Corruption distance and FDI location choice

By

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To my beloved grandfather Alexander

Sorry, it took so long. I wish you were still here to celebrate with me.

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Abstract

Corruption is a complex, multifaceted phenomenon, often functioning as a 'critical institution' filling institutional voids. The topic of corruption has attracted widespread attention in economics, management, and international business since the end of the 20th century. Some argue that it negatively affects countries' economic growth, FDI inflows and distorts the allocation of public spending on healthcare and education. Others believe that corruption can serve as 'grease' to the wheel of commerce.

In my thesis, I explored the interlinkages between pervasive corruption (i.e., stable, known) and the location choice MNEs make through applying corruption distance with direction and magnitude to the relationship.

Additionally, I included VUCA conditions dominating our world today – volatility, uncertainty, complexity, and ambiguity. By matching them to the institutional factors – political stability, government effectiveness, policy uncertainty and arbitrary corruption (i.e., unpredictable, unknown); I enhanced the understanding of the effect of institutions on a firm's location decision in a worldwide context

This research applied a quantitative approach and analysed 940,485 observations – investments made by 1,113 firms in 169 countries over five years. I chose the Healthcare sector because of its importance in today's world of epidemics, pandemics and the ageing population. Through the logistic regression analysis, this thesis found that corruption indeed acts as 'grease' and attracts firms instead of repulsing them. Moreover, the larger the corruption distance is, the more likely the firms will invest. Additionally, it was found that policy uncertainty has a significantly negative moderating effect on the relationship between corruption distance and FDI location choice.

My research findings contribute to both institutional theory and location choice literature by answering the puzzling question of the true nature of the relationship between corruption and FDI location choice. My research also contributes to the literature incorporating VUCA dimensions. It emphasises the importance of including them in any modern study focusing on current global issues and the ever-changing environment increasingly affected by VUCA factors.

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1. Introduction

1.1. Research background

According to a 2021 Corruption Perception Index by Transparency International, only six out of 180 countries have scored above 85/100 and 67% have scored below 50/100 (*Corruption Perception Index*, 2021). This means the majority of the countries around the world suffer from systemic grand corruption (Vergara, 2019). Corruption is a known global negative socio-political phenomenon and anti-corruption movements around the globe that have been gaining momentum since 2019 demonstrate that both citizens and governments are realizing the negative effect corruption has. The United Nations estimates that corruption, including bribery, tax evasion, and other illicit financial flows, prevent developing countries from potentially receiving around US$ 1.26 trillion of foreign investment each year (Moreira, 2019). Of the US$7.5trillion spent globally on health each year, US$500billion is lost to corruption (Transparency International, 2021). However, all previous attempts to fight corruption have mostly failed, often because they have been based on a black-and-white view of corruption that does not address its structural layer or the social psychological processes behind corruption (Takacs-Haynes & Rašković, 2021a), which enable every day corruption as a norm when doing business (Vergara, 2019). This view also does not recognise the influence of big money in politics and political decision-making or the effect of an individual employing corruption in daily life.

Corruption is an old concept and can be traced back to Ancient Egypt and Ancient Greece (Noonan, 1987). In the twentieth century the first articles on corruption discussed how frequently the term 'corruption' has been used in political vocabulary (Brooks, 1909; Ford, 1904). Corruption is a multidisciplinary subject too (Bahoo, Alon, & Paltrinieri, 2019). While corruption has attracted a lot of attention over the last 40 years, research on corruption in International Business (IB) was practically non-existent before the globalisation of business in the 1980s, with the first article published in 1977. Since then, IB discipline has led the way in advancing the understanding of the corruption phenomenon, context, dimensions, models, and theories surrounding it. Particular attention was given to emerging markets, which, because of globalization, became an especially lively incubator for corrupt transactions due to institutional volatility, which is natural for economies in transition. Market entry decisions, firm strategies and managerial decisions (Cuervo-Cazurra, 2008a) in emerging markets attracted special attention in attempts to explain various peculiarities of corruption.

Within IB, corruption is identified as "the abuse of entrusted power for private gain" (Cuervo-Cazurra, 2016, p. 36). This definition incorporates the three main characteristics of corruption: an individual who is abusing the power entrusted to them by others; the action of abusing that power; and, finally, the benefit that they obtain, not always in monetary form.

Corruption is usually measured using perception-based indices, such as the Corruption Perception Index by Transparency International, the World Governance corruption indicator and the Country Risk Guide. Those include both grand corruption that occurs at the highest levels of government and petty corruption that can both serve as a blocker and enable citizens' access to healthcare and education. Some researchers also utilize questionnaires and interviews to measure corruption (Gao, 2011; Luo, 2006; Petrou, 2015), and focus on one or small number of countries or single region.

Corruption negatively affects a country's economic growth levels (Hakimi & Hamdi, 2017; Mauro, 1995), a country's development (Kouznetsov, Kim, & Wright, 2019; Wei, 1999) and distorts the country's government spending on basics, such as provision of public services, including healthcare and education (Mauro, 1998). The problem of corruption in the health sector is enormous and has vital negative consequences for patients (Mostert & Kaspers, 2019). The following components of health system structures affected by corruption have been identified: "(a) Absent or failing monitoring systems for health budgets, personnel, and supplies; (b) No reward for good performance; (c) No punishment for misconduct; (d) Salaries for healthcare providers in public hospitals not in line with their educational background, skills, and training; and (e) Physician dual practices, absenteeism, and informal payments" (Mostert et al., 2015, p. 396). Some characteristics of healthcare systems also make them more susceptible to corruption: a large number of players (international financial institutions, healthcare organisations, donors, government officials, hospital administration, healthcare providers, suppliers, insurers, patients, and the general population). The complexity of the interactions and the imbalance of medical knowledge between the players also create uncertainties. Additionally, as demand for healthcare is always associated with uncertainty, making any predictions is difficult (*The Ignored Pandemic*, 2021; Mostert, Sitaresmi, Njuguna, van Beers, & Kaspers, 2012).

Corruption is also associated with a change in investment levels (Lambsdorff, 2003) and the amount of foreign direct investment (FDI) (Cuervo-Cazurra, 2006; Qian & Sandoval-Hernandez, 2015). Some researchers have found that corruption helps to overcome a country's

strict entry regulations and facilitates entry for firms in those countries (Dreher & Gassebner, 2011; Egger & Winner, 2005; Huntington, 2006), as well as assisting firms in obtaining benefits by getting special treatment from the government (Cheung, Rau, & Stouraitis, 2012). This collusive view of corruption is, however, not widely accepted and most agree that corruption is a deterrent for foreign direct investment (FDI), acting as an irregular tax and increasing the transaction and operation costs for firms (Habib & Zurawicki, 2002; Lambsdorff, 2003).

FDI is a bedrock IB activity. It is defined as "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise that is resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)" (*UNCTAD Methodological note.*, 2017, p. 3). The growth of multinational enterprises (MNEs) in the form of FDI has gained much attention within IB literature and outside of it. FDI is considered a critical decision for a firm, as well as an indicator of the economic growth and prosperity of nations (Caves, 1974; Dimitratos, Liouka, & Young, 2009); and, although FDI continues to be a key driver of IB activities around the world (Nielsen, Asmussen, & Weatherall, 2017), the MNE of today is very different from twentieth-century MNE (Buckley & Casson, 2020). Some of it is due to the changing global environments, some because of the changing of IB as a phenomenon (Buckley & Casson, 2020).

Neither the world, nor corruption remain static. Globalisation has been seen as a positive development for almost 200 years (Kobrin, 2020). Defined as the process of international economic exchange between countries, it is measured by trade and FDI as well as other types of flows (Verbeke, Coeurderoy, & Matt, 2018). Recently, some scholars suggested that we have entered a period of 'de-globalization' and such developments have a significant impact on the IB landscape (Livesey, 2018; Witt, 2019), particularly after the Great Recession of 2008 and with the global Coronavirus (COVID-19) pandemic of 2020 (Kobrin, 2020).

Although some believe that the world is becoming 'flat' (Friedman, 2005), the IB scholars understand that differences have not disappeared and distance still matters (Verbeke et al., 2018). Yet, changes in the global economic order are evident, which means that the new IB environment is more and more characterized by so-called VUCA dimensions – volatility, uncertainty, complexity and ambiguity (Bennett & Lemoine, 2014a; Petricevic & Teece, 2019; van Tulder, Jankowska, & Verbeke, 2019). Corruption is not left unaffected by those global

movements. Over time, it continues to change in nature, structurally becoming more nuanced and less black and white. This calls on us to revisit our understanding of this complex phenomenon (Takacs-Haynes & Rašković, 2021a; Vergara, 2019). This thesis contributes to the literature on the modern global economy by investigating the relationships between the complexity of corruption and FDI location choice in a volatile, uncertain, complex, and ambiguous (VUCA) world.

Several theoretical perspectives have been used to explain the FDI location choice of MNEs. Prior to Hymer (1960) and his PhD dissertation on International Operations of National Firms, there was no established theory of the MNE and the FDI (Dunning, 2008). FDI was treated as a marginal addition to the host country's capital stock within international economics studies (Nurkse, 1933) and as a part of the growth of the firm (Penrose, 1956; Penrose, 1959). The first 'modern' attempts to explain the FDI location choice decisions included cost of doing business abroad (CDBA) (Hymer, 1960), which used firm-level characteristics to explain FDI flows and argued that MNEs operating in foreign countries face liability of foreignness (LOF). Others included the product life cycle concept (Vernon, 1966) and oligopolistic rivalry (Knickerbocker, 1973) – one of the first attempts to explain geographic clustering of firms; internalization theory (Buckley & Casson, 1976) and transaction cost theory (TCT) (Williamson, 1979), which was used extensively in literature exploring the FDI location choice determinants. The eclectic paradigm, also known as ownership, location, internalization (OLI) theory, introduced by Dunning (1977), combined the internalization theory and traditional economics and presented three types of advantages: ownership, location and internalization. The Uppsala school introduced the internationalization process through sequential investments (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). They have tested how experience and learning of organizations affects their FDI location choice decisions.

A sizable number of researchers, especially in recent years, have also used institutional theory to explain the decisions behind the location choices of firms (Hernández, Nieto, & Boellis, 2018; Parente, Rong, Geleilate, & Misati, 2019). The institutional perspective sees MNEs as actors who always face higher levels of uncertainty and complexity due to their nature of existence – moving across borders, which creates liability of foreignness and outsidership (Hernández et al., 2018; Parente et al., 2019). Institutional theory is complex and includes multiple different strands (Aguilera & Grøgaard, 2019). It can also be deconstructed into smaller parts, which separately explain the location decisions firms make.

For example, one of the ways to do so is to consider both formal and informal institutions. They are recognized within the institutional economics strand of institutional theory. To address the flaws of the weak formal institutions, firms might substitute them with the informal ones and even influence governments to change such institutions (Bahoo et al., 2019; Boddewyn & Doh, 2011; Kouznetsov et al., 2019). Corruption is known to act as such a 'substitutive' informal institution and provides alternative methods of institutional functioning (Estrin & Prevezer, 2010) by replacing non-existent or poor regulations in such countries and serve as 'grease' to facilitate transactions for new FDIs (Dreher & Gassebner, 2011; Huntington, 2006; Lui, 1985). It is especially important for the firms that have obtained dynamic capabilities from experience operating in their home countries with similar institutional environments. This approach emphasizes "the firms' ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (Teece, Pisano, & Shuen, 1997, p. 516).

The majority of the countries in the world suffer from systemic grand corruption (*Corruption Perception Index*, 2018). However, a closer look shows us that despite the high levels of corruption in many countries, large amounts of FDI are still present (Cuervo-Cazurra, 2008a). This fact has been really puzzling for researchers. This thesis contributes to the literature by attempting to resolve this puzzle and recognising the importance of managers and their experience in FDI decisions that continuously involve risk, uncertainty and lack of information (Aharoni, 1966; Aharoni, Tihanyi, & Connelly, 2011).

An alternative explanation of the asymmetry in investment levels suggests that not only the host country corruption levels matter, but also the distance (Habib & Zurawicki, 2002; Qian & Sandoval-Hernandez, 2015). The distance concept in the context of institutional theory has gained scholarly attention through research on institutional distance (Deng, Jean, & Sinkovics, 2018; Gaur, Malhotra, & Zhu, 2022), cultural distance (Beugelsdijk, Kostova, Kunst, Spadafora, & van Essen, 2018; Stahl & Tung, 2014), psychic distance (Cuervo-Cazurra & Genc, 2011; Dow & Karunaratna, 2006), geographic distance (Beugelsdijk & Mudambi, 2013) and economic distance (Ghemawat, 2001). Unlike the home and host country difference, distance captures the similarity levels – knowledge and ability of managers to deal with corruption (Habib & Zurawicki, 2002) and overcomes the liability of foreignness.

Absolute distance in corruption levels can explain the FDI flows (Godinez & Liu, 2015; Habib & Zurawicki, 2002). However, how distance affects the location choice that firms make

is unknown. Yet, a location decision is the first and the main decision firms make, before further considering amounts of investment, timing and other factors. Therefore, in this thesis, I first investigated empirically the impact of corruption distance on FDI location choice that MNEs make. Distance between 77 home countries and 174 host countries has been measured using the absolute difference in corruption levels. This allowed me to answer my first research question: How does corruption distance affect FDI location decisions?

Recent distance critique (Beugelsdijk, Ambos, & Nell, 2018; Harzing & Pudelko, 2016) also disputes whether using distance or looking at the country's context has more explanatory value. However, contextual distance, such as corruption, unlike geographic distance, can be asymmetric, non-continuous and changes over time (Beugelsdijk, Ambos, et al., 2018; Gaur et al., 2022). Negative and positive corruption distance have been identified as potentially affecting FDI flows differently (Godinez & Liu, 2015; Qian & Sandoval-Hernandez, 2015). Exposure to corruption at home provides managers with knowledge and experience that can prepare them for corruption abroad. Yet, this advantage is non-existent if MNEs from 'clean' countries choose to invest in 'dirty' markets. I used this approach and divided my sample into two groups depending on the distance relative to the home country corruption levels. Positive and negative distances allowed me to take into consideration both the direction and the actual value of the difference in the corruption levels between the home and the host countries. In other words, distance has a start and an end point with a specific direction, or a vector. Considering this helped me to answer the second part of my first research question: How do various directions of corruption distance affect a firm's decisions regarding FDI location choice?

Investors with prior experience of corruption in their home country might look at it differently compared to those that had never had such experience before. They developed the ability to manage such institutional environments better, obtained certain capabilities dealing with corruption in their home countries and became more resilient (Cuervo-Cazurra & Genc, 2008; Yang, 2018). Those capabilities may be used as an advantage in their strategic location decisions. Therefore, I further extended this research by sub-dividing my data into four sub-samples based on the magnitude of the corruption distance. I chose distance magnitude vs country's development levels like Wu (2006), as corruption levels in all groups such as developed, developing countries and emerging economies still vary and shouldn't be treated as homogeneous. Sub-diving the data set into four parts allowed me to answer the third part of

my first research question: How does the magnitude of corruption distance affects the firm's decisions regarding FDI location choice?

Another possible explanation of the asymmetry in investment levels is that it is not the level of corruption, but the type of corruption that matters when it comes to decision making on FDI location choice. The two types of corruption, pervasive and arbitrary (Rodriguez, Uhlenbruck, & Eden, 2005) might be able to explain better how the MNEs make their strategic decisions regarding the location for FDI. Addressing the various types of corruption in emerging markets, where corruption fills institutional voids and takes on the role of missing market mechanisms, Cuervo-Cazurra (2008a) poetically contrasted *pervasive* (certain or known) and *arbitrary* (uncertain or unknown) corruption as the known and unknown *devils* in foreign investment decisions. And although the literature recognizes that multiple types of corruption exist simultaneously in a country (Cuervo-Cazurra, 2016), only twenty out of 2,470 papers published in Business and Management domains within the Web of Science database took into consideration both pervasive and arbitrary dimensions of corruption.

Pervasiveness or pervasive corruption is the level of probability of encountering corruption in interactions with government officials and agents. It is the known, widespread, and more easily observable side of corruption. This type of corruption is typically used in the country-level indices measuring perception of corruption levels. Arbitrary corruption is much more tacit. It represents the *uncertainty*, associated with corruption (Habib & Zurawicki, 2002), and while investors might know about the levels of pervasive corruption in a potential host country and the distance between the home and the host countries, in the presence of arbitrary corruption, they will not know if, when and how much they would be asked to pay in bribes. Furthermore, the payment doesn't guarantee the delivery of the promised service and can be repeated an indefinite number of times (Rodriguez et al., 2005). Corruption arbitrariness is similar to disorganized corruption (Shleifer & Vishny, 1993). It increases uncertainty and costs. Some researchers have found that arbitrary corruption deters FDI (Lee & Oh, 2007; Wei, 1997). Others indicate that corruption arbitrariness has more negative implications on economic actors than pervasive corruption, as it increases the environmental uncertainty and liability of foreignness (Uhlenbruck, Rodriguez, Doh, & Eden, 2006; Wei, 1997). Yet, some argue that arbitrariness won't have as big of a negative impact on FDI as pervasive corruption (Cuervo-Cazurra, 2008a), due to becoming the uncertainty of operating in transition

economies. I incorporated both systemic pervasive and arbitrary dimensions of corruption in my research.

To test the effect of corruption arbitrariness or corruption induced uncertainty, I followed the approach introduced by Wei (1997) investigating the effect of corruption-induced arbitrariness by including it as an interactive term rather than arbitrariness as an independent standalone variable. Including it as a moderating variable allowed me to test the interaction of corruption distance with directions and magnitude and host country arbitrariness affecting FDI location choice.

While uncertainty is one of the most important concepts in the IB field and managing under uncertainty is critical in understanding strategic actions of MNEs (Vahlne, Hamberg, & Schweizer, 2017), it is not just uncertainty that managers must deal with while making investment decisions today. De-globalisation and the COVID-19 pandemic are continuing to reshape the global environments; dynamic equilibria, where the system changes continuously, is based on the logic of firms' dynamic capabilities and managerial responses (Buckley, 2020) facing volatility, complexity and ambiguity, creating together with uncertainty what we know today as 'the VUCA world'.

The four dimensions shape the strategic decisions a firm's managers make (Buckley, 2019). The effect of those dimensions on the FDI location choice decisions can be explored through matching them with institutional environment factors such as political stability, government effectiveness and political hazards/policy uncertainty, in addition to corruption arbitrariness, or corruption-induced uncertainty. I included all four dimensions to test how they influence the relationship between corruption distance on FDI location choice.

Uncertainty and volatility are closely intertwined within IB; for example, in studies exploring volatility of exchange rates and stock exchanges (Desbordes, 2010; Grube & Samanta, 2003), which can raise the levels of uncertainty for MNEs. However, when we are discussing institutional environments, firms have to deal with volatility, which is caused by political instability in a country and a change in the rules of the game (Hartwell & Devinney, 2021). Political in(stability) is defined as the propensity for a change in the executive government power, either by orderly or unorderly means (Alesina, Ozler, Roubini, & Swagel, 1996). The probability of a government change leads to potential policy changes, which creates volatile environments that firms have to deal with in a potential host country. Used in this

thesis, the political stability/absence of violence index measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism (Kaufmann, Kraay, & Mastruzzi, 2011). The changes in the political environment can be sudden or unstable and may be of unknown duration (Bennett & Lemoine, 2014a). The global pandemic also highlighted the negative implications of such changes (Hitt, Holmes, & Arregle, 2021). In such conditions, firms will be required to develop supra-dynamic capabilities – build the capability to develop new capabilities (Helfat & Peteraf, 2015; Hitt, Sirmon, et al., 2021) to attempt to gain 'illegal legitimacy' through building relationships with the current government. This, however, might be ineffective and even harmful in highly volatile VUCA environments.

Complexity in IB research is often referred to in discussions on systems complexity (Chandra & Wilkinson, 2017), global business complexity (Teagarden, 2012; Teagarden, Von Glinow, & Mellahi, 2018), institutional complexity (Arregle, Miller, Hitt, & Beamish, 2016), and in the context of wicked problems literature (Rašković, 2021). In complex institutional environments, government effectiveness is not very high, policies are vague, and laws can be interpreted in multiple ways by different government officials and even judges (Ahlstrom & Bruton, 2001; Uhlenbruck et al., 2006). Government effectiveness includes perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies (Kaufmann et al., 2011). Firms' strategies rely on information, which is available in case of government ineffectiveness; however, firms will not be able to benefit from the dynamic capabilities, since, while known, the risk is still of no use in highly corrupt environments, and only adds to the existing uncertainty.

Finally, the least tacit VUCA dimension – ambiguity, is related to the 'unknown unknow' variable. Ambiguity regarding the country's environment originates from lack of knowledge regarding the probability of a policy change (Delios & Henisz, 2003a). The policy uncertainty index takes into account the information regarding the number of independent branches of government with veto powers over policy change, the alignment of the political preferences of those branches, and the heterogeneity within branch preferences (Henisz, 2000b). In such ambiguous environments, firms have difficulty obtaining, interpreting and organising the information necessary to make decisions regarding FDI location choice (Delios & Henisz, 2003b).

Incorporating these four dimensions and matching them to the institutional factors helped me understand the strategic decisions managers make in a VUCA world, and answer my second research question: Do the host country institutional factors, such as political stability, government effectiveness, policy uncertainty and corruption arbitrariness affect firms' decisions regarding FDI location choice?

1.2. Research questions and objectives

In my thesis I address the following research questions:

1. How does the direction and the magnitude of pervasive corruption distance affect a firm's FDI location choice?
2. How does corruption arbitrariness moderate the effect of pervasive corruption distance on a firm's FDI location choice?
3. How do other host country institutional factors (political stability, government effectiveness and policy uncertainty) moderate the effect of pervasive corruption distance on a firm's FDI location choice?

To answer these questions, I will address the following objectives:

- to explore the effects of pervasive corruption distance, its magnitude and direction on a firm's FDI location choice.
- to explore how corruption arbitrariness moderates the relationship between pervasive corruption distance and FDI location choice
- to explore how the host country institutional factors (political stability, government effectiveness, policy uncertainty) moderate the relationship between pervasive corruption distance and FDI location choice.

I present the objectives in the conceptual model in Figures 1.1, 1.2 and 1.3.

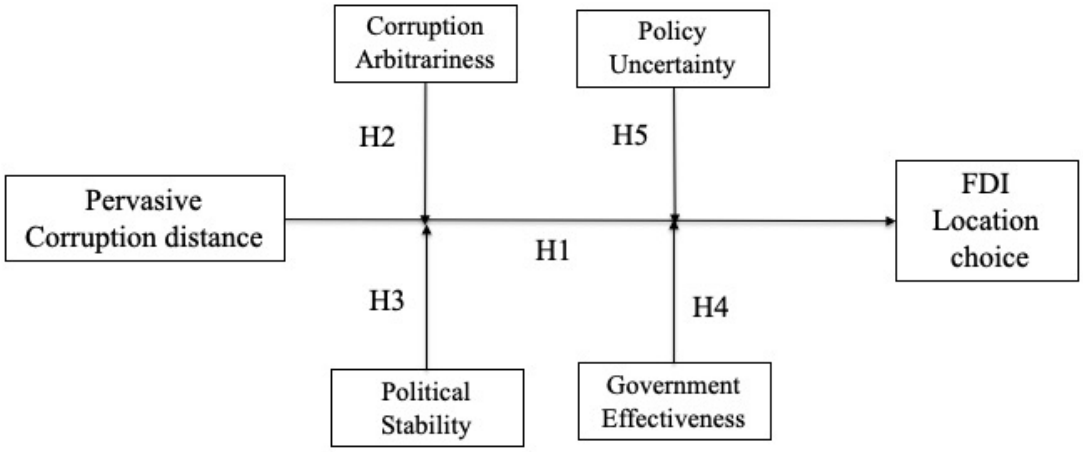

Figure 1.1 Conceptual Model Pervasive Corruption Distance

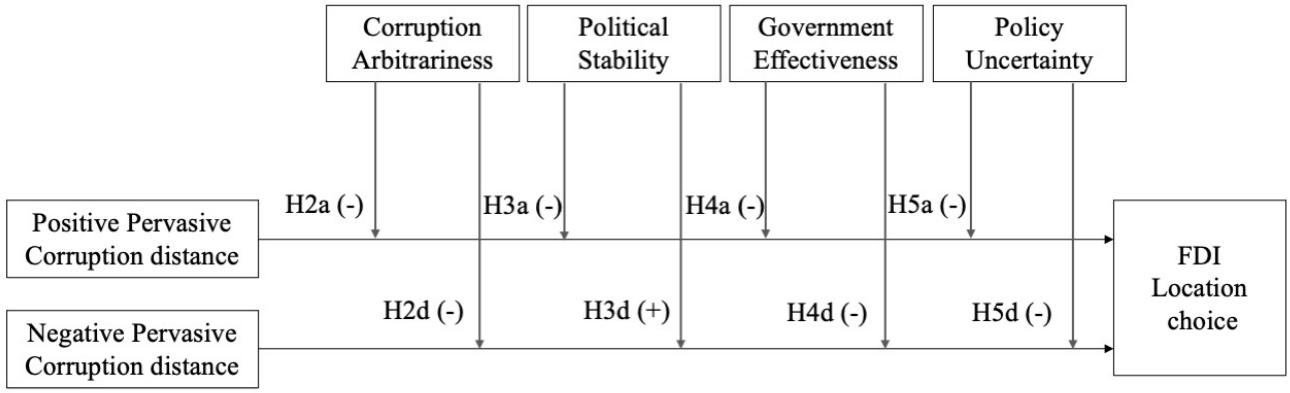

Figure 1.2 Conceptual Model Positive and Negative Pervasive Corruption Distance

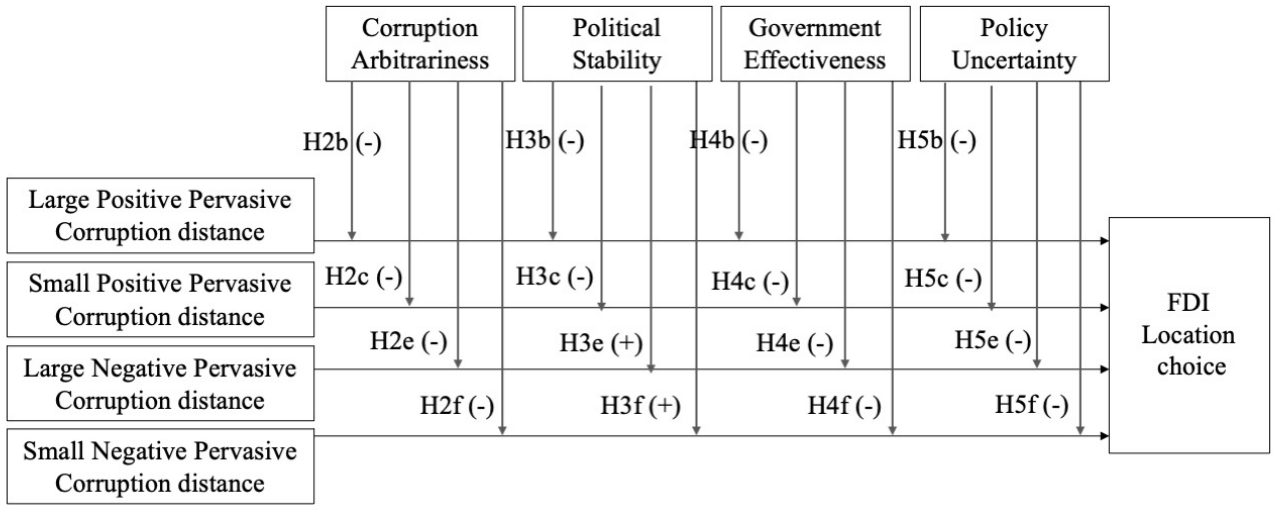

Figure 1.3 Conceptual Model Large and Small Positive and Negative Pervasive Corruption Distance

In this thesis I have used a sample of firms that have engaged in greenfield operations in the healthcare sector from 2012 to 2016. The database source (fDi Markets) has data on 1,869 greenfield investments initiated world-wide in this period by 1,113 firms. These correspond to a period before the US-China trade war and a period after the Global Financial Crisis in which FDIs fully recovered. Greenfield investments involve the establishment of new operations in a foreign country; thus, they are more suitable for studying location choice decisions in comparison with, for example, mergers and acquisitions (M&A) (Duanmu, 2014a).

The healthcare sector was chosen due to its importance in today's post-pandemic world and the particularly high prevalence of corruption, as well as the relevance of politics and policy within the sector. Even outside the COVID-19 context, the healthcare sector has been experiencing increasing demand for healthcare services due to growing population, especially in developing countries. The main issues associated with it is the inability of some governments to provide enough healthcare services to the people and the ageing global population, especially in developed countries, particularly in the European Union (Ahen, 2019). However, research on healthcare sector and FDI within IB is extremely scarce, even though the whole sector and the individual industries within sector are known to be particularly prone to corruption (Cohen & Petkov, 2016; Kohler & Makady, 2013).

Information regarding both pervasive and arbitrary corruption levels was obtained from the Transparency International Corruption Perception Index (TI CPI). This measurement has been used extensively in research on corruption. Data on political stability and government effectiveness were obtained from Political stability and absence of violence/terrorism (PV), Worldwide Governance Indicators (WGI) and government effectiveness (GE), WGI (Delios & Henisz, 2003b). The World Bank Worldwide Governance Indicators (WGI) are available for 200 countries and territories covering the period 1996 to 2017. WGI uses over 30 existing data sources that report the views and experiences of citizens, entrepreneurs and experts in the public, private and NGO sectors from around the world (Kaufmann, Kraay, & Mastruzzi, 2004; Kaufmann et al., 2011). Four different types of sources are used: surveys of households and firms with first-hand knowledge of the governance situation in the country (The World Economic Forum's Global Competitiveness Report, the Institute for Management Development's World Competitiveness Yearbook, the World Bank/European Bank for Reconstruction and Developent (EBRD) Business Environment and Enterprise Performance surveys, etc.); commercial business information providers (the Economist Intelligence Unit, Global Insight, Political Risk Services); non-governmental organisations (Reporters Without Borders, Freedom House, etc.); public sector organisations (the EBRD, the World Bank).

Finally, data on policy uncertainty/political hazards were obtained from the Polcon V - a composite index measuring government policy uncertainty as the arbitrariness of policymaking available for 234 countries in 2017. The index has been used in prior studies on corruption (Bo, 2017; Delios & Henisz, 2003a; García-Canal & Guillén, 2008).

1.3. Contributions

Scholars have studied the effect of corruption on a country's development (Ades & Di Tella, 1997; Mauro, 1995), investment levels (Lambsdorff, 2003), FDI flows (Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002; Wei, 2000). Corruption is also recognized as an informal substitutive institution within the institutional economics strand of institutional theory. In such environments firms might use informal institutions to address the flaws of the country's weak formal institutions (Boddewyn & Doh, 2011). In this research I expand the existing view of corruption as a 'given' constrain by making it a dynamic entity, both fluid and complex. It contributes to the literature in six different ways.

First, this research contributes to two strands of institutional theory – the neo-institutional strand with the distance concept and the institutional economics strand with formal (government (in)effectiveness, political (in)stability, policy uncertainty) and informal institutions (corruption) concepts. The asymmetry issue of FDI, even to very corrupt countries, has been puzzling for many researchers. To address this I first use corruption distance to measure the difference in corruption levels between the home and the host countries (Habib & Zurawicki, 2002), instead of static host country corruption levels. Distance reflects the fluidity of the corruption construct and highlights the managerial perspective in the firm decision-making process. It also reflects the shift of business environments in a form of institutional volatility from what is given to what is possible (Hartwell & Devinney, 2021). Organizational leaders facing the competing demands and changing environments are often compelled to explore and even exploit the capabilities they have obtained operating in their home countries.

Second, the effects of distance can also be asymmetric (Beugelsdijk, Ambos, et al., 2018). I add positive and negative directions to it. This further contributes to the institutional theory and corruption as an informal substitutive institution. By adding direction to distance I address the recent distance critique (Beugelsdijk, Ambos, et al., 2018; Harzing & Pudelko, 2016) and argue that unlike the geographic or even cultural distances, distance really matters when we discuss corruption and I believe it is the key to understanding the dynamism of the phenomenon. Depending on the direction of corruption distance, managers are able to exploit the dynamic capabilities they have obtained, suffer from absence of those or find them useless – for example, in less corrupt environments compared to their home countries.

Third, distance has magnitude. If firms' home countries are characterized by weak institutions, organizational leaders might develop certain dynamic capabilities that will allow them to be less sensitive to corrupt environments in the host country. These capabilities enable firms to adapt and change, and even seek out riskier host countries to leverage on their capabilities (Holburn & Zelner, 2010). Exposure to corruption at home can provide the learning experience that can prepare managers to handle corruption abroad. However, in this thesis I address the notion that the distance between the home and the host country can be too large for the 'learnings' and capabilities to be either not enough or useless, depending on the directions in which the firms choose to invest. To find out if the magnitude really matters when it comes to corruption, I sub-divided the data into four parts, based on the magnitude of the corruption distance: large and small, positive and negative corruption distance subsets.

Fourth, in addition to addressing the asymmetry of investments (Barassi & Zhou, 2012; Hakkala, Norbäck, & Svaleryd, 2008), I emphasised the importance of FDI location choice decisions (Goerzen, Asmussen, & Nielsen, 2013). FDI location choice lies at the core of managerial decision making (Buckley, Devinney, & Louviere, 2007). However, most of the previous studies on corruption used FDI flows instead. This research uses FDI location choice decisions and investigates whether those will also be affected by corruption.

Fifth, corruption is also not a unidimensional phenomenon. It encompasses both transaction- and state-specific characteristics (Rodriguez et al., 2005). To ensure that both those aspects are incorporated in this research, I differentiate between pervasive and arbitrary corruption dimensions. I include them as two key elements that differentiate corruption across countries. This approach emphasizes the complexity of the phenomenon. Previously, only twenty papers included those two dimensions together. I chose to incorporate both in this research to provide deeper insights into relationships between corruption and FDI as well as address the asymmetry of FDI. While corruption pervasiveness is the likelihood of encountering corruption, corruption arbitrariness is the uncertainty associated with corrupt transactions (Habib & Zurawicki, 2002) – uncertainty regarding the outcome, repetitiveness, and potential benefits. Yet, managing under uncertainty is crucial in understanding how MNEs make their strategic decisions, including FDI location choice decisions (Kim & Aguilera, 2016; Vahlne et al., 2017). The interactive approach between pervasive corruption distance and corruption arbitrariness contributes to the institutional theory by adding to the understanding how the interplay between two dimensions affects FDI location choice firms make.

Sixth, recent global economic changes have created a VUCA world, characterized by volatility, uncertainty, complexity and ambiguity (van Tulder et al., 2019). In a special volume of Progress in International Business Research, Buckley (2019) encourages IB theorists to incorporate VUCA elements into mainstream IB literature, as some of them have been neglected for a long time. Uncertainty, in a form of corruption arbitrariness, adds to institutional factors within the new institutional economics approach. Political stability, government effectiveness and political hazards are associated with complexity, volatility, ambiguity – terms that are used to describe the VUCA world. By adding those three VUCA dimensions as well as uncertainty associated with corruption to my research, and matching them to the institutional factors, I contribute to a research stream that focuses on the impact of the complex institutional environments on the MNEs strategic location decisions. By including

volatility, uncertainty, complexity and ambiguity aspects of modern institutional environments I address the critique by Buckley (2019) of underplay and neglect of those elements in IB literature and attempt to produce a deep analysis of VUCA factors affecting managerial decision making.

In addition to the above-mentioned theoretical contributions, this research addresses address the questions that emerge from observation in the world economy, the COVID-19 pandemic in this case, and the healthcare sector as the least studied in IB research. Countries with the highest numbers of infected and dead are also among the countries with the highest levels of corruption. Brazil (38), India (40), Mexico (31), Russia (30), Turkey (40), Argentina (42) are in the top ten with regard to both numbers of cases and numbers of deaths due to the COVID-19 virus. Full list can be found in Appendix.

Beyond the global health crisis, the socio-economic impact of COVID-19 is indeed huge and multidimensional. As a lot of countries opted for the lockdown to stamp out the pandemic, various disruptions emerged around the globe, including those within the supply chain of food (Arouna, Soullier, Del Villar, & Demont, 2020), facemasks production and supply (Wu, Huang, Zhang, He, & Ming, 2020) and provision of drugs (Badreldin & Atallah, 2021). Those grim trends were especially pronounced in countries with rampant corruption (Rose-Ackerman, 2021). Out of approximately US$7.5 trillion spent yearly on health globally, $500 billion is lost to corruption (*The Ignored Pandemic*, 2021). The health sector is also particularly vulnerable to corruption due to uncertainty surrounding the demand for services, multiple dispersed actors and asymmetry of available information (Savedoff & Hussmann, 2006). Those who usually benefit from corruption had a chance to really exploit the pandemic to the fullest (Rose-Ackerman, 2021). The healthcare sector also has some sector-specific characteristics, which can potentially make it more sensitive to corruption. Therefore, it should be studied separately from other sectors (Kouneva-Loewenthal & Vojvodic, 2012).

Finally, this is the first research on corruption that uses data from a large number of both home and host countries: 76 home countries and 169 potential host countries. As mentioned previously, it is crucial to increase the number of both home and host countries to fully explore the corruption phenomenon and answer the puzzling question about the asymmetry of FDI (Bahoo, Alon, & Floreani, 2020; Bahoo et al., 2019). Firstly, because the distance concept should only be tested on a large number of countries, otherwise, it loses the explanatory potential. Secondly, by adding direction and magnitude to the distance, I was able

to really incorporate the managerial decision-making aspect based on the dynamic capabilities created through the learning and institutional approach to corruption, as an informal institution. Thirdly, as VUCA dimensions are in play, I was able to capture the full spectrum of the 'wickedness' of this IB phenomenon and its policy implications (Rašković, 2021). And finally, as I have used FDI location choice as opposed to FDI flows or stocks, which all represent different phases of investment decisions (Goerzen et al., 2013), I got to the origins of the location decision making process.

1.4. Thesis structure

The thesis is constructed in six chapters. It starts with the introduction, which gives an overview of the research background. The introduction also presents research questions and objectives as well as research contributions.

Chapter 2 provides an overview of the relevant theories and perspectives. I present different strands of Institutional theory and present the constructs used in this research.

Chapter 3 includes the analysis of the existing literature, identifying gaps and hypotheses development. It follows the conceptual model structure.

Chapter 4 focuses on the data and methodology, as well as research context of this thesis. I provide an overview of data collection procedure, the measurement of each variable and the techniques used to handle the missing data and the estimation technique that was used for the statistical analysis.

Chapter 5 provides the results of this research and additional analysis. It also includes an overview table of the results.

Chapter 6 constitutes the in-depth discussion of the results followed by the conclusion, contributions, limitations, and recommendations for future research.

Appendix includes additional data and analysis tables. It also provides an overview of COVID-19 cases and death numbers matched with the Corruption Perception Index by Transparency International.

2. Theoretical underpinnings and review of the literature

2.1. Introduction

In this chapter I focus on a review of the theoretical underpinnings of my research. The first part provides the literature review on FDI location choice, including an overview of the research before the 1960s, economics tradition, behavioural tradition and finally concentrating on the institutional-based view. It is followed by an overview of corruption and bibliometric citation as well as content analysis of the literature on the corruption phenomenon. The chapter concludes with an analysis of VUCA dimensions and their institutional aspects.

2.2. Theoretical underpinnings

2.2.1. Determinants of FDI location choice

Foreign direct investment (FDI) location choice decisions are a key strategic decision in a firm's internationalisation process (Galan, Gonzalez-Benito, & Zuñiga-Vincente, 2007). Firms engage in FDI to explore and develop specific advantages abroad (Trevino & Grosse, 2002). The location they choose is a key aspect of that.

The literature on FDI location choice is highly fragmented. Researchers have relied on multiple theoretical perspectives to explain location decisions of firms. Economic factors, such as market size, labour costs, exchange rates (Buckley, Clegg, Cross, et al., 2007; Caves, 1974; Dunning, 1980), absence or presence of experience (Aharoni, 1966; Aharoni & Brock, 2010; Johanson & Vahlne, 1990), firm characteristics (Henisz & Delios, 2001; Zhou & Guillén, 2015) and, of course, institutions (North, 1990), all were used to explain FDI attractiveness. Recently, researchers also call for separating the FDI flows and FDI location choice research (Nielsen et al., 2017), since the two are not interchangeable.

Multiple studies suggest that MNEs pay a lot of attention to location advantages of the potential host countries (Nielsen et al., 2017). Several theories have been used to explain the FDI determinants. Until the establishment of IB discipline in the 1960s, research on foreign investment location choice was conducted within the international trade and capital theory literature. The MNE was treated as a 'black box' FDI as a capital movement that depended on interest rates and the difference in factors across locations. Early researchers within the IB field argued that the general theory of FDI location choice must be based on opening the 'black box'

and determining why MNEs exist and what drives the strategic decisions within them.

The economics tradition of research into FDI location choice was rooted in trade theory and industrial organization economics. Hymer (1960, 1976) theorised that firms face Cost of Doing Business Abroad (CDBA) and that it should be measured by the advantages national firms have in their home countries relative to foreign firms (Eden & Miller, 2001). MNEs were seen as a return on assets maximizing entities that need ownership advantages such as different products, managerial expertise, different technologies, or government interference to mitigate the negative effect of the high risks that are associated with the new market entry (Faeth, 2009).

Another context-specific theory within the economics tradition was introduced by Vernon (1966). Product life cycle (PLC) theory argues that MNEs change their locations over time to make efficient use of the production technologies embedded in the product. It means that the manufacturing of new products starts in R&D intensive countries with a presence of extensive demand and later moves into less-developed countries, where profitability is higher and costs are lower.

Knickerbocker (1973) introduced the theory of oligopolistic reaction – 'follow-the-leader' behaviour of MNEs, also known as an oligopolistic rivalry. This was the first attempt to explain the geographical clustering of FDI. He analysed the behaviour of 187 US firms invested in 23 countries and found evidence that firms prefer to follow the location choice of other firms. Flowers (1976) supported his findings using data on European and Canadian firms that invested in the US during the World War II. According to the author, an oligopolistic reaction is risk-minimizing behaviour firms use to reduce the perceived competitive threats of the members of the oligopolistic industry. Yu and Ito (1988) included some firm-related and host country-related factors to test the impact of oligopolistic reaction on firms' FDI in the US tire and textile industries, and found that in an oligopolistic industry, firms' motivation for FDI is based on their rivals' behaviour, host country and firm factors, while in a more competitive industry, firms do not follow the same path. Yamori (1998) also found proof that Japanese multinationals follow Japanese manufacturing firms, considering market opportunities in the host country. Hennart and Park (1994), using data on Japanese firms investing in the US, argued that 'follow-the-leader' behaviour can be observed between rival enterprise groups. Li and Guisinger (1992) determined the oligopolistic market structure and openness of the host country to inward FDI as the main factors influencing foreign investment decisions. Terpstra

and Yu (1988) used US advertising industry investments to test the oligopolistic reaction and found strong evidence of its positive influence on FDI, especially after the 1970s. Oligopolistic rivalry literature specifies that firms are attracted not only by location specific advantages but also by considering the potential strategic development that will occur through competitive positioning (Adler & Hashai, 2015; Rose & Ito, 2008). A firm's decision to compete or avoid competition frames the FDI location choice decision in this case (Alcácer, Dezső, & Zhao, 2015).

The internalization theory, that was introduced by Buckley and Casson (1976), demonstrated how various aspects of multinational operations can be united within a single concept – the internalization of imperfect markets. According to this theory MNEs are defined as firms that own and control activities in at least two countries, seeking "the least-cost location for each activity, taking its linkages with other activities into account" (Buckley & Casson, 2009, p. 1564); and a firm's profitability and growth were dependent on a continuous innovation coming from R&D. The internalization theory was the first attempt to bring together various streams of research and thus enhance the understanding of MNEs and their activities. A few researchers have used this theory to explain FDI location choice, including Johanson and Wiedersheim-Paul (1975), who analysed the investment decisions of four Swedish firms. Their basic assumption is that "the firm develops in the domestic market first and internalization is the consequence of a series of incremental decisions" (p. 306). Verbeke and Kano (2012, 2016) also argued that the internalization theory is a perfect conceptual framework to analyze MNEs' regional strategies due to its general applicability, accuracy and simplicity.

The transaction – transfer of goods or services across a technologically separable interface – is the basic unit of analysis in transaction cost theory (TCT) (Williamson, 1979). This theory, based on the Coase (1937) transaction cost approach to the theory of the firm, is concerned with the costs of integrating operations within a firm compared with the costs of using an external market to act for the firm such as an overseas market (Williamson, 1989). The TCT outlines the risks and attempts to reduce those risks as the main source of transaction costs. These risks are: bounded rationality, asset specificity, uncertainty, and opportunism (Williamson, 1996). Bounded rationality affects the ability of economic actors to make rational decisions and increases costs if information asymmetry is present (Williamson, 1975). Asset specificity means that particular assets that are included in a transaction, for example, human resources, physical assets or organizational characteristics, cannot reorganized abroad without

loss of economic value (Verbeke & Kano, 2012). The more specific the assets, the higher the transaction costs (Williamson, 1985), especially in the case of risky assets to which more safeguards must be introduced to reduce the possibility of economic losses. Rugman and Verbeke (2005) argued that transaction costs can be reduced by either possessing the knowledge necessary to operate a business or by the ability of a firm to deploy its specific advantages to serve foreign markets. Numerous researchers used TCT to explain how cost-related issues can impact the firm's location decision, including costs of labour, raw materials, land or transportation (Barrell & Pain, 1999; Hennart & Park, 1994). Economic factors, including exchange rates, inflation rates, and taxation also affect the choice of location for FDI (Kogut & Chang, 1996; Root & Ahmed, 1978; Willard, 1994). Market potential, size, low competition and high demand can act as the main attracting determinants for FDI (Cantwell & Piscitello, 2002; Head & Mayer, 2004; Terpstra & Yu, 1988) as well as well-developed infrastructure, wage levels, accessibility to suppliers and learning opportunities (Duanmu, 2014a; Galan et al., 2007; Song, 2002; Zhou, Delios, & Yang, 2002).

Based on TCT uncertainty, firms will encounter difficulties due to the lack of information about a new environment. These uncertainties are associated with government policies, availability of infrastructure, macroeconomic environment, market specificity, and, of course, corruption. Political hazards, conflicts within or outside the host country can significantly deter firms from investments (Delios & Henisz, 2003a). Political stability, international trade agreements, a similarity of legal systems in the host country, on the other hand, can positively influence the firm's location choice decisions (Globerman & Shapiro, 2002b; Loree & Guisinger, 1995; Willard, 1994). Uncertainty can also be associated with opportunism, which can occur in a new environment. It is defined as "self-interest seeking with guile" (Williamson, 1985, p. 1545). Verbeke and Kano (2012) argued that firms consist of human agents that are assumed to have a tendency towards opportunism. This means that individuals tend to seek to maximise their own profit at the expense of others. Transaction costs, in this case, appear when parties want to protect themselves from risks arising from the uncertainty rooted in opportunism.

Dunning (1977) used both internalization theory and traditional economics to create the eclectic paradigm of FDI following those early theories of Vernon (1966) and Knickerbocker (1973). In the Dunning (1988) OLI paradigm, FDI was explained by three types of advantages: Ownership, Location and Internationalization. Ownership (O) advantages refer to management

skills, patents, and technical knowledge. This sub-paradigm argues that the greater the competitive advantages of the firm investing in the country, in comparison to the other firms, specifically domestic firms, the more likely they will succeed in engaging, or increasing production in this country. Location (L) advantages include access to protected markets, favourable taxes, lower production and transport costs, low risks and favourable competition. This sub-paradigm avers that the greater the endowments, which the firm needs to use with its own competitive advantages, beneficial in a foreign market in comparison with domestic one, the higher is the probability that the firm will augment or exploit its O specific advantages through FDI (Dunning, 2000). Internalization (I) advantage is related to low transaction costs, minimizing technology imitation and maintaining firm reputation through effective management and control. It offers a framework for finding the most effective way in which the firm can organize and explore its competitive advantages in a particular location. The OLI paradigm argues that the firm's response to the specific OLI parameters is highly contextual and reflects the economic and political features of both home and host country or region, the firm's industry, and its specific characteristics, objectives and investment strategies, i.e. market seeking, resource seeking, efficiency seeking or strategic asset seeking. (Dunning, 1980) argued that resource seeking and market seeking investments are typically initial investments, while efficiency seeking and strategic asset seeking investments are sequential investments.

Using Dunning (1988) theory, many scholars have explored the location advantages from which firms can benefit. For example, Buckley, Clegg, Cross, et al. (2007) explored whether potential access to natural resources can explain the location decisions of Chinese firms. Asiedu (2006) found infrastructure development and human capital development, as well as market size to be the main determinants of FDI location choice. Similarly, market characteristics and wage levels were found to be important factors shaping the choice of location for US firms by Flores and Aguilera (2007). The OLI paradigm is also common in studies of newly industrialized countries' and emerging economies' outward FDI location determinants (Makino, Lau, & Yeh, 2002; Petrou, 2007; Ramasamy, Yeung, & Laforet, 2012), especially in recent years. Availability of knowledge and strategic assets in a host country can be crucial for many firms' location decisions (Cui, Meyer, & Hu, 2014; Makino et al., 2002).

Agglomeration theory, similarly, considers potential knowledge spillovers and access to professional labour as important motivations for firms to invest in geographic proximity to other firms (Alcácer & Chung, 2007; Head, Ries, & Swenson, 1995). A firm's country of origin

in this case plays an important role (Tan & Meyer, 2011; Wang, Hong, Kafouros, & Wright, 2012), as well as network linkages (Chen & Chen, 1998; Chen, 2003) and location of established subsidiaries (Nachum & Song, 2011).

The behavioural tradition was developed in the Uppsala model. Based on the Aharoni (1966) idea of knowledge and learning as profound factors on how the firm approaches foreign markets, Johanson and Vahlne (1977) developed a model of the internationalization process of a firm that focuses on gradual acquisition, integration and use of obtained knowledge about foreign markets and operations and its further internationalization. Foreign direct investment location, in this case, depends on knowledge accumulated by a firm to mitigate cognitive constraints through experiential learning. MNEs are expected to expand to proximate markets first, where less learning is required and later to more distant markets (Johanson & Vahlne, 2009). The basic assumption of a model is that a lack of knowledge of a new market is an important obstacle preventing a firm from expanding operations abroad and that necessary knowledge can be acquired through operations abroad. Learning opportunities originating from international expansion provide the firm with knowledge, preparing it for further successful expansion.

To study FDI location choice determinants within the Uppsala model, Johanson and Vahlne (1977) adopted the concept of psychic distance that was first introduced by Beckerman (1956). He used it in his study on the distribution of international trade to determine how, in addition to geographical distance, it can be an obstacle for trade. Johanson and Vahlne (1977) defined psychic distance as a set of factors that prevent or disturb the free flow of information between suppliers and customers. Nordstrom and Vahlne (1994, p. 42) changed this definition to the "factors preventing or disturbing firm's learning about and understanding a foreign environment". In a recent study, Evans and Mavondo (2002) argued that psychic distance should be measured by separate individual elements: language, business practices, political and legal systems, economic environment, industry structure and national culture. They redefined psychic distance as "the distance between the home market and a foreign market, resulting from the perception of both cultural and business differences" (Evans & Mavondo, 2002, p. 517). Following the idea of developing better indexes, Dow and Karunaratna (2006) presented a broad range of the factors most commonly associated with psychic distance: language, cultural differences, educational levels, industrial development, political systems, religions, colonial ties. These factors were tested on a bigger set of countries by Dow and Ferencikova

(2010) and proven to be a good proxy by which to measure the distance between countries and determine location choice for FDI.

2.2.2. Institutional theory

Multiple theoretical perspectives have been used to understand the strategic decision-making behind FDI location choice, including internalization theory, OLI, and behavioural tradition in the Uppsala model. Institutional theory complements previous studies and enhances understanding of FDI location determinants. Multiple schools of institutional approaches exist with different definitions of institutions and different ontological sources (Aguilera & Grøgaard, 2019). Within the sociology field, institutionalization is viewed as a process, where organisations get influenced by values beyond basic requirements (Selznick, 1957). This strand is inward looking and the level of analysis is the organisation (Aguilera & Grøgaard, 2019).

Neo-institutionalism emerged as a reaction to that inward view of organisations and focuses on the organisational agency constrained by institutional legacy (Zietsma, Groenewegen, Logue, & Hinings, 2017). Organisation search to achieve legitimacy in the institutional environment (DiMaggio & Powell, 1983) and push organisations toward isomorphism and compliance (Aguilera & Grøgaard, 2019). Legitimacy is defined as 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" by Suchman (1995, p. 574). According to the neo-institutional strand, firms are able to survive and succeed in a host country only if they are able to adapt to the host country's institutional environment and gain legitimacy on top of economic efficiency (Scott, 1995). In order to do that, firms must build their strategies in accordance with external environmental rules, and use isomorphism to resemble other units that face the same conditions (DiMaggio & Powell, 1983). Institutions are defined as social structures (cognitive, normative and regulative) and organisations are proactive in gaining legitimacy, although they do not have complete prior knowledge to be able to successfully judge the economic efficiency and effectiveness of their strategies in those locations (Meyer & Rowan, 1977). Firms base their decisions on contexts, cues from their social environment and interactions with other firms. Legitimacy is gained by learning about opportunities and constraints. 'Good' or well-established and transparent institutions reduce the risks of investment, uncertainty and transaction costs (Holburn & Zelner, 2010; Makino & Tsang, 2010) thereby decreasing the probability of investment in a country (Bevan, Estrin, & Meyer, 2004; Falaster, Martins, & Storopoli, 2018). This strand of

institutional theory is one of the most commonly accepted and has been adopted by multiple authors within IB (Kostova & Roth, 2002; Tashman, Marano, & Kostova, 2018).

Institutional work focuses on the role of individuals as agents (Aguilera & Grøgaard, 2019) and emphasises the idea that individuals and organisations are not only affected by but rather create institutions (Kraatz, 2011). This strand of institutional theory follows the idea that organisations or part of organisations can influence how they conform or change legitimate norms (Oliver, 1991). An institutional entrepreneurship perspective is also based on the institutional works and recognises the individual characteristics that empower organisations and their members (Bowen & De Clercq, 2008; McGaughey, Kumaraswamy, & Liesch, 2016; Reuber, Knight, Liesch, & Zhou, 2018).

Institutional logics takes origin its from neo-institutionalism and its emphasis on cognitive forces and isomorphism (Aguilera & Grøgaard, 2019). In IB this strand of theory focuses on different orders, such as family, state, religion, etc. in order to account for micro-level (Newenham-Kahindi & Stevens, 2018).

One of the most well-known and widely adopted in IB is the strand of institutional economics based on the institutional analysis developed by North (1990), who defined institutions as "humanly devised constrains that structure human interaction, and these can be formal such as rules and laws or informal such as norms of behaviors" (p. 3). It draws on assumption that institutions vary across countries, create order and minimize uncertainty (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Khanna, Palepu, & Sinha, 2005; North, 1990).

Another strand within the institutional economics strand – institutional analysis – addresses the collective action problems and motivating different players by designing polycentric governance institutions that enhance trust (Ostrom, 1995, 2009, 2010; Poteete, Janssen, & Ostrom, 2010). This strand focuses on minimising risk and uncertainty among the institutional actors involved.

The institutional-based view is close to North's strand but concentrated on the emerging markets perspective (Peng, 2002; Peng, Sun, Pinkham, & Chen, 2009; Peng, Wang, & Jiang, 2008). This approach is considered as a third leg of a 'strategy tripod' together with industry- and resource-based views and has been used in studies related to China and how institutions were modified upon entering the global economy (Peng, Ahlstrom, Carraher, & Shi, 2017).

Finally, within political science, three strands have been recognised: historical institutionalism, comparative capitalism and rational choice, also known as Positive theory (Aguilera & Grøgaard, 2019). The first one focuses on the institutional change as path-dependent with the state playing a role of judge among interest groups (Hall & Taylor, 1996). The second has received more attention in IB literature, as is concentrated around understanding how different socio-economic arrangements, such as the educational system, financial system, labour market interact and grant institutional advantages (Streeck & Thelen, 2005). Some attention has also been given to different economic and social outcomes, such as openness to FDI, degree of innovation and corporate governance (Aguilera & Jackson, 2003; Fainshmidt, White, & Cangioni, 2014). It has also been used in research on the distinction between common and civil law (La Porta, Lopez-De-Silane, Shleifer, & Vishny, 1999; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). The last strand – rational choice – has not been systematically applied in IB. This perspective draws from transaction cost economics (Williamson, 1989) and agency theory (Alchian & Demsetz, 1972), therefore focuses on transaction costs, rent-seeking behaviors and property rights. It also includes individual level and how experience can solve collective problems. Hall and Taylor (1996) identified four main characteristics of this strand: (1) actors seeking to maximise fixed preferences: (2) politics is a series of social dilemmas; (3) strategic actors pursue political outcomes; (4) interest in how institutions emerge.

2.2.3. The institutional approach to FDI location choice

Various strands of institutional theory have been utilised in examining FDI location decisions firms make. One of the earliest studies that tested the impact of institutions on FDI location choice was by Wheeler and Mody (1992). They used 13 risk factors including political instability, quality of the legal system and bureaucratic red tape and did not find a significant impact of 'good' institutions on the location choice of a US firm's investments. However multiple studies have found that the quality of institutions is a crucial factor determining FDI location choice (Globerman & Shapiro, 2002a; Holmes, Miller, Hitt, & Salmador, 2011). Country factors, such as democratic institutions (Jensen, 2003; Kolstad & Villanger, 2008), political stability (Globerman & Shapiro, 2002b; Loree & Guisinger, 1995; Sethi, Guisinger, Phelan, & Berg, 2003; Woodward & Rolfe, 1993) and rule of law (Globerman & Shapiro, 2002b; Sethi, Guisinger, Ford, & Phelan, 2002; Sethi et al., 2003) attract FDI. Factors, such as cultural distance (Buckley, Clegg, & Wang, 2007; Du, Lu, & Tao, 2008; Shenkar, 2001) tax

rates (Gastanaga, Nugent, & Pashamova, 1998; Javorcik & Spatareanu, 2005; Loree & Guisinger, 1995; Sethi et al., 2002) and corruption (Cuervo-Cazurra, 2006; Globerman & Shapiro, 2002b; Robertson & Watson, 2004) deter FDI. The combination of traditional economic factors with institutional determinants enhanced the understanding of location decisions of MNEs (Berry, Guillén, & Zhou, 2010; Flores & Aguilera, 2007).

Some researchers went beyond the traditional factors towards utilising the institutional economics strand and testing the underlying dimensions of formal and informal institutions and their effect on FDI location choice. Formal institutions symbolise structures of explicit rules and standards that shape interaction among societal members (North, 1990). Informal institutions include norms, customs and socially accepted practices (Singh & Gaur, 2021). Firms apply strategies and actions to navigate the institutional environemnts. Informal institutions are especially important with regard to firms' foreign operations, due to the uncertainties, weaknesses, and differences in formal institutions across and within many countries (Hitt, Holmes, et al., 2021). Corruption is one of those informal institutions and is an accepted practice in many countries around the worlds.

2.2.4. Institutional distance and FDI location choice

In additional to formal and informal institutions, the concept of cross-national distance is a key concept in multiple studies within the IB field. Countries can be distant not only geographically, but also economically, socially, culturally, politically, etc. Distance is the change in context that occurs when firms invest abroad (Beugelsdijk, Ambos, et al., 2018). This concept is widely used in IB research and traditionally emanates from a neo-institutional strand.

The construct of institutional distance was introduced by Kostova (1996). It is defined as the differences and similarities between the three pillars of institutions in two countries. Since one of the critical issues for an MNE investing in another country is establishing and maintaining legitimacy, the construct helps to interpret the local institutional requirements in comparison with the home country ones. Greater institutional distance increases the cost of doing business in a host country (Zhang & Xu, 2017). It also decreases the probability of foreign investment in the host country, as with larger distance it is harder for MNEs to establish legitimacy (Chen, Cui, Li, & Rolfe, 2017; Kostova & Zaheer, 1999). Another view goes hand in hand with the dynamic view of institutions and argues that institutionally distant locations

offer opportunities that are not available in institutionally proximate markets (Gaur et al., 2022; Nachum, Zaheer, & Gross, 2008; Stahl & Tung, 2014).

A few scholars have since used this concept in various studies, treating it as a whole, or separating it into dimensions: regulatory, normative and cognitive. Xu and Shenkar (2002) studied the location choice of MNEs and argued that it will be affected by the institutional distance and that the choice must be matched to firm-level attributes. They distinguished between the MNEs with global strategy and multi-domestic strategy and proposed that the former will choose institutionally proximate markets and the latter will be more likely to enter institutionally distant ones. However, they did not test their theory empirically. Du (2009) found evidence that greater institutional distance decreases the probability of FDI. Outward foreign direct investment (OFDI) by Chinese firms was explored in multiple studies and results were inconclusive (Quer, Claver, & Rienda, 2017; Quer, Rienda, Andreu, & Miao, 2019; Zhang & Xu, 2017; Zheng, Yan, & Ren, 2016).

By deconstructing institutional distance, authors have studied the effects of distance between countries' three institutional pillars in depth following the sociology-based perspective. Xu and Shenkar (2002) argued that normative distance will probably have a more negative effect on the ability of a firm to gain legitimacy in a foreign location, compared with the regulatory and cognitive pillars, because of its tacitness. It thus deters firms from investing. Kostova and Zaheer (1999) put the cognitive institutional pillar between the regulatory and the normative ones in terms of tacitness and argued that liability of foreignness (LOF) will be affected more by cognitive and normative institutional pressures than by the regulatory ones. However, institutional distance in all three dimensions will increase LOF and need in local isomorphism. According to Kostova and Roth (2002), regulatory institutional distance will create pressure for coercive isomorphism, normative for normative, and cognitive for mimetic isomorphism.

Regulatory distance measures the difference in regulatory development between home and host countries, which can be represented by laws, regulations and political configurations (Ang, Benischke, & Doh, 2015; Dikova & van Witteloostuijn, 2007; Eden & Miller, 2004; Kostova & Roth, 2002; Kostova, Roth, & Dacin, 2008). Such regulatory differences represent both opportunities and risks for MNEs choosing to enter a foreign market (Berry et al., 2010; Ghemawat, 2001). The distance is measured using a Euclidean distance calculation between the established measures of regulatory development, most commonly the World Governance

indicator. Salomon and Wu (2012) used an alternative measure for regulatory distance – an index combining data on bank-specific regulations from the Banking Regulation Database: bank activity regulations, banking/commerce mixing regulations, competitions regulations, and the capital regulations dimension.

Another approach was introduced by White, Hadjimarcou, Fainshmidt, and Posthuma (2013) and Fainshmidt et al. (2014). They used the term 'legal distance' to reflect the dissimilarities in the rule of law between countries. The political distance was studied by Gaur and Lu (2016); Martin, Salomon, and Wu (2010); Perkins (2014). Both measures arguably relate to regulatory distance and can either be considered as parts of it or separately (Bae & Salomon, 2010). For example, Gaur, Delios, and Singh (2007); Gaur and Lu (2016) used multiple measurements, including fiscal policy, antitrust regulations, political transparency, intellectual property rights protection, judiciary system efficiency, a rarity of market dominance in key industries, and inflation to construct their regulatory distance measure. Coeurderoy and Murray (2008) used similarity of legal systems of the home and host countries to measure the distance and argued that the more similar they are, the higher the probability of FDI. Similar to this concept, the idea of formal institutional distance was used by Jiang, Holburn, and Beamish (2014) in order to study foreign location strategies.

Normative distance in the form of cultural distance has been used widely by IB scholars since Kogut and Singh (1988)'s composite index of Hofstede (1980) individual indices of culture: power distance, uncertainty avoidance, individualism-collectivism, masculinity-femininity, and long-term orientation. Power distance refers to the extent to which people accept unequal distribution of power and status. Uncertainty avoidance measures the degree of people's comfort with unknown and uncertain situations. Individualism and collectivism refer to the importance of the individual in comparison to the group in a society. Masculinity and femininity show the prevalence in a society of traditional masculine values, such as assertiveness and competitiveness, or feminine values, such as nurturing and enhancing the quality of life. Long-term orientation is also an important index characterising the culture of the country, which is especially important for Asian cultures (Shenkar, 2001). Multiple studies have since used the Kogut and Singh (1988) cultural distance composite index to explain FDI location choice, either separately or within institutional distance as the normative distance measure (Brouthers & Brouthers, 2001; Du, Lu, & Tao, 2012; Michailova & Hwee Ang, 2008). Cultural distance deters foreign firms from investment, as it creates multiple obstacles when

doing business abroad (Kang & Jiang, 2012; Malhotra, Zhu, & Locander, 2010; Zhang & Xu, 2017). Empirical evidence also supports the negative relationship between cultural distance and location decisions, especially for some cultural variables, such as uncertainty avoidance and trust. Firms prefer to invest in countries with low levels of uncertainty avoidance and high levels of trust (Bhardwaj, Dietz, & Beamish, 2007). A recent critique of the cultural distance has been very prominent as well (Harzing & Pudelko, 2016), calling for more systematic focus on context, rather just using a simplistic measure.

Similar to alternative measures of regulatory distance, Gaur et al. (2007); Gaur and Lu (2016) used the following indices to compile normative distance: adaptation of the political system to today's economic challenges, adaptation of government policies to new economic realities, transparency of government towards its citizens, political risk rating, the degree to which bureaucracy hinders economic development, bureaucratic corruption, and independence of local authorities from central government. These measures extended the understanding of normative distance beyond the cultural distance, which was commonly used before, although they haven't been used to determine FDI location choice yet. Another approach was used by Jiang et al. (2014), which included both normative and cognitive components and measured informal institutional distance.

Cognitive distance is tacit in nature and hard to observe. The cognitive aspects of a country are usually represented by commonly shared social knowledge and practices (Scott, 1995). Estrin, Baghdasaryan, and Meyer (2009) used human resource distance (cognitive), in addition to formal (regulatory) and informal (normative) distances. Following their approach, Fainshmidt et al. (2014) also measured cognitive distance as the absolute difference between the averages of three country indicators: percentage of the economically active population that has attained at least a tertiary education, number of computers per thousand persons, and number of internet hosts per thousand persons.

The institutional distance concept, as well as its deconstructed parts – regulatory, normative and cognitive distances – give us a good understanding of not only why the level of the host country institutional development matters, but also of the difference between the home and host countries' institutional environments (Gaur et al., 2022; Quer et al., 2017; Verbeke, van Tulder, & Puck, 2017).

2.2.5. Positive and negative institutional distance and FDI location choice

The institutional distance between countries serves as an important determinant for explaining a firm's decisions on FDI location choice. However, the distance construct is being continuously contested (Kirkman, Lowe, & Gibson, 2016; Shenkar, 2001; Zaheer, Schomaker, & Nachum, 2012). Unlike geographic distance, contextual distance can be asymmetric, where the distance between country A and country B does not equal the distance between country B and country A (Gaur et al., 2022; Håkanson & Ambos, 2010; Håkanson, Ambos, Schuster, & Leicht-Deobald, 2016). It can also be non-continuous, as it might be affected by the border effect (Beugelsdijk & Mudambi, 2013). Also, distance can also change over time, as institutional, economic, political environments can change (Shenkar, 2001). The dynamism of the institutional environment is particularly important in understanding the strategic decisions firms make (Chen et al., 2017), and treating institutions as static may potentially lead to inconsistent findings regarding the impact of institutions on firms (Banalieva, Eddleston, & Zellweger, 2015).

Asymmetry of the distance emphasises the dynamic aspect of institutional conditions. It can be caused by difference in the levels of development of the country's institutions, both formal and informal. Firms can encounter more or fewer difficulties in understanding those environments and complying with the expected behaviour, depending on the direction of the distance between those countries (Håkanson & Ambos, 2010; Håkanson et al., 2016; Shenkar, 2001). The asymmetry of institutional distance explains the variations of location decisions of firms that depend on the direction of distance. The differences between countries generate uncertainties and the liability of foreignness (Jiang et al., 2014; Williams & Grégoire, 2014). However, firms may perceive those differences disparately depending on the direction of the distance, as it is asymmetric (Cuervo-Cazurra & Genc, 2008; Zaheer et al., 2012). Similarly, managers are expected to prefer to enter countries that are similar to their home countries (Beugelsdijk, Ambos, et al., 2018). Finally, only if both home and host country contexts are accounted for and the sample is carefully chosen, can the distance concept be introduced (Harzing & Pudelko, 2016).

Two directions of distance are recognized: positive and negative. Positive institutional distance reflects the situation when a firm invests in a host country with higher levels of institutional development than those of a home country. When the distance is positive, the firm is more likely to invest, as the host country's institutions are advanced in comparison to those

in the home country. The rules are clear and property rights are well-enforced. Although firms may lack the knowledge of the host country environment (Zaheer, 1995), clarity and transparency of the institutions make it easier to access the necessary information (Kraus, Ambos, Eggers, & Cesinger, 2015). Firms are more likely to invest in countries with better institutional development, when compared with their home countries, as this will allow them to get support in operations and feel protected (Cuervo-Cazurra & Genc, 2011).

Negative institutional distance represents the situation when a firm invests in a host country with lower levels of institutional development than those of a home country (Hernández & Nieto, 2015; Trąpczyński & Banalieva, 2016). Hernández et al. (2018) argued that when the distance is negative, because it involves investing in a country with less developed institutions, unstable rules, poorly enforced property rights, the levels of uncertainty increase (Håkanson & Ambos, 2010), and the firm is less likely to be able to adapt to the host country environment (Phillips, Tracey, & Karra, 2009). Also, because institutions are less developed, firms may feel less protected and supported (Globerman & Shapiro, 2002b). In the presence of these factors, firms are less likely to invest in that location. However, negative distance might also become a source of value creation (Gaur et al., 2022; Nachum et al., 2008; Stahl & Tung, 2014).

In this thesis, I adopted a balanced perspective on institutions and explored how distance and directions of that distance affect FDI location choice. This is in line with the calls for treating distance as a double-edged sword (Zaheer et al., 2012) and accounting for both home and host country careful choice (Harzing & Pudelko, 2016). Positive and negative directions were taken into consideration, as well as a large number of home and host countries. This approach addresses the possibility of confusion on causality of distance on FDI location choice without taking into consideration home and host country characteristics (Harzing & Pudelko, 2016).

2.3. Corruption

2.3.1. Corruption overview and definition

Corruption is an informal instititution according to the institutional economics strand of institutional theory. It is a well-known phenomenon around the world. The etymology of the word corruption can be traced back to the Greek word *phthora*, “which meant ‘destruction, decay’ and ’passing away’ as correlative to genesis – the beginning of the process” (Vergara,

2019, p. 3). The concept itself, therefore, is as old as Ancient Egypt and Ancient Greece (Noonan, 1987). In the twentieth century, the first articles on corruption discussed how frequently corruption was used in the vocabulary of politics (Brooks, 1909; Ford, 1904). Today, the multitude of classifications of corruption attest to its complexity and ubiquity.

The topic of corruption has attracted a lot of attention since the 1990s when it started to be openly discussed as having an effect on social prosperity and business. However, the first articles in the Business and Management disciplines significantly pre-date that discussion and go back to the 1970s. They are intertwined with the very development of the IB discipline, which started by focusing on managerial decision making in cross-border investment decisions. The IB since has led the way in advancing the understanding of the phenomena, especially in emerging markets, due to distinct transitional processes (of catching up), myriad institutional voids and idiosyncratic market mechanisms.

Due to the increasing importance of and growing interest in corruption, the number of academic articles addressing it as either an independent or a dependent construct has increased exponentially, particularly with the growing economic and political importance of emerging markets for the world economy. Existing literature reviews on corruption (Aidt, 2003; Bardhan, 1997; Chabova, 2016; Jain, 2001; Judge, McNatt, & Xu, 2011; Svensson, 2005) mostly concentrate on the analysis of antecedents and effects of corruption, its various definitions, as well as measurements of corruption. Yet most recent ones acknowledge the necessity to couple the traditional literature review approach with the bibliometric one (Bahoo et al., 2020; Bahoo et al., 2019; Takacs-Haynes & Rašković, 2021b; Zupic & Čater, 2015).

A few definitions of corruption exist. Rose-Ackerman (1999) defined it as "an illegal payment to a public agent to obtain a benefit for a private individual or firm" (p. 517), similarly Jain (2001) emphasised corruption's illegitimate nature by defining it an "act in which the power of public office is used for personal gain in a manner that contravenes the rules of the game" (p. 73). The more specific approach was used in Rose-Ackerman (2007)'s *International Handbook on the Economics of Corruption*. She used a narrower definition of corruption as "monetary payments to agents (both public and private) to induce them to ignore the interests of their principals and to favor the private interests of the bribers instead" (p. xiv), which emphasised the economic side of corrupt transactions in the case of high rewards. Shleifer and Vishny (1993) concentrated more on the government side of corruption and defined it as "the sale by the government officials of government property for personal gain" (p. 599). Another

relevant but narrower definition was used by Svensson (2005). He saw corruption as "the misuse of public office for private gain" (p. 20). I will use the broadest and most accurate definition of corruption which includes all points of view previously mentioned – "the abuse of entrusted power for private gain" (Cuervo-Cazurra, 2016; Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003; Nye, 1967). This definition is commonly used by authors exploring this sensitive topic within the IB field.

2.3.2. Corruption literature review

To ensure that all the relevant literature is reviewed in this thesis in addition to a traditional literature review, I am using a bibliometric analysis of 2,470 papers published between 1977 and 2022 which include the term '*corruption*', written in English and extracted from the Web of Science (WoS) Core Collection in November 2021. The WoS database was chosen as the scientific database used most frequently in management and organization fields with a proven level of quality. It contains full information required for bibliometric analysis, including article title, publication type (e.g. paper, note, proceedings), authors, author institutional affiliations, author keywords, the number of citations, journal name, name and address of publisher, publication year, volume, issue, and a list of all cited references (Zupic & Čater, 2015).

All journals available in the WoS are indexed in the Social Science Citation Index (SSCI) and are assigned to one or more subject categories, which roughly correspond to disciplines. I have chosen the two most relevant categories: Business and Management. The reason for not expanding the search within the Economics and other categories is that a common definition of corruption – "the abuse of entrusted power for private gain" (Doh et al., 2003; Nye, 1967) – is usually used in studies within those two fields. It encompasses both public and private corruption: corrupt acts involving politicians and international players; and business-level or individual-level corruption when the public gets involved. In this thesis I call this body 'the local collection'. The WoS global collection contains more than 90 million articles on different subjects. The dataset was extracted as a BibTeX (.bib) file and converted for the purpose of bibliometric analysis in R Studio, where I applied the *Bibliometrix* package (Aria & Cuccurullo, 2017) of analytical algorithms and used the Biblioshiny web interface.

The 2,470 identified scientific papers on '*corruption*' were published in 517 journals, showing a high degree of fragmentation. The leading journals include Journal of Business

Ethics, Journal of Business Research and Journal of International Business Studies, among others.

The Three-fields Plot in Figure 2.1 allows me to identify the top 40 authors, top 20 keywords and 10 most relevant journals. Most of the journals in the top ten list are related to the IB discipline and include A* and A type journals according to the ABDC Journal Quality List [1]. Although some of them appear more narrowly oriented, the studies published in those journals can give us an insight for future research, assuming that corruption is an inter-disciplinary phenomenon and cannot be studied within the isolation of disciplinary research.

Particularly fruitful is the Journal of Business Ethics (274 articles), which provides a public forum for discussion and debate about ethical issues related to business. It is followed by Journal of International Business Studies (36 articles) and Journal of Business Research (36 articles), Emerging Markets, Finance and Trade (32 articles), International Journal of Finance & Economics (31 articles), International Business Review (27 articles) and World Economy (27 articles), Journal of Corporate Finance (26 articles) and Journal of World Business (26 articles).

[1] https://abdc.edu.au/research/abdc-journal-quality-list/

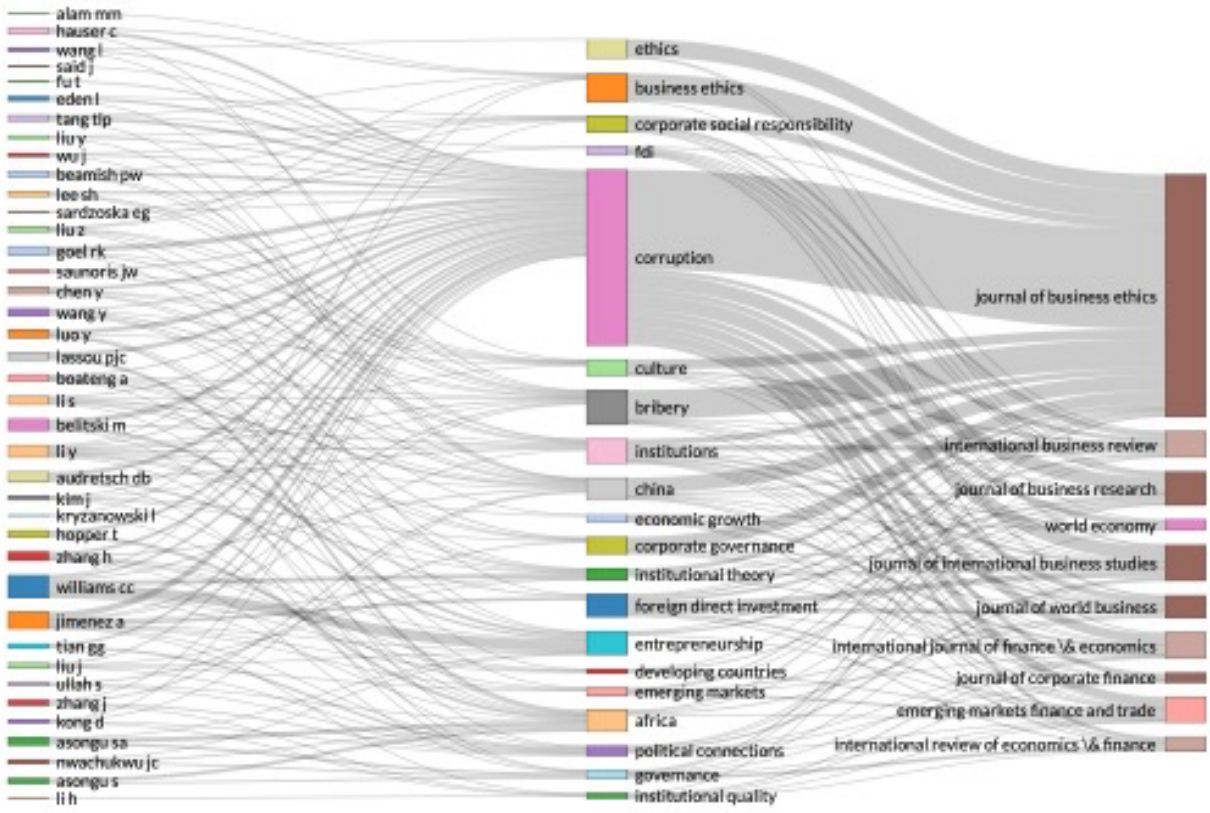

Figure 2.1 Three-Field Plot: Top Authors, Keywords, Journals (sources)

A total of 8,797 keywords were associated with the 2,470 papers. These include 2,956 author-generated *keywords* and 5,841 so-called *keywords plus*. Keywords plus are words or phrases that frequently appear in the titles of an article's references, but do not appear in the title of the article itself (Garfield & Sher, 1993). Keywords plus were used in subsequent co-occurrence word analysis.

5,006 authors are associated with the 2,470 identified papers. Table A3 in Appendix A01 presents the top 15 most cited papers. Several of those papers are focused on the causes and consequences of corruption (Husted, 1999; Prahalad & Hammond, 2002; Tanzi, 1998), concentrating on how defeating corruption can increase the well-being of the society in general and some countries in particular. Others consider how companies can help combat corruption, for example through corporate philanthropy. Porter and Kramer (2002) believe that it can have a strong influence on creating a more productive and transparent environment for competition and reduce corruption in a given country. Corporate Social Responsibility (CSR) is considered as another potentially helpful approach that multinational companies can use to help countries' governments to fight corruption (Rodriguez, Siegel, Hillman, & Eden, 2006). Institutions are

incorporated in a few studies, including well-known articles by Cuervo-Cazurra (2006) and Habib and Zurawicki (2002).

Other topics include different views of corruption altogether. Claessens, Feijen, and Laeven (2008) analyze potential benefits that firms obtain after contributions to candidates during elections. Using Brazil as an example, they found that contributions are an extremely effective way to gain political favors. This paper, for example, illustrates that although most scholars do not consider non-market and political strategies as business (firm-related) corruption; hence, not incorporating it into their research. Another interesting example of a topic, which is not considered within the IB field, is often related to managerial behaviour. Each company consists of employees. Examples of corruption scandals such as Enron and Parmalat all involved people – employees – who were very far from the stereotypical criminal image. Yet, they have been involved in corruption. Anand, Ashforth, and Joshi (2004) analyze how moral disengagement (rationalization) allows employees and others around them to justify their corrupt acts. To support this stream of research, another article analyses codes of conduct of multi-national corporations (MNCs). Kaptein (2004) argues that 52% of the largest companies in the world have a code of conduct and 46% of those have references to principles regarding corruption.

Most relevant to the well-established in IB research area – strategic decisions of multinationals – is well represented among the top sixteen manuscripts (Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002; Rodriguez et al., 2006; Rodriguez et al., 2005). The importance of research on developing countries and their impact on IB is clearly seen in four of the sixteen most cited articles. Khanna and Palepu (2000a) analysed the extent to which the firms benefit from their affiliation with Chilean business groups in the 1980's and 90's, whereas Cull and Xu (2005) concentrated on the security of property rights in the Chinese context, Kolstad and Wiig (2012) investigated the determinants of Chinese OFDI, and Asiedu (2006) looked towards Africa.

To identify the main themes of the research on corruption, I conducted a co-word analysis by computing a co-occurrence matrix, which measures the frequency of two keywords appearing together in a document. Figure 2.2 illustrates the keyword co-occurrences network generated by the Bibliometrix library in R Studio. This software enables researchers to perform key-word co-occurrence analysis to be used for further analysis. Due to the specificity of the data obtained, the keywords plus were analysed.

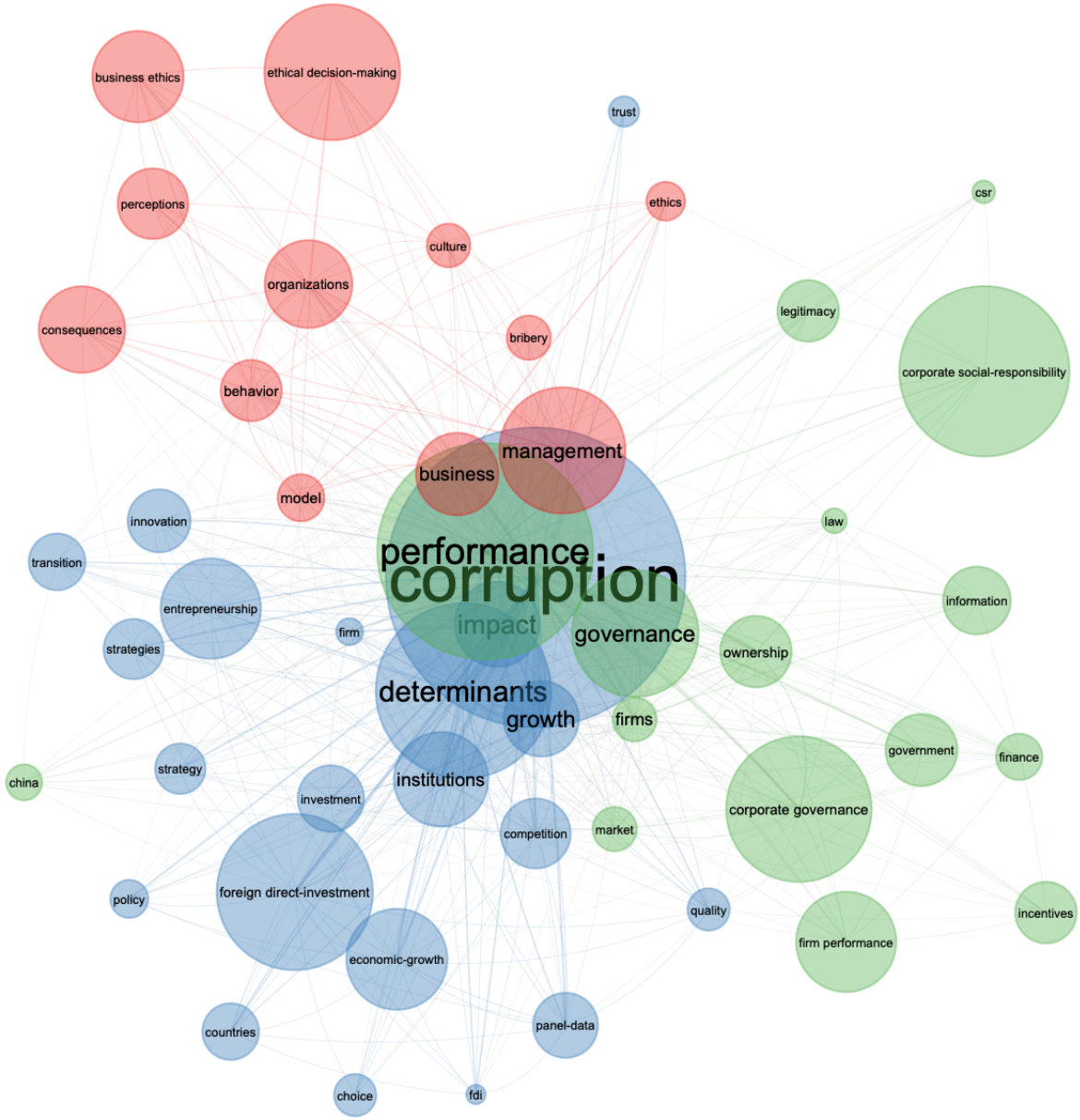

Figure 2.2 Co-occurrence network of keywords plus

The produced co-occurrence network in Figure 2.2 shows a network of most frequent words and their structural position based on the concept of so-called betweenness centrality. A special optimisation algorithm is further applied to make the corresponding network easier to interpret. Each keyword network can be characterised by two parameters: centrality and density. Centrality measures the strength of external ties to other keywords (themes). We can interpret it as the importance of this theme in the development of the whole research area. Density measures how strong the internal ties between all the keywords are (Muñoz-Leiva,

Viedma-del-Jesús, Sánchez-Fernández, & López-Herrera, 2011). It can be interpreted as the measure of the theme's development.

Adopted from network analysis, betweenness centrality captures the importance (weight) of a word in terms of the number of shortest paths (so-called geodesic distances) to other words in a network (Freeman, 1978). For example, a high betweenness centrality for '*performance*' indicates this word is often the closest link between '*corruption*' and any other words in the network structure. The shorter and thicker the connecting lines between the keywords are, the more connected the two concepts are. The size of the circle represents the total number of times the words have been used in all the articles. Hence, the bigger the circle is, the more often this keyword was used in the analysed data frame. This network diagram is visibly divided into four sections.

The IB section (blue) is represented by the f*oreign direct investment, entry strategies, entrepreneurship* and *institutions* keywords (Habib & Zurawicki, 2002; Rodriguez et al., 2006; Rodriguez et al., 2005).

The management section (red) is represented by concepts related to *ethics*, *perceptions, behavior, management, decision making* and what encompasses all that – *organizations* and *firms* (Cuervo-Cazurra, 2006; Doh et al., 2003; Husted, 1999; Vilmos, Weaver, & Elms, 2008).

The performance section (green) reflects the firm-related papers and is characterised by keywords such as *social responsibility, corporate social responsibility (CSR), governance, government, ownership,* and of course, *performance* (Cuervo-Cazurra, 2006; Doh et al., 2003; Husted, 1999; Vilmos et al., 2008).

Finally a Thematic Map presented in Figure 2.3 was produced using those keywords, drawing from the clusters of words that are considered as themes, whose density and centrality can be used to map those themes into a two-dimensional diagram (Callon, Courtial, & Laville, 1991). Those themes are classified into four groups:

The upper-right quadrant includes both well-developed and important concepts. They are known as the motor-themes as they present both strong centrality and high density.

The upper-left quadrant has well-developed internal ties but unimportant external ties, often very specialized, only marginally important for the field.

Themes in the lower-left quadrant are often weakly developed. They represent either emerging or disappearing themes and have low density and low centrality.

The lower-right quadrant themes are important for the research field; however, they are underdeveloped. Those are usually basic, general themes.

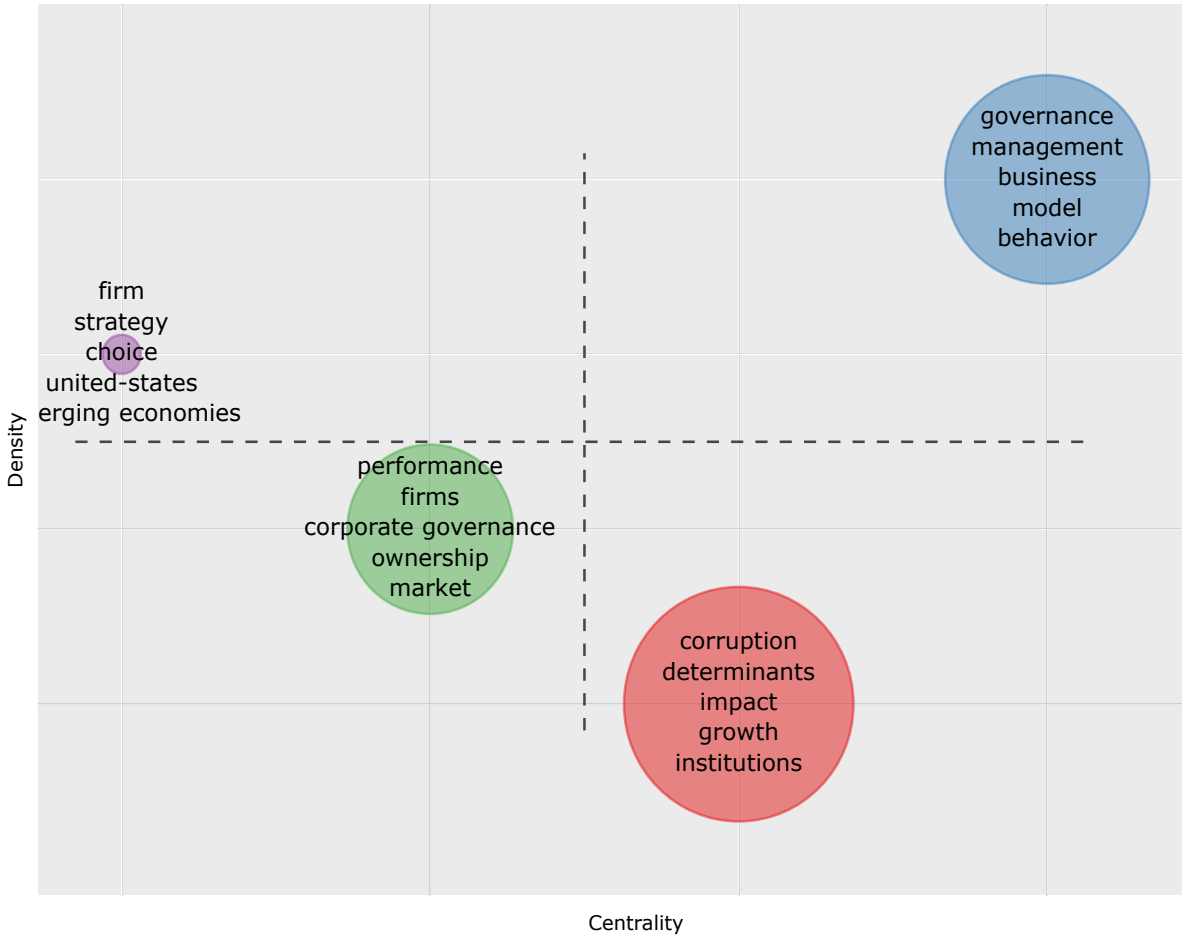

Figure 2.3 Thematic map of keywords plus

The results are very interesting. *Performance* (343 papers), *firms* (149 papers), corporate *governance* (113 papers), *ownership* (110 papers) and *market* (82 papers) are in the bottom-left quadrant of the map and represent the weakly developed or emerging themes. *Governance* (189 papers), *management* (176 papers), *business* (165 papers), *model* (125 papers) and *behavior* (117 papers) are considered as motor-themes (upper-right quadrant). *Corruption* (804 papers) itself is coupled with *determinants* (278 papers), *impact* (240 papers), *growth* (218 papers) and, finally, *institutions* (154 papers). These papers represent the most general basic themes yet are underdeveloped according to the analysis. Also, *firms* (88 papers),

strategy (45 papers), *choice*, potentially as part of location choice (40 papers), appeared coupled with United States (39 papers) and emerging economies (35 papers) in the upper-left quadrant, representing more isolated topics that have little connection with the rest of the field.

2.3.3. Corruption and institutional theory

Based on the above bibliometric analysis and literature review, I have identified several theoretical frameworks that have been used in research on corruption within the IB field. Those include Institutional Theory (Lee & Hong, 2010; Röber & Oesterle, 2016; Rodriguez et al., 2005; Uhlenbruck et al., 2006), Agency Theory, Neo-Institutional Theory, Transaction Cost Theory (Cuervo-Cazurra, 2016) among others.

Institutional theory provides rich theoretical foundation for research on MNEs (Kostova et al., 2008). The Institution-based view brings together various lines of research on interaction between economic actors and institutional environments (Meyer & Rowan, 1977; Meyer & Nguyen, 2005). As mentioned in the previous chapters, institutional theory has been divided into multiple strands, two of which I am combining in this research.

According to the *economics perspective*, institutions are defined as 'rules of the game' (North, 1990) that set the boundaries for individuals and organisations through rules, both formal and informal, and predict a firm's behaviour and strategies, such as a firm's entry strategy (Uhlenbruck et al., 2006), its export performance (Krammer, Strange, & Lashitew, 2018), merger and acquisition activities (Tunyi & Ntim, 2016) and location of foreign direct investment (Dikova, Panibratov, Veselova, & Ermolaeva, 2016). Abiding by these rules is necessary to achieve legitimacy in the institutional environment (DiMaggio & Powell, 1983). The country's institutional environment also influences corporate social responsibility (Keig, Brouthers, & Marshall, 2015), profitability (Lee & Hong, 2010), values (Pantzalis, Park, & Sutton, 2008) and organisational legitimacy (Rodriguez et al., 2005) among others.

Institutions are designed to reduce uncertainty, however, they can also be a source of uncertainty in various circumstances (e.g. change of government, coups, etc.) (Henisz, 2003). Furthermore, institutions shape the effectiveness of alternative government structures (Aguilera, Desender, Bednar, & Lee, 2015). Conflicting interests arise in both principal-agent and principal-principal relationships and institutions determine the outcomes of such conflicts (Young, Peng, Ahlstrom, Bruton, & Yi, 2008). Market efficiency and transaction costs are also

defined by institutions. In absence of effective ones, firms face institutional voids (Khanna & Palepu, 2000b) and have to find new ways to overcome those voids, such as using informal practices (Puffer, McCarthy, & Boisot, 2010), creating business groups and business networks (Altman & Morrison, 2015; Chen, 2003), adding a local partner (Brouthers, 2002; Brouthers & Brouthers, 2001). These examples of effects of institutions highlight the importance of understanding the formal and informal institutions and their interactions. The second fill the gap when the first are absent or weak (Peng, 2003).

A *sociology-based perspective* analyses institutions as shared rules, beliefs and norms that affect the legitimacy of firms (DiMaggio & Powell, 1983; DiMaggio & Powell, 2000). Therefore firms adjust their strategies according to what is deemed legitimate (Lu & Xu, 2016). Scott (2001)'s three pillars of institutions: regulatory, normative and cognitive correspond to formal and informal institutions recognized by the economics perspective. However, unlike economists, who put emphasis on rules, organisation theorists concentrate more on normative and cognitive forces. This approach is especially helpful when stable and unstable institutional environments are compared. In unstable environments (e.g., in emerging economies), firms face inconsistent institutional pressures causing institutional voids that undermine the effectiveness of market coordination. Gaps in managerial cognition cause ineffective responses (Newman, 2000), international players face various stakeholders in turbulent conditions and fail to adapt fast due to having to take into consideration, in both their home and host countries, complex institutional pressures (Meyer & Peng, 2015).

The *bargaining perspective* within the Institutional theory suggests that firms as actors are also involved in shaping the country's institutional environment. Through influencing both government and non-government agencies, firms help the country's institutions evolve and change. Recent studies further examine a wider range of political and non-market strategies that firms use to negotiate with government decision makers (Akbar & Kisilowski, 2015; Doh, Lawton, & Rajwani, 2012; Yi, Teng, & Meng, 2018). Those strategies are particularly important in emerging economies where governments tend to intervene in business affairs (Meyer & Peng, 2016).

This research builds on the *economic strand* of institutional theory. Corruption is an informal institution that helps to fill the institutional voids in the absence of well-established formal institutions. Both developing and developed countries are corrupt, however developing

and transition countries usually have higher levels of corruption (Del Monte & Papagni, 2007). Multiple causes of corruption have been studied: weak institutions, low-income levels, restricted markets, lack of political competition and accountability (Rose-Ackerman, 1975). The strongest correlation has been found between a country's levels of economic development and corruption (Ades & Di Tella, 1999; Lopatta, Jaeschke, Tchikov, & Lodhia, 2017; Maddison, 2003; Sanyal & Samanta, 2017; Treisman, 2000), even with the inclusion of a variety of controls, such as region, religion, culture and inflation. Cultural characteristics, such as generalised trust and acceptance of hierarchy have also been found to cause high levels of corruption in a country (Husted, 1999). Other factors include religious traditions, colonial heritage, the legal system, federal structure, governance structure (Treisman, 2000). Ades and Di Tella (1999) argued that corruption is greater in countries with larger economic rents available for bureaucrats to gather, particularly in export-oriented countries with natural resources. These findings were also supported by Sandholtz and Koetzle (2000) and Treisman (2000). Several studies have measured how the number of procedures and the time required to start a business affect the levels of corruption in a country (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2002; Mudambi, Navarra, & Delios, 2012). They found a strong support for the argument that the higher the number of procedures and the longer the time required, the higher the levels of corruption. Therefore, corrupt practices in those conditions are considered as a lesser evil (Bel, 2021; Dunlop & Radaelli, 2019; Nur-tegin & Jakee, 2020).

I have also incorporated a *neo-institutional strand* of institutional theory. Corruption is closely associated with a lower country development. Wei (1999) found evidence that corruption affects economic development through multiple channels, including reduced domestic and foreign direct investment, unreasonably big and distorted government expenditure. It is also one of the main reasons for inequality in today's world (Ariely & Uslaner, 2016; Nikoloski & Mossialos, 2013; Rothstein & Uslaner, 2011). Economic growth levels are affected by high corruption levels through lower levels of private investment, although in his research Mauro (1995) found only borderline significant support for this hypothesis. Mauro (1998) and Wei (1999) also specifically emphasised the unequal distribution of government spending on healthcare and education. Song, Chang, and Gong (2021) investigated the relationship between corruption, economic growth and financial development in 142 countries and found that, in a long run, corruption has a negative effect on financial development; however, that in developing countries, corruption can lead to more efficient decision-making and minimise transaction costs. Ades and Di Tella (1997) found evidence

suggesting that corruption is higher in countries with lower public policy effectiveness. They decomposed the total effect of industrial policy into a positive, direct effect, and a negative, corruption-induced effect. Lower exports is another effect of high levels of corruption in a country (Lee & Weng, 2013). So are the low levels of investment in general (Lambsdorff, 2003) and FDI (Wei, 2000), especially from countries with laws against corruption abroad (Cuervo-Cazurra, 2006).

Corruption also affects the firms, particularly with regard to their earnings and management (Chen, Ding, & Kim, 2010; Lewellyn & Bao, 2017), CSR (Luo, 2006), international joint ventures (Hearn, 2015; Meschi, 2007), entry mode strategy (Uhlenbruck et al., 2006), ownership (Driffield, Mickiewicz, & Temouri, 2016), performance of foreign affiliates (Muellner, Klopf, & Nell, 2017; Petrou, 2015) and of course, FDI location decisions that firms make.

2.3.4. Corruption typology

Multiple classifications of corruption exist. First and most important is the distinction between public and private corruption. Public corruption is referred to as a situation in which an elected politician or a civil servant uses his/her position to obtain additional income in exchange for providing a service/contract/permit, or by helping a company or an individual to avoid dealing with regulations/taxation, and so on. Private corruption happens when a manager of a company or an organization uses his/her powers to obtain additional income from another company or individual in exchange for giving that company or individual a benefit. In International Business, public rather than private corruption is analysed, due to the context of the field (Cuervo-Cazurra, 2016).

Within public corruption, two distinctive categories exist: grand and petty corruption. This classification is based on the motivation for the bribe payment. In the first case, a company has to pay to get something done that would not happen otherwise. In the second case, a gift/money is asked for in order to accelerate the process, which would happen anyway, though might take a longer time and require more effort (Rose-Ackerman, 2002). Another view acknowledges that corruption can originate from the ‘demand side’ and the ‘supply side’ (Cuervo-Cazurra, 2016). The demand side comes from the government officials, whereas the supply side is the incentive of the manager seeking a more favourable outcome (Everett, Neu, & Rahaman, 2006).

The third classification is based on the process of the bribe payment and has two categories. First, corruption with theft happens when a government official/public servant keeps both the bribe and the official payment (the price of the service), which is supposed to be paid to the government. Second, corruption without theft occurs when the payment for the service goes to the service provider, and only the bribe itself is kept by the bribee (Cuervo-Cazurra, 2016). One more useful classification treats corruption as a moderator of actions towards the company: that is, whether the current laws and regulations are applied differently to a particular company in comparison to others, or when a bribe can modify existing laws/regulations to the benefit of a company.

Another classification is the distinction between organised and disorganised corruption. According to Shleifer and Vishny (1993), in a country with organised corruption, the coordination among members included in a corrupt deal guarantees that upon receipt of the bribe, other members will not be asked for additional payments. In a country with disorganised corruption, a bribe can be asked for multiple times for the same process or service.

Finally, less known corruption typology that mostly exists in economics literature distinguishes between extortive or coercive and collusive corruption. While extortive focuses on the demand side and implies that the bribe payer is forced to be involved, collusive corruption accepts that both parties can be willing and able to enter bribe-for-service relationship (Sequeira & Djankov, 2014).

2.3.5. Pervasiveness and arbitrariness of corruption

Similar to the idea of organised and disorganised corruption (Shleifer & Vishny, 1993) concepts of pervasive and arbitrary corruption were introduced by Rodriguez et al. (2005). Pervasiveness of corruption is "the average firm's likelihood of encountering corruption in its normal interactions with state officials" (p. 385). It shows the extent to which corruption is prevalent and institutionalised in a society (Lee & Oh, 2007; Murphy, Shleifer, & Vishny, 1993) and how it becomes a normal part of business-government interactions. Firms, investing in those countries are forced to comply with the required actions to be able to operate in those countries. Firms might even gain 'illegal legitimacy' through entering corrupt transactions (Cuervo-Cazurra, 2016), as where corruption is pervasive, "compliance with practices of a corrupt environment is likely to yield external legitimacy" (Rodriguez et al., 2005, p. 390).

Corruption arbitrariness represents the uncertainty associated with corrupt practices (Cuervo-Cazurra, 2008a; Rodriguez et al., 2005). While pervasive corruption is certain and 'known', arbitrary corruption is uncertain and 'unknown'. In countries where there is arbitrary corruption, laws and policies can be subject to a varied interpretation (Ahlstrom & Bruton, 2001; Tian, Yang, & Li, 2019) and bribes can become ineffective (Oldenburg, 1987). And, just as in the case of disorganised corruption, bureaucrats are there to extort maximum bribes, at times imposing unnecessary procedures or sets of approvals for those purposes (Banerjee, 1997; Rodriguez et al., 2005). Arbitrariness makes corrupt transactions less predictable and more uncertain in terms of size, frequency, and outcome. Therefore, it might diminish the potential benefits of corruption and create legitimacy issues for the subsidiary, which can constrain access to local resources and increase operating costs (Petrou, 2014, 2015).

In sociology, corruption arbitrariness is explained by principal-agent relationships developed by Becker (1968). He analysed the interactions between three protagonists: the citizen, the principal, and the agent who manages the relationship between the principal (government) and the citizen. The degree of discretion they all experience in exercising their power creates an information barrier between the principal and the agent. In these circumstances, agents are posited as being prone to corruption, as they have a monopoly and discretion (Riley, 1998), which are negatively associated with accountability and lead to the greater possibility of arbitrary corruption (Klitgaard, 1988).

As uncertainty is one of the most critical concepts in the IB field and, managing under uncertainty is crucial in understanding the strategic actions of MNEs (Johanson & Vahlne, 1977). Uncertainty is also a consequence of change, complexity and ambiguity, thus giving the firms opportunities to develop capabilities that they would not have created otherwise (Vahlne et al., 2017). However, the uncertain host country environment can limit a firm's ability to gain legitimacy (Kostova & Roth, 2002). And in uncertain environments, legitimacy-building practices may be ineffective because of multiple stakeholders' involvement and the non-transparent interest of government and non-government institutions (Boddewyn & Doh, 2011; Sun, Mellahi, & Thun, 2010). Multiple recent papers call for arbitrariness to be added to the research on corruption (Sartor & Beamish, 2017; Takacs-Haynes & Rašković, 2021b). Adding arbitrariness to the general corruption dimension is very important in order to provide depth to the concept and due to potential implications for the studies on corruption (Cuervo-Cazurra, 2016). Yet, although literature recognises the existence of those two dimensions, research on

the corruption arbitrariness aspect of corruption is scarce. Only twenty papers took into consideration both dimensions. Table 2.1 provides a summary of those articles and their main findings. Detailed analysis of articles on pervasive and arbitrary corruption is provided in the following chapters. However, as it can be observed from the table below, only four articles considered the effect of arbitrariness on FDI (in bold) and obtained mixed results. Further analysis of this asymmetry is required.

Table 2.1 Articles that have both pervasive and arbitrary dimensions of corruption included

Authors	Title	Main topic
(Wei, 1997)	**Why is corruption so much more taxing that tax? Arbitrariness kills.**	**This paper focused on examining the effect of corruption-induced uncertainty (arbitrariness) on foreign direct investment. The results are negative and statistically significant.**
(Doh et al., 2003)	Coping with Corruption in Foreign Markets.	Authors argue that while corruption is pervasive in the international business environment, arbitrariness of corruption reduces firm's ability to estimate the cost of bribes. They have also analysed the World Business Environment Survey (WBES) and demonstrated that some countries can rank high in only one dimension only, which makes corruption is more complex that some might expect.
(Choi & Thum, 2004)	The Economics of Repeated Extortion	Authors have analysed the effect of repeated extortion and found that while the nature of such extortion doesn't create further distortions in resource allocation, however, point that arbitrariness (uncertainty) is a central feature of corruption, which can't be tackled in isolation.
(Rodriguez et al., 2005)	Government Corruption and the Entry Strategies of Multinationals	MNEs often encounter corruption in host countries. Authors present a two-dimensional framework the further the understanding of corruption (pervasiveness and arbitrariness). They test how those dimensions affect MNEs organisational legitimacy and strategic decision making.
(Uhlenbruck et al., 2006)	The Impact of Corruption on Entry Strategy: Evidence from Telecommunication Projects in Emerging Economies	Authors found that arbitrariness has a negative impact on firm's decision in addition to corruption levels. MNEs use nonequity-entry modes or partnering as an adaptive strategy.
(Lee & Oh, 2007)	Corruption in Asia: Pervasiveness and arbitrariness	Authors suggest that corruption has to be examined from two different dimensions and investigate how some Asian countries are able to achieve high levels of economic growth.
(Cuervo-Cazurra, 2008a)	**Better the devil you don't know: Types of corruption and FDI in transition economies**	**Author distinguishes between two types of corruption and argues that pervasive corruption acts a deterrent to FDI, while arbitrary corruption doesn't have such effect because it becomes part of the uncertainty in transition economies.**
(Pillay & Dorasamy, 2010)	Linking cultural dimensions with the nature of corruption: An institutional theory perspective	This article theoretically analyses the interaction between cultural dimensions and the nature of corruption.
(Demirbag, McGuinness, & Altay, 2010)	Perceptions of Institutional Environment and Entry Mode	Using an integrated risk management frameworks, authors investigate how ethical-societal uncertainties results in a preference for joint venture over wholly owned subsidiary. Ethical uncertainties and arbitrariness correspond with the International Country Risk Guide "democratic accountability" dimension.
(Lee, Oh, & Eden, 2010)	Why Do Firms Bribe?	This articles focuses on answering the questions: why do firms bribe? Results show that bribe size depend on how much a government can exercise rights of control. Also, corruption level matters, pervasive corruption is positively related, while arbitrary corruption in negatively related, to bribes paid.

(Petrou, 2014)	Bank Foreign Affiliate Performance in the Face of Pervasive and Arbitrary Corruption	This research focuses on the financial performance of foreign bank affiliates in light of their experience with pervasive and arbitrary corruption. Author found that pervasive corruption has a negative influence on the performance and interaction of pervasiveness and arbitrariness strengthen this effect.
(Petrou, 2015)	Arbitrariness of corruption and foreign affiliate performance: A resource dependence perspective.	Through resource dependence viewpoint, this study investigates how the arbitrariness of corruption affects subsidiary performance. Findings prove that arbitrariness creates further challenges for foreign affiliates by constraining the access to resources.
(Godinez & Garita, 2015)	Corruption and Foreign Direct Investment: A Study of Guatemala	Using qualitative approach, authors argue that some firms might not be deterred by corruption in the host country, if they obtained knowledge in their home country.
(Demirbag, McGuinnness, Wood, & Bayyurt, 2015)	Context, law and reinvestment decisions: Why the transitional periphery differs from other post-state socialist economies	Research concentrates on longer term investments made by firms and their relative proclivity to reinvest. Authors found that both pervasiveness and arbitrariness of corruption impacts negatively upon reinvestment.
(Ferreira, Carreira, Li, & Serra, 2016)	**The Moderating Effect of Home Country Corruption on the Host Country's Ability to Attract FDI**	**Authors focus on investigating whether corruption has an impact on country's ability to attract FDI. Results show that host country pervasive corruption negatively affects FDI inflows, but not the arbitrariness.**
(Godinez & Garita, 2017)	The dimensions of corruption and its impact on FDI decision making: the case of Guatemala	This study focused on research of the decision-making process and subsequent operations of firms investing in highly corrupt host countries. Both pervasive and arbitrary corruption are included in the interview questions.
(Pessegueiro, Ferreira, Reis, & Pinto, 2018)	**The influence of arbitrary and pervasive corruption on FDI inflows and the moderating effect of corruption distance: evidence from Latin America**	**This research concentrates on the effect of corruption on country's ability to attract foreign direct investment. Results show that high pervasive corruption reduces the attractiveness of FDI and that corruption distance attenuates the negative effect of arbitrary corruption on FDI.**
(Bertrand, Betschinger, & Laamanen, 2018)	Effects of subnational regional corruption on growth strategies in emerging economies: Evidence from Russian domestic and international M&A activity	Authors investigated how corruption in the home region of emerging country affect firm's external growth strategies. They call regional corruption – corruption arbitrariness. This approach is different from other papers on arbitrariness. Authors have found that pervasive in the home region help regional firms expand their business, however, firms prefer to invest in countries that are less corrupt.
(Tian et al., 2019)	Does legal registration help or hurt? The effect of government corruption on resource acquisition by nascent ventures in an emerging economy.	This study focuses on effects of pervasive and arbitrary corruption on entrepreneurs resource acquisition during their new venture creation. The analysis shows that pervasive and arbitrary corruption both hamper resource acquisition by nascent ventures.
(Hanousek, Shamshur, Svejnar, & Tresl, 2021)	Corruption level and uncertainty, FDI and domestic investment	Authors developed a theoretical framework for investment in the presence of corruption. They have found no relationship between corruption uncertainty and investment by MNE subsidiaries operating in the host country, but found a negative relationship between corruption uncertainty and investment by domestic firms.

2.3.6. Corruption and FDI location choice

The growth of multinational enterprises (MNEs) in the form of FDI has gained lots of attention within the IB literature and outside it, as FDI is considered a critical decision for a firm, as well as an indicator of the economic growth and prosperity of nations (Caves, 1974; Dimitratos et al., 2009). However, the MNE today is very different from the twentieth-century MNE (Buckley & Casson, 2020), although FDI continues to be a key driver of IB activities world-wide (Nielsen et al., 2017).

Corruption influences FDI, acting as an irregular tax on business costs (Shleifer & Vishny, 1993) and by creating additional uncertainty regarding the costs of operations (Kaufmann, 1997; Rose-Ackerman, 1999, 2002). Many empirical studies have found that corruption negatively influences FDI, acts as 'sand' and creates additional costs to investors (Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002; Voyer & Beamish, 2004). Wei (2000) found that the host country corruption negatively impacts FDI, by analysing bilateral FDI from 12 developed countries. This was supported by Wei and Shleifer (2000) and Lambsdorff (2003). Cuervo-Cazurra (2006) tested the relationship between corruption in 106 host countries and found that they are negative and significant for all the countries, however, investors from those countries that have signed the OECD Convention on Combating Bribery of Foreign Public Officials in International Transactions, are even further deterred by corruption.

Yi, Meng, Macaulay, and Peng (2019) also separated the two phases of FDI decision-making and found that although initially corruption has a negative impact on the location choice, after the country is already selected, corruption has a positive impact on FDI flows. This is consistent with other studies, which argue that despite the high levels of corruption in many countries, large amounts of FDI are still present (Cuervo-Cazurra, 2008a). For example, Congo – one of the top 15 corrupt countries, attracted the same amount of inward FDI in 2018 as three of the least corrupt countries globally – New Zealand, Denmark and Finland combined.

In those situations, corruption might serve as 'grease' to facilitate transactions for new FDIs (Dreher & Gassebner, 2011; Huntington, 2006; Lui, 1985). The institutional voids lens analyses how firms strategise, compensate, substitute (Boddewyn & Doh, 2011), and even take advantage of weak institutions (Khanna & Palepu, 2011). For example, this is done by using corruption to deal with bureaucratic obstacles (D'Este, Iammarino, Savona, & von

Tunzelmann, 2012) and influence public officials' decision making (Bertrand, Djankov, Hanna, & Mullainathan, 2007).

This approach treats each potential void as an actionable construct which can be exploited or co-shaped (Doh et al., 2017). The springboard perspective on the internationalisation of emerging market firms also suggests that firms use international expansion to acquire strategic resources in order to reduce their institutional and market constraints at home (Luo & Tung, 2007, 2017). The non-market approach can also explain how firms mitigate institutional voids (Cantwell & Narula, 2010; Rodgers, Stokes, Tarba, & Khan, 2019). Social, political, legal, and cultural arrangements can help a firm facing an unpredictable country's institutional environments (Doh et al., 2012).

2.3.7. Corruption distance and FDI location choice

An alternative explanation is that, although corruption is present worldwide, its levels differ radically between countries, the so-called corruption distance. Cuervo-Cazurra (2006) emphasised the importance of home country characteristics and compared FDI inflows from countries with laws against bribery abroad and those that do not have such laws. The author found that because of an increase in the costs of engaging in bribery abroad, due to those laws, investors avoid corrupt countries. The opposite situation appears to happen when investors from corrupt home countries are not deterred by host country corruption as much. He argued that home country characteristics are important in understanding FDI flows in host countries with high levels of corruption.

Habib and Zurawicki (2002) analysed FDI inflows around the world and noticed that even highly corrupt countries often attract a substantial amount of FDI. They argued that not only the corruption levels in the host country matter but also the absolute difference in the corruption levels between the home and the host countries. The authors introduced the corruption difference or corruption distance concept, an idea they adopted from psychic distance (Johanson & Vahlne, 1977; Johanson & Vahlne, 1990) and which they developed further, treating corruption as part of institutions.

According to Habib and Zurawicki (2002, p. 295) "corrupt practices represent a component of local business and administrative customs". Some characteristics of the home countries can also influence the ability and willingness of MNEs to enter corruption practices.

Godinez and Liu (2015) presented positive and negative corruption distance, where both home and host country institutional characteristics were taken into consideration. A situation favouring a host country rather than home country corruption levels (when host country corruption levels are lower than those of a home country), is referred to as positive corruption distance. On the other hand, a situation favouring a home country with lower corruption levels than those of the host country is referred to as negative corruption distance. Using data on FDI flows into Latin America, the authors found that corruption and corruption distance have a different effect on FDI, depending on home country corruption levels.

The idea that direction matters was also supported by Duanmu (2011) in his research on entry modes of MNEs operating in China and by Qian and Sandoval-Hernandez (2015) that not only tested how distance with direction affects bilateral FDI flows, but also subdivided the dataset into industrial and developing countries to check for any asymmetry.

In this thesis, I have combined a few of the above-mentioned approaches: used the corruption distance concept, gave the distance a direction – positive and negative, and, to emphasise the magnitude of the distance, have divided the dataset into four parts, in order to test the large and small corruption distance effects on FDI location choice independently. This approach allowed me to incorporate both the institutional lenses and micro-foundations approaches, since this emphasises the importance of management experience and perceptions of the corrupt environments, rather than simply a straightforward black-and-white view of corruption.

2.3.8. Corruption arbitrariness (corruption induced uncertainty) and FDI location choice

Arbitrary corruption represents the uncertainty associated with corruption; and MNEs cannot be certain whether they will be asked for bribes in countries where arbitrary corruption levels are high. Arbitrary corruption does not guarantee the delivery of the result upon payment, unlike tax, which is levied on a firm in countries with organised corruption (Wei, 1997).

Maximisation of bribes in the absence of clear information can, in this case, increase the uncertainty and costs (Rodriguez et al., 2005). In some cases when the bribe is not enough or no bribe is offered, the firm's assets can be expropriated (Peng & Luo, 2000). This aspect of corruption is much less transparent, the power holding party can change the rules of the game

before or during the illegal transaction, and even after the bribe is paid, the result is also not guaranteed. According to Luo (2005), corrupt acts cannot be documented or enforced by law, due to their illicit nature. Because of opportunism among the bribees, for example, not delivering the service for which the bribe was paid, or requesting additional bribes, increases the costs and uncertainties of corrupt activities (Svensson, 2005).

The main difficulty, associated with high levels of arbitrariness of corruption, is the ability of firms to find the right person who will help them to achieve their goal. Even when the right person is found, the result of the corrupt interaction might be altered by vague policies and laws, which can be interpreted in multiple ways by different government officials and even judges (Ahlstrom & Bruton, 2001; Uhlenbruck et al., 2006). Some researchers indicate that arbitrariness of corruption has more negative implications on economic actors than pervasive corruption (Uhlenbruck et al., 2006; Wei, 1997). In cases of high host country corruption arbitrariness, firms are faced with unknown outcomes, even of the known bribes they need to pay. It is most important that this uncertainty is distinguished from the average probability of encountering bribe requests in the potential host country.

Drawing on institutional theory, Pillay and Dorasamy (2010), presented a theoretical framework connecting the cultural dimensions introduced by Hofstede (1980): power distance, uncertainty avoidance, individualism and time orientation, with levels of arbitrariness and pervasiveness of corruption in a country. They have proposed that arbitrariness of corruption is enhanced in cultures characterised by high power distance, low levels of uncertainty avoidance, in individualistic cultures, 'feminine' cultures and short-term cultures. It is also diminished in cultures characterised by high levels of uncertainty avoidance. While pervasiveness is diminished in cultures characterised by low power distance and low levels of uncertainty avoidance, it is also enhanced in collectivist cultures, in 'feminine' cultures and long-term cultures. Their propositions, however, were not tested empirically.

The effect of pervasive and arbitrary corruption on firms' decisions regarding FDI was tested by Cuervo-Cazurra (2008a) for investments in transition economies. He argued that in this case, pervasive corruption will act as a deterrent to FDI; however, arbitrary corruption will not have such an effect, as it becomes part of the uncertainty of operating in transition economies. Wei (1997) also argued that corruption arbitrariness will negatively affect FDI. Lee and Oh (2007), using a sample of Asian countries, found that, besides the extent of pervasiveness of corruption, the level of arbitrariness can affect FDI inflows and explain the

location choice of FDI. These few studies obtained contradictory results, potentially due to using FDI flows as opposed to FDI location choice.

Another approach was taken by Eden and Miller (2004). They divided corruption distance into pervasive and arbitrary corruption dimensions and defined it as the difference in levels of public sector corruption pervasiveness and arbitrariness between home and host countries, following the argument posed by Doh et al. (2003) that corruption has two dimensions. They theoretically implied that the pervasive and arbitrary corruption distances will differently affect the entry mode choice for MNEs. In case of high regulatory driven pervasive corruption, they expected that MNE will choose a high ownership strategy. In case of high normative institutions driven pervasive corruption and high arbitrary corruption MNE will choose an intermediate ownership. However, the authors have not tested their hypothesis empirically.

Using FDI flows from 28 home countries to 49 host countries Ferreira et al. (2016) confirmed that host country pervasive corruption is broadly related to decreased FDI inflows, consistent with previous research (Cuervo-Cazurra, 2006, 2008a; Habib & Zurawicki, 2002). However, arbitrary corruption did not have such an effect.

Using manager-level data obtained through interviews, Godinez and Garita (2017) analysed managers' investment behaviour in the presence of arbitrary and pervasive corruption that was higher or lower than in their home countries. Using Guatemala as the host country, they found that managers from highly corrupt countries were prepared for high levels of host country arbitrary and pervasive corruption.

The effect of both arbitrary and pervasive corruption on FDI flows was tested by Pessegueiro et al. (2018) on a sample of FDI flows into 17 Latin American countries from 27 home countries. Results indicated that higher pervasive corruption levels reduce the country's attractiveness for FDI. However, arbitrary corruption did not have such an effect. Authors suspect that firms investing in Latin American countries are not deterred by arbitrary corruption. This effect stayed consistent after the adding of corruption distance.

I have incorporated both pervasiveness and arbitrariness dimensions in this thesis to address both the direct effect of corruption and the tacit effect of uncertainty, which is associated with corruption arbitrariness. As one does not exist without the other, I have used

corruption arbitrariness as an interactive term following the approach introduced by Wei (1997), who argued that corruption-induced uncertainty depends on having corruption in the first place.

Corruption arbitrariness requires pervasive corruption to exist in the first place (Wei, 1997). It is also not correct to assume that if country's corruption levels are low, arbitrariness levels are low as well. I used Figure 2.4 to provide an example - pervasive corruption distance between the United States of America and Qatar is only 0.19 (corruption arbitrariness is measured using Standard Deviation), both USA and Qatar are relatively 'clean' with regard to corruption. However, Qatar's corruption arbitrariness index is 22.62, which is among the highest for all the countries in my dataset. Therefore, those two aspects of corruption are present at the same time for Qatar, but not for the USA.

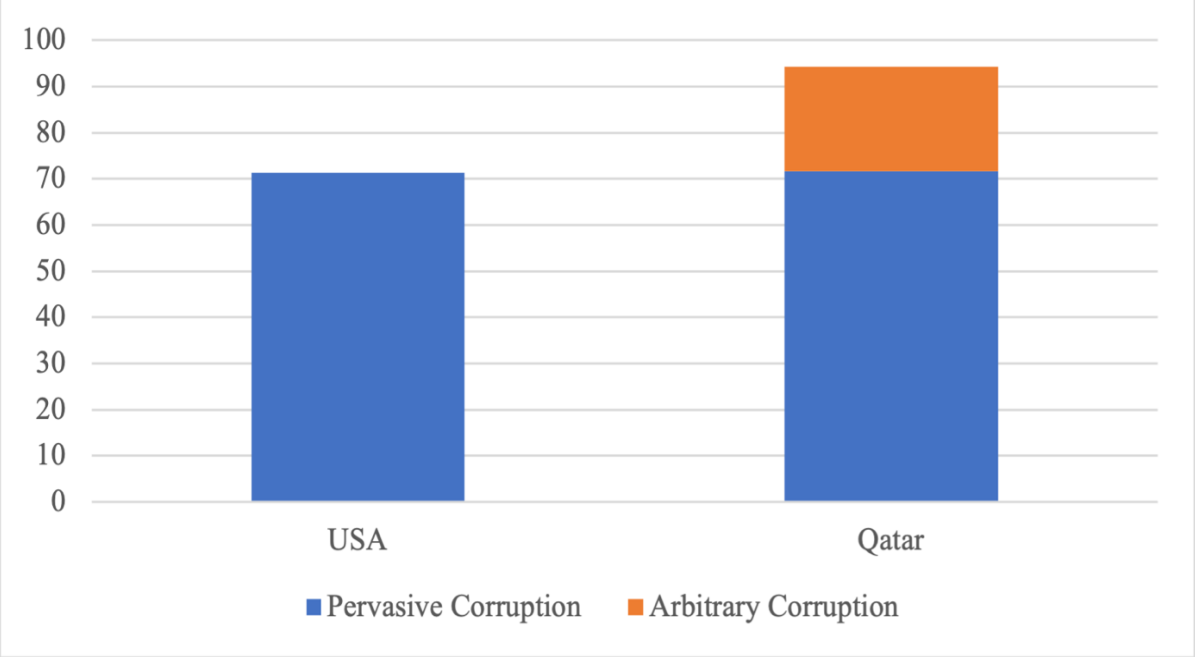

Figure 2.4 Pervasive and Arbitrary corruption – visual representation

Countries differ in both levels of corruption pervasiveness and corruption arbitrariness. I provide an example of how it differs in Figure 2.5. Arbitrariness varies from 0 to 22.6 for 174 host countries for the 5-year period (2012-2016).

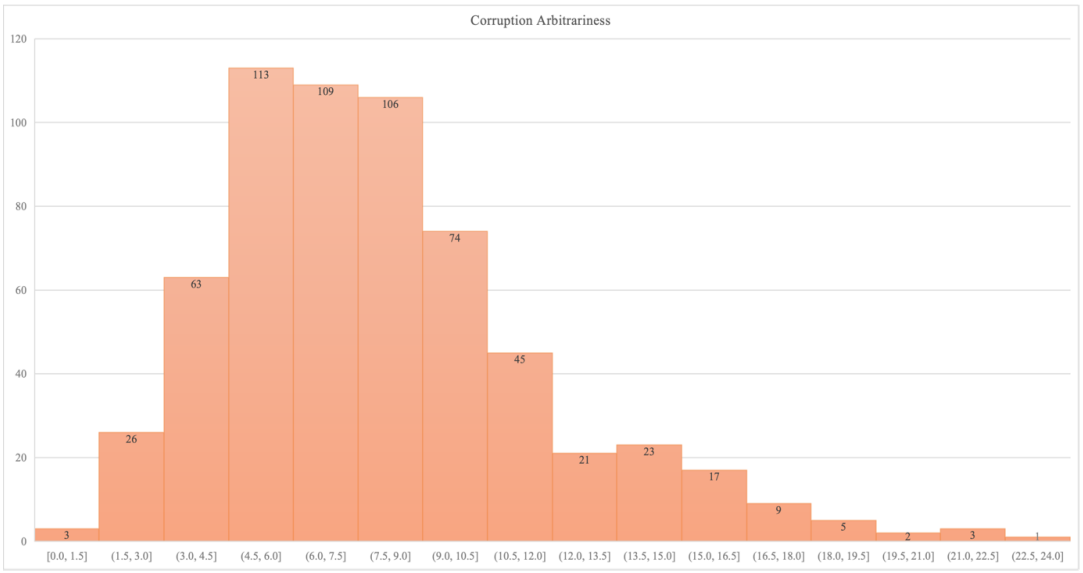

Figure 2.5 Arbitrary Corruption – Standard Deviation

2.4. VUCA world

IB comprises a complex set of activities, primarily, because of the complexity of the global context, the underlying processes and structures, and the behaviour of diverse types of actors engaging in it (Buckley & Casson, 2020). Also, it is far from static, but rather, takes place within an ever-changing environment that is shaped by a diverse set of powerful trends in the political, economic, social, and technological spheres (Hitt, Sirmon, et al., 2021; van Tulder et al., 2019). The VUCA acronym has been used to describe the present state of the world and its conditions, namely: volatility, uncertainty, complexity, and ambiguity. Yet, the VUCA elements have been significantly underplayed in IB literature (Bennett & Lemoine, 2014a; Buckley, 2019); most recently in the context of so-called non-ergodic environment conditions characterised by radical uncertainty, quantum discontinuous types of changes, and the logics of constantly changing dynamic equilibria (Hitt, Arregle, & Holmes, 2020; Rašković, 2021).

The VUCA acronym was first introduced in 1987 in the United States Army and was used to describe the volatility, uncertainty, complexity, and ambiguity associated with new trends in operational environments (van Tulder et al., 2019). Within the IB discipline, these concepts were studied through various approaches. Recently, both managers and academics have been giving increased attention to this concept, arguing that dealing with environments marked by VUCA characteristics provides firms with resilience and agility that can help them

to succeed in their international endeavours. Including VUCA in IB research also leads to discussions that would not happen otherwise (Clegg, Voss, & Chen, 2019), for example through emphasising the manager's perspective, which is often neglected in mainstream research.

The VUCA conditions shape firms' strategic decisions (Buckley, 2019) and also carry important industry (Petricevic & Teece, 2019) and policy implications (Rašković, 2021). (Bennett & Lemoine, 2014b) proposed that VUCA components can be located alongside two dimensions, each characterised by a question. The first dimension asks: 'How much do you know about the situation?' and is focused on the knowledge acquisition and sense-making. The second dimension is concerned with 'How well can you predict the results of your actions?'. Bennett and Lemoine (2014a) also argue that VUCA is a composite term that addresses separate concepts which are interconnected and reinforce each other.

Following this approach, my thesis includes the four VUCA dimensions and matches them with institutional environment factors, such as political stability, government effectiveness (Kaufmann et al., 2004; Kaufmann et al., 2011), and political hazards/policy uncertainty, as well as corruption arbitrariness. Those institutional factors can further influence the relationship between corruption distance on FDI location choice.

2.4.1. Uncertainty

Uncertainty is one the most researched concepts in the IB field. More than 32,972 studies within Business and Management areas of research had uncertainty as the topic. The Liesch and Buckley (2011) literature review on uncertainty and risk suggested a need for a more nuanced treatment of both risk and uncertainty. Uncertainty exists because of the lack of information; however, change is possible but not given. Within IB extant research, uncertainty gained lots of attention.

Most uncertainty-related studies explored policy uncertainty (Nguyen, Kim, & Papanastassiou, 2017), political uncertainty (Delios & Henisz, 2003a; Henisz, 2000b; Henisz & Delios, 2001), and home country uncertainties (Cuervo-Cazurra, Ciravegna, Melgarejo, & Lopez, 2018). Studies on this dimension also include those focused on the risk dimension (Hartwell & Devinney, 2021; Vahlne et al., 2017) and are focused on risk tolerance and managing under uncertainty.

Following Knightian uncertainty (Knight, 1921), risk and uncertainty can be characterised within four categories: known/knowns, known/unknowns, unknown/knowns and unknown/unknowns (Makridakis & Bakas, 2016). Another approach is to divide uncertainty and risk measures into two categories: first – country-level data measuring corruption perception, political risks, and restrictions on foreign direct investment; second – uncertainty measured, adopted or created by authors, e.g. economic uncertainty in stock market volatility, inflation uncertainty, among others (Hanousek et al., 2021). Following the logic of Bloom (2009); Hanousek et al. (2021); Rodriguez et al. (2005), I have constructed the corruption-induced uncertainty or corruption arbitrariness measure as the standard deviation of the responses in Corruption Perception Index survey.

However, it is not only uncertainty that managers must deal with while making strategic decisions today. Due to deglobalisation, the global environment changes have brought in other dimensions, such as volatility, complexity and ambiguity. These dimensions add further uncertainty, creating what we know today as a 'VUCA world'. Answering the questions posed by Bennett and Lemoine (2014a, 2014b), I have matched those dimensions with institutional environment factors, such as political stability, government effectiveness and political hazards/policy uncertainty.

2.4.2. Volatility

Uncertainty and volatility in IB research have always been closely interconnected. Previous studies on volatility included research on volatility of exchange rates (Grube & Samanta, 2003; Li & Rengifo, 2018; Song, Lee, & Makhija, 2015), and economic volatility (Acemoglu, Johnson, Robinson, & Thaicharoen, 2003; Klomp & de Haan, 2009; Pahnke, 2018). Volatile environments are also characterized by high frequency and high magnitude of change (Petricevic & Teece, 2019). Risks associated with volatility can be managed by real options, for example (Lee, Makhija, & Paik, 2008). Volatility also creates a new set of unknowns and therefore generates higher transaction costs, interferes with information gathering and incentives choice (Hartwell & Devinney, 2021).

Political instability can also be a source of the country's volatility in a country's context. Political stability is defined as the propensity for change in executive government power, either by orderly or disorderly means (Alesina et al., 1996). The probability of a government change leads to potential policy changes, which creates volatile environments that firms must deal with

in a potential host country. Used in this thesis, the political stability/absence of violence index measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism (Kaufmann et al., 2011). The changes in the political environment can be sudden or unstable and may be of unknown duration (Bennett & Lemoine, 2014a).

High volatility in political environments and the probability of sudden changes in government can suddenly disrupt current policies, corrupt transactions or even relationships between current government officials and firms and can be ineffective or even harmful. Foreign firms investing in countries with low levels of political stability face uncertainty that arises from the probability of sudden changes in policies with regard to foreign investors and even the possibility of the seasing of existing contracts (Henisz & Williamson, 1999).

The non-market strategy literature has identified the challenges MNEs face due to the diversity, across countries, of political systems, government structures and societal views on business (Petrou, 2015). MNEs engage in financial and relational strategies, such as building political connections, the finding of political actors and lobbying (Doh et al., 2012). Engaging in bribery, as one of the non-market activities, can support a firm in gaining legitimacy and access to local resources (Uhlenbruck et al., 2006). These strategies, including questionable bribery actions, are aimed at helping firms to develop political and social capital, which they may use to negotiate their legitimacy. This 'illegal legitimacy' becomes a way for a firm to overcome liability of outsidership (Cuervo-Cazurra, 2016). Bribes can therefore help a firm's representatives build relationships with local bureaucrats (Krammer, 2017). This supports the 'greasing' view in the corruption literature, which argues that corruption has positive effects, especially in weak institutional settings (Dreher & Gassebner, 2011; Méon & Sekkat, 2005). In such environments bribes can help firms to create strong ties with local bureaucrats (Darendeli & Hill, 2016).

In many countries characterised by weak institutions, for example, emerging markets, governments' behaviour remains unpredictable and is a major concern for firms (Acemoglu & Verdier, 2000), and relationship-building with government officials can enhance a firm's ability to correctly judge the unstable institutional environments. 'Illegal legitimacy' therefore will be expressed in the ability of a firm to 1) overcome the bureaucratic procedures and speed the processes of obtaining legal permits (Lui, 1985); 2) get access to previously unavailable government supported projects (Tanzi & Davoodi, 2000); and 3) avoid or alter regulations (Tanzi, 1998). However, MNEs may find ineffective, and even harmful, such legitimacy

building strategies in uncertain environments characterised by government instability, where with each change of government all efforts can become negligible or even used against the firms. If political regimes change frequently or, overall, a country's power structure is unstable, the established 'bribe-infused' relationships with current political actors can not only be ineffective, but also potentially harmful for a firm. In these circumstances, when politicians, regimes or ruling parties lose power, they cannot continue to support firms (Fisman, 2001).

When established through corrupt practices relationships lose their effectiveness, and whether services promised upon bribe payment will be delivered or not, is unknown (Fredriksson & Svensson, 2003). Furthermore, in volatile environments, corruption 'as grease' approach might also not be as effective. If corruption is not only rampant, but the results are also unpredictable due to potential sudden changes, the results of corrupt transactions are unknown and may be ineffective; and in some cases, the political connections can become liabilities (Wu & Ang, 2020), especially if the new government retaliates against the MNEs that have established connections with the fallen government (Bucheli & Salvaj, 2013; Darendeli & Hill, 2016). Additionally, rulers that expect to be replaced, tend to expropriate more due to fear of future costs of their current expropriatory actions (Knack & Keefer, 1995).

2.4.3. Complexity

The third dimension – *complexity* is characterised by many interconnected parts and variables. In IB domain studies used complexity in institutional environment (Arregle et al., 2016), systems complexity (Chandra & Wilkinson, 2017), global business complexity (Teagarden, 2012), and environmental complexity (Ebrahimi, 2000; Wu, Lao, Wan, & Li, 2019). Complexity is also involved in MNE's strategies that involve the consideration of both the home and the host country institutions (Ahmadjian, 2016). Micro-foundations literature emphasises the importance of individuals and their interactions in dealing with the complex institutional environments (Contractor, Foss, Kundu, & Lahiri, 2019).

Government effectiveness encompasses the quality of the bureaucracy and public services delivery in a country and the complexity of procedures and provoking administrative delays to extract maximum bribes (Shleifer & Vishny, 1993; Wei, 1999). In countries with excessive regulations that impede economic activity, bribes are usually paid to 'grease' the wheels; however, the uncertainty of the outcome of such corrupt transactions is very high, as the independent political agents fractionalise the economic activities to maximise their own

rents (Alon, Li, & Wu, 2016). Power is spread between a larger number of independent agents, and therefore not only is the total cost of corruption higher, but also the result cannot't be guaranteed. A good example is post-Soviet Union countries that we now call transition economies, where, unlike when they were previously centralised by the Communist Party, bribes collection is now distributed among different ministries, agencies, and levels of local government, which are decentralised and set their own bribes independently (Bardhan, 1997). In countries where laws and government policies are complex and subject to broad and varied interpretation, corrupt transactions' outcomes are highly uncertain (Ahlstrom & Bruton, 2001).

A firm's strategic decisions rely on information, collected in the most efficient and reliable manner (Buckley, 2020). Unlike volatility, complexity can be described as a 'known' risk and is therefore not something that managers can potentially learn from through their home country experience. Combined with pervasive corruption, government ineffectiveness will just add a negative emphasis to a manager's negative perceptions of the host country's institutional environment.

2.4.4. Ambiguity

The fourth dimension – *ambiguity* – signifies the lack of knowledge of 'the basic rules of the game' (Bennett & Lemoine, 2014a) and having to face the 'unknown unknowns'. Ambiguity was mostly studied in general intro-firm processes research (Beleska-Spasova & Glaister, 2013) and knowledge ambiguity research (Ho, Ghauri, & Kafouros, 2019), as well as when discussing the identity duality (Pant & Ramachandran, 2017) and different values and cultures (Faure & Fang, 2008; Zander, Jonsen, & Mockaitis, 2016). The ambiguous environments are not volatile, as there is no reason to expect the unavoidable quick change. Neither they are complex, as there are no big numbers of ever-moving part involved. However, the biggest problem in such an environment is a lack of understanding about what comes next (Bennett & Lemoine, 2014a). Ambiguity is also the least studied within the IB domain VUCA dimensions.

Ambiguity lacks the cause-and-effect relationship (Buckley, 2020) and therefore corresponds with the next institutional dimension – policy uncertainty. Policy uncertainty/ political hazards are associated with overlapping agencies, tenuous procedures and bribes that can be collected randomly by various officials, and which may lead to repeated and non-effective corrupt transactions (Uhlenbruck et al., 2006). This dimension is related to checks

and balances in a nation's political system, and measures a) the number of veto players in various government branches that have independent influencing power, and b) the political actors' preference heterogeneity. Similarly, this dimension is executed on the individual level and depends on the decision makers – government officials, in this case.

Managers and decision makers must identify and analyse the information that can reduce the uncertainty regarding the country's political hazard environment (Knight, 1921). In countries with high levels of policy uncertainty, managers will struggle with multiple actors that are shaping the policy and regulations and face expropriation, contract re-negotiations, unnecessarily strict policies against foreign companies, and discriminatory use of regulations and processes (Maitland & Sammartino, 2015a). Also, uncertainty from the policy environment emphasises difficulties in collecting, interpreting and organising the information that firms need in order to make a decision regarding FDI (Delios & Henisz, 2003b).

A visual representation of VUCA dimensions on the predictability and knowledge axis as well as their institutional counterparts is presented in Figure 2.4 below.

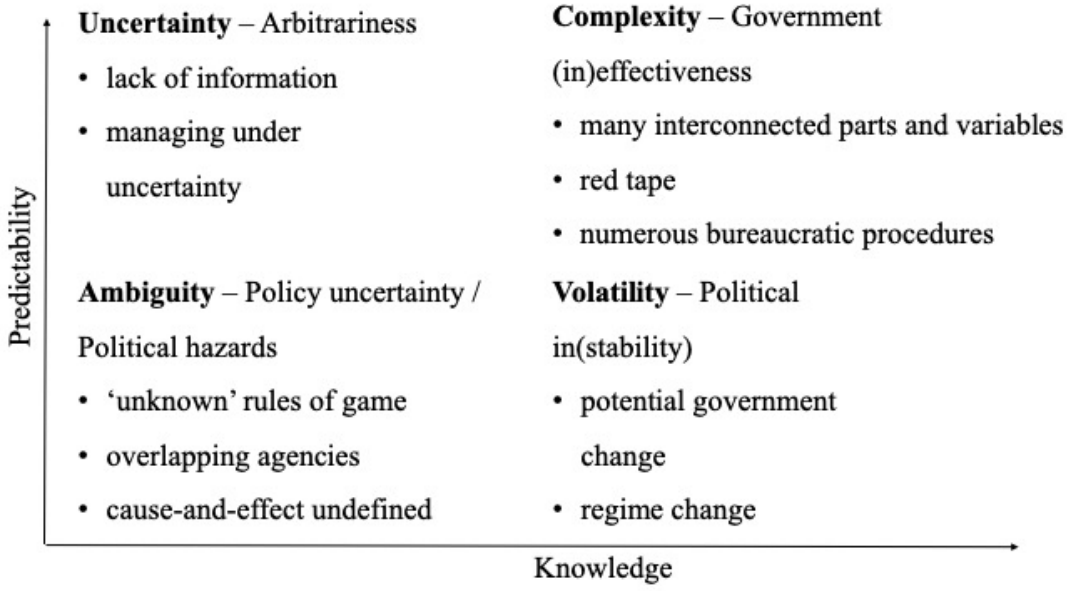

Figure 2.6 VUCA dimensions and their institutional environment factors counterparts

*Based on (Bennett & Lemoine, 2014b)

3. Hypotheses development

3.1. Corruption and FDI location choice

3.1.1. Introduction

In the previous chapters I have revealed my motivation to do a research on corruption, introduced the conceptual models and provided a literature review of FDI location choice research and corruption phenomenon.

3.1.2. FDI location choice

In the IB field, with the rapid increase of FDI, corruption gained a lot of attention from both developed and developing countries (Habib & Zurawicki, 2002). Corrupt markets are considered both attractive and risky (Rodriguez et al., 2005), providing both opportunity and potentially leading to failure. Multiple studies have examined the effect of perceived or pervasive corruption on FDI flows (Egger & Winner, 2005; Habib & Zurawicki, 2002; Lambsdorff, 2003; Wheeler & Mody, 1992). Some argued argued that corruption can facilitate transactions in countries with excessive regulations (Dreher & Gassebner, 2011; Lui, 1985) and don't see it as a negative host country quality. This concept is usually called 'greasing the wheels' (Cuervo-Cazurra, 2008a) or 'lending a helping hand' (Petrou & Thanos, 2014). It has been studied from various directions (Aidt, 2009; Wei, 1999, 2001; Zhou & Peng, 2011), for example, through analysing how firms can benefit from high host country pervasive corruption levels in countries with strict regulations (Egger & Winner, 2005; Huntington, 2006).

The institutional voids lens also analyses how firms strategise, compensate, substitute (Boddewyn & Doh, 2011), and even take advantage of weak institutions (Khanna & Palepu, 2011). This approach treats each potential void as an actionable construct, which can be exploited or co-shaped (Doh et al., 2017). The springboard perspective on the internationalisation of emerging market firms also suggests that firms use international expansion to acquire strategic resources in order to reduce their institutional and market constraints at home (Luo & Tung, 2007, 2017). The non-market approach can further explain how firms mitigate institutional voids (Cantwell & Narula, 2010; Rodgers et al., 2019). Social, political, legal, and cultural arrangements can help a firm facing an unpredictable country's institutional environments (Doh et al., 2012).

However, most authors argue that corruption is 'sand' (Habib & Zurawicki, 2002; Kaufmann, 1997; Kurtzman, Yago, & Phumiwasana, 2004). It creates an entry barrier (Campos, Estrin, & Proto, 2010), additional costs and uncertainty for MNEs (Cuervo-Cazurra, 2008a; Habib & Zurawicki, 2002), (Murphy et al., 1993), therefore has a negative effect of corruption on FDI. Yet, some authors have not found a significant correlation between corruption and FDI flows (Henisz, 2000c; Kolstad & Villanger, 2008; Wheeler & Mody, 1992).

Although the arguments can be validated for both 'sanding' and 'greasing' view of corruption, the mixed results and using a variety of FDI-related variables do not help to solve the biggest puzzle – why some corrupt countries still receive large amounts of FDI.

A potential explanation of the asymmetry in investment levels can be that not only the host country corruption levels matter, but also the difference in corruption levels between the home and the host country i.e., corruption distance (Habib & Zurawicki, 2002; Qian & Sandoval-Hernandez, 2015). The distance concept in the context of neo-institutional theory has gained scholarly attention through research on institutional distance (Aguilera & Grøgaard, 2019; Berry et al., 2010; Deng et al., 2018; Kostova et al., 2019; Zaheer et al., 2012), cultural distance (Beugelsdijk, Kostova, et al., 2018), psychic distance (Dow & Karunaratna, 2006), geographic distance (Beugelsdijk & Mudambi, 2013), economic distance (Ghemawat, 2001).

I am combining the distance concept and choosing to follow a more traditional view following the steps of Egger and Winner (2005); Habib and Zurawicki (2002); Lambsdorff (2003); Wheeler and Mody (1992), and argue that corruption serves as 'sand' and negatively impacts managers' decisions to invest in a certain country.

Additionally, most of the studies that looked at corruption and FDI considered only FDI stocks or flows, however, very few looked at the first decision the firms make – FDI location choice. Yet, some authors have argued that analysing the impact of host country corruption on FDI levels without controlling for host country selection can lead to biased results (Barassi & Zhou, 2012; Hakkala et al., 2008; Javorcik & Wei, 2009) and FDI flows and FDI location choice decisions should be set apart (Buckley, Devinney, et al., 2007). To address this, I am using FDI location choice as the dependent variable in my research.

Finally, while I am adopting the corruption distance measure I also keep in mind that corruption has two dimensions – corruption pervasiveness and arbitrariness. In my first

hypothesis I use pervasive corruption distance that measures the difference in perceived corruption levels between the countries. It appears to be a good determinant for FDI flows (Godinez & Liu, 2015; Habib & Zurawicki, 2002), as corruption varies across different locations. However, as I am using FDI location choice, to answer my first research question I argue that:

H1: Pervasive corruption distance has a negative effect on FDI location choice.

High levels of corruption in a host country were found to be both negatively correlated with the FDI flows (Cuervo-Cazurra, 2006; Hanousek et al., 2021; Voyer & Beamish, 2004) and positively affecting them (Barassi & Zhou, 2012; Egger & Winner, 2005; Robertson & Watson, 2004). Institutional differences have a very big influence on location choices that firms make because of uncertainties and liability of foreignness (Jiang et al., 2014; Williams & Grégoire, 2014). However, firms may not face the same difficulties if they consider countries for which the differences are of the same magnitude but are in a different direction (Håkanson & Ambos, 2010).

A recent distance concept critique calls for adding a direction to the distance (Zaheer et al., 2012). To address this and try to understand in more details how corruption affects the FDI location choice, I have fixed one country as the focal entity and defined all other countries of interest with respect to the focal country in order to observe whether the distance has a negative or positive direction, following (Godinez & Garita, 2015). This allows me to consider two scenarios – when firms are considering investing in countries with less corruption and when they are aiming for countries with more corruption. The motivation behind this strategic decision is very different.

Countries have a diversity of legal, ethical, and legitimacy standards (Cuervo-Cazurra, Dieleman, Hirsch, Rodrigues, & Zyglidopoulos, 2021) and in first case, firms will be looking at countries that have better institutional environments, clear rules and regulations, laws are explicit and entry barriers are lower. This state in comparison with their home country is called negative corruption distance. In second case, firms are considering more corrupt countries where they will be expected to pay bribes and have higher uncertainty, where rules are not explicit and legal standards may differ extensively. This situation is called positive corruption distance.

Negative and positive corruption distance concepts were proven to be an excellent proxy for explaining FDI flows (Godinez & Liu, 2015; Qian & Sandoval-Hernandez, 2015). However, I am going to test whether they will have the same effect on FDI location choice, therefore I argue that positive and negative corruption distances will have a different effect on this strategic decision.

Firms investing in less corrupt countries, compared to their home countries (positive corruption distance), can benefit from better institutional environments, and reduced operational costs; therefore, I argue that:

H1a: Positive pervasive corruption distance has a positive effect on FDI location choice.

However, firms investing in countries with higher levels of corruption compared to their home countries (negative corruption distance), still face additional challenges while conducting business in those countries (Habib & Zurawicki, 2002). They will encounter more difficulties understanding and complying with the host country governance infrastructure, rules and laws (Cuervo-Cazurra & Genc, 2011). Corruption will act as an entry barrier by adding costs of entry and costs of operations (Habib & Zurawicki, 2002; Kaufmann, 1997; Murphy et al., 1993). Firms may also have to devote resources to manage bribing (Kaufmann, 1997) and as bribery is illegal, corruption contracts are not enforceable in courts, which leads to uncertainty and further increases overall risks (Cuervo-Cazurra, 2008b; Pinkham & Peng, 2017). Therefore, I argue that:

H1d: Negative pervasive corruption distance has a negative effect on FDI location choice.

Distance also has both direction and magnitude, and the asymmetric effect must be explored (Hutzschenreuter, Kleindienst, & Lange, 2016). Firms are going to face different levels of uncertainty when entering the countries with the same direction but different magnitude. And then managing corruption behavior comes into action, depending on direction and magnitude of corruption distance. Researcher's understanding of MNEs strategies to manage corruption is still limited (Cuervo-Cazurra, 2016; Doh et al., 2003; Jeong & Weiner, 2012). Some authors suggest that if engaging in corruption is an institutionalised and normalised practice in the host country, firms don't have any choice, but to either invest and

bribe or to implement controls to avoid getting involved in corruption (Collins, Uhlenbruck, & Rodriguez, 2008; Uhlenbruck et al., 2006), including avoiding investing in the country in the first place.

Most of the research in this area also have been focused around the developed countries MNEs (Luo, Zhang, & Bu, 2019), with exception of the article by Stevens and Newenham-Kahindi (2020) who compared and contrasted developed countries MNE's and developing countries MNE's strategies for managing corruption abroad. Authors have used a qualitative approach and found that in addition to acquiescence and avoidance strategies, developing country firms also apply engagement strategy, which goes hand in hand with collusive corruption type, when both parties are willing to engage in illegal deal.

There concepts are particularly prominent in my research, as adding a magnitude to the direction emphasises the varying reasoning behind the location decision making. If the direction is positive, firms do not need to worry about corruption in the host country, can enjoy the strong institutional environment and concentrate on building their operations right away, as opposed to having to negotiate with corrupt officials. However, if the magnitude of the positive distance is large, firms might not be able to benefit from the knowledge they have obtained in their home country corrupt environment and none of the familiar strategies will have use. Therefore, I argue that:

H1b: The bigger the positive pervasive corruption distance, the less likely firms will choose that country as an FDI location.

However, when corruption distance between the home and host countries is small, firms will be able to use both their capabilities and benefit from better institutional environments compared to their home countries (Cuervo-Cazurra & Genc, 2011) and potentially apply a corruption management engagement strategy. This scenario is applicable to both developed and developing countries, as both can have a small distance between them. However, the strategies might be different.

For example, the pervasive corruption distance between Canada (CPI 77) and Singapore (CPI 85) and between Cambodia (CPI 21) and Vietnam (CPI 36) is 8 (with a positive sign). If a firm from Canada decides to invest in Singapore, it can enjoy the almost corrupt-free environment, while a firm in Cambodia investing in Vietnam can leverage its capabilities,

knowledge and experience obtained in more corrupt Cambodia and employ the engagement strategy based on that knowledge yet enjoy better institutional environments compared to their home country. In both cases, however, the relationship between the smaller positive distance and FDI location choice is expected to be positive, whether there is a need for or not a corruption mitigation strategy. Therefore, I argue that:

H1c: The smaller the positive pervasive corruption distance, the more likely firms will choose that country as an FDI location.

When firms are looking at the countries with much weaker than their home countries' institutional environments, they are potentially facing difficulties doing business there because of potential uncertainties (Håkanson & Ambos, 2010) and lack of protection of their transactions (Globerman & Shapiro, 2002a). Absence of knowledge about the host country environments will be deter firms from investing in more corrupt host countries (Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002; Wei & Shleifer, 2000); and no experience of operating in similar corrupt environments because of the magnitude of the negative corruption distance will further deter the firms from choosing that location. This assumption allows me to argue that:

H1e: The bigger the negative pervasive corruption distance, the less likely firms will choose that country as an FDI location.

When a firms' home country is characterised by weak institutional constraints, they develop capabilities that will allow them to be less sensitive to the host country risks. Additionally, such firms might even seek out riskier host countries to leverage their political capabilities (Holburn & Zelner, 2010) and employ one of the strategies to deal with corruption. Similarly, firms learning how to deal with corruption in an uncertain home country environment become more adaptable and resilient to similar host country environments (Cuervo-Cazurra et al., 2018). And managers from countries with high uncertainty are more flexible in dealing with host country corrupt government officials (Cuervo-Cazurra & Genc, 2008).

In addition, the smaller the negative corruption distance is, the closer the home and host countries are in levels of corruption environments. Firms may be able to benefit from the

knowledge obtained through operations in the home country and leverage or even thrive in more corrupt environments, rather than being deterred by them. So, my argument follows:

H1f: The smaller the negative pervasive corruption distance, the more likely firms will choose that country as an FDI location.

3.2. VUCA dimensions and FDI location choice

3.2.1. Uncertainty and FDI location choice

Another possible explanation of the asymmetry in investment levels is that it is not the level of corruption but the *type* of corruption that matters when it comes to decisions on FDI location choice. I have used pervasive corruption to measure corruption distance; however, adding arbitrary corruption might also help explain how the MNEs make their strategic decisions regarding the location of FDI.

Addressing the various types of corruption in emerging markets, where corruption fills institutional voids and takes on the role of missing market mechanisms, Cuervo-Cazurra (2008a) poetically contrasted *pervasive* (certain or known) and *arbitrary* (uncertain or unknown) corruption, as the known and unknown *devils* in FDI decisions. And, as mentioned before, only twenty papers included both types of corruption and none looked at the interaction between corruption dimensions and FDI location choice.

While pervasiveness relates to the level of probability of encountering corruption in interactions with government officials and agents, corruption arbitrariness reflects the uncertainty associated with corruption and is closely related to VUCA characteristics.

Some authors see corruption arbitrariness as having potentially more negative implications for economic actors than pervasive corruption because it increases the environmental uncertainty and liability of foreignness (Uhlenbruck et al., 2006; Wei, 1997). Yet, others consider it as part of the uncertainty of doing business in a host country. For example, Cuervo-Cazurra (2008a) tested the effect of both dimensions of corruption of FDI flows in transition economies and found that arbitrariness does not have the same negative effect as pervasive corruption. Using a sample of Asian countries, Lee and Oh (2007) found that besides the extent of pervasiveness of corruption, the level of arbitrariness can affect FDI inflows. Thus, the only two studies that incorporated the two dimensions, show inconsistent

results and only look at FDI flows, calling for more empirical verification.

Unlike fixed tax of pervasive corruption (Wei, 2000), when corruption is also arbitrary, firms have to tap into the tacit and uncertain dimension of corruption with no guarantee of the results (Ahlstrom & Bruton, 2001; Ferreira et al., 2016; Rodriguez et al., 2005). I take into consideration the inconsistencies in the literature and recognize the importance of incorporating both corruption dimension in my research. Following Lee and Oh (2007) I argue that corruption arbitrariness will have a negative moderating effect. Uncertainty associated with corrupt transactions, inability to know in advance whether managers can benefit from corrupt transactions, further decreases the probability that the country is chosen as an FDI location choice, and this is valid for all the pervasive corruption distances, regardless the direction and magnitude. Therefore, I argue that:

H2: Host country corruption arbitrariness will negatively moderate the relationship between pervasive corruption distance and FDI location choice.

H2a: Host country corruption arbitrariness will negatively moderate the relationship between positive pervasive corruption distance and FDI location choice.

H2b: Host country corruption arbitrariness will negatively moderate the relationship between the large positive pervasive corruption distance and FDI location choice.

H2c: Host country corruption arbitrariness will negatively moderate the relationship between the small positive pervasive corruption distance and FDI location choice.

H2d: Host country corruption arbitrariness will negatively moderate the relationship between negative pervasive corruption distance and FDI location choice.

H2e: Host country corruption arbitrariness will negatively moderate the relationship between the large negative pervasive corruption distance and FDI location choice.

H2f: Host country corruption arbitrariness will negatively moderate the relationship between the small negative pervasive corruption distance and FDI location choice.

3.2.2. Volatility and FDI location choice

The political environment plays a big part in the business environment of MNEs (Baron, 1995; Hartwell & Devinney, 2021), and it is crucial to include governance-related variables while analysing corruption (Weitzel & Berns, 2006). Political stability (or instability) is often recognized as one of the critical determinants of investment decisions (Kobrin, 1978; Wei, 2000). This institutional dimension reflects the probability of sudden changes in government that can disrupt current policies (Kaufmann et al., 2004). Foreign firms investing in countries with low levels of political stability face volatility and probability of sudden changes in policies with regard to foreign investors and even the possibility of existing contracts being seized (Henisz & Williamson, 1999; Svensson, 1998). However, some argue that politically risky countries also offer competitive advantages that MNEs would not get elsewhere (Frynas & Mellahi, 2003; Jiménez & Delgado-García, 2012). Previous studies also acknowledge that not all the first will be affected equally by the host country risky environment (Buckley, Chen, Clegg, & Voss, 2020). Some will be less deterred and some even look for risky environments to benefit from experience obtained operating at home and abroad (Cuervo-Cazurra, 2011; Del Sol & Kogan, 2007; Holburn & Zelner, 2010). Firms with experience in risky conditions can overcome to at least certain extant the threat of host country political environment. Prior studies have generated contradictory findings, and the current global political environment, magnified by COVID-19, calls for further investigation that could allow us to better understand and even mitigate the known and unknown/unknowns (Hartwell & Devinney, 2021).

Multinationals also can engage in financial and relational strategies, such as building political connections, the finding of political actors and lobbying (Doh et al., 2012). Engaging in bribery supports a firm in gaining legitimacy and access to local resources (Cuervo-Cazurra & Genc, 2008; Uhlenbruck et al., 2006). These strategies, including questionable bribery actions, aim to help firms to develop political and social capital, which they may use to negotiate their legitimacy. This illegal legitimacy becomes a way for a firm to overcome the liability of outsidership. Bribes can therefore help firms build relationships with local

bureaucrats (Krammer, 2017). This supports the 'greasing' view in the corruption literature, which that argues that corruption has positive effects, especially in weak institutional settings (Dreher & Gassebner, 2011; Méon & Sekkat, 2005) and emphasises that corruption can be collusive, where both parties involved are motivated to enter the illegal deal and even conspire to keep the crime hidden (*Consequences of Corruption at the sector Level and implications for Economic Growth and Development*, 2015); often the case in procurement-related corruption or other business deals. In such environments, bribes can help firms to create strong ties with local bureaucrats (Darendeli & Hill, 2016).

In many countries characterized by weak institutions, for example, emerging markets, governments' behaviour remains unpredictable and is a major concern for firms (Acemoglu & Verdier, 2000). Relationship-building with government officials can enhance a firm's ability to judge correctly the unstable institutional environments. Illegal legitimacy therefore will be expressed in the ability of a firm to 1) overcome the bureaucratic procedures and speed the processes of obtaining legal permits (Lui, 1985); 2) get access to previously unavailable government-supported projects (Tanzi & Davoodi, 2000); 3) to avoid or alter regulations (Tanzi, 1998). Managers' perception of opportunities and risks is also a result of their prior experience. Yasuda and Kotabe (2020) introduced the political risk reference point (PRRP) concept, which is defined as firm's reference point that its managers use to interpret the host country's political risks. They have also argued that MNEs assess the environments based on their PRRPs which include both home and host country political risks.

In countries with high political instability, overcoming the bureaucratic delays and gaining government support can be beneficial for firms prepared to deal with pervasive corruption in the host-country environments (Tanzi & Davoodi, 2000), as they have honed unique capabilities in dealing with poor institutional environments in their home countries (Cuervo-Cazurra & Genc, 2008; Del Sol & Kogan, 2007). This risk can be seen as endogeneous and can be influence by the firms and managers (Buckley et al., 2020). Therefore, I argue that:

H3: Political instability will positively moderate the relationship between pervasive corruption distance and FDI location choice.

H3d: Political instability will positively moderate the relationship between negative pervasive corruption distance and FDI location choice.

H3e: Political instability will positively moderate the relationship between large negative pervasive corruption distance and FDI location choice.

H3f: Political instability will positively moderate the relationship between small negative pervasive corruption distance and FDI location choice.

However, for firms investing in countries with less corruption, political instability is not going to be beneficial. The risk becomes exogeneous. While corruption is not an issue, unstable and ineffective government may deter firms from entering. They have no means to negotiate a good deal with the politicians, regimes or ruling parties that lose power and cannot continuously support firms (Fisman, 2001) or influence the politician as they would in case of more corrupt environments. Volatile conditions are unpredictable (Bennett & Lemoine, 2014a), and previous knowledge obtained in the home country would not be effective, as firms don't have means to apply the experience obtained prior to considering investing in the countries with high political instability yet not as corrupt as their home country. Therefore, I argue that:

H3a: Political instability will negatively moderate the relationship between positive pervasive corruption distance and FDI location choice.

H3b: Political instability will negatively moderate the relationship between large positive pervasive corruption distance and FDI location choice.

H3c: Political instability will negatively moderate the relationship between small positive pervasive corruption and FDI location choice.

3.2.3. Complexity and FDI location choice

Government (in)effectives captures "perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies" (Kaufmann et al., 2004, p. 223). The rent-seeking bureaucrats can implement numerous rules, delay the procedures, and provoke administrative delays to extract maximum bribes (Shleifer & Vishny, 1993; Wei, 1999). In countries with excessive regulations bribes are usually paid as a 'grease' to the government wheels and in response to inefficient government. However, because the political agents are highly fractionalised and

tend to maximise their rents, the outcomes of those corrupt transactions can be unknown (Alon et al., 2016). The power is also spread between a big number of independent agents, the total cost of corruption is higher, and result are not guaranteed.

In addition, government ineffectiveness does not provide the same benefits as political instability. Although not volatile or unpredictable, complex institutional environments present firms with a great number of potential hard-to-digest regulations and tariffs. Another difficulty is associated with an inability to establish reliable information networks and thus obtain and interpret the information necessary to consider operating in a country.

Government (in)effectiveness occurs at the micro-level (decision-makers' level) and represents the complexity dimension of VUCA. Complexity is recognized as a crucial attribute affecting a firm's strategies, decisions and performance (Arregle et al., 2016). The microfoundations literature argues that the micro level, which is presented by individuals and their interactions has a better explanatory power for global strategy actions (Contractor et al., 2019; Maitland & Sammartino, 2015b). Rent-seeking bureaucrats – individuals in the government machine who make decisions regarding the bribe demand frequency, amounts, etc. – significantly increase the uncertainty for the firms investing in the host country. It is also important to note that bad governance and corruption, although related, are not the same (Kaufmann, 2005). Therefore, I expect government ineffectiveness to have an additional negative effect when combined with pervasive corruption distance, regardless direction and magnitude, which leads me to argue that:

H4: Government ineffectiveness will negatively moderate the relationship between pervasive corruption distance and FDI location choice.

H4a: Government ineffectiveness will negatively moderate the relationship between positive pervasive corruption distance and FDI location choice.

H4b: Government ineffectiveness will negatively moderate the relationship between large positive pervasive corruption distance and FDI location choice.

H4c: Government ineffectiveness will negatively moderate the relationship between small positive pervasive corruption distance and FDI location choice.

H4d: Government ineffectiveness will negatively moderate the relationship between negative pervasive corruption distance and FDI location choice.

H4e: Government ineffectiveness will negatively moderate the relationship between large negative pervasive corruption distance and FDI location choice.

H4f: Government ineffectiveness will negatively moderate the relationship between small negative pervasive corruption distance and FDI location choice.

3.2.4. Ambiguity and FDI location choice

Previously IB authors suggested that country risks have multiple dimensions (Brown, Cavusgil, & Lord, 2015). Both political institutions and non-market strategy literature focus on a function of the political constraints upon the governments' discretionary behavior, and whether firms can have a certain degree of control of it (Bonardi, 2004; Bonardi, Holburn, & Vanden Bergh, 2006; Henisz, 2000a). And while certain risks, such as political instability can be mitigated and potentially exploited in some circumstances, policy uncertainty belongs to the category of risks that can't be affected by firms. This exogeneous risk is something that lies outside of the firm's abilities to predict and exploit, as they don't possess an informational to mitigate the magnitude of externally determined risks (Buckley et al., 2020).

Policy uncertainty includes lack of political constraints/checks and balances and complexity of government divisions and upper echelons. It is related to the power structure and management style of government institutions (Cuervo-Cazurra, 2008a). Political constraints are related to checks and balances in a nation's political system. They measure a) the number of veto players in various government branches that have independent influencing power, and b) the political actors' preferred heterogeneity (homogeneity) within an opposition (aligned) branch of government (Henisz, 2000c). First, the number of independent government branches is identified, which include executive, lower and upper legislative chambers, judiciary, and sub-federal institutions. Every additional veto player provides a negative but diminishing effect on the levels of uncertainty. Then, each branches' preferences and the status quo policies are assumed to be independent and drawn from the same policy space. This assumption allows the deriving of a quantitative measure for institutional hazards using a simple spatial model of political interaction (Henisz, 2000c).

Uncertainty magnifies difficulties in collecting and organising the information necessary for a successful operation (Yasuda & Kotabe, 2020). Ambiguity is unavoidable in such environments and, because this VUCA aspect also happens on a micro level, meaning the individuals make decisions regarding the frequency and amounts of bribe demands, this institutional dimension potentially is the most damaging and the most deterring of all.

There is no means by which firms can prepare for ambiguity, as the main problem in such environments is lack of information regarding what will happen next (Bennett & Lemoine, 2014a) or how to deal with what might come. The situations involving ambiguity are much more challenging because of the newness, and the actions cannot be tracked back to any previous experience that managers encountered. Some authors also argue that even more experienced firms don't possess any advantages compared to less experienced firms (Buckley et al., 2020). However, he economic theory of risk clearly states that the quality of prediction does not depend on experiential learning. Therefore, I argue that policy uncertainty is the worst of all VUCA dimensions and will negatively moderate the relationships between all pervasive corruption distances and FDI location choice, regardless the direction or the magnitude:

H5: Policy uncertainty will negatively moderate the relationship between pervasive corruption distance and FDI location choice.

H5a: Policy uncertainty will negatively moderate the relationship between positive pervasive corruption distance and FDI location choice.

H5b: Policy uncertainty will negatively moderate the relationship between large positive pervasive corruption distance and FDI location choice.

H5c: Policy uncertainty will negatively moderate the relationship between small positive pervasive corruption distance and FDI location choice.

H5d: Policy uncertainty will negatively moderate the relationship between negative pervasive corruption distance and FDI location choice.

H5e: Policy uncertainty will negatively moderate the relationship between large negative pervasive corruption distance and FDI location choice.

H5f: Policy uncertainty will negatively moderate the relationship between small negative pervasive corruption distance and FDI location choice.

4. Research design and methodology

4.1. Introduction

In the previous chapter, I discussed my research hypotheses. This chapter consists of five main parts. First – justification for the selection of the research approach is followed by the methodology used for the sampling and firms' identification. Thirdly, I discuss the measurements and variables, as well as the sources that I have used to collect the information for the variables. The approach used to handle any missing data follows. Finally, I discuss the estimation technique used to assess the hypothesised relationships of this research.

4.2. Research approach

Researchers posit that good research requires a well-crafted framework as a result of combining a theoretical perspective or philosophical worldview, methodology or research design and methods (Creswell & Creswell, 2017). Additionally, Crotty (1998) voiced that it is crucial to specify the epistemology of the research that is embedded in the theoretical perspective. Following this approach, this research intends to determine the influence of pervasive corruption distance with magnitude and direction on firms' location choice decisions. Therefore, understanding is objectified in firms and by undertaking comprehensive research we can discover the objective truth. This research develops a theoretical perspective based on objectivism (Crotty, 1998).

My research also adopts a post-positivist theoretical perspective following Phillips, Phillips, and Burbules (2000). They described the post-positivist approach that matches the characteristics of the present research – marking claims and testing them. Furthermore, this approach seeks to develop true statements that describe the causal relationships.

Appropriateness and rigour of methodology is another aspect of a research framework that requires attention (Scandura & Williams, 2000). Methodology must be compatible with the research question and the level of prior knowledge in the field (Edmondson & McManus, 2007). Location choice – the focus of this research – is a well-established topic in IB. The literature review in Chapter 2 revealed that researchers used a variety of theoretical perspectives to identify the determinants of location choice. Their findings, however, are not conclusive when corruption is added. This calls for further refinement of the existing relationships between the institutional variables and location choice.

Drawing from prior literature, this research identifies independent and control variables of interest to develop a precise model of the relationship between corruption distance and the FDI location choice and to explain the underlying mechanisms. The research questions enhance our knowledge of institutional effect and explore the effect of moderators on a focal relationship. Testable hypotheses were developed using existing variables measured by established constructs. Therefore, quantitative method was chosen for this research as an appropriate method for mature theory (Edmondson & McManus, 2007). The quantitative approach is used to test predetermined hypotheses and identifying factors that determine the outcome (Creswell & Creswell, 2017). It also provides the capability to study the existence and strength of the relationship between variables with a large number of observations (Ang, 2021). Non-experimental correlational design is used in this research to measure the relationship between variables by correlational statistics (Creswell & Creswell, 2017).

4.3. Data and sampling

This research uses a sample of firms obtained from the fDi Markets database, which have engaged in greenfield operations in the healthcare sector between 2012 and 2016. The fDi Markets database tracks cross-border greenfield investments across all sectors and countries worldwide since 2003. The data include FDI projects that have been announced or opened by a company. The year associated with FDI is the year that a project has been announced. Joint Ventures are only recorded where they lead to new greenfield operations. Mergers and acquisitions are not included in the database. The fDi Markets database also does not have a low limit on the investment, therefore even the smallest FDI projects are included. This database has been used extensively by previous researchers (Albino-Pimentel, Dussauge, & Shaver, 2018; Ang, Benischke, & Hooi, 2018; Castellani, Jimenez, & Zanfei, 2013), and has been particularly identified as one of the most widely used databases in FDI location choice research (Nielsen et al., 2017).

The sample includes 1,869 new greenfield investments that were initiated by 1,113 firms around the world during this period, after accounting for missing data. The yearly distribution is somewhat equal, with more investments during year 2013, as can be observed in Table 4.1. All the firms are publicly listed. Additional investments and repetitive investments are not included. Greenfield investments involve the establishment of new operations in a

foreign country and are thus more suitable for studying location choice decisions in comparison with, for example, mergers and acquisitions (M&A) (Duanmu, 2014a).

Table 4.1 Investment distribution by year

Year	Number of investments
2012	340
2013	429
2014	389
2015	373
2016	338

The healthcare sector was chosen as it has become a strategic sector, especially with epidemics, pandemics, the ageing global population, the obesity problem in the West and many chronic diseases (Ahen, 2019). The healthcare sector has been experiencing increasing demand for healthcare services, both urgent and long-term, both in developed and developing countries. Some even argue that "global health is IB and IB is global health" (p. 160) and encourage IB scholars lead the way to address the urgent issues of global health and ignored 'wicked' problems associated with healthcare (Ahen, 2019).

According to Statista[2], most counties' spending on healthcare surpasses the military budget. In 2020, the USA government alone spent more on healthcare than any other country, at 16.8% of GDP. More countries' data is presented in Figure 4.1 below.

[2] https://www.statista.com/statistics

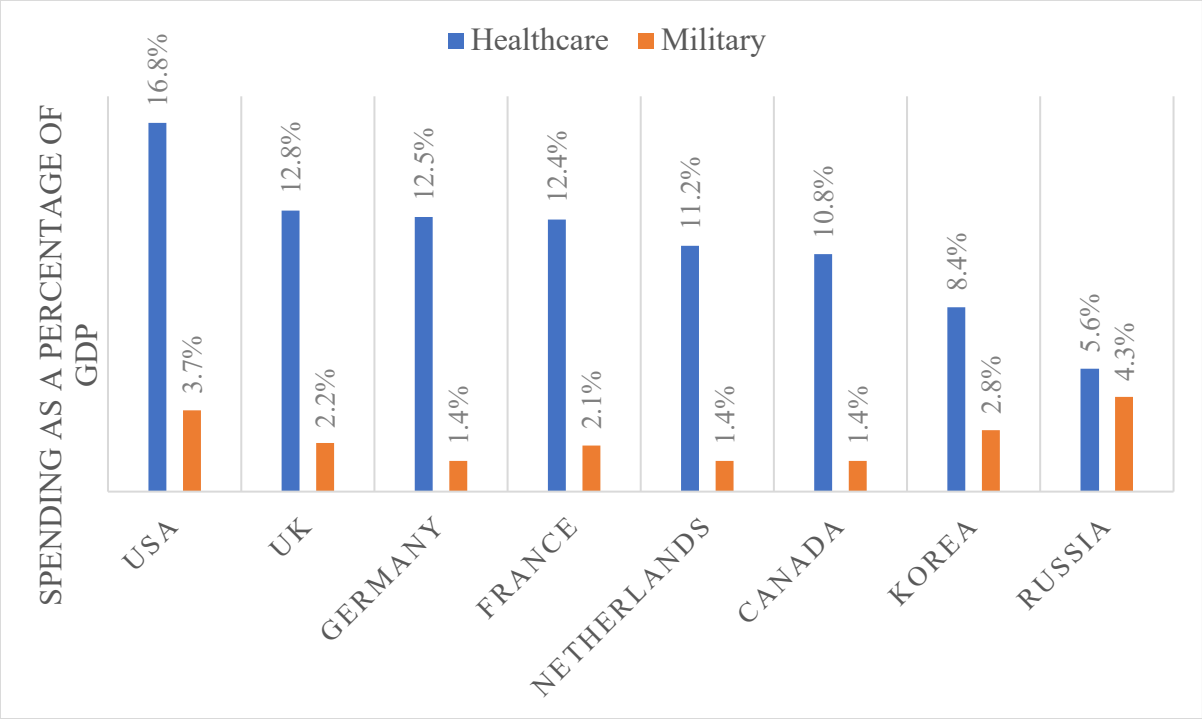

Figure 4.1 Healthcare spending

FDI in service sector has been growing over the past 15 years, however, the level of investments is still very limited compared to other sectors (Outreville, 2007). Studies on corruption and healthcare within IB are also rather limited. Only few studies looked at the healthcare sector in more depth and none coupled FDI location choice and healthcare. Most of the research is done by independent organizations such as Transparency International and the Organization for Economic Cooperation and Development. According to recent study by OECD (*Consequences of Corruption at the sector Level and implications for Economic Growth and Development*, 2015), six main types of abuse distort healthcare sector: bribery in medical service delivery, corruption in procurement, improper marketing relations, misuse of high level positions, undue reimbursement claims, and fraud and embezzlement of medicine and medical devices. The healthcare sector is particularly prone to corruption due to uncertainty surrounding the demand for services, multiple dispersed actors and the asymmetry of available information (Savedoff & Hussmann, 2006). The visual representation of the number of actors involved in heatlhcare sector can be found in Figure 4.2 below.

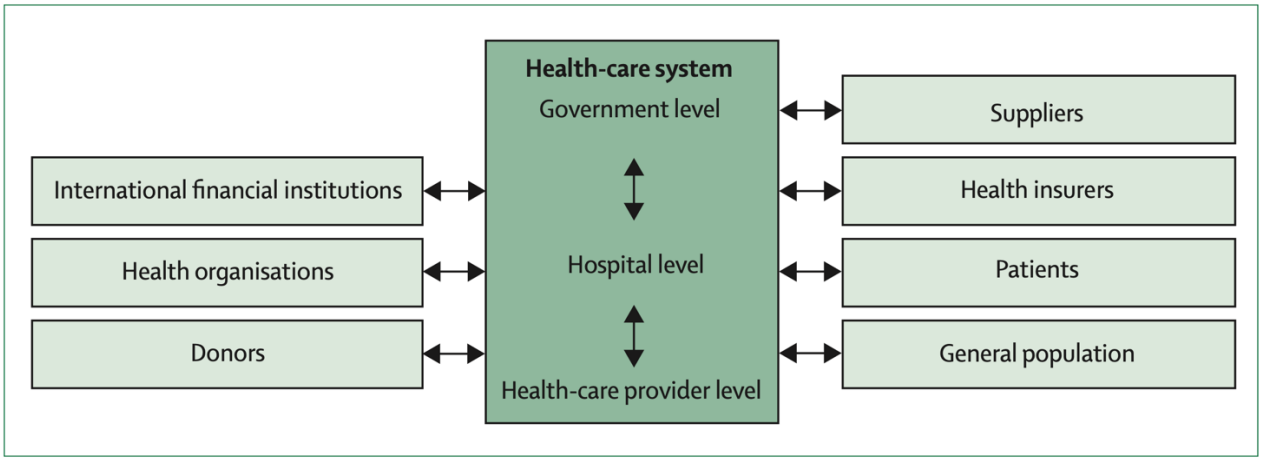

Figure 4.2 Interaction of multiple actors within the healthcare system at the government, hospital, and healthcare provider level (Mostert et al., 2015)

Researchers also agree that corruption is detrimental to healthcare provisioning (Mauro, 1998). The outbreak of COVID-19 prompted researchers to get a better understanding of the sector and how corruption can impend the delivery of healthcare to population. Rose-Ackerman (2021) noted that corruption accompanies any rapidly developing crisis that can lead to loss of life, widespread injury and illness, or destruction of property; however also accepts that current the connection is not unique to the current breakout. Approximately $455 billion of the $7.35 trillion spent on healthcare worldwide annually is lost each corruption (Teremetskyi, Duliba, Kroitor, Korchak, & Makarenko, 2021). During the pandemic, corruption even further impeded the day-to-day functioning of the healthcare system with increase in supply and demand.

My research includes 4 industries of healthcare sector: healthcare facilities, medical equipment, pharmaceuticals, and biotechnology. Each firm was assigned an industry in the fDi market industry identification. I have included those as a control variable to account for grouping using SIC four-digit codes: healthcare facilities (8062), medical equipment (3841), pharmaceuticals (2834), biotechnology (i.e., research) (8731). The Standard Industrial Classification (SIC) codes system was established in 1937 and remains the most popular industry classification system used in research.

The 2012-2016 timeframe is valuable, as this period represents the post immediate aftermath of the 2007-2008 Global Financial Crisis, before Brexit, before the 2016 US elections, and before the rise of US-China trade war tensions. This period of a relative stability allowed me to look at the investment decisions not yet affected by a variety of disruptive events shaking the global environment in the next years and a during time the firms had time to recover post-crisis. If the number of investments is matched to OECD FDI inflows presented in Figure 4.2, we can see that the years 2012 to 2016 were particularly fruitful, with the highest numbers over 15 years during 2015 and 2016, and an incremental decline afterwards, potentially due to the above-mentioned reasons as well as to the COVID-19 pandemic beginning in early 2020.

Table 4.2 FDI inflows 2005-2020

Year	FDI inflows (world)
2005	968,612
2006	1,428,812
2007	1,947,400
2008	1,612,698
2009	1,227,528
2010	1,506,855
2011	1,755,633
2012	1,653,800
2013	1,582,651
2014	1,591,051
2015	2,130,708
2016	2,049,008
2017	1,692,420
2018	1,490,801
2019	1,520,732
2020	1,030,852

4.3.1. Dependent variable

FDI by the focal firm in a potential host country location – dependent variable of this research. Following prior research on firm location decisions (Hong & Lee, 2015; Li, Qian, &

Yao, 2015), I focused on the 'where the firm invests or not' decision, the fact of entry that is reflected by a dummy variable 'firm entry'. The value of 'firm entry' is reflected as 1 if firm *x* invested in a particular location *i,* during the year *t,* and 'non-entry' as 0. The number of home and host countries is limited only by availability of the data for all the variables. All existing investments for the given period around the world were taken into consideration. After accounting for missing data, I was left with 940,485 of *firm-country-year* observations (1,113 firms potentially investing in 169 countries over 5 years). Such measurement of the dependent variable is often used in FDI location choice research (Henisz & Delios, 2001; Jiang et al., 2014).

The review of articles on location choice suggests that the dependent variable has been constructed in multiple ways. Most authors use a 'firm entry' variable which has a value of 1 if a firm enters a particular location, and 0 if it does not (Berry et al., 2010; Jandhyala, 2013; Woodward & Rolfe, 1993). Most firm-level studies use this approach for the construction of the dependent variable. These studies do not consider FDI flows or the amount of investment occurring. A few studies use data on FDI stock as a measure for FDI distribution (Globerman & Shapiro, 2002a; Kang & Jiang, 2012). The latter approach, however, should only be considered after taking into account the first approach – location decision in the form of either investment or non-investment in a particular location. Using FDI location decision is the key focus of the research dealing with location characteristics. Entering decision of FDI should be analysed prior to studying the FDI stock data, as that is the key decision of firms that are expanding abroad (Nielsen et al., 2017). This research will concentrate on this key decision – identifying the decision of firms entering a particular country, without considering the amount of the investment or determining the reasons for low or high investment flows in that location.

This approach is supported by researchers studying corruption. Some researchers, considering only FDI stocks and flows, not the actual decision to invest in particular location, obtained mixed results which lead to a conclusion that corruption can act as 'grease' (Egger & Winner, 2005; Luiz & Stewart, 2014; Spencer & Gomez, 2011; Wheeler & Mody, 1992). This research addresses the probability of the country to be chosen as the host country, which has proven to avoid biased results regarding the effects of corruption on FDI location choice (Barassi & Zhou, 2012).

4.3.2. Independent variables

4.3.2.1. Pervasive corruption distance

Corruption is usually measured using the Transparency International Corruption Perception Index (Cuervo-Cazurra, 2008a, 2008b; Gomes, Vendrell-Herrero, Mellahi, Angwin, & Sousa, 2018; Jiménez, 2010; Peng & Beamish, 2007) or the World Bank Corruption Index (Cuervo-Cazurra, 2006; Tunyi & Ntim, 2016).

Although the methodologies of those two indices differ, they are highly correlated (Treisman, 2007). In this research, I have used the Corruption Perception Index to ascertain the country's perceived corruption levels (Demirbag et al., 2010; Rodriguez et al., 2005).

The CPI is an integrated measure based on a broad range of surveys and polls conducted among international managers, experts, and locals. It is an annual-based index that covers 180 countries. Capturing perceived levels of corruption, it provides a good proxy for measuring the likelihood or frequency of encountering government corruption during business-government interactions, which include starting business routines, operating in a country, obtaining licenses and permits, and contracts handling, among others. The CPI index also includes both petty and grand corruption. Multiple reliable surveys are used as sources in developing this composite index, including the World Economic Forum, Political Risk Services, the World Business Environment Survey, Freedom House, the Economist Intelligence Unit, the International Institution of Management Development, the Economic Risk Consultancy, among others.

The CPI scores range between 0 and 100, where 0 indicates a high and 100 a low perceived corruption level. The annual measures of CPI show very low variability across multiple years (Smarzynska & Wei, 2000). I have used t-1 CPI to calculate absolute corruption distance for each pair of home-host countries for 5 years using a straightforward formula:

$$\mathbf{CD = CPI_{ht} - CPI_{he}}$$

Where

CD – Pervasive corruption distance

CPI_{ht} – Host country Corruption Perception Index

CPI_{he} – Home country Corruption Perception Index

4.3.2.2. Positive and negative pervasive corruption distance

I have also applied direction to the distance concept and divided corruption into two dimensions: Positive Corruption Distance and Negative Corruption Distance. I have measured the distance using the following formulas:

$$\mathbf{PCD = CPI_{ht} - CPI_{he}}$$

Where

PCD – Positive pervasive corruption distance – value of the CPI corruption level between the home country and host country for host countries with lower levels of corruption than home countries.

CPI_{ht} – Host country Corruption Perception Index

CPI_{he} – Home country Corruption Perception Index

$$\mathbf{NCD = CPI_{ht} - CPI_{he}}$$

Where

NCD – Negative pervasive corruption distance – value of the CPI corruption level between the home country and host country for host countries with higher levels of corruption than home countries

CPI_{ht} – Host country Corruption Perception Index

CPI_{he} – Home country Corruption Perception Index

Measuring distance through these formulas allowed me to incorporate not only the absolute distance between the home and the host country corruption levels, but also the direction of the distance that depends on the host country corruption levels (Zaheer et al., 2012).

4.3.2.3. Large and small positive and negative corruption distance

I have also added magnitude to the distance with direction and divided my dataset into 4 parts. Large and small positive and negative corruption distances are calculated based on the average for each of the directions. For positive corruption distance, the average is 15.8 and for negative corruption distance, the average is -34.8.

LPCD (Large positive pervasive corruption distance) = PCD >15.8

SPCD (Small positive pervasive corruption distance) = PCD <=15.8 AND >=0

LNCD (Large negative pervasive corruption distance) = NCD<-34.8

SNCD (Small negative pervasive corruption distance) = NCD>=-35.8 AND <0

4.3.3. Moderating variables

4.3.3.1. Corruption arbitrariness (uncertainty)

Host country arbitrary corruption represents the degree of uncertainty associated with corruption. I have adopted the (Ferreira et al., 2016) approach and measured corruption arbitrariness by the Standard Deviation (SD) of the Transparency International Corruption Perception Index. The SD reflects the variance of the individual responses related to corruption perception (de Jong & Bogmans, 2011; Habib & Zurawicki, 2002).

4.3.3.2. Political stability (volatility)

The Political stability index is adopted from the World Bank Governance Indicators (WGI). It is available for 200 countries and territories over the period 1996 to 2017. The index uses over 30 existing data sources that report the views and experiences of citizens, entrepreneurs and experts in the public, private and NGO sectors from around the world (Kaufmann et al., 2004; Kaufmann et al., 2011). Four different types of sources are used: surveys of households and firms with first-hand knowledge of the governance situation in the country (The World Economic Forum's Global Competitiveness Report, the Institute for Management Development's World Competitiveness Yearbook, the World Bank/European Bank for Reconstruction and Development (EBRD) Business Environment and Enterprise Performance surveys, etc.); commercial business information providers (the Economist Intelligence Unit, Global Insight, Political Risk Services); non-governmental organisations (Reporters Without Borders, Freedom House, etc.); public sector organisations (the European Bank for Reconstruction and Development, the World Bank).

4.3.3.3. Government effectiveness (complexity)

Similar to the political stability index, the government effectiveness index is adopted from the World Bank Governance Indicators (WGI).

4.3.3.4. Policy uncertainty/Political hazards (ambiguity)

The policy uncertainty/political hazards index measures government policy uncertainty and lack of political constraints based on data from the Political constraint (Polcon V). A composite index is available for 234 countries for 2017. The index has been used in multiple

prior studies on corruption, FDI and uncertainty (Bo, 2017; Delios & Henisz, 2003a; García-Canal & Guillén, 2008).

It ranges from 0 to 1, where 0 equals no veto power in the structure and decision-making processes throughout the government structure, and 1 equal very stable government policy. The higher the score is, the better the country's situation is.

4.3.4. Control variables

In order to avoid the missing variable bias, reduce the error terms and enhance the statistical power of the model, researchers recommend including control variables (Cuervo-Cazurra, Andersson, Brannen, Nielsen, & Rebecca Reuber, 2016). Also, it is recommended that neither too many, nor too few variables should be used as controls (Bono & McNamara, 2011). It is also important to include the why and the how – why the control variable is needed and how it would impact the outcome variable (Aguinis, Hill, & Bailey, 2019). After the review of the literature, multiple variables that could potentially have an impact on the FDI location choice decision have been identified. All the control variables that met the criteria of various assumptions have been included in the final model and lagged by a year (at t-1), with respect to the dependent variable. In the following sections, I describe the rationale for each of those control variables.

4.3.4.1. Geographical distance

Geographical distance is used in almost every study that includes FDI. It is assumed that geographic proximity lowers costs and increases the probability of FDI (Buckley, Clegg, Cross, et al., 2007; Håkanson & Ambos, 2010). Geographical distance also influences the trade flow and information flow (Ghemawat, 2001). In addition, firms tend to invest in countries that are geographically more proximate to their home countries, as they can use the existing infrastructure, suppliers and labour forces (Phene & Tallman, 2014). Additionally, when managerial preferences are included, a new phenomenon called 'hassle factor' is introduced (Schotter & Beamish, 2013), based on travel inconveniences experienced with FDI locations. Therefore, geographical distance was controlled for in this research, as it can potentially contribute to the FDI location choice. In previous studies geographical distance is defined as the physical distance either between the capital cities of the home and host countries or the physical distance between the borders of the home and host countries. I have initially collected

both distances; however, distance between the capitals was included in the final model. Distance is measured in km by the Gaverstine Great Circle distance.

4.3.4.2. Host country population

Healthcare FDI is market-seeking FDI. Thus market potential will play a big role in FDI location choice decisions (Brouthers, Gao, & McNicol, 2008). Host country population can also explain some of the institutional differences in the countries (Morken, 2018). This variable measures the total population (in thousands) of the country and has been used in multiple previous studies (Fisman & Gatti, 2002; Knack & Azfar, 2003; Knack, Biletska, & Kacker, 2019; Treisman, 2000, 2007). I have used the World Development Indicators database to obtain this variable.

4.3.4.3. Host country market size

Larger economies provide more scope for investment (Habib & Zurawicki, 2002). Market size, alongside government policies and infrastructure is among the most frequently investigated determinants for FDI flows (Brouthers et al., 2008; Buckley et al., 2020; Duanmu, 2014b; Liu, Daly, & Varua, 2014). Data for this variable was obtained from World Bank open Data database.

4.3.4.4. Host country market potential

In addition to the host country population and market size, I am using GDP growth to identify the market potential (Henisz & Delios, 2001; Jiang et al., 2014). Growing markets are attractive for FDI (Dunning, 1988, 1998), therefore FDI location choice researchers usually use GDP growth as one of the control variables (Tuschke, Sanders, & Hernandez, 2014). Information for this variable was collected from the World Development Indicators database.

4.3.4.5. Host country inflation

A country's inflation reflects the rate at which prices change over time. It affects a country's financial and economic conditions that MNEs face. High inflation rates might indicate the underlying economic problems and firms, considering different locations for investment, usually take inflation rates into consideration. Therefore, this variable is often used as a control variable in research on FDI location choice (Cuervo-Cazurra, 2006; Globerman &

Shapiro, 2002a; Holburn & Zelner, 2010). I have collected data for this variable from the World Development Indicators database.

4.3.4.6. Host country investment freedom

Investment freedom reflects an effective investment framework that supports firms and encourages innovation and competition. In countries with high levels of investment freedom, the costs of doing business are reduced and procedures are fewer. Its therefore important to include this variable, as it might affect the attractiveness of the country for FDI (Herrera-Echeverri, Haar, & Estévez-Bretón, 2014; Quazi, 2014). This variable was obtained from the Heritage Foundation database.

4.3.4.7. Firm size, total sales and income

Firm financial resources have been always viewed as the most important determinants of firms' behaviour and their propensity to invest abroad. The size, total sales and income of a firm indicate how capable it is to overcome risks and challenges unavoidable while pursuing FDI. Those resources can help to cover the expenses associated with entering a new market – the market research, advertising, establishment, and other expected and unexpected operational costs that are involved. Some studies also argue that big firms cannot only go along with the rules, but change the rules if needs be (Macher & Mayo, 2015).

I have collected all three control variables; however, only firm size is used in the final model, as all three variables are highly correlated. Firm size is measured by total assets of the firm, in line with previous studies (Ang et al., 2015; Tsang & Yip, 2007; Wu & Salomon, 2016). Data were collected from COMPUSTAT and annual reports. All the data were transformed from the local currency into USD using the historical exchange rate.

4.3.4.8. Firm age

Older firms with more years of experience are also more likely to invest abroad because they often have more resources, both tangible and intangible, compared to younger firms (Zhou & Guillén, 2015). Firm age is measured from the year of the founding of the parent firm. I have ignored re-incorporation and ownership changes following previous researchers using similar approach such as Guillén (2002), Zhou and Guillén (2015) and Kim (2013). Data were collected from the annual reports and company websites.

4.3.4.9. Firm prior host country experience

A firm's host country experience is the operational history that a firm has in that host country (Delios & Beamish, 2001). A firm accumulates experience and knowledge, which are unobtainable and hard to imitate, by operating in a country. Experience eases the firm's further investments in that host country, especially in uncertain environments (Luo, 1999). Firm's managers who have previous experience operating in the potential host country develop dynamic capabilities required to mitigate the risks and face the uncertainty without being deterred by them (Holburn & Zelner, 2010; Oh & Oetzel, 2016; Sun, Doh, Rajwani, & Siegel, 2021). Firms are therefore also more likely to invest in the same location (Jiang et al., 2014; Li et al., 2015).

Host country experience in this research is measured by a dummy – whether the firm had experience in the previous five years in a potential host country (1 if yes and 0 if no). A five-year period was chosen because institutional environments change constantly and the experience beyond that can become irrelevant and should not be considered.

4.3.4.10. Other firms host country experience

Firms can also learn through observations. MNEs might be attracted to a location because of the existing mass of relevant industry firms already operating there. By investing in the same location, firms reduce uncertainty and costs associated with the host country's unknown environment (Cyert & March, 1963; Gimeno, Hoskisson, Beal, & Wan, 2005; Shaver, Mitchell, & Yeung, 1997). This process is called 'bandwagoning' (Banerjee, 1992; Belderbos, Olffen, & Zou, 2011). Vicarious learning also affects FDI location choice (Jiang et al., 2014; Li et al., 2015; Tan & Meyer, 2011). The knowledge, acquired from other firms' investment decisions, can help a firm to develop competitive advantages that can be used abroad (Alcácer & Chung, 2007; Li & Yao, 2010; Shaver et al., 1997). Firms can benefit from vicarious experience in addition to their own experience or in the absence of it.

Other firms host country experience in this research is measured by a dummy as well – whether a firm from the same industry and same country had experience in a potential host country in the previous five years (1 if yes and 0 if no). Similar to the firm's own experience, five-year period was chosen because institutional environments can change over time and the experience beyond that can be irrelevant and even harmful.

4.3.4.11. Industry dummies

It is necessary to account for the unobserved effect of industry, as companies in different industries can face very different challenges. Firms that are involved in biotechnology probably would not face the same barriers entering the country as hospital construction firms. Firms are grouped based on the four-digit code obtained from SIC codes system.

4.3.4.12. Year dummies

I have organised the data in this research in a panel-data format, therefore it is crucial to account for time effects. Global and local environments change over time, and this can affect a firm's ability and decision to invest in a certain location. To account for that I have used five-year dummies as control variables, which is a standard approach to accommodate for time-specific effects on FDI location choice.

4.4. Estimation technique

This research investigates a causal relationship between two variables (pervasive corruption distance with magnitude and direction and entry into a host country location by a focal firm). This is followed by interaction effects of VUCA variables. Regression analysis is used to determine the dependent variable from single or multiple independent variables (Field, 2009). The choice of regression model depends on the attributes of the dependent variable and independent variables (Ang, 2021). Multiple regression analysis exist – including the logistic, the probit and the tobit analysis.

This research outcome variables are binary – the values of probability are between 0 and 1. One of the limitations of linear regressions is that the outcome variable cannot be binary or categorial. To overcome this limitation researchers recommend using logistic regression or probit regression analysis. The logistic regression is "the statistical technique used when the dependent variable in a multiple regression model is dichotomous" (Ang, 2014, p. 250). The logistics regression uses the logistic curve to represent the relationship between independent and dependent variables (Hair, Black, Babin, & Anderson, 2013). The value of probability does not go beyond 1. The probit regression is similar to the logistic regression; however, it determines the likelihood that an item is going to fall in a certain category or range. This

research adopts the logistics regression to estimate if corruption distance will affect a firm's decision to enter a particular location.

5. Data analysis and results

5.1. Introduction

In the previous chapter I have discussed the methodology and data collection. In this chapter, I present the results of the data analysis. I begin with assessing how the assumptions of logistic regression are satisfied. This is followed by a section on handling the outliers, their identification and treatment. I follow this with general descriptive statistics and pairwise correlations. Finally, I present the main regression results and all additional tests, including sensitivity and robustness tests.

5.2. Assessing the assumptions of a logistic model

All regression analyses need to meet certain criteria (i.e. assumptions) to ensure the accuracy of the results and in case of logistics regression, the key assumptions relate to issues around linearity and multicollinearity (Field, 2013). I used STATA and R to evaluate those assumptions.

In ordinary regression relationships between the outcome and the predictors are assumed as linear by default, however in the logistic regression that is not the case. The outcome variable in logistic regression is categorical and we need to test the assumption of linearity. I will assess the linearity of relationships between the continuous predictors and the logit of outcome variable. I used the Box and Tidwell (1962) procedure to check for the significance level of the interaction between independent variables and their natural log transformation (Cohen, Cohen, West, & Alken, 2003; Shin & Ying, 1994). I ran a binary logit regression on all the independent variables and their interactions with their natural logarithm. Some of the variables were transformed using winsorising prior to running this regression, as they were identified as having outliers. A Bonferroni correction (Tabachnick, Fidell, & Ullman, 2007) was applied on the $p < 0.05$ level of significance based on *34* variables and the intercept resulting in a statistical significance of *0.00147059*. The results indicate that all of the continuous independent variables are linearly related to the logit of the dependent variable, therefore satisfying the linearity assumption. I present the results of the logistic regression for Corruption Distance as an independent variable in Table 5.1. The results of the logit regressions for other independent variables are presented in Appendix A03.

Table 5.1 Box-Tidwell test results for linearity assumption - Corruption Distance model

Variables	p>|z|
Corruption Distance * LN Corruption Distance	0.971
Corruption Arbitrariness * LN Corruption Arbitrariness	0.438
Policy Uncertainty * LN Policy Uncertainty	0.152
Government Effectiveness * LN Government Effectiveness	0.546
Political Stability * LN Political Stability	0.298
Firm Assets * LN Firm Assets	0.268
Firm Income * LN Firm Income	0.728
Firm Size * LN Firm Size	0.038
GDP Growth * LN GDP Growth	0.284
GDP * LN GDP	0.004
Political Freedom * LN Political Freedom	0.674
Industry * LN Industry	0.035
Geographical Distance * LN Geographical Distance	0.562
Firm Age * LN Firm Age	0.697
Inflation * LN Inflation	0.165
Population * LN Population	0.941

Another assumption of the logistic regression is that there is no multicollinearity. I tested whether any of predictors in my model are highly correlated with each other. In order to check that assumption, researchers recommend checking for Variance Inflation Factor (VIF) between all variables (Field, 2013). I carried out the VIF test using linear regression, as the results do not take into consideration the outcome variable (Cohen et al., 2003). Results of the test are presented in Table 5.2. A VIF value of more than 10 indicates an issue with multicollinearity (Hair et al., 2013). This benchmark has been widely applied in previous studies (Salomon & Wu, 2012; Yang, Lin, & Peng, 2011). After I ran the analysis, I could observe that none of the variables were above 5.38 therefore, multicollinearity is not an issue in this research.

Table 5.2 VIF results – multicollinearity assumption – Corruption Distance

Variable	VIF	1/VIF
Government Effectiveness	5.38	0.186
Firm Assets	4.87	0.205
Firm Sales	4.65	0.215
Corruption Arbitrariness	3.55	0.281
Political Stability	3.07	0.325
Firm Income	2.39	0.418
Population	2.35	0.425
GDP	2.27	0.440
Corruption Distance	2.22	0.451
Year of investment	1.67	0.598
Firm Age	1.52	0.656
Policy Uncertainty	1.43	0.697
Inflation	1.42	0.702
GDP Growth	1.19	0.837
Industry Code	1.13	0.884
Geographical Distance	1.06	0.947
Political Freedom	1.02	0.976

VIF test for all the other models are presented in Appendix A03.

Some researchers argue that although VIF is a useful means of testing, it should not be the only test. Therefore, in addition to the VIF test, I used a correlation matrix to assess the relationships between variables. I present Pearson's Correlation Coefficient matrix in Table 5.3. The values vary from -1 to +1. Any values greater than ±0.7 indicate a problem of multicollinearity (Hair et al., 2013). Four pairs of variables had high correlations – *Political Stability* and *Government Effectiveness* - ***0.744****, *Firm Assets* and *Firm Sales* - ***0.733**** *and Firm Income* and *Firm Sales* - ***0.732****, *Firm Assets* and *Firm Income* – ***0.878****.* In the case of the first two variables, these are taken from the same source and are known to be highly correlated. Firm Assets, Firm Income and Firm Size are expected to be highly correlated, as they reflect similar financial information. Firm Assets and Firm Income variables won't be used in the main regression, as the results might be skewed because of potential

multicollinearity. I present the results of descriptive statistics and pairwise correlation for other models in Appendix A03.

Table 5.3 Descriptive statistics and pairwise correlation table – Corruption Distance

Variables	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Entry	0.002	0.044	1.000								
(2) Corruption Distance [(t)]	-26.133	22.070	0.027*	1.000							
(3) Corruption Arbitrariness [(t)]	7.741	2.634	0.019*	0.380*	1.000						
(4) Political Stability [(t)]	-0.111	0.809	0.020*	0.579*	0.411*	1.000					
(5) Policy Uncertainty	0.443	0.295	0.025*	0.354*	0.216*	0.345*	1.000				
(6) Government Effectiveness	-0.044	0.995	0.042*	0.695*	0.495*	**0.744***	0.529*	1.000			
(7) Firm Sales [(t)]	1109.496	1442.869	0.012*	0.006*	-0.004	0.000	0.000	0.000	1.000		
(8) Firm Income [(t)]	68.581	104.301	0.012*	-0.099*	-0.008*	0.000	0.001	0.000	**0.732***	1.000	
(9) Firm Assets [(t)]	732.719	881.579	0.008*	-0.023*	-0.034*	0.001	0.000	0.001	**0.733***	**0.878***	1.000
(10) GDP Growth [(t)]	3.701	2.540	-0.008*	-0.227*	-0.154*	-0.238*	-0.217*	-0.330*	0.000	-0.002	-0.004
(11) GDP [(t)]	101704.300	130018.400	0.032*	0.292*	0.187*	0.132*	0.265*	0.457*	0.000	0.000	0.000
(12) Inflation [(t)]	4.339	3.286	-0.022*	-0.370*	-0.244*	-0.391*	-0.424*	-0.505*	0.000	0.000	0.000
(13) Investment Freedom [(t)]	59.047	25.580	0.003*	0.044*	0.034*	-0.043*	-0.042*	0.050*	0.000	0.000	-0.001
(14) Firm Age [(t)]	26.954	25.084	0.013*	-0.024*	-0.025*	0.000	-0.001	0.001	0.497*	0.581*	0.548*
(15) Population [(t)]	17598.710	19193.140	0.035*	-0.097*	-0.099*	-0.333*	0.116*	-0.028*	0.000	0.000	0.001
(16) Geographical Distance [(t)]	7424.792	3652.468	-0.012*	-0.110*	-0.056*	-0.061*	-0.081*	-0.127*	0.028*	0.075*	0.036*
(17) Industry Code	5048.908	2454.526	-0.003*	-0.029*	0.000	0.000	-0.002	0.000	-0.131*	-0.141*	-0.230*

Variables	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(10) GDP Growth [(t)]	1.000							
(11) GDP [(t)]	-0.163*	1.000						
(12) Inflation [(t)]	0.188*	-0.061*	1.000					
(13) Investment Freedom [(t)]	0.014*	0.063*	0.005*	1.000				
(14) Firm Age [(t)]	-0.005*	0.000	0.000	0.000	1.000			
(15) Population [(t)]	0.050*	0.442*	0.126*	-0.039*	0.001	1.000		
(16) Geographical Distance [(t)]	0.157*	-0.064*	0.074*	-0.016*	0.014*	0.027*	1.000	
(17) Industry Code	0.000	0.000	0.000	0.000	-0.172*	0.000	-0.004*	1.000

*shows significance at the .05 level

(t) – Variables were transformed

5.3. Outlier identification and treatment

Before interpreting the final results, it is important to identify extreme and influential outliers (Cohen et al., 2003). An outlier is an observation that is significantly different from other observations and has a potential to change the relationships between variables (Aguinis, Gottfredson, & Joo, 2013). Most of the researchers advise against omitting such observations from analysis without understanding the underlying reasons of an outlier and evaluating the influence of extreme observations on the regression coefficient (Aguinis & Edwards, 2014). Extreme outliers that change the model fit are known as influential outliers (Aguinis et al., 2013).

I plotted Box-plot graphs for each of the variables to identify outliers. Extreme observations were detected for most of the variables, which is not uncommon for such macro-level secondary data. Prior to any treatment, outliers were checked to ensure that they were not the result of an error; however, no errors were identified. As extreme outliers can affect the regression results, I focused on outlier treatment approaches.

First, variables with extreme outliers were transformed using Log 10. This method is the easiest and most common way to pull the tails of skewed distributions. However, in this case, it only worked on two of the variables because of negative and 0 values. I then decided to transform all the variables using the winsorising method. This method treats extreme outliers without deleting them and has been previously applied in multiple studies (Lee, 2018; Sojli & Tham, 2017; Zheng, Ghoul, Guedhami, & Kwok, 2013). Using this method, extreme observations are transformed to a specific percentile on the data. For example, 10% winsorising transforms all the observations below 5% to 5%, and above 95% to 95%. In this case, I winsorised the variables at 5% and 10% on both tails (Reifman & Garrett, 2010). These cut-off points ensure that all the extreme outliers were eliminated.

Next, I investigated the residuals to identify influential observations. Field (2013) suggests various parameters to assess the nature and magnitude of residuals including Dbeta, Pearson residuals and leverage. Dbeta, also known as Cook's distance, determines the changes in regression if one case is excluded. Leverage measures the influence of the observed value over predicted values.

According to the threshold provided by Field (2013), Dbeta values should be less than 1 and Pearson's residuals less than 2. Also, for leverage, any observations with values over (k+1)/n where k is the number of variables and n is the number of observations, should be examined for being a potential influencer. None of the observations met the threshold criterion on more than one parameter. Therefore, no significant influencers were identified.

5.4. Main regression results

5.4.1. Two-Stage Heckman test models

My research is based on observational data. In the cross-section of firms that are observed, they usually emerge in a distinct organisational pattern. For example, a bigger more profitable firm is expected to have a better chance in internationalisation. To avoid the distortion of the empirical test and facing a potential 'self-selection' problem IB researchers chose one of the approaches to deal with endogeneity (Reeb, Sakakibara, & Mahmood, 2012). I have chosen to perform a two-staged Heckman test, also known as selection model. Sample selection models aim to "provide a quantitative basis for examining the presence of selection bias and the nature of the effects of that bias on the substantive findings" (Cuddeback, Wilson, Orme, & Combs-Orme, 2004, p. 27) and are generally composed of two steps/stages. The selection model detects any selection bias and evaluates the decision to participate, and the outcome model assesses the main question of interest through incorporating the exogenous characteristics from the selection model as a function called *Inverse Mills ratio or Heckman's Lambda* (Wolfolds & Siegel, 2019). Multiple IB researchers have adopted this methodology in their studies (Ang et al., 2018; Tuschke et al., 2014).

To conduct a two-stage regression model, I, first, calculated the probability of selection of an endogenous variable. I consider *Corruption Distance* as potentially endogenous. It is possible that one type of corruption distance is prevailing over others when location decisions are involved. This model uses probit regression analysis with dichotomous dependent variable. In this case a new dichotomous variable was created based on the corruption distance variable by considering higher and lower than mean values. It is used as a dependent variable in the selection model stage. I have also included several instrumental variables, such as: *HQ City Population, HQ City number of Universities, HQ Number of Airports*. Bigger cities with bigger populations and connectivity could potentially attract bigger companies (Beaverstock, Smith, & Taylor, 1999; Nielsen et al., 2017). Also, those variables are not expected to have any effect

on the foreign direct investment location choice (Bettis, Gambardella, Helfat, & Mitchell, 2014) or corruption. Using those variables, I have calculated the *Inverse Mills ratio*, which was later used in the main regression. The results indicate a non-significant *Inverse Mills ratio*, which means that endogeneity is not an issue in this sample. The results are added to each of the logistic regression results table in the next section.

5.4.2. Hausman test – random vs fixed effects model

Because I have used panel data, another test was conducted to assess if a fixed-effect or random-effect model is more appropriate. The fixed-effect model assumes that all constant firm effects are captured, while a random-effect model assumes that all firm-specific effects present themselves randomly with a normal distribution (Hausman, 1978). By using the *hausman* command in STATA, a test was conducted to compare the fixed-effect model and the random-effect model. The results indicate that the random-effect model is more appropriate.

5.4.3. Model specification

The results of the main regression are presented in tables in the following sub-sections. Each sub-section is dedicated to one independent variable, starting with Corruption Distance in Section 5.4.4.1.

In Table 5.4, various variables were incrementally added in the subsequent models with Model 1 as a baseline model that only includes control variables. In Model 2, an independent variable is added; and in Model 3, moderating variables. Model 4 is a full model with all the moderating variables, and their interaction effects are examined. Models 5 to 8 include the moderating variables and their interaction effects, one by one. The results of the stage 1 selection model are also presented in Table 5.4.

Consequently, in the following Tables 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, variables are added in the same order with only independent variable changing. The results of the stage 1 selection models are also presented at the end of each of the tables.

5.4.4. Results of logistic regression

The following sub-sections present the results of the logistic regression and are arranged according to the variables of interest in the hypotheses.

5.4.4.1. Corruption distance and FDI location choice

In the first sub-section of this chapter, I present the results of the logistic regression where corruption distance is the independent variable. Results are presented in Table 5.4 below.

H1: The effect of corruption distance

Hypothesis H1 predicted that *Corruption Distance* decreases the probability of a firm's *Entry* into a country. However, the result in Model 2 indicates that the effect of *Corruption Distance* is positive and significant *(β = 0.030, p<0.01)*. Model 4 – a full model – also shows that the effect of *Corruption Distance* remains positive and significant *(β = 0.026, p<0.05)*. This indicates that when other variables are held constant, an increase in one unit of *Corruption Distance* increases the odds of *Entry* by 1.026 times, as $e^{0.0026} = 1.026$. Therefore, H1 was not supported, as the results, although significant had the opposite sign.

H2: The moderating effect of corruption arbitrariness

Hypothesis H2 predicted that *Corruption Arbitrariness* will negatively moderate the relationships between *Corruption Distance* and firm *Entry*. Models 4 shows that the effect of *Corruption Arbitrariness* is negative and non-significant (*β = -0.000, p>0.1)*. However, Model 4 – a full model demonstrates that the effect becomes positive and significant (*β = 0.001, p<0.05)*. Therefore, H2 was supported.

H3: The moderating effect of political (in)stability

Hypothesis H3 predicted that *Political (in)Stability* will negatively moderate the relationships between *Corruption Distance* and firm *Entry*. The moderating effect of *Political (in)Stability* was negative and highly significant in the incremental model [Model 6: *β = -0.008, p<0.1*; however, in the full model it became positive and non-significant [Model 4*: β = 0.002, p>0.1*]. Therefore, H3 was not supported.

H4: The moderating effect of government (in)effectiveness

Hypothesis H5 predicted that *Government (in)Effectiveness* will negatively moderate the relationship between *Corruption Distance* and firm *Entry*. This moderating effect was found to be significant in Model 5 (*β = -0.015, p<0.01*). In the full Model 4, the moderating

effect remained negative and significant *(β= -0.017, p<0.05).* Therefore, Hypothesis H4 was fully supported.

H5: The moderating effect of policy uncertainty

Hypothesis H4 predicted that *Policy Uncertainty* will negatively moderate the relationships between *Corruption Distance* and firm *Entry*. The interaction terms were found to be negative and significant in Model 7 (*β = -0.068, p<0.01*), and in Model 4 *(β = -0.055, p<0.01)*. These provide support for Hypothesis H5.

In addition, the goodness-of-fit statistical model was used to assess the suitability of the final model: Wald Chi-square, Log likelihood and Akaike Information Criterion (AIC) tests were used to assess if other variables are suitable.

A Wald Chi-Square Test shows that at least one of the predictors' regression coefficients is not equal to zero in the model. The higher the value, the better it is considered. Log Likelihood value is a measure of goodness-of-fit for any model. The higher the value, the better the model is. It can lie between -Inf to +Inf. Hence, an absolute value cannot give any indication. We need to compare the Log Likelihood values of multiple models. AIC is calculated as AIC = -2 Log L + 2((*k*-1) + *s*), where *k* is the number of levels of the dependent variable and *s* is the number of predictors in the model. The model with the smallest AIC is considered the best.

In this set of models Wald Chi-square statistics significantly improved from Model 1 (*509.030*) to Model 4 (*529.164*), which means that added variables contribute the explanation of the phenomenon. Additionally, Wald Chi-square is statistically significant for all other models, with highest in Model 4. Model 4 also has the highest value of Log likelihood *(-1252.673*) and is therefore the best fit of all the models. AIC for Model 4 (*2,563.345*) is lower than the AIC for Model 1, which is consistent with the other results; including all the variables in the model improves the prediction of foreign Entry.

Additionally, Δ - 2LL has been compared for all the models with Model 4 being positive and significant (*30.06*). Therefore, adding all the variables significantly improves the model. Table 5.4 shows results of the main regression analysis in a full sample.

Table 5.4 Results of the main regression analysis in a full sample – Corruption Distance

VARIABLES	Model 1 ENTRY	Model 2 ENTRY	Model 3 ENTRY	**Model 4** ENTRY	Model 5 ENTRY	Model 6 ENTRY	Model 7 ENTRY	Model 8 ENTRY
Corruption Distance		0.030***	0.013**	0.026**	0.019***	0.020***	0.062***	0.031***
		(0.005)	(0.006)	(0.013)	(0.006)	(0.006)	(0.009)	(0.009)
Firm Prior Host Country Experience	6.524***	6.424***	6.271***	6.250***	6.310***	6.243***	6.351***	6.415***
	(0.575)	(0.578)	(0.580)	(0.577)	(0.573)	(0.577)	(0.574)	(0.577)
Other Firm Host Country Experience	0.007*	0.009**	0.008*	0.008*	0.008**	0.008**	0.009**	0.009**
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Firm Size	2.587***	2.641***	2.603***	2.644***	2.614***	2.624***	2.650***	2.628***
	(0.194)	(0.196)	(0.194)	(0.196)	(0.194)	(0.195)	(0.196)	(0.195)
Firm Age	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Geographical Distance	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country Population in Thousands	0.000*	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country GDP	0.000***	0.000***	0.000**	0.000***	0.000**	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

GDP Growth Rate	0.072**	0.071**	0.094***	0.085**	0.074**	0.086**	0.064*	0.071**
	(0.032)	(0.033)	(0.034)	(0.035)	(0.033)	(0.034)	(0.034)	(0.033)
Rate of Inflation	-0.029**	-0.006	0.014	0.006	0.019	-0.004	-0.006	-0.004
	(0.013)	(0.014)	(0.016)	(0.016)	(0.015)	(0.014)	(0.015)	(0.014)
Investment Freedom	0.004	0.004	0.005	0.005*	0.004	0.006*	0.004	0.004
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Industry Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Year Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Government Effectiveness			0.551**	0.345	0.499**			
			(0.224)	(0.264)	(0.202)			
Corruption Distance * Government Effectiveness				-0.017**	-0.015***			
				(0.008)	(0.005)			
Political Stability			0.436***	0.466**		0.475***		
			(0.159)	(0.203)		(0.164)		
Corruption Distance * Political Stability				0.002		-0.008*		
				(0.006)		(0.005)		
Policy Uncertainty			0.136	-0.622			-0.449	
			(0.332)	(0.389)			(0.360)	
Corruption Distance * Policy Uncertainty				-0.055***			-0.068***	

				(0.015)			(0.014)	
Corruption Arbitrariness			-0.009	-0.032				0.022
			(0.018)	(0.020)				(0.016)
Corruption Distance * Corruption Arbitrariness				0.001**				-0.000
				(0.001)				(0.000)
Inverse Mills Ratio	-0.561*	0.016	-0.268	-0.135	-0.176	-0.109	0.035	-0.043
	(0.334)	(0.345)	(0.347)	(0.350)	(0.348)	(0.346)	(0.348)	(0.346)
lnsig2u	-0.373	-0.415	-0.436	-0.440	-0.450	-0.437	-0.403	-0.431
	(0.274)	(0.290)	(0.285)	(0.288)	(0.287)	(0.288)	(0.288)	(0.290)
Constant	-8.556***	-8.740***	-9.152***	-8.045***	-8.894***	-9.130***	-8.523***	-9.203***
	(0.508)	(0.508)	(0.688)	(0.711)	(0.512)	(0.520)	(0.560)	(0.614)
Number of observations	190,584	190,584	190,584	190,584	190,584	190,584	190,584	190,584
Number of firms	305	305	305	305	305	305	305	305
Wald chi-squared	509.030	519.395	525.441	529.164	522.837	533.074	517.775	523.086
Log-likelihood	-1297.872	-1281.604	-1267.705	-1252.673	-1267.408	-1269.712	-1267.148	-1280.432
AIC	2,635.744	2,605.207	2,585.410	2,563.345	2,580.815	2,585.423	2,580.296	2,606.864
Δ -2LL		32.54 (1)***	27.80 (4)***	30.06(4)***	28.39 (2)***	23.78 (2)***	28.91(2)***	2.34 (2)

Stage 1 Selection Models

HQ City Population	0.121***
	(0.001)
No. of Universities within HQ City	-0.000***
	(0.000)
HQ City Airports	-0.146***
	(0.003)
Constant	-0.308***
	(0.002)
Observations	904,873

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

5.4.4.2. Positive corruption distance and FDI location choice

In the second stage of my research, I divided the independent variable of this research into two variables to inspect whether the positive and negative corruption distances would have a different effect on FDI location choice. Results for the positive corruption distance as independent variable are presented in Table 5.5.

H1a: The effect of positive corruption distance on FDI location choice

Hypothesis H1a predicted that *Positive Corruption Distance* increases the probability of firms' *Entry* into a country. The result in Model 10 indicates that the effect of *Positive Corruption Distance* is negative and non-significant *(β = -0.010, p>0.1).* Model 12 – a full model, shows that the effect of *Positive Corruption Distance* changes to being positive, however still non-significant *(β = 0.050, p>0.1).* Therefore, H1a was not supported.

H2a: The moderating effect of corruption arbitrariness on the relationships between positive corruption distance and FDI location choice

Hypothesis H2a predicted that *Corruption Arbitrariness* will negatively moderate the relationships between *Positive Corruption Distance* and firm *Entry*. Both in Model 16: *β = 0.000, p>0.1* and in the full Model 12: *β = 0.001, p>0.1,* the effect of *Corruption Arbitrariness* was found to be non-significant. Therefore H2a was not supported.

H3a: The moderating effect of political (in)stability on the relationships between positive corruption distance and FDI location choice

Hypothesis H3a predicted that *Political (in)Stability* will negatively moderate the relationships between *Positive Corruption Distance* and firm *Entry*. The moderating effect of *Political (in)Stability* was found to be non-significant in both Model 14: *β = -0.026, p>0.1*, and the full model [Model 12*: β = -0.043, p>0.1*]. Therefore, H3a was not supported.

H4a: The moderating effect of government (in)effectiveness on the relationships between positive corruption distance and FDI location choice

Hypothesis H5a predicted that *Government (in)Effectiveness* will negatively moderate the relationship between *Positive Corruption Distance* and firm *Entry*. This moderating effect

was found to be non-significant in both model 13 (*β = -0.020, p>0.1*) and the full Model 12, *(β= 0.019, p>0.1).* Therefore, Hypothesis H4a was not supported.

H5a: The moderating effect of policy uncertainty on the relationships between positive corruption distance and FDI location choice

Hypothesis H4a predicted that *Policy Uncertainty* will negatively moderate the relationships between *Positive Corruption Distance* and firm *Entry*. The interaction terms were found to be negative and significant in Model 15 (*β = -0.110, p<0.01) and* in full Model 12 *(β = -0.104, p<0.01)*. These provide full support for Hypothesis H5a.

I have tested the suitability of the models using Wald Chi-square, Log Likelihood and the Akaike Information Criterion (AIC). In this set of models Wald Chi-square statistics significantly improved from Model 9 (*162.650*) to Model 12 (*174.056*). Model 12 also has the highest value of Log Likelihood *(-409.389)*, and is therefore the best fit of all the models.

Additionally, Δ - 2LL has been compared for all the models. The difference between Models 12 and 11 is positive and significant. Table 5.5 shows results of the main regression analysis in a full sample.

Table 5.5 Results of the main regression analysis in a full sample – Positive Corruption Distance

VARIABLES	Model 9 ENTRY	Model 10 ENTRY	Model 11 ENTRY	**Model 12** ENTRY	Model 13 ENTRY	Model 14 ENTRY	Model 15 ENTRY	Model 16 ENTRY
Positive Corruption Distance		-0.010	-0.015	0.050	0.019	0.014	0.060**	-0.020
		(0.011)	(0.011)	(0.042)	(0.035)	(0.030)	(0.024)	(0.021)
Firm Prior Host Country Experience	5.194***	5.232***	5.161***	5.312***	5.273***	5.267***	5.202***	5.279***
	(0.840)	(0.842)	(0.851)	(0.883)	(0.848)	(0.844)	(0.856)	(0.850)
Other Firm Host Country Experience	3.056***	3.020***	2.999***	3.022***	2.995***	2.995***	3.015***	3.034***
	(0.362)	(0.360)	(0.359)	(0.361)	(0.358)	(0.358)	(0.360)	(0.363)
Firm Size	0.006	0.006	0.006	0.006	0.006	0.006	0.007	0.006
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Firm Age	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Geographical Distance	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country Population in Thousands	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country GDP	0.000***	0.000***	0.000***	0.000***	0.000**	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

GDP Growth Rate	0.229***	0.229***	0.198**	0.174**	0.224***	0.233***	0.184**	0.227***
	(0.078)	(0.078)	(0.078)	(0.079)	(0.077)	(0.078)	(0.078)	(0.078)
Rate of Inflation	-0.065	-0.070	-0.076	-0.079	-0.046	-0.048	-0.114**	-0.071
	(0.050)	(0.050)	(0.060)	(0.061)	(0.057)	(0.052)	(0.055)	(0.050)
Investment Freedom	0.004	0.004	0.003	0.001	0.004	0.005	0.000	0.004
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Industry Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Year Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Government Effectiveness			0.414	0.066	0.620			
			(0.486)	(0.648)	(0.447)			
Positive Corruption Distance * Government Effectiveness				0.019	-0.020			
				(0.031)	(0.021)			
Political Stability			0.592	1.082		0.920*		
			(0.504)	(0.749)		(0.521)		
Positive Corruption Distance * Political Stability				-0.043		-0.026		
				(0.040)		(0.027)		
Policy Uncertainty			-1.354*	0.394			0.625	
			(0.727)	(1.041)			(0.999)	

Positive Corruption Distance * Policy Uncertainty				-0.104***			-0.110***	
				(0.039)			(0.037)	
Corruption Arbitrariness			-0.025	-0.040				-0.012
			(0.026)	(0.030)				(0.026)
Positive Corruption Distance * Corruption Arbitrariness				0.001				0.000
				(0.001)				(0.001)
Inverse Mills Ratio	-484.001	-487.260	-525.992	-582.949	-493.148	-492.294	-486.462	-522.429
	(728.276)	(753.578)	(816.866)	(851.348)	(787.696)	(786.828)	(742.866)	(778.856)
lnsig2u	-0.231	-0.280	-0.279	-0.390	-0.300	-0.300	-0.370	-0.282
	(0.463)	(0.474)	(0.472)	(0.504)	(0.474)	(0.475)	(0.501)	(0.475)
Constant	-10.099***	-9.868***	-8.749***	-9.316***	-10.581***	-10.745***	-9.770***	-9.499***
	(0.869)	(0.895)	(1.346)	(1.431)	(1.045)	(1.051)	(1.171)	(1.232)
Observations	32,121	32,121	32,121	32,121	32,121	32,121	32,121	32,121
Number of firms	301	301	301	301	301	301	301	301
Wald Chi-squared	162.650	164.706	167.673	174.056	164.968	165.666	175.075	164.189
Log-likelihood	-417.435	-416.997	-413.658	-409.389	-415.922	-415.302	-411.652	-416.798
AIC	874.870	875.994	877.315	876.778	877.845	876.604	869.304	879.595
Δ -2LL		0.88 (1)	6.68 (4)	8.54 (4)*	2.15 (2)	3.39 (2)	10.69(2)***	0.40 (2)

Stage 1 Selection Models

HQ City Population	0.010
	(0.019)
No. of Universities within HQ City	-0.004***
	(0.001)
HQ City Airports	0.367
	(0.232)
Constant	3.866***
	(0.135)
Observations	170,849

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

5.4.4.3. Negative corruption distance and FDI location choice

Following the previous sub-section, which presented the results of positive corruption distance and FDI location choice, this sub-section presents the results for negative corruption distance as independent variables. These can be found in Table 5.6 below.

H1d: The effect of negative corruption distance on FDI location choice

Hypothesis H1d predicted that *Negative Corruption Distance* decreases the probability of a firm *Entry* into a country. Contrary to what was expected, the result in Model 18 indicates that the effect of *Negative Corruption Distance* is positive and significant *($\beta = 0.033, p<0.01$).* Model 20 – a full model – shows that the effect of *Negative Corruption Distance* stays significant with positive sign *($\beta = 0.047, p<0.05$).* This indicates that, when other variables are held constant, an increase in one unit of *Negative Corruption Distance* increases the odds of *Entry* by 1.048 times, as $e^{0.047} = 1.048$. Therefore, H1d was not supported, as although results are significant, they have the opposite sign.

H2d: The moderating effect of corruption arbitrariness on the relationships between negative corruption distance and FDI location choice

Hypothesis H2d predicted that *Corruption Arbitrariness* will negatively moderate the relationships between *Negative Corruption Distance* and firm *entry*. Models 20 and 24 in Table 5.6 show that Hypothesis H2d is not supported [Model 20: *$\beta = -0.001, p>0.1$)*; Model 24: *$\beta = 0.000, p>0.1$)*].

H3d: The moderating effect of political (in)stability on the relationships between negative corruption distance and FDI location choice

Hypothesis H3d predicted that *Political (in)Stability* will positively moderate the relationships between *Negative Corruption Distance* and firm *Entry*. The moderating effect of *Political (in)Stability* was not found in either the incremental model [Model 22: *$\beta = -0.009, p>0.1$*] or the full model [Model 20*: $\beta = 0.001, p>0.1$*]. Therefore, H3d was not supported.

H4d: The moderating effect of government (in)effectiveness on the relationships between negative corruption distance and FDI location choice

Hypothesis H5d predicted that *Government (in)Effectiveness* will negatively moderate the relationship between *Negative Corruption Distance* and firm *Entry*. This moderating effect was found to be significant in Model 21 (β = *-0.019, p<0.05*). However, in the full Model 20 it became non-significant *(β= -0.015, p>0.1).* Therefore, Hypothesis H4d was not supported.

H5d: The moderating effect of policy uncertainty on the relationships between negative corruption distance and FDI location choice

Hypothesis H4d predicted that *Policy Uncertainty* will negatively moderate the relationships between *Negative Corruption Distance* and firm *Entry*. The interaction terms were found to be negative and significant in Model 23 (β = *-0.083, p<0.01*) and Model 20 *(β = -0.075, p<0.01)*. This provides full support for Hypothesis H5d.

The same goodness-of-fit statistics were used to access the suitability of the final model: Wald Chi-square, Log-likelihood, and Akaike Information Criterion (AIC).

In this set of models Wald Chi-square statistics significantly improved from Model 17 (*347.674*) to Model 20 (*373.141*); therefore, the added variables contribute the explanation of the phenomenon. Model 20 also has the highest value of Log-likelihood *(-851.251*) and is therefore the best fit of all the models. AIC for Model 20 (*1760.503*) is also lower than the AIC for Model 17 (*1814.968*).

Additionally, Δ - 2LL has been compared for all the models with Model 20 being positive and significant (*19.29*). Therefore, adding all the variables to the model significantly improves it. Table 5.6 shows results of the main regression analysis in a full sample.

Table 5.6 Results of the main regression analysis in a full sample – Negative Corruption Distance

VARIABLES	Model 17 ENTRY	Model 18 ENTRY	Model 19 ENTRY	**Model 20** ENTRY	Model 21 ENTRY	Model 22 ENTRY	Model 23 ENTRY	Model 24 ENTRY
Negative Corruption Distance		0.033***	0.013	0.047**	0.013	0.019**	0.070***	0.048***
		(0.007)	(0.009)	(0.022)	(0.008)	(0.008)	(0.013)	(0.015)
Firm Prior Host Country Experience	6.924***	6.837***	6.597***	6.520***	6.607***	6.514***	6.778***	6.772***
	(0.819)	(0.822)	(0.830)	(0.815)	(0.816)	(0.824)	(0.812)	(0.816)
Other Firm Host Country Experience	2.493***	2.520***	2.507***	2.517***	2.500***	2.503***	2.521***	2.510***
	(0.234)	(0.234)	(0.234)	(0.233)	(0.233)	(0.233)	(0.234)	(0.233)
Firm Size	0.009*	0.011**	0.009*	0.009*	0.009*	0.010**	0.011**	0.011**
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Firm Age	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Geographical Distance	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country Population in Thousands	0.000**	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country GDP	0.000***	0.000***	0.000*	0.000**	0.000	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

GDP Growth Rate	0.038	0.034	0.052	0.049	0.040	0.042	0.039	0.031
	(0.036)	(0.037)	(0.039)	(0.039)	(0.037)	(0.038)	(0.038)	(0.037)
Rate of Inflation	-0.022	-0.002	0.016	0.009	0.024	-0.004	0.004	0.001
	(0.014)	(0.014)	(0.016)	(0.017)	(0.015)	(0.014)	(0.016)	(0.015)
Investment Freedom	0.004	0.002	0.004	0.005	0.003	0.005	0.003	0.003
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Industry Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Year Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Government Effectiveness			0.604**	0.314	0.410			
			(0.257)	(0.359)	(0.282)			
Negative Corruption Distance * Government Effectiveness				-0.015	-0.019**			
				(0.011)	(0.008)			
Political Stability			0.449**	0.456		0.457*		
			(0.176)	(0.301)		(0.246)		
Negative Corruption Distance * Political Stability				0.001		-0.009		
				(0.009)		(0.007)		
Policy Uncertainty			0.539	-1.263**			-0.902	
			(0.377)	(0.636)			(0.595)	

Negative Corruption Distance * Policy Uncertainty				-0.075***			-0.083***	
				(0.023)			(0.021)	
Corruption Arbitrariness			-0.029	-0.054				-0.006
			(0.030)	(0.037)				(0.032)
Negative Corruption Distance * Corruption Arbitrariness				0.000				-0.001
				(0.001)				(0.001)
Inverse Mills Ratio	-1.339***	-0.481	-1.030*	-0.768	-0.858	-0.716	-0.509	-0.511
	(0.496)	(0.510)	(0.548)	(0.541)	(0.539)	(0.525)	(0.512)	(0.518)
lnsig2u	0.111	0.025	0.099	0.019	0.026	0.017	0.027	0.015
	(0.300)	(0.321)	(0.308)	(0.316)	(0.314)	(0.316)	(0.319)	(0.320)
Constant	-7.814***	-7.751***	-7.874***	-6.652***	-8.090***	-8.191***	-7.502***	-7.758***
	(0.651)	(0.639)	(0.899)	(0.982)	(0.650)	(0.662)	(0.703)	(0.822)
Number of observations	160,570	160,570	160,570	160,570	160,570	160,570	160,570	160,570
Number of firms	305	305	305	305	305	305	305	305
Wald Chi-squared	347.674	357.462	375.397	373.141	363.265	375.915	355.194	347.674
Log-likelihood	-887.484	-875.856	-860.898	-851.251	-863.460	-865.054	-863.198	-887.484
AIC	1814.968	1793.711	1771.797	1760.503	1772.920	1776.109	1772.397	1814.968
Δ -2LL		23.26(1)***	29.91 (4)**	19.29(4)***	24.79(2)***	21.60(2)***	25.31(2)***	2.15 (2)

Stage 1 Selection Models

HQ City Population	0.114***
	(0.001)
No. of Universities within HQ City	-0.003***
	(0.000)
HQ City Airports	-0.122***
	(0.003)
Constant	-0.223***
	(0.002)
Observations	734,024

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

5.4.4.4. Large positive corruption distance and FDI location choice

In the third stage of my research, I divided the independent variable of this research into four variables in order to inspect whether the large and small positive and negative corruption distances would have a different effect on FDI location choice.

Results for the large positive corruption distance as independent variable are presented in Table 5.7. The results for small positive, large negative and small negative corruption distances are presented in the following sub-sections.

H1b: The effect of large positive corruption distance on FDI location choice

Hypothesis H1b predicted that *Large Positive Corruption Distance* decreases the probability of firm's *Entry* into a country. The result in Model 26 indicates that the effect of *Large Positive Corruption Distance* is positive and non-significant *(β = 0.016, p>0.1)*. Model 28 – a full model – shows that the effect of *Large Positive Corruption Distance* remains positive and becomes significant *(β = 0.326, p<0.01)*. Therefore, H1b was supported.

H2b: The moderating effect of corruption arbitrariness on the relationships between large positive corruption distance and FDI location choice

Hypothesis H2b predicted that *Corruption Arbitrariness* will negatively moderate the relationships between *Large Positive Corruption Distance* and firm *Entry*. Models 28 and 32 in Table 5.7 show that Hypothesis H2b is supported [Model 28: *β = -0.007, p<0.01*; Model 32: *β = -0.007, p<0.01*].

H3b: The Moderating effect of political (in)stability on the relationships between large positive corruption distance and FDI location choice

Hypothesis H3b predicted that *Political (in)Stability* will negatively moderate the relationships between *Large Positive Corruption Distance* and firm *Entry*. The moderating effect of *Political (in)Stability* was found significant in Model 30: *β = -0.155, p<0.1*]. However, it became non-significant in the full model Model 28*: β = -0.064, p>0.1*]. Therefore, H3b was not supported.

H4b: The moderating effect of government (in)effectiveness on the relationships between large positive corruption distance and FDI location choice

Hypothesis H5b predicted that *Government (in)Effectiveness* will negatively moderate the relationship between *Large Positive Corruption Distance* and firm *Entry*. This moderating effect was found to be non-significant in both Model 29 (β = - *0.073, p>0.1*) and the full Model 28 *(β= 0.042, p>0.1).* Therefore, Hypothesis H4b was not supported.

H5b: The moderating effect of policy uncertainty on the relationships between large positive corruption distance and FDI location choice

Hypothesis H4b predicted that *policy Uncertainty* will negatively moderate the relationships between *Large Positive Corruption Distance* and firm *Entry*. The interaction terms were found to be negatively significant in Model 31 (β = *-0.176, p<0.5*); however, it became non-significant in full Model 28 *(β = -0.097, p>0.1)*. These provide no support for Hypothesis H5b.

Wald Chi-square statistics significantly improved from Model 25 (*64.515*) to Model 28 (*65.007*), and therefore the added variables contribute the explanation of the phenomenon. Model 28 also has the highest value of Log-likelihood *(–109.816)* and is therefore the best fit of all the models.

Additionally, Δ - 2LL has been compared for all the models with Model 28 being positive (*14.89)* and significant. Therefore, adding all the variables to the model significantly improves it. Table 5.7 shows results of the main regression analysis in a full sample.

Table 5.7 Results of the main regression analysis in a full sample - Large Positive Corruption Distance

VARIABLES	Model 25 ENTRY	Model 26 ENTRY	Model 27 ENTRY	**Model 28** ENTRY	Model 29 ENTRY	Model 30 ENTRY	Model 31 ENTRY	Model 32 ENTRY
Large Positive Corruption Distance		0.016	0.003	0.326***	0.133	0.190*	0.134**	0.279***
		(0.023)	(0.024)	(0.120)	(0.093)	(0.102)	(0.059)	(0.086)
Firm Prior Host Country Experience	6.920***	6.911***	6.990***	8.751***	6.866***	7.152***	7.100***	8.704***
	(1.389)	(1.374)	(1.505)	(1.957)	(1.460)	(1.420)	(1.423)	(1.812)
Other Firm Host Country Experience	2.519***	2.551***	2.487***	2.604***	2.489***	2.541***	2.587***	2.598***
	(0.539)	(0.544)	(0.539)	(0.568)	(0.542)	(0.546)	(0.549)	(0.563)
Firm Size	-0.001	-0.002	0.001	0.007	0.002	-0.001	-0.000	0.004
	(0.013)	(0.013)	(0.013)	(0.014)	(0.013)	(0.013)	(0.013)	(0.013)
Firm Age	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Geographical Distance	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country Population in Thousands	0.000	0.000	0.000**	0.000***	0.000***	0.000	0.000	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country GDP	0.000	0.000	-0.000	-0.000	-0.000	0.000	0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

GDP Growth Rate	0.123	0.122	0.058	0.090	0.158	0.141	0.000	0.269
	(0.165)	(0.164)	(0.179)	(0.207)	(0.169)	(0.167)	(0.166)	(0.197)
Rate of Inflation	-0.005	-0.003	-0.001	0.007	0.141	0.004	-0.069	0.041
	(0.097)	(0.097)	(0.143)	(0.157)	(0.128)	(0.101)	(0.116)	(0.107)
Investment Freedom	-0.006	-0.007	-0.011	-0.014	-0.003	-0.005	-0.011	-0.010
	(0.011)	(0.012)	(0.015)	(0.016)	(0.013)	(0.012)	(0.012)	(0.013)
Industry Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Year Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Government Effectiveness			1.768*	-0.370	4.210**			
			(0.988)	(2.495)	(1.794)			
Large Positive Corruption Distance * Government Effectiveness				0.042	-0.073			
				(0.068)	(0.051)			
Political Stability			-0.204	1.251		5.657*		
			(1.298)	(3.702)		(3.033)		
Large Positive Corruption Distance * Political Stability				-0.064		-0.155*		
				(0.114)		(0.088)		
Policy Uncertainty			-2.665**	0.732			3.732	
			(1.170)	(3.911)			(3.445)	

Large Positive Corruption Distance * Policy Uncertainty				-0.097			-0.176**	
				(0.092)			(0.082)	
Corruption Arbitrariness			0.049	0.337**				0.377***
			(0.055)	(0.132)				(0.103)
Large Positive Corruption Distance * Corruption Arbitrariness				-0.007***				-0.007***
				(0.002)				(0.002)
Inverse Mills Ratio	1.262	1.703	0.643	-0.344	0.060	1.118	1.585	-0.425
	(1.722)	(1.833)	(1.942)	(2.067)	(1.941)	(1.859)	(1.890)	(1.984)
lnsig2u	-11.744	-10.842	-12.317	-11.928	-11.460	-10.941	-11.832	-12.174
	(275.605)	(230.569)	(294.293)	(240.205)	(23.966)	(28.841)	(270.490)	(264.073)
Constant	-8.283***	-9.115***	-9.936***	-20.439***	-14.650***	-14.717***	-11.245***	-21.278***
	(2.017)	(2.360)	(3.351)	(5.087)	(3.727)	(4.000)	(3.475)	(4.579)
Number of observations	12,544	12,544	12,544	12,544	12,544	12,544	12,544	12,544
Number of firms	243	243	243	243	243	243	243	243
Wald Chi-squared	64.515	65.333	67.212	65.007	63.240	65.346	72.071	59.452
Log-likelihood	-123.384	-123.136	-117.260	-109.816	-118.872	-121.068	-118.798	-113.476
AIC	286.767	288.272	284.520	277.632	283.745	288.135	283.595	272.952
Δ -2LL		0.50(1)	11.75 (4)**	14.89(4)***	8.53 (2)**	4.14 (2)	8.68 (2)*	19.32(2)***

Stage 1 Selection Models

HQ City Population	0.029***
	(0.001)
No. of Universities within HQ City	0.001***
	(0.000)
HQ City Airports	0.058***
	(0.011)
Constant	-0.430***
	(0.009)
Observations	66,447

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

5.4.4.5. Small positive corruption distance and FDI location choice

The results of the small positive corruption distance as an independent variable are presented in Table 5.8 below.

H1c: The effect of small positive corruption distance on FDI location choice

Hypothesis H1c predicted that Small Positive Corruption Distance increases the probability of a firm's *Entry* into a country. The result in Model 34 indicates that the effect of *Small Positive Corruption Distance* is positive and non-significant *(β = 0.015, p>0.1).* Model 36 – a full model – shows that the effect of *Small Positive Corruption Distance* remains positive and becomes significant *(β = 0.285, p<0.05).* Therefore, H1c was supported.

H2c: The moderating effect of corruption arbitrariness on the relationships between small positive corruption distance and FDI location choice

Hypothesis H2c predicted that *Corruption Arbitrariness* will negatively moderate the relationships between *Small Positive Corruption Distance* and firm *Entry*. Models 40 and 36 in Table 5.8 show that Hypothesis H2c is not supported [Model 40: *β = -0.001, p>0.1*; Model 36: *β = 0.000, p>0.1*].

H3c: The moderating effect of political (in)stability on the relationships between small positive corruption distance and FDI location choice

Hypothesis H3c predicted that *Political (in)Stability* will positively moderate the relationships between *Small Positive Corruption Distance* and firm *Entry*. The moderating effect of *Political (in)Stability* was not found in both the incremental model [Model 38: *β = -0.099, p>0.1*] and the full model [Model 36*: β = 0.013, p>0.1*]. Therefore, H3c was not supported.

H4c: The moderating effect of government (in)effectiveness on the relationships between small positive corruption distance and FDI location choice

Hypothesis H5c predicted that *Government (in)Effectiveness* will negatively moderate the relationship between *Small Positive Corruption Distance* and firm *Entry*. This moderating effect was found to be negative and significant in Model 37 (*β = -0.099, p<0.1*), however

became non-significant in the full Model 36, *(β= -0.057, p>0.1).* Therefore, Hypothesis H4c was not supported.

H5c: The moderating effect of policy uncertainty on the relationships between small positive corruption distance and FDI location choice

Hypothesis H4c predicted that *Policy Uncertainty* will negatively moderate the relationships between *Small Positive Corruption Distance* and firm *Entry*. The interaction terms were found to be negative and significant in both Model 39 (*β = -0.414, p<0.01*) and in full Model 36 *(β = -0.342, p<0.01)*. Therefore, Hypothesis H5c was fully supported.

Wald Chi-square statistics significantly improved from Model 33 (*82.258*) to Model 36 (*88.188*), therefore the added variables contribute the explanation of the phenomenon. Model 36 also has the highest value of Log-likelihood *(-247.796*) and is therefore the best fit of all the models.

Additionally, Δ - 2LL has been compared for all the models with Model 36 being positive and significant (*8.96).* Therefore, adding all the variables to the model, improves it. Table 5.8 shows results of the main regression analysis in a full sample.

Table 5.8 Results of the main regression analysis in a full sample - Small Positive Corruption Distance

VARIABLES	Model 33 ENTRY	Model 34 ENTRY	Model 35 ENTRY	**Model 36** ENTRY	Model 37 ENTRY	Model 38 ENTRY	Model 39 ENTRY	Model 40 ENTRY
Small Positive Corruption Distance		0.015	-0.011	0.285**	0.137*	0.089	0.287***	0.050
		(0.034)	(0.037)	(0.123)	(0.081)	(0.067)	(0.106)	(0.065)
Firm Prior Host Country Experience	3.151**	3.142**	3.206**	2.991**	3.051**	3.137**	2.957**	3.140**
	(1.386)	(1.382)	(1.424)	(1.413)	(1.388)	(1.379)	(1.396)	(1.376)
Other Firm Host Country Experience	3.171***	3.176***	3.157***	3.213***	3.179***	3.176***	3.222***	3.172***
	(0.494)	(0.495)	(0.495)	(0.499)	(0.495)	(0.495)	(0.501)	(0.495)
Firm Size	0.014	0.014	0.013	0.014	0.013	0.013	0.016*	0.014
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Firm Age	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Geographical Distance	0.000	0.000	0.000	0.000	0.000	0.000*	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country Population in Thousands	-0.000	-0.000	0.000	0.000	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country GDP	0.000***	0.000***	0.000**	0.000*	0.000*	0.000**	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

GDP Growth Rate	0.259***	0.255***	0.220**	0.212**	0.236**	0.269***	0.225**	0.255***
	(0.096)	(0.097)	(0.098)	(0.101)	(0.098)	(0.098)	(0.099)	(0.098)
Rate of Inflation	-0.125**	-0.122*	-0.096	-0.109	-0.068	-0.103	-0.165**	-0.122*
	(0.063)	(0.064)	(0.077)	(0.079)	(0.074)	(0.071)	(0.070)	(0.064)
Investment Freedom	0.008	0.008	0.008	0.004	0.007	0.008	0.003	0.008
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Industry Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Year Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Government Effectiveness			0.778	1.118	1.496**			
			(0.517)	(0.942)	(0.624)			
Small Positive Corruption Distance * Government Effectiveness				-0.057	-0.099*			
				(0.087)	(0.053)			
Political Stability			0.427	0.342		1.371*		
			(0.634)	(0.989)		(0.708)		
Small Positive Corruption Distance * Political Stability				0.013		-0.099		
				(0.101)		(0.066)		
Policy Uncertainty			-1.179	1.841			2.701	
			(0.783)	(1.884)			(1.648)	

Small Positive Corruption Distance * Policy Uncertainty				-0.342**			-0.414***	
				(0.171)			(0.144)	
Corruption Arbitrariness			-0.029	-0.036				0.013
			(0.035)	(0.043)				(0.038)
Small Positive Corruption Distance * Corruption Arbitrariness				0.000				-0.001
				(0.002)				(0.002)
Inverse Mills Ratio	-1.919	-1.874	5.846	2.416	2.774	0.998	-3.080	-1.992
	(19.354)	(19.355)	(22.320)	(22.082)	(22.183)	(20.861)	(20.015)	(19.348)
lnsig2u	0.469	0.482	0.530	0.550	0.537	0.509	0.554	0.462
	(0.455)	(0.456)	(0.451)	(0.444)	(0.445)	(0.446)	(0.443)	(0.459)
Constant	-10.070	-10.230	-15.839	-15.025	-15.972	-13.908	-10.575	-10.425
	(16.392)	(16.397)	(19.134)	(18.909)	(18.885)	(17.775)	(17.007)	(16.488)
Number of observations	18,385	18,385	18,385	18,385	18,385	18,385	18,385	18,385
Number of firms	305	305	305	305	305	305	305	305
Wald chi squared	82.258	82.277	84.379	88.188	83.134	83.516	87.060	82.955
Log likelihood	-255.651	-255.553	-252.274	-247.796	-251.984	-253.377	-250.091	-255.344
AIC	551.302	553.106	554.548	553.592	549.968	552.754	546.182	556.687
Δ -2LL		0.20 (1)	6.56 (4)	8.96(4)*	7.14 (2)**	4.35 (2)	10.92 (2)***	0.42 (2)

Stage 1 Selection Models

HQ City Population	-0.003***
	(0.001)
No. of Universities within HQ City	0.000***
	(0.000)
HQ City Airports	0.012
	(0.008)
Constant	-0.071***
	(0.006)
Observations	104,471

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

5.4.4.6. Large negative corruption distance and FDI location choice

This subsection includes the results of large negative corruption distance as an independent variable in Table 5.9.

H1e: The effect of large negative corruption distance on FDI location choice

Hypothesis H1e predicted that *Large Negative Corruption Distance* decreases the probability of firm *Entry* in a country. The result in Model 42 indicates that the effect of *Large Negative Corruption Distance* is positive and significant *(β = 0.075, p<0.01)*. Model 44 – a full model, shows that the effect of *Large Negative Corruption Distance* becomes non-significant and changes the sign to negative *(β = -0.107, p>0.1)*. Therefore, H1e was not supported.

H2e: The moderating effect of corruption arbitrariness on the relationships between large negative corruption distance and FDI location choice

Hypothesis H2e predicted that *Corruption Arbitrariness* will negatively moderate the relationships between *Large Negative Corruption Distance* and firm *Entry*. Models 44 and 48 in Table 5.9 show that Hypothesis H2e is not supported [Model 44: *β = 0.004, p>0.1)*; Model 48: *β = 0.001, p>0.1)*].

H3e: The moderating effect of political (in)stability on the relationships between large negative corruption distance and FDI location choice

Hypothesis H3e predicted that *Political (in)Stability* will negatively moderate the relationships between *Large Negative Corruption Distance* and firm *Entry*. The moderating effect of *Political (in)Stability* was not found in both the incremental model [Model 46: *β = -0.019, p>0.1*] and the full model [Model 44*: β = -0.036, p>0.1*]. Therefore, H3e was not supported.

H4e: The moderating effect of government (in)effectiveness on the relationships between large negative corruption distance and FDI location choice

Hypothesis H5e predicted that *Government (in)Effectiveness* will negatively moderate the relationship between *Large Negative Corruption Distance* and firm *Entry*. This moderating

effect was found to be non-significant in Model 45 (β = *-0.004, p>0.1*) and the full Model 44 *(β= -0.005, p>0.1).* Therefore, Hypothesis H4e was not supported.

H5e: The moderating effect of policy uncertainty on the relationships between large negative corruption distance and FDI location choice

Hypothesis H4e predicted that *Policy Uncertainty* will negatively moderate the relationships between *Large Negative Corruption Distance* and firm *Entry*. The interaction terms were found to be positive and non-significant in Model 47 (β = *0.076, p<0.01*) and Model 44 *(β = 0.093, p>0.1)*. No support was found for Hypothesis H5e.

Wald Chi-square statistics significantly improved from Model 41 (*130.787*) to Model 44 (*152.474*), and therefore the added variables contribute the explanation of the phenomenon. Model 44 also has the highest value of Log-likelihood *(-277.078*), and therefore is the best fit of all the models. AIC for Model 44 (*610.157*) is slightly lower than Model 41.

Additionally, Δ - 2LL has been compared for all the models with Model 44 being positive (*2.12)* but non-significant. Yet, looking at the incremental models [Model 45, Model 46 and Model 47], adding variables one by one improves those models. Table 5.9 shows results of the main regression analysis in a full sample.

Table 5.9 Results of the main regression analysis in a full sample - Large Negative Corruption Distance

VARIABLES	Model 41 ENTRY	Model 42 ENTRY	Model 43 ENTRY	**Model 44** ENTRY	Model 45 ENTRY	Model 46 ENTRY	Model 47 ENTRY	Model 48 ENTRY
Large Negative Corruption Distance		0.075***	0.020	-0.107	0.024	0.035	0.017	0.053
		(0.026)	(0.031)	(0.105)	(0.033)	(0.035)	(0.057)	(0.073)
Firm Prior Host Country Experience	7.544***	7.242***	6.533***	6.417***	6.770***	6.876***	6.992***	7.181***
	(1.836)	(1.804)	(1.691)	(1.714)	(1.743)	(1.835)	(1.649)	(1.796)
Other Firm Host Country Experience	2.220***	2.196***	2.235***	2.235***	2.220***	2.197***	2.215***	2.195***
	(0.397)	(0.398)	(0.396)	(0.396)	(0.396)	(0.393)	(0.398)	(0.397)
Firm Size	0.003	0.005	0.003	0.003	0.003	0.003	0.005	0.004
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Firm Age	0.003*	0.003*	0.003*	0.003*	0.003*	0.003*	0.003*	0.003*
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Geographical Distance	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country Population in Thousands	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country GDP	0.000**	0.000	0.000	0.000	-0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

GDP Growth Rate	-0.008	0.015	0.001	-0.002	0.036	-0.016	0.015	0.018
	(0.021)	(0.023)	(0.029)	(0.030)	(0.024)	(0.025)	(0.024)	(0.024)
Rate of Inflation	0.004	0.003	0.007	0.007	0.005	0.007	0.004	0.003
	(0.007)	(0.007)	(0.007)	(0.007)	(0.008)	(0.007)	(0.007)	(0.007)
Investment Freedom		0.075***	0.020	-0.107	0.024	0.035	0.017	0.053
		(0.026)	(0.031)	(0.105)	(0.033)	(0.035)	(0.057)	(0.073)
Industry Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Year Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Government Effectiveness			0.638	0.421	1.343			
			(0.516)	(2.345)	(2.023)			
Large Negative Corruption Distance * Government Effectiveness				-0.005	-0.004			
				(0.051)	(0.044)			
Political Stability			0.639**	-0.980		0.273		
			(0.325)	(1.645)		(1.596)		
Large Negative Corruption Distance * Political Stability				-0.036		-0.019		
				(0.035)		(0.034)		
Policy Uncertainty			2.203***	6.565			6.389	
			(0.772)	(4.921)			(4.694)	

Large Negative Corruption Distance * Policy Uncertainty				0.093			0.076	
				(0.104)			(0.099)	
Corruption Arbitrariness			0.005	0.176				0.122
			(0.085)	(0.254)				(0.236)
Large Negative Corruption Distance * Corruption Arbitrariness				0.004				0.001
				(0.006)				(0.005)
Inverse Mills Ratio	3.466	4.318	3.229	3.225	3.368	3.674	4.163	4.249
	(2.669)	(2.686)	(2.660)	(2.664)	(2.665)	(2.654)	(2.738)	(2.698)
lnsig2u	0.219	0.221	0.127	0.129	0.143	0.082	0.208	0.188
	(0.515)	(0.510)	(0.550)	(0.548)	(0.542)	(0.556)	(0.512)	(0.520)
Constant	-12.493***	-9.686***	-12.276***	-17.884***	-11.009***	-10.656***	-13.835***	-11.907***
	(2.285)	(2.453)	(3.068)	(5.281)	(2.540)	(2.611)	(3.582)	(4.111)
Number of observations	90,354	90,354	90,354	90,354	90,354	90,354	90,354	90,354
Number of firms	267	267	267	267	267	267	267	267
Wald chi squared	130.787	135.528	149.972	152.474	141.355	147.725	136.174	137.175
Log likelihood	-297.332	-292.788	-278.138	-277.078	-285.921	-284.270	-283.869	-291.953
AIC	632.664	625.576	604.276	610.157	615.842	612.539	611.739	627.907
Δ -2LL		9.09 (1)***	29.30 (4)***	2.12 (4)	13.73 (2)***	17.04 (2)***	17.84 (2)***	1.67 (2)

Stage 1 Selection Models

HQ City Population	-0.072***
	(0.002)
No. of Universities within HQ City	0.010***
	(0.000)
HQ City Airports	-0.069***
	(0.004)
Constant	0.089***
	(0.003)
Observations	402,913

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

5.4.4.7. Small negative corruption distance and FDI location choice

Results of small negative corruption distance and an independent variable are presented in Table 5.10.

H1f: The effect of small negative corruption distance on FDI location choice

Hypothesis H1f predicted that *Small Negative Corruption Distance* increases the probability of firm *Entry* in a country. The result in Model 50 indicates that the effect of *Small Negative Corruption Distance* is positive and non-significant *(β = 0.021, p>0.1).* However, Model 52 – a full model – shows that the effect of *Small Negative Corruption Distance* becomes significant *(β = 0.074, p<0.05).* Therefore, H1f was supported.

H2f: The moderating effect of corruption arbitrariness on the relationships between small negative corruption distance and FDI location choice

Hypothesis H2f predicted that *Corruption Arbitrariness* will negatively moderate the relationships between *Small negative Corruption Distance* and firm *entry*. Models 52 and 56 in Table 11.1 show that Hypothesis H2f is not supported [Model 52: *β = - 0.001, p>0.1)*; Model 56: *β = -0.000,, p>0.1)*].

H3f: The moderating effect of political (in)stability on the relationships between small negative corruption distance and FDI location choice

Hypothesis H3f predicted that *Political (in)Stability* will positively moderate the relationships between *Small Negative Corruption Distance* and firm *Entry*. The moderating effect of *Political (in)Stability* was not found in either the incremental model [Model 54: *β = -0.024, p>0.1*] or the full model [Model 52*: β = -0.012, p>0.1*]. Therefore, H3f was not supported.

H4f: The moderating effect of government (in)effectiveness on the relationships between small negative corruption distance and FDI location choice

Hypothesis H5f predicted that *Government (in)Effectiveness* will negatively moderate the relationship between *Cmall Negative Corruption Distance* and firm *Entry*. This moderating

effect was found to be non-significant in Model 54 (*β = -0.019, p>0.1*) and the full Model 53 *(β= 0.010, p>0.1).* Therefore, Hypothesis H4f was not supported.

H5f: The moderating effect of policy uncertainty on the relationships between small negative corruption distance and FDI location choice

Hypothesis H4f predicted that *Policy Uncertainty* will negatively moderate the relationships between *Small Negative Corruption Distance* and firm *Entry*. The interaction terms were found to be negative and significant in Model 55 (*β = -0.124, p<0.01)* and Model 52 *(β = -0.120, p<0.01)*. Therefore, Hypothesis H5f was supported.

Wald Chi-square statistics significantly improved from Model 49 (*208.074*) to Model 52 (*219.310)* and therefore the added variables contribute to the explanation of the phenomenon. Model 52 also has the highest value of Log-likelihood *(-556.737*), and is therefore the best fit of all the models. AIC for Model 52 (*1171.473*) is slightly lower than Model 49.

Additionally, Δ - 2LL has been compared for all the models with Model 49 being positive (*9.62)* and significant. Therefore, adding all the variables to the model significantly improves it. Table 5.10 shows results of the main regression analysis in a full sample.

Table 5.10 Results of the main regression analysis in a full sample - Small Negative Corruption Distance

VARIABLES	Model 49 ENTRY	Model 50 ENTRY	Model 51 ENTRY	**Model 52** ENTRY	Model 53 ENTRY	Model 54 ENTRY	Model 55 ENTRY	Model 56 ENTRY
Small Negative Corruption Distance		0.021	0.015	0.074**	0.022	0.019	0.081***	0.039
		(0.013)	(0.014)	(0.037)	(0.015)	(0.013)	(0.024)	(0.027)
Firm Prior Host Country Experience	6.324***	6.371***	6.344***	6.259***	6.314***	6.225***	6.257***	6.372***
	(0.989)	(0.984)	(0.983)	(0.984)	(0.981)	(0.977)	(0.983)	(0.984)
Other Firm Host Country Experience	2.675***	2.690***	2.714***	2.725***	2.670***	2.681***	2.692***	2.716***
	(0.289)	(0.289)	(0.293)	(0.294)	(0.289)	(0.289)	(0.289)	(0.293)
Firm Size	0.010	0.011*	0.010	0.010	0.010	0.010*	0.011*	0.011*
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Firm Age	0.000	-0.000	0.000	0.000	0.000	0.000	0.000	-0.000
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Geographical Distance	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country Population in Thousands	0.000**	0.000**	0.000***	0.000**	0.000**	0.000**	0.000***	0.000*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Country GDP	0.000***	0.000***	0.000*	0.000*	0.000*	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

GDP Growth Rate	0.002	0.001	0.006	0.007	0.003	0.011	0.002	-0.001
	(0.047)	(0.047)	(0.048)	(0.048)	(0.048)	(0.048)	(0.048)	(0.047)
Rate of Inflation	-0.001	0.003	0.016	0.010	0.015	0.010	0.003	0.002
	(0.021)	(0.021)	(0.025)	(0.025)	(0.022)	(0.021)	(0.024)	(0.021)
Investment Freedom	0.003	0.002	0.003	0.004	0.003	0.004	0.003	0.002
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Industry Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Year Dummy	Included	Included	Included	Included	Included	Included	Included	Included
Government Effectiveness			0.456	0.598	-0.012			
			(0.316)	(0.483)	(0.367)			
Small Negative Corruption Distance * Government Effectiveness				0.010	-0.019			
				(0.022)	(0.016)			
Political Stability			0.224	-0.041		-0.130		
			(0.214)	(0.413)		(0.332)		
Small Negative Corruption Distance * Political Stability				-0.012		-0.024		
				(0.021)		(0.016)		
Policy Uncertainty			-0.113	-1.956**			-1.715**	
			(0.479)	(0.819)			(0.746)	

Small Negative Corruption Distance * Policy Uncertainty				-0.120***			-0.124***	
				(0.046)			(0.040)	
Corruption Arbitrariness			-0.055*	-0.059*				-0.038
			(0.030)	(0.035)				(0.031)
Small Negative Corruption Distance * Corruption Arbitrariness				-0.000				-0.001
				(0.001)				(0.001)
Inverse Mills Ratio	-0.619	-0.232	-0.424	-0.174	-0.365	-0.223	-0.113	-0.038
	(0.837)	(0.861)	(0.906)	(0.915)	(0.902)	(0.881)	(0.864)	(0.880)
lnsig2u	0.074	0.020	0.075	0.058	0.025	0.003	0.022	0.034
	(0.374)	(0.386)	(0.379)	(0.383)	(0.384)	(0.386)	(0.387)	(0.387)
Constant	-8.290***	-8.273***	-7.325***	-6.579***	-8.295***	-8.631***	-7.633***	-7.661***
	(0.911)	(0.907)	(1.123)	(1.229)	(0.908)	(0.936)	(0.984)	(1.031)
Number of observations	70,274	70,274	70,274	70,274	70,274	70,274	70,274	70,274
Number of firms	305	305	305	305	305	305	305	305
Wald chi squared	208.074	211.762	212.762	219.310	213.153	217.110	217.446	211.321
Log-likelihood	-565.897	-564.557	-561.544	-556.737	-563.020	-562.435	-559.480	-563.802
AIC	1171.795	1171.113	1173.088	1171.473	1172.040	1170.871	1164.960	1173.603
Δ -2LL		2.68 (1)*	6.02 (4)	9.62 (4)**	3.07 (2)	4.24 (2)*	10.15 (2)***	1.51 (2)

Stage 1 Selection Models

HQ City Population	0.061***
	(0.001)
No. of Universities within HQ City	-0.000***
	(0.000)
HQ City Airports	-0.070***
	(0.005)
Constant	-0.133***
	(0.003)
Observations	331,318

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

6. Discussion and conclusions

6.1. Introduction

The results of the regressions were presented in the previous chapter. This chapter provides a discussion of findings followed by a conclusions section highlighting contributions of my research. Next sections describe the managerial implications and acknowledge the limitations of this research as well as recommend areas for future research.

6.2. Discussion

6.2.1. Corruption distance and FDI location choice

Prior literature on corruption and FDI has obtained mixed results. Some authors came to a conclusion that corruption acts as 'sand' due to increased costs and uncertainty (Wei, 2000), while others found corruption to be the 'grease' that helps to deal with poor host country institutions (Wheeler & Mody, 1992). One of the potential ways to solve this puzzle is to recognize that the utilisation of FDI variables is inconsistent. FDI stocks, FDI flows and FDI location choice are used interchangeably. Yet separating the FDI propensity and FDI inflows is important and emphasises the first decision that firms make when choosing a location for FDI (Yi et al., 2019). Another potential way to solve the puzzle is to consider the difference in corruption levels, direction and magnitude between the home and the host countries – corruption distance (Habib & Zurawicki, 2002) rather than only the host country corruption levels. Combining the two approaches and getting to the bottom of the MNEs decision making might help me to solve the puzzle and help answer the question whether corruption is a 'sand' or a 'grease' after all.

With these considerations in mind, Hypothesis 1 (H1) sought to determine if corruption distance affects FDI location decision firms make. I argued that pervasive corruption distance has a negative impact on FDI location decisions firms make, following the more traditional 'sanding' view of corruption. However, the findings of my research did not support the first hypothesis and are consistent with the 'greasing the wheels' view. Pervasive corruption distance positively affects a firm's decision to choose a country for FDI. Results are positive and highly significant.

These findings support those few papers that empirically obtained similar results with corruption levels and other FDI variables. Barassi and Zhou (2012) found that corruption

positively affects levels of FDI stocks, while Yi et al. (2019) found positive association between corruption and FDI flows. The findings of my research provide evidence that pervasive corruption distance also positively affects FDI location choice firms make, therefore go against the mainstream corruption research and prove that this informal institution is viewed today in too narrow terms (Cuervo-Cazurra, 2006; Voyer & Beamish, 2004; Wei, 2000). However, if considered as a 'norm of doing business' in countries where corruption is wide-spread and socially accepted, it can become an important, if not crucial, instrument for doing business. My research emphasises that corruption is not just 'black' or 'white', but is institutionalised in some parts of the world (Shore & Haller, 2005) and has a 'grey' hue to it (Heidenheimer & Johnston, 2011; Heidenheimer, Johnston, & Le Vine, 1989). And while most of the previous authors argued that it will deter firms from investing, my findings demonstrate that the opposite occurs, firms choose to invest in presence of pervasive corruption distance. It is a very important finding, both theoretical and practical, as it finally answers the question why so many corrupt countries still receive large amounts of FDI and helps us develop a deeper understanding of complex corruption phenomenon. It is also aligned with the recent study on multinationals' misbehavior – acting against standards or expected (Cuervo-Cazurra et al., 2021).

As the next step, to address the distance critique, which calls for adding a direction to the distance (Zaheer et al., 2012), I sub-divided the absolute pervasive corruption distance into two parts depending on the direction related to the firm's home country. Hypothesis 1a (H1a) examined relationship between positive pervasive corruption distance and FDI location choice. Institutional differences between home and host countries are associated with risks and potential difficulties around operating in unknown business environments (Brouthers & Brouthers, 2001; Eden & Miller, 2004). However, when the distance is positive, even though firms still have to deal with that distance and lack of knowledge about that environment (Zaheer, 1995), they also benefit from better institutional environments (Håkanson et al., 2016). Following the literature that highlights how reducing institutional risks increases the likelihood of choosing a location for FDI (Demirbag & Glaister, 2010; Henisz & Delios, 2001), in H1a I predicted that positive pervasive corruption distance has a positive impact on FDI location choices that firms make. Findings of my research did not support this hypothesis.

In the next step I have added a magnitude to the distance following Hutzschenreuter et al. (2016) and their notion that distance has direction and magnitude simultaneously. Dividing

the positive corruption distance into large (H1b) and small (H1c) added to the explanatory power of corruption distance. Hypothesis 1b examined the relationship between large positive corruption distance and FDI location choice. Although firms do not need to worry about host country's corruption and can enjoy the strong institutions, I proposed that the larger the distance the less likely it will be that firms choose that location for FDI. The host country's institutional environment would be too different compared to that in their home country, even though much better and all the capabilities firms have obtained by operating in their home country's corrupt environment would not be helpful. However, findings of my research did not support this hypothesis. The effect of large positive corruption distance was positive and highly significant.

Contrary to what I expected, firms are likely to enjoy better institutional environments of much less corrupt countries. High-quality institutions are very important for FDI location (Bailey, 2018; Contractor, Dangol, Nuruzzaman, & Raghunath, 2020) and cannot be overlooked. Additionally, because the healthcare sector is a regulated sector, a better institutional environment with clear 'rules of the game' can help firms make an investment and not worry about the inevitable bribes demands.

Hypothesis 1c (H1c) on the other hand examined the relationship between small positive corruption distance and FDI location choice. I argued that when the corruption distance between the home and host countries is small, firms will be able to use their capabilities obtained in comparable home country environments (Cuervo-Cazurra & Genc, 2011). Furthermore, I expected that they could benefit from better institutional environments compared to their home countries. I argued that the relationship between small positive corruption distance and FDI is positive. Findings of my research fully support this hypothesis. Results and positive and significant.

Firms can fully benefit from both better institutions, and, because distance is small, from the capabilities they have obtained in the home environments. These findings are aligned with the traditionalists' arguments that the greater the absolute corruption distance, the less FDI inflows the host country will receive (Habib & Zurawicki, 2002). However, my findings also emphasise the importance of utilising the direction and magnitude of the distance, rather than just sticking to the absolute distance. The explanatory powers of the direction and magnitude added to the distance are assisting us immensely in understanding the firms' behavior and making FDI location choice decisions.

In hypothesis 1d (H1d) I argued that negative corruption distance is expected to negatively affect a firm's decision to choose a country for FDI. This is consistent with studies arguing that weak institutional environments can create higher risks and increase the level of uncertainty (Coeurderoy & Murray, 2008; Kraus et al., 2015). However, similar to the absolute pervasive corruption distance (H1), negative pervasive corruption distance was found to positively affect the FDI location choice. The results are positive and highly significant.

Those results are again consistent with the 'greasing' view of corruption, in which firms choose countries with weaker institutions where they can potentially benefit from using corruption as 'speed' money (Lui, 1985) to gain access to projects (Tanzi & Davoodi, 2000), deal with bureaucratic obstacles (D'Este et al., 2012), influence public officials (Bertrand et al., 2007), and hedge against political risks and changes (Acemoglu & Verdier, 2000; Darendeli & Hill, 2016). These findings are also consistent with studies emphasising that corruption can be an accepted form of facilitation of the relationship despite being illegal in a host country and according to international law (Spencer & Gomez, 2011).

I have also divided negative corruption into large (H1e) and small (H1f). Hypothesis 1e (H1e) examined the relationship between large negative corruption distance and FDI location choice. Firms looking at countries with weaker institutions than their own face additional uncertainties (Håkanson & Ambos, 2010). Absence of knowledge can also be an issue (Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002), therefore, I argued that the larger the negative pervasive corruption distance is, the less likely it is that firms will choose the country for FDI. Findings of this research did not support this hypothesis.

Hypothesis 1f (H1f) examined the relationship between small negative corruption distance and FDI location choice. Firms that have learned to deal with corruption in their home country environments can become more resilient to similar corrupt environments in the host countries (Cuervo-Cazurra et al., 2018). Following this logic, I argued that the smaller the negative corruption distance, the more likely it is that firms will choose the country for FDI in order to benefit from that experience, as capabilities that firms gain are usually context specific, and often institutionally derived. Findings of my research found strong support for this hypothesis. The results are positive and significant.

Firms might specifically seek similarly corrupt countries where they can take full advantage of the potential to use corruption as 'grease' and exploit arbitrage opportunities in similar institutional environments, even slightly more corrupt ones.

6.2.2. The moderating effect of corruption arbitrariness

Type of corruption is another potential reason for the asymmetry of investment levels that some countries receive. While pervasive corruption relates to the level of probability of encountering corruption, arbitrariness represents the uncertainty associated with corruption. The second Hypothesis (H2) examined the effect of corruption arbitrariness on the relationships between pervasive corruption distance and FDI location choice. Similarly to the case with corruption pervasiveness, two competing views also exist regarding corruption arbitrariness. Some authors consider it as part of doing business in certain countries and therefore as not having an equally bad effect as pervasive corruption (Cuervo-Cazurra, 2008a), while others consider it to have more negative implications for economic actors (Uhlenbruck et al., 2006; Wei, 1997).

H2 hypothesised that corruption arbitrariness will negatively moderate the relationship between the pervasive corruption distance and FDI location choice as it will act as the uncertain factor. This is aligned with the negative argument that the arbitrariness aspect of corruption causes corruption to be 'more taxing than tax' (Wei, 1997, p. 3).

However, the findings of my research did not support this hypothesis. The results are positive and significant. Potentially, firms making a decision to invest consider arbitrariness as an inevitable part of the uncertain host country environment, which is consistent with the view of Cuervo-Cazurra (2008a). His research, however, only argued that arbitrariness will have less of a negative influence in transition economies because firms will not be sensitive to the additional uncertainty that corruption arbitrariness creates, as they have made a decision to enter that country. The significant findings provide proof that corruption arbitrariness will have a positive effect in addition to corruption pervasiveness. Firms that are not deterred by pervasive corruption distance won't be deterred by the addition of the host country corruption arbitrariness. They are more likely to invest in such countries.

To test whether the effect of corruption arbitrariness will be different when added to pervasive corruption distance with different direction and magnitude, in subsequent

Hypotheses 2a, 2b, 2c, 2d, 2e and 2f, I argued that corruption arbitrariness negatively moderates the relationship between all the pervasive corruption distances and FDI location choice. Arbitrariness is the uncertainty associated with corruption and therefore, when present, adds to liability of foreignness in the host country (Rodriguez et al., 2005). It acts as an additional, potentially repetitive tax with unknown outcomes and places an additional financial burden on the firm (Petrou, 2014). Such a view of uncertainty is also supported by studies taking into consideration Knightian uncertainty (Knight, 1921), where risk and uncertainty are divided into multiple categories. Alternative to Predictability vs Knowledge scale of the VUCA dimensions presented in Figure 2.5 in Chapter 2 of my thesis, a framework below (Figure 6.1) created using the inspiration from Hartwell and Devinney (2021); Makridakis and Bakas (2016) emphasises the channels via which political institutions exert an influence on business. Uncertainty in a form that I have used it in this research falls into in the known/unknown quadrant (the upper left box of Figure 6.1).

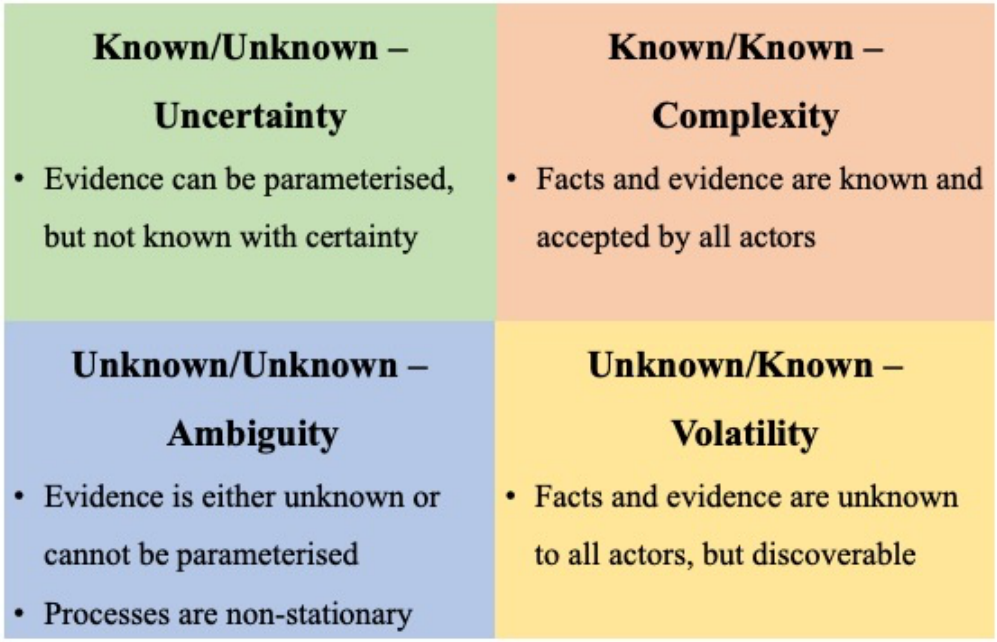

Figure 6.1 VUCA dimensions on Knightian uncertainty scale

* Created using the inspiration from Hartwell and Devinney (2021); Makridakis and Bakas (2016)

However, findings of my research did not support five out of six hypotheses. The results were negative and highly significant for arbitrariness as a moderator only in combination with

large positive pervasive corruption distance (H2b). Potentially, when the distance positive and large, presence of any arbitrariness is seen as a nuisance and creates the uncertainty the firms prefer not to engage with.

6.2.3. The moderating effect of political (in)stability

The host country's political environment plays a big part for firms in their location decision making process (Kobrin, 1978; Wei, 2000). Political (in)stability reflects the probability of sudden changes in government (Kaufmann et al., 2004). Firms face volatility and potential sudden changes in policies with regards to foreign investors and even, potentially, the seizing of existing contracts (Henisz & Williamson, 1999; Svensson, 1998). The recent business climate has also moved from quantifiable risk to non-stationary political uncertainty generated by politicians and parties (Hartwell & Devinney, 2021). Another stream of research also argues that political instability can be beneficial and can act as a competitive advantage for firms (Frynas & Mellahi, 2003; Jiménez & Delgado-García, 2012). This stream of research also goes hand-in-hand with political connections research (Fernández-Méndez, García-Canal, & Guillén, 2018) and risk mitigation strategies based on a specific location (Darendeli & Hill, 2016; Oh & Oetzel, 2016). Following the potentially positive view of benefits that political instability might bring to the firms, in the third Hypothesis (H3) I argued that it will positively moderate the relationship between the pervasive corruption distance and FDI location choice. However, my research findings did not support this hypothesis.

I was also interested to see whether the results are different when I add political instability to pervasive corruption distance with direction. Therefore, I have separately tested how it moderates the relationship between positive pervasive corruption distance in hypothesis 3a (H3a), negative pervasive corruption distance in hypothesis 3d (H3d) and FDI location choice.

In H3a I argued that political instability will negatively moderate the relationship between positive pervasive corruption distance as firms do not need to use corruption to negotiate with the corrupt government and volatile environments remain just as unpredictable (Bennett & Lemoine, 2014a) without the potentially positive outcome of corruption-induced relationship building (Fisman, 2001) or even the need for mitigation strategies (Darendeli & Hill, 2016; Oh & Oetzel, 2016). However, this hypothesis didn't find support in my research.

While I expected a negative moderating effect in cases of positive pervasive corruption distance, in cases of negative pervasive corruption distance (H3d), I hypothesised that political (in)stability will positively moderate the relationship. I anticipated it would help firms to overcome the bureaucratic delay and gain government support (Tanzi & Davoodi, 2000) when they intend to invest in a country with much worse informal institutional environments than their own, as they would be able to address the institutional voids by means of strategic agility obtained previously from operating in their home countries (Beaulieu, Cosset, & Essaddam, 2005, 2006). However, H3d hypothesis did not find support either.

Adding magnitude to positive and negative pervasive corruption distance allowed me to argue that the relationship between large positive (H3c) and large negative (H3e) pervasive corruption and FDI location choice will be negatively moderated. Large corruption distance, regardless of location, brings the unknown factor into the equation and adding political instability on top of that hinders a firm's ability to justify the choice of that country for FDI.

In hypotheses 3d (H3d) and 3f (H3f) I argued that political instability will positively moderate the relationship between the small positive and small negative pervasive corruption distances, as I expected managers to be able to apply experience and knowledge, they have obtained operating in their home countries. These arguments are aligned with studies on political risk and uncertainty (Cuervo-Cazurra et al., 2018; Holburn & Zelner, 2010). However, findings of this research did not support these hypotheses.

6.2.4. The moderating effect of government (in)effectiveness

Government (in)effectiveness represents the quality of public services. Unlike political (in)stability, which firms can potentially benefit from through relationship building and risk mitigating strategies (Darendeli & Hill, 2016; Oh & Oetzel, 2016), government (in)effectiveness leads to delays and additional administrative burdens that help the rent-seeking bureaucrats to extract maximum bribes (Shleifer & Vishny, 1993; Wei, 1999). Government (in)effectiveness is therefore political risk in its pure form as there is a lack of clarity regarding the application of regulations and any actions carried out to comply with particular regulations may not bear fruit (Cuervo-Cazurra et al., 2018). This has allowed me to argue that the 'grease' approach will not work in the case of government ineffectiveness as

political agents are highly fractionalised and the outcomes of bribes are unknown (Alon et al., 2016).

Hypotheses H4, H4a, H4b, H4c, H4d, H4e and H4f argued that government ineffectiveness will negatively moderate the relationship between all the pervasive corruption distance with magnitude and direction and FDI location choice. In the case of both positive and negative, large and small pervasive corruption distance, it is expected that the relationship will be negatively moderated. Current IB research is focused purely on institutions and has forgot the role that bureaucrats, politicians and government agents play (Devinney & Hartwell, 2020). The government ineffectiveness dimension emphasises exactly that – on a micro-level, political actors create and control the policies and political institutions. Adding this 'human' layer allows me to distinguish between the known/unknown effect of volatility and its potential for the investors, and the known/known complexity of government echelons, which has no prospective benefits.

However, only one hypothesis (H4) was supported. The results were negative and significant. Complexity of government echelons coupled with pervasive corruption distance are likely not only cause more uncertainty. And when uncertainty is dominant, no amount of sensing, predicting, or even dynamic capabilities that managers have obtained previously can help firms, as, at this point, we have switched to non-ergodic conditions with no status quo. The choice is either to accept it (Hartwell & Devinney, 2021), or craft it into an appropriate long-term strategy (Kingsley, Vanden Bergh, & Bonardi, 2012).

6.2.5. The moderating effect of policy uncertainty

Finally, the last VUCA dimension – ambiguity – is represented by policy uncertainty, which includes the lack of political checks and balances as well as complexity within government divisions and echelons (Henisz, 2000c). There is no way to be prepared for ambiguity due to lack of knowledge (Bennett & Lemoine, 2014a). It represents the unknown/unknown quadrant in Figure 6.1 and is increasingly less static compared to the previous dimensions. Therefore, dynamic capabilities can be less and less valuable in predicting future policy changes (Wilden, Devinney, & Lin, 2018), which leads me to Hypotheses H5, H5a, H5b, H5c, H5d, H5e, and H5f, where it is argued that policy uncertainty will negatively moderate the relationship between pervasive corruption distances with magnitude and direction and FDI location choice.

The results are very interesting: significant and highly significant negative coefficients support hypotheses H5 (pervasive corruption distance), H5a (positive pervasive corruption distance), H5d (small positive pervasive corruption distance), H5b (negative pervasive corruption distance), H5f (small negative pervasive corruption distance) and have identified that policy uncertainty will negatively moderate the relationship. These results are consistent with those studies arguing that policy uncertainty magnifies the difficulties in collecting and organising the information needed to have a successful operation (Yasuda & Kotabe, 2020). Ambiguity represents the endogenous uncertainty that requires an active, costly learning (Chi, Li, Trigeorgis, & Tsekrekos, 2019), which, however, might become irrelevant too quickly to be used in firms' long-term strategies. . If the environment is dominated by uncertainty, even dynamic capabilities lose their mitigation value (Wilden et al., 2018). The ambiguity dimension allows us to understand clearly that institutions are not static and definitely not actor-less. Furthermore, the 2020 health and economic crisis has led to louder discussions about globalisation and whether it benefits economic development, as countries now face competing pressures to enhance economic opportunities and seek protection from global forces (Aïssaoui & Fabian, 2021). In the presence of ambiguity, an ability to judge the ever-changing environment due to the battle between globalisation and de-globalisation, managers have significantly reduced ability to mitigate the voids. Effective institutional policies would be able to drive positive institutional change than can help tackling corruption and raise countries' development.

However, not all coefficients were significant. Hypotheses H5b (large positive pervasive corruption distance) and H5e (large negative pervasive corruption distance) findings did not find support.

6.3. Conclusions

6.3.1. Extending institutional theory – corruption distance with magnitude and directions

My thesis makes several contributions to institutional theory in general and to the corruption phenomenon as an informal institution in particular. First, it explores the effect of corruption on FDI location choice and addresses the main issues: the asymmetry of investments (Barassi & Zhou, 2012; Hakkala et al., 2008) by expanding the expanding scholarly work on the strategic uses of bribery. Previously, researchers have argued whether corruption will act

as ‘sand’ (Cuervo-Cazurra, 2006; Fisman & Svensson, 2007) or as ‘grease’ (de Vaal & Ebben, 2011; Méon & Sekkat, 2005; Méon & Weill, 2010).

Taking those two points of view into consideration, I have used corruption distance and argued that it will have a negative impact on FDI location choice. Although my inclination was towards following the traditional view that corruption is ‘bad’, I found that corruption is indeed going to act as ‘grease’, which is aligned with those few authors who have argued that corruption acts as a substitutive informal institution in the absence of established good quality formal institutions (Krammer, 2019). By using the distance instead of the host country corruption levels, I was able to understand the true motivation behind the MNE’s strategic location decision – potential willingness to use different corruption levels to their advantage.

It is also plausible to argue that firms are not going to be affected by corruption uniformly across the world, as their backgrounds and home country institutions shape their responses to corruption. Therefore, I have included not only corruption distance relative to a firm’s home country, but added direction and magnitude to it. By doing so, I was able to provide a thorough analysis of the relationship between corruption distance and FDI location choice and identify what roles direction and magnitude play. None of the previous studies have used such a detailed approach to corruption distance – and ignoring the fact that distance must have both direction and magnitude (Beugelsdijk, Ambos, et al., 2018; Harzing & Pudelko, 2016) is dangerous. My research emphasised that, unlike in the cases of the geographic and cultural distances, when we discuss corruption, we cannot disregard that the way we perceive it is relative to the institutional environments in our home countries. My thesis makes an important theoretical contribution as it presents a solution to the continuing discussion of whether corruption has a positive or negative impact on FDI by arguing that distance matters, however, only when direction and magnitude are added to it.

My findings strongly support previous studies arguing that firms might seek riskier countries to take advantage of and treats each potential void as an actionable construct that can be shaped (Doh et al., 2017; Khanna & Palepu, 2011). However, also prove that corruption is not ‘black and white’ but has to be looked at in much more nuanced way. While pervasive corruption distance and negative pervasive corruption distance were expected to have a negative effect on FDI location choice, the results were the opposite. This offers evidence that the absolute corruption distance and negative corruption distance encourage firms to invest in

the country as they can expect to be able to reduce the uncertainty and costs that are pervasive in corrupt countries (Kotabe, Jiang, & Murray, 2017) using bribes as an instrument. These findings provide a significant support to both the 'greasing view' and the collusive view of corruption and emphasise that both parties are involved and motivated to do business illegally. We must acknowledge that in this case, both the willingness and the demand side are at play when we talk about corruption.

To add even more nuance to the relationship, as I argued that when the corruption distance is small, firms are more likely to invest and found that correct in cases of both positive and negative pervasive corruption distances. This further strengthens the notion that corruption is relative and can only be considered in comparison, therefore, when the distance is small, the institutional environment is more familiar, won't be deterring to firms and knowledge and experience obtained in the home country institutional environment can be fully applied. Again, these findings go hand in hand with the collusive view of corruption when both actors are willing to accept the rules of the game rather than avoid it.

Final surprising finding was waiting for me in a form of the relationship between large positive pervasive corruption distance and FDI location choice. While I argued that because the distance is large, although positive, firms won't appreciate the magnitude in corruption levels between the home and the host country, the results indicated that firms might prefer to 'run away' completely from their corrupt home country environments to benefit from good, well-functioning institutions of the host country.

To sum up my findings, corruption in a narrow view can be seen as an extortive tool, however, acknowledging the willingness and ability of both actors to demand and provide bribe which my findings provide strong support for, significantly enhances our understanding of this phenomenon.

Finally, while doing a deep analysis of the literature on FDI, I have realised that FDI location choice, FDI stocks and FDI inflows are used interchangeably, yet they represent different phases of investment decisions (Goerzen et al., 2013); while looking at inflows, for example, gives you an idea of the amounts of investment a country receives, and, considering the FDI location choice that firms make, it possible to understand the expanse of those investments within the international arena. The first decision firms make is where to invest, not how much to invest. Therefore, by looking at the first, rather than considering the second, I got

to the origins of the strategic decision-making process. Emphasising this distinction for future IB research is crucial if we want to get consistent results and be clear about what exactly we are trying to study.

6.3.2. Extending institutional theory – pervasive and arbitrary corruption

Corruption is also not a unidimensional phenomenon and encompasses both transaction- and state-specific characteristics (Rodriguez et al., 2005). To fully capture those aspects, I differentiated between pervasive and arbitrary dimensions of corruption and incorporated them in this thesis. Previously only twenty papers included both dimensions and none looked at FDI location choice.

Pervasive corruption represents the likelihood of encountering corrupt transactions, while arbitrariness reflects the uncertainty associated with corrupt transactions (Habib & Zurawicki, 2002). Managing under uncertainty is extremely important to understand as it affects how MNEs make their decision regarding FDI location choice (Kim & Aguilera, 2016; Vahlne et al., 2017). I have used arbitrariness as a moderator and argue that it has a negative impact regardless of the direction and the magnitude of the pervasive corruption distance. My findings, however, demonstrated that corruption arbitrariness will have different effect depending on whether we consider the interaction with absolute pervasive corruption distance or add direction and magnitude to it. In case of absolute pervasive corruption distance and arbitrariness, the moderating effect is positive and significant. This is consistent with Cuervo-Cazurra (2008a) view that arbitrariness is just a part of the uncertainty of doing business. While he only considered the characteristics of the host country economy and looked at how in transition economies corruption arbitrariness will have a less negative influence because firms have made a decision to enter the country already, I have used a bigger country sample and therefore, can say that the type of economy does not matter and corruption arbitrariness, or uncertainty associated with corruption will not have a negative influence on the FDI location choice decision in case of absolutely pervasive corruption distance.

The situation changes, however, when we add a direction and magnitude to the pervasive corruption distance. When distance is large and negative, the effect of corruption arbitrariness becomes negative and highly significant. When countries are highly arbitrary, corrupt transactions between firms and government officials are characterised by persistent uncertainty regarding the amount and number of corrupt payments needed to achieve a desired

outcome. Low degree of efficiency is the main characteristic of highly arbitrary environment, regardless how often the corrupt interactions occur (Rodriguez, Uhlenbruck, & Eden, 2002; Rodriguez et al., 2005). This characteristic of corruption arbitrariness renders the corrupt environments as highly unattractive, as the rules of behavior, expectations of outcomes, and the power and view of enforcers are inherently unstable. Firms are highly unlikely to achieve legitimacy through engagements with government officials in an arbitrarily corrupt environment (Oliver, 1991).

By looking at both dimensions of corruption, a two-fold contribution has been made. A theoretical one – through an analysis of MNEs strategic behavior based on the impact of institutions – and a thematic one, by distinguishing two types of corruption, or the cost and uncertainty associated with corruption.

Additionally, a great emphasis has been put on the importance of VUCA dimensions in IB literature. This and the call to consider host country institutional environments while discussing corruption (Cuervo-Cazurra, 2008a) prompted me to include four dimensions that create a 'VUCA world' (van Tulder et al., 2019) – volatility, uncertainty, complexity and ambiguity – and match them to the institutional factors within the new institutional economics approach. Arbitrariness, or uncertainty associated with corruption transactions, as I considered it makes up for the second VUCA dimension.

6.3.3. Institutions in VUCA world

In addition to arbitrariness. I added political stability as volatility, government effectiveness as complexity and finally policy uncertainty/political hazards as ambiguity. By adding those dimensions, I have contributed to a research stream that focuses on the impact of complex institutions on MNEs' strategic location decisions with emphasis on how intertwined those institutions are. While mainstream IB research is focused on 'good' institutions and how they attract FDI, I have argued that a more nuanced analysis is required.

I have argued that different dimensions might have different moderating effect. For example, government ineffectiveness, reflected through excessive regulations, rules and laws, will negatively affect a firm's ability to judge a country's institutional environment. I therefore expected that it will have a negative effect, moderating the relationship between corruption

distance and FDI location choice. However, other dimensions, such as political instability can be more desirable in some cases.

Political (in)stability is recognised as one of the critical determinants of investment decisions (Kobrin, 1978; Wei, 2000). Previous studies have generated peculiar findings, and arguments vary from the negative effect of volatile environments (Henisz & Williamson, 1999; Svensson, 1998) to positive risk-exploiting behavior (Frynas & Mellahi, 2003; Jiménez & Delgado-García, 2012). I have argued that, while independently, political (in)stability might have a different effect, when combined with corruption, it strongly depends on the direction of the corruption distance. In cases of absolute and negative pervasive corruption distance, I expected that political (in)stability to beneficial for firms, as they will be able to apply their experience as well as exploit the conditions applying corruption as an instrument. Yet, in cases of positive corruption distance, I expected the effect to the opposite. However, my findings didn't provide support for any of the hypotheses.

Unlike political (in)stability that can be exploited in certain circumstances, I argued that government (in)effectiveness, as the purest political risk, to negatively moderate the relationship between pervasive corruption distances and FDI location choice. My research findings support this notion. In case of pervasive corruption distance, the results are negative and significant. Government (in)effectiveness occurs at the micro-level and represents the complexity dimension of VUCA. It affects firms' strategies, decisions and performance (Arregle et al., 2016). Numerous rent-seeking bureaucrats make decisions regarding the bribe demand frequency, amounts, and create additional barriers for the firms investing in the host country. My findings are aligned with the previous studies that looked at government (in)effectiveness, however, combining it with pervasive corruption distance further adds to the explanatory power of this VUCA dimension.

The most interesting findings, however, were obtained when policy uncertainty or ambiguity was included. Policy uncertainty is the least tangible dimension of VUCA, as it lacks the basic cause-and-effect relationship (Buckley, 2020). Unlike political stability, this dimension was expected to negatively moderate all the pervasive corruption distances, regardless of their direction and magnitude, as firms struggle to identify and analyse the information (Maitland & Sammartino, 2015a), and are not able to benefit from potential corruption-induced practices. Five out of seven hypotheses found full support, which makes this thesis extremely valuable in understanding this crucial and vague VUCA dimension.

Policy uncertainty was found to negatively moderate the relationship between absolute pervasive corruption distance, positive pervasive corruption distance, small positive pervasive corruption distance, negative pervasive corruption distance and small negative pervasive corruption distance.

My findings have a significant contribution to IB research focusing on institutions and FDI location choice, particularly for firms having to face the current global issues and ever-changing environment that is increasingly affected by VUCA factors. By identifying the institutional counterparts to all four VUCA dimensions I was able to simultaneously consider all types of risks, both endogenous and exogeneous as well as overarching all the relationships pervasive corruption.

6.3.4. Managerial implications

The growth of MNEs in the form of FDI has gained lots of attention within IB literature. It is considered as one of the most critical decisions for a firm. In addition to theory, the findings of this research also have implications for managers, as they are actively involved in FDI decision making processes within continuously evolving environments.

The main managerial implication resulting from the findings is that knowledge and capabilities obtained operating in a home country significantly impact the FDI location choice that managers make when looking at corruption distance between their home and potential host countries. The 'greasing the wheel' view that found proof in this research emphasises that risk and uncertainty, associated with very corrupt institutions can be beneficial. Although, logically, corruption leads to increased operational costs, it also can help managers to recognise and reconfigure competencies in order to address those risky environments. By using distance instead of host country corruption and adding direction and magnitude to this distance – emphasising that the perception of corruption is based on the home country institutional environment – helps managers to make informed and scientific decisions rather than being put off by the host country's corruption levels. Corruption distance is calculated with a straightforward formula provided in Chapter 4, and, while host country corruption levels may appear high, when the distance is calculated, a more informed decision can be made to answer the question about how different it is compared to the firm's home country.

Additionally, this thesis helps managers understand the complexity of the corruption phenomenon. I deconstructed it into cost and uncertainty – pervasive and arbitrary corruption – and have argued that those two dimensions will not have the same effect, particularly as we cannot consider arbitrary corruption independently. Also at play is the combination of two dimensions, which helps managers to see whether they have to deal only with corruption distance or just uncertainty. Corruption arbitrariness has been given a clear measurement as well, which managers can operationalise. Unlike previous studies that have used unpublished survey results to measure corruption arbitrariness, I have used a publicly available Corruption Perception Index and have calculated the Standard Deviation of the answers for each year. Standard Deviation in this case reflects the variance of the individual responses related to corruption (de Jong & Bogmans, 2011; Habib & Zurawicki, 2002). Managers can access the Corruption Perception Index's underlying database and calculate the Standard Deviation (if only one database is used) or Coefficient of Variation (if more than one database is used and benchmarks matter). Public availability of this corruption arbitrariness' index makes location choice a much easier process, which does not require much effort from the managers who want to make an informed decision.

Furthermore, managers also consider host country VUCA dimensions represented by institutional characteristics when making their FDI location decisions. Previously, although some VUCA dimensions have been studied within IB, others have been underplayed, if not neglected (Buckley, 2019). I have included all four factors that form the 'VUCA world' in this research and matched them with well-established institutional factors: volatility in the form of political instability, uncertainty in the form of corruption-induced uncertainty, complexity in the form of government ineffectiveness and ambiguity in the form of policy uncertainty/political hazards. The findings of this research demonstrated that only the ambiguity – the 'unknown unknown' – has a particularly negative impact which moderates the relationship between corruption distance and FDI location choice. Policy uncertainty represents the inability of managers to analyse the information and therefore does not lead to any possible benefits that were expected from political instability, for example.

Inspired by Hartwell and Devinney (2021); Makridakis and Bakas (2016) and (Bennett & Lemoine, 2014a) I have placed the four VUCA dimensions against Knightian uncertainty scale (Figure 6.1) as well as the predictability and knowledge scale (Figure 2.5), which together explain what power those dimensions can potentially have over managerial decision-making.

Besides, providing a visual demonstration of where each of the factors is placed, my thesis emphasises that looking independently at those VUCA dimensions and identifying which ones managers can use to their advantage significantly enhances their ability to see a big picture of the potential host country's institutional environment rather than focusing on one institutional dimension only.

6.3.5. Limitations and directions for future research

The main objective of this research has been to extend institutional theory by examining the effect of corruption distance on FDI location choice as well as adding VUCA dimensions to the equation. Obtained results have provided support for a 'greasing' view of corruption as a facilitator for FDI location choice. Additionally, corruption distance was divided into sub-sets depending on the magnitude and direction. I emphasise that corruption is not just 'black' or 'white', but is institutionalised in some parts of the world (Shore & Haller, 2005) and has a 'grey' hue to it (Heidenheimer & Johnston, 2011; Heidenheimer et al., 1989).

To understand the true firms' motivation behind the 'greasing' behavior, future researchers can apply both quantitative method that I have utilised and qualitative method together. This will allow to get to the bottom of the question – why bribe. Additionally, this approach may also help to understand the inter-firm relationship, especially for firms that have strict anti-corruption policies in headquarters yet allow their local managers to use corruption as means to achieve the desired outcomes.

Corruption, as complex as it is, also needs to be looked at beyond the IB and managerial literature. Future research can broaden the horizon and incorporate the studies in psychology, to understand the motivation behind the ability and willingness to demand and supply of bribes, as well as politics, economics and even anthropology. A broader study of corruption can significantly help in understanding this tacit phenomenon.

As I have added VUCA dimensions to this research, not all of them had significant moderating effect. In addition to the proven to be a good institutional counterpart to ambiguity policy uncertainty, and government (in)effectiveness that represented complexity, future research can consider other institutional dimensions that can fit better with other VUCA dimensions.

The dataset utilised for this research is comprised only of greenfield investments and did not include joint ventures (JVs), which potentially can be a more popular entry mode choice when firms are facing corruption distance between home and host countries. Future research can incorporate different entry modes and test if JVs will have a different impact. On top of that the dataset only included public firms; however, about 50% of the total investments have been made by private firms. As obtaining financial information on private firms was not possible, they had to be excluded from the final dataset. Future studies can attempt to incorporate these firms as well. Additionally, only FDI location choice was taken into consideration. Future research can also add the amount of investment to the fact of investment.

Healthcare sector is comprised of four industries. All four were included in this research, yet still are within one sector. Future research can compare healthcare sector industries with other, for example pure manufacturing and services. This can help to identify whether the results are consistent and industry-agnostic.

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Appendices

A01

A 1 Most relevant journals

Sources	Articles
Journal of Business Ethics	274
Journal of Business Research	36
Journal of International Business Studies	36
Emerging Markets Finance and Trade	32
International Journal of Finance \& Economics	31
International Business Review	27
World Economy	27
Journal of Corporate Finance	26
Journal of World Business	26

A 2 Most relevant keywords

Words	Occurrences
Corruption	804
Performance	343
Determinants	267
Impact	240
Growth	218
Governance	189
Management	176
Business	165
Institutions	154
Firms	149
Model	125
Behaviour	117
Corporate Governance	116
Organizations	114
Ownership	110
Foreign Direct Investment	103
Competition	93
Economic Growth	92
Firm	88
Ethics	83

A 3 Top-cited papers

Authors	Title	Journal	Total # citations
(Porter & Kramer, 2002)	The competitive advantage of corporate philanthropy.	Harvard Business Review	1241
(Beck, DemirgÜÇ-Kunt, & Maksimovic, 2005; Beck, Demirgüç-Kunt, & Pería, 2011)	Financial and Legal Constraints to Growth: Does Firm Size Matters?	The Journal of Finance	765
(Khanna & Palepu, 2000a)	The Future of Business Groups in Emerging Markets: Long-Run Evidence from Chile.	The Academy of Management Journal	724
(Prahalad & Hammond, 2002)	Serving the world's poor, profitably.	Harvard Business Review	704
(Claessens et al., 2008)	Political connections and preferential access to finance: The role of campaign contributions.	Journal of financial economics	599
(Acemoglu et al., 2003)	Institutional causes, macroeconomic symptoms: volatility, crises, and growth.	Journal of Monetary Economics	543
(Habib & Zurawicki, 2002)	Corruption and foreign direct investment.	Journal of International Business Studies	492
(Tanzi, 1998)	Corruption around the world - Causes, consequences, scope, and cures.	International Monetary Fund Staff Papers	478
(Dinc, 2005)	Politicians and banks: Political influences on government-owned banks in emerging markets	Journal of Financial Economics	443

(Cuervo-Cazurra, 2006)	Who cares about corruption?	Journal of International Business Studies	441
(Cull & Xu, 2005)	Institutions, ownership, and finance: the determinants of profit reinvestment among Chinese firms.	Journal of Financial Economics	428
(Asiedu, 2006)	Foreign Direct Investment in Africa	The World Economy	414
(Husted, 1999)	Wealth, Culture and Corruption?	Journal of International Business Studies	390
(Kolstad & Wiig, 2012)	What determines Chinese outward FDI?	Journal of World Business	369
(Bénassy-Quéré, Coupet, & Mayer, 2007)	Institutional Determinants of Foreign Direct Investment	The World Economy	330
(Rodriguez et al., 2005)	Government corruption and the entry strategies of multinationals.	Academy of Management Review	323

A02

A 4 Firm distribution by home country

Home countries	Number of firms
Afghanistan	1
Argentina	4
Australia	17
Austria	9
Bangladesh	1
Belgium	10
Bosnia and Herzegovina	1
Brazil	4
Bulgaria	3
Canada	36
China	47
Colombia	2
Cuba	3
Cyprus	2
Czech Republic	1
Denmark	12
Egypt	4
Estonia	1
Finland	10
France	52
Germany	73
Ghana	1
Greece	2
Honduras	1
Hong Kong	7
Hungary	4
Iceland	1
India	49
Indonesia	1
Iran	1
Ireland	10
Israel	20
Italy	23
Japan	62

Jordan	1
Kenya	2
Korea, South	15
Latvia	1
Libya	2
Lithuania	1
Luxembourg	1
Macedonia	1
Malaysia	6
Mauritius	1
Mexico	2
Morocco	2
Netherlands	18
New Zealand	4
Norway	7
Pakistan	2
Peru	2
Poland	6
Portugal	7
Puerto Rico	1
Qatar	2
Romania	1
Russia	12
Saudi Arabia	5
Serbia	1
Singapore	15
Slovenia	1
South Africa	5
Spain	26
Sri Lanka	1
Sweden	18
Switzerland	48
Taiwan	13
Thailand	4
Tunisia	3
Turkey	17
Ukraine	2
United Arab Emirates	8
United Kingdom	77

United States	294
Uzbekistan	1
Venezuela	2
Total: 76 home countries	**Total: 1,113 firms**

A 5 Potential host countries

Afghanistan
Albania
Algeria
Angola
Argentina
Armenia
Australia
Austria
Azerbaijan
Bahrain
Bangladesh
Barbados
Belarus
Belgium
Benin
Bhutan
Bolivia
Bosnia and Herzegovina
Botswana
Brazil
Brunei Darussalam
Bulgaria
Burkina Faso
Burundi
Cambodia
Cameroon
Canada
Central African Republic
Chad
Chile
China

Colombia
Comoros
Congo
Costa Rica
Côte D'Ivoire
Croatia
Cuba
Cyprus
Czech Republic
Democratic Republic of the Congo
Denmark
Djibouti
Dominica
Dominican Republic
Ecuador
Egypt
Equatorial Guinea
Eritrea
Estonia
Ethiopia
Finland
France
Gabon
Gambia
Georgia
Germany
Ghana
Greece
Grenada
Guatemala
Guinea
Guinea Bissau
Guyana
Haiti
Honduras
Hungary
Iceland
India
Indonesia

Iran
Iraq
Ireland
Israel
Italy
Jamaica
Japan
Jordan
Kazakhstan
Kenya
Korea, South
Kuwait
Kyrgyzstan
Laos
Latvia
Lebanon
Lesotho
Liberia
Libya
Lithuania
Luxembourg
Macedonia
Madagascar
Malawi
Malaysia
Maldives
Mali
Malta
Mauritania
Mauritius
Mexico
Moldova
Mongolia
Montenegro
Morocco
Mozambique
Myanmar
Namibia
Nepal

Netherlands
New Zealand
Nicaragua
Niger
Nigeria
Norway
Oman
Pakistan
Panama
Papua New Guinea
Peru
Philippines
Poland
Portugal
Qatar
Romania
Russia
Rwanda
Sao Tome and Principe
Saudi Arabia
Senegal
Serbia
Seychelles
Sierra Leone
Singapore
Slovakia
Slovenia
Solomon Islands
Somalia
South Africa
Spain
Sri Lanka
Sudan
Suriname
Swaziland
Sweden
Switzerland
Syria
Taiwan

Tajikistan
Tanzania
Thailand
Togo
Trinidad and Tobago
Tunisia
Turkey
Turkmenistan
Uganda
Ukraine
United Arab Emirates
United Kingdom
United States
Uruguay
Uzbekistan
Vanuatu
Venezuela
Vietnam
Yemen
Zambia
Zimbabwe

A03

A 6 Box-Tidwell test results for linearity assumption – Negative Corruption Distance model

Variables	p>|z|
Negative Corruption Distance * LN Negative Corruption Distance	0.615
Corruption Arbitrariness * LN Corruption Arbitrariness	0.952
Policy Uncertainty * LN Policy Uncertainty	0.057
Government Effectiveness * LN Government Effectiveness	0.892
Political Stability * LN Political Stability	0.035
Firm Assets * LN Firm Assets	0.749
Firm Income * LN Firm Income	0.412
Firm Size * LN Firm Size	0.137
GDP Growth * LN GDP Growth	0.788
GDP * LN GDP	0.477
Political Freedom * LN Political Freedom	0.428
Industry * LN Industry	0.857
Geographical Distance * LN Geographical Distance	0.043
Firm Age * LN Firm Age	0.520
Inflation * LN Inflation	0.033
Population * LN Population	0.018

A 7 Box-Tidwell test results for linearity assumption – Positive Corruption Distance model

Variables	p>|z|
Positive Corruption Distance * LN Positive Corruption Distance	0.851
Corruption Arbitrariness * LN Corruption Arbitrariness	0.180
Policy Uncertainty * LN Policy Uncertainty	0.882

Government Effectiveness * LN Government Effectiveness	0.080
Political Stability * LN Political Stability	0.579
Firm Assets * LN Firm Assets	0.658
Firm Income * LN Firm Income	0.004
Firm Size * LN Firm Size	0.220
GDP Growth * LN GDP Growth	0.113
GDP * LN GDP	0.388
Political Freedom * LN Political Freedom	0.988
Industry * LN Industry	0.014
Geographical Distance * LN Geographical Distance	0.034
Firm Age * LN Firm Age	0.460
Inflation * LN Inflation	0.286
Population * LN Population	0.187

A 8 Box-Tidwell test results for linearity assumption – Small Negative Corruption Distance model

Variables	p>|z|
Small Negative Corruption Distance * LN Small Negative Corruption Distance	0.698
Corruption Arbitrariness * LN Corruption Arbitrariness	0.730
Policy uncertainty * LN Policy Uncertainty	0.058
Government Effectiveness * LN Government Effectiveness	0.247
Political Stability * LN Political Stability	0.098
Firm Assets * LN Firm Assets	0.946
Firm Income * LN Firm Income	0.452
Firm Size * LN Firm Size	0.875
GDP Growth * LN GDP Growth	0.829
GDP * LN GDP	0.690
Political Freedom * LN Political Freedom	0.262
Industry * LN Industry	0.580

Geographical Distance * LN Geographical Distance	0.122
Firm Age * LN Firm Age	0.853
Inflation * LN Inflation	0.063
Population * LN Population	0.003

A 9 Box-Tidwell test results for linearity assumption – Large Negative Corruption Distance model

Variables	p>|z|
Large Negative Corruption Distance * LN Large Negative Corruption Distance	0.081
Corruption Arbitrariness * LN Corruption Arbitrariness	0.598
Policy Uncertainty * LN Policy Uncertainty	0.647
Government Effectiveness * LN Government Effectiveness	0.092
Political Stability * LN Political Stability	0.115
Firm Assets * LN Firm Assets	0.733
Firm Income * LN Firm Income	0.025
Firm Size * LN Firm Size	0.033
GDP Growth * LN GDP Growth	0.876
GDP * LN GDP	0.517
Political Freedom * LN Political Freedom	0.500
Industry * LN Industry	0.300
Geographical Distance * LN Geographical Distance	0.465
Firm Age * LN Firm Age	0.557
Inflation * LN Inflation	0.578
Population * LN Population	0.167

A 10 Box-Tidwell test results for linearity assumption – Small Positive Corruption Distance model

Variables	p>|z|
Small Positive Corruption Distance * LN Small Positive Corruption Distance	0.010
Corruption Arbitrariness * LN Corruption Arbitrariness	0.708
Policy Uncertainty * LN Policy Uncertainty	0.243
Government Effectiveness * LN Government Effectiveness	0.602
Political Stability * LN Political Stability	0.099
Firm Assets * LN Firm Assets	0.779
Firm Income * LN Firm Income	0.005
Firm Size * LN Firm Size	0.154
GDP Growth * LN GDP Growth	0.199
GDP * LN GDP	0.369
Political Freedom * LN Political Freedom	0.546
Industry * LN Industry	0.013
Geographical Distance * LN Geographical Distance	0.423
Firm Age * LN Firm Age	0.918
Inflation * LN Inflation	0.355
Population * LN Population	0.314

A 11 Box-Tidwell test results for linearity assumption – Large Positive Corruption Distance model

Variables	p>|z|
Large Positive Corruption Distance * LN Large Positive Corruption Distance	0.679
Corruption Arbitrariness * LN Corruption Arbitrariness	0.101
Policy Uncertainty * LN Policy Uncertainty	0.232
Government Effectiveness * LN Government Effectiveness	0.011

Political Stability * LN Political Stability	0.829
Firm Assets * LN Firm Assets	0.126
Firm Income * LN Firm Income	0.416
Firm Size * LN Firm Size	0.818
GDP Growth * LN GDP Growth	0.325
GDP * LN GDP	0.906
Political Freedom * LN Political Freedom	0.886
Industry * LN Industry	0.919
Geographical Distance * LN Geographical Distance	0.602
Firm Age * LN Firm Age	0.086
Inflation * LN Inflation	0.744
Population * LN Population	0.130

A 12 VIF results – multicollinearity assumption – Negative Corruption Distance

Variable	VIF	1/VIF
Government Effectiveness	2.76	0.36
Political Stability	2.03	0.49
Firm Size	1.83	0.54
GDP	1.75	0.57
Firm Assets	1.74	0.57
Population	1.70	0.59
Negative Corruption Distance	1.61	0.62
Firm Income	1.51	0.66
Policy Uncertainty	1.32	0.76
Firm Age	1.21	0.88
Inflation	1.13	0.88
Corruption Arbitrariness	1.11	0.90
Political Freedom	1.03	0.97
GDP Growth	1.03	0.97

Industry	1.03	0.97
Geographical Distance	1.02	0.98

A 13 VIF results – multicollinearity assumption – Positive Corruption Distance

Variable	VIF	1/VIF
Government Effectiveness	3.56	0.28
Political Stability	2.52	0.40
Firm Size	2.09	0.48
Firm Assets	1.84	0.54
Policy Uncertainty	1.81	0.55
GDP	1.74	0.58
Population	1.64	0.61
Corruption Arbitrariness	1.55	0.64
Firm Income	1.37	0.73
Firm Age	1.33	0.75
Inflation	1.20	0.83
Positive Corruption Distance	1.14	0.88
GDP Growth	1.10	0.91
Geographical Distance	1.08	0.93
Political Freedom	1.04	0.96
Industry	1.04	0.96

A 14 VIF results – multicollinearity assumption – Small Negative Corruption Distance

Variable	VIF	1/VIF
Government Effectiveness	2.49	0.40
Firm Size	1.98	0.50
Political Stability	1.95	0.51

Firm Assets	1.74	0.57
GDP	1.70	0.59
Population	1.60	0.62
Firm Income	1.43	0.70
Policy Uncertainty	1.43	0.70
Firm Age	1.26	0.79
Corruption Arbitrariness	1.18	0.85
Small Negative Corruption Distance	1.11	0.90
Inflation	1.10	0.91
Political Freedom	1.06	0.95
Geographical Distance	1.04	0.96
Industry Code	1.03	0.97

A 15 VIF results – multicollinearity assumption – Large Negative Corruption Distance

Variable	VIF	1/VIF
Population	2.89	0.34
GDP	2.83	0.35
Firm Assets	2.04	0.49
Government Effectiveness	1.96	0.51
Firm Size	1.79	0.56
Firm Income	1.73	0.58
Political Stability	1.62	0.62
Large Negative Corruption Distance	1.40	0.72
Policy Uncertainty	1.20	0.83
Inflation	1.19	0.84
Firm Age	1.17	0.85
Corruption Arbitrariness	1.05	0.95
Political Freedom	1.04	0.96
GDP Growth	1.04	0.97

Industry Code	1.03	0.97
Geographical Distance	1.03	0.97

A 16 VIF results – multicollinearity assumption – Small Positive Corruption Distance

Variable	VIF	1/VIF
Government Effectiveness	3.81	0.26
Political Stability	2.79	0.36
Firm Size	1.95	0.51
Policy Uncertainty	1.81	0.55
GDP	1.75	0.57
Firm Assets	1.71	0.58
Population	1.58	0.63
Corruption Arbitrariness	1.53	0.65
Firm Income	1.40	0.71
Firm Age	1.29	0.78
Inflation	1.18	0.85
Small Positive Corruption Distance	1.14	0.88
GDP Growth	1.09	0.91
Geographical Distance	1.08	0.93
Political Freedom	1.06	0.94
Industry Code	1.03	0.97

A 17 VIF results – multicollinearity assumption – Large Positive Corruption Distance

Variable	VIF	1/VIF
GDP	3.48	0.29
Population	3.40	0.29
Government Effectiveness	2.90	0.34

Firm Size	2.74	0.36
Firm Assets	2.66	0.38
Policy Uncertainty	1.97	0.51
Political Stability	1.96	0.51
Corruption Arbitrariness	1.69	0.59
Firm Age	1.45	0.69
Inflation	1.38	0.73
Firm Income	1.30	0.77
Geographical Distance	1.13	0.88
GDP Growth	1.13	0.89
Large Positive Corruption Distance	1.12	0.89
Industry Code	1.08	0.93
Political Freedom	1.07	0.93

A 18 Descriptive statistics and pairwise correlation table – Negative Corruption Distance

Variables	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Entry	0.0019873	0.0445345	1.000								
(2) Negative Corruption Distance [(t)]	-34.76255	17.66859	0.024*	1.000							
(3) Corruption Arbitrariness [(t)]	7.741405	2.634687	-0.013*	0.136*	1.000						
(4) Political Stability [(t)]	-0.111167	0.8090876	0.018*	0.416*	0.081*	1.000					
(5) Policy Uncertainty	0.4436782	0.2955184	0.027*	0.246*	-0.131*	0.342*	1.000				
(6) Government Effectiveness	-0.0443498	0.9946596	0.041*	0.541*	0.004*	0.730*	0.537*	1.000			
(7) Firm Sales [(t)]	1109.496	1442.869	0.012*	-0.066*	0.001	0.000	0.001	0.000	1.000		
(8) Firm Income [(t)]	68.58061	104.3007	0.012*	0.008*	-0.001	0.000	0.000	0.000	0.735*	1.000	
(9) Firm Assets [(t)]	732.7196	881.579	0.008*	-0.029*	0.002	0.001	0.000	0.000	0.879*	0.736*	1.000
(10) GDP Growth [(t)]	3.700797	2.539818	-0.007*	-0.111*	0.039*	-0.238*	-0.218*	-0.310*	-0.001	0.001	-0.004
(11) GDP [(t)]	101704.3	130018.4	0.032*	0.142*	-0.045*	0.115*	0.278*	0.474*	0.000	0.000	0.000
(12) Inflation [(t)]	4.339009	3.285877	-0.018*	-0.252*	-0.156*	-0.421*	-0.250*	-0.480*	-0.003	0.002	-0.010*
(13) Investment Freedom [(t)]	59.04734	25.57987	0.004*	0.013*	-0.044*	-0.061*	-0.027*	0.043*	0.000	0.000	0.000
(14) Firm Age [(t)]	26.95436	25.08366	0.013*	-0.021*	0.003*	0.001	0.000	0.000	0.580*	0.499*	0.553*
(15) Population [(t)]	17598.71	19193.14	0.035*	-0.084*	-0.146*	-0.344*	0.131*	-0.024*	0.000	0.000	0.000
(16) Geographical Distance [(t)]	7424.792	3652.468	-0.013*	-0.060*	-0.020*	-0.043*	-0.083*	-0.129*	0.071*	0.026*	0.034*
(17) Industry Code	5048.908	2454.526	-0.003*	-0.010*	0.000	0.000	-0.002	0.000	-0.144*	-0.133*	-0.233*

Variables	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(10) GDP Growth [(t)]	1.000							
(11) GDP [(t)]	-0.154*	1.000						
(12) Inflation [(t)]	0.154*	-0.103*	1.000					
(13) Investment Freedom [(t)]	0.018*	0.080*	0.011*	1.000				
(14) Firm Age [(t)]	-0.004*	0.000	-0.011*	0.000	1.000			
(15) Population [(t)]	0.055*	0.452*	0.175*	-0.017*	0.000	1.000		
(16) Geographical Distance [(t)]	0.140*	-0.076*	0.103*	-0.030*	0.015*	0.009*	1.000	
(17) Industry code	0.000	0.000	0.000	0.000	-0.170*	0.000	-0.005*	1.000

*shows significance at the .05 level

A 19 Descriptive statistics and pairwise correlation table – Positive Corruption Distance

Variables	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Entry	0.0019873	0.0445345	1.000								
(2) Positive Corruption Distance [(t)]	14.91608	12.28931	0.000	1.000							
(3) Corruption Arbitrariness [(t)]	7.741405	2.634687	-0.013*	-0.089*	1.000						
(4) Political Stability [(t)]	-0.111167	0.8090876	0.018*	0.270*	0.081*	1.000					
(5) Policy Uncertainty	0.4436782	0.2955184	0.027*	0.141*	-0.131*	0.342*	1.000				
(6) Government Effectiveness	-0.0443498	0.9946596	0.041*	0.301*	0.004*	0.730*	0.537*	1.000			
(7) Firm Sales [(t)]	1109.496	1442.869	0.012*	-0.116*	0.001	0.000	0.001	0.000	1.000		
(8) Firm Income [(t)]	68.58061	104.3007	0.012*	-0.001	-0.001	0.000	0.000	0.000	0.735*	1.000	
(9) Firm Assets [(t)]	732.7196	881.579	0.008*	-0.026*	0.002	0.001	0.000	0.000	0.879*	0.736*	1.000
(10) GDP Growth [(t)]	3.700797	2.539818	-0.007*	-0.086*	0.039*	-0.238*	-0.218*	-0.310*	-0.001	0.001	-0.004
(11) GDP [(t)]	101704.3	130018.4	0.032*	0.175*	-0.045*	0.115*	0.278*	0.474*	0.000	0.000	0.000
(12) Inflation [(t)]	4.339009	3.285877	-0.018*	-0.135*	-0.156*	-0.421*	-0.250*	-0.480*	-0.003	0.002	-0.010*
(13) Investment Freedom [(t)]	59.04734	25.57987	0.004*	0.044*	-0.044*	-0.061*	-0.027*	0.043*	0.000	0.000	0.000
(14) Firm Age [(t)]	26.95436	25.08366	0.013*	-0.019*	0.003*	0.001	0.000	0.000	0.580*	0.499*	0.553*
(15) Population [(t)]	17598.71	19193.14	0.035*	-0.067*	-0.146*	-0.344*	0.131*	-0.024*	0.000	0.000	0.000
(16) Geographical Distance [(t)]	7424.792	3652.468	-0.013*	0.056*	-0.020*	-0.043*	-0.083*	-0.129*	0.071*	0.026*	0.034*
(17) Industry Code	5048.908	2454.526	-0.003*	-0.036*	0.000	0.000	-0.002	0.000	-0.144*	-0.133*	-0.233*

Variables	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(10) GDP Growth $^{(t)}$	1.000							
(11) GDP $^{(t)}$	-0.154*	1.000						
(12) Inflation $^{(t)}$	0.154*	-0.103*	1.000					
(13) Investment Freedom $^{(t)}$	0.018*	0.080*	0.011*	1.000				
(14) Firm Age $^{(t)}$	-0.004*	0.000	-0.011*	0.000	1.000			
(15) Population $^{(t)}$	0.055*	0.452*	0.175*	-0.017*	0.000	1.000		
(16) Geographical Distance $^{(t)}$	0.140*	-0.076*	0.103*	-0.030*	0.015*	0.009*	1.000	
(17) Industry code	0.000	0.000	0.000	0.000	-0.170*	0.000	-0.005*	1.000

*shows significance at the .05 level

A 20 Descriptive statistics and pairwise correlation table – Small Negative Corruption Distance

Variables	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Entry	0.0019873	0.0445345	1.000								
(2) Small Negative Corruption Distance [(t)]	-18.32729	9.857836	0.018*	1.000							
(3) Corruption Arbitrariness [(t)]	7.741405	2.634687	-0.013*	-0.137*	1.000						
(4) Political Stability [(t)]	-0.111167	0.8090876	0.018*	0.122*	0.081*	1.000					
(5) Policy Uncertainty	0.4436782	0.2955184	0.027*	0.091*	-0.131*	0.342*	1.000				
(6) Government Effectiveness	-0.0443498	0.9946596	0.041*	0.178*	0.004*	0.730*	0.537*	1.000			
(7) Firm Sales [(t)]	1109.496	1442.869	0.012*	-0.056*	0.001	0.000	0.001	0.000	1.000		
(8) Firm Income [(t)]	68.58061	104.3007	0.012*	0.033*	-0.001	0.000	0.000	0.000	0.735*	1.000	
(9) Firm Assets [(t)]	732.7196	881.579	0.008*	0.027*	0.002	0.001	0.000	0.000	0.879*	0.736*	1.000
(10) GDP Growth [(t)]	3.700797	2.539818	-0.007*	-0.030*	0.039*	-0.238*	-0.218*	-0.310*	-0.001	0.001	-0.004
(11) GDP [(t)]	101704.3	130018.4	0.032*	0.107*	-0.045*	0.115*	0.278*	0.474*	0.000	0.000	0.000
(12) Inflation [(t)]	4.339009	3.285877	-0.018*	-0.030*	-0.156*	-0.421*	-0.250*	-0.480*	-0.003	0.002	-0.010*
(13) Investment Freedom [(t)]	59.04734	25.57987	0.004*	0.102*	-0.044*	-0.061*	-0.027*	0.043*	0.000	0.000	0.000
(14) Firm Age [(t)]	26.95436	25.08366	0.013*	-0.006*	0.003*	0.001	0.000	0.000	0.580*	0.499*	0.553*
(15) Population [(t)]	17598.71	19193.14	0.035*	0.040*	-0.146*	-0.344*	0.131*	-0.024*	0.000	0.000	0.000
(16) Geographical Distance [(t)]	7424.792	3652.468	-0.013*	0.002	-0.020*	-0.043*	-0.083*	-0.129*	0.071*	0.026*	0.034*
(17) Industry Code	5048.908	2454.526	-0.003*	-0.042*	0.000	0.000	-0.002	0.000	-0.144*	-0.133*	-0.233*

Variables	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(10) GDP Growth [(t)]	1.000							
(11) GDP [(t)]	-0.154*	1.000						
(12) Inflation [(t)]	0.154*	-0.103*	1.000					
(13) Investment Freedom [(t)]	0.018*	0.080*	0.011*	1.000				
(14) Firm Age [(t)]	-0.004*	0.000	-0.011*	0.000	1.000			
(15) Population [(t)]	0.055*	0.452*	0.175*	-0.017*	0.000	1.000		
(16) Geographical Distance [(t)]	0.140*	-0.076*	0.103*	-0.030*	0.015*	0.009*	1.000	
(17) Industry code	0.000	0.000	0.000	0.000	-0.170*	0.000	-0.005*	1.000

*shows significance at the .05 level

A 21 Descriptive statistics and pairwise correlation table – Large Negative Corruption Distance

Variables	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Entry	0.0019873	0.0445345	1.000								
(2) Large Negative Corruption Distance [(t)]	-47.89996	7.879934	0.022*	1.000							
(3) Corruption Arbitrariness [(t)]	7.741405	2.634687	-0.013*	0.128*	1.000						
(4) Political Stability [(t)]	-0.111167	0.8090876	0.018*	0.288*	0.081*	1.000					
(5) Policy Uncertainty	0.4436782	0.2955184	0.027*	0.223*	-0.131*	0.342*	1.000				
(6) Government Effectiveness	-0.0443498	0.9946596	0.041*	0.486*	0.004*	0.730*	0.537*	1.000			
(7) Firm Sales [(t)]	1109.496	1442.869	0.012*	0.016*	0.001	0.000	0.001	0.000	1.000		
(8) Firm Income [(t)]	68.58061	104.3007	0.012*	-0.020*	-0.001	0.000	0.000	0.000	0.735*	1.000	
(9) Firm Assets [(t)]	732.7196	881.579	0.008*	-0.020*	0.002	0.001	0.000	0.000	0.879*	0.736*	1.000
(10) GDP Growth [(t)]	3.700797	2.539818	-0.007*	-0.027*	0.039*	-0.238*	-0.218*	-0.310*	-0.001	0.001	-0.004
(11) GDP [(t)]	101704.3	130018.4	0.032*	0.095*	-0.045*	0.115*	0.278*	0.474*	0.000	0.000	0.000
(12) Inflation [(t)]	4.339009	3.285877	-0.018*	-0.188*	-0.156*	-0.421*	-0.250*	-0.480*	-0.003	0.002	-0.010*
(13) Investment Freedom [(t)]	59.04734	25.57987	0.004*	-0.022*	-0.044*	-0.061*	-0.027*	0.043*	0.000	0.000	0.000
(14) Firm Age [(t)]	26.95436	25.08366	0.013*	-0.020*	0.003*	0.001	0.000	0.000	0.580*	0.499*	0.553*
(15) Population [(t)]	17598.71	19193.14	0.035*	-0.040*	-0.146*	-0.344*	0.131*	-0.024*	0.000	0.000	0.000
(16 Geographical Distance [(t)]	7424.792	3652.468	-0.013*	-0.021*	-0.020*	-0.043*	-0.083*	-0.129*	0.071*	0.026*	0.034*
(17) Industry Code	5048.908	2454.526	-0.003*	0.032*	0.000	0.000	-0.002	0.000	-0.144*	-0.133*	-0.233*

Variables	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(10) GDP Growth [(t)]	1.000							
(11) GDP [(t)]	-0.154*	1.000						
(12) Inflation [(t)]	0.154*	-0.103*	1.000					
(13) Investment Freedom [(t)]	0.018*	0.080*	0.011*	1.000				
(14) Firm Age [(t)]	-0.004*	0.000	-0.011*	0.000	1.000			
(15) Population [(t)]	0.055*	0.452*	0.175*	-0.017*	0.000	1.000		
(16) Geographical Distance [(t)]	0.140*	-0.076*	0.103*	-0.030*	0.015*	0.009*	1.000	
(17) Industry code	0.000	0.000	0.000	0.000	-0.170*	0.000	-0.005*	1.000

*shows significance at the .05 level

A 22 Descriptive statistics and pairwise correlation table – Small Positive Corruption Distance

Variables	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Entry	0.0019873	0.0445345	1.000								
(2) Small Positive Corruption Distance [(t)]	6.523496	4.68982	0.003	1.000							
(3) Corruption Arbitrariness [(t)]	7.741405	2.634687	-0.013*	0.021*	1.000						
(4) Political Stability [(t)]	-0.111167	0.8090876	0.018*	0.158*	0.081*	1.000					
(5) Policy Uncertainty	0.4436782	0.2955184	0.027*	0.063*	-0.131*	0.342*	1.000				
(6) Government Effectiveness	-0.0443498	0.9946596	0.041*	0.171*	0.004*	0.730*	0.537*	1.000			
(7) Firm Sales [(t)]	1109.496	1442.869	0.012*	0.006	0.001	0.000	0.001	0.000	1.000		
(8) Firm Income [(t)]	68.58061	104.3007	0.012*	-0.010	-0.001	0.000	0.000	0.000	0.735*	1.000	
(9) Firm Assets [(t)]	732.7196	881.579	0.008*	-0.013*	0.002	0.001	0.000	0.000	0.879*	0.736*	1.000
(10) GDP Growth [(t)]	3.700797	2.539818	-0.007*	-0.007*	0.039*	-0.238*	-0.218*	-0.310*	-0.001	0.001	-0.004
(11) GDP [(t)]	101704.3	130018.4	0.032*	0.121*	-0.045*	0.115*	0.278*	0.474*	0.000	0.000	0.000
(12) Inflation [(t)]	4.339009	3.285877	-0.018*	-0.101*	-0.156*	-0.421*	-0.250*	-0.480*	-0.003	0.002	-0.010*
(13) Investment Freedom [(t)]	59.04734	25.57987	0.004*	-0.019*	-0.044*	-0.061*	-0.027*	0.043*	0.000	0.000	0.000
(14) Firm Age [(t)]	26.95436	25.08366	0.013*	-0.001	0.003*	0.001	0.000	0.000	0.580*	0.499*	0.553*
(15) Population [(t)]	17598.71	19193.14	0.035*	-0.156*	-0.146*	-0.344*	0.131*	-0.024*	0.000	0.000	0.000
(16) Geographical Distance [(t)]	7424.792	3652.468	-0.013*	0.046*	-0.020*	-0.043*	-0.083*	-0.129*	0.071*	0.026*	0.034*
(17) Industry Code	5048.908	2454.526	-0.003*	0.007*	0.000	0.000	-0.002	0.000	-0.144*	-0.133*	-0.233*

Variables	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(10) GDP Growth $^{(t)}$	1.000							
(11) GDP $^{(t)}$	-0.154*	1.000						
(12) Inflation $^{(t)}$	0.154*	-0.103*	1.000					
(13) Investment Freedom $^{(t)}$	0.018*	0.080*	0.011*	1.000				
(14) Firm Age $^{(t)}$	-0.004*	0.000	-0.011*	0.000	1.000			
(15) Population $^{(t)}$	0.055*	0.452*	0.175*	-0.017*	0.000	1.000		
(16) Geographical Distance $^{(t)}$	0.140*	-0.076*	0.103*	-0.030*	0.015*	0.009*	1.000	
(17) Industry code	0.000	0.000	0.000	0.000	-0.170*	0.000	-0.005*	1.000

*shows significance at the .05 level

A 23 Descriptive statistics and pairwise correlation table – Large Positive Corruption Distance

Variables	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Entry	0.0019873	0.0445345	1.000								
(2) Large Positive Corruption Distance [(t)]	30.04957	11.11546	0.011*	1.000							
(3) Corruption Arbitrariness [(t)]	7.741405	2.634687	-0.013*	-0.194*	1.000						
(4) Political Stability [(t)]	-0.111167	0.8090876	0.018*	0.235*	0.081*	1.000					
(5) Policy Uncertainty	0.4436782	0.2955184	0.027*	0.157*	-0.131*	0.342*	1.000				
(6) Government Effectiveness	-0.0443498	0.9946596	0.041*	0.324*	0.004*	0.730*	0.537*	1.000			
(7) Firm Sales [(t)]	1109.496	1442.869	0.012*	-0.113*	0.001	0.000	0.001	0.000	1.000		
(8) Firm Income [(t)]	68.58061	104.3007	0.012*	0.025*	-0.001	0.000	0.000	0.000	0.735*	1.000	
(9) Firm Assets [(t)]	732.7196	881.579	0.008*	0.020*	0.002	0.001	0.000	0.000	0.879*	0.736*	1.000
(10) GDP Growth [(t)]	3.700797	2.539818	-0.007*	-0.100*	0.039*	-0.238*	-0.218*	-0.310*	-0.001	0.001	-0.004
(11) GDP [(t)]	101704.3	130018.4	0.032*	0.211*	-0.045*	0.115*	0.278*	0.474*	0.000	0.000	0.000
(12) Inflation [(t)]	4.339009	3.285877	-0.018*	-0.075*	-0.156*	-0.421*	-0.250*	-0.480*	-0.003	0.002	-0.010*
(13) Investment Freedom [(t)]	59.04734	25.57987	0.004*	0.070*	-0.044*	-0.061*	-0.027*	0.043*	0.000	0.000	0.000
(14) Firm Age [(t)]	26.95436	25.08366	0.013*	-0.002	0.003*	0.001	0.000	0.000	0.580*	0.499*	0.553*
(15) Population [(t)]	17598.71	19193.14	0.035*	0.058*	-0.146*	-0.344*	0.131*	-0.024*	0.000	0.000	0.000
(16) Geographical Distance [(t)]	7424.792	3652.468	-0.013*	0.020*	-0.020*	-0.043*	-0.083*	-0.129*	0.071*	0.026*	0.034*
(17) Industry Code	5048.908	2454.526	-0.003*	-0.054*	0.000	0.000	-0.002	0.000	-0.144*	-0.133*	-0.233*

Variables	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(10) GDP Growth [(t)]	1.000							
(11) GDP [(t)]	-0.154*	1.000						
(12) Inflation [(t)]	0.154*	-0.103*	1.000					
(13) Investment Freedom [(t)]	0.018*	0.080*	0.011*	1.000				
(14) Firm Age [(t)]	-0.004*	0.000	-0.011*	0.000	1.000			
(15) Population [(t)]	0.055*	0.452*	0.175*	-0.017*	0.000	1.000		
(16) Geographical Distance [(t)]	0.140*	-0.076*	0.103*	-0.030*	0.015*	0.009*	1.000	
(17) Industry code	0.000	0.000	0.000	0.000	-0.170*	0.000	-0.005*	1.000

*shows significance at the .05 level

A04

A 24 COVID-19 cases and deaths and Corruption Perception Index– as of December 2021

Country name	CPI 2020	CPI 2019	Cases - cumulative total	Deaths - cumulative total
United States of America	67	69	47,837,599	771,919
India	**40**	**41**	**34,580,832**	**468,790**
Brazil	**38**	**35**	**22,076,863**	**614,186**
United Kingdom	77	77	10,146,919	144,775
Russian Federation	**30**	**28**	**9,604,233**	**273,964**
Turkey	**40**	**39**	**8,746,055**	**76,446**
France	69	69	7,388,196	116,427
Iran	**25**	**26**	**6,108,882**	**129,629**
Germany	80	80	5,791,060	100,956
Argentina	**42**	**45**	**5,325,560**	**116,517**
Spain	62	62	5,131,013	87,955
Colombia	**39**	**37**	**5,063,177**	**128,394**
Italy	53	53	5,007,818	133,674
Indonesia	**37**	**40**	**4,256,112**	**143,819**
Mexico	**31**	**29**	**3,882,792**	**293,859**
Poland	56	58	3,520,961	83,055
Ukraine	33	30	3,427,827	85,414
South Africa	44	44	2,961,406	89,797
Philippines	34	34	2,831,807	48,361
Malaysia	51	53	2,623,816	30,309
Netherlands	82	82	2,599,579	19,317
Peru	**38**	**36**	**2,232,749**	**201,071**
Czechia	54	56	2,132,380	32,929
Thailand	36	36	2,111,566	20,734
Iraq	21	20	2,079,622	23,793

Canada	77	77	1,782,171	29,618
Romania	44	44	1,776,949	56,275
Chile	67	67	1,759,405	38,313
Japan	74	73	1,727,143	18,358
Belgium	76	75	1,701,633	26,840
Bangladesh	26	26	1,576,011	27,980
Israel	60	60	1,342,439	8,189
Pakistan	31	32	1,284,189	28,709
Serbia	38	39	1,250,393	11,588
Vietnam	36	37	1,210,340	24,882
Sweden	85	85	1,198,848	15,145
Portugal	61	62	1,142,707	18,417
Austria	76	77	1,142,152	11,951
Hungary	44	44	1,096,718	34,326
Kazakhstan	38	34	1,053,427	17,818
Switzerland	85	85	982,296	11,034
Cuba	47	48	962,220	8,300
Morocco	40	41	949,732	14,774
Jordan	49	48	943,305	11,551
Greece	50	48	924,506	17,959
Georgia	56	56	840,593	11,974
Nepal	33	34	821,121	11,524
United Arab Emirates	71	71	741,918	2,146
Tunisia	44	43	717,258	25,363
Bulgaria	44	43	689,356	28,101
Slovakia	49	50	673,015	14,341
Lebanon	25	28	668,087	8,709
Belarus	47	45	651,839	5,054
Guatemala	25	26	617,495	15,917
Croatia	47	47	603,316	10,759
Azerbaijan	30	30	585,783	7,807
Costa Rica	57	56	566,560	7,287

Sri Lanka	38	38	562,520	14,305
Ireland	72	74	560,054	5,652
Saudi Arabia	53	53	549,695	8,833
Bolivia	31	31	535,115	19,137
Ecuador	39	38	524,432	33,128
Myanmar	28	29	521,561	19,088
Denmark	88	87	478,927	2,872
Panama	35	36	477,306	7,361
Lithuania	60	60	468,494	6,719
Paraguay	28	28	462,908	16,461
Republic of Korea	61	59	444,200	3,580
Venezuela	15	16	430,046	5,131
Slovenia	60	60	417,376	5,517
Kuwait	42	40	413,266	2,465
Dominican Republic	28	28	406,803	4,204
Uruguay	71	71	399,181	6,125
Mongolia	35	35	381,330	1,922
Honduras	24	26	377,888	10,403
Libya	17	18	371,571	5,438
Ethiopia	38	37	371,262	6,740
Moldova	34	32	362,433	9,069
Egypt	33	35	356,718	20,347
Armenia	49	42	338,120	7,535
Oman	54	52	304,519	4,113
Bahrain	42	42	277,585	1,394
Bosnia and Herzegovina	35	36	273,835	12,498
Singapore	85	85	262,383	701
Norway	84	84	259,248	1,050
Kenya	31	28	254,951	5,333
Latvia	57	56	252,413	4,146
Qatar	63	62	243,132	611
Estonia	75	74	221,860	1,798

North Macedonia	35	35	215,009	7,547
Nigeria	25	26	213,982	2,975
Algeria	36	35	210,152	6,058
Zambia	33	34	210,143	3,667
Australia	77	77	207,982	1,994
Albania	36	35	199,555	3,089
Botswana	60	61	194,909	2,416
Uzbekistan	26	25	193,065	1,399
Finland	85	86	185,622	1,335
Kyrgyzstan	31	30	183,285	2,743
Kosovo	36	36	161,038	2,973
Afghanistan	19	16	157,218	7,308
Montenegro	45	45	156,872	2,283
Mozambique	25	26	151,524	1,940
Zimbabwe	24	24	133,991	4,705
Cyprus	57	58	133,274	594
Ghana	43	41	130,920	1,209
Namibia	51	52	129,160	3,573
China	42	41	127,764	5,697
Uganda	27	28	127,523	3,252
Cambodia	21	20	120,087	2,931
El Salvador	36	34	119,803	3,771
Cameroon	25	25	106,794	1,791
Rwanda	54	53	100,330	1,342
Maldives	43	29	91,464	248
Jamaica	44	43	91,169	2,388
Luxembourg	80	80	88,108	866
Senegal	45	45	73,985	1,885
Laos	29	29	71,518	159
Trinidad and Tobago	40	40	69,680	2,090
Angola	27	26	65,144	1,733
Malawi	30	31	61,897	2,305

Côte d'Ivoire	36	35	61,708	704
Democratic Republic of the Congo	18	18	58,234	1,107
Suriname	38	44	50,741	1,164
Syria	14	13	47,965	2,739
Eswatini	33	34	46,538	1,248
Madagascar	25	24	44,072	967
Sudan	16	16	42,826	3,141
Mauritius	53	52	41,731	422
Malta	53	54	39,236	468
Mauritania	29	28	39,178	831
Cabo Verde	58	58	38,362	349
Guyana	41	40	37,707	986
Gabon	30	31	37,298	279
Papua New Guinea	27	28	35,090	545
Guinea	28	29	30,763	387
Tanzania	38	37	26,261	730
Togo	29	29	26,250	243
Haiti	18	18	25,027	727
Barbados	64	62	24,923	223
Benin	41	41	24,850	161
Seychelles	66	66	23,390	122
Somalia	12	9	23,016	1,327
Bahamas	63	64	22,734	671
Lesotho	41	40	21,755	662
Burundi	19	19	20,415	14
Timor-Leste	40	38	19,822	122
Congo	19	19	18,905	354
Iceland	75	78	17,770	35
Tajikistan	25	25	17,493	125
Mali	30	29	17,340	605
Burkina Faso	40	40	15,711	281
Brunei Darussalam	60	60	15,036	57

Equatorial Guinea	16	16	13,579	173
Djibouti	27	30	13,504	186
Nicaragua	22	22	13,330	212
Saint Lucia	56	55	12,970	280
South Sudan	12	12	12,755	133
Central African Republic	26	25	11,708	101
New Zealand	88	87	11,074	43
Gambia	37	37	9,989	342
Yemen	15	15	9,987	1,946
Eritrea	21	23	7,318	60
Niger	32	32	6,958	254
Guinea Bissau	19	18	6,440	148
Sierra Leone	33	33	6,402	121
Grenada	53	53	5,888	200
Liberia	28	28	5,823	287
Dominica	55	55	5,776	37
Saint Vincent and the Grenadines	59	59	5,500	74
Chad	21	20	5,107	175
Comoros	21	25	4,498	150
Sao Tome and Principe	47	46	3,731	56
Bhutan	68	68	2,640	3
Solomon Islands	42	42	20	-
Vanuatu	43	46	5	-
Turkmenistan	19	19	-	-