

Arash Amirkhany, Pouya Seifzadeh, and Isar Kiani

THE IMPACT OF CORRUPTION AND INSTITUTIONAL RESTRICTIVENESS ON ENTRY STRATEGY: EVIDENCE FROM TELECOMMUNICATION PROJECTS IN DEVELOPING COUNTRIES

ABSTRACT

This research investigates effects of host country corruption and formal and informal institutional restrictiveness on the entry strategies of foreign multinational enterprises. Using data of over 400 telecommunication projects in developing markets between 2005 and 2011, we find that both formal and informal restrictiveness encourage the MNE to enter using an equity-mode with balanced ownership rather than a wholly owned subsidiary or a partnership with large differential in ownership. However, informal restrictiveness is a stronger force than the formal restrictiveness. We theorize and find a triple interaction effect which shows that this effect is stronger at lower levels than higher levels of informal restrictiveness.

Key Words: Institutional Environment, Mode of Entry, Foreign Direct Investment, Joint Ventures, Corruption, Developing Countries

Arash Amirkhany
McGill University, Canada

Pouya Seifzadeh
SUNY Geneseo, USA

Isar Kiani
St. John Fisher College, USA

Correspondence: Pouya Seifzadeh
SUNY Geneseo, School of Business, Geneseo, NY, 14454, USA
E-mail: seifzadeh@geneseo.edu
Tel: 001-858-245-5426
Fax: 001-585-245-5467

INTRODUCTION

As business activities become more internationalized, closer and more repeated interactions between multinational enterprises (MNEs) and institutions occur both within and between countries in which they operate (Lindholm, 1999). To be successful in their international operations, MNEs need to adapt their strategies to best fit with their host country environments (Kiani, Seifzadeh, and Alam, 2019). In emerging economy environments where contextual differences are more profound, ignorance of idiosyncratic institutional and political arrangements may result in conflicts which threaten success of MNEs or potentially jeopardize their home countries' reputation, under certain conditions. Government corruption and restrictiveness of institutional arrangements are among the most common characteristics that define and distinguish emerging economy contexts. Although corruption, which is defined as the abuse of public power for private benefit (Uhlenbruck, Rodriguez, Doh, and Eden, 2006), can be found in almost all countries, it is more widely spread and most problematic in emerging/developing countries (Kaufmann, Hellman, Jones, and Schankerman, 2000). Past research has suggested that firms tend to adapt their entry strategies according to the level of corruption in their intended environments (e.g., Uhlenbruck et al., 2006).

Restrictive institutional environments in emerging economy contexts influence MNEs' strategies for entering these countries. Formal (i.e., regulatory elements) and informal (i.e., normative and/or cultural and cognitive elements) institutions in these countries tend to put restrictions on foreign ownership and constrain foreign-based MNEs' access to resources and services that are available to local firms. For example, state interference and regulations tend to hinder the development of business and put restrictions on the start, operation, and closure of business; investment in the economy tends to be directed by the local government and state regulations tend to put restrictions, particularly, on foreign investment. Similarly, state ownership of financial institutions such as banks, insurers, and capital markets reduce competition and generally reduces availability of services. In some cases, trade regulations put barriers on imports and exports of goods and services, and state control of enterprises tends to distort fair competition (Heritage Website). Moreover, foreign-based MNEs operating in emerging economies can face restrictions or discriminations that stem from socio-cultural differences at the national level. In some emerging economy contexts, foreigners may face more ethnocentric national cultures, or may encounter instances where unequal treatment of foreign nationals compared to native citizens may seem to be the culturally accepted norm (Yiu and Makino, 2002).

The aim of this research is to shed light onto the role of corruption and institutional restrictiveness in defining the mode of entry of MNEs into new environments. In doing so, we answer to the question “how do restrictiveness of formal/informal institutional arrangements and corruption in a host country environment influence the decision of MNEs to enter new markets via balanced ownership equity partnership arrangements (i.e., Joint ventures) versus operating subsidiaries that are wholly owned or governed under an imbalanced ownership structure?” To achieve this objective, we adopt an institution-based view of international business strategy (Peng et al., 2008) in examining the way in which corruption and existing institutional arrangements in emerging economy contexts affect the mode of entry for MNEs. In our approach, various aspects of contextual factors are explored through the institutional theory lens. For example, our approach allows us to explain how organizations behave in each specific context and framework of rules, norms, and values according to the isomorphic pressures and need for legitimacy. In particular, an institution-based view of strategy provides a good theoretical base to explain the relationship between institutions and firms’ entry mode decisions (Meyer, 2004). More specifically, we study the interaction among corruption and formal and informal institutions to examine its effect on foreign-based MNEs’ level of contributions to equity in market entry choices ranging from joint ventures to wholly owned subsidiaries. Our findings provide a more fine-grained look into the factors that influence the decision that MNEs make to choose between different forms of equity entry (i.e., Joint Venture versus Wholly Owned Subsidiary) and extends existing theory by introducing the role of institutional restrictiveness into the equation. To complete this research, we draw on the World Bank’s Private Participation in Infrastructure (PPI) data from more than 400 telecommunications projects in 96 emerging countries. We complement our dataset with country-level data from World Economic Forum’s Global Competitiveness Report (GCR).

THEORY AND HYPOTHESES

Institutional environments and mode of entry

Institutional environments affect the behavior of organizations. Institutional theory views organizations as social systems that seek legitimacy within their institutional environments (Oliver, 1991). DiMaggio and Powell (1983) suggest that social justification and social obligation are among the most important motives of organizations’ behavior. Social contexts in which organizations reside and operate motivate and pressure them to seek legitimacy or to justify their actions (Dacin, Oliver, and Roy, 2007). Institutional constituents, those upon which organizations are dependent, pressure these organizations to justify their outputs and activities

and conform to institutional rules, regulations, norms and expectations (DiMaggio and Powell, 1983).

Organizations legitimize themselves by conforming to social expectations and institutional pressures to acquire resources and survival capabilities (Scott, 1987). However, competition among organizations goes beyond their struggle to achieve superiority to access resources and customers; it also includes political power and institutional legitimacy in social and economic settings (DiMaggio and Powell, 1983). By conforming to their institutional environments, organizations seek legitimacy to enhance their chances for success and survival (DiMaggio and Powell, 1983; Oliver, 1991, 1997; Wicks, 2001). Thus, seeking institutional legitimacy becomes the ultimate goal of organizations (Judge et al., 2008). However, formal and informal institutions do not necessarily have similar effects on organizations' behavior and strategies (Meyer and Nguyen, 2005), as they may support and motivate different choices and behaviors. This research focuses on the differences and the interactions of formal and informal institutions in emerging economy contexts and their effect on foreign-based MNEs' mode of entry.

Corruption and mode of entry

Corruption varies widely across countries in its reach throughout the economy and the degree to which it is widely spread throughout the public sector in a country (Rodriguez et al., 2005). Previous research has shown that corruption considerably reduces foreign direct investment (FDI) into a country (e.g., Uhlenbruck et al., 2006). Host country corruption increases levels of uncertainty, raises the costs of business, produces bottlenecks, and deteriorates competition as it provides some companies privileged access to profitable markets (Habib and Zurawicki, 2002). Spread of corruption in host countries' public sector also affects MNEs' preferred choice of entry when investing in foreign markets (Rodriguez et al., 2005; Smarzynska and Wei, 2000). Pervasiveness of corruption in the host country deteriorates protection of investing firms' properties and decreases the probability that disputes between foreign and local partners will be arbitrated fairly (Smarzynska and Wei, 2000). On the other hand, government corruption may provide opportunities for MNEs to cope with corrupt government-enforced restrictive regulations, true non-market transactions, and political behavior (Seifzadeh, Derayati, and Radnejad, 2020 ; Boddewyn and Brewer, 1994).

The current state of the literature on corruption in the area of international business still calls for further investigation on how corruption affects equity-mode choice of entry. While some research findings suggest a positive relationship (e.g., Rodriguez et al., 2005), others have found a negative relationship (e.g., Smarzynska and Wei, 2000), or have found no significant relationship (e.g., Uhlenbruck et al., 2006) between pervasiveness of host country corruption

and the likelihood that foreign entrants entering via a wholly owned subsidiary rather than a joint venture. These works examine corruption in isolation from other institutional elements of the corrupted environment. In particular, the nature and significance of formal and informal institutional arrangements that enable or restrict operations of MNEs remain quite obscure.

Institutional restrictiveness and mode of entry

The restrictiveness of institutional rules, norms, values, and shared conceptions in a host country increases the incentives for a foreign-based MNEs to prioritize partnership with local firms over operating a wholly owned subsidiary (Yiu and Makino, 2002). We define restrictiveness as the degree to which institutional pressures in the environment put restrictions on foreign ownership and constrain foreign firms' access to resources and services of the host country and business activities. Such restrictions and discriminations may stem from both the formal institutions (i.e., the regulatory framework) and the informal institutions (i.e., normative and cultural frameworks). Regulatory framework of a host country may put restrictions on transactions such as foreign ownership, business development, and trade. Foreign-based MNEs, compared to local firms, may also be subjected to stereotypes or facing different standards. This is more probable in culturally ethnocentric contexts with less openness towards foreign cultures where foreigners may receive unequal treatment compared to native citizens, or in context with greater cultural distance from a foreign-based MNE's home country culture (Yiu and Makino, 2002).

Foreign-based MNEs depend on their host country's institutional environment to alleviate formal and/or informal institutional pressures which threaten their access to local resources and assets. In face of formal and/or informal pressures, MNEs are likely to legitimize themselves and maintain their legitimacy by conforming to institutional pressures (Scott, 1997; Oliver, 1991). Past research has shown that foreign-based MNEs tend to form partnership with local actors in order to legitimize themselves and also to acquire knowledge of dealing with local government and other powerful institutions (Yiu and Makino, 2002). Through such partnerships, foreign-based MNEs may benefit from 'legitimacy spillovers' from their reputable local partners. They may be able to use their local partners' reputational capital with no charge and show legitimate rights of doing business in the foreign market to the host country's government and gain market legitimacy (Yiu and Makino, 2002). Eden and Miller (2001) suggest that MNEs select a local joint venture partner in order to reduce unfamiliarity costs and discriminatory treatment by the local government. Foreign-based MNEs may also gain social acceptance from their socially legitimate local partners which subsequently facilitate their access

to informal institutional constituents by granting them access to previously inaccessible social capital and social relationships (Coleman, 1988; Peng and Heath, 1996; Yiu and Makino, 2002). Therefore, foreign-based MNEs are more likely to enter the host country via a joint venture than via a wholly owned subsidiary when the local formal and/or informal institutional framework is more restrictive (Agarwal, 1994; Gomes Casseres, 1990). Hence:

Hypothesis 1a: The more restrictive the formal institutions of a host country, the higher the likelihood that foreign entrants entering via equity-entry modes engage in a more balanced ownership structure for joint venture with a local partner versus having greater ownership and control or operating a wholly owned subsidiary.

Hypothesis 1b: The more restrictive the informal institutions of a host country, the higher the likelihood that foreign entrants entering via equity-entry modes engage in a more balanced ownership structure for joint venture with a local partner versus having greater ownership and control or operating a wholly owned subsidiary.

The informal domain of institutional environment provides greater challenge to foreign entrants in establishing and maintaining their legitimacy, compared to the formal domain (Kostova and Zaheer, 1999). Normative and cognitive components of institutional environments emerge through cultural and social processes and are embedded in social and cultural contexts of the country (Kostova and Zaheer, 1999). Informal institutions are transmitted by social and cultural values, expectations, and schemas (Scott, 2001). Regulative components of institutional environments, on the other hand, are transmitted through formal rules and laws and are influenced by governments (Scott, 2001). Therefore, in informal domains (i.e. the normative and cognitive domain) of institutional environment “the rules of the game” tend to be more implicit and less codified than in formal domains. Informal institutions as implicit, tacit, and socially and culturally embedded norms and values are more difficult to observe and interpret than formal institutions (Kostova and Zaheer, 1999). This suggests that MNEs face a greater challenge in understanding and conforming to institutional expectations in informal domains than in formal domains (Kostova and Zaheer, 1999; Peng et al., 2008). Those foreign-based MNEs that fail to appreciate these socially and locally embedded norms and expectations will likely have difficulty overcoming their “liability of foreignness” (Zaheer, 1995).

The dominance of informal institutions increases the incentives for MNEs to prioritize partnerships with local firms as their preferred arrangement for equity mode market entry. Foreign-based MNEs new to a context with substantial differences become more dependent on local partners in making sense of local cognitive and normative institutions and establish or

maintain their legitimacy. The key question for foreign-based MNEs in these environments is “How to play the game?” (Peng et al., 2008). Those working closely with a local partner will be in better positions to make sense of local and socially embedded rules of the game that are instrumental to legitimizing MNEs (Peng et al., 2008). Therefore, restrictive informal, compared to formal, institutions will present a greater incentive to foreign entrants entering via equity-entry modes in engaging in a joint venture with a local partner rather than a wholly owned subsidiary. Therefore;

Hypothesis 2: The relationship in H1b is stronger than the relationship in H1a.

Corruption, restrictiveness and mode of entry

Foreign-based MNEs entering new and unfamiliar contexts do not necessarily face governments and officials that operate so as to maximize public well-being, but may face corrupted governments and officials who engage in self-serving behaviors (Rodriguez et al., 2005). The likelihood of such experiences is even more profound in emerging economy contexts where lack or weakness of formal institutions provides a fertile landscape for organized or isolated corruption. Government corruption, especially in emerging economy contexts, can present unexpected opportunities for foreign-based MNEs to respond to formal institutional pressures in the host country environment.

On the other hand, partnering with local firms “does not meaningfully reduce the likelihood or costs of confronting corruption” where corruption is pervasive and “firms regularly comply with corrupt agents” (Rodriguez et al., 2005). Moreover, under the conditions of environmental uncertainty and institutional complexity, which are more prevalent in emerging economy contexts (Hoskisson et al., 2000), foreign-based MNEs often lack accurate and useful information about potential or existing business partners and their likely behaviors. Therefore, foreign-based MNEs face increased information asymmetries in dealing with local partners (Meyer et al., 2009). Information asymmetry limits the foreign-based MNEs’ ability to detect opportunistic behavior of local partners (Wathne and Heide, 2000). Information asymmetry “impedes recognition of desirable joint outcomes, and it can increase concerns about the motivation or trustworthiness of potential partners as each seeks to gain a strategic advantage by concealing information” (Feiock, Park, Steinacker, and Arregle, 2009). Therefore information asymmetry increases foreign-based MNEs’ risk of partnership (Meyer, 2001). Moreover, the absence of cross-border institutions such as cross-border dispute resolution mechanisms (Ricart, Enright, Ghemawat, Hart, and Khanna, 2004) may increase opportunism.

Therefore, pervasiveness of corruption can reduce the likelihood that an MNE entering via equity mode chooses working with a local partner over operating a wholly owned subsidiary, when encountered with restrictive formal institutions, because of the reduced benefits of partnership with local partners and compliance with regulative pressures.

In this research, we argue that pervasiveness of government corruption weakens the positive relationship between restrictiveness of formal institutions and the likelihood that foreign-based MNEs entering via equity-entry modes prefer joint ventures with a local partner over increasing their partnership contributions and leaning towards operating a wholly owned subsidiary. We also suggest that when normative and cognitive domains of the institutional environment are highly restrictive towards foreigners, as they are likely unfamiliar with the state of mind and culturally and socially accepted norms of work, when there are negative attitudes toward foreign nationals, or where the perception of social and political stability among locals is strong, it is likely for foreigners to establish desirable legitimacy through formal arrangements, even when corruption is prevalent. Consequently, high levels of informal restrictiveness can hamper foreign-based MNEs' ability to establish or maintain legitimacy through engagement with corrupt officials and increases the costs of engaging in corrupt practices.

Foreign-based MNEs can often encounter self-serving government officials in new contexts that they enter. This can be a more likely scenario in emerging economy contexts where corruption is more widespread and prevalent (Rodriguez et al., 2005). When there are high levels of corruption, to find access to leverage over restrictive formal institutions, MNEs can find greater opportunities in building relationships with government officials. Subsequently, they can have a lesser incentive to cooperate with local business partners and instead can be encouraged to pursue the temptation of having greater control that is associated with operating wholly owned subsidiaries. Therefore, pervasiveness of corruption in the host country reduces the benefits of partnership with local partners (Rodriguez et al., 2005) and compliance with regulative pressures.

Government corruption opens up new doors to the foreign-based MNEs to respond to formal institutional pressures in the foreign market. Government corruption increases MNEs' incentives of engaging in political behavior in order to "manipulate" institutional pressures instead of bearing costs of conformity to these pressures (Oliver, 1991). MNEs can manipulate institutional pressures by "actively change or exert power over the content of the expectations themselves or the sources that seek to express or enforce them" (Oliver, 1991). Pervasiveness of corruption also creates means for resourceful MNEs to co-opt local officials in legislative, executive, and judiciary branches of the government through pay-offs that are widely considered as illegal under national and international regulations such as the Foreign Corrupt Practices Act

(Ring, Lenway, and Govekar, 1990). Corruption grants access to local political processes (Boddeyn and Brewer, 1994), enables MNEs to acquire local government consent (Ring et al., 1990) and provides them with permits, favorable procurement contracts, and privileged access to resources and profitable markets (Rodriguez et al., 2005). Government corruption provides MNEs with ways to acquire the goodwill of local government agents in order to overcome typical entry and post-entry operational and strategic challenges (Boddeyn and Brewer, 1994; Rodriguez et al., 2005), such as investment and ownership restrictions.

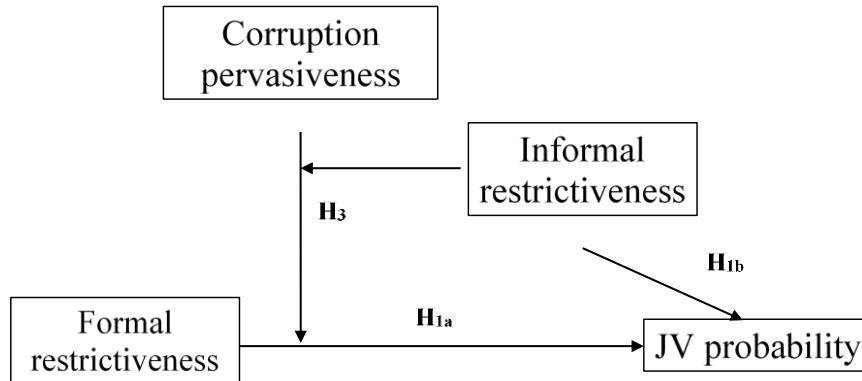
On the other hand, partnering with local firms “does not meaningfully reduce the likelihood or costs of confronting corruption” where corruption is pervasive and “firms regularly comply with corrupt agents” (Rodriguez et al., 2005). Moreover, under conditions of environmental uncertainty and institutional complexity, foreign-based MNEs often lack information about local business partners and their likely behavior. Therefore, foreign-based MNEs face increased information asymmetries in dealing with local partners (Meyer et al., 2009). Information asymmetry limits the foreign-based MNEs’ ability to detect and respond to opportunistic behavior of partners (Wathne and Heide, 2000). Opportunistic behavior “refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse” (Williamson, 1985). Information asymmetry “impedes recognition of desirable joint outcomes, and it can increase concerns about the motivation or trustworthiness of potential partners as each seeks to gain a strategic advantage by concealing information” (Feiock, Park, Steinacker, and Arregle, 2009). Therefore information asymmetry increases foreign-based MNEs’ risk of partnership (Meyer, 2001). Additionally, the absence of cross-border institutions such as cross-border dispute resolution mechanisms (Ricart et al. 2004) may increase opportunism.

Therefore, we suggest that pervasiveness of government corruption weakens the positive relationship between restrictiveness of formal institutions and the likelihood that foreign-based MNE entering via equity-entry modes engages in a more balanced ownership structure in forming joint venture with a local partner rather than leaning towards operating a wholly owned subsidiary.

Hypothesis 3: With pervasiveness of government corruption, there is a decrease in the effect of greater restrictiveness of formal institutions on the choice of foreign entrants entering via balanced ownership in equity-entry modes to engage in a more balanced ownership structure for joint venture with a local partner versus having greater ownership and control or operating a wholly owned subsidiary.

However, highly restrictive informal institutions can hinder the ability of foreign-based MNEs to acquire legitimacy through political relationships with corrupted governments. Informal restrictions affect the demand side for foreign-based MNEs' corrupt behavior. For example, corrupt government officials may refuse to provide foreign firms regulatory exemptions or privileged access to valuable resources in return for bribes because they fear the loss of their social legitimacy when giving preference to foreigners. Foreign-based MNEs are less socially legitimate actors and officials that have relationships with these "illegitimate" actors or favor them may receive "illegitimacy spillover" from foreign-based MNEs and lose their own social legitimacy. Officials' fear of losing social legitimacy can also increase their level of compensation from foreign actors. Moreover, government officials, themselves, are embedded in the social and cultural context of the host country and their cognition and behavior are partially determined by the social and cultural elements of the country's institutional environment. Therefore, when normative and cognitive domains of institutional environment are highly restrictive towards foreigners it is likely to see that officials treat foreigners unequally compared to their local competitors even when there is high government corruption. Such phenomenon will, consequently, have an attenuating effect on the influence of corruption pervasiveness over ongoing business affairs and decisions, neutralizing the effect of corruption at its extreme. Therefore, high levels of informal restrictiveness can hamper foreign-based MNEs' ability to establish or maintain legitimacy through engagement with corrupt officials and increases the costs of engaging in corrupt practices. Hence:

Hypothesis 4: The moderating effect of Corruption pervasiveness Hypothesis 3 is moderated by the presence of informal restrictiveness in a host country. i.e. while an increase in corruption pervasiveness weakens the relationship in Hypothesis 1a., this weakening effect is stronger at the lower levels than at the higher levels of informal restrictiveness.

Figure 1: The hypothesized effect of corruption and institutional restrictiveness

DATA AND METHODOLOGY

Data sample

The sample used to test the hypotheses of this research has been obtained from two different sources. One source consists of a dataset which includes information from more than 400 telecommunications projects in 96 emerging countries between 2005 and 2011. The data was extracted from the World Bank's Private Participation in Infrastructure (PPI) Database. This data set was previously used by the telecommunications industry and is a particularly appropriate industry for this study. First, according to World Bank (1999) telecommunications multinationals in mostly emerging/developing countries accounted for 40% of global FDI in the 1990s and have continued to have an important role into the 21st century. Second, infrastructure projects such as telecommunication projects involve many government agencies and several levels of approval. Therefore, telecommunications projects can be highly affected by government corruption and institutional restrictiveness of the host emerging/developing country. The host countries in the PPI database include all main geographic regions in the world and a large portion of the countries that are generally classified as "emerging/developing countries" (World Economic Outlook Database, 2009). Home countries include 6 from Northern and Western Europe, 4 from Eastern Europe, 3 from East and South East Asia, 2 from North America, 1 from Sub Saharan Africa, 2 from Central and Western Africa, and 4 from Middle East and Northern Africa. The list of host countries included 1 from Central Asia, 3 from Eastern Asia, 1 from East and Central Africa, 9 from Central and Sub Saharan Africa, 5 from West and Central Africa, 3 from South America, 2 from Middle East and North Africa,

and 9 from Eastern Europe. Table 1 summarizes the country of origin for partnerships included in the dataset.

Table 1. Origins of partnerships

Region of Origin	Home Country	Host Country
Northern and Western Europe	6	-
Easter Europe	4	9
East and South East Asia	3	3
North America	2	-
Central and Sub Saharan Africa	1	9
Middle East and North Africa	4	2
Central Asia	-	1
East Central Africa	-	1
West Central Africa	2	5
Northern Africa	-	-
South America	-	3

The dataset includes the names of companies involved, type of partnership, share of investment and ownership, multilateral support provided (i.e., loans and their values), sources of revenue, renewal bids, renewal award, option for renewal, and type of development.

The second dataset consists of data from World Economic Forum's Global Competitiveness Report (GCR). The report consists of survey results corresponding to environment, education, individual industries and technologies and makes assessment of different national contexts based on 12 pillars which include institutions, infrastructure, macroeconomic stability, health and primary education, good market efficiency, labor market efficiency, financial market sophistication, technological readiness, market size, business sophistication, and innovation. The report also evaluates national contexts on the basis of perceived host country corruption and its influence on operations of MNEs.

The initial dataset contained 414 participation projects. The dataset was screened based on the home countries and host countries. Those projects originating from or executed within national contexts for which data was not available in the GCR were dropped from the sample. In addition, projects what involved neither establishment of a wholly owned subsidiary nor a joint venture were eliminated from the dataset. Such projects mostly included Build-Operate-Transfer projects and with support from the host country government. Through several rounds of screening, the dataset was reduced to a sample size that included 168 projects from 25 home

countries and 31 host countries which were used for analysis in this research. There was a precise split in data in terms of wholly owned subsidiaries and JVs with 84 frequencies for each.

Dependent variable

The dependent variable of this study is the share in Ownership Structure in Equity-Entry (OS) choice of foreign firms. The equity-entry mode choices range from full control through operating wholly owned subsidiaries to more balanced ownership joint ventures. To operationalize this variable, the PPI data on telecommunication companies between 2005 and 2011 was screened and a ratio representing the degree of ownership was calculated.

Independent variables

Formal restrictiveness. Formal restrictiveness is defined as the degree to which formal institutional pressures in the environment put restrictions on foreign ownership and constrain foreign firms' access to resources and services of the host country and business activities. To measure this variable, a review of the items included in the GCR was conducted to compare them against existing literature. We identified items that best represent restrictiveness of the institutional environment for MNEs. The items include Prevalence of Trade Barriers, Prevalence of Foreign Ownership, Business Impact of Rules on FDI, Burden of Customers Procedures. After ensuring coding compliance between the four items, a confirmatory factor analysis (CFA) was conducted which resulted in one factor emerging. All items loaded well above 0.8 which confirmed all four to be included in the scale. The Cronbach's alpha for the scale was found to be 0.89.

Informal restrictiveness. Informal restrictiveness is defined as the degree to which informal institutional restrict foreign firms' access to resources and services of the host country and business activities. To measure this variable, a detailed review of the items included in the GCR and GCR T&T (Travel and Tourism) was conducted to compare the items against the definition provided for information restrictiveness in existing literature. Items that stood out included Public Policy Instability, Political Instability, Poor Work Ethic of the Labor Force, Ease of Hiring Foreigners, Ease of Hiring Skilled Labor, Visa Requirements, and Reliability of Police. After ensuring coding compliance between the four items, a confirmatory factor analysis (CFA) was conducted. Items with low loadings (Poor Work Ethic, Ease of Hiring Skilled Labor, Public Policy Instability). For the emerging factor, all items loaded well above 0.8 which confirmed all four to be included in the scale. The Cronbach's alpha for the scale was found to be 0.86. Scale was developed using the remaining items through summation.

Corruption pervasiveness. Corruption pervasiveness “is the average firm’s likelihood of encountering corruption in its normal interactions with state officials”(Rodriguez et al., 2005: 385). To measure corruption pervasiveness, we draw on data from World Economic Forum’s Global Competitiveness Report for years between 2005 and 2011. The data included in the survey has been collected through surveys and a score indicating the relative corruption in each national context has been included in the report.

Control variables

GDP Per Capita (Income Level). Market size is believed to affect entry strategies in multiple ways (Meyer et al., 2009). Firms can expect higher levels of potential returns in larger markets which maybe particularly important for telecommunications projects “where the marginal costs of additional service provision are typically low” (Uhlenbruck et al., 2006). We include per capita GDP measured in thousands 1998 inflation- adjusted dollars to control the effect of per capita income. Factors such as stability of long-term economic growth rates, social services quality, and the quality and importantly availability of and demand for infrastructure services are believed to be positively affected by the level of per capita income (Easterly, 2000; Rose-Ackerman, 1999). Therefore, it may have an effect on the entry strategy of firms in the telecommunications industry

Formal Restrictiveness Distance. A variable was created to measure the Formal Restrictiveness Distance between the home country and host country environments. To calculate this variable, first, the aggregate of the items included in the Formal Restrictiveness measure from the model were used for each home country and host country environment (F_{iHost} and F_{iHome}). Then, the variable was calculated through the following relationship:

$$\text{Formal Restrictiveness Distance} = \sqrt{\sum (F_{iHost} - F_{iHome})^2}$$

In the relationship above, F_i corresponds to the items representing Formal Restrictiveness from the GCR for either the host country or home country environments.

Informal Restrictiveness Distance. A variable was created to measure the Informal Restrictiveness Distance between the home country and host country environments. To calculate this variable, first, the aggregate of the items included in the Informal Restrictiveness measure from the model were used for each home country and host country environment (I_{iHost} and I_{iHome}). Then, the variable was calculated through the following relationship:

$$\text{Informal Restrictiveness Distance} = \sqrt{\sum (I_{iHost} - I_{iHome})^2}$$

Measurement analysis

To test our hypotheses, we used a structural model (Partial Least Squares Structural Equation Modeling = PLS-SEM). PLS is a second-generation method of analysis and consists of a series of Ordinary Least Squares (OLS) with little demand on measurement scales (Chin, 1998). PLS focuses on predictor specifications as well as the variance from the dependent variables. There are no assumptions made about joint distributions of the indicators or the independence of the sample cases (Chin, 1998; Chin and Newsted, 1999).

PLS-SEM holds several advantages. First, similar to other SEM methods, PLS-SEM allows the estimation of the measurement model within the theoretical context. Constructs get their meaning from the items used to measure them and the theoretical context in which they are embedded. Second, PLS explicitly measures the error model. Third, Structural Equation Models allow for multiple dependent and independent variables to be included and analyzed simultaneously (Kiani, Laroche, and Paulin, 2015). In addition, PLS-SEM software has the ability to directly include and measure moderator effects into the model, particularly if the structural model has many moderating effects.

The analysis of a PLS model involves two steps. The first is the assessment of reliability and validity of the measurement model. The reliability of the measurement model is assessed through analysis of factor loadings. Cronbach's α and Internal Consistency (Q_η) are used to assess convergent validity as developed by Fornell and Larcker (1981). The second is the assessment of the structural model. The measurement model in the SmartPLS environment was constructed using two independent variables (Formal Restrictiveness and Informal Restrictiveness), and one first-order latent dependent variables (ownership structure of equity-entry mode). We created the two moderating effects and the direct effects of the moderating variables (Informal Restrictiveness and Corruption Pervasiveness) on the dependent variable (ownership structure of equity-entry mode) which were subsequently added to the structural model. We also modeled a triple interaction effect following an orthogonalization approach (Henseler and Chin, 2010; Little, Bovaird, and Widaman, 2006) using partial least squares (PLS). The triple interaction is composed of the two moderating effects (Informal Restrictiveness and Corruption Pervasiveness) and one Independent Variable (Formal Restrictiveness). The software then allowed for the new variables representing the interaction between the moderators and the independent variable and their direct effect on the dependent variables. Also, every control variable was included in the model and regressed onto every endogenous variable.

Assessment of the measurement model

Four components were considered to assess the measurement model: individual item reliability, internal consistency, convergent validity, and discriminant validity. In order to validate the measure for corporate controls, the data from business units is split in half and exploratory factor analysis (EFA) is conducted on one half of the data to identify emerging factors. Since the sample size is less than 300, factor loadings greater than 0.6 are considered acceptable.

Next, the SmartPLS Confirmatory Factory Analysis (CFA) was conducted on all items. Items loaded onto each of the latent variables and the loading values were reviewed. Items with loadings values less than 0.6 were discarded and new loadings were calculated. The same steps were repeated several times until only items with loading values greater than 0.707 that remained. To set the cut-off point at 0.707 means that the construct explains at least 50% of the variance in each item. The items used in the measurement model and their corresponding loadings are summarized in Table 2.

To evaluate internal consistency, we used Fornell and Larcker's (1981) composite reliability ($\rho\eta$). The composite reliability and Cronbach's α for each of the constructs were screened to ensure they meet the criterion of being greater than 0.7. The results of the tests for internal consistency are presented in Table 2. The conditions for convergent validity were met with at least 0.5 Average Variance Extracted (AVE) for each item. To assess the discriminant validity, two tests were used.

First, the correlations between constructs helped to verify for each construct whether they were smaller than the square root of the AVE (Chin, 1998) (Table 2). Each item loaded higher on its respective construct than on any other construct indicating that discriminant and convergent validity were supported (Gefan, Straub, and Bourdeau, 2000).

ANALYSIS AND RESULTS

The SmartPLS software was used to complete the data analysis because PLS provides the estimates of the direct effects. In addition, the tool's graphic interface modeling was used to interpret the results (Ringle, Wende, and Will, 2006) and a bootstrapping technique with 500 resamples served to test the significance of the path coefficients. The estimated path coefficients, based on significance and R^2 , are summarized (Table 3) and the tests results of all hypotheses can be found in Table 4. Since this study investigates the direct effects of Formal Restrictiveness and Informal Restrictiveness as well as several moderation effects, the hypotheses have been tested and included in several separate models.

We contend that formal restrictiveness plays a role in the choice of mode of entry for foreign entrants and that when formal restrictions are strong, equity-entry mode investment is more likely to be a balanced partnership. In Hypothesis 1a, we predict that in a balanced partnership, partners are more engaged in mutual practices of governing the partnership, as it is expected in a joint venture scenario. Alternatively, when partnership lacks balanced ownership, governance of the partnership is expected to be similar to governance of a wholly owned subsidiary. Model 2 in Table 4 shows a negative and significant ($p < 0.01$) relationship between Formal restrictiveness and Mode of Entry. The negative value is interpreted as a lower differential in ownership among partners involved which suggests that as predicted in Hypothesis 1a, higher levels of formal restrictiveness are associated with balanced ownership and governance of the equity-mode partnership as a joint venture. Therefore, we conclude that Hypothesis 1a is supported.

Table 2. Factor analysis results

Construct	Item	Loading	AVE	Composite reliability	R ²	Cronbach α
Formal Restrictiveness	FR1	0.837	0.68	0.80	0.65	0.89
	FR2	0.825				
	FR3	0.822				
	FR4	0.808				
Informal Restrictiveness	IR1	0.883	0.71	0.83	0.61	0.87
	IR2	0.746				
	IR3	0.712				
Model Fit Statistics						
	Chi Square				923.28	
	RMSEA				0.077	
	CFI				0.86	
	NNFI				0.8	
	IFI				0.89	

* Note: the gaps in item sequencing are the result of elimination of items that did not meet the 0.707 loading cut-off criterion. SC1=Interaction among divisions; SC2= Interaction with corporate HQ; SC3= Sharing resources among divisions; SC4= Transfer of core competencies among divisions; FC10= Employee evaluation based on financial results; FC11= Least cost behavior; FC12= Risk avoidance

Informal restrictiveness and mode of entry

In Hypothesis 1b, we suggest that, similar to formal restrictiveness, informal restrictiveness also plays a role in the form of equity-mode partnership investments and that with more informal restrictions apparent, foreign entrants will prefer balanced partnerships where partners are more engaged in mutual practices of joint venture-format governance mechanisms. Our analysis of results provides full support to our hypothesized relationship. Examining results from Model 2 in Table 4, we find a negative and significant ($p < 0.01$) relationship between Informal Restrictiveness and Mode of Entry, which suggests that equity-entry modes, when higher

degrees of Informal Restrictiveness exist, foreign entrants tend to prefer structures with less ownership differential between involved partners where governance structures more congruent with a joint venture format are in place. Based on these results, we find support for Hypothesis 1b.

Prevalence of formal or informal restrictiveness

While both Formal Restrictiveness and Informal Restrictiveness can be important predictors of form of equity-entry mode, their level of importance and influence on such outcomes is not at par. Hypothesis 2 suggests that due to substantial uncertainty surrounding factors resulting from Informal Restrictiveness, in presence of both forms of Formal and Informal Restrictiveness, the latter plays a stronger role in defining the form of equity-mode entry arrangements. The use of PLS-SEM allows us to capture both effects within them same structural model which have been demonstrated in Model 2, Table 4. A comparative analysis between findings for both forms of Restrictiveness reveals that while their influences are both significant ($p < 0.01$), and the size of the effect for Informal Restrictiveness is greater in absolute terms, the difference is not substantial. Therefore, we conclude that Hypothesis 2 is only marginally supported.

Table 3. Correlations matrix

	1	2	3	4	5	6	7
1. GDP (income level)	1						
2. Corruption	-0.127	1					
3. Formal Restrictiveness	-0.064	-.387**	(0.68)				
4. Informal Restrictiveness	0.212**	-.414**	-0.145	(0.71)			
5. Formal Distance	-0.001	-.158*	-.203**	0.243**	1		
6. Informal Distance	0.171*	-.313**	0.027	0.585**	0.077	1	
7. Mode of Entry	0.069	0.159*	-.297**	-0.131	-.288**	0.064	1

^a Standardized coefficients are reported

Numbers in parenthesis on the diagonal represent the square root of the average variance extracted. Numbers on the diagonal and without parenthesis represent correlations. For discriminant validity, elements in each row and column should be smaller than the parenthetical numbers on that row and column (Fornell and Lacker, 1961).

N= 168, * $p < .05$, ** $p < .01$

Influence of corruption on the role of formal restrictiveness

With Hypothesis 3 we predicted that with higher pervasiveness of government corruption, the influence of Formal Restrictiveness in form of equity-mode entry is mitigated. We examine the analytical results from the structural model which are reflected in Model 4 of Table 4. Results

show a negative and significant ($p < 0.01$) effect for the interaction term resulting from the product of Corruption and Formal Restrictiveness. This means that with higher levels of Corruption detected and reported in each host country environment, the influence of Formal Restrictiveness has diminished, which confirms both the nature and direction for the hypothesized relationship. Therefore, we go on to conclude support from Hypothesis 3.

Triple interaction between corruption, formal restrictiveness and informal restrictiveness

While we have hypothesized and found that higher Corruption reduces the impact of Formal Restrictiveness in the form of equity-mode entry (Hypothesis 3), in Hypothesis 4 we predict that the mitigating role of Corruption is even stronger when there is a concurrent presence of strong degrees of Informal Restrictiveness. To test this hypothesis, we constructed a triple interaction effect including Corruption, Formal Restrictiveness and Informal Restrictiveness, and included that triple interaction term in the structural model. Results as reflected in Model 4 in Table 4 confirm the significance ($p < 0.01$) of the hypothesized relationship. The positive value of the effect also confirms the direction of the relationship. Therefore, we conclude that Hypothesis 4 is supported based on our findings.

Table 4. Results

Independent variables	Model 1	Model 2	Model 3	Model 4
Control variables				
GDP (Income Level)	0.157	0.073	0.142	0.36
Formal Restrictiveness Distance	-0.786**	-1.103**	-1.144**	-1.446**
Informal Restrictiveness Distance	0.032	0.042	0.164*	-0.113
Effect of Formal Restrictiveness on Mode of Entry				
Formal Restrictiveness		-0.582**	-0.741**	-0.727**
Informal Restrictiveness		-0.235**	-0.195**	-0.128*
Moderators				
Corruption			-0.041	1.208*
Interactions				
Corruption × Formal Restrictiveness				-0.082**
Informal Rest. × Formal Rest.				-1.269**
Corruption × Informal Rest. × Formal Rest.				0.011**
R ²	0.125	0.297	0.395	0.694
Δ R ²		0.172	0.098	0.299

^aStandardized coefficients are reported
N= 168, * $p < .05$, ** $p < .01$

DISCUSSION

The findings of this research generally lend support to the hypothesized relationships. We find that under stronger restrictiveness of formal institutions in a host country environment, MNEs are more likely to engage in JVs, instead of operating wholly owned subsidiaries. We also find a similar effect when informal institutional forces are more restrictive; under such conditions, the prevalent mechanism for market entry is through forming JVs with local partners. Our analysis also emphasizes the role of informal compared to formal institutional restrictiveness in defining the mode of entry. While the role is not substantive, we find that informal restrictiveness has a stronger effect on the choice for mode of entry. Finally, we find that corruption in the host country environment also plays a role in the mode of entry. However, we find the strength of this effect to depend on the degree to which informal restrictiveness exists.

Our findings suggest that the presence of both Formal and Informal Restrictiveness in the host country environment plays an important role in the preferences of foreign entrants when it comes to form of equity-mode arrangements. When either Formal or Informal Restrictiveness are constraining factors, foreign entrants find a balanced ownership mechanism as the preferred mode of choice in formation of joint ventures. Although this approach may take away the degree of autonomy that foreign entrants can exercise in governance of the subsidiary, it mitigates the risks and challenges posed from the host country environment. While past research has mainly focused on dichotomizing equity alliances and wholly owned subsidiaries, our approach allows for a more fine-grained view of equity alliances based on relative ownership and the tradeoff between risk and control. An interesting finding of our study is that in the contexts that we have focused on (emerging markets), the importance of Informal factors exceeds Formal factors that are restrictive. While this is an interesting finding, we are surprised to learn the difference to be so marginal.

We also find that prevalence of Corruption in a host country environment can undercut the strength of Formally Restrictive arrangements on the equity mode of choice. Although Formal Restrictiveness resulted in foreign entrants preferring balanced partnerships over having either full control with high risk, or little control with trivial risk, when Corruption was present, predictability of mode of choice based on existence of Formal Restrictive arrangements was lower. Instead, based on our findings, foreign entrants seem to take other factors that present opportunities, as more prominent factors in making decisions regarding mode of entry. One possible explanation would be that in corrupt environments, backdoor channels present access of foreign entrants to resources that allow them to mitigate the effect of Formal Restrictions.

Finally, our findings from analysis of the triple interaction provide us with the important insight that it is less beneficial to consider either Formal Restrictiveness, Informal Restrictiveness, or Corruption as independent factors in the influence that they have on the choice of mode of entry. We find that the existence Informal restrictiveness can even further amplify the impact that Corruption can have on undercutting the role that Formal Restrictiveness can play in the decisions that foreign entrants make regarding their mode of entry. This means that even when Formal Restrictiveness is high, foreign entrants are more likely to deviate from forming balanced ownership partnerships and may find better opportunities in existing Corruption and Informal arrangements, granting them greater confidence in their ability to manage subsidiaries.

CONCLUSION

This research examines the effect of institutional restrictiveness on foreign firms' entry strategy when entering emerging/developing countries. We distinguish between formal and informal institutional restrictiveness and examine the difference between the two regarding their effects on entry strategy. We also explore the joint effect of formal restrictiveness, informal restrictiveness, and host country corruption on entry strategy. To support our hypotheses, we have drawn on analysis of data from more than 400 telecommunications project from 96 emerging/developing countries. Our analysis examines 168 acts of joint venture and establishment of wholly owned subsidiaries in the telecommunications industry.

The findings of our study outline the prevalence of institutional restrictiveness in the mode of entry. While past research has shed light on the effect of host country corruption in mode of entry, this effect has excluded the role of formal and informal institutional pressures that restrict multinational operations. Our hypotheses and findings address this issue and find support for their role.

This project has significant contribution to both practice and theory. It helps firms (particularly, from developed countries) to optimize their entry strategies when entering emerging/developing countries. This optimization is important for firms because their entry strategy has significant effect on their post-entry success (Stopford and Wells, 1972), performance (Hill et al., 1990) and survival (Li, 1995). This project also engages in a new empirical investigation to shed light on 'how institutions matter' (Peng et al., 2008). First, our findings suggest that formal and informal institutional forces influence the choice of entry at different levels. Most past research has taken a dichotomized view with respect to equity alliances (as joint ventures) and wholly owned subsidiaries. In our study, we have taken a

different approach which allows for a more fine-grained view into equity-mode entries. In our approach, we have taken a closer look at the ownership differential between partners and have included that as part of the decision-making criteria. Therefore, our analysis and findings provide a more realistic view and insight into the nature of partnerships.

Second, examining the interaction of corruption with other aspects of home country institutional environment we bring resolution to the controversy over the effect of corruption on equity-entry mode. While much of past research has focused on corruption as a stand-alone factor, our analytical approach has looked at its role in combination with formal and informal restrictive factors in the host country environment. Part of the success in this approach has been a consequence of the method of analysis which uses a structural model, allowing for all of the effects to be included within the same theoretical model. Our significant findings further validate the suitability of this approach and provide a more holistic view of the factors preceding decisions of equity-mode entry arrangements.

Third, our study provides practical recommendations for executives as they consider international expansion. While there has been a general misunderstanding regarding the relative importance of formal and informal factors that need to be considered in equity-mode market entries, our findings suggest that informal factors not only have greater weight, but they also play a greater substantial role in combination with corruption in a host country environment. This calls for managers to take a closer look at the combined effect of corruption and informal challenges when considering international expansion.

Our study, while contributing to the fields of research and practice, is not without limitations. The most important of our limitations is the result of measurement of informal factors, which still remains underdeveloped. This provides several avenues for research to consider empirical measurement of arrangements and mechanisms as outlined in past research (i.e., Teixeira and Grande, 2012). While our study has focused on equity-mode market entries, there are also opportunities to look into other forms of equity and non-equity market entry alliance formations.

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