption”, i.e., the corruption pervasiveness (e.g., Rodriguez et al., 2005), scholars apply this measure of the likelihood of public officials demanding or receiving unofficial payments as a proxy of “pervasiveness of corruption” (e.g., Demirbag et al., 2010; Uhlenbruck et al., 2006).

CPI is an integrated annual measure based on a broad range of surveys and polls of international managers, experts and locals covering 146 countries. It captures the overall perceptions from international business people and local residents about the likelihood or frequency of encountering government corruption in occasions of business-government interactions, such as getting permits, paying taxes and gaining public contracts, to list a few. This integrated measure encompasses various forms of government corruption, from petty corruption to grand corruption. The CPI measure covers the largest number of countries among the three commonly used corruption measures, namely, CPI from TI, “Corruption in government” from the International Country Risk Group (ICRG) and “Control of corruption” from the World Governance Indicators (WGI). It has received scholarly acknowledgement of its reliability and validity (Judge et al., 2011). The sources of the surveys are from multiple well-established institutions such as the World Economic Forum, Political Risk Services, World Business Environment Survey, Freedom House, the Economist Intelligence Unit, the International Institute of Management Development, the Economic Risk Consultancy and so forth. Then a composite CPI index is calculated by integrating surveys from this wide array of sources.

The scores of the CPI index range from a continuum of 0 to 10, with 0 indicating “a highly corrupt country” and 10 indicating “a highly transparent country”. Although subjectivity may exist in the surveying procedure, owing to the large size and wide coverage of the data set, CPI is considered a reliable and valid approximation of national corruption pervasiveness (Lee & Oh, 2007). The CPI scores have substantial variability across different nations, spanning from 9.7 in New Zealand (one of the most transparent countries), to 3.5 in India and 1.6 in Nigeria (one of the most rampantly corrupt countries). Therefore, we calculated the difference of CPI scores between a home country and a host country to indicate the country difference of corruption levels, namely, the corruption distance.

We use the formula below:

$$\text{Corruption distance}_{ij} = \text{CPI}_i - \text{CPI}_j$$

in which CPI_i represents the government corruption level of the home country, and CPI_j indicates that of the host country.

We would like to compare the real difference between the levels of corruption pervasiveness of the host country and that of the home country (primarily the USA in this research context). We did not use an absolute value following the previous operationalization of corruption distance (e.g., Duanmu, 2011), in that positive and negative signs show different market entry directions. A positive corruption distance shows an entry from a comparably transparent home country to a more corrupt host market, whereas a negative value indicates that the market entry is from a less transparent home country to a more transparent host country.

Since the annual measures of corruption of a given country show very low variability⁸ across several years (Smarzynska & Wei, 2000), we use the mean value of the CPI index in the years 2002, 2004 and 2007 as the measure of the average national level of corruption pervasiveness in the decade.

Besides the CPI measure, we use another measure for country-level corruption as a robustness check. Based on the “corruption in government” indicator from ICRG, this measures the possibilities of encountering corruption in contacts with host country governments, and includes both petty and grand forms of government corruption. This measure has also been widely used in previous research (e.g., Delios & Beamish, 2004; Duanmu, 2011). The score range of this alternative measure is from 0 to 6. A lower score indicates a higher likelihood of encountering illegal payments in dealing with the government.

2 Government policy uncertainty (lack of political constraints)

Political constraint measures the degree of checks and balances in a nation’s political system. More political constraints implies more checks and balances in formulating a government policy.

⁸ For example, Uhlenbruck et al. (2006) have found that yearly measures of corruption pervasiveness in the CPI are highly correlated over a five-year period (pairwise correlation for 1997-2002 up to 0.97) or even a seventeen-year period (pairwise correlation for 1985-2002 of 0.88).

We use the POLCON V indicator developed by Henisz (2000a) to represent the arbitrariness of government policymaking, or, policy uncertainty. This measure has been extensively applied in other research (Delios & Henisz, 2003b; García-Canal & Guillén, 2008).

This political constraint measure considers two fundamental issues affecting government policies in its formula: a) the number of veto players in government branches that have independent power of influence, and b) the distributions of political actors' preference heterogeneity. A greater number of branches with veto power and more heterogeneity in political actors' preferences will result in a higher cost of overturning an existing policy and better consistency in government policymaking.

The scores from the POLCON V index range from 0 to 1. Zero indicates that there is no veto power at all in the structure and the decision-making process of the government branches (i.e., the policymaking of the government is extremely arbitrary), whereas 1 implies the discretion of the government is fully constrained (namely, the government policy is extremely stable). A higher score in the POLCON V index indicates more political constraintss and thus a less arbitrary policymaking process. We use the POLCON V value of one year prior to the subsidiary entry year as a proxy of host country policy uncertainty.⁹

3 Government political instability

Political stability/instability gauges a government's ability to be stable and staying in office. We use the "political stability and lack of violence" dimension from the WGI database from the World Bank. This measure captures perceptions of the extent of political instability and/or politically-motivated violence from experts, firms and residents. The score range is from -2.5 to 2.5, where a higher score suggests a more stable political system. In our robustness check, we refer to the "government stability" dimension from ICRG as an alternative measure which has been used in other research studies (Asiedu, Jin, & Nandwa, 2009; Meyer et al., 2014). The scores of this metric range from 0 (least stable) to 12 (most stable).

⁹ Because there is a large variability in the POLCON V index and the "political instability" measure (to be discussed next), we use the political index on the year t-1 as the proxies, where t represents the entry year of a subsidiary out of accuracy concerns. For example, the political stability index fluctuated violently from 5 to 11 from around 2000 to 2012 in the score range of 0-12. To compare, the CPI scores within a country have very small variations and thus we use a more static measure, the mean value of given years, as indication of the national pervasiveness of corruption.

4 Regulatory pressure from the host country

Identifying related legitimating actor(s) is the first step in defining specific institutional pressure (Deephouse, 1996). In measuring external legitimacy pressure, we need to take into consideration the specific and relevant issues that an organization faces (Ruef & Scott, 1998). In view of the corruption context and the importance of endorsement from host government agencies, we specify the regulatory pressure as one that a foreign subsidiary may face in dealing with regulatory bodies.

In corrupt institutional environments, more bureaucratic procedures imply a higher possibility of rent seeking (Svensson, 2005). Foreign entrants often stumble upon this type of regulatory pressure from a host country, that is, the host government's excessive intervention in the form of numerous procedures for approval, licensing and oversight. Bureaucratic interferences and delays are often caused by officials with intentions of asking for bribes (Doh et al., 2003).

From this view, we argue that corruption-related regulatory pressure is to a degree generated by the rent-seeking pressure in the form of lengthy and sometimes overlapping regulatory procedures.

Grewal and Dharwadkar (2002) have suggested that it is valid to measure "the complexity and contradictory nature of the (regulatory) demand made by the various regulatory bodies" by using the count of regulations or legal procedures that a firm has to comply with. Consistent with this suggestion, we gauged the host country regulatory pressure using the procedural costs of conforming to host country regulations.

We employ the number of procedures required in establishing a new venture in a given country as a proxy of this government legitimacy pressure. As a robustness check, we employed an alternative measure by using the time costs of establishing a new venture in a host country. Both measures are taken from the Ease of Doing Business database and have been transformed logarithmically.

Although the measure may not be a perfect proxy, we argue that higher procedural costs in regulatory institutions imply a stronger tendency of rent seeking of the host government officials that poses regulatory pressure for the multinationals who enter and operate in those countries.

5 Ethical corporate identity

We measured an MNE's level of ethical identity by using CSR ratings on a firm's environmental, societal and corporate governance aspects.

We believe, for the following reasons, that it is appropriate to measure the saliency of a firm's ethical identity in the form of corporate social and ethical responsibility efforts.

First, corporate identity and corporate reputation are mirroring concepts aimed at different constituents (Whetten & Mackey, 2002). A salient level identity leads to a positive image, which leads to a good reputation (Whetten & Mackey, 2002). The level of CSR reputation, accordingly, is a reflection of the corporate ethical level (Martin et al., 2011). Furthermore, firm responses to global ethical issues, such as environmental protection, social injustice, and sweatshop labour and corporate social performance in areas such as environmental sustainability, labour and human rights and community engagement, represent a firm's alignment with ethical values and norms, and therefore are good representations of MNCs' ethical identities (Dutton et al., 1994). Furthermore, corporate governance levels represent firm accountability involving information disclosure, ethical standards and transparency in corporate policies and decisions, which are also important components of a firm's ethical consciousness.

In brief, as a record-based summation of corporate behaviours, CSR ratings are cumulative reflections of shared ethical identity (Balmer & Powell, 2011; Bravo, Matute, & Pina, 2012; Whetten & Mackey, 2002).

Second, historical records of CSR practices reflect the corporate values and norms of top management, which lay the ethical foundation for MNCs in formulating an internationalization strategy. Third, significantly positive CSR ratings of a firm will strengthen its members' recognition and identification of the firm ethical identity and drive them to internalize the ethical guidance and perform in a consistent manner to resonate with the salient corporate identity.

We employed CSR rating data from the MSCI ESG database. MSCI ESG STATS (previously known as the KLD index of social performance) is a yearly released database on environmental, social and governance (ESG) aspects of corporate performance. This database targets over 3,000 publicly traded US firms, tracking and releasing annual firm-

specific ethics-related data on ESG aspects starting from the year 1991. The data have included records and ratings of both positive and negative CSR activities of firms since 2003. This dataset has subcategories for each aspect of ESG. For each subcategory, a binary representation is used to rate a firm's ethical actions. If a firm's actions meet the description/standard of the rating (either in positive or negative CSR aspects), "1" will be assigned, otherwise the corresponding cell will be labelled as "0". For example, if a firm performed extremely well in environmental protection, it would probably be given a "1" in the cell of environmental rating; if a firm's contributions to the environment are not deemed remarkable, "0" may be assigned to the corresponding cell. We summed the ratings regarding positive CSR actions on each of four subcategories on the "community" aspect, six subcategories on "environment", five on "human rights" and two on "governance".¹⁰ Likewise, we aggregated firms' scores under each of the related subcategories regarding negative CSR actions.¹¹

Firms with a genuinely high ethical identity do not only meet the ethical requirements from external constituents such as the local community, but also do good deeds in a more proactive way beyond what is required. It is least possible for those firms to have unethical activities that may damage their ethical reputation. For this reason, we calculated the actual level of firm ethical identity by summing up coded scores based on the differences of positive CSR ratings minus negative CSR ratings under each of the four subcategories, i.e., "community", "governance", "environment" and "human rights". Integration of ethical appraisal information on both the positive and negative sides could more accurately express

¹⁰ Four aspects of positive CSR ratings are aggregated: "community", "governance", "environment" and "human rights". We assume that these aspects of CSR efforts are in line with the ethics involving corruption and best represent a firm's ethical reputation. The "community" subcategories include "charity efforts", "supporting affordable housing", "supporting health care and the disadvantaged" and "local community engagement", etc. Subcategories in "environment" include ratings on firm deeds from "minimizing the use of pollutant chemicals", "reducing emission initiations", "recycling", "clean energy", etc. Positive CSR ratings on "human rights" focus on aspects such as "respecting host sovereignty", "human rights and intellectual properties", as well as "transparent disclosure of human right issues". "Governance" mainly examines a focal firm's internal management and reporting of CSR and sustainability activities.

¹¹ Negative ratings on firm CSR behaviours cover the concerns for a firm's negative influence regarding local community, governance, environment and human rights, as well as whether a firm engages in ethically suspicious industries such as gambling, firearms and tobacco. Multiple subcategories are provided under these five categories measuring whether the focal firm had violation behaviours that may have adverse impacts on the environment, society or governance. The violation behaviours include practices and historical records such as fines/sanctions due to violations of environmental regulations, chemical emissions and poor waste management, controversies in firms' influences on the climate change, negative community influence, and foreign investments in sanctioned countries, bribery and insider dealing, as well as poor qualities in reporting CSR initiatives.

a firm's corporate moral standards. We avoided the use of only positive ratings, allowing for the potential existence of corporate hypocrisy (Wagner, Lutz, & Weitz, 2009).

For corporate ethical ratings in each aspect, namely, the subcategories of “community”, “environment”, “human rights” or “corporate governance”, we first calculate the net value of “ethical identity” by using the sum of positive ratings less the negative sum. Then we transfer the net values into a five-level categorical variable that represent the saliency levels of an “ethical identity” in a given category. The five classes [-2, -1, 0, 1, 2] are coded in relation to the net ethical scores: if the net score >1 , it is coded as “2”, signifying a “significantly positive” ethical identity; if the score $=1$, it is coded as “1”, “moderately positive”; if the score $=0$, it is coded as “0”, “non-significant or neutral”; if the score $= -1$, it is coded as “-1”, “moderately negative”; and if the score < -1 , it is coded as “-2”, “significantly negative”. It is more reasonable to use categorical classes than the raw data of CSR actions to represent and compare ethical levels of firms. In the end, we summed up the classified ethical values of the four aspects into an overall indication of a firm's overall ethical identity.

As a robustness check, we employed the sum of a firm's positive CSR ratings as an alternative measure. Also, we used firm-level environmental protection records to compute another measure of a firm's ethical consciousness, as corporate ethical values would affect a firm's ecological initiatives and commitment to environmental programs (Bansal & Roth, 2000).

Since corporate identity representing a firm's core value does not fluctuate greatly in the short term (Whetten & Mackey, 2002), we employed the cumulative CSR data in the year 2003 if a foreign market entry occurred before 2005, and drew on CSR data in 2007 when a firm's entry behaviour was after 2005 to simplify the computations.

(3) Control variables

The strategic choices of local cooperation and internal governance, are jointly determined by home and host country institutional factors, as well as industry and firm heterogeneity¹²

¹² Although home country regulatory institutions have impacts on investment strategies and behaviours (Cuervo-Cazurra 2008) of the US-listed firms in our sample, regardless of whether the headquarters are within or outside of the United States, they are subject to the regulations of the Foreign Corrupt Practices Act (FCPA) and Securities and Exchange Commission (SEC), meaning they all share a similar home country regulatory environment. As a consequence, we did not control for home country factors.

(Albert & Whetten, 1985). Therefore, we have controlled the following institutional, industry and firm-specific variables that may affect the entry ownership strategy of a foreign subsidiary.¹³

1 Industry control

Although MNCs in all industries should commonly gain government approvals for resources such as land and electricity and are exposed to policies and regulations, various industries require different degrees of interactions with government and officials.

FDI in regulated industries (mostly natural resource-intensive industries) experience heavy intervention and regulations from the host country governments. Overseas investments in these industries are more likely to be joint ventures, as host governments often require that FDI involve equity share of a local firm (or even a local state-controlled firm) (García-Canal & Guillén, 2008; Gomes-Casseres, 1990; Makino & Neupert, 2000). For example, foreign investments in the oil industry and the mining industry often require the equity involvement of local firms. In the meantime, this local stake involvement facilitates a closer tie with the host-country government to obtain licenses, permits and contracts.

Following this industry distinction, we employed a dummy variable to mark whether an industry was a government-regulated industry, in which 0 represents a non-regulated or weakly regulated industry, and 1 indicates a regulated industry.

For regulated industries, we include commonly recognized resource-intensive industries and country-specific industries with government entry barriers. The generally acknowledged resource-intensive industries include agriculture, forestry, farming, agricultural processing, mining, oil and natural gas, wood, paper, rubber and tyres, non-metal mineral manufacturing, black metal processing and metal processing, indigenous craft products, and recycling and waste management, etc. (Demirbag et al., 2010; Gomes-Casseres, 1990). Furthermore, in the EHA process we have identified country-specific regulated industries that have government restrictions on foreign ownership, such as the retailing industry in India before

¹³ Since government corruption levels can reflect overall economic conditions, and due to the fact that economically poorer countries tend to be more corrupt (we have found a very high pairwise correlation up to 0.829 between host-country corruption and GDP per capita in our sample), we did not control for economic factors at the country levels for the concern of multicollinearity.

2012, and the automobile and banking industry in China before the deregulation policy issued in 2007.

This industry control practice has been well adopted by previous research (e.g., Chen & Hennart, 2002b; Duanmu, 2011; Gomes-Casseres, 1990).

2 International experience

The more experience that an MNC has in a host country, the more likely it chooses to enter via a WOS (e.g., Anderson & Gatignon, 1986; Gaur & Lu, 2007; Herrmann & Datta, 2002; Yiu & Makino, 2002a). When entering a new market, a foreign firm may need to leverage a local partnership to learn about host-country knowledge so that they could develop related capabilities (Delios & Henisz, 2000). As the local experience and knowledge build up, a foreign firm gradually develops its own capabilities to adapt to the local institutions. As the new capabilities build up, MNCs' dependence on local firms will decrease.

Similarly, when entering a corrupt host country, a foreign firm's reliance on a local partnership reduces the unfamiliarity with relationship-based business practices and norms (including corrupt practices) (Delios & Beamish, 2002). Having accumulated adequate local knowledge and perhaps even bribery-related business norms and experiences, foreign entrants will be more likely to switch to a full control mode (Delios & Beamish, 2002; Robertson & Watson, 2004).

We hypothesize that a parent firm could smoothly transfer its international experience to its subsidiary in a specific host country. As a result, we employed the total of subsidiary presence years of the focal parent firm in a given host market as a measure of host country experience (Delios & Beamish, 2002; Gaur & Lu, 2007; Luo, 2001; Rodriguez et al., 2005). We calculated the difference between the entry year of the focal subsidiary and the initial subsidiary establishment year in a given host country. We then performed a natural logarithm transfer of the measure.

To trace back the data on the initial host market entry year, we adopted the event history approach based on facts from publication databases, company annual reports and company

webpages, etc.¹⁴ Constrained by data availability, we did not distinguish between “host-country experience” and “industry-specific experience”.

3 Parent firm size

Firm size indicates a firm’s ability to possess and employ resources. A smaller size of a parent firm may imply that relying on external resources such as a local firm is more desired (Agarwal & Ramaswami, 1992; Brouthers, 2002; Shrader, 2001). Furthermore, it has been found that firm size is associated with the inclination of doing corrupt acts. J. Q. Zhou and Peng (2012) revealed that smaller firms are more likely to engage in bribing.

We assume that firm size is likely to affect a foreign firm’s strategic reactions in our research setting and use it as a control for firm resources.

We measured firm size by calculating the logarithm of employment size of the focal parent firm (Freeman, Carroll, & Hannan, 1983). The data from Compustat is calculated using the employment size of a foreign firm in the host market entry year.

4 Cultural distance

Cultural distance gives rise to “liability of foreignness”, which involves the difficulties in apprehending, interpreting and reacting to host-country institutions, creating obstacles in knowledge transfer (Kostova, 1999). As cultural distance grows larger, a foreign entrant would more prefer a local alliance to reduce these difficulties and obstacles (Tihanyi, Griffith, & Russell, 2005).

The measure of each country’s four cultural dimensions, i.e., power distance, individualism, uncertainty avoidance and masculinity, is from the updated data sets of Hofstede (2001).

We followed Kogut and Singh (1988) composite formula to calculate the cultural differences between a host market and a home country. The formula is shown below:

$$\text{Cultural Distance} = \sum_{i=1}^4 \left[\frac{(\text{Hom}_i - \text{Hos}_i)^2}{v_i} \right] / 4,$$

¹⁴ If a parent firm has diversified operations, the initial host market entry years are probably different considering different industry contexts.

in which Hom_i represents the cultural dimension i of the home country, Hos_i represents the cultural dimension i of the host country and V_i denotes the variance of all sampling countries' scores on the cultural dimension i . Using this formula we got the values of cultural distances corresponding to each entry case.

5 Geographic distance

Not only reflected in higher shipping costs, greater geographic distance engenders higher oversight and coordination costs of a subunit from a foreign headquarters. Also, a greater geographic distance increases the difficulty in implementing the headquarters' culture and values to its subunits in a foreign market. Accordingly, as geographic distance increases, foreign entrants are prone to enter in a lower-equity mode (e.g., Ragozzino, 2009).

We calculated the linear distance between a host and a home country as the measure of geographic distance based on the latitude and longitude of the capital city of each country (Berry, Guillén, & Zhou, 2010). The geographic information was obtained from the CIA World Factbook. We utilized the logarithmic value of geographic distance in kilometres.

For a summary of the main variables and the data sources, see Table 3.1.

Table 3.1 Operationalization summary of key variables

Variable name	Variable type	Description	Data source
Entry ownership Strategy	DV (firm level)	Dummy variable: 1-WOS; 0-JV	Manually collected from LexisNexis and ABI/INFORM databases
Corruption distance	IV (firm level)	Corruption level difference between home country and host country	Corruption Perception Index from Transparency International
Political constraint	IV, moderator (state level)	Government policy stability/uncertainty	POLCON V datasets from Henisz (2000a)
Political stability	IV, moderator (state level)	Government stability/uncertainty due to frequent changes of power	"Political stability and no violence" from WGI of World Bank
Political legitimacy pressure	IV, moderator (state level)	Government regulatory pressure of starting up a business	"Days (and procedures) of starting up" from Ease of Doing Business database
Internal legitimacy pressure	IV, moderator (firm level)	Ethical identity of the parent company as an indication of internal ethical pressure	Corporate social performance from the MSCI ESG database

Industry dummy	Control (industry level)	Resource-intensive industries which usually have regulatory constraints on market entry	Industry dummy operationalized by Chen and Hennart (2002)
Firm size	Control (firm level)	Employee numbers of the parent firm	Compustat database
International experience	Control (firm level)	Number of years of subsidiary presence in the host country	Manually collected from LexisNexis and ABI/INFORM databases
Cultural distance	Control (firm level)	Cultural difference between the home and the host country	Kogut and Singh (1988); Chen and Hennart (2002a); Hofstede (2001)
Geographic distance	Control (firm level)	Geographic distance between the home and the host country	CIA World Factbook

3.4 Data and Results

3.4.1 Descriptive statistics

From the total of 529 entry observations, there are 308 entries via JV and the remaining 221 observations are wholly owned investments. In the JV subsample, equity JV took up 94.8 per cent, or 292 cases. The WOS entry cases involved 97 Greenfield operations and 124 full acquisitions. For details of the different entry types, see Table 3.2.

Table 3.2 Composition of MNC entry types

Entry mode type	Non-equity	Equity	Total
JV	16 (5.2%)	292 (94.8%)	308 (100%)
WOS	97 (43.9%)	124 (56.1%)	221 (100%)
Total	113	416	529

In the 529 data points, we have identified 8 countries of origin (defined by the locations of the headquarters), see Table 3.3. Because the sampling frame is based on US-listed firms, firms with America as the home base took a major part, accounting for 95.2 per cent of the entire sample.

Table 3.3 Home country characteristics of market entry cases of MNCs

Home country	Count	Home country	Count	Home country	Count
Argentina	8	Canada	4	China	3
Russia	1	Spain	5	The Netherlands	4

UK	1	USA	504
----	---	-----	-----

As for the industries, 162 entry cases are from government-regulated industries, and the remaining 367 cases are from industries with fewer government regulatory requirements on foreign ownership.

There are 71 host-country (or host-region) markets in this sample. According to Hoskisson et al. (2000) distinction between developed countries (DCs), emerging economies (EMs) and least developed countries (LDCs), 82 data points of entry were into DC and the remaining 447 observations were entries into EMs and LDCs, which represented more than four-fifths of the entire sample (82.4 per cent). We believe that this distribution regarding host markets is appropriate for our corruption research, in that most corrupt host markets are EMs and LDCs (Svensson, 2005; Treisman, 2000).

Below we provided a list of major host countries (i.e., for which four or more entry cases were collected) with country-wise counts of entry observations in our sample. For details see Table 3.4.

Table 3.4 Host country characteristics of market entry cases of MNCs

Host country	Count	Host country	Count	Host country	Count
Argentina	10	Australia	13	Brazil	26
Canada	14	Chile	13	China	143
France	5	Germany	7	Hong Kong	8
India	68	Indonesia	9	Japan	14
Malaysia	6	Mexico	28	The Philippines	7
Russia	11	Singapore	7	South Africa	4
Taiwan	5	Thailand	4	Turkey	6
UAE	8	UK	11	Venezuela	9
Vietnam	7				

Table 3.5 provides descriptive statistics (mean, standard deviation) and the correlation matrix for the main variables. To prevent the issue of heteroscedasticity, we adopted in advance a logarithmic transfer to variables with greater standard deviations such as firm size, host country experience and geographic distance. We further normalized geographic distance, as per previous research.

We can tell from the correlation coefficients that there are moderate to high levels of correlations between corruption distance and political constraint ($r=-.475$), as well as between corruption distance and power stability ($r=-.771$). Furthermore, the correlation

between corruption distance and regulatory corruption pressure reached 0.675. These relationships are expected. As discussed earlier, these variables are to some extent interdependent and moderately nested (for example, corruption may result from political instability), although they are distinct concepts.

We ran the multicollinearity tests to see whether the moderate to high level correlations between these variables would affect model estimates.

Table 3.5 Descriptive statistics and correlations

Variable	Mean	Std.	1	2	3	4	5	6	7	8	9	10	11
1. Entry mode	0.423	0.495	1										
2. Corruption distance	2.752	2.047	-0.226*	1									
3. Political constraint	0.449	0.345	0.190*	-0.475*	1								
4. Political stability	-0.197	0.794	0.192*	-0.771*	0.311*	1							
5. Regulatory pressure	2.265	0.495	-0.187*	0.675*	-0.466*	-0.551*	1						
6. Ethical identity	1.361	2.268	-0.162*	0.095*	-0.077*	-0.029	0.034	1					
7. Industry dummy	0.3	0.458	-0.31*	0.043	0.03	0.003	-0.006	-0.031	1				
8. Firm size	3.210	1.821	-0.214*	0.105*	0.019	-0.007	0.019	0.457*	0.109*	1			
9. Firm experience	1.827	0.666	0.085*	0.017	-0.043	0.041	0.089*	0.058	-0.025	0.076	1		
10. Cultural distance	3.455	1.606	-0.217*	0.490*	-0.539*	-0.253*	0.494*	0.077	0.065	0.059	0.013	1	
11. Geographic distance	-0.002	1.003	-0.156*	0.194*	-0.257*	-0.126*	0.264*	0.006	-0.013	-0.022	0.016	0.197*	1

Note: * p<0.05.

Fox (1991) suggested that as long as the correlation coefficient $r < 0.87$, the coefficients of variance inflation factors (VIFs) would be less than 4, under which conditions the multicollinearity problem would be negligible.

To double check that multicollinearity would not affect our model estimation, we calculated the VIFs of main variables in the models including interaction terms.¹⁵ The maximum value of the VIF statistics is less than 2.29, far below the rule-of-thumb threshold of 10 (Gujarati, 2003). Consequently, correlations between explanatory variables would not cause any serious concern of multicollinearity.

We particularly scrutinized the potential multicollinearity between corruption distance and policy uncertainty, as well as between corruption distance and power uncertainty, and

¹⁵ We use a foreign subsidiary's entry performance as the dependent variable, and enter all explanatory variables, control variables and interaction terms to a linear regression to calculate the VIF statistics for all the variables.

between corruption distance and regulatory pressure. The VIF statistics for all these variables were also far below 10, showing that multicollinearity was not a concern even when they are entered into the same model. Furthermore, following Aiken and West (1991), we mean-centred all continuous variables before multiplying corresponding variables as interactive terms in running the regressions, as a precaution to prevent possible multicollinearity and to get more accurate estimates.

3.4.2 Model specifications

Because the dependent variable is a dichotomous (binary dummy) variable, we employed binary logistic regression to examine the effects of corruption distance, transaction costs and institutional factors on entry strategies. Logistic regression uses a log-linear transformation based on the maximum likelihood to estimate the dependent variable. It is commonly used to study the influences of various factors on entry decisions over JV or WOS modes, and is a dichotomous DV (e.g., Brouthers, 2002; Lu, 2002). We use Stata12 to run the binary logistic regression. Because we have smaller subgroup sizes, logistic regression is more suitable for the characteristics of our sample, in that the model estimates of logistic regression are less affected by subgroup sizes than multi-level analysis (Gelman & Hill, 2006).¹⁶

The formula of the logistic modelling is shown below:

$$y = \text{Ln} \left(\frac{p}{1-p} \right) = \alpha + \beta x$$

in which p represents the probability for an MNC to choose the entry mode of WOS, α is the intercept vector, x represents the vector of model variables and β is the vector of regression coefficients. We run a series of logistic regressions to examine the main effects and the interaction effects of corruption distance, transaction cost factors and institutional factors on the probability of wholly owned subsidiary versus joint venture for US-listed MNCs.

¹⁶ The accuracy and robustness of model estimations are dependent on the number of foreign entry observations for each host country. If the number is small for some subgroups, logistic regression is sufficient for estimation. If market entry cases under each host country are more than 20, multi-level analysis is more appropriate to secure more accurate estimates (country-level variables are regarded as level 2).

3.4.3 Research findings

Table 3.6 presents the results of logistic regressions on entry preferences of MNCs.

M0 (Model 0) is the baseline model, containing only the control variables. M1 is the main effect model, primarily testing the main effect of corruption distance. M2 and M4 respectively checked the main effects of two transactional (uncertainty) factors, i.e., lack of political constraints (policy uncertainty) and political instability (power uncertainty). Besides the main effects, M3 and M5 examined the interaction effects of corruption distance and these two institutional uncertainties. Since the uncertainty variables (namely, policy uncertainty and power uncertainty) are moderately correlated, we introduced one at a time. M6 and M8 tested the main effects of external legitimacy pressure (in the form of bureaucratic delays) and internal legitimacy pressure (in the form of corporate ethical identity) separately. M7 and M9 tested the interaction effects of corruption distance and these two institutional forces respectively. All log-likelihood ratio and LR chi-squares from Model 1 to Model 9 demonstrated adequate power of explanation.

Table 3.6 Effects of corruption distance, TCE factors and institutional factors on entry ownership strategies of MNCs

<i>DV: 0=JV; 1=WOS</i>										
Predictors	Model 0	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
	H0	H1	H2a	H2b	H3a	H3b	H4a	H4b	H5a	H5b
Intercept	1.083*	1.199*	0.645	-.747	1.097***	.853†	1.629*	1.860	1.098**	1.31*
<i>IVs</i>										
Corruption distance		-.150**	-.122*	.274	.001	.043	-.110	-.657**	-.148***	-.208**
Political constraint			.617*	2.592*						
Political stability					.456**	.769*				
External legitimacy pressure							-.274	-.499		
Internal legitimacy pressure									-.100†	-0.290***
<i>Interaction terms</i>										

Corruption distance* political constraint											-.568*
Corruption distance* political stability											-.106
Corruption distance* external legitimacy											.247**
Corruption distance* internal legitimacy											.060**
<i><u>Control variables</u></i>											
Cultural distance	-.254***	-.172*	-.116*	-.129*	-.213*	-.211***	-.155*	-.134**	-.166**		-.179**
Geographic distance	-.347***	-.321***	-.287***	-.279**	-.318**	-.345***	-.310*	-.352**	-.323*		-.309*
Firm size (log)	-.247***	-.238***	-.244***	-.255***	-.247***	-.257***	-.241***	-.238***	-.175***		-.178**
Firm experience (log)	.364**	.364**	.377***	.388**	.331*	.354*	.381**	.382*	.371*		.380*
Industry dummy	-1.570***	-1.581***	-1.598***	-1.653***	-1.635***	-1.683***	-1.576***	-1.603***	-1.600***		-1.588***
<i><u>Model summary</u></i>											
Observations	512	512	512	512	512	512	510	510	505		505
Number of countries	71	71	67	67	67	67	66	66	67		67
LR Chi ²	109.27	116.19	118.99	123.09	120.47	122.27	115.49	119.09	119.88		124.40
Prob > Chi ²	***	***	***	***	***	***	***	***	***		***
Pseudo R ²	0.156	0.167	.171	.177	.173	.175	.166	.171	.172		.179
Log likelihood	-293.98	-290.52	-289.12	-287.07	-288.38	-287.48	-289.77	-287.97	-288.67		-286.40

strategic preference for the JV mode. This shows that larger firms in the US have a greater inclination to leverage the local partnership to develop overseas markets. It may suggest that larger firms have the motivation to transfer home competitive advantages such as technological advantage and advertising advantage to the local markets, in which they need to rely on host country alliances for complementary resources such as local knowledge and marketing channels. Fourth, as the host-country experience grows, a foreign firm tends to switch to wholly owned operations. Finally, evidence shows that local partnership is preferable in highly regulated industries. This may indicate that besides the regulatory requirements, firms in the regulated industries (mostly resource-intensive industries) have stronger demands for local resources, knowledge and social networks. Furthermore, the effects and strengths of these control variables are largely consistent across all model specifications, showing the robustness of the results and propriety of the variable selection.

Next, we compare the baseline model and Model 1. Model 1 examines the relationship between corruption distance and entry strategy after controlling for control variables. The results reveal that corruption distance significantly affects a foreign subunit's strategic preference for the JV mode, as hypothesized. A greater corruption distance will give rise to a higher likelihood that a foreign firm will choose local partnering. Hence H1 is supported. As a result, the difference between the corruption level of the host and home country is a vital concern for multinational firms operating overseas. In relation to Model 0, the log likelihood ratio ($p < 0.01$) in Model 1 has a slight increase, indicating that the introduction of corruption distance increases the explanatory power of the model.

Model 2 measures the main effect of host-country political constraints under the influence of corruption distance. H2a is supported. This may imply that apart from the influence of corruption distance, a lack of political constraints, as an important source of corruption arbitrariness, affects the strategic choice too. In a host-country with fewer political checks and balances, a foreign affiliate tends to prefer a local partnership to reduce environmental uncertainties. It is obvious that the coefficients of LR chi-square and pseudo R^2 grow greater than the M1 indicators, showing that “political constraint” (or a “lack of political constraint”), a source of institutional arbitrariness, has added power of explanation in addition to corruption pervasiveness.

The interaction effect of host-country political constraint and corruption distance has been supported in Model 3. Although the main effect of corruption distance turns less significant

after the inclusion of the interaction term, the main effect of political constraint and the interaction effect are statistically significant. Therefore H2b is supported. Despite the lack of political democracy in a host country motivating a foreign firm to seek the help of locals, this is not the case for entering a host country where local corruption also happens to be rampant, under which circumstance the demand for local partnering will be reduced due to increased institutional complexity. Rather, MNCs tend to seek internalization for governance solutions in such conditions.

Model 4 explores the effect of the second type of political arbitrariness of corruption, i.e., political instability. The findings show that, in the presence of corruption distance, political instability has an impact on MNCs' choices between JV and WOS. A higher host-country political instability induces a higher likelihood for foreign subunits to choose local cooperation. Hence H3a is supported.

Model 5 measures the effects of the interaction between political instability and corruption distance. Despite the fact that the interaction effect is insignificant, the direction of the effect is in line with our hypothesis. The finding still indicates that where corruption distance is remote, the demand for local partnering due to high level of political instability will wane, although this waning effect has not reached the significance level. Therefore we fail to find support for H3b.

Models 6 and 7 test the influences of host-country political legitimacy pressure on entry strategy. Even though the increase of host-country regulatory pressure brings about a higher likelihood of JV entry, the finding from Model 6 has not proven the direct effect of the host-country legitimacy pressure in the form of days of establishing a new venture. Results from Model 7 support the interaction effects. Although the direct effect of the "government legitimacy pressure" is insignificant, the moderating effect of this institutional force is negative and significant. It might be suggested that the demands for local partnership induced by host country regulatory pressure are not identical with respect to different corruption distances. A pervasively corrupt yet inefficient regulatory host institutional environment would probably depreciate the value of finding a local partner for an MNC.

With regard to the findings on corporate ethical identity, we assume that firms with a genuinely positive ethical identity would prefer a wholly owned entry. The US firm sample however, supports the opposite, finding that parent firms with a more positive ethical

identity have a higher likelihood of choosing local cooperation in Model 8. This result is somewhat unexpected. This may imply that MNCs may treat ethical identity as a potential source of competitive advantage and take advantage of local partnership for knowledge transfer.

Model 9 has proven the interactive effects of firm ethical identity and corruption distance on MNCs' entry strategies. The ethical identities of parent firms negatively moderate the relationship between corruption distance and the JV entry. This may indicate two possible explanations. 1) As corruption distance increases, MNCs with more moral consciousness would be more likely to prefer a WOS entry. 2) As corruption distance increases, MNCs with less ethical concerns are more likely to choose the JV mode. We will later use interaction plots to verify which explanation makes more sense.

Figure 3.1 to 3.3 demonstrate how the three moderators influence the relationship between corruption distance and entry strategy. We will check whether the entry preference changes under different levels of moderators as the corruption distance become greater. When plotting the interaction effects, we followed the steps from previous research, using one standard deviation below and above the mean value as the threshold for "low" and "high" values of variables.

Take Figure 3.1 for example. We first obtained the mean of "political constraint" (PC). Then, we assigned one standard deviation below the mean as the "high" value, and one standard deviation above the mean as the "low" value. Similarly, we have set the high and low values for corruption distance (CD) by choosing one standard deviation below and above the mean. In this way, we had identified the "high" and "low" values for the moderating variable and the independent variable, while other variables were held at the mean level. Next, we put the combinations of the "high" and "low" values of these variables into the corresponding logistic regression equation and got the estimates of entry preference probabilities under different levels of host-country political constraint and corruption distance. Then we plotted the interactions based on these estimates.

Figure 3.1 Political constraint (PC), corruption distance (CD), and entry strategy

^a A positively sloped line indicates a higher likelihood of choosing to enter via WOS.

Note: high and low levels of a variable refer to one standard deviation above and below the mean of the focal variable.

Figure 3.1 depicts the interaction effects of political constraint and corruption distance on foreign entrants' ownership strategy. The negative slope of the dotted line shows that, in host countries where the political constraint is lacking, a foreign firm is more likely to adopt the wholly owned mode as corruption distance becomes greater. The positive slope of the full line indicates that the JV mode is preferred as corruption distance increases when a foreign firm enters more politically constrained host countries. This implies that as corruption distance increases, the strategic choices of entry are dependent on the political hazards of the host countries. As predicted by H4b, in host countries which are both pervasively corrupt (reflected as a large corruption distance from the home country) and politically unconstrained, a foreign investor is more likely to internalize to reduce investment risks.

Figure 3.2 External legitimacy pressure (EP), corruption distance (CD), and entry strategy

^a A positively sloped line indicates a higher likelihood of choosing to enter via WOS.

Note: high and low levels of a variable refer to one standard deviation above and below the mean of the focal variable.

Figure 3.2 displays the moderating effect of regulatory delays from the host government as a source of external institutional pressure. Similar patterns are shown that in national institutions with lower regulatory pressure, foreign investors are more likely to prefer local cooperation as corruption distance increases. As expected, in host institutions that are characterized by both high pervasive corruption and excessive regulatory red-tapes, there is a tendency for MNCs to prefer away from local strategic alliances.

Figure 3.3 Internal legitimacy pressure (Corporate Identity, CI), corruption distance (CD), and entry strategy

^a A positively sloped line indicates a higher likelihood of choosing to enter via WOS.

Note: High and low levels of a variable refer to one standard deviation above and below the mean of the focal variable.

Figure 3.3 indicates that for firms with salient ethical identities (high CI), the subunits have a slightly higher likelihood to prefer wholly owned operations (as corruption distance increases), whereas for ethically unconscious firms (low CI), their subunits show strong tendencies to prefer local cooperation as corruption distance increases. It appears that those American firms having little ethical consciousness will act far more adaptively in a more corrupt host country. As corruption distance increases, MNCs would face increasing pressure from corruption pervasiveness, resulting in subsidiaries using the JV entry to interact more closely with corrupt host institutions. Nevertheless, for firms with authentic ethical identities, the subsidiary's entry choices seemed far less influenced by corruption distance. This may also suggest that MNCs with high moral standards would adhere to internal values in market practices even when partnering with a local firm from a corrupt host country market. These ethically conscious firms might have confidence not to be influenced by host-country corruption but to counteract the host institutional environment.

3.5 Robustness checks

In this section, we check the robustness of our findings in multiple ways.¹⁷

First, we have employed an alternative measure of corruption distance using a data set from ICRG. The effects of corruption distance are still negative and significant. Still, American public MNCs would prefer local cooperation as they enter a host market where the corruption distance is great. For details see the first column in Table 3.7.

Second, we employed a new measure of political instability using an indicator from ICRG in Model 2 and 3 in Table 3.7. After replacing the measures, the effect of political instability on the entry choices remained significant, indicating that political instability is a robust indicator for corruption arbitrariness besides corruption distance as the measure of pervasiveness. Evidence again pointed out that as corruption stability worsens, MNCs are prone to enter via joint venture. The interaction effect of the two aspects of corruption, however, was insignificant.

Third, drawing on an alternative measure of bureaucratic delay, i.e., procedures of establishing a new venture, from the Ease of Doing Business database, Model 4 in Table 3.7 confirmed the direct influence of regulatory legitimacy pressure on entry strategies. A higher level of new venture start-up hurdles would motivate MNCs to switch to local cooperation. The interaction effect analysis in Model 5, however, did not support the significance of the effect. The results are different from Model 5 and 6 in Table 3.7, which showed a significant interaction effect but insignificant main effect. This contrast may suggest that the effect caused by the external institutional force is not stable. Although the coefficient of the interaction terms is not significant in this robustness check, the evidence indeed demonstrated the same direction of effect, as shown in Table 3.7. This inconsistency

¹⁷ We failed to conduct a robustness check on host-country “political constraints” as we did not find suitable alternative measures. Arbitrariness of political checks and balances concerns both the veto power and preferences of partisans in affecting policymaking of a country (Tsebelis, 2002). So far, to our best knowledge, only Henisz’s (2000) measure has covered both aspects. Veto power alone cannot reflect the overall degree of political constraint of a state. If a measure failed to consider the preference heterogeneity of political actors, it would not measure the real “political constraint”, because even a nation has a nominally democratic political structure, the dominant party may take charge of the policymaking process without much actual political checks and balances (Henisz, 2000). That is why political measures focusing only on veto players such as the index from Marshall, Gurr, and Jaggers (2010) cannot qualify as a perfect proxy in this research context.

may result from weaker influences of institutional forces on the entry choices of MNCs than TCE factors.

Fourth, we took another way of measuring “corporate ethical identity” by using an aggregated rating of positive CSR¹⁸ in Models 6 and 7. Both the main effect and the interaction effect of ethical identity as a source of internal institutional pressure were confirmed.

To further confirm the role of ethical identity, Models 8 and 9 present results of another pair of robustness tests using environmental identity as a proxy for corporate ethical identity, as essentially, both environmental protection and corruption combating are reflections of a firm’s moral consciousness. The results have proven the interaction effect but not the main effect of environmental identity. From the two sensitivity tests, it is indicative that ethical identity as a driving force of intra-firm normative pressure affects a foreign subunit’s host market entry strategies. Also proven is the negative moderating role of ethical identity in the relationship between corruption distance and entry choices.

Table 3.7 Robustness checks of the effects of corruption distance, TCE factors and institutional factors on entry strategy

DV: 0=JV; 1=WOS									
Predictors	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
	H1	H3a	H3b	H4a	H4b	H5a	H5b	H5a	H5b
	1.309***	.128	-1.047	1.338**	1.436**	1.086***	1.306**	1.16**	1.354**
<i>IVs</i>									
Corruption distance	-.351**	-.346*	-.261	-.080	-.194†	-.149†	-.213*	-.147**	-.199**
Political stability		.176*	.315*						
External legitimacy pressure				-.150	-.308†				

¹⁸ Positive CSR records cover a firm’s social performance data on important aspects such as environment, human rights, community and corporate governance. Using the positive ratings could reflect comprehensively a firm’s engagement in ethical activities and thus the moral strength of the focal firm, which is an indication of corporate ethical identity.

Internal legitimacy pressure							-.093†	-.241*	-.095	-.400*
------------------------------	--	--	--	--	--	--	--------	--------	-------	--------

Interaction terms

Corruption distance* political constraint										
Corruption distance* political stability			-.071				-			
Corruption distance* external legitimacy					.0614					
Corruption distance* internal legitimacy							.047†			.114*

Control variables

Cultural distance	-.139†	-.186*	-.181*	-.184*	-.155*	-.166*	-.181**	-.171*	-.190**
Geographic distance	-.311*	-.279*	-.420***	-.321***	-.333***	-.327**	-.315*	-.331*	-.311***
Firm size (log)	-.245***	-.250***	-.254***	-.240***	-.242***	-.164*	-.160*	-.211***	-.223***
Firm experience (log)	.373**	.263	.260	.414**	.412**	.370*	.376*	.361*	.378*
Industry dummy	-1.609***	-1.605***	-1.631***	-1.559***	-1.578***	-1.662*	-1.549**	-1.440***	1.553***

Model summary

Observations	508	508	508	510	510	505	505	505	505
Number of countries	65	65	65	66	66	67	67	67	67
LR Chi ²	119.74	126.17	127.24	116.33	118.16	119.68	123.20	117.70	120.38
Prob > Chi ²	***	***	***	***	***	***	***	***	***
Pseudo R ²	.1728	.182	.184	.167	.170	.172	.177	.169	.173
Log likelihood	-286.541	-283.324	-282.793	-289.352	-288.436	-288.777	-287.017	-289.767	-288.425

a Positive coefficients indicate a higher probability of a WOS entry whereas negative signs indicate a higher likelihood of JVs.

† p < .10, * p < .05, ** p < .01, *** p < .001

To sum up, a series of tests on the robustness of the model results suggest that the empirical findings are mostly invariant as research methods, or measures of variables change.

3.6 Discussions on findings

3.6.1 Findings on corruption distance

First, we drew on hand-collected entry data of US-listed multinationals and confirmed that as corruption distance becomes greater, the MNCs are more likely to enter a host market via local partnering. Although this finding is inconsistent with some scholars like Doh et al. (2003) and Rodriguez et al. (2005), it is in line with empirical evidence from a variety of research studies (Demirbag, Glaister, & Tatoglu, 2007b; Karhunen & Ledyeva, 2011; Smarzynska & Wei, 2000).

In general, when entering a pervasively corrupt host country, foreign firms from a less corrupt home country tend to seek a local partner. Local partnering could overcome the issues of resource access, and increase market efficiency in non-market-supporting institutions. It is also possible to engage indirectly in corruption by outsourcing the corrupt acts to the local partner to reduce or escape the legal pressure from home country anti-bribery agencies. In the corruption context, although allying with a host-country partner would potentially increase communication costs and lower market efficiency, it would dramatically overcome political uncertainties and increase operational efficiency due to an improved relationship effect and boosted legitimacy. In other words, it is confirmed that local participation could be more advantageous in generating more political connections and local legitimacy with increased corruption distance.

3.6.2 Findings on political arbitrariness of corruption

Besides the differences in corruption pervasiveness, corruption involves arbitrariness in the processes and pay-offs of corrupt acts (Doh et al., 2003). As discussed in Chapter 1, we focus on scrutinizing political arbitrariness in institutions. We divide political arbitrariness into two types: a) arbitrariness driven by a lack of political constraint, and b) arbitrariness driven by shifts of power. We attempt to examine how these different sources of arbitrary corruption moderate the relationship between corruption distance and entry ownership strategy.

We found that in host countries with more political constraints where the government decisions are checked and balanced, MNCs are more likely to enter via WOS. This is consistent with the findings of Rodriguez et al. (2005) and Demirbag et al. (2007b).

The positive relationship between host-country political hazards and the JV entry, however, does not apply to conditions where the corruption distance is great. Where both host-country political constraint and corruption distance are high, it may imply that leveraging on corrupt acts or related relationship-based practices could gain stable returns. In this situation working with a local partner would help access the networks and facilitate the business. Nevertheless, under conditions where the host-country political constraint level is low and corruption is pervasive, it suggests that there may be too much host-country uncertainty for MNCs to choose local cooperation. The combination of corruption pervasiveness and arbitrariness enhance the behavioural risks of relying on a local partner. The evidence suggests that in scenarios like this, MNCs are more likely to control risks by using the internalization mode of governance.

As a whole, the likelihood of using a JV entry is associated with the pay-offs in political environment of different characteristics. In institutions where corruption prevails and at the same time transparency and fairness in decision-making are lacking, the local cooperation strategy is not preferred.

Regarding another source of political arbitrariness, the findings show that the stability of a host-country's political institutions is associated with MNCs' strategic preference for wholly controlled entry. A more stable political environment gives rise to less uncertainty and more transparency in the political and business environment. In these situations, MNCs are more likely to fully acquire or Greenfield invest to secure competitive advantages in the local market. As political instability increases, MNCs face more political risks such as expropriation threats from the government. Cooperating with a local partner with political resources and advantages could help mitigate the hazards from the host-country political institutions. However, in our robustness check, this direct effect of political stability turned out to be less stable by a different measure. This may imply that even in politically stable institutions, some firms may still be in need of partnering with local firms to liaison with key stakeholders in political institutions.

Also, we assume that when a foreign entrant is faced with such a rampantly corrupt institutional environment that political power also shifts violently, they would prefer to avoid partnering with a local partner. We argued that the underlying mechanism may be that in drastically changing, yet ineffective legal and political environments, it is often difficult and futile to access a political influencer. Any lobbying efforts via local networks to win a political influencer may be in vain or counterproductive as a political opponent takes office. The empirical findings however did not reach the level of significance, although the direction of the moderation is as predicted. However, by using an alternative measure of political stability/instability in the “Robustness checks” section, we find support for the moderation effect. The tests may indicate that despite the fact that a negative moderating effect of political instability exists in the relationship between corruption distance and MNCs’ propensity to adopt a JV mode, this effect is relatively weak and unstable. The unstable results may be associated with the high correlation between corruption distance and political instability, which might mask the statistical significance to a degree.

As a whole, our data basically supports the direct effect of the two sources of political arbitrariness of corruption. When the arbitrariness level in political institutions is high, MNCs are more likely to rely on indigenous firms for local knowledge and resources. These findings are consistent with previous studies such as that of Delios and Henisz (2003a) and Henisz (2000b), that found that host-country political instability leads to MNCs’ lower-equity mode of entry.

Our findings further partially support the interaction effect of political arbitrariness and pervasiveness of corruption on multinationals’ propensity for entry through WOS. We argue that with the co-existence of arbitrariness and pervasiveness, the risks of partnering with a local firm, i.e., the opportunism of the local partner, could not be effectively monitored and controlled. This would reduce the risk-mitigating value of choosing a joint venture. Also, an institutional environment with both high levels of arbitrariness and pervasiveness could suggest an overwhelming level of institutional complexity, which is likely to dampen the MNE’s willingness and ability to choose the JV mode. In this situation choosing a full-control mode is safer and more desirable. For US public firms, this preference for the internalization mode of governance might also be linked to the international experience of these firms, especially their experience in emerging and LDC markets. They could have

known better about the negative consequences of local partnering in those rampantly and arbitrarily corrupt regions.

3.6.3 Findings on host-country regulatory pressure

We employed the regulatory requirements of starting up an establishment in a host-country as the proxy for corruption-related external legitimacy pressure. Tedious and lengthy regulatory procedures in some corrupt host-countries provide rent-seeking opportunities for bureaucracy and create corruption-related legitimacy pressure.

The findings provide partial support for H4 (we have supported H4b but failed to provide support for H4a). The findings partially suggest the benefits of gaining political legitimacy by choosing a local partner. In robustness checks, the interaction effects were not significant but the main effect of regulatory pressure was significant. This may imply that the measures of regulatory pressure in the form of time costs versus monetary costs may have different mechanisms in affecting modes of entry.

The empirical findings have not demonstrated a significant direct effect of this external legitimacy pressure, which is explainable. Although host countries may have low efficiency in procedures causing high operational costs, they may not be considered sufficiently strong threats for them to oppose Greenfield investment or full acquisitions.

What is worth noting is that in host countries where the external regulatory pressure is great and isomorphic pressure for bribing (due to a great corruption distance) is also great, multinationals are likely to choose a wholly owned entry.

While corruption is related to the deficiency of rules and regulations, excessive bureaucratic pressure implies too many regulations. The two institutional characteristics are not contradictory but sometimes coexistent (Hoskisson et al., 2000; Wright et al., 2005). We argue that there may be a tipping point for a strategic switch in MNCs' responses to these institutional pressures. When the external institutional pressure is at low or moderate levels, firms are likely to choose to conform by forming a joint-venture, whereas where the pressures are considered too much, firms are likely to choose to escape or isolate (Oliver, 1991).

We also draw implications from the findings that foreign entrants are likely to generate more resisting or insulating strategic responses where a high deficiency of rules and excessive

regulations coexist, on account of increased institutional complexity, as well as the increased difficulty of compliance.

3.6.4 Findings on corporate ethical identity

Findings on corporate ethical identity first indicate that ethical firms are not entirely “cleanness-centred”. MNCs with a high level of moral consciousness do not reject alliances with local firms in a corrupt host country. Regardless of whether in a transparent or a corrupt host market, a large number of MNCs would like to join hands with a local firm. This result is slightly unexpected but not completely unexplainable.

We speculate that besides utilizing local knowledge to satisfy the CSR initiatives, alliance with a local firm signals that the MNC is beneficial to the local community. A foreign firm with a reputation of being ethical is in need of being “locally embedded in the social infrastructure ... (to) overcome their liability of foreignness” (London & Hart, 2004, p. 353). We argue that incorporating this intangible asset with local entities would generate more social legitimacy in the process of localizing the social value. In other words, as a source of intangible assets and advantages, a positive ethical identity from the home institutions is in need of being transferred to a host market. Firms with remarkable social and ethical images are in greater demand to improve the CSR influences of the local environmental, community and societal agencies, and are more likely to form partnerships with influential local organizations or firms (Dacin et al., 2007). More importantly, although establishing a joint venture may mix up the different corporate identities of a foreign and a local partner, a foreign entrant may gain more support in CSR activities from local communities, and the government due to the involvement of local firms (Xu & Shenkar, 2002). In this sense, counting on a local partner would facilitate the knowledge transfer process.

We also infer from the results that firms with a positive ethical identity may have confidence in their own ethical values, and have fewer concerns over changes in their identity by allying with local firms. The core values of high-identity MNCs may not be easily shaped by the local institutions; quite the contrary, the behaviours and practices of these firms with unique intangible assets are likely to counteract the institutional environment (Hillman & Wan, 2005; Kwok & Tadesse, 2006). We also employed some explanations from organizational identity theory that the variation in organizational identity caused by local adaptation would

not necessarily be detrimental to an MNC as long as the core attributes of the original identity were maintained (Pratt & Foreman, 2000).

Second, and more importantly, our empirical findings show that international firms' strategic responses to corruption are moderated by intra-firm ethical identity.

As corruption distance increases, ethically conscious firms did not demonstrate strategic adaptation in their entry modes. On the contrary, we have revealed that those firms whose ethical identity is not salient show a stronger inclination of local adaptation via JV when entering a host market with a greater corruption distance.

Institutional theorists posit that where pressure to conform to the environmental norms is dominant and strong, organizations tend to choose a strategy of compliance to gain legitimacy (Dacin et al., 2007; DiMaggio & Powell, 1983). Such is true for the firms without salient and positive ethical identities. For these firms, CSR actions are merely passive reactions toward the institutional environment; even if they engage in ethical behaviours, they are demonstrating conforming behaviours to the institutional requirements. Consequently, when these firms enter a more corrupt host-market, they will be more likely to showcase more conforming strategies to the host institutions.

Nevertheless, things work out differently for firms with a salient level of ethical identity (Maignan & Ferrell, 2004). These ethical firms would engage in a wide variety of socially responsible activities to embody their ethical identities (Martin et al., 2011). For these firms, the managers and staff members internalize the ethical values rooted in their corporate identity and manifest them in their decisions and behaviours (Martin et al., 2011). According to our results, ethically conscious firms make entry decisions based on their existing ethical judgement and are not as strongly influenced by corrupt environments.

Ethical identity, as an important intra-firm legitimacy pressure, indeed shapes the entry choices of foreign affiliates. Where the pressure for corruption and intra-firm ethical constraints coexist, the entry decision is actually formed based on the trade-off between the internal and external institutional forces. When the internal forces are greater, MNCs would be more likely not to conform to the local environment and perhaps choose a strategy that would cut off the firm from local corruption influences in their organizational structure. Yet when the external corruption pressure is greater than the intra-firm ethical expectations, firms tend to choose local cooperation as a conforming strategy. The finding is in line with

evidence presented by Luo (2006) that as perceived corruption in the environment increases, firms who consider philanthropic values less important tend to rely more on relationship-building strategies, rather than arm's-length bargaining to deal with a host government.

Firms with stronger ethical constraints from inside would prioritize the strategic decisions that are coherent with their ethical identities, and therefore develop unique resource capacities that could counteract host-country corruption.

3.7 Conclusions

3.7.1 Conceptual and empirical contributions

Our study makes several contributions to the literature on corruption distance and market entry strategy.

In response to the “three typical lenses”, i.e., politics, corruption and corporate social responsibility of MNCs in the framework by Rodriguez et al. (2006), our integrative research framework juxtaposes the influences of corruption, arbitrariness of corruption with corruption-relevant institutional/ethical factors in affecting multinational enterprises' host-country entry strategies.

Firstly, our study enriches the understanding of the relationship between corruption distance and the entry strategies of international marketers.

Corruption distance between a home country and a host country affects the strategic entry choices of foreign entrants. We used the data set from US-listed MNCs, and demonstrated that as corruption distance increases, MNCs are more likely to enter via the JV mode. Because corrupt countries are often low-income yet fast-growing emerging economies, our research expands the strategy research in emerging markets and LDC markets.

In addition, government corruption not only incurs transaction costs, it is an important institutional force. Our empirical evidence suggests that when entering a corrupt host country, choosing to partner with a local firm could lower the transaction cost, and could also be an advisable practice to cope with host-country institutional pressure. Note that our American sample firms are prohibited to engage in local corruption under strict supervision and regulations by SEC and The Foreign Corrupt Practices Act. Therefore, these foreign entrants in a corrupt host market face conflicting institutional pressures: the home

government says “no” to overseas bribery but a corrupt host country imposes isomorphic pressure to bribe. Allying with a local partner could help mitigate both pressures. This strategy allows a foreign firm to obey the regulation from home and simultaneously gain local legitimacy. Therefore, the strategy of local cooperation is an indirect and low-profile way to deal with conflicting pressures from the home and the host country.

Secondly, we further the research on arbitrary corruption by identifying two interconnected yet distinct types of political arbitrariness, namely, a lack of political constraint and political instability. Previous studies have proposed the concept of arbitrariness of corruption (Doh et al., 2003; Rodriguez et al., 2005); however, little research has been done in distinguishing the different components of corruption arbitrariness. Our attempt to divide the arbitrariness of corruption into institutional, situational, and individual levels could shed light on how corruption arbitrariness is formed. We have scrutinized the role of host-country corruption arbitrariness in affecting MNCs’ entry choices, and examined the interaction effect of corruption pervasiveness and arbitrariness.

Our results show that the relationship between political arbitrariness and entry strategy corruption distance is contingent on corruption distance. Previous studies on political uncertainty and entry mode choices indicate inconsistent findings. Some studies suggested that as uncertainty increases, MNCs should take the lower-equity mode to keep a higher level of strategic flexibility. Other studies argued that a great level of uncertainty would increase transaction costs and inter-partner risks, and therefore MNCs should prefer wholly owned operations. Our research findings provide a contingency-based explanation to the “corruption strategy” research by tapping into the dynamics between arbitrary and pervasive corruption. Our findings not only support the prediction that the effects of arbitrary corruption on entry ownership strategies are indefinite (Rodriguez et al., 2005), but also prove that the strategic implications of political arbitrariness of corruption are contingent on corruption distance.

In general, if corruption distance stays at a low to medium level, as the level of institutional uncertainty involving corruption (i.e., the political arbitrariness) increases, MNCs should prefer allying with a local partner. When both the arbitrariness and pervasiveness of corruption of a host country reach a high level, however, foreign entrants might prefer a full-control mode to minimize risks. The research suggests that when entering a corrupt economy, an international firm should consider the heterogeneity of emerging economies.

Either a high level of corruption pervasiveness or arbitrariness would lead to local cooperation; however, both high levels in a host country (often shown as political upheavals or chaos) could signify a high degree of institutional complexity, which is likely to dampen MNCs' willingness and ability to choose local cooperation. "When a host country partner is well situated to threaten both the economic interests and legitimacy of the emergent institutions supporting the foreign investor, the partnership strategy may itself be risky" (Henisz & Zelner, 2005). Under this circumstance, most foreign investors would choose to exit or choose a wholly controlled mode to insulate themselves from the external environment. Our research provides explanations to the theoretical confusion that the combining effect of host-country corruption pervasiveness and arbitrariness levels drives the strategic choices of firms.

Thirdly, our research broadens the focus of the institutional view from home-country regulatory constraint and host-country regulatory aspects to intra-firm constraining factors.

Following the institutional logic, the internationalization decisions of an international firm are affected by the pressure to conform to the host country institutional environment, as well as intra-firm prevailing corporate values and norms in the form of ethical identity.

We have identified an indication of host-country regulatory legitimacy pressure in entering a corrupt state (namely, bureaucratic delays), and found a similar main effect of this regulatory pressure, and the interaction effect of the regulatory pressure and corruption distance, as the effects of political arbitrariness.

More importantly, we have explored the mechanism of how internal institutional pressure affects MNCs' entry decisions, which was often ignored by previous researchers. While the existing literature often examines internal institutional pressure from the lens of home country regulations (Kostova, Roth, & Dacin, 2008a; Yiu & Makino, 2002a), very few studies have explored a firm's strategic reaction from the viewpoint of corporate normative/ethical constraint, especially when firms are faced with ethically sensitive issues such as corruption. Consequently, this research has revealed that organizational ethical identity has an important normative influence on international firms' strategic actions.

All internationalization decisions are bounded by the mindsets of the top management, who are largely affected by a company's historical ethical practices (or ethical reputation), which are components of its ethical identity. These historical practices in the form of ethical

identity impose normative constraints on managers and executives in the headquarters and subsidiary when making international strategies. We confirmed that as an internal normative constraint, corporate identity affects the entry decisions going into corrupt host-markets. Our research sheds light on how firms with different ethical identities respond to host-country corruption.

As a mechanism of internal legitimacy pressure, corporate ethical identity to a degree explains why some firms show compliance behaviours while others do not under the same external institutions. When faced with pervasive local corruption firms without a salient ethical identity demonstrated more conformance to external pressure, whereas ethically conscious firms showed little change in entry strategies, whether in a corrupt, or a transparent host-country. This may suggest that a high level of corporate ethical identity could serve as a source of intra-firm legitimacy demands, which would give rise to the disregard of external legitimacy pressure from a host market. This may also imply that ethical firms would stick to “the right way” of doing business even in alliance with a local firm in corrupt environments.

When explaining their findings on an insignificant relationship between corruption pervasiveness and MNCs’ entry ownership decisions, Uhlenbruck et al. (2006) added, “there may be underlying constructs” that exert conflicting effects on firms’ choices over JV and WOS. Our findings revealed that “organizational identity” could be one such underlying construct. Besides, it is suggestive from an institutional view that some multinational corporations from less corrupt countries may be driven by such high internal ethical standards that they adopt different firm strategies and practices (Duanmu, 2011; Martin et al., 2011; Uhlenbruck et al., 2006).

3.7.2 Managerial implications

Our research framework in this chapter integrates economic, institutional and moral considerations, and may provide references for international managers on how to manage firms and make decisions in the presence of government corruption. Managers need to be fully aware of the corruption distance, the institutional complexity of a corrupt host country, and possible ethical dilemmas they might encounter.

This research may provide a better understanding of how multinationals overcome corruption distance to enter a host country. The joint venture entry is a “double-edged sword”

in terms of MNCs entering a corrupt market. Equity sharing with a local partner with political ties (especially with a government-controlled local enterprise) could acquire complementary resources and signal local legitimacy; this strategy, however, is vulnerable to inter-partner opportunism and the weak institutional framework of a host-country. Entry strategies should be formulated considering different task environments and institutional environments.

In a host-country environment where local corruption is both rampant and arbitrary, it is indicative that an insulation strategy could better safeguard the equity and returns of a foreign investor. Under conditions like this, choosing to ally with a local partner could not only incur overwhelming political risks but also bring about great inter-firm collaboration risks. It may not be desirable to ally in a corrupt host-country market with great political arbitrariness. According to our data, if only one dimension of corruption (either pervasiveness or arbitrariness) is at a high level, however, local cooperation is still preferred by international managers. Our research has explored the boundary conditions of national governance for choosing a local cooperation strategy, and therefore could offer some implications to the entry decision-making of foreign investors.

Besides, this study might facilitate developing better host business strategies for foreign subsidiary executives to understand the corruption distance and the host institutions and to better align their own identities with the environment. We emphasized the importance of corporate ethics in managers' decision-making and in shaping the organizational structure. A parent firm could guide the strategies and business practices of foreign subunits by establishing a salient ethical culture and identity.

Another significant implication answers this question: Do firms react in a similar manner to corruption in emerging markets? When faced with the challenges from corrupt institutions, we suggest that a firm should first consider their own ethical culture and moral identity before making an entry decision. Ethics-valuing firms may have adequate bargaining power in interactions with a host government, as well as maintain the integrity of their corporate culture. In contrast, ethically unconscious MNCs are more responsive to host institutions.

For foreign firms with high moral standards, managers may have to deal with the conflicts between external pressure for corruption and internal moral pressure in a corrupt environment. How should a foreign company react to external pressure for corruption?

Should it choose to strategically compromise or adapt? An important implication for international managers is that the strategic decision of whether to adapt to local institutions is contingent on the trade-off between internal pressure and external pressure from a corrupt environment. In other words, managers need to figure out the relative strengths of the internal ethical pressure and the external pressure from pervasive corruption. Where the external pressure outweighs the internal, firms prioritize local adaptation; while where the internal ethical standards dominate, firms would normally focus less on external institutional pressure.

When faced with pressure from host-country corruption, multinational firms could not only conform to the host expectations and requirements to mitigate the external pressure, they can also counteract this external pressure with their own ethical identities (Luo, 2005).

4 Corruption distance, entry strategies and entry performance: A combined perspective of TCE and institutional theory

4.0 Abstract

Corrupt country markets are often economically attractive emerging markets, which become increasingly important for international entrants from developed economies. However, little research has been carried out to discuss the drivers of market success and the roles of entry strategies in corrupt environments.

We used an integrated perspective from transaction cost economics and institutional theory to advance the understanding of how corruption distance affects a foreign subsidiary's entry success, as well as the strategy-performance relationship in the context of host-country corruption. Drawing on a hand-collected database of US-listed firms and the event history analysis (EHA) technique to measure historical entry success of foreign subsidiaries, we hypothesized and discovered that: 1) As corruption distance increases, the chance of foreign subunits' entry success falls. 2) In relation to WOS entry, joint ventures with local firms could overcome the entry disadvantages induced by corruption distance, and thus lead to more successful market outcomes. 3) We found the success-boosting effects of host-country political constraint and corporate ethical identity. Moreover, we proved that as opposed to wholly controlled investment, strategic alliances with local partners could be more successful when entering a politically unconstrained host-country. 4) Although we confirmed the positive effect of a firm's ethical identity on entry success, different entry strategies did not result in great differences in the performance implications of the identity.

The data also revealed that the decision to ally or not is slightly endogenous. After having controlled for endogeneity biases through the Heckman two-stage process, the significance of the results remained unchanged.

This research is among the first to blend transaction cost considerations with the institutional logic to interpret how successful a foreign firm can be using different strategies to respond to host-country corruption. This research does not only have theoretical value in answering the “what-if” question in the context of corruption, but also sheds light on strategic solutions for entering host countries under different conditions for international practitioners.

4.1 Introduction

Government corruption is the misuse of the public power of government officials for private gains (Shleifer & Vishny, 1993; Svensson, 2005). As a foreign firm enters a corrupt host market, it does not only involve entry decisions on how to cope with local corruption, but its operational and marketing activities are also hassled by government corruption. This chapter will continue to discuss how host-government corruption and MNCs’ strategic responses affect the subsequent entry success of a foreign subsidiary.

A great deal of research on the relationship between national corruption and FDI, or corruption and entry choices has been presented (e.g., Rodriguez et al., 2005). The last chapter discussed how corruption distance and corruption-related TCE and institutional factors affect firms’ modes of entry. However, there is very little research that examines the “so what” question. Specifically, after MNCs have made an entry decision based on corruption distance under different country, firm and industry conditions, will this decision create a successful host-market outcome? What factors drive the entry success in a corrupt host market?

Empirical evidence from the previous chapter has demonstrated that as corruption distance increases, MNCs are more likely to prefer local partnering. Furthermore, two types of political arbitrariness of corruption and pertinent institutional forces affect the preference of entry. Nevertheless, entry choice preference is one thing; entry performance under the entry mode is another. In the context of corruption, the question is: when entering a more corrupt host-market, would the strategy of local cooperation, as opposed to WOS, generate more successful results for a foreign investor? Also pertinent are questions like: would corruption distance affect the entry success? What roles do corruption-related transaction cost factors and institutional factors play in the entry performance in host-countries of different corruption levels? For international managers, the “so what” question is more important as

it is relevant to how to exercise a firm's competitive advantages and succeed in a host-market.

Government corruption itself is a supplementary "tax" imposed on a firm (Shleifer & Vishny, 1993) and entering a corrupt host-country could incur higher transaction costs (Peng, 2003). However, not all firms are negatively affected by corruption. Some firms may develop strategies and capabilities to achieve better performance, even in corrupt host markets (Peng, 2003). Research suggests that strategic actions and practices in face of corruption could have short-term financial incentives for firms (e.g., Jeong & Weiner, 2012). Therefore, first of all we will delve into the effect of corruption distance on a foreign subunit's entry success.

Furthermore, to our best knowledge there is little research scrutinizing the relationship between entry ownership strategy and subsidiary performance in a corrupt market setting. Brouthers (2002) is among the first to initiate the "what if" paradigm of "strategy-performance" research. Yet research on how strategies affect firm performance in different contexts remains insufficient (Hult et al., 2008). In addition, inconsistent empirical findings give rise to an argument that no single mode of entry would generate an absolutely superior performance (Gaur & Lu, 2007; Robson, Leonidou, & Katsikeas, 2002). Rather, the success of entry is determined by the fit between the entry mode and the environment (Brouthers, 2002; Martin, 2013). Theoretically, Greenfield investment, wholly controlled acquisition and cooperating with indigenous firms could each lead to a superior performance in different circumstances. So we ask the second question: in a corrupt host-market, which mode of entry would be more likely to generate successful performance?

Most ownership-performance studies analyse from a single perspective, such as a transaction cost perspective or a resource-based view. However, what drives a firm to be successful or not successful is not only economic concerns, but also the impacts of institutional forces. To succeed in a host-country market, MNCs should not only take into account the transaction costs and uncertainties in the task environment when deploying a mode of entry (Brouthers, 2002), but also the need to overcome the liability of foreignness (LOF) in different institutional settings (Zaheer, 1995). Therefore combining lens of TCE theory and institutional theory could offer a more comprehensive understanding of the drivers of a foreign subunit's entry success.

We focus on the relationship between two entry ownership strategies (JV and WOS) and entry success under the influence of corruption distance. By entry success, we emphasize the performance of a foreign subsidiary in a host market 3 to 6 years after the initial entry. Specifically, we address the following questions:

First, would corruption distance between the host country and the home country affect the entry success of a foreign subsidiary?

Second, would different modes of entry (JV or WOS) affect the entry performance?

Third, would corruption-related TCE factors and institutional factors affect the success of entry? More precisely, would political constraint from host-government, as well as corporate ethical identity affect the entry performance?

Last, if corruption distance and pertinent factors influence a foreign subunit's entry success, would different entry ownership strategies have different performance implications?

Drawing on large periodical databases and a name list of US public firms, we have hand-collected 529 host-market entry cases into a wide variety of host countries (primarily emerging economies where different levels of corruption exist) by using the EHA technique.

We have chosen American MNCs as the research targets for two main reasons. First, America is one the most advanced countries in international business. The information on public firms is disclosed and transparent, and news reports and materials for company activities are sufficient, laying a good foundation for the subsequent event history analysis. Second, a great many of the analysed public firms are active global marketers entering a wide array of host countries including corrupt economies. This would provide us with a rich and balanced sample.

The findings show that the entry performance of foreign subsidiaries worsens off as corruption distance increases. Evidence also suggests that local cooperation, relative to wholly owned entries, leads to more successful market entry results in the context of host-country corruption. With the enlargement of corruption distance, the performance advantages of firms via a JV entry grow more obvious than those via a WOS entry. The data also revealed that the decision to ally or not is slightly endogenous as far as the performance models are concerned. After having controlled for endogeneity biases, the significance of the results was not affected.

Moreover, as opposed to wholly controlled investment, allying with local partners could be more successful when entering a politically unconstrained host-country.

Lastly, although we confirmed the positive effect of a firm's ethical identity on entry success, different entry strategies did not result in a great difference in the performance implication of corporate identities.

After exploring how corruption distance and related TCE and institutional factors affect MNCs' entry ownership strategies, this chapter furthers the understanding of the strategy-performance relationship in the context of corruption. This follow-up research not only has theoretical value in furthering the academic dialogue on the "what-if" paradigm, but also sheds light on strategic solutions for entering host countries of different conditions for practitioners.

So far no integrative theoretical framework has been employed to explain what drives entry success in a corrupt environment. This research is among the first to blend transaction cost considerations with the institutional logic to interpret how a foreign firm can be successful in a corrupt host-country using different strategies.

We have made contributions from the following aspects: 1) We have employed a more comprehensive measure of entry performance based on the event history technique. 2) We have provided an integrated framework to explain how corruption distance, TCE and institutional factors and entry strategies jointly shape entry success. 3) Although a greater corruption distance generally worsens entry performance, we have confirmed the role of allying with a local partner in becoming more successful in corrupt markets. In contrast, the performance implications of local partnering were not significant for MNCs entering more transparent host countries. 4) The findings revealed that it is important to use a contingency perspective to predict the ownership-performance relationship.

The remainder of the chapter is structured as follows: First we reviewed the literature from TCE and institutional perspectives on the relationship between entry ownership strategy and entry success, which is followed by our research questions, theoretical framework and hypothesis building. The next section presents the methodology, sampling and research design, discusses technical details about the EHA technique, and describes the Heckman two-stage modelling to correct for self-selection in model specifications. This is followed by result analysis. The discussion and conclusion sections conclude by discussing the

research findings, values and implications, and identifying limitations and areas for future research.

4.2 Literature review and theoretical framework

4.2.1 Literature review on the performance implications of entry strategies

Modes of entry are firms' fundamental and important FDI decisions to enter a new market. Forming a joint venture or running a wholly owned subsidiary are two central modes and represent different strategic responses to a host market. Both entry strategies could have profound implications on subsidiaries' entry performance (e.g., Delios & Beamish, 2004; Gaur & Lu, 2007).

Yet research has often overlooked the performance implications of entry strategies (Brouthers & Hennart, 2007). Furthermore, the research findings on the relationship between the entry choices of JV and WOS and subsidiary performance are mixed and inconclusive (Gaur & Lu, 2007; Robson et al., 2002).

Some empirical findings suggest that the international JVs outperform the wholly owned modes (Gaur & Lu, 2007; Hennart, Kim, & Zeng, 1998), while other scholars have found IJVs outperform Greenfield investments and acquisitions (e.g., Anand & Delios, 1997), or have provided evidence that no significant relationship exists between ownership modes and entry performance (Delios & Beamish, 2004; Pangarkar & Lim, 2003). Some research produced more varied results. For example, acquisition and JV entry performs worse than Greenfield operations in a foreign market (Li, 1995), or JVs with foreign ownership of less than 20 per cent perform worse, and JVs with ownership stakes more than 80 per cent perform better than wholly owned subsidiaries (Dhanaraj & Beamish, 2004).

The inconsistency in empirical evidence may be attributable to two reasons. First, there are no unified measures of subsidiary performance (Hult et al., 2008), nor consistent analytical tools (Brouthers & Hennart, 2007). 1) There is a wide range of measurement on subsidiary performance, such as survival rate, profitability, market growth, market satisfaction and overall market development, to list a few. Inconsistency in measuring performance by the use of different and sometimes inappropriate indicators could produce confusing findings. For example, research suggests that it is inappropriate to use the exit rate, due to the natural

instability of a joint venture and the fact that the termination of a JV does not mean the venture is not successful (Makino, Chan, Isobe & Beamish, 2007). Also, the use of profitability also may not be appropriate, in that JV partners share profits and the mode has a systematically lower profitability than the choice of WOS (Brouthers & Hennart, 2007). 2) Since the entry decisions of managers are endogenous, research on the performance implications of strategic decisions should be controlled for endogeneity by using the Heckman approach (Bascle, 2008; Dastidar, 2008; Shaver, 1998). Much research, however, did not include this process in the analysis, and therefore may present biased findings, such as Gaur and Lu (2007)'s research.

Second and more importantly, academia started to converge in opinions that the relationship between entry strategies and entry performance is contingent on different contextual conditions (Gaur & Lu, 2007; Luo, Shenkar, & Nyaw, 2001).

Both the JV and WOS modes of entry have their unique advantages and boost market outcomes. As Brouthers (2002) suggested, entry ownership strategy itself offers no guarantee of an inferior or a superior performance, as it is the fit between the strategy and the environment (both the task environment and the institutional environment) that drives a foreign subsidiary to be successful.

This way of thinking requires us to take into account all possible influencing factors that could affect MNCs' entry strategies, as well as the subsequent subsidiary performance by using multiple theoretical perspectives.

4.2.2 Theoretical lenses on strategies and performance

By and large, there are three mainstream theoretical perspectives to explore the relationship between strategies and performance: the resource-based view (RBV), transaction cost economics, and institutional theory.

The resource-based view holds that firms can strategize to develop or acquire firm resources and capabilities to obtain and maintain competitive advantages (Barney, 1991). An international firm could use different market entry strategies to develop different firm-specific resources and capabilities to be successful (Delios & Beamish, 2004; Luo, 2002). When a firm possesses more critical strategic resources, the chances of success will improve (Anderson & Gatignon, 1986).

Transaction cost economics posits that as multinational enterprises enter a host country via different ownership modes, which entail different levels of asset specificity, and uncertainty from internal and external environments, their performance is affected by varied transaction costs of operating in a host country (Brouthers, 2002; Gaur & Lu, 2007).

Institutional theory underscores the “rules of the game”, which have an important influence on firms’ strategies and performance, especially in emerging countries. Although some competitive advantages are associated with firm-specific resources and capabilities, other advantages are embedded in the institutional environment (Scott, 1994). A foreign firm could acquire resources and competitive advantages from the institutional environment using different modes of entry (Xu & Shenkar, 2002).

However, most research on performance implications taps into this issue from a single perspective such as the transaction cost economics (Shrader, 2001), or a resource-based view (Luo, 2002). Few studies incorporate transaction cost factors with institutional perspectives to look at FDI performance (Brouthers, 2002; Gaur & Lu, 2007).

Using a combined lens to explore the performance implications of MNCs’ host-market entry in the context of corruption could provide more comprehensive explanations on factors that could affect foreign firms’ entry strategies and entry performance.

(1) Entry ownership modes and entry performance: A TCE lens

Market, relational and hierarchical governance structures each have pros and cons in affecting a firm’s performance (Williamson, 1985). Transaction cost economics introduces a useful perspective in examining the costs and benefits of different modes of entry (Shrader, 2001). Accordingly, multinational enterprises entering host countries under different ownership structures may result in different benefits, costs and risks, and have correspondingly different entry outcomes.

The TCE theory suggests that the ownership strategies of WOS and JV each have their unique transaction costs. These transaction costs are related to managers’ bounded rationality and opportunism, which affect the overcoming of external and internal uncertainties, as well as acquiring or developing competitive advantages (Shrader, 2001; Williamson, 1985).

1 Costs and advantages of WOS

The wholly controlled mode requires a parent firm to invest more resources. Because the WOS mode involves a high asset specificity, the mode of entry would incur a wide range of transaction costs: costs of land and building new plants (which might not be included in full acquisitions), property and equipment, costs of administration, management and overhead costs, costs of negotiations and potential inefficiencies in dealing with government, and payroll costs. It also generates potential opportunity costs of exploiting internal resources instead of relying more on host-country resources.

Despite the drawbacks, entry via WOS could bring about important competitive advantages such as reducing communication and coordination costs, and lowering contractual risks and partner risks (Delios & Henisz, 2003b). Moreover, wholly controlled governance engenders a higher level of strategic consistency and efficiency advantages of integration.

2 Costs and advantages of JV

The JV mode of entry could effectively overcome high investment costs. In contrast to the WOS mode, MNCs choose a lower level of control in exchange for local knowledge and potential reduction of local market uncertainties. Furthermore, a foreign firm could accumulate host-country experience by allying with a local partner to improve its chance of success in the market (Makino & Delios, 1996).

Despite the advantages of using a joint venture to enter, this mode has higher costs in knowledge transfer and may be negatively affected by the opportunistic behaviours of partners (Demirbag & Mirza, 2000; Luo, 2007). For example, a local partner(s) may free-ride on a foreign entrant's reputation or brand equity, and infringe on their intellectual rights, causing potential brand damage or technological leakage (Demirbag & Mirza, 2000).

(2) Entry ownership modes and entry performance: An institutional view

Institutional theorists hold that an organization is embedded in multiple yet complex institutional environments, which could affect an organization's strategic choices and subsequent organizational outcomes (Brouthers, 2002; Suchman, 1995). The competitive advantages of firms, therefore, are in part from their own unique resources and capabilities, and in part embedded in the institutional environment. A foreign entrant's market success is greatly associated with the resource acquisition, exchange or integration from the local institutions (Pfeffer & Salancik, 2003).

To acquire, exchange or integrate resources from local institutions, a foreign entrant has to meet the legitimacy requirements from local stakeholders (Kostova & Zaheer, 1999). According to Suchman (1995, p. 574), “legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. Therefore, a foreign firm’s market strategy and performance are largely constrained by the regulatory, normative and cognitive institutions in a host country. Their strategic actions face judgements from different institutional stakeholders (such as customers, the government or NGO groups) regarding whether the firm strategies and behaviours are congruent with their regulatory, normative or cognitive expectations (Suchman, 1995). If a stakeholder perceives a firm’s organizational structure, processes, or outcomes as legitimate, it would grant favourable acknowledgements, approvals and supports that are critical to the firm (Scott, 1994). As Meyer and Rowan (1977, p. 352) put it, “organizational success depends on factors other than efficient coordination and control of productive activities: organizations that incorporate socially legitimated rationalized elements in their formal structures maximize their legitimacy and increase their resources and survival capabilities” .

Of course, it is also important to allow for legitimacy concerns from intra-firm institutions in influencing MNCs’ strategic choices and operations besides the external institutional forces. As discussed in Chapter 3, intra-firm institutions, such as normative requirements and expectations from a parent firm, could exert pressure on a foreign subunit, and affect a foreign affiliate’s local market expansion. Failure to comply with internal norms and values could also cause a foreign subunit to lose its legitimacy, and therefore may lower its strategic importance in the parent’s global integration, causing it to fail to gain support from the headquarters.

The institutional view emphasizes that it is important to conform to regulations, norms and cognitive values from the external and internal institutional environment (Xu, 2002; Kostova, 1999; Gaur, 2007; Lu, 2005) . Consequently, we expect that corresponding institutional forces and pressures affect not only the entry strategy but also the entry success. Consequently, as discussed in Chapter 3, MNCs’ decisions and subsequent market development might be affected by both the institutional pressure for corruption from a corrupt host country and ethical pressure from an ethical parent firm (in the form of ethical identity).

Firms' strategic responses to these different institutional forces may have different outcomes (Xu & Shenkar, 2002). From an institutional view, JV and WOS, as two different ways to respond to institutional environment, have different institution-based competitive advantages.

The JV entry is more accommodative (Oliver, 1991). The strategy of local cooperation makes it easier to gain the endorsement of legitimacy from host-country regulators or stakeholders (Chan & Makino, 2007), and also easier to acquire host-country-related competitive advantages such as local knowledge and social acceptance (Xu & Shenkar, 2002). In contrast, a WOS entry is more insulated (Oliver, 1991). The strategy of establishing a wholly controlled operation facilitates using firm-specific competitive advantages that are embedded in organizational routines and practice (Xu & Shenkar, 2002). However, this mode of entry may face great risks of failure due to incompatibility between internal processes and the host institutional requirements, and also perhaps a lack of responsiveness to the host-country institutions (Dikova & Van Witteloostuijn, 2007; Meyer, 2001).

Besides different institutional forces, the differences between host-country and home-country institutions, i.e., institutional distance, could also affect MNCs' entry modes and foreign subsidiary performance (Xu & Shenkar, 2002).

As institutional distance between a host country and a home country becomes larger, MNCs are less likely to establish legitimacy in the host country due to "liability of foreignness" (Kostova & Zaheer, 1999; Zaheer, 1995). They may also find it more difficult to transfer home-country practices directly to their subunits (Zaheer, 1995). These two reasons could have an unfavourable influence on the market expansion of MNCs in an institutionally distant host market.

In the context of our research, the core concept "corruption distance" is a type of institutional distance and represents the difference in corruption levels between host-country and home-country government institutions (Eden & Miller, 2004a). This construct implies that a host country might differ in regulatory and normative requirements on government corruption and corrupt acts, but also people may think differently when it comes to the definition of "corrupt behaviour". We expect to look at how corruption distance affects

MNCs' entry performance and more importantly, how to improve a firm's competitive advantages in the context of corruption.

4.2.3 An integrated theoretical framework on drivers of performance

To our best knowledge, few research studies have employed an integrative theoretical lens to explore the performance implications of entry strategies in corrupt host countries. Additionally, little has been done to examine the drivers of foreign market success in a corrupt host-country, nor is a conceptual framework provided to explain how a variety of factors and entry strategies affect a foreign entrant's success in a more corrupt host country.

By combining factors from transaction cost economics and the institutional view, we have come up with a conceptual framework to explain how an MNC can be successful in a more corrupt host country.

According to our conceptual framework shown in Figure 4.1, a foreign subsidiary's historical entry performance is influenced by an array of transaction cost factors and institutional factors.

As far as institutional factors are concerned, besides the central construct of "corruption distance", we have included institutional forces that have been shown to be significant and robust in the strategy research in Chapter 3, i.e., corporate ethical identity and cultural distance. We have included the intra-firm normative constraint, namely, ethical identity, to examine whether ethical standards are an asset or a liability when an ethical firm enters a corrupt host-country.

In terms of TCE factors, we incorporated several transaction cost factors that would fundamentally affect a subsidiary's chance of success, including political hazards from a host country due to a lack of political constraint (which has been proved to have significant influence on entry strategies), geographic distance, host-country related international experience and corporate ethical identity.¹⁹

¹⁹ Corporate ethical identity can be regarded as a construct from both TCE and institutional perspectives. The ethical identity can impose moral pressure on a firm in entry decisions, which affects the subsequent performance. At the same time, a firm's ethical identity is an ethical reputation from the external stakeholders' perspectives, which could help reduce internal uncertainty and related transactional costs in the task environment.

Besides the theoretical lenses from TCE and institutional theory, we also allow for influences of different industry conditions and firm-level resources. We use firm size to control for the influence of firm resources on firm performance. Also, we have controlled for resource-intensive industries and industries with ownership restrictions from the host government.

Figure 4.1 Conceptual framework of the entry performance model

Drawing on the EHA technique, we measure the MNCs' entry performance by referring to the historical success of a focal MNC as reported in archival records.

Specifically, this conceptual framework will help answer the following questions:

- (1) Does corruption distance affect the entry success of a foreign subsidiary?
- (2) Do different choices of entry, JV or WOS, affect the entry success in corrupt environments?

(3) Do corruption-related TCE factors and institutional factors affect the success of entry? Precisely, would political constraint from the host government and corporate ethical identity affect a foreign subsidiary's entry performance?

(4) If corruption distance and pertinent factors do influence a foreign subunit's entry success, will different entry strategies have different performance implications?

In the next section, we will draw on the blended theories to formulate our corresponding hypotheses.

4.3 Theory and hypotheses

In the sections below, we first discuss the main effects of entry ownership strategy, corruption distance, and host country political constraint and corporate ethical identity. We then elaborate how these two entry choices (JV and WOS) may engender different entry performance under different levels of corruption distance, host-country political constraint and corporate ethical identity.

4.3.1 Entry choices and entry performance

As discussed earlier, we speculate that no entry mode could have a constantly superior performance, and either mode of entry has its unique merits. It is the match between the mode of entry and the environmental conditions that forges a firm's entry success. Therefore we have created two competing hypotheses regarding the relationship between entry choice and entry success.

First, the JV mode of entry has its unique advantages in the following aspects.

Local partnering could provide a foreign entrant with local knowledge on the economic conditions, political situations, cultural norms, market demands and preferences, to name a few. Thus this strategy could effectively reduce the disadvantages due to unfamiliarity to a market and improve the entry performance (Makino & Delios, 1996).

Entry via strategic alliances could be easier to win support from local business partners (Yiu & Makino, 2002b). The legitimacy status of a local partner would engender acknowledgement from the local government, suppliers and consumers for the partnering foreign firm (Dacin et al., 2007). A foreign partner therefore could use the social capital of

a local partner to access critical resources (Yiu & Makino, 2002b), and improve the performance in the local environment (Li & Zhang, 2007; Peng & Luo, 2000).

Cooperating with a local competitor, besides the advantage of local knowledge and network resources, could also help to switch the inter-partner status from competitors to collaborators and thus reduce competition (Park & Luo, 2001).

The WOS entry, however, has its unique and favourable performance implications.

The wholly owned investments could secure full profit and have better control over the operations of a foreign subsidiary. For example, a foreign firm could appoint its own staff to manage a foreign subunit, and operate in a local market in the way that the parent firm requires and directs. This will lead to a high efficiency in investment and operation and reduce coordination.

Moreover, a WOS entry would facilitate cross-border business integration and knowledge transfer from a parent firm, such as strategies, procedures and practices. A foreign subsidiary could take advantage of knowledge and resources from the parent firm to have better strategic alignment and more efficient decision-making (Anderson & Gatignon, 1986).

More importantly, an irreplaceable advantage of WOS lies in that this mode of entry could protect the MNCs from potential opportunism from a business partner such as free-riding or infringement of intellectual property, which may occur in a joint venture relationship.

As discussed in the literature review, since the entry strategies of strategic alliances and wholly owned establishments have their own advantages and drawbacks, it is the contextual fit that makes an entry strategy more successful. We therefore propose the two competing hypotheses:

H1a: Other things being equal, a JV entry is more likely to generate superior subsidiary performance.

H1b: Other things being equal, a WOS entry is more likely to generate superior subsidiary performance.

4.3.2 Corruption distance and entry performance

Institutional distance reflects the difference between two countries in institutional profiles (Kostova, 1999). Following the definition of Eden and Miller (2004a), similarly, corruption

distance reflects the divergence in corruption pervasiveness in government institutions between two countries.

The issue of government corruption/transparency is an embodiment of the governance process and outcome of the government institutions. Therefore, we predict that a greater corruption distance would lead to a less successful entry outcome as a whole.

With the enlargement of corruption distance, an MNC would experience 1) heightened operational costs in the host country, and 2) higher obstacles in knowledge transfer and potential losses of market competitive advantage, as well as 3) greater institutional challenges caused by the liability of foreignness. All these three aspects have been discussed in Chapter 2.

First, entering a host country with pervasive corruption, MNCs are subject to the impact from pervasive corruption at all levels of government. Firms often have to pay informal fees to government officials, or establish social connections with the governments, which would increase the transaction costs and thus reduce the profitability of a foreign subsidiary operating in such markets (Robertson & Watson, 2004). As a whole, for firms entering a host country with a higher level of government corruption, the costs of market entry and business operations are higher than those in the less corrupt countries (Doh et al., 2003; Shleifer & Vishny, 1993).

Second, as a type of institutional distance, corruption distance is negatively associated with cross-border knowledge transfer (Kostova, 1999). The greater the difference of corruption levels between a host and a home country, the more difficult a foreign firm may find it to transfer existing competitive advantages from a less corrupt home country to a more corrupt environment. For foreign entrants that have cultivated market-based capabilities, it is very difficult for them to leverage government resources for survival and development in a corrupt environment.

A smaller corruption distance, on the contrary, means that firms may face similar norms and conventions with regard to government corruption. Due to the proximity in business norms and practices, it is easier for these firms to transfer home-based knowledge. Similar corruption norms, values and mentalities have made it easier to gain trust from stakeholders and gain access to political resources critical to their market success. For example, it is easier for Chinese firms to succeed in African markets on account of a smaller corruption

distance. As a result, corruption might even become an advantageous situation for the Chinese MNCs compared with their western counterparts.

Third, corruption distance engenders more LOF in that a) corruption distance increase a firm's sense of unfamiliarity with the local practices, and the political environment of a host country; and b) corruption distance may engender a lack of political legitimacy from the host-country government.

As corruption distance increases, the degree of unfamiliarity a foreign firm has toward the host-country business practices would rise, as well as the learning costs of local knowledge and the coordination costs between a foreign entrant and the local constituencies (Xu & Shenkar, 2002).

Furthermore, a greater corruption distance implies MNCs from a less corrupt host country may be under strict home institutional pressure to be prohibited from engaging in host country corrupt practices. For example, American MNCs are under regulatory pressure from the Foreign Corrupt Practices Act (FCPA) not to participate in corrupt activities in any overseas country. These MNCs may fear that to engage in corrupt or illegal acts to develop the host-country markets would be prosecuted. For this reason, foreign firms are fearful to engage in corruption, so that they may also suffer from the liability of outsidership because they may find it difficult to satisfy the corruption expectations of the corrupt host government (Johanson & Vahlne, 2009).

Empirical findings, albeit in their infancy, suggest that corruption distance worsens the performance of a foreign subsidiary. Lee and Hong (2012) found that as American MNCs enter more corrupt Asian emerging economies, their profitability worsens. Chandler and Graham (2010) revealed that foreign subsidiaries have a lower chance of marketing success as corruption distance increases.

Thus we expect H2:

H2: As corruption distance increases, MNCs' entry performance will worsen.

4.3.3 Corruption distance, entry ownership choice and entry performance

The next question is: how do foreign entrants enter a corrupt host country to achieve better performance?

We argue that international JVs may outperform the wholly owned mode as the corruption distance becomes greater. In other words, we hypothesize that the entry strategy of local cooperation would alleviate the negative performance implications of corruption distance. The reasons are as follows.

First, government officials have important strategic resources for a venture's success in a corrupt host country (Sheng, Zhou, & Li, 2011). In corrupt countries, and more often in emerging economies, ineffective legal systems are accompanied by weak enforcement. Market players would be more likely to rely on relationships and networks, instead of legal contracts to protect transactions (Zhou & Poppo, 2010). This underscores the importance of informal social ties, especially political ties in enhancing a firm's success (Li & Zhang, 2007; Peng & Luo, 2000).

In the face of a corrupt local government, allying with local firms would make it easier for a foreign firm to win public contracts, as well as support from the local government, such as getting faster approval and more preferential tax incentives or reduced expenses in obtaining infrastructure services, etc (Luo, 2007). Allying with politically connected local firms would make it easier to access and leverage the host government resources, which would lead to superior firm performance in the corruption context (Peng, 2003).

Local partners could help with corruption-related local knowledge to overcome this unfamiliarity. More importantly, when it comes to corrupt emerging countries, their governments would often be discriminatory towards local businesses that have closer relationships with the government (Peng, 2003). Allying with a local partner with political resources would probably help a foreign firm access the network and critical resources, as in those economies, privileged in-group members enjoy more economic rents and institutional advantages than out-group firms. In these emerging economies, informal connections and interpersonal networks, especially to the government authority, could help boost the performance of a subsidiary (Peng & Luo, 2000).

In host countries where there are effective anti-corruption regulatory constraints, however, government resources would not play a role as important as in the corrupt market. In those transparent host markets, market-based capabilities and resources are more crucial for firm success.

As corruption distance becomes greater, a foreign entrant would demonstrate more divergence in business norms and practices. MNCs from DC markets would be less familiar with relationship-based business logic and practices. Therefore, without adequate local knowledge in a more corrupt host market, it might be difficult for a foreign entrant to realize the local legitimacy as well.

The local cooperation could also release a signal of learning from local constituencies and would improve the political legitimacy. The allying behaviour could not only reduce the liability of foreignness, but also improve the possibility of “being inside” to share the multiple institutional benefits such as taxation reduction, financing, exclusive use of resources, financial support and subsidies, and government-controlled distribution, to name a few.

In contrast, entry into corrupt host countries under the wholly controlled modes of Greenfield or full acquisition is more likely to create the perception of illegitimacy or even resentment by the host country government and incur policy restrictions and heavy intervention (Dacin et al., 2007).

Admittedly, there may be risks in strategic alliances under a great corruption distance. Due to a great difference in business ethics and values, it is difficult for a foreign firm to reach a high level of inter-partner legitimacy (Kumar & Das, 2007). The partnership could have a weak base, because the cooperation may only rest on the level of pragmatic legitimacy, namely, the realization of each other’s immediate interests and needs. It is less common for partners to arrive at a congruency of ethical values and norms under a great corruption distance.

However, our argument is that the lack of sharing values and norms would not dramatically harm the performance of a joint venture, in that the primary purpose of establishing a joint venture is to realize joint economic goals. Therefore, the realization of pragmatic legitimacy is more fundamental and important for achieving a better performance of an international joint venture. For example, in the case of corruption, a foreign entrant may value more of a

local firm's connections to the government and local expansion channels, while a local partner would be more interested in borrowing the brand reputation and technology from a prospective foreign partner. Therefore corporate culture and value congruence issues are secondary to complementary resources to accomplish the mutual goal, especially in the market entry stage.

Having said that, the performance of an IJV may fluctuate due to the inconsistency in goals and values between partners (Kumar & Das, 2007). Under a great corruption distance, the difficulty of strategic alignment of different goals between a foreign partner and a local partner may be increased due to a possible lack of moral legitimacy, which would probably lead to increased coordination and communication costs, conflicts or even breakup of the IJV. International firms from a more transparent country normally have higher moral standards and therefore may not tolerate the illicit political behaviours or opportunistic practices of a local partner. But we contend that from a greater view these cases would be more sporadic rather than frequent. The benefits of using a strategic alliance to enter a corrupt host country would be on average more successful as opposed to a wholly owned entry.

Hence we propose H3:

H3: When corruption distance is large, market entry via international joint venture would be more successful than via wholly owned subsidiary.

4.3.4 Political constraints of the host country and entry success

The regulations and policies of a host country affect the market activities and performance of foreign firms profoundly (North, 1990). Accordingly, arbitrariness in policy formulation and enforcement has influence on foreign firms operating within the institutions.

As argued earlier in the previous chapter, the arbitrariness of policymaking results largely from the political structure of a government that lacks veto players. This lack of political checks and balances will give rise to an unconstrained exercise of political power and arbitrariness in policymaking (Delios & Henisz, 2000). Thus the following research question asks: will this lack of political constraints affect a foreign subsidiary's performance in the entry stage?

International firms will be more frequently exposed to institutional threats associated with political hazards such as expropriation, nationalization, or political discriminations regarding taxes or regulations in politically unconstrained national markets (Delios & Henisz, 2000; Peng et al., 2008). All these political hazards will increase the costs in operation, coordination, and renegotiation. Moreover, foreign firms suffer from market fluctuations and changes to their competitive positions due to uncertainties in government policies.

Russia, for example, has experienced a high level of institutional instability in the transition from a planned economy in its economic and political reforms during the 1990s. Russian leaders wanted to regain more central control and increased nationalization of assets by obstructing foreign investments. They changed policies at will and have deliberately made regulatory obstacles for foreign companies who did not comply with the implicit expectations of officials.

Hence, we propose the hypothesis 4a1,

H4a1: MNCs generally perform better in host-country institutions with more political constraints.

However, we need to be cautious that a lack of political constraint in a host country does not necessarily herald unfavourable market outcomes. Authoritarianism may lead to a more efficient foreign entry due to its institutional advantages. The concentrated political power of the host-country government may improve the efficiency in policy formulation and enforcement, especially when these policies are favourable to FDIs. On the contrary, in host-country environments with more political constraints, political decision-making and enacting often take rounds of repeated political debates, as well as checks and balances through different political actors, and thus could sacrifice a certain level of market efficiency.

In some authoritarian regimes with the assistance of technocrats, “efficiency-enhancing advantages” can be achieved (Diamond, Linz, Lipset, & Samudavanija, 1989). Also, non-democratic political regimes (often in the form of a single-party state) result often in political and social stability, which is fundamental for economic efficiency and rapid growth (Bell, 1997; Bell & Li, 2013). We point out that the emphasis on national economic growth is related to the nature of authoritarian polities, whose political legitimacy is rested partly on national economic performance (Przeworski, 1991). This is why a growing number of

non-democratic states try every means such as attracting FDI to secure the development of their national economy.

Accordingly, we assume that the institutional efficiency advantage and concerns for political legitimacy could favourably affect a foreign firm's entry success. If a foreign investment brings potential benefits to the local economy and social development, officials in authoritarian countries such as China and Singapore will gather social resources, and provide policy and administrative support for the localization of the foreign venture. Once an FDI program has been agreed on, authoritarian nations often provide government support and preferential treatment to facilitate the implementation of the program, which would undergo little interference from local stakeholders such as interest groups and trade unions. In addition to this, some authoritarian governments such as China and Vietnam formulated preferential treatment policies for foreign investors to enter and thrive.

Take China for example. Although an authoritarian polity, China has a top-down favourable attitude toward foreign investors. Especially after China's entry into the WTO, both central and local governments have brought up policies highlighting preferential treatment towards inward FDI, with more efficient political decision processes and better supporting infrastructure. China's Special Economic Zones (SEZ) provided for foreign investors "green-lights" and facilitation in government approvals and permits, land, financing and infrastructure, which would be a great impetus for the initial stage development for a foreign venture in a host country such as this (Li & Resnick, 2003; Shi, 2001).

Comparably, in a country with sufficient political checks and balances, foreign investments may be slowed down for the reason of inefficient political decision processes, harder competition or stronger resistance from local stakeholders (for example, NGOs, interest groups, the union and the community, to name a few).

Therefore, we offer a competing hypotheses H4a2,

H4a2: MNCs generally perform better in host-country institutions with fewer political constraints.

The follow-up research question is: Compared with a WOS entry, will a foreign subsidiary's JV entry be more successful in a host country with fewer political constraints?

We believe that local cooperation is more likely to succeed in a host market with fewer political constraints. In countries with fewer political constraints, informal rules often take

the place of formal rules for individuals and organizations to comply with (e.g., Zhou & Poppo, 2010). Social embeddedness in such societal environments is more likely to boost a subsidiary's performance where the institutional uncertainty level is high (Peng, 2001; Sheng et al., 2011; Uzzi, 1996).

There are three mechanisms that underlie this proposed relationship.

First, in transition economies with ineffective legal structures, the strategy of allying with locals could capitalize on social ties for insider information to effectively fill in institutional voids (Peng & Luo, 2000).

Second, relying on local partners may reduce government intervention and gain preferential benefits for local expansion. Generally speaking, most transition economy governments favour local business with close government ties (Luo, 2005; Peng, 2003).

Third, it is easier to gain the government legitimacy and inter-organizational trust via relational embeddedness such as local partnering. In contrast, a wholly owned investment in a politically arbitrary host country is likely to encounter political interference due to lack of government legitimacy (Kostova & Zaheer, 1999).

It is possible that in a politically hazardous host market, an international joint venture may collapse due to a local partner's opportunism and deficiency under an effective rule of law (Luo, 2007). However, we believe these extreme cases are generally sporadic, only accounting for a small proportion of all FDI cases.

So, as a whole, we predict that:

H4b: Other things equal, in a host market with fewer political constraints, the JV entry will generate better performance than WOS for a foreign subsidiary.

4.3.5 Corporate ethical identity and entry performance

Building on the discussion of organizational identity in the previous chapter, we define organizational ethical identity (or interchangeably, corporate ethical identity) as the perception by internal and external constituents regarding the ethical aspects of an organization (or a firm) (Albert & Whetten, 1985). This concept is a combined construal of organizational ethical history, culture, structure and reputations, to name a few, from

internal members, competitors, customers and society at large (Brown et al., 2006; Martin et al., 2011; Scott & Lane, 2000).

We assume that a positive ethical identity of a foreign firm will lead to a superior subsidiary entry performance.

To begin with, intra-firm architecture such as corporate ethical culture could improve employees' accountability and morale, as well as managerial transparency and internal governance level (Luo, 2005). For a firm with a salient ethical identity, the identity itself may serve as a strong internal norm to motivate managers and employees to think and act in an identity-consistent manner (Livengood & Reger, 2010). This normative constraint is beneficial in promoting internal consistency in subsidiary activities and thus improving the operational results.

Furthermore, according to social identity theory and signalling theory, a positive corporate ethical stance/reputation will pay off in market results in the form of market value for example (X. Luo & Bhattacharya, 2006). Firms with salient corporate reputations are more likely to be more sustainably profitable in the long term (Roberts & Dowling, 2002). The increased market performance may be linked to the legitimacy spillover effect, because if external stakeholders (such as local consumers) found a firm has a valid and strong ethical reputation, they would probably also think highly of the firm's products and services, and grant the focal firm adequate legitimacy perception, which helps boost its marketing performance (Kostova & Zaheer, 1999; Rao et al., 2008).

Moreover, firms focusing on ethics and social responsibility tend to invest more in environmental protection and charity programs in the local community. The local ethical investment helps reduce the liability of foreignness in a host market, and improve the reception of its products and brands by the local public and media for the reason of positive associations, especially when the ethical activities are consistent with the claimed image (Wagner et al., 2009). More importantly, value-congruent employees will be attracted to ethically salient firms to strengthen the ethics-based competitive advantage, and facilitate the knowledge transfer to a foreign market (Turban & Greening, 1997).

We therefore expect that a parent firm having a positive ethical identity would have a market-boosting effect on its subsidiary. Hence, we propose H5a:

H5a: A more positive ethical identity of a parent firm will engender a better foreign market entry success for its subsidiary.

When a firm engages in CSR actions, especially in cross-border CSR activities, it may find itself confronted with challenges from institutional distance and cultural distance. As a result, CSR activities and corporate citizenship behaviours should take into account the uniqueness of social and cultural contexts of the local institutions (Farh, Zhong, & Organ, 2004). In light of this, we posit that local cooperation could enable a more effective transfer of a foreign firm's CSR values and practices to the local contexts to gain better acceptance from local stakeholders.

For an ethically conscious foreign subunit, it is challenging to simultaneously follow the ethical requirements from the headquarters and accommodate to the particularities of the local institutions. It is advisable to have a local partner for better execution of a CSR program. The local partner can serve as a bridge between the ethical expectations from the parent firm and the reality of the host-country environment, in that they have better knowledge of what is needed for local stakeholders and can assist in solving issues related to difference in culture, practices and local government support (Lam, 2009). In emerging economies in particular, because the organizing of CSR activities requires the local governments to approve and manage, it is recommended that MNCs join hands with a local partner with political ties to better localize the ethical practices (Lam, 2009). In this way, an MNC could smoothly switch the performance-boosting effect of ethical identity to a local market.

Although a foreign entrant may fear that it would be affected by the isomorphic pressure from local partnering to adopt unethical behaviour, we argue that a firm with a salient ethical identity can be immune to or less influenced by the pressure for corruption; in turn, MNCs' ethical reputation could counteract the firms and institutions in a host country for the better (Kwok & Tadesse, 2006). More importantly, by local cooperation a foreign firm is able to know better the local expectations and mimic the CSR processes and practices of local firms.

Admittedly, via local cooperation a foreign firm's ethical identity will undergo a certain extent of local alternation. When a joint venture is formed, the original ethical identity from a foreign firm is faced with transformation to a new identity (Clark, Gioia, Ketchen, & Thomas, 2010), which could probably be a blended identity of the focal foreign firm and the local partner (Anand, Joshi, & O'Leary-Kelly, 2013). What needs to be noted, however,

is that as long as the core attributes of a foreign firm's ethical identity is maintained, variations by "local adaptation" will not harm the original identities of the foreign partner (Pratt & Foreman, 2000).

Therefore, we predict that despite having a hybrid identity, a foreign subunit's entry strategy of local cooperation would produce better economic performance than via a wholly owned operation.

H5b: Other things being equal, when the ethical identity level of a parent firm is high, a JV entry will generate better performance than a WOS entry in emerging markets.

4.4 Data, variables and methodology

4.4.1 Data and sample

Data for the study in this chapter are from two major sources: first, entry modes, year of entry and a subsidiary's entry performance are obtained from the structured content analysis of articles from databases of major business publications using the EHA approach. Second, corporate ethical identity, national-level variables and all control variables are from archives.

We base our research on a firm directory of over 3,000 public firms listed in the USA drawing on the firm name list from the MSCI ESG²⁰ database and choose firms with FDI investment activities as our research objects. We aim to analyse new host market entry events of publicly traded firms in the US from 2000 to 2013. We chose to analyse international market entry behaviours after the year 2000, because after the new millennium, government corruption issues become more visible and important in international markets (Doh et al., 2003), especially when an increasing number of emerging economies and LDCs have entered the scope of MNCs' internationalization. In the meantime, major emerging economies like China, India and Russia have become fast-growing and attractive markets, and have been transforming their institutions (Papyrina, 2007). Finally, a narrower time window of around a decade could reduce the potential influences of entry timing on host

²² We choose to use the dataset of MSCI ESG STATS for two reasons. First, it can serve as the directory of FDI firms. Second, this database has complete and detailed firm social rating records on environmental, social and governance CSR programs. This will enable us to obtain CSR behaviours to calculate the "corporate ethical identity" of these FDI firms.

country entry success, which were examined by previous scholars (e.g., Faccio, 2006; Papyrina, 2007; Pennings & Sleuwaegen, 2004).

4.4.2 Measuring the historical success of a host-market entry: The EHA approach

The dependent variable of this research is the historical entry success of a foreign subsidiary in a given host market. To measure the historical entry success, we have manually compiled a comprehensive multinational data set by tracking the American multinationals' overseas entry behaviours. We use the event history analysis (EHA) approach to identify and track the overseas market entry consequences of foreign firms, which has been partly discussed in Chapter 3.

As discussed earlier, we used the firm name list of over 3,000 parent firms in MSCI ESG as the basis for the EHA-based sampling and performance evaluation. We follow the structured EHA approach adopted by Johnson and Tellis (2008), conducting neutral and unbiased observations and assessment of historical factual records regarding an international firm's entry events into a foreign market.

We rely on periodical articles from two major publication databases, LexisNexis and AB/Inform, to obtain critical event information, which forms the foundation of the EHA-based evaluation on entry performance. The two major databases have wide arrays of article sources from both global and country-specific media. Furthermore, we use supplementary information sources such as annual reports, company website (company history, company news, etc.) and internet sources.

The procedures of this EHA approach are similar to what was described in Chapter 3. We first develop a series of keywords, which are used to find relevant articles and identify critical events from the periodical databases. Then we pool and summarize the key information of these events and article excerpts, and ask evaluators to rate the marketing entry success of a foreign market entry based on an existing entry performance outline. In this way, we generate a graded measure of a subsidiary's host market entry success.

Normally we track post entry events for averagely five years after the initial host market entry. A five-year time window is appropriate, because the initial five years in the host market are crucial for a new foreign venture to thrive, or to fail (Shrader, 2001). Parent

companies generally cannot stand long-term poor profitability; if the host market progress is under-achieving in the short or middle term, the headquarters often choose to alter the strategy or change the management, or simply exit the market due to ROI concerns (Peng, 2013). Therefore, the first five to six years of host-country development could largely result in a market success, potential for growth, or deteriorating prospects of a foreign subsidiary.

Additionally, we excluded cases in which the foreign market operational period was less than two years, not only because there may be insufficient information for assessment, but also for the reason of a possible “honeymoon bias” in assessing the performance of international joint ventures in the initial formation period (Gaur & Lu, 2007; Hennart et al., 1998).

Thirdly, we pool the post-entry progress and critical historical events together as an entry event cluster (also for the purpose of not including duplicate processes or events) for a foreign subunit’s host market entry. As a result, we formed entry-specific event pools by summarizing critical historical records around a market entry case.

Finally, we use the host market entry performance outline developed by Johnson and Tellis (2008) to assess the market entry case.

A foreign venture’s host market performance will be scaled in the following categories: “successful entry”, “good entry”, “acceptable entry”, “poor entry” and “failed entry”, which is in accordance with score ranges of “4-5”, “3-4”, “2-3”, “1-2” and “0-1”.

We carefully read the excerpts and original articles to find matches to the narrative entry characteristics of each category in the performance outline. See Appendix 1 for the entry performance outline developed by Johnson and Tellis (2008), who summarized the detailed characteristics of the varying extents of entry success into five categories.

The evaluation process was carried out by two reviewers independently. Besides the author himself, a postgraduate student in management was recruited and trained to review the entry cases.

We ask the reviewers to find the best matching category for each market entry case by matching the historical facts and narratives with the described characteristics within each category. After deciding the matching category, the reviewers are separately asked to rate a

score in the category to represent the overall successful extent of a given foreign market entry case.

The EHA process has generated a sample of 590 foreign market entry observations/cases.

For our FDI samples, the level of the inter-rater reliability (Cronbach Alpha=0.76) was acceptable. To further reduce the coder bias, for 32 entry cases whose inter-rater score differences are greater than 1, we ask the reviewers to go through the event process details and reconsider their scores. This re-evaluating process improved the Alpha coefficient to 0.78. Comparably, this coefficient is slightly lower than the reported inter-rater reliability by Johnson and Tellis (2008), but is still satisfactory taking into account our greater sample size. We use the average value of scores from the two reviewers as our measure of host market entry performance.

We emphasize that the EHA-based sample building and measuring processes ensure measurement validity, following the five aspects of criteria set up by Golder and Tellis (1993), i.e., competence, objectivity, reliability, corroboration and contemporaneity. 1) Competence: all article excerpts were from prestigious global and local newspaper and magazine sources. 2) Objectivity: we prioritized the use of independent, third-party reports and tried to collect historical accounts from dual perspectives, i.e., reports on the same event from both the host country and the home country if possible. 3) Reliability: our technique adopted a chronological tracking of market progress for at least three years (and five years maximum), having avoided the shortcomings of using cross-sectional data. 4) Corroboration: we used multiple information sources to confirm and triangulate evidence for critical records. 5) Contemporaneity: only a small time lag between the release time of news reports and the occurrence of a focal historical event was allowed.

For the purpose of illustration, see Table 4.1 for a brief description of the five categories of entry performance and characteristics, as well as examples for each category in our sample.

Table 4.1 Entry performance categories, key characteristics, and examples

Category (score range)	Characteristics	Examples (with main reasons)
Successful entry (4-5)	The most profitable overseas market; Market share leader;	Altria Group (Philip Morris)'s partnership with Fortune Tobacco in the Philippines (industry leader)

	Well-functioning partnership; Industry leadership; Exceeded investment criteria	Blackboard's entry into China via partnering with Cerbibo (well-functioning partnership, rapid market expansion)
Good entry (3-4)	Successfully selling; Met investment criteria; Increasing investments; Growing shipments; Quick industrial growth	Abbott Laboratories' production and market expansion in China (two-digit market growth; increase investment) AT&T's alliance with Mahindra in India (removal of market restrictions; increasing shares)
Acceptable entry (2-3)	In process of recovering investment in time; Entry awaiting removal of market restrictions; Establish a beachhead; Continuing operations	Cardinal Health's acquisition of Yongyu Pharmaceutical in China (advantageous local marketing channels and networks, but in the meantime uncertain integration results) Dollar Tree's takeover of Canada-based Dollar Giant stores (first overseas base, continuing operations)
Poor entry (1-2)	No initial lead buyers; Conflicting expectations; Fail in system integration and optimization ²¹ ; Struggled to make headway; Underperformance; Priced out; Stiff competition; Market restrictions; Executives frustrated with entry	Walmart's strategic alliances with Bharti Enterprise in India (too many market restrictions) Nu Skin's China market entry (the government's prohibition of multilevel marketing)
Failed entry (0-1)	Quit or withdrawal from market; Break up with cessation of venture	Exxon's entry into Venezuela via IJV (suspension of venture, facing asset nationalization) Best Buy's withdrawal from the Chinese market (failure to adapt to local market by adopting both Greenfield and equity JV operations)

From the total of 590 foreign market entry observations, we have implemented another round of sample screening. We first double-checked the purpose of the FDI activities. Only

²¹ In evaluating the IJV entry performance, we normally rate the entry cases of premature termination of the IJV to the score range of "1-2" or "2-3", depending on whether and to what extent the initial goal of the global alliance was accomplished, and also what factors, internal, inter-partner or external, led to the relationship breakup.

those market-seeking MNCs were included, because they were concerned not only about sourcing and costs, but also local sales and market shares. In the 590 cases, 52 were discarded because the purpose of overseas investment in these cases are either for global sourcing or financial operations. They do not focus on developing local markets. Moreover, to purify the strategic choice of “local cooperation”, we discarded another 9 cases whose joint venture partners do not involve a host country company. In the end, we have retained 529 foreign market entry cases for analysis.

It should be noted that our units of analysis are entry events, which means that there may be multiple market entry observations for a single MNC. In some cases, an MNC may have multiple entries with multiple entry modes in one host country. We treat these entries as multiple data points.

4.4.3 Why use EHA to obtain the subsidiary performance data?

(1) Advantages of EHA-based measure over objective measure

To begin with, it is very difficult to obtain objective financial and marketing data on foreign subunits (Mitra & Golder, 2002; Ren, Gray, & Kim, 2009). MNCs seldom disclose the detailed operational conditions of their foreign affiliates in a host country market, nor do they often release subsidiary details in the annual report to shareholders. Even listed firms are not required to separately report on the financial progress of their subsidiaries on each host country market. As a matter of fact, most operational and financial measures of foreign subsidiary performance are unavailable for the MNCs we chose to examine. Additionally, as emerging economy market entries represent a majority of our samples, even if attainable, emerging market data are often deemed as unreliable (Hult et al., 2008).

Subjective measures of subsidiary performance are appropriate and desirable (Gong, Shenkar, Luo, & Nyaw, 2007; Yan & Gray, 1994), especially when subunit data is unattainable (Hult et al., 2008).

Furthermore, we have found unique advantages in using the EHA technique over the objective measurement of subsidiary performance.

a) Objective performance measures are criticized to be monolithic, and unable to reflect multiple dimensionality of subsidiary performance (Ren et al., 2009). Generally speaking, objective indicators examine a subsidiary’s progress by financial or marketing measures

such as ROI, sales or asset turnover, or simply survival/exit rate. Although these data may be objective and accurate, they are over simplistic and narrowly focused (Ren et al., 2009). They solely reflect one aspect of the firm's performance rather than the overall progress. Also, some measures like the termination rate or the survival rate to measure the success or failure of a venture are too coarse or even arbitrary (Makino et al., 2007; Ren et al., 2009). For example, the termination of an alliance may not imply a relationship breakup, but rather the attainment of the goal of a joint venture (Makino et al., 2007). Furthermore, "the exclusion of non-survivors" in measuring survival rates can generate potential omission biases in sampling (Golder & Tellis, 1993).

b) Using multiple measurement criteria as reflected in the EHA approach will better capture the trend and process of a subsidiary's performance development (Hult et al., 2008). In view of the dynamically changing nature and intrinsic instability of a venture's performance (Reuer & Ariño, 2002), cross-sectional objective measures, which are based on snapshots, are unable to capture the longitudinal development of a foreign affiliate.

c) For most objective measures like returns and sales, it is difficult to compare subsidiary performance in different entry modes. For instance, equity JV is a shared ownership and has a "systematically lower profitability" than the mode of WOS (Brouthers & Hennart, 2007). Perceptual measures examine the relative success of a subsidiary's host market performance, and facilitate the horizontal comparison of subsidiary performance under different modes of entry.

To conclude, the EHA technique, as a perceptual assessment process, is able to measure the relative success of a foreign subunit from a multi-dimensional and longitudinal perspective, despite its potential biases, which will be discussed in the "Limitations and future research" section.

(2) Advantages of EHA-based measure over survey-based measure

In subjective measurements of organizational performance, survey-based measures are widely used, examining the satisfaction of marketing outcomes, or self-reported degree of goal accomplishment (Ren et al., 2009). A majority of international joint venture performance measures are surveys focusing on managers' subjective perception (Reus & Rottig, 2009).

The methodological limitations of this assessment of performance are obvious. Subjectivity biases due to self-reporting cannot be effectively controlled. For example, there are issues relating to over-confidence in the marketing results and desirability bias in responses. Worse still, most managerial surveys are single informant responses, which may jeopardize the measurement validity. Although some research used multiple respondents, the overall research cost can be great.

Our EHA perceptual measure, in contrast, is based on perceptions from researchers relying on narratives and historical evidence from secondary sources. This subjective measure is more accurate and less “subjective” than international managers’ perceptions of their foreign affiliate’s performance. First, third-party researchers, unlike the internal management, have less emotional attachment to the performance evaluation; second, historical analysis relies on historical evidence and narratives, rather than personal recall or rough impressions (Golder & Tellis, 1993). Thus, the EHA process, based on objective historical narratives and factual records, is able to produce more accurate perceptual data (Golder & Tellis, 1993).

(3) Unique merits of the EHA-based measure of subsidiary entry performance

The EHA technique has unique merits over objective measures and survey-based subjective measures in assessing entry performance of foreign subsidiaries.

Firstly, as discussed earlier, the EHA-based measure of subsidiary entry performance has been well established in the literature (Golder & Tellis, 1993; Johnson & Tellis, 2008). Responding to the need for capturing the multifaceted nature of FDI performance (Hult et al., 2008), our EHA approach emphasizes a comprehensive evaluation from multiple aspects such as financial, marketing operations, governance and social acceptance. The evaluation developed by Johnson and Tellis (2008) has integrated three types of performance indications: financial, market and overall perceptions (such as survival and prestige). Factors such as the profitability of the market entry, overall goal attainment, stability of the venture development, social fit and local sales and market share growth potentials have been scaled and incorporated into the evaluation outline. We believe this outline can be used to objectively and comprehensively capture the operational progress after a foreign subunit enters a host market.

Secondly, the EHA process that we implemented has tracked the chronological performance of a host market entry for multiple years (3-6 years according to different entry situations) after the initial year of entry. This will allow for performance fluctuations and better capture the temporal tendencies in local market operations (Martin, 2013). Also, changes on entry strategies will be duly noted and taken into account on a case-by-case basis when longitudinally evaluating the subsidiary's performance. For example, a foreign entrant may cease a joint venture operation, transforming into a wholly owned operation via partner buyout, replacing the partner with another, or simply exiting the host country, and thus each case is judged according to its own context.

Thirdly, this perceptual approach measures relative entry success, enabling us to aggregate and compare performance by different entry modes. Absolute performance indicators such as profitability and market share cannot be treated this way (Brouthers & Hennart, 2007).

Lastly, we ensure measurement validity by strictly sticking to the following rules in implementing the EHA process.

- (1) We base the research on objective historical records, i.e., facts, reports and independent and neutral narratives.
- (2) To ensure the validity of the information sources, we confirm critical incidents by using multiple narratives and evidence (Golder & Tellis, 1993).
- (3) The uniform set of categorized criteria for measuring performance can ensure the consistency of the evaluation standards.
- (4) We insist that dual evaluators independently evaluate based on the same historical evidence to minimize the existence of subjectivity.

The first three points could improve the validity of using archival data, whereas the subjective measures based on a detailed outline with dual raters increase the inter-rater reliability and enable the effectiveness of the evaluation process (Duriau, Reger, & Pfarrer, 2007).

Undoubtedly, each methodology has its own merits and limitations (the potential methodological limitations of the event history technique will be discussed in detail in the "Limitations" section of this chapter), however, we believe that the EHA approach is best

suiting to our research context and at the same time maintains the “methodological rigor” (Jones & Khanna, 2006).

4.4.4 Variables

Measures of entry modes, host country experience and entry performance are based on data collected using the EHA approach. The remaining measures are from archival data.

(1) Entry mode

As discussed earlier, we use a dummy variable to indicate the mode of entry. The JV entry observations are labelled as “0” and the WOS cases are assigned to “1”.

The WOS entry consists of full acquisition and Greenfield investment in the host country. For joint ventures, both equity JV and contractual JV (which include several franchising and long-term contracting cases) types are considered. The cut-off points of distinguishing equity JV and WOS is 95 per cent, as performed by Anderson and Gatignon (1986).

(2) Corruption distance

We utilize the Corruption Perception Index (CPI) from Transparency International to compute “corruption distance”. CPI as a proxy of country-level corruption has been extensively applied in political science and IB research and has good accuracy in measuring the perceived pervasiveness of national corruption (Lee & Oh, 2007; Svensson, 2005). Scores of CPI stretch on a continuum from 0 to 10, with a lower score indicating a nation with more corrupt institutional conditions.

Seeing that the values of the CPI measure change very slowly from one year to the next (Smarzynska & Wei, 2000), we use the mean of national CPI values in the years 2002, 2004 and 2007 as a country-level measure of corruption.

We employed the real difference between the CPI score of the home country and that of the host country as a proxy of “corruption distance”, as the corruption distance measure is asymmetrical (Hernández & Nieto, 2015). Specifically, the “directions” of corruption distance, in the form of positive and negative signs, imply different market entry contexts. For example, if we calculate the corruption distance between the US and China, we have to examine whether the entry is from an American firm entering the Chinese market or a Chinese firm entering the US market.

The second corruption measure that we employed is “corruption in government” from ICRG. This alternative measure was used as a robustness check. The difference between this measure and the CPI measure is very small, as the correlation between the two measures is 0.95 based on our sample.

(3) Political hazards (political constraint)

We employed the political constraint indicator (POLCON V) developed by Henisz (2000a) to indicate the policy/political uncertainty level in the host country market. This index is calculated by considering both the number of independent government branches with veto power over policy changes, and the heterogeneity of political actors’ preferences. A mark ranging from 0 to 1 is given to a country on a yearly basis, with 0 indicating government branches having no veto power, and 1 indicating government decisions having been fully constrained by political checks and balances.

Due to a large variability in the POLCON V index for a given country, we measure the political constraint level by employing the value of POLCON V of a year prior to the host market entry year of a foreign subsidiary.

(4) Ethical corporate identity

The historical records of philanthropic contributions or harm in environmental, societal and firm practice could reflect the overall ethical identity of an MNC (Balmer & Powell, 2011). These ethical records involve firm responses to fundamental and important ethical issues such as environmental protection, social injustice, and sweatshop labour (human rights).

The MCSI ESG database (previously known as KLD), encompassing social performance statistics for over 3,000 American publicly traded firms, is a commonly used measure for corporate social performance (Hillman & Keim, 2001). We believe the social ratings offer a very good indication of firm’s ethical standards based on previous ethical deeds. This social rating system constitutes nine areas of social performance, which include community relations, employee relations (internal governance), environmental protection, human rights-related practices, product characteristics, involvement in ethically suspicious fields, i.e., military contracting, production of alcohol or tobacco, gambling and nuclear energy, and investment in areas involved with human rights controversies.

We assume that firms with authentic ethical standards will not only meet the ethical requirements and make proactive ethical contributions beyond that required, but also try their best to reduce harm to the environment, the social community and alike (Martin et al., 2011). For this reason, for our measure of the actual level of corporate ethical standards, we use the cumulative sum of positive CSR practices of a firm in community, governance, environment and human rights, minus the sum of negative CSR records of the same focal firm.

Due to the cumulative nature of the firm-level CSR statistics and the minor changes that occur in a firm's CSR records from one year to the next, to simplify the computation we designate that if a subsidiary's entry occurred between 2000 and 2005, the ethical statistics of the parent firm in 2002 will be employed as the proxy for the "corporate ethical level". Likewise, if a subsidiary entered into a host country after 2005, we will use the ethical records in 2007 to calculate the ethical identity of the parent firm.

(5) Control variables

Firm resources, industry characteristics and institutional factors collectively shape a firm's market success (Peng et al., 2008). For this reason, we controlled for country-level (institutional), industry-level and firm-specific variables that may affect the entry performance of a foreign subsidiary. All control variables except for host country experience, were measured by archival data.

A traditional resource-based view holds that heterogeneity in firm resources and capabilities drive different competitive advantages and performance (Barney, 1991). At firm level, we controlled for two main firm resources and capabilities: firm size and market experience.

1 Size of the parent firm

Parent firm size implies the amount of accessible intra-firm resources that a parent firm possesses. A greater firm size suggests more available technological and advertising advantages that a subsidiary can draw on and transfer to the host market (Goldman, Rocholl, & So, 2009; Murray, Kotabe, & Zhou, 2005).

On the other hand, firm size may also adversely affect the entry performance of a foreign subsidiary, for the sake of decreasing organizational adaptability and increasing inefficiency

due to organizational bureaucracy and lack of integration (Brouthers, 2002; Fan, Wong, & Zhang, 2007; Hitt, Ireland, & Hoskisson, 2012).

We used the number of employees in the parent firm in the year of entry as a proxy of parent firm size. The firm employment data is from the Compustat database.

2 Host country experience

Host market-related experiences aid in building local competence and enhancing partner selection experiences. Both may lead to increased host country capabilities (Luo, 2001), as well the likelihood of market success (Lu & Ma, 2008). Host market experience can reduce the environmental ambiguity and weaken the LOF in a host country (Delios & Beamish, 2002). Altogether, prior experience in the foreign market can boost the possibility of foreign market success.

We employed the total number of years of subsidiary presence for a parent firm in a host country as a proxy of host country experience (e.g., Gaur & Lu, 2007; Li, 1995). We computed the absolute difference between the year of the first subsidiary establishment in the focal host country, and the year of host market entry of the focal subsidiary. Then we used a logarithm transfer of this measure. The data on the years of establishment and year of entry were obtained by using the EHA technique.

3 Industry control

At the industry level, we have controlled for industries that are heavily government-regulated. Regulated industries are often restricted on firm entry choices and rely very heavily on government resources.

The governments often require the involvement of local equity for foreign investment in the heavily regulated industries, especially those in the emerging economies (García-Canal & Guillén, 2008). In the transition economies and LDC economies, the governments tend to have specialized requirements for project approval, market access and environmental standards and such for FDIs in the government-regulated industries, which are often resource-intensive industries. Furthermore, the success of a foreign subsidiary in those industries will be more dependent on government support, which often rests on the achievement of government legitimacy.

As a result, we controlled for the resource-intensive industries following the industrial division by previous research (Chen & Hennart, 2002a; Duanmu, 2011; Gomes-Casseres, 1990). In corruption and entry strategy research in particular, this method of controlling for industrial heterogeneity was also frequently used (Demirbag et al., 2010; Duanmu, 2011).

We use a dummy variable to identify whether the industry that a foreign subunit was in is a resource-intensive industry. We assigned “0” to the non-resource-intensive industries and “1” to the resource-intensive and country-specific regulated industries. Furthermore, we controlled for country-specific regulated industries which have FDI entry ownership restrictions, for example the retailing industry in India and the automobile industry in China, which were also assigned a value of “1”. The industry distinction is similar to what has been discussed in Chapter 3.

In model specifications, we controlled for the influence of the industry dummy on entry strategy in the stage one model. However, due to potential multicollinearity between the industry dummy and the dummy variable of entry choices, we did not directly incorporate the industry effect in the stage two model (i.e., the performance model). Instead, we used the industry effects on entry strategy (in stage one) as an indirect control.

4 Geographic distance

Besides the industry and firm variables, we also incorporate country-level controls, i.e., geographic distance and cultural distance into the models.²²

Apparently, geographic dispersion between the host and home country raises the costs of cross-border coordination and product distribution. Moreover, the enlargement of geographic distance may also bring about managerial complexity, negatively affecting cross-national knowledge transfer, and consequently entry performance in a host country market (Eden & Miller, 2004a; Zaheer, 1995).

We measure geographic distance by calculating the linear distance between national capitals of a home country and a host country. The coordinates of latitude and longitude of capitals

²² Considering that the corruption distance measure scrutinizes the economic and rule of law conditions of the host and home countries, we will not incorporate economic distance or institutional distance in legal governance into the model.

were gathered from the CIA World Factbook. A logarithmic transfer was conducted to facilitate the analysis.

5 Cultural distance

Cultural difference between a host market and the home country may adversely affect a foreign subsidiary's host country performance (e.g., Maignan & Ferrell, 2004). Whether choosing to enter via an IJV or a wholly owned operation, cultural distance is likely to increase the communication costs and conflicts, and reduce the possibilities of building long-term trust with local stakeholders in the host market (Chan & Makino, 2007; Tihanyi et al., 2005). For MNCs operating in a culturally distant host country environment, they encounter partners, intermediaries, suppliers and customers with distinct opinions, values and behaviours. Cultural distance will be an invisible obstacle to transfer information and resources to the local environment and therefore jeopardize a foreign market success.

Scores for four national cultural dimensions, namely, power distance, individualism/collectivism, uncertainty avoidance and masculinity/femininity are from the updated data sets of Hofstede (2001). We employed the composite formula of Kogut and Singh (1988) to compute the cultural distance between a host market and a home country. This measure is calculated by aggregating the standardized score differences on each of the four dimensions between the host country and the home country and then dividing it by 4. The formula is shown as below.

$$Cultural\ Distance = \sum_{i=1}^4 \left[\frac{(Hom_i - Hos_i)^2}{V_i} \right] / 4$$

Hom_i represents the score of cultural dimension i of the home country. Hos_i represents the score of cultural dimension i of the host country. V_i represents the variance of cultural scores on dimension i of all countries. Hence we obtained the cultural distance score for each pair of host and home countries by computing.

For a summary of the measures and data sources of our dependent variable, independent and control variables, see Table 4.2.

Table 4.2 Variables, measures and data sources

Variable	Measure	Value/Type	Source
Entry performance	Host market entry performance rating within six years after the entry event	Continuous	Event history technique based rating using the entry success outline of Johnson and Tellis (2007)
Entry ownership strategy	Whether to enter using local cooperation or internalization	Dummy: 1-WOS; 0-JV	Manually collected from LexisNexis and ABI/INFORM databases using the event history technique
Corruption distance	Differences of the corruption level between the host and the home country	Continuous	Corruption Perception Index from Transparency International
Political constraint	Government political hazards	Continuous	Political constraint index (POLCON V) datasets from Henisz (2000a); Johnson and Tellis (2008)
Corporate ethical identity	Business ethical identity of the parent company as an indication of internal ethical pressure	Continuous	Corporate social performance from MSCI ESG database
Industry dummy	Whether the industry is resource-intensive	Dummy: 0-no, 1-yes	Industry dummy operationalized by Chen and Hennart (2002a)
Firm size	Natural log of the employee numbers of the parent firm	Continuous	Compustat database
International experience	Natural log of number of years of subsidiary presence in the host country	Continuous	Manually collected from LexisNexis and ABI/INFORM databases
Cultural distance	Cultural difference between the home and the host country	Continuous	Kogut and Singh (1988); Hofstede (2001)
Geographic distance	Mean-centered natural log of the linear distance between the capitals of the host and the home country	Continuous	CIA World Factbook

4.5 Results of analysis

There are 308 IJV and 221 WOS entry cases for a total of 529 observations of foreign market entries. WOS entries accounted for about two-fifths of the overall sample. The WOS cases consist of 97 market entries via Greenfield operations and 124 via full acquisition. Equity joint ventures took up 94.8 per cent in all the JV subsamples.

MNCs whose headquarters were based in the USA accounted for 95.27 per cent of the entire sampling firms. There were 447 entries into emerging markets, and the remaining 82 were market entry observations into developed economies.²³

For detailed information on entry ownership composition, home country case characteristics and host country characteristics, see tables 3.2, 3.3 and 3.4 in Chapter 3.

4.5.1 Descriptive statistics

Table 4.3 provides descriptive statistics (namely, the mean and standard deviation) and a correlation matrix for the main variables.

Table 4.3 Descriptive statistics and correlations for the performance model

Variable	Mean	Std	1	2	3	4	5	6	7	8	9	10
1. Entry performance	3.184	1.111	1									
2. Entry mode	0.421	0.494	0.009	1								
3. Corruption distance	2.761	2.049	-0.211*	-0.228*	1							
4. Political hazards	0.447	0.345	0.056	0.193*	-0.477*	1						
5. Ethical identity	1.367	2.266	0.091*	-0.164*	0.097*	-0.080*	1					
6. Industry dummy	0.302	0.459	-0.096*	-0.313*	0.049	0.022	-0.026	1				
7. Firm size ^Δ	3.206	1.817	0.003	-0.212*	0.102*	0.021	0.455*	0.105*	1			
8. Firm experience ^Δ	1.828	0.665	0.237*	0.083*	0.019	-0.045	0.060	-0.022	0.075	1		
9. Cultural distance	3.459	1.604	-0.213*	-0.218*	0.492*	-0.541*	0.078	0.069	0.057	0.014	1	
10. Geographic distance ^Δ	-0.004	1.0015	0.016	-0.156*	0.190*	-0.252*	0.004	-0.016	-0.020	0.014	0.195*	1

* p<0.05.

^Δ indicates that the variable has been logarithmically transformed.

4.5.2 Test of multicollinearity

Before running the analysis, we first checked the issue of multicollinearity, that is, whether there are close correlations between independent variables. If a high correlation is found between independent variables, the real coefficient estimation in regressions may be biased. Fox (1991) believes that as long as the correlation coefficient $r < 0.87$ (the variance inflation

²³ The distinctions between developed economies, emerging economies and LDCs are based on the lines drawn by Hoskisson, et.al (2000).

factor will be less than 4), the multicollinearity problem will be acceptable. Scrutinizing our correlation matrix, the highest correlations are between 0.4 and 0.5, which suggest that multicollinearity is not an issue.

There are moderately strong correlations between corruption distance and political hazards ($r = -.477$) and corruption distance and cultural distance ($r = .492$). Furthermore, a moderate relationship was detected between parent firm size and corporate ethical identity ($r = .456$). However, all the correlations are far below the threshold of 0.87.

To double-check that multicollinearity indeed will not bias our model specifications, we calculated the Variance Inflation Factors (VIFs) for the variables. The values of VIFs ranged from 1.02 to 1.62, which were far below the cut-off value of 10 recommended by Gujarati (2003), suggesting that multicollinearity is not a significant concern.

By summarizing the correlations and VIF statistics results, we can be confident that multicollinearity was not a concern for our model specifications.

4.5.3 Comparisons of entry performance

For our sampling firms, the average entry success level is approximately 3.2 out of 5, which is slightly above the mean. To test whether the entry performance by different entry modes are different, we ran a comparison based on T-tests. See Table 4.4.

Table 4.4 Comparison between average WOS and JV entry performance

Performance by entry choice	Mean	Std. Dev	Std.Err	Count	Percentage	t-statistics
JV entry	3.17	1.184	0.062	308	58.2%	t=-.324, df=527, p=.7462
WOS entry	3.202	1.05	0.077	221	41.8%	
Overall performance	3.184	1.111	0.483	529	100%	

The average entry success of sampling MNCs via WOS is slightly higher than that of those who chose a local partner to enter. Yet the t-statistics show that the two entry modes did not have a significant difference in entry performance.

Moreover, we compared the common entry performance between heavily regulated and non-heavily regulated industries (See Table 4.5).

Table 4.5 Comparison between average entry performance by industry

Performance by Industry	Mean	Std. Dev	Std.Err	Count	Percentage	t-statistics
Heavily regulated	3.02	1.165	0.093	162	30.6%	t=2.25, df=527, p=.024(<0.05)
Non-heavily regulated	3.256	1.071	0.056	367	69.4%	
Overall performance	3.184	1.111	0.483	529	100%	

Regulated industries took up nearly one-third of the entire market entry observations. Their average performance is weaker than firms from non-regulated industries ($p < 0.05$).

In the meantime, their variability in performance is also greater than the non-regulatory industry average. This may be linked to a higher level of arbitrariness in government intervention in those regulated industries. Due to government intervention and restriction on resource access and market entry, the overall entry development of firms of these industries entering host markets will be slower to some extent. Also, considering that regulated industry firms are more dependent on government connections and resources, the larger performance fluctuation might be attributable to the changeability of the firm-government relations and the arbitrariness of host government policies.

4.5.4 Model specifications

It might be erroneous to directly compare performance under different governance modes, in that research involving foreign market entry choices and subsidiary performance have been affected by endogeneity issues (Leiblein, Reuer, & Dalsace, 2002; Shaver, 1998). In the international marketing and business strategy field, endogeneity is a problem of non-random treatment, which is reflected as a non-random (or, “self-selected”) strategy or behaviour (Hult et al., 2008). A subsidiary’s choice of entry mode may be attributable to a factor that also influences the entry success but is unobservable to this research.

Statistically, the symptom of endogeneity lies in the fact that unobserved factors are simultaneously associated with the choice of entry strategy and the subsequent entry

performance.²⁴ Thus using an uncorrected estimator (such as the OLS estimation) may lead to specification errors, meaning the parameter estimates of entry strategy choices on performance are likely to be biased (Heckman, 1979; Shaver, 1998).

4.5.5 Treatment of endogeneity

Our major concern in model specifications is that the performance models are incorrectly specified due to the endogeneity (namely, self-selection biases) of FDI entry behaviours. In the context of entering a corrupt host country, a firm is likely to select a mode of entry based on unobserved yet often self-selected characteristics (for example, personal attributes such as the over-confidence or humility of the decision-making managers) outside the antecedent variables of the choice, that is, firm, transaction, industry and institutional attributes.

Employing the Heckman process to control for the performance implications of different governance choices was recommended by strategy researchers (Leiblein et al., 2002; Mayer & Nickerson, 2005; Shaver, 1998). It is appropriate to address the endogeneity biases by using the Heckman approach, as in strategy research endogeneity occurs mostly for the reason of omission of variables that are reflected as error terms; errors-in-variables or simultaneous causality are rarely likely to be the endogeneity sources (Bascle, 2008). Specifically, the Heckman two-step regression has been widely used in performance research involving different strategic choices (e.g., Cui & Jiang, 2009; Dastidar, 2008; Leiblein et al., 2002; Mayer & Nickerson, 2005; Shaver, 1998).

Thus, we employed the Heckman two-stage modeling to specify the models involving corruption, entry mode and subsidiary performance.

According to the Heckman process, the modeling procedures are as follows:

We first specified a “selection equation” by estimating the probability of a strategic choice of WOS over JV. This is also referred to as the first-stage modeling. At this first stage, a Probit model is used to calculate the correction term, i.e., “the inverse Mills ratio” λ . The next step is to establish an “outcome equation” using the inverse Mills ratio (as a control variable) generated in the first stage. By incorporating this inverse Mills ratio into the

²⁴ Note that an important assumption in a regression analysis is that independent variables and the error terms are not correlated. If an independent variable is correlated with the error term, this variable is likely to be endogenous.

second-stage performance model, we can get unbiased estimates on entry performance. A significant inverse Mills ratio may suggest the existence of potential self-selection biases; that is, unobserved characteristics affecting the entry decision and the entry performance simultaneously. If this ratio is non-significant, it suggests that the potential endogeneity for modes of entry may not affect the estimated results of entry performance.

It is worth noting that we did not introduce an instrumental variable, because there is no suitable variable that can meet the requirement sufficiently well. It is widely acknowledged that it is very difficult to find an instrumental variable that correlates the entry decision but simultaneously is not related to the entry performance; thus it is not a necessity to include an instrument in the Heckman process (Bascle, 2008; Martin, 2013).

4.5.6 Research findings

As the Heckman process in the previous section suggests, we ran the Probit models of entry choices of JV and WOS by assuming a firm's FDI entry decision is associated with transactional, institutional and firm attributes. Using these attributes as identifying variables, we calculated the probability of a foreign affiliate's entry choice of WOS, and in the meantime, the inverse Mills ratio λ , namely, the correction for endogeneity. Table 4.6 demonstrates the results of the first-stage Probit regressions, with the entry governance choice of JV or WOS as the binary dependent variable.

Table 4.6 Probit estimates for the first-stage entry choice models (full sample)

Predictors	Model 1	Model 2	Model 3	Model 4
Intercept	.648** (2.74)	-.696** (2.91)	.356 (1.16)	.334 (1.09)
Corruption distance		-.092** (-2.67)	-.074* (-2.09)	-.074* (-2.06)
Political constraint			.394† (1.78)	.366† (1.65)
Ethical identity				-.058* (-1.88)

Cultural distance	-.153* (-4.00)	-.101** (-2.34)	-.067 (-1.41)	-.067 (-1.41)
Geographic distance	-.211* (-3.36)	-.200** (-3.13)	-.181** (-2.79)	-.184** (-2.84)
Firm size (log)	-.148*** (-4.42)	-.142*** (-4.21)	-.146*** (-4.33)	-.111** (-2.90)
Firm experience (log)	.220** (2.40)	.225** (2.45)	.233** (2.52)	.235** (2.53)
Industry dummy	-.944*** (-6.70)	-.954*** (-6.72)	-.970*** (-6.81)	-.987*** (-6.90)

Model summary

Observations	512	512	512	512
Log likelihood	-293.69	-282.79	-288.47	-286.69
WaldChi ²	109.86	117.11	120.30	123.86
Prob > Chi ²	***	***	***	***
Pseudo R ²	.158	.168	.173	.178

a. Positive coefficients indicate a higher probability of MNCs adopting a WOS entry (t-statistics in parentheses).

b. † p < .10, * p < .05, ** p < .01, *** p < .001

Model 1 in Table 4.6 is a baseline choice model encompassing all the control variables, i.e., cultural distance, geographic distance, parent firm size, and host country experience and industry control. From Model 2 to 4 we sequentially added three focal independent variables, i.e., corruption distance, political constraint and parent ethical identity. These three variables were validated as significant influencing factors in the entry strategy research in the previous chapter.

The findings by the Probit estimates of the choice model are very similar to the logistic regression results regarding corruption and strategic choices, which were presented in Chapter 3. Specifically, as far as the control variables are concerned, a greater cultural distance leads to a higher propensity of local partnering. A foreign subsidiary is more likely to choose a joint venture as the geographic distance becomes larger; as the host country experience grows richer, a foreign subsidiary tends to prefer full control of the venture, namely, the mode of internalization. Allying with a local firm is significantly associated with foreign entrants in the heavily regulated industries.

As for corruption-related factors, a firm tends to choose to enter a host market via JV as corruption distance increases. A foreign subunit is likely to choose away from local partnering as it enters a more politically constrained host country. A salient ethical identity would encourage a parent firm to choose strategic alliance. All these results are in line with our initial hypotheses.

We compared the coefficient estimates of the four models to determine which model can be used as the foundation for estimates of self-selection biases for the second stage modeling. Seeing that Model 4 has a better stability in model specification with better log-likelihood and pseudo R^2 coefficients than the previous models, we use Model 4 as the basis for calculating the inverse Mills ratio. The pseudo-R-squared from the first-stage Probit regression in the fourth column is 17.8 per cent,²⁵ showing the sufficient explanatory power of these predictors.

In the second stage, we use the inverse Mills ratio generated in the first stage to estimate the performance model. Table 4.7 provides the OLS results of the performance model using “entry performance” as the dependent variable.

Table 4.7 Estimates for the second stage performance models (full sample)

Predictors	Model 1	Model 2	Model 3	Model 4	Model 5 and 6	
					(1) JV	(2) WOS
Intercept	3.166*** (14.82)	3.472** (14.69)	3.279*** (14.40)	3.797** (13.21)	3.433*** (10.03)	4.175*** (8.10)

²⁵ This research has a better explanation in the Probit models when compared with other studies on Heckman-based decisions and performance. For instance, the explanatory power of Dastidar’s (2009) work in the first-stage choice model only reached 8 per cent.

<i>IVs</i>						
Corruption distance	-.089** (-3.39)	-.105*** (-3.87)	-.082** (-3.03)	-.095*** (-3.43)	-.098** (-2.47)	-.074† (-1.83)
Political constraint		-.324* (-1.93)		-.410* (-2.37)	-.397* (-1.90)	-.444 (-1.41)
Ethical identity		.055* (2.43)		.062** (2.72)	.053* (1.95)	.089* (2.05)
WOS entry	-.169† (-1.70)	-.141 (-1.42)	-.200* (-1.90)	-.340** (-1.96)		
<i>Control variables</i>						
Cultural distance	-.114*** (-3.42)	-.143*** (-3.99)	-.106** (-3.09)	-.133*** (-3.68)	-.071 (-1.41)	-.182*** (-3.37)
Geographic distance	.071 (1.50)	.059* (1.24)	.085† (1.71)	.086† (1.74)	.139* (2.03)	.088 (1.13)
Firm size (log)	-.002 (-.08)	-.027 (-.93)	.009 (.34)	-.003 (-.11)	-.009 (.24)	-.006 (-.11)
Firm experience (log)	.414*** (5.92)	.401*** (5.77)	.389*** (5.21)	.344** (4.57)	.391*** (4.37)	.362 (1.47)
Inverse Mills ratio (λ)			-.136 (-.93)	-.299* (-1.97)	-.284† (-1.67)	-.586† (-1.72)
<i>Model summary</i>						
Observations	512	512	512	512	296	216
F statistics	12.49	10.82	10.83	10.10	6.95	5.21
Prob > F	***	***	***	***	***	***
R ²	0.129	0.147	.131	.153	.162	.168

a. Positive coefficients indicate a greater probability of an entry success (t-statistics in parentheses).

b. † p < .10, * p < .05, ** p < .01, *** p < .001

Model 1 in Table 4.7 provided a baseline model including the intercept, the control variables, corruption distance, and a dichotomous measure of entry choice. Model 2 added two more variables: the political constraint of the host country, and ethical identity of the parent firm. Serving comparison purposes, both models 1 and 2 did not control for self-selection.

Corresponding with Models 1 and 2, Models 3 and 4 introduced the inverse Mills ratio, which would correct for the self-selection bias that may result from the entry decision modeling. Models 1 and 2 serve as control groups to check whether the main coefficients change after correcting for endogeneity (Shaver, 1998).

Models 5 and 6 respectively predicted foreign firms' entry performance under the JV and WOS entry subsamples while correcting for self-selection. Unlike Models 1 to 4, which restricted the estimates to be equal for both entry strategies, Models 5 and 6 tested model coefficients by restricting to a subsample of one entry mode.

Next, we check the results from the second stage models.

In the first column (Model 1), the impact of WOS entry on performance is negative and significant. Model 1 also suggests that the effect of corruption distance on entry performance is negative and highly significant.

In Model 2, after the inclusion of host country political factors and parent firm ethical constraints, the impact of WOS entry became negative and insignificant, but the effect of corruption distance still exists. A more positive ethical identity will lead to better performance; however, a negative relationship was found between political constraints and entry success. It turns out that entry performance are generally better when an MNC enters a more authoritarian host country.

The treatment models, i.e., Models 3 and 4 constrained the coefficient estimates of predictors, including setting the estimates of the inverse Mills ratio to be equal across the two entry choices. We first check the change of coefficients after controlling for self-selection. Both the coefficients on the entry mode ("WOS entry") are negative and significant, indicating that entry choice indeed has an impact on subsidiary performance. Compared with Models 1 and 2, the effect direction of entry choice on entry success remained the same, but the strength of the effect increased. This may suggest that after controlling for possible unobserved characteristics, the effect of entry strategy on entry success grows stronger. The choice of a strategic alliance, as opposed to wholly owned investments, leads to superior market entry performance. Thus H3 is supported.

Furthermore, in the parallel comparison between models 1 and 3, and between models 2 and 4, we find that the models have a possibility of being misspecified if we do not control for endogeneity. Also, we discovered that firms in our sample are slightly self-selected (the coefficient of the Mills ratio in Model 4 has reached the significance level).

Across the four models, H1 is supported. As corruption distance becomes greater, foreign subsidiary performance significantly deteriorates as a whole. Also H5 is confirmed,

meaning that firms with higher levels of ethical identity performed better in the host country market as a whole. Lastly, the empirical evidence backed the argument that foreign investment in less democratic host countries may gain more momentum due to the efficiency advantage of the authoritarian regime type.

Models 5 and 6 present performance models of firms that choose to enter by JV and WOS respectively. A comparison is made between the coefficient estimates of the two models based on separate subsamples.

First, both the JV and WOS subsamples support that foreign firms' entry performance worsen as corruption distance increases. This further corroborates H1 and also indicates that even local cooperation cannot entirely remove the negative performance implication of local corruption.

Second, both the subsamples demonstrate that firms with more salient ethical identities tend to be better off in entry performance, supporting H5.

Also, evidence was found in both subgroups that host-country political constraint hinders entry performance. Specifically, for the JV entry subgroup, the entry performance worsens when a multinational enters a more democratic host country; however, we did not discover this dampening effect in the WOS entry subgroup. This may suggest that local cooperation may generate fewer competitive advantages (such as gaining political resources). The host market activities may encounter a "speed bump" in countries with political checks and balances due to the intrinsic institutional inefficiency and the hyper-competition in these markets (Peng, 2003). On the other hand, by leveraging a local partner's political connections and competitive advantages, a foreign entrant is likely to experience more market success in national markets with a high concentration of power.

In the following procedure, we check the endogeneity for the entry ownership and performance models. The coefficient on self-selection λ is negative and moderately significant ($p < 0.05$) in Model 4, suggesting that some firms' entry decisions are somewhat self-selected. In other words, the unobserved heterogeneity of some international firms may affect both the entry decisions and entry performance. This negative λ may suggest that unobservable characteristics that drive foreign entrants to choose full control governance also tend to make the entry performance worsen. Therefore, as the probability of the choice of WOS increases, a foreign subsidiary will be less likely to be successful. This partially

supports the hypothesis that a strategic alliance leads to a more successful entry in our sample.

The Mills ratios in Models 5 and 6 further explain the impacts of self-selection. Both self-selection coefficient λ s were negative and slightly significant ($p < 0.1$), confirming that self-selection may slightly influence the entry performance under different ownership choices. The negative and significant coefficient estimate of λ in the JV entry subsample indicates that unobserved firm characteristics that affect the entry decision of JV also weakly affect the JV entry performance. The λ in Model 6 carries a similar explanation. Thus unobserved factors (such as insufficient market knowledge of top management, unreasonable assumptions about alliance results, or CEO overconfidence or hubris²⁶) induce MNC managers to make a corresponding entry decision; simultaneously, these unobserved characteristics negatively affect the market entry outcomes regardless of the decision.

It is worth noting that the findings for the main variables are very similar with or without the inclusion of the inverse Mills ratio. This may imply that the model estimation results are robust, although self-selection may exist.

Lastly, we need to discuss the control variables. To summarize all the six models, we find that almost all the results of the control variables are in line with our predictions. This proves the effectiveness of the control variables, and also may indicate that our subjective measure of a foreign subsidiary's entry performance has shown a satisfactory level of validity. We summarize the findings on control variables as follows:

1. Cultural distance is negatively and significantly (in five columns) associated with MNCs' entry performance, which is consistent with previous findings (e.g., Chandler & Graham, 2010). In addition, results from Models 5 and 6 show that cultural distance did not significantly affect JV entry performance, instead, cultural distance affected negatively the performance of firms who have chosen a WOS entry. The underlying explanation may be that local partnerships reduce environmental uncertainties and the LOF in cultural institutions, and therefore neutralize the negative influence of cultural distance; while firms

²⁶ For instance, evidence shows that narcissistic CEOs prefer full-equity takeovers and the performance of the ventures led by them are likely to encounter "a big fall" (Chatterjee & Hambrick, 2007).

adopting internalization strategies confront more adverse cross-cultural impacts where the cultural distance is great.

2. An international company's host country experience enhances the possibility of being successful of a new subsidiary in the host market. Also, by comparing results from models 5 and 6, it is apparent that prior experience in the host market boosts joint venture performance, whereas no direct link was found between host country experience and WOS entry performance. This may suggest that host country experience is more advantageous in fostering partnerships and facilitating knowledge transfer between partners in emerging markets.

3. Furthermore, no significant relationships were found between the size of sampling firms and host market success. Additionally, although in two of the models there is no clear relationship, the remaining four models suggest a weak but positive association between geographic distance and entry success, which might be incongruent with other research outcomes (e.g., Chandler & Graham, 2010). Our explanation is that this might be related to the characteristics of our US firm sample. A good number of observations were from South American countries (such as Peru, Argentina, Venezuela and Brazil). The entry performance in these geographically adjacent countries are generally weaker than in the geographically remote European (such as Germany, France and UK) and some Asian (such as Japan, Singapore and Korea) markets.

In the next section, we use interaction plots to validate H2b, H3b and H4b.

H2b: As corruption distance increases, those who have chosen a JV entry outperform their WOS entering counterparts.

H3b: In a politically unconstrained (potentially hazardous) host country market, JV entrants outperform WOS entrants.

H4b: When a parent firm has a higher ethical identity, its subsidiary has a better entry success when allying with a local partner than operating in a wholly owned fashion.

Considering that the mode of entry is a dichotomous variable, we cannot use the normal treatment of multiplying focal variables as interaction terms. We therefore plotted the tendency of entry performance under WOS and JV as the level of the focal variable, i.e., corruption distance, political constraint or ethical identity changes (See figures 4.2, 4.3, and

4.4). Also, we have shown the interaction effects of cultural distance and entry modes on entry performance.

Our procedure of plotting is consistent with that of Gaur, Delios & Singh (2007) and Mayer and Nickerson (2005). For example, to examine the joint influence of corruption distance and entry mode on entry performance, we chose one standard deviation above or below the mean value as a “high” or “low” value of corruption distance. Next, we calculated the predicted value of performance under the JV or WOS modes by multiplying the values of the focal variable to the coefficient estimates in the JV or WOS performance equation. This way, we obtained the performance prediction values in high and low corruption distance levels at each entry mode.

Similarly, we ran the process for entry performance prediction at the high and low levels of political constraint and ethical identity in each entry choice.

Figure 4.2 Corruption distance (CD), entry decision and entry success

Note: High and low corruption distance (CD) refers to foreign market entries with the CD level one standard deviation above and below the mean CD.

As is shown in Figure 4.2, entry performance in general declines as corruption distance increases, regardless of the entry strategy a foreign firm has chosen. By comparing the linear slopes of JV entry and WOS entry, it is clear that the entry performance of firms entering via WOS drop more sharply with a greater corruption distance. As corruption distance increases, the dampening effects on performance are different depending on the choice of

entry. This indicates that in a corruption-distant host country, strategic alliances could effectively mitigate the potential performance loss brought up by a great corruption distance.

Figure 4.3 Interactions of political constraint (PC) and entry choice on entry success

Note: High and low political constraints (PC) refer to one standard deviation above and below the mean value of PC.

Figure 4.3 demonstrates the interaction of host country political constraint levels and entry choices on entry performance. Under both modes of entry, we found evidence to support that less democratic host markets may have institutional efficiency advantages from a “concentration of power” to facilitate foreign investments.

In host countries lacking political constraints, JV entry performance are noticeably better than those of WOS entry, whereas where there is sufficient political constraint, there is hardly any noticeable difference between MNCs’ average performance under the two modes of entry. This may imply that allying with a local partner in a politically arbitrary host country could gain more government support, which boosts foreign firms’ entry success. For this reason, firms adopting the JV mode become more successful in politically unconstrained countries. This supports our H5.

Figure 4.4 Corporate ethical identity (CI), entry mode and entry success

Note: High and low corporate identity (CI) levels refer to one standard deviation above and below the mean value of CI.

Figure 4.4 shows the performance-improving effect of corporate ethical identity. Irrespective of entry strategies, foreign subsidiaries' performance scales up as the ethical identity level rises. Also, for firms with high levels of ethical commitment, market entry via JV instead of WOS generates a better entry success rate in host markets. Nevertheless, we need to caution that the performance difference under the two modes of entry is not great.

Furthermore, we provide a plot of the interaction effect of cultural distance and entry modes on foreign entry success (see Figure 4.5). Under either entry strategy, subsidiary performance drops as cultural distance become greater. When entering culturally similar countries, firms choosing a wholly owned entry perform better; whereas in culturally different host markets, the local cooperation strategy brings about more successful market results. This finding is congruent with previous research such as that of Makino and Neupert (2000), Hennart and Larimo (1998) and Yiu and Makino (2002a).

Figure 4.5 Cultural distance (CultureD), entry mode and entry success

Note: High and low Cultural Distance (CultureD) levels refer to one standard deviation above and below the mean value of CultureD.

4.6 Robustness tests

We investigate the robustness of our results using different measures, controls and samples. First, we used the Heckman two-stage modeling to control for the issue of endogeneity and did not find significant changes in the effects examined. This shows that the estimated coefficients are stable with or without correcting for self-selection.

Second, we used an alternate measure of corruption distance, “control of corruption” from ICRG (Kaufmann et al., 2009). This indicator has a wider definition of corruption and has a different algorithm from the CPI index from TI. Our findings turned out to be robust to this measure. H1 and H3 are supported under the new measure. The detailed analysis was omitted due to the length limit.

Third, we employed another measure of “political checks and balances” using the Polity Index from the Polity IV Database developed by Marshall, Jaggers, and Gurr (2010). This index has gained academic reception in political economics and strategy research (Khoury, Cuervo-Cazurra, & Dau, 2014; Qi, Roth, & Wald, 2010). This indicator is based on the number of independent veto players in a political system to measure the level of political checks and balances. Unlike the measure made by Henisz (2000a), the Polity Index did not cover the preference heterogeneity of political actors. The scores range from -10 (complete autocracy) to 10 (complete democracy). We employed the index value one year prior to the

entry year, as a measure of the degree of democracy (or autocracy) of a host country. Still, the results supported our main effects and the interactions between political constraints and entry performance.

Fourth, we used an alternate measure of corporate ethical identity by summing up the positive corporate CSR ratings from the MCSI ESG database. The results regarding the performance effects of corporate ethical identity remained unchanged.

Fifth, we omitted the sample cases of entry into the Organization for Economic Cooperation and Development (OECD) member countries (hereinafter “OECD countries”)²⁷ and ran the Heckman process on the non-OECD subsample (390 observations in total) to examine the robustness of corruption distance and transaction and institutional variables.

In OECD countries, firms engage less in corrupt acts like bribing government officials because these countries have more stringent anti-corruption regulations, namely, the OECD Anti-Bribery Convention (Jeong & Weiner, 2012).²⁸ Also, OECD countries are mostly transparent industrialized countries. When foreign firms enter these OECD countries, the influence of government corruption on entry performance might be minimal. Therefore, excluding sample points from OECD countries has been an effective way to check the robustness of results by previous scholars in corruption research (e.g., Jeong & Weiner, 2012; Kwok & Tadesse, 2006).

Table 4.6 and 4.7 demonstrate the estimated Heckman two-stage results for the non-OECD subsample.

Table 4.8 First-stage Probit models (non-OECD sample)

Predictors	Model 1	Model 2	Model 3	Model 4
Intercept	.694*	-.991*	.597	.582

²⁷ Current OECD members include 34 countries. They are Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israël, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.

²⁸ The full name for the Anti-Bribery Convention is the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

	(2.18)	(2.78)	(1.36)	(1.32)
Corruption distance		-.113* (-2.02)	-.103† (-1.82)	-.074* (-2.06)
Political constraint			.381 (1.54)	.366† (1.65)
Ethical identity				-.060 (-1.61)
Cultural distance	-.132* (-2.23)	-.112† (-1.85)	-.053 (-.75)	-.054 (.75)
Geographic distance	-.121 (-1.23)	-.144 (-1.42)	-.127 (-1.25)	-.139 (-1.36)
Firm size (log)	-.148*** (-3.67)	-.137** (-3.33)	-.142*** (-3.44)	-.103** (-2.16)
Firm experience (log)	.102 (.95)	.099 (.93)	.110 (1.02)	.235 (1.05)
Industry dummy	-.966*** (-5.49)	-.973*** (-5.49)	-.999*** (-5.59)	-1.01*** (-5.65)
<i><u>Model summary</u></i>				
Observations	375	375	375	375
Log likelihood	-213.62	-211.52	-210.34	-209.03
Wald Chi ²	63.96	68.16	70.53	73.15
Prob > Chi ²	***	***	***	***
Pseudo R ²	.130	.138	.144	.149

Note: a) Positive coefficients indicate a higher probability of adopting a WOS entry (t-statistics in parentheses).

b) † p < .10, * p < .05, ** p < .01, *** p < .001

Table 4.9 Estimates for the second stage performance models²⁹ (non-OECD sample)

Predictors	Model 1	Model 2	Model 3	Model 4	Model 4' (OECD subsample)	Model 5 and 6	
						(1) JV	(2) WOS
Intercept	3.634*** (12.93)	3.991** (12.11)	3.741*** (12.42)	4.298*** (11.84)	2.979** (2.75)	3.984*** (9.42)	4.175*** (8.10)
<i>IVs</i>							
Corruption distance	-.148*** (-3.62)	-.150*** (-3.70)	-.141** (-3.37)	-.136*** (-3.30)	-.145† (-1.86)	-.180** (-2.89)	-.106† (-1.73)
Political constraint		-.324† (-1.72)		-.401* (-2.12)	-.440 (-0.41)	-.393† (-1.810)	-.530 (-1.35)
Ethical identity		.071* (2.64)		.080** (2.95)	.066 (1.56)	.065* (2.13)	.086 (1.47)
WOS entry	-.226* (-1.93)	-.195† (-1.68)	-.264* (-2.14)	-.268** (-2.20)	-.192 (-0.99)		
<i>Control variables</i>							
Cultural distance	-.162*** (-3.54)	-.212*** (-4.07)	-.150** (-3.16)	-.199*** (-3.80)	-.114† (-1.90)	-.101† (-1.65)	-.406*** (-3.67)
Geographic distance	.256*** (3.54)	.254*** (1.24)	.258*** (3.58)	.257*** (3.59)	-.264* (-2.11)	.285** (3.17)	.302** (2.37)
Firm size (log)	-.005 (-.14)	-.027 (-1.18)	.01 (.29)	-.016 (-.42)	-.262 (-1.50)	-.013 (.29)	-.072 (-1.01)
Firm experience (log)	.362*** (4.43)	.342*** (4.22)	.342*** (4.08)	.298*** (3.58)	.558*** (3.48)	.337*** (3.54)	.224 (1.31)
Inverse Mills ratio (λ)			-.159 (-.98)	-.329* (-1.98)	.262 (0.68)	-.385* (-2.19)	-.123 (-0.28)
<i>Model summary</i>							
Observations	375	375	375	375	137	239	136
F statistics	10.76	9.60	9.36	9.04	3.55	7.55	3.89
Prob > F	***	***	***	***	***	***	***
R ²	.149	.174	.151	.182	.195	.208	.197

²⁹ For the purpose of comparison, we also ran the Heckman two-stage analysis for the OECD country subsample, as can be seen from Model 4' in Table 4.9.

Note: a) Positive coefficients indicate a higher probability of adopting a WOS entry (t-statistics in parentheses).

b) † p < .10, * p < .05, ** p < .01, *** p < .001

For the results of the non-OECD subsample, Models 1 and 2 produced similar performance implications of corruption distance, political constraints and corporate ethical identity, as opposed to the full sample results. Specifically, a greater corruption distance worsens the general entry performance of multinational enterprises; more host-country political constraints give rise to a less efficient entry outcome. Also, a more salient corporate ethical identity results in a more successful entry.

Also, we found that after controlling for the selection biases in Models 3 and 4, the directions of these effects remained identical, but the significance levels largely improved. More importantly, the estimated coefficient of entry choice on performance remained negative and significant, indicating that when MNCs enter non-OECD host countries, the strategy of local cooperation produces better performance.

Furthermore, the inverse Mills ratio in Models 4 and 5 is negative and slightly significant, implying that some firms' entry strategies are self-selected. Unobservable firm characteristics that determined the choice of JV entry are also negatively associated with the related performance. Firm heterogeneity, nevertheless, does not affect the choice of WOS and related entry performance.

Further subsample analyses (in Model 5 and 6) indicate that either the strategic choice of JV or WOS has its own performance advantages. However, a negative and significant λ especially indicates that the entry performance for firms who had chosen a JV entry is better than those with equivalent observable characteristics, had they chosen to enter by local partnering.

We further ran regressions for the OECD subgroup and summarized the findings of the full sample, the OECD and the non-OECD subsample in Table 4.10. Results from the OECD subsample show that corruption distance is still negatively associated with entry performance, but the strength of the effect is far smaller than that of the non-OECD subsample. It is suggestive that for market entry into these comparably cleaner countries, host government corruption is not a primary concern for a subsidiary's host country market success. Furthermore, the political hazards and ethical identity of firms are not linked to entry performance in the OECD countries. This may suggest that corruption-related

transaction and institutional factors do not distinctly affect a foreign subsidiary's performance in less corrupt, or transparent countries. Lastly, choice of entry mode did not affect foreign entry performance in OECD markets. The strategy of strategic alliance does not exert a positive and significant influence on a foreign subsidiary's entry performance in OECD countries as it does in non-OECD host-country markets. This may suggest that the performance implications of entry ownership strategies are contingent on the institutional conditions. Only in corrupt institutional environments does the strategy of local cooperation generate superior entry success for a foreign subunit.

Table 4.10 Summary of hypotheses and results of full sample and subsamples

	Effects on entry performance			
	Corruption distance	Entry mode	Political constraint	Ethical identity
Hypotheses	—	+	+/-	+
Full sample	—***	—**	—*	+**
Non-OECD subsample	—***	—**	—*	+**
OECD subsample	—†	n.s.	n.s.	n.s.

Note: † $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$, n.s. = "not significant".

The findings from the subsample of foreign entries into countries outside the Anti-Bribery Convention (i.e., non-OECD countries) are very similar to the findings drawn from the full sample of US public MNCs. The performance effects and strengths of corruption distance, entry strategy, host country political constraints and corporate ethical identity are as significant in the non-OECD subsample as in the full sample. In contrast, these effects turned less significant or insignificant in results from the OECD host-country subsample. This indicates that in OECD countries where government corruption is less pervasive and severe than non-OECD countries, corruption distance and related factors are of less concern for international investors.

To conclude, by the robustness check of the above five steps, we are confident that most findings in this research are robust to different measures, methods and sample conditions.

4.7 Discussions

A better understanding of what factors drive the market success of a foreign firm in corrupt environments, as well as the performance implications of foreign entry strategies is crucial

for MNCs wanting a market share in the less developed markets. In the research domain of corruption distance, nevertheless, most research stopped inquiring at the question of how corruption affects host-market entry decisions, and thus very little research has been conducted on the subsequent “so what” question. Specifically, would corruption distance between the base country and a target market affect foreign entry outcomes? After a foreign entrant has made an entry strategy, would the foreign entry choice make a difference in affecting its subsidiary’s foreign entry performance in a corrupt market?

This study examines the relationships between host-country corruption, entry ownership strategy and the entry success of MNCs by combining two perspectives, i.e., transaction cost theory and institutional theory. We predict that the corruption distance between the host and the home country, the political profile of the host country, and corporate ethical identity would affect the entry success of a foreign subsidiary.

We suggested that each mode of entry has its own competitive advantages and drawbacks. We specify that the effect of entry ownership strategy on a subsidiary’s entry success is dependent on corruption distance, host government political constraints and parent ethical identity. The dampening performance implications of corruption distance will be reduced for foreign entrants having chosen to partner with local firms, than those who have chosen a WOS entry.

Our research could provide some evidence and references with regard to how to cope with corruption and be more successful in less developed host markets.

We have confirmed that irrespective of modes of entry, foreign firms’ entry performance in general worsens as corruption distance increases. The economic outcomes of business activities including FDIs are generally deteriorated by government corruption. This finding is in line with previous research on the relationship between corruption distance and market exit rate (e.g., Smarzyska & Wei, 2000), or corruption distance and marketing success in the host market (e.g., Chandler & Graham, 2010). Government corruption poses barriers and challenges for the host market entry and operations of foreign firms, especially for those who are from a less corrupt home country.

Our results suggest that the average performance of entry via JV is higher than that of entry via WOS. The results are also indicative that foreign entrants who have chosen a JV entry outperform the WOS entrants in more corrupt institutional environments. MNCs are more

likely to succeed when they choose to form an international joint venture, which symbolizes an adaptive strategy. This finding may resonate with related research, such as that MNCs that did not take a conforming stance toward institutional pressure by accessing local social networks in a host country are more likely to fail (Bianchi & Ostale, 2006).

However, it is also important to note that a greater variability (a greater standard deviation) exists in joint venture entry performance. In other words, the foreign entry outcomes of foreign subunits by JV fluctuated more violently than those by WOS. The reason may be that JV entry involves greater uncertainties in market results, causing challenges of “double-layered acculturation”, i.e., a foreign firm has to adapt not only the host-country institutions but the corporate culture of the partner (Barkema & Vermeulen, 1997).

The joint performance effects of the modes of entry and corruption distance showcase the importance of relationship building for a successful entry into a corrupt emerging market. Allying with a local firm could facilitate the learning of local knowledge and business practices, as well as forge social ties, especially political ties. Theoretical underpinning for this finding can be found from social network theory. Social embeddedness leads to a more positive organizational performance (Granovetter, 1985; Uzzi, 1996). By allying strategically with a local partner a foreign firm is better able to be embedded in host-country social and political networks, which is crucial for the market success in a corrupt country in which favoritism and cronyism prevail (Li & Zhang, 2007; Peng & Luo, 2000). Also, this finding is congruent with the underlying logic and empirical evidence from previous scholars. For example, London and Hart (2004) found that foreign firms with better social embeddedness in emerging markets are more successful. Moreover, Abdi and Aulakh (2012) confirmed that as informal institutional distance increases, relational governance rather than contractual governance engenders better firm performance.

Entry ownership choice itself would not give rise to a superior or inferior performance; it is the fit between the entry strategy and the industrial and institutional contexts that does (e.g., Gaur & Lu, 2007; Martin, 2013). Our finding supports this argument. Particularly, where the corruption distance is great, the use of a local cooperation strategy shows

obviously more competitive advantages in the market entry stage,³⁰ relative to the wholly owned strategy.

Based on the research outcomes on entry strategy in Chapter 3, we chose two factors that are pertinent to host-country corruption, a country-level factor, “host-country political constraint” and a firm-level variable, corporate ethical identity. Evidence shows that entry into a host-country with too much political constraint would worsen the foreign entry performance of American MNCs. This finding is counter-intuitive at first sight but is explainable. It does not necessarily indicate that foreign firms are more successful in host-countries that lack political checks and balances, nor imply that MNCs are not exposed to a higher level of political risks. Quite the contrary, operating in a politically unconstrained host-country would involve more legal risks and partner risks (Luo, 2007). This result underlines the institutional advantages of the concentration of power in a politically unconstrained host-country and the positive institutional spillover effects on FDI programs (Bell, 1997; Przeworski, 1991). In other words, foreign investment in those authoritarian markets could gain great development momentum due to the institutional advantages of authoritarian regimes. Previous research may overlook the fact that less democratic countries may be more efficient and effective in policy formulation and government support, which may benefit the initial entry of FDI. In authoritarian states such as China, Singapore or Vietnam, high efficiency in policymaking and strong government support is closely associated with rapid national economic growth, as well as booming foreign investment. The analysis of the interaction effect also suggests that when entering an authoritarian host-market, a foreign subsidiary is more likely to be successful via allying with a local partner. This may be attributable to reduced competition, and improved government legitimacy,

³⁰ Our research findings did not conflict with previous research such as Gaur and Lu (2007). Gaur and Lu’s research focuses on the relationship among regulatory distance, entry choice and survival performance. Their findings suggest that as regulatory distance increases, the survival of foreign subsidiaries by WOS entry is better than that by JV entry. It seemed that their research outcome is inconsistent with ours but actually the two studies focused on different aspects. On one hand, their research used regulatory distance, a broader concept than corruption distance. On the other, the consequence of their research is the exit rate of a foreign subsidiary, meaning they tracked a much longer period of subsidiary performance and focused on the exiting behaviour only. Our measure of performance, entry success, however, focuses on 3-6 years overall development of a foreign affiliate after its initial entry. Although both studies have different subjects and contents and naturally different conclusions, we support the argument that the strategy of joint venture is not once-and-for-all. After a foreign subunit has accumulated adequate experience and relationship assets, the form of JV may be terminated and give way to wholly owned practices.

hence more support from the host society, which is crucial for the local expansion of a foreign affiliate.

It must also be noted that efficient market development in the entry stage does not promise a smooth operation and expansion in later stages of foreign market development. Our research only focuses on a subsidiary's entry performance, i.e., 3-6 years of development progress after the initial entry, which is crucial for an MNC subsidiary.

As far as firm-level ethics are concerned, in the previous chapter we have found that foreign firms cannot only conform to the host expectations to handle the pressure for corruption, they can also counteract this pressure by establishing a central and enduring corporate ethical identity. In particular, as corruption distance increases, only firms with less salient ethical identities have a higher propensity of partnering with local firms. Findings in this chapter further prove that ethical identity plays an important role in enhancing multinational firms' foreign entry success. It demonstrates the importance of a positive CSR record in helping a foreign firm to survive in a host country. Ethical firms that are actively involved in philanthropy and community co-creation may experience less liability of foreignness and gain more social acceptance from the host-markets.

The results on ethical identity also revealed that foreign subsidiaries generally perform better when allying with a local partner than choosing a wholly controlled mode. This suggests that local cooperation is a better strategy in effectively transferring intangible assets such as an ethical reputation to the local environment for a foreign firm.

4.8 Contributions and conclusions

Our research in this chapter contributes to the literature of international marketing and strategy in the following aspects.

1. We have examined the overseas market entry success of international firms from one developed economy in the context of corruption in richer dimensions. Moreover, we have integrated the transaction cost and institutional explanations on how to be successful when entering a corrupt host-country market.

Previous research focuses more on single aspects of subsidiary performance (such as survival rate) or perceptual opinions of managers, and it is rare for researchers to emphasize

MNCs' longitudinal and comprehensive development in a host-country at the entry stage (Johnson & Tellis, 2008). The first few years are crucial for laying a foundation for gaining the acknowledgement from stakeholders and having "a long-term win" in a host market (Shrader, 2001). Our EHA-based evaluation rates a foreign subunit's entry success against comprehensive dimensions such as market share, operations, financials and social fit. More importantly, to our best knowledge little research has been done with respect to the drivers of foreign market success in the context of corruption.

Furthermore, we provided an integrated framework of corruption-related transaction cost factors and institutional forces that could drive the market success in a corrupt host-country market. This integrative framework offers a more comprehensive account of the relationship between market strategy and outcomes as well.

2. Corruption distance affects a foreign subsidiary's market success.

This research furthers the academic dialogue regarding ownership-performance in the context of host-country corruption. Most strategy research stops at examining the antecedents of business strategy and thus very few studies further the strategy research to associate strategy with performance (Leiblein et al., 2002). Our findings push forward the research on corruption distance and entry decisions by discussing the performance implications.

We have confirmed that corruption distance has an adverse impact on international firms' host-market entry outcomes. The evidence also indicates that a JV entry (as opposed to wholly owned entry) alleviates the adverse performance implications. This in part suggests the potential political resources and political legitimacy acquired by allying with a local partner could boost significantly the alliance performance in a corrupt host-country. In comparison, although the wholly owned mode of entry could grant a high level of control, it might plunge a foreign firm into a disadvantageous position in terms of utilizing the political resources of a corrupt host-market.

Therefore, this research may provide some managerial references for firms to devise an entry strategy to generate superior performance in a corrupt economy. We did not only validate the worsening effect of corruption distance on entry performance of a foreign subsidiary, but also found that the mode of local collaboration could effectively reduce the negative influence.

We confirmed that the entry choice of local adaptation, as a critical component of entry strategy of MNCs, generates greater entry success in more corrupt markets.

Our findings resonated with Makino, Isobe et al.'s (2004) predictions on the variance of foreign subsidiary performance that firm-specific advantages such as R&D capabilities and advertising are more important for succeeding in developed markets, whereas relationships and ties matter more in emerging markets which are often corrupt.

This research also reveals the performance implications of host-country institutional idiosyncrasies by focusing on the different political structures of the host countries. Evidence indicates that the entry process is likely to be less efficient in host countries with political checks and balances, whereas in politically unconstrained host markets, MNCs often have a better entry momentum due to the "efficiency advantage" of authoritarian governance. When it comes to the role of entry strategy, similarly, in those politically hazardous host-countries, those who have entered by JV perform better.

In addition, we have discovered the role of firm ethical identity in helping a subsidiary to overcome the liability of foreignness and gain better social and market acceptance. Also, we have confirmed that for international firms with a high level of ethical identity, cooperating with a local partner could help facilitate the transfer of the firm's ethical "assets" and have a performance-enhancing effect as well.

3. We creatively applied the EHA technique to measure entry success and ensured methodological rigor by controlling for selection bias in performance studies.

Although event history analysis, which involves "archival-based studies of relative success of companies in multiple markets", has drawn increasing attention in international marketing and strategy research (Johnson & Tellis, 2008; Makino, Isobe & Chan, 2004), we are still among the first to introduce this new empirical approach for studying the international strategy and subsidiary performance of MNCs, especially MNCs entering emerging markets. The EHA technique enables us to overcome the challenge of obtaining subsidiary data in international marketing research and assess the overall entry progress for a foreign subunit in a given host country (Johnson & Tellis, 2008).

We employed a structured multi-grade measurement outline and drew on large-sized newspaper and magazine databases for information sources. This way of measuring could

overcome the drawbacks of using single-indicator objective measures and is less subjective than survey-based perceptual measures.

Furthermore, we have employed the Heckman two-stage approach to correct for self-selection bias in model specifications involving both entry choices and performance (Bascle, 2008; Hamilton & Nickerson, 2003; Shaver, 1998). The coefficient of endogeneity demonstrated that unobserved subsidiary attributes that affect the mode of entry also affect performance.

Thus this research makes a solid contribution by providing a strong negative relationship between corruption distance and the entry performance of MNCs. More importantly, this study demonstrates that cooperating with a local partner can mitigate the dampening performance implications of corruption distance. This research also confirms that host-country political constraint worsens, and firm ethical identity improves, the likelihood of entry success of MNCs, laying the groundwork for integration of TCE theory and the institutional view in explaining entry success in a corrupt market. The findings also shed light on how to choose the right entry choice when MNCs with different levels of ethical consciousness enter host countries with different institutional characteristics.

5 Limitations and future directions

5.1 Limitations of research

Although we have demonstrated this study's theoretical and managerial contributions, this does not imply that this study has no limitations.

5.1.1 Limitations to the data and measures

The unique characteristics of the US firms may affect the generalizability of our findings. American MNCs are under the ruling of stricter anti-corruption laws such as the Foreign Corrupt Practices Act (FCPA). This could result in different business strategies and preferences for firms from other countries. In the future, research using subsidiary data from other countries could validate our results.

For the same reason, the conclusion drawn from this American sample cannot be generalized to international strategies and practices of MNCs from a home country lacking in effective corruption-combating laws and regulations. Therefore, a separate academic study could well consider on how MNCs from a corrupt home country enter host countries with different characteristics.

Despite the fact that we have reliable sources from major publications, and have done extensive checks in case searching, it is still possible that we missed recording some entry events of firms in the EHA process.

Specifically, due to the use of news reports for sampling sources, our sampling size may be limited by the range of media coverage. News media usually favour business cases with communication values. For example, mergers and acquisitions attract more limelight than Greenfield investments (Meyer et al., 2014). Similarly, respondents favour reporting the strategic actions of large corporations instead of small- and medium-sized ones (Kostova & Zaheer, 1999). The media is inclined to report more good news rather than bad news, which may bias the performance results (Bansal & Clelland, 2004). So, technically some host-market entry events may be missed due to lower media visibility. Nevertheless, since the media biases mentioned are consistent across all firms, the validity of our result will not be adversely affected.

Also, since our research is limited to market-seeking firms and the potential coverage bias of the media, the EHA process could not generate a large subgroup of non-equity JVs such as licensing and co-marketing. Therefore, we acknowledge that the non-equity modes of joint venture may be under-represented.

Although we have several limitations in the sampling and data, we have a considerable sample size and have maintained rigorous data collection and analysis.

5.1.2 Limitations to methodology

Most of our independent variables and control variables are based on archival sources. Although these various sources of secondary data could overcome common method biases, they somewhat lack in-depth depiction of behavioural or psychological motivations. Future studies could use primary data sources to examine more fine-grained behavioural and psychological factors underlying the issues such as institutional pressure.

First, we have extracted information regarding foreign market entry from factual records based on the EHA technique; however, it is difficult to obtain the equity share information of the foreign entry for half of the observations. As a result, we did not use equity levels to measure entry ownership strategy, but rather choose a dichotomous measure. For the same reason, it is very hard to conduct sensitivity tests involving different measures of equity stakes. Future research might resort to more fine-grained measure of equity stakes to have more relevant robustness checks. For example, different cut-off points for equity JVs (e.g., 90%, 99%) can be used to validate the findings; similarly, by ignoring the non-equity modes, we may use a continuous variable of foreign equity levels to test whether there is a moderating effect in the relationship between corruption distance and entry success in due course.

Moreover, there may be grading biases in the process of hand-collected measures, especially for the entry performance measure. Although we have recruited two management-majored reviewers and trained them with respect to information extracting and rating, and we trusted their professional knowledge and managerial judgement, admittedly grading errors may still exist due to the limitations of subjective knowledge and perception, and the potential deficiency of news materials.

Notwithstanding the existing flaws of adopting the event history approach, we can be sure that these biases would not seriously affect our results, because a) we have reliable and objective informant sources, and b) it showed that we have arrived at a high inter-rater reliability, and c) our results reflect the validity of the measures by showing consistency of findings with mainstream research. Nevertheless, our perceptual measure of foreign market entry events provides a useful attempt, because with regard to the data reality, the entry success measure can avoid the tunnel vision of focusing on a single aspect such as the survival rate or market share (Hult et al., 2008).

5.1.3 Limitations of modelling

Foreign market entry is affected by factors from multiple levels, subsidiary, parent, home and host country levels (e.g., Brouthers & Hennart, 2007). Due to the constraint of the sample (for example, at the host-country level, observations can be very limited for some countries), we did not distinguish between country-level and entry-level variables. If country-level data does not satisfy the requirements,³¹ it would be inappropriate to use multi-level analysis (Arregle, Hébert, & Beamish, 2006). Therefore, we ran logistic regression to secure more accurate estimates in these circumstances.

Despite the fact that this research contains institutional, industrial and firm factors as control variables, we have to admit that there are task- or resource-related factors that may also affect the entry decision or performance of a firm (Merchant, 2005). For example, a greater subsidiary size, or a stronger parent-subsidiary link may indicate more resources for market development (Luo, 2001).

Also, we did not incorporate local competition factors in our performance model, because primarily there is indeed no ideal objective indicators to measure host-country competition. We tried using one indicator, “local competition level” from Global Competitiveness Index and found severe collinearity between “the degree of host-country competition” and “host-country political constraint”. We also considered using the degree of industrial competition by measuring the number of local competitors, but this indicator was very difficult to obtain in the cross-country context. Luckily, our industry dummy control contains influence of

³¹ Multi-level analysis requires that each subgroup has at least 20 cases at level-2 to have accurate estimates (Arregle, Hébert, & Beamish, 2006).

industrial competition to some extent, which could partly alleviate the shortcoming of not including competition in performance models.

Future research could use different research techniques to explore subsidiary-level resources or managerial characteristics that could have influence on entry success in corrupt markets.

Another limitation would be the potential omission of alternative strategies that would be exercised by MNCs when faced with local corruption. Our research model limits the entry choices to JV and WOS, and therefore sets aside considerations of other alternative strategies that would mitigate or circumvent the influence of local corruption. These alternative strategies may include local staffing and outsourcing “corrupt deeds” to a politically connected local intermediary, as well as appointing politically influential experts as board members or outside directors (Delios & Henisz, 2000; Michailova et al., 2013; Spencer & Gomez, 2011). For example, one popular practice in some corrupt host countries involves outsourcing the business affected by corruption to an agent with political connections (Michailova et al., 2013). Some famous MNCs were engaged to hire descendents or relations of political leaders in a host country to foster political connections and facilitate business. For example, JP Morgan’s “sons and daughters” program involved hiring the offspring of Chinese high-ranking politicians. Despite the fact that this practice can be seen as a variation of the relationship-based strategy and is rarely performed by inexperienced foreign investors, it was not part of our research scope.

In addition, notwithstanding that wholly owned investments are the embodiment of an insulation strategy, they could not completely avoid corruption in host-country institutions. Even if required by the headquarters to take a wholly controlled mode of entry, a foreign subunit could still possibly become involved in non-market practices or even corrupt acts in a corrupt environment. Consequently, the entry strategy research could not rule out the possibility of firms' adoption of decoupling practices or “ceremonial adoption”.

Some studies claim that firms with genuine ethical identities would choose to avoid or exit from the host countries with severe corruption (Musteen et al., 2013; Smarzynska & Wei, 2000). However, this strategic action is not included in our research framework. The next step of research may expand the international strategy research to those non-entry and exit behaviours from a corrupt market if possible. These omissions may leave space for future research on MNCs’ alternative strategic actions in the presence of host-country corruption.

5.2 Future outlook

While this research is based on a manually-collected firm sample which may impede its generalizability, this sample covers a diverse range of industries, which at the same time improves the generalizability and avoids the shortcomings of a single-industry study (Uhlenbruck et al., 2006). We have incorporated international entries in different industries to allow for various extents of interaction with government agencies. Meanwhile, we have controlled for the regulatory barriers that host governments would impose across the industries. In general, we believe that future research would use firm samples from other developed countries or other OECD countries to validate our findings.

5.2.1 Future directions of the strategy research

Future research on corruption distance and business strategies could examine how the reverse of corruption distance affect modes of entry. Since our research focus on how foreign entrants enter more corrupt markets (equally, emerging and LDC markets), it would also be worth researching how firms from more corrupt countries enter less corrupt host countries and overcome the reverse of corruption distance.

MNCs from more corrupt countries may experience different uncertainties when entering a less corrupt host-country. Those MNCs are familiar with relationship-building techniques and may find themselves at ease when penetrating into markets with similarly corrupt institutions (Sheng, 2011 #329}, but may lack experience operating in rule-based environments (Yuan & Pangarkar, 2010). Therefore even the same corruption distance may be presented as different obstacles for foreign firms from different home country backgrounds. It is also worth researching how rising MNCs from emerging economies such as India or China enter LDCs, as well as how corruption distance plays a role in their strategy making and market success.

Another related research direction is to examine the difference in strategic actions of different firms from emerging markets (for example, state controlled enterprises and private firms) in entering a transparent market and the underlying mechanism. Also, it would be interesting to consider international firms for other purposes, such as asset-seeking or efficiency-seeking firms.

Apart from the choice of JV and WOS, exploring the mechanism of alternative strategies to cope with host-country corruption is another interest of research. JVs and WOSs are merely two mainstream solutions in a firm's "strategic toolbox" to gain local knowledge, resources and legitimacy. As discussed in the "Limitations" section, alternative strategic means include staffing strategies such as employing politically connected staff such as the offspring of officials or outsourcing the corruption-suspicious business to local agents with political ties (Spencer & Gomez, 2011). The next step that should be taken is to expand the scope of non-market strategies in corrupt host-country environments.

For example, some foreign companies having entered China have practices of hiring employees with local ties, especially the descendants of political leaders. The officials' offspring secure a position in the company, and in return the government official helps to overcome bureaucratic hurdles or to win public contracts for the focal firm. We need to point out that this alternative strategy may be culture-relevant. Chinese *guanxi* culture emphasizes reciprocity and favour exchange, which is a hot-bed for fostering strategies like this. Indirect and low-profile, this non-market strategy could escape the oversight from home-country governments to some extent. Although it may be viewed as unethical, this non-market strategy might be effective in facilitating market expansion (McGregor, 2007).

From this angle, we still have insufficient understanding with regard to how corruption pervasiveness and cultural norms jointly shape a foreign firm's business practices, which could also be an important direction of research.

Institutional theorists maintain that organizational behaviours and outcomes are the interplay of firm-level factors with macro- and micro-level variables (Oliver, 1997). So the institutional explanation of corruption needs to go deep to discuss issues involving organizational level or individual level elements.

Although we have discussed the dynamics of corporate ethical identity and firm strategy in the face of corruption, future research could further the topic by examining other intra-firm factors involving corporate governance that may play a role in firms combating corruption. These factors involve various means for intra-firm oversight and control such as an anti-bribing committee, company-wide ethics training, and codes of conduct (Luo, 2005).

It would also be worthwhile to tap into more firm heterogeneities that may engender different strategic responses to corruption. Such heterogeneity may result from corporate

culture or the characteristics of the subsidiaries, the managers or decision makers. Research studies have started looking into how the autonomy levels of a subsidiary affect its political embeddedness in a host country (e.g., Dieleman & Boddewyn, 2012; Guillen, 2000), or how to use different organizational structures such as business groups to acquire government resources and counteract political risks in emerging markets (Welch & Wilkinson, 2004). For example, a subsidiary's strategic actions to avoid, conform to, or insulate from a host country environment with corruption, are partially determined by the degree of subsidiary autonomy that a parent firm grants, especially the autonomy of dealing with host government relationships (Luo, 2003; Welch & Wilkinson, 2004). The level of autonomy coupled with proper non-market strategies, may determine the political resources that a subsidiary accesses in a host country and the interaction outcomes with the local government.

Similar attention can be placed on the relationship between the profiles of the business leaders (such as social ties) and business strategy (e.g., Collins et al., 2009), or managing executives' role-modelling effect in combating organizational corruption (Luo, 2005). Ethical leaders may set high moral standards and enable employees to have consensus on the precondition that integrity comes before economic outcomes. Consequently, one of our research foci will be examining managers' role in the trade-off between ethics and organizational performance.

5.2.2 Future directions of the performance research

As discussed in Chapter 4, a significant endogeneity coefficient implies that MNCs' entry decisions in the face of corruption are somewhat self-selected. In other words, unobserved characteristics in the performance model drive international managers to make different entry strategies. Due to the scope limit of this research, future research may search for more unobserved attributes from the firm level, transactional level or even individual level, such as corporate governance or personality of the managers. Hence we highlight four aspects that are worth researching in the next stage.

(1) Local partner heterogeneity

Future work could extend this study by investigating the influence of heterogeneity of local partners on entry success in corrupt environments. Different local partners (such as type, size and power) may have different performance implications. For example, compared with a private firm, a state-controlled enterprise may play a more important role in local

cooperation in that SOEs have intrinsic political connectedness (Meyer et al., 2014). In consequence, whether allying with an SOE or a private local firm generates different firm performance deserves scrutiny in future studies.

(2) Corporate governance of the parent firm

How to handle host-country corruption and how successful a foreign unit will be has something to do with how much autonomy the foreign parent would grant a subsidiary. Generally speaking, subsidiaries with a closer link to the headquarters will be granted more resources. The closer link reduces the reliance on local resources and could win the firm more opportunities for independence development and probably a higher chance of overseas market success (Luo, 2003).

However, the resource investment from the parent firm may imply stronger control imposed on the focal subsidiary, and thus lower the flexibility in strategic actions. We assume that this resource advantage of a strong parent-subsidiary linkage might be masked by the drawbacks of a strong control, namely, potential strategic rigidity and lack of local responsiveness. Therefore, we proposed that delving into how parent-subsidiary links shape the strategy development and performance of a foreign subsidiary in a host-country where corruption prevails could offer more insights on how to deal with institutional forces from both external and internal environments.

(3) Social network and relational perspectives

Our research implies that relational strategy is more likely to produce foreign entry success in the face of host-country corruption. Studies in the future could take a closer look at how social relationships and network operations influence the strategy formation and outcomes of an MNC in a given corrupt emerging economy.

The recent research trends involve interpreting organizational activities and consequences from the angle of the organizational network and individual social network (Zaheer et al., 2010). Informal networks play a greater role in markets where corruption prevails. Network traits such as tie strength and degree centrality need to be put on the agenda for examining transnational business practices.

Also, network connections do not only exist between business and government, but also between business partners such as customer relations and supplier relations. Research on

corruption and business strategies however have scarce knowledge on business corruption or organizational corruption (Luo, 2005). If information can be gathered on how organizational corruption affects a foreign entrant's strategy and its employees' practices, it perhaps could shed more light on how corruption affects the supply chain and marketing channel management. Relevant research has already been carried out to examine how political ties and business ties jointly influence firm success in a corrupt emerging economy (e.g., Sheng et al., 2011).

(4) Individual characteristics of decision makers

The entry mode and performance research might tap into the decision-making process of managers and factors that could influence the process (Brouthers & Hennart, 2007). Managers in a foreign firm (subsidiary) would imbue their own individual attributes (such as interests, values, etc.) into the decision-making of internationalization. In the case of host-country corruption, we are more concerned with the personal values and morality, and the risk propensity of managers, which could affect the strategy of host-market entry.

Furthermore, since corruption distance is asymmetric (Hernández & Nieto, 2015), we are equally interested in how MNCs from a corrupt home-country overcome corruption distance, such as how firms from China or India enter New Zealand or the US market. Research has shown that a foreign subsidiary from a home country where corruption is pervasive is more likely to engage in host-country corrupt activities (e.g., Spencer & Gomez, 2011; Wan, 2005). What is unknown is how these firms develop strategies and survive in a host country that is not as corrupt.

Finally, in future research we could use multilevel approaches to conduct cross-level analysis, which we did not do because of data limitations at the country level.³²

³² For a two-level analysis, scholars recommended that it is acceptable to have over 30 level-2 (country level) groups with each group totalling more than 30 observations. A multi-level model that either has less than 30 groups or less than 30 cases in each group would produce less stable results. Our sample, however, cannot meet the requirements and thus hierarchical linear modelling is not a suitable modelling option.

Appendix 1 Outline for evaluating entry performance

The outline for evaluating entry performance of a foreign subunit follows Johnson and Tellis (2008)'s structure and criteria for entry performance.

1) Successful Entry– 5

- Making more margins than their global margins
- Market Share leader
- Well functioning partnership
- Above average industry leadership
- Top three in industry profitability
- Top three in market share
- Exceeded investment criteria

2) Good Entry -4

- Successfully selling
- Met investment criteria
- Increasing investments
- Growing shipments
- Rapidly evolved into a major force in the Industry

3) Acceptable Entry–3

- Hope to recover investment in time
- Entry awaiting removal of market restrictions
- Establish a beachhead
- Continuing operations

4) Poor Entry– 2

- No initial lead buyers
- Conflicting expectations
- Fail in system integration and optimization
- Struggled to make headway

- Underperformance
- Priced out
- Stiff competition
- Market restrictions
- Executives frustrated with entry

5) Failed Entry– 1

- Quit or withdrawal from market
- Break up with cessation of venture

Appendix 2 Company list

A complete list of researched US firms³³:

3PAR, Inc.; A. Schulman, Inc.; Abbott Laboratories; Abgenix, Inc.; ACE limited; Actuant Corporation; Acxiom Corporation; Adaptec, Inc.; Adobe Systems Incorporated; Advanced Micro Devices, Inc.; AES Corporation; AIG; Akorn, Inc.; Alcoa, Inc.; Altria Group, Inc.; Amazon.com, Inc.; Ameriprise Financial, Inc.; Aon corporation; Asiainfo Holdings Inc.; AT&T Inc.; Athenahealth, Inc.; Avis Budget Group, Inc.; Avnet, Inc.; Avon; Bank of America Corp; Bank of Hawaii Corporation; Barrick gold; BearingPoint; Bed Bath & Beyond Inc.; Beijing MedPharm Corp; Bemis Company, Inc.; Berkshire Hathaway Cooperation; Best Buy Company, Inc.; Blackboard, Inc.; Blockbuster, Inc.; Brady Corporation; Bristow Group, Inc.; Build-A-Bear Workshop, Inc.; Burger King; Cache Inc.; Cardinal Health; Cash America International, Inc.; Caterpillar Inc.; Cheesecake Factory, Inc. (The); Chevron; CIBER, Inc.; Cinemark Holdings, Inc.; Circuit City Stores, Inc.; Citigroup Inc.; Coeur d'Alene Mines Corporation; Cognizant Technology Solutions Corporation; Commercial Vehicle Group, Inc.; Computer Sciences Corporation; ConocoPhillips; Convergys Corporation; Cooper Tire and Rubber Company; Costco Wholesale Corporation; Cree, Inc.; Crocs, Inc.; CTC Media; Cummins, Inc.; DDR; Dollar Tree Stores, Inc.; Domino's Pizza, Inc.; Dow Chemical company; Dun & Bradstreet Corporation; Ebay, Inc.; EMC Corporation; ENSCO International Incorporated; Expedia, Inc.; Exxon Mobil; EZCORP, Inc.; FalconStor Software, Inc.; Fastenal; FedEx Corporation; First American Corporation; Fluor Corporation; FMC Corporation; Ford Motor; Fossil, Inc.; Freeport-McMoRan Copper & Gold Inc.; Gap, Inc., general electric, General Motors; General Motors; Genesee & Wyoming Inc ; Genpact Ltd; Global Payments, Inc.; Goldman Sachs Group, Inc. (The); Goodyear Tire & Rubber Company; Google, Inc.; Grainger (W.W.), Inc.; Harley-Davidson, Inc.; Hasbro, Inc.; Heinz, Inc.; Hertz Holding Inc.; Home Depot, Inc. (The); Host Hotels & Resorts, Inc.; Hot Topic, Inc.; Hudson Highland Group, Inc.; IDEXX Laboratories; iGATE Corporation; IMS Health; Innerworkings, Inc.; International Business Machines Corporation; International Game Technology; International Paper Company; ITT Corporation; J.P. Morgan Chase & Co; Jacobs Engineering Group, Inc.; Jefferies Group, Inc.; Johnson Controls, Inc.; Joy Global

³³ The list contains all the companies that have gone through the event history analysis process.

Inc.; Kadant Inc.; KBR, Inc.; Kellogg Company; Kenexa Corporation; Korn/Ferry International; Kraft; Krispy Kreme Doughnuts, Inc.; Las Vegas Sands Corp.; Layne Christensen; La-Z-Boy, Inc.; Lear Corporation; Liberty Global Inc.; Lincoln Electric Holdings, Inc.; Lowe's Companies, Inc.; Lululemon Athletica, Inc.; Luminex Corporation; M&F Worldwide Corporation; Manpower Inc.; Marriott International, Inc.; McCormick & Company, Inc.; McDonald's Corporation; McKesson; Medco Health Solutions, Inc.; Mercadolibre, Inc.; Metabolix, Inc.; Metlife, Inc.; MGM Mirage, Inc.; MKS Instruments, Inc.; Monotype Imaging Holdings Inc.; Monsanto Company; Mylan Laboratories, Inc.; National Semiconductor Corporation; Ness Technologies, Inc.; Newfield Exploration Company; Newmont Mining Corporation; News Corporation; NII Holdings, Inc.; Nordstrom, Inc.; Occidental Petroleum Corporation; Ocwen Financial Corporation; Office Depot, Inc.; Omnicom Group Inc.; Orient-Express Hotels Ltd.; Ormat Technologies, Inc.; Owens-Illinois, Inc.; Papa John's International, Inc.; Peabody Energy Corporation; Pentair, Inc.; PepsiCo, Inc.; Pfizer, Inc.; Pinnacle Entertainment, Inc.; Polycom, Inc.; PolyOne Corporation; Priceline.com, Inc.; PriceSmart, Inc.; Principal Financial Group, Inc.; Qualcomm Inc.; Quest Diagnostics Incorporated; Red Hat, Inc.; Revlon, Inc.; Riverbed Technology Inc.; Royal Gold, Inc.; Rudolph Technologies, Inc.; Safeway Inc.; Santander BanCorp; Sauer-Danfoss, Inc.; Schweitzer-Mauduit International, Inc.; Scientific Games Corporation; Sealy Corporation; Smith (A.O.) Corporation; Spansion, Inc.; Staples, Inc.; Starbucks Corporation; Steelcase, Inc.; Stericycle, Inc.; Successfactors, Inc.; Superior Essex Inc.; Sykes Enterprises, Inc.; Synnex Corporation; Target Corporation; Taubman Centres Inc.; TeleTech Holdings, Inc.; Tenneco Automotive Inc.; Terex Corporation; Tim Hortons, Inc.; Time Warner, Inc.; Twin Disc INC; UCBH Holdings, Inc.; Ultra Clean Holdings, Inc.; United Parcel Service, Inc.; US Gold Corporation; UTStarcom, Inc.; Valero Energy Corporation; Valspar Corporation; Viacom, Inc.; Vocus, Inc.; Walmart; Walt Disney Company (The); Waste Management, Inc.; Watson Wyatt & Company Holdings; Wells Fargo & Company; Wendy's International, Inc.; Werner Enterprises, Inc.; Whirlpool Corporation; Willbros Group, Inc.; Worthington Industries, Inc.; Wynn Resorts, Limited; Xilinx, Inc.; Yahoo! Inc.; Yum! Brands, Inc.

References

- Abdi, M., & Aulakh, P. S. (2012). Do country-level institutional frameworks and interfirm governance arrangements substitute or complement in international business relationships. *Journal of International Business Studies*, 43(5), 477-497.
- Acemoglu, D., Johnson, S., Robinson, J., & Thaicharoen, Y. (2003). Institutional causes, macroeconomic symptoms: volatility, crises and growth. *Journal of Monetary Economics*, 50(1), 49-123.
- Acemoglu, D., & Verdier, T. (2000). The choice between market failures and corruption. *American Economic Review*, 90(1), 194-211.
- Agarwal, S., & Ramaswami, S. N. (1992). Choice of foreign market entry mode: Impact of ownership, location and internalization factors. *Journal of International Business Studies*, 23(1), 1-27.
- Aguilera, R. V., & Vadera, A. K. (2008). The dark side of authority: Antecedents, mechanisms, and outcomes of organizational corruption. *Journal of Business Ethics*, 77(4), 431-449.
- Ahlstrom, D., & Bruton, G. D. (2001). Learning from successful local private firms in China: Establishing legitimacy. *The Academy of Management Executive*, 15(4), 72-83.
- Aiken, L. S., & West, S. G. (1991). Multiple Regression: Testing and Interpreting Interactions: Newbury Park, CA: Sage.
- Aizenman, J., & Spiegel, M. M. (2006). Institutional Efficiency, Monitoring Costs and the Investment Share of FDI. *Review of International Economics*, 14(4), 683-697.
- Albert, S., & Whetten, D. A. (1985). Organizational identity. *Research in Organizational Behavior*, 7, 263-295.
- Allison, P. D. (1984). *Event history analysis: Regression for longitudinal event data*. Beverly Hills, Calif.: Sage Publications.

- Anand, J., & Delios, A. (1997). Location specificity and the transferability of downstream assets to foreign subsidiaries. *Journal of International Business Studies*, 28(3), 579-603.
- Anand, V., Joshi, M., & O'Leary-Kelly, A. M. (2013). An organizational identity approach to strategic groups. *Organization Science*, 24(2), 571-590.
- Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of International Business Studies*, 17(3), 1-26.
- Argandoña, A. (2003). Private-to-private corruption. *Journal of Business Ethics*, 47(3), 253-267.
- Arregle, J. L., Hébert, L., & Beamish, P. W. (2006). Mode of international entry: The advantages of multilevel methods. *Management International Review*, 46(5), 597-618.
- Ashforth, B. E., Harrison, S. H., & Corley, K. G. (2008). Identification in organizations: An examination of four fundamental questions. *Journal of management*, 34(3), 325-374.
- Asiedu, E., Jin, Y., & Nandwa, B. (2009). Does foreign aid mitigate the adverse effect of expropriation risk on foreign direct investment? *Journal of International Economics*, 78(2), 268-275.
- Balmer, J. M., & Powell, S. M. (2011). The nexus between ethical corporate marketing, ethical corporate identity and corporate social responsibility: An internal organisational perspective. *European Journal of Marketing*, 45(9/10), 1365-1379.
- Balmer, J. M., van Riel, C. B., Jo Hatch, M., & Schultz, M. (1997). Relations between organizational culture, identity and image. *European Journal of Marketing*, 31(5/6), 356-365.
- Bansal, P., & Clelland, I. (2004). Talking trash: Legitimacy, impression management, and unsystematic risk in the context of the natural environment. *Academy of Management Journal*, 47(1), 93-103.

- Bansal, P., & Roth, K. (2000). Why companies go green: A model of ecological responsiveness. *Academy of Management Journal*, 43(4), 717-736.
- Barkema, H. G., & Vermeulen, F. (1997). What differences in the cultural backgrounds of partners are detrimental for international joint ventures? *Journal of International Business Studies*, 28(4), 845-864.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of management*, 17(1), 99-120.
- Bascle, G. (2008). Controlling for endogeneity with instrumental variables in strategic management research. *Strategic Organization*, 6(3), 285-327.
- Bell, D. A. (1997). A communitarian critique of authoritarianism: the case of Singapore. *Political Theory*, 25(1), 6-32.
- Bell, D. A., & Li, C. (2013). *The East Asian Challenge for Democracy: political meritocracy in comparative perspective*: Cambridge University Press.
- Berry, H., Guillén, M. F., & Zhou, N. (2010). An institutional approach to cross-national distance. *Journal of International Business Studies*, 41(9), 1460-1480.
- Bianchi, C. C., & Ostale, E. (2006). Lessons learned from unsuccessful internationalization attempts: Examples of multinational retailers in Chile. *Journal of Business Research*, 59(1), 140-147.
- Boddewyn, J. J., & Brewer, T. L. (1994). International-business political behavior: New theoretical directions. *Academy of Management Review*, 19(1), 119-143.
- Bravo, R., Matute, J., & Pina, J. M. (2012). Corporate social responsibility as a vehicle to reveal the corporate identity: A study focused on the websites of Spanish financial entities. *Journal of Business Ethics*, 107(2), 129-146.
- Brickson, S. L. (2005). Organizational identity orientation: Forging a link between organizational identity and organizations' relations with stakeholders. *Administrative Science Quarterly*, 50(4), 576.

- Brouthers, K. D. (2002). Institutional, cultural and transaction cost influences on entry mode choice and performance. *Journal of International Business Studies*, 33(2), 203-221.
- Brouthers, K. D., & Brouthers, L. E. (2003). Why Service and Manufacturing Entry Mode Choices Differ: The Influence of Transaction Cost Factors, Risk and Trust*. *Journal of Management Studies*, 40(5), 1179-1204.
- Brouthers, K. D., Brouthers, L. E., & Werner, S. (2003). Transaction cost - enhanced entry mode choices and firm performance. *Strategic management journal*, 24(12), 1239-1248.
- Brouthers, K. D., & Hennart, J. F. (2007). Boundaries of the firm: Insights from international entry mode research. *Journal of management*, 33(3), 395-425.
- Brown, T. J., Dacin, P. A., Pratt, M. G., & Whetten, D. A. (2006). Identity, intended image, construed image, and reputation: An interdisciplinary framework and suggested terminology. *Journal of the Academy of Marketing science*, 34(2), 99-106.
- Burgis, T., Sevastopulo, D., & O'Murchu, C. (2014). China in Africa: how Sam Pa became the middleman. *FT Magazine*.
- Chan, C. M., & Makino, S. (2007). Legitimacy and multi-level institutional environments: Implications for foreign subsidiary ownership structure. *Journal of International Business Studies*, 38(4), 621-638.
- Chandler, J. D., & Graham, J. L. (2010). Relationship-oriented cultures, corruption, and international marketing success. *Journal of Business Ethics*, 92(2), 251-267.
- Chen, S. F., & Hennart, J. F. (2002a). Japanese Investors Choice of Joint Ventures Versus Wholly-owned Subsidiaries in the US: The Role of Market Barriers and Firm Capabilities. *Journal of International Business Studies*, 33(1), 1-18.
- Chen, S. F., & Hennart, J. F. (2002b). Japanese investors' choice of joint ventures versus wholly-owned subsidiaries in the US: The role of market barriers and firm capabilities. *Journal of International Business Studies*, 33(1), 1-18.

- Chen, Y., Ganesan, S., & Liu, Y. (2009). Does a firm's product-recall strategy affect its financial value? An examination of strategic alternatives during product-harm crises. *Journal of Marketing*, 73(6), 214-226.
- Chung, C. C., & Beamish, P. W. (2005). The Impact of Institutional Reforms on Characteristics and Survival of Foreign Subsidiaries in Emerging Economies*. *Journal of Management Studies*, 42(1), 35-62. doi:10.1111/j.1467-6486.2005.00488.x
- Clark, S. M., Gioia, D. A., Ketchen, D. J., & Thomas, J. B. (2010). Transitional identity as a facilitator of organizational identity change during a merger. *Administrative Science Quarterly*, 55(3), 397-438.
- Collins, J. D., Uhlenbruck, K., & Rodriguez, P. (2009). Why firms engage in corruption: a top management perspective. *Journal of Business Ethics*, 87(1), 89-108.
- Cuervo-Cazurra, A. (2006). Who cares about corruption? *Journal of International Business Studies*, 37(6), 807-822.
- Cuervo-Cazurra, A. (2008). Better the devil you don't know: Types of corruption and FDI in transition economies. *Journal of International Management*, 14(1), 12-27.
- Cuervo-Cazurra, A., & Genc, M. (2008). Transforming disadvantages into advantages: developing-country MNEs in the least developed countries. *Journal of International Business Studies*, 39(6), 957-979.
- Cui, L., & Jiang, F. (2009). FDI entry mode choice of Chinese firms: A strategic behavior perspective. *Journal of World Business*, 44(4), 434-444.
- Dacin, M. T., Oliver, C., & Roy, J. P. (2007). The legitimacy of strategic alliances: An institutional perspective. *Strategic management journal*, 28(2), 169-187.
- Dastidar, P. (2008). International corporate diversification and performance: Does firm self-selection matter&quest. *Journal of International Business Studies*, 40(1), 71-85.

- Davis, P. S., Desai, A. B., & Francis, J. D. (2000). Mode of international entry: An isomorphism perspective. *Journal of International Business Studies*, 31(2), 239-258.
- Deephouse, D. L. (1996). Does isomorphism legitimate? *Academy of Management Journal*, 39(4), 1024-1039.
- Deephouse, D. L. (1999). To be different, or to be the same? It's a question (and theory) of strategic balance. *Strategic management journal*, 20(2), 147-166.
- Delios, A., & Beamish, P. (2002). Ownership strategy of Japanese firms: Transactional, institutional and experience influences. *Strategic management journal*, 20(10), 915-933.
- Delios, A., & Beamish, P. W. (2004). Joint venture performance revisited: Japanese foreign subsidiaries worldwide. *MIR: Management International Review*, 69-91.
- Delios, A., & Henisz, W. I. (2000). Japanese firms' investment strategies in emerging economies. *Academy of Management Journal*, 43(3), 305-323.
- Delios, A., & Henisz, W. J. (2003a). Policy uncertainty and the sequence of entry by Japanese firms, 1980-1998. *Journal of International Business Studies*, 34(3), 227-241.
- Delios, A., & Henisz, W. J. (2003b). Political hazards, experience, and sequential entry strategies: The international expansion of Japanese firms, 1980–1998. *Strategic management journal*, 24(11), 1153-1164.
- Demirbag, M., Glaister, K. W., & Tatoglu, E. (2007a). Institutional and transaction cost influences on MNEs' ownership strategies of their affiliates: Evidence from an emerging market. *Journal of World Business*, 42(4), 418-434.
- Demirbag, M., Glaister, K. W., & Tatoglu, E. (2007b). Institutional and transaction cost influences on MNEs' ownership strategies of their affiliates: Evidence from an emerging market. *Journal of World Business*, 42(4), 418-434.

- Demirbag, M., McGuinness, M., & Altay, A. P. H. (2010). Perceptions of institutional environment and entry mode. *Management International Review*, 50(2), 207-240.
- Demirbag, M., & Mirza, H. (2000). Factors affecting international joint venture success: an empirical analysis of foreign–local partner relationships and performance in joint ventures in Turkey. *International Business Review*, 9(1), 1-35.
- Demirbag, M., Tatoglu, E., & Glaister, K. W. (2009). Equity-based entry modes of emerging country multinationals: Lessons from Turkey. *Journal of World Business*, 44(4), 445-462.
- Dhanaraj, C., & Beamish, P. W. (2004). Effect of equity ownership on the survival of international joint ventures. *Strategic management journal*, 25(3), 295-305.
- Diamond, L. J., Linz, J. J., Lipset, S. M., & Samudavanija, C. A. (1989). *Democracy in developing countries* (Vol. 4): Lynne Rienner Boulder, CO.
- Dieleman, M., & Boddewyn, J. J. (2012). Using organization structure to buffer political ties in emerging markets: A case study. *Organization Studies*, 33(1), 71-95.
- Dikova, D., & Van Witteloostuijn, A. (2007). Foreign direct investment mode choice: entry and establishment modes in transition economies. *Journal of International Business Studies*, 38(6), 1013-1033.
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 147-160.
- Doh, J. P., Rodriguez, P., Uhlenbruck, K., Collins, J., & Eden, L. (2003). Coping with corruption in foreign markets. *Academy of Management Executive*, 17(3), 114-127.
- Dreher, A., & Gassebner, M. (2013). Greasing the wheels? The impact of regulations and corruption on firm entry. *Public Choice*, 155(3-4), 413-432.
- Duanmu, J. L. (2011). The effect of corruption distance and market orientation on the ownership choice of MNEs: Evidence from China. *Journal of International Management*, 2(17), 162-174.

- Duriau, V. J., Reger, R. K., & Pfarrer, M. D. (2007). A content analysis of the content analysis literature in organization studies: Research themes, data sources, and methodological refinements. *Organizational Research Methods*, 10(1), 5-34.
- Dutton, J. E., Dukerich, J. M., & Harquail, C. V. (1994). Organizational images and member identification. *Administrative Science Quarterly*, 239-263.
- Eden, L., & Miller, S. R. (2004a). Distance matters: Liability of foreignness, institutional distance and ownership strategy. *Advances in international management*, 16(4).
- Eden, L., & Miller, S. R. (2004b). Distance matters: Liability of foreignness, institutional distance and ownership strategy. *Advances in international management*, 16(4), 187-221.
- Egger, P., & Winner, H. (2006). How corruption influences foreign direct investment: A panel data study. *Economic Development and Cultural Change*, 54(2), 459-486.
- Erramilli, M. K. (1992). Influence of some external and internal environmental factors on foreign market entry mode choice in service firms. *Journal of Business Research*, 25(4), 263-276.
- Erramilli, M. K., & Rao, C. P. (1993). Service firms' international entry-mode choice: A modified transaction-cost analysis approach. *The Journal of Marketing*, 19-38.
- Faccio, M. (2006). Politically connected firms. *The American economic review*, 96(1), 369-386.
- Fan, J. P., Wong, T. J., & Zhang, T. (2007). Politically connected CEOs, corporate governance, and Post-IPO performance of China's newly partially privatized firms. *Journal of financial economics*, 84(2), 330-357.
- Farh, J. L., Zhong, C. B., & Organ, D. W. (2004). Organizational citizenship behavior in the People's Republic of China. *Organization Science*, 15(2), 241-253.
- Fox, J. (1991). *Regression diagnostics: An introduction* (Vol. 79): Sage.
- Freeman, J., Carroll, G. R., & Hannan, M. T. (1983). The liability of newness: Age dependence in organizational death rates. *American Sociological Review*, 692-710.

- García - Canal, E., & Guillén, M. F. (2008). Risk and the strategy of foreign location choice in regulated industries. *Strategic management journal*, 29(10), 1097-1115.
- Gaur, A. S., Delios, A., & Singh, K. (2007). Institutional environments, staffing strategies, and subsidiary performance. *Journal of management*, 33(4), 611-636.
- Gaur, A. S., & Lu, J. W. (2007). Ownership strategies and survival of foreign subsidiaries: Impacts of institutional distance and experience. *Journal of management*, 33(1), 84-110.
- Gelman, A., & Hill, J. (2006). *Data analysis using regression and multilevel/hierarchical models*: Cambridge University Press.
- Golder, P. N., & Tellis, G. J. (1993). Pioneer advantage: Marketing logic or marketing legend? *Journal of Marketing Research*, 158-170.
- Goldman, E., Rocholl, J., & So, J. (2009). Do politically connected boards affect firm value? *Review of Financial Studies*, 22(6), 2331-2360.
- Gomes-Casseres, B. (1990). Firm ownership preferences and host government restrictions: An integrated approach. *Journal of International Business Studies*, 1-22.
- Gong, Y., Shenkar, O., Luo, Y., & Nyaw, M. K. (2007). Do multiple parents help or hinder international joint venture performance? The mediating roles of contract completeness and partner cooperation. *Strategic management journal*, 28(10), 1021-1034.
- Granovetter, M. (1985). Economic action and social structure: the problem of embeddedness. *American Journal of Sociology*, 481-510.
- Grewal, R., & Dharwadkar, R. (2002). The role of the institutional environment in marketing channels. *The Journal of Marketing*, 66(3), 82-97.
- Guillen, M. F. (2000). Business groups in emerging economies: A resource-based view. *Academy of Management Journal*, 43(3), 362-380.
- Gujarati, D. N. (2003). *Basic Econometrics*. 4th: New York: McGraw-Hill.

- Habib, M., & Zurawicki, L. (2002). Corruption and foreign direct investment. *Journal of International Business Studies*, 33(2), 291-307.
- Hamilton, B. H., & Nickerson, J. A. (2003). Correcting for endogeneity in strategic management research. *Strategic Organization*, 1(1), 51-78.
- Hatch, M. J., & Schultz, M. (2002). The dynamics of organizational identity. *Human Relations*, 55(8), 989-1018.
- Heckman, J. J. (1979). Sample selection bias as a specification error. *Econometrica: Journal of the econometric society*, 153-161.
- Henisz, W. J. (2000a). The institutional environment for economic growth. *Economics & Politics*, 12(1), 1-31.
- Henisz, W. J. (2000b). The institutional environment for multinational investment. *Journal of Law, Economics, and Organization*, 16(2), 334.
- Henisz, W. J., & Delios, A. (2001). Uncertainty, imitation, and plant location: Japanese multinational corporations, 1990-1996. *Administrative Science Quarterly*, 46(3), 443-475.
- Henisz, W. J., & Zelner, B. A. (2005). Legitimacy, interest group pressures, and change in emergent institutions: The case of foreign investors and host country governments. *Academy of Management Review*, 30(2), 361-382.
- Hennart, J. F. (1988). A transaction costs theory of equity joint ventures. *Strategic management journal*, 9(4), 361-374.
- Hennart, J. F., Kim, D. J., & Zeng, M. (1998). The impact of joint venture status on the longevity of Japanese stakes in US manufacturing affiliates. *Organization Science*, 9(3), 382-395.
- Hennart, J. F., & Larimo, J. (1998). The impact of culture on the strategy of multinational enterprises: does national origin affect ownership decisions? *Journal of International Business Studies*, 29(3), 515-538.

- Herrmann, P., & Datta, D. K. (2002). CEO successor characteristics and the choice of foreign market entry mode: An empirical study. *Journal of International Business Studies*, 33(3), 551-569.
- Hillman, A. J., & Hitt, M. A. (1999). Corporate political strategy formulation: A model of approach, participation, and strategy decisions. *Academy of Management Review*, 24(4), 825-842.
- Hillman, A. J., & Keim, G. D. (2001). Shareholder value, stakeholder management, and social issues: What's the bottom line? *Strategic management journal*, 22(2), 125-139.
- Hillman, A. J., & Wan, W. P. (2005). The determinants of MNE subsidiaries' political strategies: evidence of institutional duality. *Journal of International Business Studies*, 36(3), 322-340.
- Hitt, M., Ireland, R. D., & Hoskisson, R. (2012). *Strategic management cases: competitiveness and globalization*: Cengage Learning.
- Hitt, M. A., Ahlstrom, D., Dacin, M. T., Levitas, E., & Svobodina, L. (2004). The institutional effects on strategic alliance partner selection in transition economies: China vs. Russia. *Organization Science*, 15(2), 173-185.
- Hitt, M. A., Dacin, M. T., Levitas, E., Arregle, J. L., & Borza, A. (2000). Partner selection in emerging and developed market contexts: Resource-based and organizational learning perspectives. *Academy of Management Journal*, 43(3), 449-467.
- Hofstede, G. (2001). *Culture's consequences: Comparing values, behaviors, institutions and organizations across nations*: Sage.
- Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in emerging economies. *Academy of Management Journal*, 43(3), 249-267.
- Hsu, C. S. (2011). The Comparison of International Strategic Alliance Network between Chinese and American Pharmaceutical Industry. *Journal of International Management Studies*, 6(3), 109-120.

- Hult, G. T. M., Ketchen, D. J., Griffith, D. A., Chabowski, B. R., Hamman, M. K., Dykes, B. J., . . . Cavusgil, S. T. (2008). An assessment of the measurement of performance in international business research. *Journal of International Business Studies*, 39(6), 1064-1080.
- Husted, B. W. (1999). Wealth, culture, and corruption. *Journal of International Business Studies*, 339-359.
- Javorcik, B. S., & Wei, S. J. (2009). Corruption and cross-border investment in emerging markets: firm-level evidence. *Journal of International Money and Finance*, 28(4), 605-624.
- Jeong, Y., & Weiner, R. J. (2012). Who bribes? Evidence from the United Nations' oil - for - food program. *Strategic management journal*, 33(12), 1363-1383.
- Johanson, J., & Vahlne, J. E. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies*, 40(9), 1411-1431.
- Johnson, J., & Tellis, G. J. (2008). Drivers of success for market entry into China and India. *Journal of Marketing*, 72(3), 1-13.
- Jones, G., & Khanna, T. (2006). Bringing history (back) into international business. *Journal of International Business Studies*, 37(4), 453-468.
- Judge, W. Q., McNatt, D. B., & Xu, W. (2011). The antecedents and effects of national corruption: A meta-analysis. *Journal of World Business*, 46(1), 93-103.
- Karhunen, P., & Ledyeva, S. (2011). Corruption distance, anti-corruption laws and international ownership strategies in Russia. *Journal of International Management*, 18(2), 196-208.
- Kaufmann, D., Kraay, A., & Mastruzzi, M. (2009). Governance matters VIII: aggregate and individual governance indicators, 1996-2008. *World Bank Policy Research Working Paper*(4978).

- Khanna, T., & Rivkin, J. W. (2001). Estimating the performance effects of business groups in emerging markets. *Strategic management journal*, 22(1), 45-74.
- Khoury, T. A., Cuervo - Cazurra, A., & Dau, L. A. (2014). Institutional Outsiders and Insiders: The Response of Foreign and Domestic Inventors to the Quality of Intellectual Property Rights Protection. *Global Strategy Journal*, 4(3), 200-220.
- Knack, S., & Keefer, P. (1995). Institutions and economic performance: Cross - country tests using alternative institutional measures. *Economics & Politics*, 7(3), 207-227.
- Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 411-432.
- Kostova, T. (1996). *Success of the transnational transfer of organizational practices within multinational companies*. University of Minnesota.
- Kostova, T. (1999). Transnational transfer of strategic organizational practices: A contextual perspective. *Academy of Management Review*, 24(2), 308-324.
- Kostova, T., & Roth, K. (2002). Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Academy of Management Journal*, 45(1), 215-233.
- Kostova, T., Roth, K., & Dacin, M. T. (2008a). Institutional theory in the study of multinational corporations: A critique and new directions. *The Academy of Management Review*, 33(4), 994-1006.
- Kostova, T., Roth, K., & Dacin, M. T. (2008b). Note: Institutional Theory in the Study of Multinational Corporations: A Critique and new Directions. *The Academy of Management Review*, 33(4), 994-1006.
- Kostova, T., & Zaheer, S. (1999). Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. *The Academy of Management Review*, 24(1), 64-81.
- Krishnan, R., Martin, X., & Noorderhaven, N. G. (2006). When does trust matter to alliance performance? *Academy of Management Journal*, 49(5), 894-917.

- Kumar, R., & Das, T. K. (2007). Interpartner Legitimacy in the Alliance Development Process*. *Journal of Management Studies*, 44(8), 1425-1453.
- Kwok, C. C. Y., & Tadesse, S. (2006). The MNC as an agent of change for host-country institutions: FDI and corruption. *Journal of International Business Studies*, 37(6), 767-785.
- Lam, M. L. L. (2009). Beyond credibility of doing business in China: strategies for improving corporate citizenship of foreign multinational enterprises in China. *Journal of Business Ethics*, 87(1), 137-146.
- Lee, S. H., & Hong, S. J. (2012). Corruption and subsidiary profitability: US MNC subsidiaries in the Asia Pacific region. *Asia Pacific Journal of Management*, 29(4), 949-964.
- Lee, S. H., & Oh, K. K. (2007). Corruption in Asia: Pervasiveness and arbitrariness. *Asia Pacific Journal of Management*, 24(1), 97-114.
- Leiblein, M. J., Reuer, J. J., & Dalsace, F. (2002). Do make or buy decisions matter? The influence of organizational governance on technological performance. *Strategic management journal*, 23(9), 817-833.
- Li, H., & Zhang, Y. (2007). The role of managers' political networking and functional experience in new venture performance: evidence from China's transition economy. *Strategic management journal*, 28(8), 791-804.
- Li, J. (1995). Foreign entry and survival: Effects of strategic choices on performance in international markets. *Strategic management journal*, 16(5), 333-351.
- Li, J., Moy, J., Lam, K., & Chu, W. C. (2008). Institutional pillars and corruption at the societal level. *Journal of Business Ethics*, 83(2), 327-339.
- Li, Q., & Resnick, A. (2003). Reversal of fortunes: Democratic institutions and foreign direct investment inflows to developing countries. *International Organization*, 57(01), 175-211.

- Livengood, R. S., & Reger, R. K. (2010). That's our turf! Identity domains and competitive dynamics. *Academy of Management Review*, 35(1), 48-66.
- London, T., & Hart, S. L. (2004). Reinventing strategies for emerging markets: beyond the transnational model. *Journal of International Business Studies*, 35(5), 350-370.
- Lu, J. W. (2002). Intra-and inter-organizational imitative behavior: Institutional influences on Japanese firms' entry mode choice. *Journal of International Business Studies*, 33(1), 19-37.
- Lu, J. W., & Ma, X. (2008). The contingent value of local partners' business group affiliations. *Academy of Management Journal*, 51(2), 295-314.
- Luo, X., & Bhattacharya, C. B. (2006). Corporate social responsibility, customer satisfaction, and market value. *Journal of Marketing*, 70(4), 1-18.
- Luo, Y. (2001). Determinants of entry in an emerging economy: A multilevel approach. *Journal of Management Studies*, 38(3), 443-472.
- Luo, Y. (2002). Capability exploitation and building in a foreign market: Implications for multinational enterprises. *Organization Science*, 13(1), 48-63.
- Luo, Y. (2003). Market-seeking MNEs in an emerging market: How parent–subsidiary links shape overseas success. *Journal of International Business Studies*, 34(3), 290-309.
- Luo, Y. (2005). An organizational perspective of corruption. *Management and Organization Review*, 1(1), 119-154.
- Luo, Y. (2006). Political behavior, social responsibility, and perceived corruption: A structuration perspective. *Journal of International Business Studies*, 37(6), 747-766.
- Luo, Y. (2007). Are joint venture partners more opportunistic in a more volatile environment? *Strategic management journal*, 28(1), 39-60.

- Luo, Y., Shenkar, O., & Nyaw, M. K. (2001). A dual parent perspective on control and performance in international joint ventures: Lessons from a developing economy. *Journal of International Business Studies*, 32(1), 41-58.
- Maignan, I., & Ferrell, O. C. (2004). Corporate social responsibility and marketing: an integrative framework. *Journal of the Academy of Marketing science*, 32(1), 3-19.
- Makino, S., Chan, C. M., Isobe, T., & Beamish, P. W. (2007). Intended and unintended termination of international joint ventures. *Strategic management journal*, 28(11), 1113-1132.
- Makino, S., & Delios, A. (1996). Local knowledge transfer and performance: Implications for alliance formation in Asia. *Journal of International Business Studies*, 905-927.
- Makino, S., Isobe, T., & Chan, C. M. (2004). Does country matter? *Strategic management journal*, 25(10), 1027-1043.
- Makino, S., & Neupert, K. E. (2000). National culture, transaction costs, and the choice between joint venture and wholly owned subsidiary. *Journal of International Business Studies*, 31(4), 705-713.
- Marshall, M. G., Jaggers, K., & Gurr, T. R. (2010). Polity IV Data Series Version 2010. College Park, MD: University of Maryland. Retrieved from [http://www/systemicpeace.org/polity/polity4.htm](http://www.systemicpeace.org/polity/polity4.htm).
- Martin, K. D., Johnson, J. L., & French, J. J. (2011). Institutional pressures and marketing ethics initiatives: the focal role of organizational identity. *Journal of the Academy of Marketing science*, 39(4), 574-591.
- Martin, X. (2013). Solving theoretical and empirical conundrums in international strategy research: Linking foreign entry mode choices and performance. *Journal of International Business Studies*, 44(1), 28-41.
- Martinez, R. J., & Dacin, M. T. (1999). Efficiency motives and normative forces: Combining transactions costs and institutional logic. *Journal of management*, 25(1), 75-96.

- Mayer, K. J., & Nickerson, J. A. (2005). Antecedents and performance implications of contracting for knowledge workers: Evidence from information technology services. *Organization Science*, 16(3), 225-242.
- McGregor, J. (2007). *One billion customers: Lessons from the front lines of doing business in China*: Simon and Schuster.
- Merchant, H. (2005). The structure–performance relationship in international joint ventures: a comparative analysis. *Journal of World Business*, 40(1), 41-56.
- Meschi, P. X., & Riccio, E. L. (2008). Country risk, national cultural differences between partners and survival of international joint ventures in Brazil. *International Business Review*, 17(3), 250-266.
- Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, 340-363.
- Meyer, K. E. (2001). Institutions, transaction costs, and entry mode choice in Eastern Europe. *Journal of International Business Studies*, 32(2), 357-367.
- Meyer, K. E., Ding, Y., Li, J., & Zhang, H. (2014). Overcoming distrust: How state-owned enterprises adapt their foreign entries to institutional pressures abroad. *Journal of International Business Studies*, 45(8), 1005-1028.
- Meyer, K. E., Estrin, S., Bhaumik, S. K., & Peng, M. W. (2009). Institutions, resources, and entry strategies in emerging economies. *Strategic management journal*, 30(1), 61-80.
- Meyer, K. E., & Thein, H. H. (2014). Business under adverse home country institutions: The case of international sanctions against Myanmar. *Journal of World Business*, 49(1), 156-171.
- Michailova, S., McCarthy, D. J., Puffer, S. M., Karhunen, P., & Kosonen, R. (2013). Strategic responses of foreign subsidiaries to host country corruption: The case of Finnish firms in Russia. *Critical Perspectives on International Business*, 9(1/2), 88-105.

- Mitra, D., & Golder, P. N. (2002). Whose culture matters? Near-market knowledge and its impact on foreign market entry timing. *Journal of Marketing Research*, 39(3), 350-365.
- Mo, P. H. (2001). Corruption and economic growth. *Journal of Comparative Economics*, 29(1), 66-79.
- Murray, J. Y., Kotabe, M., & Zhou, J. N. (2005). Strategic alliance-based sourcing and market performance: evidence from foreign firms operating in China. *Journal of International Business Studies*, 36(2), 187-208.
- Musteen, M., Rhyne, L., & Zheng, C. (2013). Asset or constraint: Corporate reputation and MNCs' involvement in the least developed countries. *Journal of World Business*, 48(3), 321-328.
- North, D. C. (1990). *Institutions, institutional change, and economic performance*: Cambridge Univ Pr.
- Oliver, C. (1991). Strategic responses to institutional processes. *Academy of Management Review*, 145-179.
- Oliver, C. (1997). Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic management journal*, 18(9), 697-713.
- Pangarkar, N., & Lim, H. (2003). Performance of foreign direct investment from Singapore. *International Business Review*, 12(5), 601-624.
- Papyrina, V. (2007). When, how, and with what success? The joint effect of entry timing and entry mode on survival of Japanese subsidiaries in China. *Journal of International Marketing*, 15(3), 73-95.
- Park, S. H., & Luo, Y. (2001). Guanxi and organizational dynamics: Organizational networking in Chinese firms. *Strategic management journal*, 22(5), 455-477.
- Pellegrini, L., & Gerlagh, R. (2004). Corruption's effect on growth and its transmission channels. *Kyklos*, 57(3), 429-456.

- Peng, M. W. (2001). Business Strategies in Transition Economies. *Academy of Management Review*, 26(2), 311-313.
- Peng, M. W. (2003). Institutional transitions and strategic choices. *Academy of Management Review*, 28(2), 275-296.
- Peng, M. W. (2013). *Global strategy*: Cengage Learning.
- Peng, M. W., & Heath, P. S. (1996). The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice. *The Academy of Management Review*, 21(2), 492-528.
- Peng, M. W., & Luo, Y. (2000). Managerial ties and firm performance in a transition economy: The nature of a micro-macro link. *Academy of Management Journal*, 43(4), 486-501.
- Peng, M. W., Wang, D. Y. L., & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39(5), 920-936.
- Pennings, E., & Sleuwaegen, L. (2004). The choice and timing of foreign direct investment under uncertainty. *Economic Modelling*, 21(6), 1101-1115.
- Perez-Batres, L. A., & Eden, L. (2008). Is there a liability of localness? How emerging market firms respond to regulatory punctuations. *Journal of International Management*, 14(3), 232-251.
- Pfeffer, J., & Salancik, G. R. (2003). *The external control of organizations: A resource dependence perspective*: Stanford University Press.
- Pratt, M. G., & Foreman, P. O. (2000). Classifying managerial responses to multiple organizational identities. *The Academy of Management Review*, 25(1), 18-42.
- Przeworski, A. (1991). *Democracy and the market: Political and economic reforms in Eastern Europe and Latin America*: Cambridge University Press.
- Qi, Y., Roth, L., & Wald, J. K. (2010). Political rights and the cost of debt. *Journal of financial economics*, 95(2), 202-226.

- Ragozzino, A. P. R. (2009). The effects of geographic distance on the foreign acquisition activity of US firms. *Management International Review*, 49(4), 509-535.
- Rao, R. S., Chandy, R. K., & Prabhu, J. C. (2008). The fruits of legitimacy: Why some new ventures gain more from innovation than others. *Journal of Marketing*, 72(4), 58-75.
- Ren, H., Gray, B., & Kim, K. (2009). Performance of international joint ventures: What factors really make a difference and how? *Journal of management*, 35(3), 805-832.
- Reuer, J. J., & Ariño, A. (2002). Contractual renegotiations in strategic alliances. *Journal of management*, 28(1), 47-68.
- Reus, T. H., & Rottig, D. (2009). Meta-analyses of international joint venture performance determinants. *Management International Review*, 49(5), 607-640.
- Roberts, P. W., & Dowling, G. R. (2002). Corporate reputation and sustained superior financial performance. *Strategic management journal*, 23(12), 1077-1093.
- Robertson, C. J., & Watson, A. (2004). Corruption and change: The impact of foreign direct investment. *Strategic management journal*, 25(4), 385-396.
- Robson, M. J., Leonidou, L. C., & Katsikeas, C. S. (2002). Factors influencing international joint venture performance: Theoretical perspectives, assessment, and future directions. *MIR: Management International Review*, 385-418.
- Rodriguez, P., Siegel, D. S., Hillman, A., & Eden, L. (2006). Three lenses on the multinational enterprise: politics, corruption, and corporate social responsibility. *Journal of International Business Studies*, 37(6), 733-746.
- Rodriguez, P., Uhlenbruck, K., & Eden, L. (2005). Government corruption and the entry strategies of multinationals. *The Academy of Management Review*, 30(2), 383-396.
- Roy, J. P., & Oliver, C. (2009). International joint venture partner selection: The role of the host-country legal environment. *Journal of International Business Studies*, 40(5), 779-801.

- Ruef, M., & Scott, W. R. (1998). A multidimensional model of organizational legitimacy: Hospital survival in changing institutional environments. *Administrative Science Quarterly*, 877-904.
- Scott, S. G., & Lane, V. R. (2000). A stakeholder approach to organizational identity. *Academy of Management Review*, 25(1), 43-62.
- Scott, W. R. (1994). *Institutions and organizations: toward a theoretical synthesis*: Sage, Thousand Oaks, CA.
- Scott, W. R. (2008). *Institutions and organizations: Ideas and interests*: Sage Publications, Inc.
- Shaver, J. M. (1998). Accounting for endogeneity when assessing strategy performance: Does entry mode choice affect FDI survival? *Management Science*, 44(4), 571-585.
- Sheng, S., Zhou, K. Z., & Li, J. J. (2011). The effects of business and political ties on firm performance: Evidence from China. *Journal of Marketing*, 75(1), 1-15.
- Shi, W. S., Sun, S. L., & Peng, M. W. (2012). Sub - National Institutional Contingencies, Network Positions, and IJV Partner Selection. *Journal of Management Studies*, 49(7), 1221-1245.
- Shi, Y. (2001). Technological capabilities and international production strategy of firms: The case of foreign direct investment in China. *Journal of World Business*, 36(2), 184-204.
- Shleifer, A., & Vishny, R. W. (1993). Corruption. *The Quarterly Journal of Economics*, 108(3), 599-617. doi:10.2307/2118402
- Shrader, R. C. (2001). Collaboration and performance in foreign markets: The case of young high-technology manufacturing firms. *Academy of Management Journal*, 44(1), 45-60.
- Siegel, J. I. (2007). Contingent political capital and international alliances: Evidence from South Korea. *Administrative Science Quarterly*, 52(4), 621-666.

- Smarzynska, B. K., & Wei, S. J. (2000). *Corruption and composition of foreign direct investment: Firm-level evidence*. Retrieved from
- Spencer, J., & Gomez, C. (2011). MNEs and corruption: The impact of national institutions and subsidiary strategy. *Strategic management journal*, 32(3), 280-300.
- Stevens, J. M., Kevin Steensma, H., Harrison, D. A., & Cochran, P. L. (2005). Symbolic or substantive document? The influence of ethics codes on financial executives' decisions. *Strategic management journal*, 26(2), 181-195.
- Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3), 571-610.
- Svensson, J. (2005). Eight questions about corruption. *The Journal of Economic Perspectives*, 19(3), 19-42.
- Talay, M. B., & Cavusgil, S. T. (2009). Choice of ownership mode in joint ventures: An event history analysis from the automotive industry. *Industrial Marketing Management*, 38(1), 71-82.
- Tallman, S. B., & Shenkar, O. (1994). A managerial decision model of international cooperative venture formation. *Journal of International Business Studies*, 25(1), 91-113.
- Tekin-Koru, A. (2006). Corruption and the ownership composition of the multinational firm at the time of entry: Evidence from Turkey. *Journal of Economics and Finance*, 30(2), 251-269.
- Tekin-Koru, A. (2012). Cross-Border M&As vs. Greenfield Investments: Does Corruption Make a Difference? *University Library of Munich*.
- Thomas, D. E., Eden, L., Hitt, M. A., & Miller, S. R. (2007). Experience of emerging market firms: The role of cognitive bias in developed market entry and survival. *Management International Review*, 47(6), 845-867.

- Tihanyi, L., Griffith, D. A., & Russell, C. J. (2005). The effect of cultural distance on entry mode choice, international diversification, and MNE performance: A meta-analysis. *Journal of International Business Studies*, 36(3), 270-283.
- Treisman, D. (2000). The causes of corruption: a cross-national study. *Journal of Public Economics*, 76(3), 399-457.
- Treviño, L. K., Weaver, G. R., & Reynolds, S. J. (2006). Behavioral ethics in organizations: A review. *Journal of management*, 32(6), 951-990.
- Tsebelis, G. (2002). *Veto players: How political institutions work*: Princeton University Press.
- Turban, D. B., & Greening, D. W. (1997). Corporate social performance and organizational attractiveness to prospective employees. *Academy of Management Journal*, 40(3), 658-672.
- Uhlenbruck, K., Rodriguez, P., Doh, J., & Eden, L. (2006). The impact of corruption on entry strategy: Evidence from telecommunication projects in emerging economies. *Organization Science*, 17(3), 402.
- Uzzi, B. (1996). The sources and consequences of embeddedness for the economic performance of organizations: The network effect. *American Sociological Review*, 674-698.
- Venard, B. (2009). Organizational isomorphism and corruption: An empirical research in Russia. *Journal of Business Ethics*, 89(1), 59-76.
- Voss, Z. G., Cable, D. M., & Voss, G. B. (2006). Organizational identity and firm performance: what happens when leaders disagree about "who we are?". *Organization Science*, 741-755.
- Voyer, P. A., & Beamish, P. W. (2004). The effect of corruption on Japanese foreign direct investment. *Journal of Business Ethics*, 50(3), 211-224.

- Wagner, T., Lutz, R. J., & Weitz, B. A. (2009). Corporate hypocrisy: Overcoming the threat of inconsistent corporate social responsibility perceptions. *Journal of Marketing*, 73(6), 77-91.
- Wan, W. P. (2005). Country Resource Environments, Firm Capabilities, and Corporate Diversification Strategies*. *Journal of Management Studies*, 42(1), 161-182.
- Wei, S. J. (1997). *Why is corruption so much more taxing than tax? Arbitrariness kills*. Retrieved from
- Wei, S. J. (2000). How taxing is corruption on international investors? *Review of Economics and Statistics*, 82(1), 1-11.
- Welch, C., & Wilkinson, I. (2004). The political embeddedness of international business networks. *International Marketing Review*, 21(2), 216-231.
- Whetten, D. A., & Mackey, A. (2002). A social actor conception of organizational identity and its implications for the study of organizational reputation. *Business & Society*, 41(4), 393-414.
- Williamson, O. (1975). Markets and hierarchies: analysis and antitrust implications: a study in the economics of internal organization. *University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship*.
- Williamson, O. (1985). The economic institutions of capitalism: Firms, markets, relational contracting. *Das Summa Summarum des Management*, 61-75.
- Wright, M., Filatotchev, I., Hoskisson, R. E., & Peng, M. W. (2005). Strategy Research in Emerging Economies: Challenging the Conventional Wisdom. *Journal of Management Studies*, 42(1), 1-33.
- Xu, D., & Shenkar, O. (2002). Note: Institutional distance and the multinational enterprise. *Academy of Management Review*, 27(4), 608-618.

- Yan, A., & Gray, B. (1994). Bargaining power, management control, and performance in United States–China joint ventures: a comparative case study. *Academy of Management Journal*, 37(6), 1478-1517.
- Yiu, D., Bruton, G. D., & Lu, Y. (2005). Understanding business group performance in an emerging economy: Acquiring resources and capabilities in order to prosper*. *Journal of Management Studies*, 42(1), 183-206.
- Yiu, D., & Makino, S. (2002a). The choice between joint venture and wholly owned subsidiary: An institutional perspective. *Organization Science*, 13(6), 667-683.
- Yiu, D., & Makino, S. (2002b). The choice between joint venture and wholly owned subsidiary: An institutional perspective. *Organization Science*, 667-683.
- Yu, T., & Cannella, A. A. (2007). Rivalry between multinational enterprises: An event history approach. *Academy of Management Journal*, 50(3), 665-686.
- Yuan, L., & Pangarkar, N. (2010). Inertia versus mimicry in location choices by Chinese multinationals. *International Marketing Review*, 27(3), 295-315.
- Zaheer, A., Gözübüyük, R., & Milanov, H. (2010). It's the connections: The network perspective in interorganizational research. *The Academy of Management Perspectives*, 24(1), 62-77.
- Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal*, 38(2), 341-363.
- Zhao, J. H., Kim, S. H., & Du, J. (2003). The impact of corruption and transparency on foreign direct investment: An empirical analysis. *MIR: Management International Review*, 41-62.
- Zhou, J. Q., & Peng, M. W. (2012). Does bribery help or hurt firm growth around the world? *Asia Pacific Journal of Management*, 29(4), 907-921.
- Zhou, K. Z., & Poppo, L. (2010). Exchange hazards, relational reliability, and contracts in China: The contingent role of legal enforceability. *Journal of International Business Studies*, 41(5), 861-881.