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Drivers of International Investment Decisions: The Role of Safety Risk

Kaitlyn DeGhetto

FLORIDA STATE UNIVERSITY

COLLEGE OF BUSINESS

DRIVERS OF INTERNATIONAL INVESTMENT DECISIONS:

THE ROLE OF SAFETY RISK

By

KAITLYN DEGNETTO

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The members of the supervisory committee were:

Bruce T. Lamont
Professor Directing Dissertation

Pamela L. Perrewé
University Representative

R. Michael Holmes Jr.
Committee Member

Chad Van Iddekinge
Committee Member

The Graduate School has verified and approved the above-named committee members, and certifies that the dissertation has been approved in accordance with university requirements.

To the journey, and to those who have walked beside
me and redirected me when I needed it the most.

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ABSTRACT

“When making location choices we primarily consider stability, safety, and friendliness to business. We are not going to put our people at risk, and our clients are not going to put their people at risk.” – COO, US-based business services firm

A noteworthy disconnect may exist between how researchers conceptualize and measure host country institutional variables and how executives of multinational enterprises (MNEs) evaluate host countries when making international investment decisions. Oftentimes, researchers view country institutional risk from a narrow lens, considering how one institutional variable (e.g., culture, political risk, corruption) impacts internationalization decisions. However, evaluation of institutional variables in isolation does not accurately mirror executives’ perceptions of risk within the worldwide marketplace, which in turn drive investment decisions. Further, although the often researched institutional factor – government-based corruption – plays a role in determining MNEs’ investment decisions, equivocal results provide evidence that the overall complexity of the relationships is not fully understood. Specifically, safety-related factors, termed herein “safety risk,” may be a wider by-product of corruption and a major deterrent of international investment. Thus, reevaluating which institutional risk factors we consider, how they impact one another, and how they relate to investment are important pursuits.

CHAPTER ONE

INTRODUCTION

Overview

Considering the complexity surrounding multinational enterprises' (MNEs) internationalization decisions, location choices and investment strategies may be motivated by a myriad of factors, including the MNE's network (Chen & Chen, 1998), agglomeration (Guimaraes, Figueiredo, & Woodward, 2000), labor costs, market size, infrastructure, industrialization (Wheeler & Mody, 1992), tax rates (Wei, 2000a), incentives for foreign firms (Wei, 2000b), resources (Peng, 2001), learning (Zahra, Ireland, & Hitt, 2000), executives' experience and mindsets (Anderson & Gatignon, 1986; Perlmutter, 1969), home country factors (Habib & Zurawicki, 2002; Luo & Tung, 2007), host country risk (Agarwal, 1994), corruption (Mauro, 1995), political constraints (Henisz, 2000a; Holburn & Zelner, 2010), institutional distance (Johanson & Vahlne, 1977; Kostova, 1997, 1999; Salomon & Wu, 2012), etc. Within this extensive stream of literature, and based on the aforementioned factors, several different theoretical perspectives and frameworks are utilized to explain internationalization decisions. Traditionally, maximizing efficiency and reducing costs were seen as the primary drivers of globalizing (Tallman, 2001). Starting with the Heckscher-Ohlin model of free trade, it was assumed that perfect goods and factor markets existed, there were no transportation costs, and consumer preferences were homogenous (Ohlin, 1933). Following these strictly economic models, I/O models of globalization emerged. Hymer (1976) advocated that international investment was driven by oligopolistic competition and multinationals' needs to compete with rivals across borders and eliminate exposure domestically (Kogut, 1989). However, these models were the target of criticism because they ignore the costs of competing internationally, only focusing on the benefits (e.g., Buckley & Casson, 1976).

From these criticisms, emerged the widely accepted internalization, or transaction-based, perspective for internationalization based on the work of Coase (1937). Scholars adopting this perspective view internationalization as a boundary decision (Kogut, 1989; Teece, 1986). Within the internalization literature, Dunning's influential OLI paradigm (1988) considers ownership, location, and internalization factors. In parallel with the development of the resource-based view

(Barney, 1991), global strategy researchers began focusing on the “O,” or ownership, aspect of the OLI paradigm (Peng, 2001). By viewing the MNE as a network (Ghoshal & Bartlett, 1990), there are learning (Ghoshal, 1987) and knowledge transfer (Kogut & Zander, 1993) benefits that motivate MNEs to invest across borders. Finally, institutional theory is utilized to explain how the institutional environment, or context, impacts global strategies (Kostova, 1999; Peng, Wang, & Jiang, 2008; Rodriguez, Uhlenbruck, & Eden, 2005; Xu & Shenkar, 2002), especially in emerging market economies (Hoskisson, Eden, Lau, & Wright, 2000). Further, salient cross-country differences (Xu & Shenkar, 2002) and MNEs’ desires to gain legitimacy (Kostova & Zaheer, 1999) impact perceptions of risk and actions taken by MNEs in the worldwide marketplace.

The above discussion of factors that drive MNEs’ global strategies as well as the various theoretical perspectives used in this area of research provides a glimpse into the breadth of literature surrounding international investment decisions. The focus here is on the institutional environment. More specifically, the implications of policy risk (which includes corruption and political constraints), safety risk, cross-national institutional distance, and in turn, MNEs’ international investment decisions are evaluated. Although both policy risk and cross-national distance are often evaluated from an institutional theory lens (Demirbag, Glaister, & Tatoglu, 2007; Henisz & Delios, 2001; Rodriguez et al., 2005; Salomon & Wu, 2012), two perspectives are important to note. First, weak institutional environments, commonly found in emerging market economies (Hoskisson et al., 2000; Khanna & Palepu, 1997), generate challenges and create risk for MNEs (Henisz, 2000a; Meyer, Estrin, Bhaumik, & Peng, 2009; Peng et al., 2008; Wright, Filatotchev, Hoskisson, & Peng, 2005). Second, the distance between the home and host nation institutional environments creates obstacles related to legitimacy and liabilities of foreignness (Kostova, 1997; Kostova & Zaheer, 1999; Solomon & Wu, 2012). Thus, both the contextual factors in the host country as well as the distance between the MNE’s home nation and host nation may have significant impacts on international investment choices. Below, I provide a brief review of policy risk and cross-national institutional distance.

Policy Risk

Policy risk is “the risk that a government will opportunistically alter policies to directly or indirectly expropriate a firm’s profits or assets” (Holburn & Zelner, 2010: 1290). Policy risk is conceptualized and measured in a variety of ways and includes *corruption* and *political*

constraints (Henisz, 2000b; Holburn & Zelner, 2010; Rodriguez et al., 2005). First, corruption is the “misuse of public power for private gain” (Judge, McNatt, & Xu, 2011; Rodriguez, Siegel, & Eden, 2006) and generally involves government officials demanding bribes or other terms that provide private gains from foreign or local firms (Demirbag et al., 2007; Wei, 2000a). This generates risk for MNEs by pressuring them to engage in actions, such as bribery of government officials, which potentially reduce profits (Rodriguez et al., 2006; Spencer & Gomez, 2011). This is especially true in cases where corruption is relatively ambiguous (Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003; Rodriguez et al., 2005). Second, political constraints relate to the concentration of power held by government officials and the distribution of preferences (Henisz, 2000b). When there is a strong concentration of power, a single government leader may alter government policies at his or her discretion, generating risk for firms conducting business (Holburn & Zelner, 2010).

Cross-National Institutional Distance

“Distance” between the home and host nation is found to impact global strategies. Institutional distance can generate risk for MNEs, especially if their home nation is psychologically distant and MNE executives lack experience within the nation (Johanson & Vahlne, 1977; Kogut & Singh, 1988). Both theoretically and empirically, scholars evaluating the impact of distance primarily focus on informal aspects, namely cultural differences, between the home and host nation (Berry, Guillen, & Zhou, 2010). However, distance related to formal (i.e., economic, political, regulatory, financial) institutional variables may also be important to consider (Salomon & Wu, 2012). While formal institutions encompass laws, rules and regulations within a society, informal institutions relate to values, norms, and beliefs (North, 1990; Scott, 1995).

Summary of Past Findings

With limited exceptions, research evaluates the effects of these variables in isolation. Further, within each of these research streams, the results are inconclusive, the literature is arguably fragmented, and the measures used to operationalize these concepts vary widely. For instance, conclusions on the effects of corruption and MNEs’ international investment decisions are mixed (Demirbag et al., 2007). Whereas some scholars found that corruption has a negative impact on foreign direct investment (FDI) (Voyer & Beamish, 2004; Wei, 2000a), others found no relationship (Hines, 1995; Wheeler & Mody, 1992). Further, previous research has identified both the benefits (e.g., Huntington, 1968; Leff, 1964; Lui, 1985) and costs (e.g., Mauro, 1995;

Zhao, Kim, & Du, 2003) of corruption. Within the corruption literature, the two most widely used measures are Transparency International's Corruption Perceptions Index (CPI) and The World Bank's Control of Corruption Index (CCI) (Judge et al., 2011). Both of these are composite indices based on experts' perceptions. However, there are many other measures that have been used including the World Economic Forum's Global Competitiveness Report (GCR), the Business International (BI) index, and the International Country Risk Group's (ICRG) index (Judge et al., 2011; Rodriguez et al., 2005; Wei, 2000a). While some measures of corruption directly assess bribery and use of public power for private gain (e.g., CPI, CCI), others group corruption with various aspects that may impact country risk (e.g., ICRG), but do not directly measure corruption as it is typically defined.

In regard to political constraints, Henisz (2000b) took steps to redefine how it is measured and tease out political constraints from other aspects of country risk. His widely used measure of political constraints takes into account "independent veto points... and the distribution of preferences" (p. 5). Prior to this work, however, political risk was often grouped with corruption and other institutional factors, such as government stability and law and order, and measured using indices such as ICRG. Other scholars have operationalized political institutions with a binary variable indicating if the nation is a democracy (e.g., Flores & Aguilera, 2007). Henisz (2000b) and others have contributed to the literature by showing how political constraints independently impact economic outcomes and investment decisions (Delios & Henisz, 2003; Demirbag et al., 2007; Garcia-Canal & Guillen, 2008; Henisz & Delios, 2001; Holburn & Zelner, 2010).

Finally, the effects of distance also yield mixed results (Brouthers & Brouthers, 2001). And how "distance" is typically conceptualized and measured is arguably narrow and equivocal (Berry et al., 2010). Generally, culture is the "distance" variable considered (Salomon & Wu, 2012) and relates to "how people interact with one another and with companies and institutions," (Ghemawat, 2001: 3). While some scholars highlight the benefits of cultural distance (Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009; Luo & Peng, 1999), others provide evidence of the costs (Hennart & Lamino, 1998; Weber, Shenkar, & Raveh, 1996). Tihanyi, Griffith, and Russell (2005) conducted a meta-analysis to assess the effect of cultural distance on entry modes, internationalization, and financial performance and did not find any significant effects.

Although it is not without its criticisms, Hofstede's (1980) cultural dimensions are still widely used to assess difference in national culture (Kirkman, Lowe, & Gibson, 2006). And Kogut and Singh's (1988) Euclidian distance measure is used in the majority of studies on this topic (Tihanyi et al., 2005). Problems emerge, however, because many studies only take into account single dimensions, such as individualism-collectivism, and other important aspects of cultural norms are missing (Kirkman et al., 2006). Despite a heavy reliance on cross-national cultural differences, it is important to note that several other distance variables have been considered, including geographic, administrative, economic, political, financial, connectedness, knowledge, and demographic (Berry et al., 2010; Ghemawat, 2001).

Statement of the Problem

Global strategy researchers have focused on explaining international investment decisions, including investment flows, location choices, and entry modes (Werner, 2002). Primarily, scholars advocate for investment in lower risk institutional environments with entry modes that serve to minimize transaction costs (Johanson & Vahlne, 1977). Despite the assumptions embedded within this research, firms based in both emerging and developed economies are choosing to invest in higher risk institutional environments that are culturally and geographically distant from their home nations (Wright et al., 2005). Researchers have previously noted this paradox – investment in countries such as China and Indonesia is on the rise despite evidence of corruption (Wei, 2000a), and cultural distance does not appear to have a significant effect on entry mode choice, international diversification, or performance (Tihanyi et al., 2005).

We know that both the institutional environment within the host nation (e.g., Henisz, 2000a; Wei, 2000a) and the distance between the home and host nation (e.g., Kostova, 1997; Xu & Shenkar, 2002) impact investment decisions. However, we know less about how various institutional variables, including the dimensions of policy risk and distance, interact with one another. Further, we have a limited understanding of how the by-products of policy risk alter MNEs' investment decisions. The equivocal findings previously discussed may provide evidence that we are not fully capturing the range of factors that executives consider when making location choices. Figure 1 illustrates the proposed dissertation model that is subsequently

evaluated. The model highlights the relationships between government-based corruption, safety risk, political constraints, institutional distance, and international investment decisions.

Figure 1: Conceptual Model

In this research, an institutional theory framework is used to address the issues related to mixed results and fragmentation. The government is an institutional agent with substantial coercive power, including the ability to develop laws, rules, and regulations as well as allocate resources across the economy (Scott & Davis, 2007). Thus, government policy plays a substantial role in molding the institutional environment within a given nation (Holmes, Miller, Hitt, & Salmador, 2013; Zucker, 1987). By setting the rules of the game, the government's actions can spill over into other aspects of the formal and informal economy (North, 1990), ultimately impacting MNEs' investment decisions.

Past research shows that government policy and related payoffs impact the allocation of business activity within a nation between productive and unproductive activity (Baumol, 1990). If corruption is an acceptable practice, set by the government, norms and behaviors surrounding these practices will become ingrained into the society at large (Scott, 1995). Over time, citizens will begin to take corrupt behavior for granted and view "unproductive" activities as viable business alternatives (Meyer & Rowan, 1977). This may lead to illegal activity within the private sector, such as violent crime, murder, and organized conflict, termed herein "safety risk". Safety risk is conceptualized as an informal institutional risk factor. It is present within a country when citizens in the private sector *adopt norms and behaviors that directly and negatively impact the safety of those engaging in business transactions within a given nation*. In other words, safety

risk is high when a country's internal environment is unsafe due to rampant illegal activity occurring throughout the society.

Further, how the government is organized, in terms of distribution of power (Henisz, 2000b), may impact the government's ability to control corruption from spilling over into other aspects of the private sector, or manage the rules of the game. When limited veto power exists and preferences are concentrated, government leaders potentially have more direct control over the economy-wide effects of government-based corruption. Democracy does not necessarily eliminate corruption, and especially in fragile developing markets, powerful autocratic leaders may have the ability to constrain corruption in a timely manner (Ehrlich & Lui, 1999; Tanzi, 1998). Finally, institutional distance between the home and host country will impact MNEs' perceptions of risk stemming from government policy. When cross-national distance between the MNE's home nation and host nation is substantial, executives making investment decisions will view the norms and behaviors in the host nation as illegitimate, increasing perceptions of risk (Collier, 2002; Stinchcombe, 1965; Xu & Shenkar, 2002).

In sum, institutional theory provides a useful lens to explore how various aspects of the institutional environment impact MNE location choices. Specifically, I work to answer the following research questions: "Is safety risk an important mediator of the relationship between government-based corruption and international investment decisions?" and "How do institutional variables interact to explain international investment decisions?" Institutional theory is appropriate because it emphasizes 1) how the rules of the game, set by the government, can have wider implications for the norms adopted, assumptions held, and behaviors taken within a society; 2) how perceived legitimacy differs depending upon one's home environment; 3) the importance of firms understanding and conforming to the institutional environment in which they are operating to gain legitimacy.

Contributions and Implications of this Research

This dissertation contributes to the literature in two fundamental ways. First, little is known about how various institution-based considerations impact one another. Studying institutional distance (e.g., Hofstede, 1980; Kogut & Singh, 1988; Kostova, 1997; Salomon & Wu, 2012), corruption (e.g., Habib & Zurawicki, 2002; Uhlenbruck, Rodriguez, Doh, & Eden, 2006; Wei, 2000b), or political constraints (e.g., Henisz, 2000a) in isolation, for example, may

limit our understanding of the complexity of the relationships present. Prior research has identified these as the main institutional drivers of foreign ownership strategies (Demirbag et al., 2007; Peng, 2006). Thus, this dissertation works to blend these similar, yet detached, streams of research to understand the interrelationships between institution-based considerations – corruption, political constraints, distance, and safety risk.

For instance, substantial FDI in China has been labeled an anomaly due to the rampant corruption within the nation (Wei, 2000a). Also, concentration of power within the government is often conceptualized as negatively contributing to a country's institutional environment, and in turn, driving host country risk and reducing investment (Delios & Henisz, 2003; Henisz, 2000b). However, when public sector corruption becomes pervasive, there may be benefits associated with governments that are relatively unconstrained. Evidence suggests that when power is concentrated, as it is in China, government leaders have more authority to control and regulate the effects of corruption, including the officials who are involved in corrupt practices (Roberts & Larson, 2013). Thus, this dissertation helps explain why increased foreign investment in countries such as China is perhaps not an anomaly when considering political constraints in parallel with corruption.

Also, despite substantial research on the relationships between cross-national institutional distance and international investment decisions (e.g., Ghemawat, 2001; Grosse & Trevino, 1996; Kogut & Singh, 1988), the results are inconclusive (Tihanyi et al., 2005). With globalization increasing and cultural barriers fading, perhaps psychic distance does not directly impact foreign investment today, as once predicted (Johanson & Vahlne, 1977). However, limited distance likely serves to reduce perceptions of risk associated with other institutional factors, such as safety risk. For example, the U.S. and Spain together accounted for more than 65% of FDI inflows to Mexico in the first quarter of 2012 (Caldwell, 2012). Minimized “distance” between the U.S./Spain and Mexico may at least partially drive these investment decisions, despite the rising safety concerns within the nation.

Second, the results surrounding the effects of public sector corruption on MNEs' investment strategies are inconclusive (Demirbag et al., 2007; Hines, 1995; Mauro, 1995; Wei, 2000b; Wheeler & Mody, 1992). By integrating government-based corruption with other institutional factors, this research explores the broader, country-wide effects of public sector corruption. As the government sets the rules of the game (Baumol, 1990; North, 1990; Scott &

Davis, 2007), actions taken within the public sector can drive informal norms and behaviors, that when legitimized, affect safety within a country. Specifically, government-based corruption may act as a catalyst for safety risk, or actions taken by groups of citizens that directly impact the safety of those engaging in business transactions within a nation. Thus, this dissertation works to introduce and test another important institutional variable, safety risk. In doing so, the indirect relationship between government-based corruption and international investment decisions is evaluated.

In sum, the purpose of this dissertation is to further understand how the various institutional factors are interrelated and consider the wider implications of government-based corruption, specifically safety risk. This is done by evaluating international investment decisions through an institutional theory lens. I test the proposed conceptual model, depicted in Figure 1, with four different samples at both the country- and firm-level. Although each sample ultimately assesses the umbrella of “International Investment,” the samples test slightly different dependent variables. Along with this, various samples, variables, and analyses are utilized. Considering that international investment can and has been conceptualized and measured in a variety of ways, at different levels, the purpose of this multiple study approach is to conduct a comprehensive assessment of the proposed conceptual model and offer robust empirical findings.

Sample 1 and Sample 2 evaluate how the previously mentioned institutional variables impact investment flows at an aggregate-, or country-, level. Many studies, especially those conducted during the early stages of corruption research, assessed the impact of corruption on net FDI inflows. This type of study is important because it paints a clear picture of how the institutional environment within a given nation impacts overall growth and investment. Thus, FDI inflows represent the attractiveness of the investment climate but do not take into account specific firm-level characteristics. The first sample assesses the impact of institutional variables on net FDI inflows reported by The World Bank, and the second sample evaluates aggregate investment by taking a count of sample firms making an equity investment within each host country in a given year.

With Samples 3 and 4, I evaluate how MNEs’ international investment strategies are impacted by host country institutional environments. Following the initial studies on the effects of corruption on country-level investment flows, researchers began to consider how corruption and other institutional risk factors relate to MNE strategies at the firm-level. First, studies on

firm-level investment decisions evaluate *where* firms invest, or host country location choices. This is important because it is the first, and arguably most important, decision that MNEs have to make when deciding to invest beyond domestic borders. Various aspects of the institutional environment are shown to impact this decision (Berry et al, 2010; Flores & Aguilera, 2007; Lu, Liu, Wright, & Filatotchev, 2014; Wheeler & Mody, 1992). Second, scholars study entry modes, or *how* firms invest. Although there is some disparity, the majority of studies make the argument that increased uncertainty stemming from the institutional environment results in lower equity investments to mitigate firms' susceptibility to unpredictable circumstances that reduce profit potential. The below table provides a summary of the four samples, variables, and objectives.

Table 1. *Summary of Samples*

Sample	Level	Predictor Variables	Dependent Variable	Objective
1	Country	Corruption, political constraints, safety risk	Net FDI inflows	Evaluate the impact of the institutional environment on overall host country attractiveness.
2	Country	Corruption, political constraints, safety risk	Count of sample MNEs making an equity (subsidiary) investment	Evaluate the impact of the institutional environment on overall host country attractiveness, specifically from the perspective of Fortune Global 500 firms.
3	Firm	Corruption, political constraints, safety risk, institutional distance	Host country location choice	Evaluate the impact of the institutional environment on MNEs' global strategies, specifically location choices.
4	Firm	Corruption, political constraints, safety risk, institutional distance	Entry mode	Evaluate the impact of the institutional environment on MNEs' global strategies, specifically the type of investment.

Dissertation Structure

This dissertation is organized as follows. In Chapter Two, the relevant literature is reviewed. Specifically, an overview of the pertinent institution-based variables is provided, including corruption, political constraints, and cross-national institutional distance. Using an institutional theory framework and building from the literature reviewed in Chapter Two, Chapter Three presents the dissertation model and hypotheses. Specifically, the model and hypotheses are developed in an effort to test empirically how the interplay between various institutional variables impact international investment decisions. Next, Chapter Four provides an overview of the research design, including the samples, measures, data collection methods, and

analysis techniques. In Chapter Five, the results from the empirical analyses are presented. Finally, Chapter 6 provides a discussion and conclusion of this study, including an overview of the findings, implications, contributions, limitations, and directions for future research.

CHAPTER TWO

LITERATURE REVIEW

When evaluating MNEs' international investment decisions and strategies there are three primary institutional variables studied that relate to perceived uncertainty or risk: corruption, political constraints, and institutional distance (Demirbag et al., 2007). This chapter reviews the existing literature and empirical results associated with these variables and identifies questions that are left unanswered. The previously mentioned institution-based considerations are typically studied individually, and the literature is arguably fragmented. However, each is examined from an institutional theory lens, relates to perceived uncertainty or risk, and impacts MNEs' strategies. If studied together, these variables can potentially complement our current understanding of various institutional environments and investment decisions.

In addition, government-based corruption is a main consideration within the international business and strategy literature. However, other scholars have commented on the lack of an overarching theoretical framework, equivocal results, inconsistent definitions, and the varying measures used (Demirbag et al., 2007; Judge et al., 2011; Rodriguez et al., 2006). Working to integrate corruption with other important institutional variables, as well as considering the wider by-products of corruption, may benefit this area of research.

This chapter first provides a review of policy risk, which includes corruption and political constraints. Second, cross-national institutional distance is discussed. By reviewing previous work and findings, this chapter sets the foundation for developing testable hypotheses in Chapter Three.

Policy Risk

Policy risk is an aspect of the host nation's institutional environment that arises from government policies and actions. When policy risk is pervasive within a given nation it may deter foreign investment due to 1) fear that the government will expropriate profits and 2) MNEs' inability to conform to institutional norms plagued by corrupt practices. Specifically, policy risk is defined as "the risk that a government will opportunistically alter policies to

directly or indirectly expropriate a firm's profits or assets" (Holburn & Zelner, 2010: 1290).

Policy risk includes both corruption and political constraints.

Corruption: History and Measurement

In corrupt environments, government officials are likely to demand bribes in exchange for access to resources and business opportunities. The World Bank conservatively estimates that more than \$1 trillion is paid out in the form of bribes each year (Kauffman, n.d.). Corruption differs by location. However, in general, the government levies an unofficial tax on MNEs and local organizations, and firms must pay these bribes in exchange for such things as government contracts, import/export rights, and licenses (Leff, 1964). With limited exception, academics, executives, and policy makers from developed nations view corruption in a negative light. Corruption is blamed for such things as income inequality, limited funding for health care and education, lack of economic growth, lower foreign investment, prominence of the informal economy, lack of productive entrepreneurial activity, lower innovation, reduction in tax rates, and loss of profits for multinationals (Collier, 2002; Kauffman & Wei, 1999; Leff, 1964; Mauro, 1995; Tanzi, 1998; Zhao et al., 2003). Corruption is typically associated with governments that lack transparency in policies and procedures (Tanzi, 1998). The ambiguity surrounding corrupt practices makes it increasingly difficult for MNEs to gain legitimacy, manage subsidiaries, and generate profit (Rodriguez et al., 2005). Thus, when corruption is present within the institutional environment it creates uncertainty for MNEs (Demirbag et al., 2007), especially when the MNE's home country has a low rate of corruption and institutions that deter corrupt practices (Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002).

Corruption is generally defined as the "misuse of public power for private benefit" (Judge et al., 2011: 93) and is often studied from an institutional theory lens (Collier, 2002; Demirbag et al., 2007; Rodriguez et al., 2006). Research evaluating the effects of corruption on international investment is still a relatively new area of research, and many questions are left unanswered (Rodriguez et al., 2006). Although corruption has been in existence for thousands of years, the increasing rate of globalization is largely responsible for the amount of recent attention paid to corruption by both the popular press and academic articles (Tanzi, 1998). Yet, the overall impact of corruption on international investment decisions is equivocal (Demirbag et al., 2007), indicating that there are likely factors that supersede government-based corruption when making

international investment decisions. Prior research has ranged from highlighting the benefits, emphasizing the costs, and finding no effect of corruption on investment behavior.

Initially, most of the research in this area focused on how government based corruption, namely bribes, impacts investment flows at a macro-level (Hines, 1995; Mauro, 1995; Robertson & Watson, 2004; Wei, 2000a; Wei, 2000b; Wheeler & Mody, 1992; Zhao et al., 2003). Researchers that advocated the benefits of corrupt institutional environments include Huntington (1968), Leff (1964), Beck and Maher (1986), Lien (1986), Tullock (1996), and Braguinsky (1996). Taking a controversial stance that corruption can be an attractive factor within the institutional environment of underdeveloped nations, Leff (1964) argued that not all corruption is evil and inefficient. At times it may actually help economic development by promoting innovation, competition, and efficiency. Further, Tullock (1996) explained that permitting tax collectors in China, for example, to collect bribes as well as allocating kickbacks to high level government officials reduces the salaries required for these government employees. Thus, bribery frees up public sector funds for other uses. Countries such as Indonesia, Thailand, and China were thought to be plagued by corruption at the same time that they experienced fast growth, signaling the potential benefits of corruption (Tanzi, 1998). This paradox led some scholars to theorize that corruption may be efficient when it “greases the wheel” (Méon, 2010), meaning it reduces the amount of red tape that firms must endure to conduct business within a given nation (Kauffman & Wei, 1999; Tanzi, 1998). However, Kauffman and Wei (1999) tested this hypothesis and did not find support.

Indeed, the majority of scholars focus on the negative implications of corruption. Mauro (1995) is often cited as the seminal article within this literature because he provided the first (or one of the first) cross-country empirical study to test the effect that corruption has on economic growth and investment. Using *Business International's* corruption index, Mauro found that corruption does indeed reduce both private investment and growth. Despite these findings, he noted that some countries with pervasive corruption, such as Thailand and Korea, still experienced strong economic growth during the period. Following Mauro's study, other scholars found similar results (e.g., Voyer & Beamish, 2004; Zhao et al., 2003). For example, Wei (2000b) found that corruption reduces the amount of FDI entering a country even when factors such as incentives for foreign firms and restrictions on investment are controlled. In another study of 12 home countries and 45 host countries, Wei (1997) concluded that like corporate

taxation, corruption has a negative effect on FDI. Indeed, based on his findings, Wei argued that a three percent increase in the marginal tax rate and a one point increase on the corruption scale (*Business International*) have an approximately equivalent negative effect on foreign investment, both reducing FDI by about 16 percent. Habib and Zurawicki (2002) took both host country corruption and the distance between the home and host country corruption into account in their study. In line with prior findings, these scholars found that corruption has a negative impact on FDI, and even minimal increases in corruption have important implications for location choice and investment. Further, they found support for their hypothesis that greater distance in corruption reduces MNEs willingness to invest. Subsequent research found similar results, indicating that MNEs from corrupt environments are more likely to invest in other corrupt nations (Cuervo-Cazurro, 2006). This research suggests that countries are increasingly deterred when anti-bribery laws are in place, and it is not the norm to bribe government officials within the home nation. These findings support the increased difficulty in managing an institutional environment that is diverse from executives' home environments.

Yet, other scholars have found that corruption has no effect on international investment strategies. Wheeler and Mody (1992) considered a myriad of factors that may impact foreign investment, including market size, geopolitical considerations, classical variables (i.e., labor costs, taxation), country risk, and openness of the market. They found that country risk, which included corruption, had an inconsequential impact on investment when compared with other factors, such as agglomeration and labor costs. Further, the United States passed an anti-bribery legislation, the Foreign Corrupt Practices Act (FCPA), in 1977. As expected, this law deterred U.S.-based multinationals from investing in corrupt nations. However, Hines (1995) found that although U.S. MNEs invested less in corrupt nations after 1977, investment by foreign firms from other nations showed the opposite effect. Thus, these results indicate that during the study period, overall, investment in corrupt nations was actually rising. The U.S. was merely an exception due to the institutional environment within this nation. However, contrary to these findings, Wei (2000a) found that the FCPA did not have a differential impact on U.S. firms; all MNEs are averse to corruption.

More recently, scholars have begun to consider the effects of corruption on strategy at the firm-level (e.g., Demirbag et al., 2007; Karhunen & Ledyeva, 2012; Luo, 2008; Rodriguez et al., 2005; Smarzynska & Wei, 2000; Spencer & Gomez, 2011; Uhlenbruck et al., 2006; Weitzel

& Berns, 2006). Several of these firm-level studies considered the effects of corruption on entry mode strategies. Smarzynska and Wei (2000) tested the relationship between corruption and entry mode (joint venture vs. wholly-owned subsidiary). They found that corruption motivates MNE executives to use joint venture (JV) entry modes over wholly-owned subsidiaries (WOS). This is because corrupt environments are ambiguous and lack transparency. Thus, by partnering with a local firm, multinationals are able to reduce some of the uncertainty faced. The logic used to investigate the relationship between corruption and entry mode is the same as that used in studies on cultural distance and entry mode. Both create uncertainty, and local firms can help foreign MNEs better understand the rules of the game. Alternatively, Spencer and Gomez's (2011) findings indicated that MNEs from less corrupt environments with anti-bribery regulations may be better off avoiding local partners because they will face less pressure to engage in bribery. In a subsequent study that took several institutional variables into account, corruption was found to be less important than political risk and cultural distance when choosing an entry mode (Demirbag et al., 2007). Other studies have considered corruption and target premiums in the acquisition context (Weitzel & Berns, 2006) and evaluated how corruption interacts with corporate social responsibility and political behavior (Luo, 2008).

Considering the mixed results on the implications of corruption, researchers have begun to evaluate different aspects of corruption. Several scholars have introduced and evaluated the dimensions of arbitrariness and pervasiveness (Doh et al., 2003; Rodriguez et al., 2005; Uhlenbruck et al., 2006). Pervasiveness is the frequency of corruption encounters, whereas arbitrariness is the "degree of ambiguity associated with corrupt transactions" (Rodriguez et al., 2005: 385). According to Doh et al. (2003), pervasive corruption creates added costs for MNEs because the host government is levying additional taxes in the form of bribes and red tape. However, this dimension of corruption generates less uncertainty than arbitrariness. Although there are additional costs, MNEs can budget for them because, for the most part, pervasive corruption is predictable. Arbitrariness, however, magnifies the negative effects on corruption by increasing uncertainty. In an institutional environment where arbitrariness is high, MNEs have difficulty budgeting for and managing corruption because they "are uncertain of whom to pay, what to pay, and whether the payments will result in the delivery of the promised goods or services" (Doh et al., 2003: 118). Other scholars have since expanded on the

arbitrariness/pervasiveness concept. Specifically, the impact on entry modes has been explored (Rodriguez et al., 2005; Uhlenbruck et al., 2006).

Corruption is very difficult to measure (Tanzi, 1998), and various measures have been utilized to operationalize the construct (Judge et al., 2011). The major indices used in recent research include Transparency International's Corruption Perceptions Index (CPI), The World Bank's Control of Corruption Index (CCI), and The PRS Group's corruption index (CI) (Judge et al., 2011). The most commonly used corruption index is CPI, followed by CCI, with approximately 75% of studies utilizing one of these two measures (Judge et al., 2011).

Corruption is generally not reported or openly discussed (Leff, 1964). Oftentimes, perceptions which may be biased dictate assessments, and what is included within the concept of corruption is vague. Further, indices range in how they obtain their corruption score. Expert opinions, surveys of firms, and aggregating multiple corruption indices are all approaches used to derive corruption scores for nations. While some indices focus solely on bribery, others group corruption with additional aspects of political or country risk. In their meta-analysis, Judge et al. (2011) recommended that CCI and CPI be used going forward due to their consistency in results, reliability, and validity. When other measures were used results tended to deviate from those found when using CCI and CPI.

In sum, we know that corruption is an important institutional variable that is likely taken into consideration when MNEs make international investment decisions. However, to this point, the work in this area remains relatively fragmented. In their recent meta-analysis, Judge and colleagues (2011) concluded that the majority of studies on corruption do not adequately build on prior work, a solid theoretical framework is lacking, and the measures of corruption vary widely. Further, scholars have argued for both the benefits and costs of corruption, and there is evidence that it does not hurt all nations universally. Nations such as China, Nigeria, and Thailand are often cited as anomalies because they have experienced growing rates of foreign investment despite high corruption levels (Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002). Thus, it seems that although corruption has some detrimental effects, the relationships are more complex than initially perceived.

Political Constraints: History and Measurement

Whereas corruption deals with officials' misuse of power for private benefit, political constraints relate to how the government is organized and power is distributed. Both

“independent veto points in the political system and the distribution of political preferences” (Henisz, 2000b: 4) are taken into account. Henisz’s (2000b) work in this area has been very influential, utilized by scholars in more than 100 empirical articles (Holburn & Zelner, 2010). Prior to this work, several other measures of political institutions existed. Although not tapping into an identical concept, indices such as ICRG provide a broad measure of “political risk,” including factors such as corruption, government stability, religious tensions, law and order, internal conflict, socioeconomic conditions, etc. Alternatively, other scholars have taken a relatively narrow approach, using a binary variable to indicate whether the government is a democracy or not (e.g., Flores & Aguilera, 2007).

Henisz and other scholars have identified the effect of constraints, or checks and balances within the government, separate from other facets of the institutional environment. By teasing out various aspects of policy risk, we can better understand the isolated impact on investment decisions. When developing his measure, Henisz (2000b) pointed out four important limitations of prior measures: 1) not tightly linked to property rights protection, 2) not objective in nature, 3) not available across time or for comprehensive samples, and 4) atheoretical in nature. The Political Constraint’s Index (POLCON), Henisz’s measure, “reflects the extent to which the formal relationships among a country’s branches of government (i.e., executive, legislative, and judicial) and the partisan composition of the individual actors inhabiting these branches constrain any one institutional actor from unilaterally effecting a change in policy,” is available across multiple countries and years, and is objective in nature (Holburn & Zelner, 2010: 1296).

When developing the measure, Henisz (2000b) showed that political constraints are related to economic growth. From a neoinstitutional theory lens, Henisz and Delios (2001) assessed the relationship between uncertainty and imitation in an international context. When faced with uncertainty, they explored if firms looking to expand globally imitate other firms’ location decisions (in general), firms within the same industry, and/or firms within the same business group. Henisz and Delios identified two different types of uncertainty: firm-specific uncertainty related to experience within a given market, and political uncertainty related to political instability (measured with POLCON). They found that policy uncertainty decreased the likelihood of a firm investing within a nation. However, it did not significantly relate to imitation. In other early work, Delios and Henisz (2003) extended the stages model (Johanson & Vahlne, 1977) by incorporating the political environment. There are factors beyond cultural

differences that may affect uncertainty perceived in a given nation. Further, they examined several moderators of the political hazards- (operationalized with POLCON) FDI relationship.

Due to the uncertainties created by institutional environments where power is extremely concentrated, political constraints are also related to entry mode decisions. Demirbag et al. (2007) found evidence that political risk (measured with POLCON) relates to lower equity entry mode choices. Further, Garcia-Canal and Guillen (2008) predicted that political constraints do not impact all firms and industries in the same way. Specifically, firms in regulated industries and state-owned (or partially state-owned) firms are less averse to entering markets that are politically unstable (measured with POLCON). Holburn and Zelner (2010) also took a contingency perspective. They considered how home country institutional conditions impact international investment decisions. Specifically, MNEs from home countries characterized by weak institutional constraints are less likely to avoid host countries with high policy risk (measured with POLCON).

In sum, although carving out political constraints from other aspects of political risk is a newer concept, multiple scholars have utilized the POLCON variable in their work. Indeed, many empirical articles, including several articles in the *Strategic Management Journal* use Henisz's (2000b) approach. By separating out various aspects of political institutions we can better determine their differential effects on firm-level investment decisions and macro-economic conditions. Since this measure was developed, scholars have explored how political constraints impact such things as economic growth, FDI, MNEs' entry mode decisions, and MNEs' location choices. However, although the political constraints measurement is uniform (POLCON), the terminology used to describe this variable remains diverse, perhaps continuing to create confusion on the differences between political constraints, corruption, and other measures of political risk.

Cross-National Institutional Distance: History and Measurement

The distance construct has a long history within the international business literature, with its impact on FDI being the most widely studied (Shenkar, 2001). The importance of distance, specifically psychic distance, when making international location choices was recognized by Johanson and Vahlne (1977) in their stages approach to internationalization. Psychic distance is present when there are differences in "language, education, businesses practices, culture, and

industrial development” that hinder the flow of information (Johanson and Vahlne, 1977: 24). Due to the psychic distance between nations, the Uppsala model proposes that firms first make low risk investments in culturally similar nations, only gradually building up to larger investments in more psychically distant nations.

Since the Uppsala model was introduced, distance between the home and host nation has remained a staple in studies on international investment decisions. And although the multidimensionality of distance has been conceptualized throughout the literature, culture is primarily the variable measured and included within research studies (Berry et al., 2010). Considering the informal, taken for granted nature of culture, it is a very complex phenomenon that is difficult to operationalize (Shenkar, 2001). It is defined as “collective mental programming of the people in an environment. Culture is not a characteristic of individuals; it encompasses a number of people who were conditioned by the same education and life experience” (Hofstede, 1980: 43). Thus, culture is important to understand because it is embedded within institutions, difficult to change, and ultimately defines the way people view the world, process information, and make decisions (Berger & Luckmann, 1967; Hofstede, 1983).

Although several different measures of culture exist, Hofstede’s (1980) cultural dimensions are the most frequently adopted operationalization of distance. Hofstede’s dimensions are based on survey data that was collected from IBM employees in the late ‘60s and early ‘70s. Hofstede’s dimensions are intended to be used on a national-level and include five dimensions: masculinity-femininity, power distance, individualism-collectivism, uncertainty avoidance, and long-term orientation (Hofstede, 1980; Hofstede, 1983; Hofstede, 1991). Using these cultural dimensions (with the exception of long-term orientation), Kogut and Singh (1988) developed a cultural distance measure that is widely used by scholars integrating cultural distance into their research (e.g., Agarwal, 1994; Barkema, Bell, & Pennings, 1996; Hennart & Larimo, 1998; Morosini, Shane, & Singh, 1998; Tihanyi et al., 2005).

Despite its widespread use, Hofstede’s approach to measuring culture, and in turn, Kogut and Singh’s approach to measuring cultural distance, do not come without their criticisms (e.g., Fang, 2003; Kostova, 1997; McSweeney, 2002; Shenkar, 2001). These criticisms include but are not limited to, reducing the multidimensional concept of distance to culture, failing to account for changes in culture that occur across time, focusing on a single corporation (i.e., IBM) to collect data, assuming distance is symmetric between two nations, assuming distance has a linear

effect on investment decisions and performance, and failing to recognize individual and organizational differences by aggregating at the national-level (Berry et al., 2010; Shenkar, 2001). Further, there are issues with the implementation and use of Hofstede's cultural dimensions. Hofstede (1980) recognized that his cultural dimensions are not intended to be used at the individual- or organizational-level. However, scholars frequently use them as proxies for culture at the individual- and organizational levels of analysis (Kirkman et al., 2006). In addition, scholars oftentimes utilize one cultural dimension in their research, primarily individualism-collectivism, while excluding the others (Kirkman et al., 2006).

It is important to note that the effects of distance, primarily cultural distance, are mixed (Brouthers & Brouthers, 2001). In regards to performance outcomes, some studies suggest that cultural distance positively impacts performance (Morosini, Shane, & Singh, 1998), and other studies suggest the opposite effect (Luo & Peng, 1999). Further, the effect of national cultural distance on entry mode decisions, international diversification, acquisition integration, and location choices is equivocal, overall (Brouthers & Brouthers, 2001; Shenkar, 2001; Stahl & Voigt, 2005; Tihanyi, 2005). From an institutional theory perspective, the general assumption is that cultural distance increases costs for MNEs and deters investment (e.g., Kostova, 1999). However, viewpoints differ depending on the theoretical perspective. For example, while Johanson and Vahlne (1977) argued psychic distance keeps MNEs from investing, Dunning (1988) advocated the opposite strategy is effective to overcome market failures (Shenkar, 2001). In addition, whereas some scholars suggest that cultural distance relates to lower equity entry modes, such as JVs (e.g., Gatignon & Anderson, 1988; Kogut & Singh, 1988), others suggest that cultural distance results in entry through higher equity modes (e.g., Hennart, 1989; Madhok, 1998). Finally, some studies found that distance hurts acquisition integration (Datta & Puia, 1995), others found that the benefits outweigh the costs (Morosini, et al., 1998), and still others suggest there are both positive and negative implications (Reus & Lamont, 2009).

Recognizing the limitations in measures of cultural distance as well as the mixed results, several alternative measures of culture have been developed (Hofstede, 2006). These measures include the GLOBE study (House, Hanges, Javidan, Dorfman, & Gupta, 2004), the World Values Survey (Inglehart, Basanez, Diez-Medrano, Halman, & Luijkx, 2004), the Survey of Values (Schwartz & Bardi, 2001), and a cross-country study of managers by Smith, Peterson, and Schwartz (2002). The GLOBE study surveyed managers from multiple organizations in 61

nations and expanded the number of cultural dimensions to nine, covering both practices and values (Hofstede, 2006; House, Javidan, Hanges, & Dorfman, 2002). The GLOBE cultural dimensions have gained popularity (e.g., Estrin, Baghdasaryan, & Meyer, 2009; Schwens, Eiche, & Kabst, 2011), and the World Values Survey is also used to measure distance (Berry et al., 2010).

Although culture, an informal institution, is an important aspect of institutional distance, there are other critical dimensions that are ignored when scholars only use culture in their distance measures. Building off the work of Scott's (1995) institutional pillars – including regulatory, normative, and cognitive, Kostova (1996, 1997) introduced the concept of institutional distance and developed country institutional profiles. Institutional distance is the “difference/similarity between the regulatory, cognitive, and normative institutions of the two countries” (Kostova & Zaheer, 1999: 71). Conceptually, it takes into account national differences in laws, rules, and regulations (regulatory), values, norms, and beliefs (normative), and cognition and social knowledge (cognitive) (Kostova, 1997; Scott, 1995). Other scholars, such as Ghemawat (2001), have also recognized that distance between nations should include more than just culture. Ghemawat introduced the CAGE framework for location choices and included cultural, administrative, geographic, and economic dimensions of distance.

Building on the work of these scholars, researchers have taken steps to move from a single focus on cultural distance to the more encompassing institutional distance measure (e.g., Gaur & Lu, 2007; Estrin et al., 2009; Schwens et al., 2011; Salomon & Wu, 2012; Xu & Shenkar, 2002). Although a multidimensional institutional distance measure is arguably a more valid measure of “distance” between two nations, the institutional distance measures used vary widely, and many researchers include a limited number of dimensions (Bae & Salomon, 2010). For example, Salomon and Wu (2012) included cultural distance (using Hofstede's dimensions), economic distance (“market capitalization/GDP divided by bank credits to private sector/GDP,” p. 351), regulatory distance (using the Banking Regulation Database), and political distance (using the CHECKs index). Gaur and Lu (2007) conducted a factor analysis and used variables from the *World Competitiveness Yearbook* and *Euromoney Country Risk Rating* to measure normative and regulatory dimensions. And Schwens, Eiche, and Kabst (2011) used the GLOBE study to measure informal institutional distance and the Hermes Country Risk Rating to measure formal institutional distance. These examples illustrate that although conceptually a

multidimensional distance measure is important to consider, measurement of this construct varies widely. Using an institutional theory framework, Berry and colleagues (2010) developed a promising measure of institutional distance that includes economic, political, financial, administrative, cultural, demographic, knowledge, global connectedness, and geographic distance. They used the Mahalanobis method to calculate distance and take into account multiple years (1960-2008) and countries. However, the years and countries available vary depending upon the distance dimension.

In sum, from an institutional theory perspective, scholars have recognized that institutional distance matters to executives making international investment decisions (Xu & Shenkar, 2002). Uncertainty created by formal and informal institutions can impact location decisions and investment patterns (Johanson & Vahlne, 1977; Berry et al., 2010). In addition, although institutional theory scholars appear to be in agreement on the importance of distance conceptually (Berry et al., 2010; Gaur & Lu, 2007; Ghemawat, 2001; Kostova & Zaheer, 1999; Salomon & Wu, 2012; Xu & Shenkar, 2002), the best way to operationalize this construct remains inconclusive.

Summary

This dissertation focuses on institution-based considerations that impact MNE executives' international investment decisions. The preceding review suggests that the literature and findings in this area of research are fragmented. Scholars have long suggested that perceived uncertainty within the institutional environment affects macro-level investment and growth, as well as firm-level strategies and investment. Uncertainty can arise from two sources. First, conditions within the host country institutional environment (e.g., rampant corruption) may deter or attract investment. For instance, MNEs are typically cautious about investing in weak institutional environments due to the increased uncertainty that must be managed and institutional voids present. Second, the distance between the home and host nations' institutional environments impacts perceptions of the amount of uncertainty faced. Distance increases liabilities of foreignness because it is difficult for MNEs to gain legitimacy and understand the rules of the game.

Primarily, the institutional variables studied include corruption, political constraints, and institutional distance (Demirbag et al., 2007). However, these variables are typically studied in

isolation. Also, the mixed results indicate that researchers have not fully captured the complexity of the relationships. Thus, this dissertation tests a comprehensive model including several important institution-based variables that may substantially impact host country uncertainty, and in turn, investment decisions. Further, by introducing the concept of safety risk discussed in Chapter Three, I hope to more accurately depict the institution-based criteria considered by executives.

CHAPTER THREE

DEVELOPMENT OF MODEL AND HYPOTHESES

In this chapter, an institutional theory framework is used to integrate institution-based considerations, introduce the institutional variable safety risk, and describe how government-based corruption indirectly impacts MNEs' international investment decisions through safety risk. Figure 2 presents a model that clarifies how the institutional variables are related and ultimately impact international investment decisions. By introducing this model and the subsequent hypotheses, this study works to make several contributions. Researchers generally study one institutional risk factor at a time, and the findings in this area of research are arguably equivocal. Thus, this study evaluates how various dimensions of policy risk (corruption and political constraints) and institutional distance impact investment when examined together. When the interactive effects are considered, we may gain insight into 1) how MNE executives should more holistically view and evaluate host country risk, and 2) the relative importance of various institutional variables.

Also, I introduce an additional institution-based variable, safety risk, which may be an important by-product of corruption and directly impact MNE strategies and investment decisions. Considering the mixed findings surrounding the effects of corruption on investment flows, this study evaluates corruption's indirect effect on investment through safety risk. These relationships are explored from the country- and firm-levels.

This chapter unfolds as follows. First, I demonstrate how government-based corruption can spill over into other aspects of the institutional environment, creating safety-related risk. Next, I explain how safety-related risk is important to MNE executives responsible for making international investment decisions, and in turn, I propose that safety risk has a direct impact on international investment. Finally, I evaluate the moderating effects of political constraints and institutional distance. All of these variables, when present within the host nation's institutional environment, can impact perceived uncertainty and alter investment.

Figure 2. General Research Model

The broad dependent variable depicted in the figure, “International Investment Decisions,” has been conceptualized and operationalized in several ways in prior research. In macro-level studies, FDI net inflows at the country-level is generally the dependent variable. This dependent variable represents the total amount of foreign investment flowing into a given country from all other nations. For firm-level studies, both entry mode and foreign location choice are evaluated. In order to conduct a more robust test of the proposed model, and to appropriately build off a wider range of prior research, I test these relationships in four ways. Two samples are used to evaluate country-level investment flows, and two studies are used to assess firm-level strategies.

Corruption

Corruption is present within an institutional environment when government officials use their power for personal benefit, generally by demanding bribes in exchange for access to various aspects of the business environment (Judge et al., 2011; Uhlenbruck et al., 2006). Primarily, scholars define corruption in terms of public sector corruption and evaluate the direct impact that corruption has on investment flows and MNEs’ strategies. Although government-based corruption is taken into consideration when making international investment decisions, my discussions with executives, the popular press, and empirical results indicate that it is not the most pressing factor.

MNEs, especially from home nations that have stringent anti-corruption laws, must refrain from engaging in bribery with government officials, even in host nations where the practice is acceptable. Thus, government-based corruption is one of many considerations, but it does not fall at the top of the list when choosing an investment location. In support of this, past studies yield mixed results on the overall implications of corruption (Demirbag et al., 2007). From an MNE executive's perspective, issues such as safety and security may supersede institutional variables that are historically taken into consideration within our research. In a recent survey conducted by The World Bank, less than 1% of firms cited corruption as their most pressing issue (Kenny, 2014). Considering the mixed results surrounding the effects of corruption as well as executive comments, it is important to consider the wider by-products of government-based corruption. Perhaps corruption has important spillover effects, and more accurately indirectly affects MNEs' investment decisions through other institutional factors.

The government is an important institutional agent that largely impacts the attractiveness of the business environment and overall advancement (Leff, 1964). The government defines the rules of the game which place constraints on business interactions and human behavior, and in turn, shape the way nations evolve over time (North, 1990). Indeed, government policies, practices, and payoffs have major implications on 1) the allocation of business activity toward productive or unproductive behavior, and 2) the amount and type of investments made by foreign and local firms (Baumol, 1990; North, 1990). And although the government is arguably a critical actor in all nations, it plays a larger role in the administration and authorization of activities within developing economies (e.g., property rights, business licenses and permits, obtaining loans, foreign trade, traveling abroad, taxation, use of land, selling assets, privatization, etc.) (Tanzi, 1998). Due to the importance of government, especially in nations where policy risk is likely to be a concern (e.g., developing economies), corrupt behavior within the public sector may spill over into other aspects of these already fragile economies.

If the government is behaving corruptly, and in turn, advocates and legitimizes this type of behavior, individuals outside of the government may also adopt norms and practices that are unproductive (Leff, 1964; Scott, 1995). For example, citizens may engage in activities such as kidnapping, murder, assault, violent demonstrations, and terrorist activity, termed herein "safety risk." Within this research, safety risk is conceptualized as an informal institutional risk factor

that arises when citizens in the private sector *adopt norms and behaviors that directly and negatively impact the safety of those engaging in business transactions within a given nation.*

Collier (2002) noted that “corruption is an extremely complex social behavior” (p. 2) related to both formal and informal institutions. First, due to the rules set by the government, engaging in unproductive behavior may be the only way to actively participate within the economy (Leff, 1964). As citizens lose confidence in the rule of law, they may turn to organized crime and violence as means of conducting business. Second, increased illegal activity may occur within the private sector and informal economy if corrupt behavior and unproductive activities are perceived to be morally sound, viable business practices. Mexico is a primary example of the link between corruption and safety risk. Mexico’s public sector is corrupt, including the police and justice systems, the majority of citizens earn their living from the informal economy, and crime rarely results in conviction (*Bloomberg Businessweek*, 2014). Although he has taken efforts to fight crime, President Peña Nieto has done little to reduce political corruption (Serrano, 2012). Because corruption, the root of safety risk, is not being directly combated, drug trafficking remains rampant and kidnapping rates are the highest in the world (Serrano, 2012).

Similar to the situation in Mexico, it has been noted that “the fight against corruption and reform of the state are two sides of the same coin” (Tanzi, 1998: 589), and corruption may fuel the prevalence of organized crime, national security issues, and destructive business practices (Collier, 2002). Formal laws and regulations reinforce the legitimacy of unproductive activity because they define the incentives and payoffs for engaging (or not engaging) in certain business practices. However, it is just as important to recognize that the government’s behavior also impacts informal aspects, or socio-cultural norms and values (Collier, 2002; Judge et al., 2011). Public sector corruption both reinforces what individuals should do (informal) and what they must do (formal) (Collier, 2002; Scott, 1995). By demanding bribes of both domestic and foreign firms and engaging in corrupt behavior, the government is molding the moral standards set within the society at large, and in turn, driving safety risk.

In sum, government agents develop the rules, norms, and incentives that delineate the boundaries in which individuals within a society must make decisions (Collier, 2002). And when the government is corrupt it has direct and indirect effects on the institutional environment (Judge et al., 2011). For these reasons, I propose that actions taken by the government, or

government-based corruption, spill over into other aspects of the institutional environment generating safety risk. Formally stated:

H1: Government-based corruption is positively related to safety risk.

Safety Risk

As previously stated, safety risk is the *adoption of norms and behaviors that directly and negatively impact the safety of those engaging in business transactions within a given nation* (e.g., violence, crime, kidnapping, murder, theft, assault, organized conflict, terrorist activity, drug trafficking). Specifically, safety risk occurs in the private sector of the economy. In certain nations, safety risk is a real concern, and in turn, can impact investment decisions. For instance, recent surveys conducted by The World Bank indicate that crime and security measures put in place to deter crime have the potential to add substantial costs for firms conducting business in some parts of the world. In the Eastern Europe and Central Asia region, for example, crime and security measures account for approximately 1.9% of annual sales (Amim, 2010). Surveyed firms reported that this is almost double what was paid out in the form of bribes due to government-based corruption, and approximately eight times more than R&D budgets (Amim, 2010). Further, according to The World Bank surveys, crime, theft, and disorder are cited as major constraints to firms in certain institutional environments (e.g., Brazil, El Salvador, Kosovo, Venezuela, Ukraine), while these factors do not seem to significantly hinder business in others (e.g., China, Germany, Vietnam, Ethiopia, Montenegro).

The institutional environments in Central and South America provide prime examples of the implications of safety-related risk. Conditions improved in Colombia in recent years. Specifically, during the time that Alvaro Uribe was President, murder rates (down 70%) and kidnappings (down 84%) fell substantially, while GDP increased (grew from 1.8 – 4.4%) (Farzad, 2007; *Knowledge@Wharton*, 2011). However, in Mexico, despite some reports of recent improvements, firms have shifted investment to safer cities, removed key employees, or avoided the nation altogether due to mounting safety concerns (Beittel, 2011; Samuelson, 2011). Violence related to the organized drug trade has spread to new regions throughout the country, with 12,903 drug-related homicides reported in the first three quarters of 2011 (Beittel, 2013). Further, there is evidence that the center of violence surrounding drug-trafficking is shifting more towards Central America (Beittel, 2013). Safety risk accounts for approximately 7.5% of

GDP in this region, with Honduras, Guatemala, and El Salvador having some of the highest homicide rates in the world (Meyer & Seelke, 2013).

Because the institutional framework within a host nation shapes the business environment, it also helps to exacerbate executives' feelings of uncertainty (North, 1990). By definition, uncertainty is present when executives neither know the potential outcomes nor the probabilities of the outcomes (Knight, 1921). When uncertainty is high, executives are unable to accurately assess potential profits. When safety risk is present, they are not only unsure about their profit potential, they are also unable to assess whether or not their employees and assets will remain protected. Oftentimes, firms cite human capital as their most valuable asset. Thus, putting local employees, expats, and home country executives traveling to the host nation at risk is not an option (M. DeGhetto, personal communication, November 16, 2013).

In sum, past research indicates that MNE executives choose strategies to minimize the uncertainty they will face in a given host nation (e.g., Henisz & Delios, 2001; Rodriguez et al., 2005; Slangen & van Tulder, 2009). Due to the significant impact on the business environment and uncertainty created, safety risk should also be considered when assessing host country institutional environments and MNE international investment decisions. If citizens are incentivized by engaging in criminal and violent actions, the business environment will become unfavorable. Further, to gain legitimacy and prosper within the host nation, MNEs need to conform to institutional norms and possibly engage in the behavior that is driving safety-related risk (Meyer & Rowan, 1977; Zucker, 1987). For many MNEs, although this behavior may legitimize them in the host nation, it would hurt their legitimacy in other parts of the world. Thus, when safety risk is a real concern, MNE executives are less likely to choose the location for investment, despite other location benefits that may be present (i.e., raw materials, government incentives, low wage rates). Formally stated:

H2: Safety risk is negatively related to international investment.

H2.1: Safety risk is negatively related to net FDI inflows.

H2.2: Safety risk is negatively related to the number of MNEs making an equity investment in a country.

H2.3: Safety risk is negatively related to MNEs' decisions to locate operations within a host country.

H2.4: Safety risk is negatively related to MNEs' use of subsidiaries over partnership entry modes.

Indirect Effect: Partial Mediation

Scholars have hypothesized and tested the direct effect of government-based corruption on international investment choices. For example, researchers found that foreign investment is lower in corrupt nations (Wei, 2000a; Zhao et al., 2003), corruption substantially limits growth (Mauro, 1995), and MNEs use lower risk entry modes when entering corrupt nations (Smarzynska & Wei, 2000). Although several scholars have taken the controversial standpoint that corruption is beneficial, generally the negative effects of corruption on FDI and growth are emphasized. However, taking into account the equivocal empirical findings (Demirbag et al., 2007) previously discussed and executive opinions (Kenny, 2014) the negative effect of corruption on investment is likely only part of the story. When considering the wider implications of government-based corruption on safety risk, this informal institutional variable may partially account for the relationship between corruption and investment decisions. Formally stated:

H3: Safety risk partially mediates the relationship between government-based corruption and international investment.

H3.1: Safety risk partially mediates the relationship between government-based corruption and net FDI inflows.

H3.2: Safety risk partially mediates the relationship between government-based corruption and the number of MNEs making an equity investment in a country.

H3.3: Safety risk partially mediates the relationship between government-based corruption and MNEs' decisions to locate operations within a host country.

H3.4: Safety risk partially mediates the relationship between government-based corruption and MNEs' use of subsidiaries over partnership entry modes.

Political Constraints

Starting with the work of Henisz (2000b), scholars have taken the standpoint that political constraints are an important part of the institutional environment and relate to overall stability, the coercive power of the government, and the government's ability to expropriate profits (Demirbag et al., 2007). When power is concentrated in the hands of a few powerful officials, preferences are similar or unanimous, and veto power is limited, the government is able to interfere with the private sector at its discretion (Henisz, 2000b). When minimal constraints are present, one powerful actor can significantly alter the status-quo because there is no opposing party or authoritative body to object to his/her actions (Henisz & Delios, 2001). It follows, then,

that when there are limited constraints on powerful actors within the government, political institutions drive uncertainty, and it becomes more difficult for executives to assess future profits (Delios & Henisz, 2003).

Alternatively, the more checks and balances in the public sector, the less risk for MNEs. When there are multiple parties housed within the government and these parties have diverse preferences, shared authority is reduced, and it is less likely that policies will unexpectedly change and expropriate from businesses (Holburn & Zelner, 2010). For these reasons, political constraints are believed to minimize feelings of uncertainty and generate additional investment from MNE executives.

H4: Political constraints are positively related to international investment.

H4.1: Political constraints are positively related to net FDI inflows.

H4.2: Political constraints are positively related to the number of MNEs making an equity investment in a country.

H4.3: Political constraints are positively related to MNEs' decisions to locate operations within a host country.

H4.4: Political constraints are positively related to MNEs' use of subsidiaries over partnership entry modes.

However, there may be instances, especially in developing economies, when political constraints are not unanimously productive. And there may be certain benefits to having a government with concentrated authority and limited veto power. Specifically, when government-based corruption is present, institutional environments may benefit from powerful government actors with the ability to singlehandedly control and regulate the effects of corruption. Considering the institutional variables of corruption and political constraints collectively may help explain why certain corrupt nations continue to grow and receive ample foreign investment (e.g., China).

Indeed, despite Western models and ideals, democracy does not necessarily eliminate corruption (Tanzi, 1998), and findings surrounding the overall effects of corruption on international investment are mixed. A recent article in *Bloomberg Businessweek* (Roberts & Larson, 2013) provides a prime example of the potential benefits of concentrated power. The article describes how Chinese President Xi Jinping's crackdown on public sector corruption has yielded tangible outcomes in a relatively short time period, including the government official involved in corruption. Due to Xi's new policies on bribery, industries that supported these

practices were immediately affected. This example illustrates how powerful leaders can effectively control who is involved in illegal behavior as well as the spillovers into the private sector.

Considering the negative implications of corruption, and the resultant impact on safety risk, a nation can benefit from a government with the power to regulate public sector corruption and its effects in a timely manner. Indeed, Ehrlich and Lui (1999) found that autocratic regimes can, at times, achieve higher growth rates than decentralized democracies. They suggested that this may occur because powerful autocratic leaders can limit the impacts of corruption. Alternatively, when political constraints are present, it may become more difficult to get the by-products of public sector corruption under control. This is because there are more actors involved, and authoritative power is dispersed. It becomes difficult to know specifically which government agents are driving corruption and even more difficult to alter these practices in a short timeframe. For these reasons, I propose that when government-based corruption is pervasive within an institutional environment, a lack of political constraints minimizes safety-related risk. Formally stated:

H5: Political constraints moderate the relationship between government-based corruption and safety risk such that when policy-making authority is concentrated among actors with similar preferences the positive relationship between government-based corruption and safety risk becomes weaker.

Cross-National Institutional Distance

Building on Scott's (1995) work on institutional pillars, Kostova (1997) introduced the concept of institutional distance and described how this distance may impact investment decisions. Institutional distance relates to how similar or different home and host nation institutional environments are and encompasses formal and informal dimensions (Kostova & Zaheer, 1999; Salomon & Wu, 2012). As described by Kostova (1997: 180) "institutional characteristics of a country reflect that country's environment in a relatively encompassing way, as they capture various aspects of the national environment including cultural norms, social knowledge, rules and regulations, and others."

Due to liabilities of foreignness (Zaheer, 1995), both formal and informal institutional distance can generate risk and create costs for MNEs. And as distance increases, so do liabilities of foreignness (Salomon & Wu, 2012). Organizations, as well as the decision makers within

them, are impacted by the social environment in which they are embedded (Kostova, 1997; Stinchcombe, 1965). Thus, when making international investment decisions, executives' perceptions of uncertainty within a potential host nation, and in turn, the decision to invest are at least somewhat impacted by the institutional distance between the home and host nation (Ghemawat, 2001; Berry et al., 2010). If MNE executives do not have prior experience entering and conducting business within a certain host nation, and institutional distance is high, there is difficulty associated with processing and transferring information, accessing resources, gaining legitimacy, and prospering within the institutional environment (Kostova & Zaheer, 1999; Phillips, Tracey, & Karra, 2009; Xu & Shenkar, 2002).

Difficulty arises in part because firms generally conform to the institutional environment within their home nation in order to survive and prosper domestically (Stinchcombe, 1965). During this process, executives begin to view the world from the perspective of their home institutional context (Meyer & Rowan, 1977). Thus, it becomes challenging for MNEs to quickly assimilate to diverse norms, values, social knowledge, and regulations in disparate parts of the world. Despite potential financial benefits that may arise from market size, access to raw materials, or the affordable labor pool, MNEs that fail to recognize the obstacles presented by institutional distance may ultimately lose money on their investment. For example, Ghemawat (2001) described how Star TV invested in an institutionally distant nation without fully understanding the norms within the society, and the firm subsequently lost \$500 million dollars. It is these types of uncertainties and the potential losses that accompany them that result in MNE executives choosing institutionally similar host nations when weighing their options.

When the institutional environment in the host nation is similar, it is relatively easy for MNEs to effectively implement structures, routines, and policies developed in the domestic market and obtain legitimacy in a timely manner (Kostova & Zaheer, 1999). For these reasons, increasing institutional distance can deter foreign market entry and investment (Berry et al., 2010). Instead, MNE executives will choose institutionally similar environments to reduce the uncertainty faced, increase the chances of obtaining legitimacy, and minimize the costs of conforming to a disparate environment. Formally stated:

H6: Institutional distance is negatively related to international investment.

H6.3: Institutional distance is negatively related to MNEs' decisions to locate operations within a host country.

H6.3a: Safety risk distance is negatively related to MNEs' decisions to locate operations within a host country.

H6.3b: Formal institutional distance is negatively related to MNEs' decisions to locate operations within a host country.

H6.3c: Cultural distance is negatively related to MNEs' decisions to locate operations within a host country.

H6.3d: Geographic distance is negatively related to MNEs' decisions to locate operations within a host country.

H6.3e: Political constraints distance is negatively related to MNEs' decisions to locate operations within a host country.

H6.4: Institutional distance is negatively related to MNEs' use of subsidiaries over partnership entry modes.

H6.4a: Safety risk distance is negatively related to MNEs' use of subsidiaries over partnership entry modes.

H6.4b: Formal institutional distance is negatively related to MNEs' use of use of subsidiaries over partnership entry modes.

H6.4c: Cultural distance is negatively related to MNEs' use of subsidiaries over partnership entry modes.

H6.4d: Geographic distance is negatively related to MNEs' use of subsidiaries over partnership entry modes.

H6.4e: Political constraints distance is negatively related to MNEs' use of subsidiaries over partnership entry modes.

The impact of cultural distance, and more recently institutional distance, is pervasive within the international business and strategy literature. However, the overall findings remain equivocal (Shenkar, 2001; Tihanyi et al., 2005). Especially in recent years, it is well known that MNEs are investing in institutionally distant and higher risk institutional environments (Wright et al., 2005). MNEs are known to assess a nation's sales potential stemming from market size or GDP growth above and beyond other factors, such as institutional distance, that may impact expected profits (Ghemawat, 2001). Further, due to the availability of increasingly efficient transportation, expanding global Internet access, and the prevalence of social media, cultural barriers are tempered. For these reasons, institutional distance alone may not be enough to deter investment. Yet, when other concerns are present, distance may exacerbate perceptions of risk. Indeed, prior work has noted the potential interaction effects between host country risk and distance, primarily as it relates to culture and entry modes (e.g., Agarwal, 1994; Brouthers & Brouthers, 2001).

One's institutional environment shapes the way in which the world is perceived and the behaviors that are deemed appropriate (Scott, 1995), and executives make international investment decisions from this limited view of reality (March & Simon, 1958). The Western model of government and what is/is not considered an appropriate way to conduct business are not uniform beliefs throughout the world. From a local's perspective or an executive's perspective from a similar institutional environment, perceptions surrounding the implications of safety concerns on business may be minimal. These practices are believed to be normal and acceptable. They are taken for granted ways of life that are embedded within the society. This relates to cultural relativity (Collier, 2002).

However, from the perspective of an executive headquartered in an institutionally distant nation, a business environment with substantial safety concerns is likely perceived as highly dangerous and uncertain. Instead of being viewed as acceptable behaviors, they are viewed as socially immoral, unlawful practices. Considering prior mixed results, institutional distance alone may not fully deter investment. However, there is likely an interaction between risky host country environments, namely safety risk, and the distance between the home and host nation (Brouthers & Brouthers, 2001).

H7: Institutional distance moderates the relationship between safety risk and international investment such that with greater institutional distance the negative relationship between safety risk and international investment becomes stronger.

H7.3: Institutional distance moderates the relationship between safety risk and MNEs' decisions to locate operations within a host country such that with greater institutional distance the negative relationship between safety risk and MNEs' decisions to locate operations within a host country becomes stronger.

H7.3a: Safety risk distance moderates the relationship between safety risk and MNEs' decisions to locate operations within a host country such that with greater safety risk distance the negative relationship between safety risk and MNEs' decisions to locate operations within a host country becomes stronger.

H7.3b: Formal institutional distance moderates the relationship between safety risk and MNEs' decisions to locate operations within a host country such that with greater formal institutional distance the negative relationship between safety risk and MNEs' decisions to locate operations within a host country becomes stronger.

H7.3c: Cultural distance moderates the relationship between safety risk and MNEs' decisions to locate operations within a host country such that with greater cultural distance the negative relationship between safety risk

and MNEs' decisions to locate operations within a host country becomes stronger.

H7.3d: Geographic distance moderates the relationship between safety risk and MNEs' decisions to locate operations within a host country such that with greater geographic distance the negative relationship between safety risk and MNEs' decisions to locate operations within a host country investment becomes stronger.

H7.3e: Political constraints distance moderates the relationship between safety risk and MNEs' decisions to locate operations within a host country such that with greater political constraints distance the negative relationship between safety risk and MNEs' decisions to locate operations within a host country investment becomes stronger.

H7.4: Institutional distance moderates the relationship between safety risk and MNEs' use of subsidiaries over partnership entry modes such that with greater institutional distance the negative relationship between safety risk and MNEs' use of subsidiaries becomes stronger.

H7.4a: Safety risk distance moderates the relationship between safety risk and MNEs' use subsidiaries over partnership entry modes such that with greater safety risk distance the negative relationship between safety risk and MNEs' use of subsidiaries becomes stronger.

H7.4b: Formal institutional distance moderates the relationship between safety risk and MNEs' use of subsidiaries over partnership entry modes such that with greater formal institutional distance the negative relationship between safety risk and MNEs' use of subsidiaries becomes stronger.

H7.4c: Cultural distance moderates the relationship between safety risk and MNEs' use of subsidiaries over partnership entry modes such that with greater cultural distance the negative relationship between safety risk and MNEs' use of subsidiaries becomes stronger.

H7.4d: Geographic distance moderates the relationship between safety risk and MNEs' use of subsidiaries over partnership entry modes such that with greater geographic distance the negative relationship between safety risk and MNEs' use of subsidiaries becomes stronger.

H7.4e: Political constraints distance moderates the relationship between safety risk and MNEs' use of subsidiaries over partnership entry modes such that with greater political constraints distance the negative relationship between safety risk and MNEs' use of subsidiaries becomes stronger.

CHAPTER FOUR

METHODS

This chapter presents the procedures used to collect, measure, and analyze data to test the research model and hypotheses. As discussed in the prior chapters, scholars assess foreign investment flows in various ways. Prior work in this area has been conducted at multiple levels, and various dependent variables are utilized to represent international investment. First, the dependent variable in macro-level studies on international investment is typically FDI at the country-level. Second, for firm-level studies on international investment decisions, the dependent variable is commonly entry mode and less frequently foreign location choice. For these reasons, a multiple sample approach is used to provide a more comprehensive assessment. At the country-level, Sample 1 and Sample 2 are used to evaluate the effects of the institutional environment on overall investment flows. With Sample 3 and Sample 4, I evaluate how institutional environments impact firm-level strategies. Below, I provide general overviews and discuss the samples, measures, and techniques used to analyze the data.

Data Sources

Primarily, I utilized the following resources for data collection: Political Constraints Index dataset (POLCON), Global Peace Index (GPI), The World Bank, the GLOBE study, Hofstede's cultural dimensions, Wharton Research Data Services (WRDS), annual reports, and the Securities and Exchange Commission (SEC). Below I provide an overview of each study.

Country-Level

General Overview

The purpose of including the country-level samples is to assess how the institutional environment impacts the overall attractiveness of a nation. For Sample 1, the outcome is net FDI inflows at the country-level, and for Sample 2 the outcome is a count of sample firms investing in a given country. If aspects of the institutional environment reduce the amount of uncertainty faced, FDI is likely to increase. This is because investors feel secure about their projected return on investment. Alternatively, if corruption and safety-related risk are pervasive, for example, the

institutional environment will increase the amount of uncertainty perceived, and investors will face difficulty ascertaining their profitability potential. Thus, foreign investment rates will be negatively impacted.

Because the purpose of Sample 1 and Sample 2 is to evaluate aggregate investment inflows based on host country institutional environments, the second moderator, institutional distance between the home and host nation, was not included. Further, The World Bank reports net FDI inflow data by country but does not provide detailed information on the country of origin.

Sample 1. The World Bank provides annual data on FDI inflows at the country-level. The amount of direct investment entering a nation indicates the overall attractiveness of the investment climate. Further, resources such as GPI, POLCON, and The World Bank's Worldwide Governance Indicators provide data on the institutional environment at the country-level. Thus, for Sample 1, country-level observations (institutional variables and investment flows) are utilized. To be included in the study, data was required from all sources. In total, Sample 1 includes 155 countries, with the majority covering a six year span (2008-2013). In total, the panel dataset includes 879 country-year observations. In addition to the panel dataset, an average across years was taken for each sample country to create a cross-sectional dataset. As the World Bank provides net FDI inflows into each of these 155 countries, investment from all investing nations is included. Thus, Sample 1 represents multiple home and host nations.

Sample 2. For Sample 2, I collected data on a sample of 2008 Fortune Global 500 firms. The majority of sample firms (82%) are U.S. firms, thus, the U.S. as a country for investment is not included. In total, Sample 2 includes 154 countries and 873 country-year observations. Equity investment decisions (principal subsidiaries) for this sample of firms was tracked over the years 2008-2013 and aggregated at the country-year level. Said another way, I took a total count of all sample firms investing within a given host nation in each sample year. Further, resources such as GPI, POLCON, and The World Bank's Worldwide Governance Indicators provided other important country-level variables.

State-owned firms and those operating within the oil and gas/energy sectors were excluded. The intention of this dissertation is to understand how aspects of host nation institutional environments, primarily safety risk, impacts MNEs' investment decisions. Because I evaluate how risk stemming from government actions impacts the business environment and

investment, the investment decisions of state-owned organizations are less relevant. Further, this study seeks to understand how institutional factors, including safety-related risk, impact investment due to the potentially negative implications to physical assets and human capital. Firms that are primarily focused on accessing raw materials (oil and gas/energy sectors) have limited location choices. They are, therefore, less relevant to this research and were excluded. To be included in the study, data were required from all sources.

Measures

Sample 1 dependent variable. The dependent variable for the first sample is annual net FDI inflows at the country-level. These data are primarily available through The World Bank. As defined by The World Bank, FDI is reported as: “the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments.” In several cases, when FDI was not available from The World Bank, other reliable sources were consulted, such as IMF, Global Finance, and Trading Economics.

Sample 2 dependent variable. The dependent variable for the second sample is a count of sample firms making an equity investment within each country in a given year. Data for this variable were primarily obtained from annual reports provided by the SEC, especially for U.S. firms. When needed, supplementary information was collected through the business press, company websites, etc.

Independent variable: corruption. Following the lead of prior research, The World Bank’s Control of Corruption Index (CCI) was used to measure corruption. Many studies operationalize corruption with this measure, reliability and validity have been assessed in prior studies, and it was recommended in a recent review (Judge et al., 2011). CCI’s corruption scores are derived from 31 different data sources. CCI is a perceptions-based index and includes opinions from experts, non-governmental agencies, governmental agencies, entrepreneurs, and citizens. Data sources are weighted depending upon the source, and scores range from -2.5 (high corruption) to 2.5 (limited corruption). Transparency International’s Corruption Perception Index (CPI) is another prominent measure. However, the organization adopted a new methodology in 2012, and it is not accurately comparable to the old methodology.

Mediator and moderator variables.

Safety risk. The Institute for Economics and Peace's (IEP) Global Peace Index (GPI) collects both qualitative and quantitative data on the "absence of violence" from 162 countries around the globe. Data are available starting in 2008. IEP is an independent, non-profit organization. They obtain data from sources such as The World Bank, UN agencies, the International Institute of Strategic Studies, and the Economist Intelligence Unit. The index is comprised of 22 indicators falling into three categories: ongoing domestic and international conflict, societal safety and security, and militarization. Further, it includes both internal aspects and external aspects (i.e., relationships with other countries, or state of peace outside of the country). Each indicator is on a scale of 1 to 5, with higher scores relating to higher risk.

GPI gives each country a total score based on these indicators. However, I requested and received the raw dataset from IEP so that I could more closely evaluate the importance of each indicator as it relates to safety risk. Because not all of the 22 items relate to safety risk as conceptualized in this dissertation, I worked to generate a subset of the GPI's 22 items to operationalize safety risk. Several steps were taken to identify the subset of items used.

First, I performed an exploratory factor analysis (EFA) in SAS using the 2008 data. The items that were analyzed include the items labeled "internal" by IEP, meaning they are concerned with the safety (or peace) inside the country. For the purpose of this dissertation, and how safety risk is defined, I am less concerned with external safety (or peace). Further, I analyzed the items that IEP categorizes as either "ongoing domestic and international conflict" or "societal safety and security." IEP's final category – militarization – is less relevant because it is associated with government spending on the military/external peace keeping, not actions taken within the private sector. Finally, the two political items were not included in the analysis. These items have to do with the public sector, not norms and behaviors occurring outside of the government. Other items in my dissertation (corruption and political constraints) are meant to capture political organization and leadership behavior as they impact safety risk. Thus, it is important to keep these concepts separate. In sum, nine items were included in the EFA.

Oblique rotation was utilized considering various safety risk factors are likely correlated, not independent. Based on this analysis, there was one factor with an eigenvalue greater than one. In total, 7 items loaded on factor (eigenvalue = 3.35). The items include: 1) level of perceived criminality in society, 2) number of homicides per 100,000 people, 3) internal level of organized conflict, 4) terrorist activity, 5) likelihood of violent demonstrations, 6) level of violent

crime, and 7) number of internal deaths from organized conflict. All of these items had a loading of .63 or greater. The remaining items, number of internal security officers/police (loading equaled -.6) and number of people in jail (loading equaled -.10), did not significantly load on this factor.

Finally, I dropped the two items that did not load on the factor and conducted a confirmatory factor analysis on the seven items identified as corresponding to the concept of safety risk. Cronbach's alpha for this measure equals .85, and all loadings are .63 or higher. An average of these seven indicators was taken to derive a "safety risk" score for each sample country for the years 2008 through 2013. The scale ranges from one to five, with one indicating the institutional environment is safe and five indicating there is ample safety risk present.

Political constraints. To measure political constraints I utilized Henisz's (2000b) widely adopted Political Constraints Index (POLCON). More specifically, "Polconiii" was used for all samples. This objective measure ranges from 0 (no constraints, or concentrated authority and minimal veto power) to 1 (maximum constraints, or dispersed authority and veto power). Henisz (2000b) utilized spatial modeling and included "independent veto points... and the distribution of preferences" within his measure (Henisz, 2000b: 5). The database is provided by The University of Pennsylvania Wharton School. The data for this variable are currently available for 2008-2012. Minimal changes occur year-to-year. Thus, the 2012 values were used for 2013, as well.

Control variables. Please refer to page 46 for a discussion on all control variables included in the various analyses.

Analyses

Sample 1 analysis. To test Sample 1, two analysis techniques were used. First, with the panel dataset (years 2008-2013), to account for unobserved country and year effects, the hypotheses were tested in Stata using panel data regression with two-way clustered standard errors (Kellogg School of Management; Peterson, 2009). Second, the averages across years were taken to create a cross-sectional dataset. After conducting initial diagnostics, it became apparent that outliers were present (i.e., China, U.S., India) with high leverage and/or residuals. For this reason, the hypothesized relationships were tested in SAS with robust regression. This analysis is appropriate when influential observations are present because it provides stable results in the presence of outliers (Chen, <http://www2.sas.com/proceedings/sugi27/p265-27.pdf>). With these

analysis techniques, the model was tested piecemeal using the Baron and Kenny (1986) approach, the Sobel test, and moderated regression.

Sample 2 analysis. For Sample 2, the SAS TCOUNTREG procedure was utilized to test the hypotheses, where the count of sample MNEs investing in each country served as the outcome variable. This procedure is appropriate for panel regression when the dependent variable is a count variable. Further, because the data were over-dispersed, negative binomial regression was implemented. Similar to Sample 1, the model was tested piecemeal using the Baron and Kenny (1986) approach, the Sobel test, and moderated regression.

Firm-Level

General Overview

Getting beyond aggregate investment flows, it is also important to understand how the institutional environment impacts MNEs' adopted strategies. Preceding the decision of how to invest (entry mode), MNE executives must choose where to invest. For this reason, prior studies evaluate factors that relate to location choice (e.g., Berry et al., 2010; Lu et al., 2014; Wheeler & Mody, 1992). Firms have a limited number of resources and multiple host countries that serve as viable investment options. When an institutional environment generates unnecessary risk for MNEs that may reduce profitability or harm their employees, they are likely to choose an alternative country for their investment. Sample 3 examines the impact of the studied institutional variables on location choice.

When evaluating MNE strategies, scholars have largely examined how uncertain environments alter entry mode choices. Scholars primarily argue that more uncertain institutional environments result in lower risk, lower equity entry modes. Thus, the purpose of Sample 4 is to assess how the included institutional variables relate to the type of investment at the firm-level.

Sample 3. Sample 3 includes 118 U.S.-based Fortune Global 500 firms. As discussed above, firms were excluded if state-owned or operating within the oil and gas/energy sectors. I collected data on all principal subsidiary investments (location choices) for this sample of firms from 2008-2013 into 154 countries. To be included in the study, data were required from all sources. In total, this sample includes 101,172 firm-country-year observations.

Sample 4. Sample 4 is a subset of Sample 3. Specifically, it includes 742 new entry decisions completed by 100 firms over six years. For each new entry decision, I coded if the firm used a subsidiary or partnership entry strategy.

Measures

Sample 3 dependent variable. The dependent variable for the third study is foreign location choice. This is a binary variable that was coded 1 if the firm entered a given host country within a specific year (subsidiary investment) and 0 otherwise. Data for this variable were primarily obtained from annual reports provided by the SEC.

Sample 4 dependent variable. The dependent variable for the fourth study is a dichotomous variable, entry mode. Specifically, subsidiary versus partnership (alliance/joint venture) entry modes were assessed for the sample. Observations were only included if they were new entry decisions, meaning the firm was not operating in the country the prior year. The outcome variable was coded 1 if the firm entered with a subsidiary and 0 if the firm entered with a partnership entry mode. Data for this variable were obtained from SDC Platinum.

Independent variable: corruption. Same as described under “country-level.” Please refer to the above description of corruption.

Mediator and moderator variables. The measures for safety risk and political constraints are the same as those described under “country-level.” In addition, institutional distance is a moderator variable for the firm-level studies and is described below.

Institutional distance. Five different dimensions of distance are taken into account: safety risk, cultural, formal, geographic, and political constraints (Flores & Aguilera, 2007; Gaur & Lu, 2007; Salomon & Wu, 2012; Schwens et al., 2011). First, safety risk distance is measured by taking the absolute distance in safety risk scores between the home and host nation. The perceived risk stemming from safety related factors is likely substantially impacted by the MNEs’ home country environment. If safety risk distance is high, MNE executives are more likely to perceive the host nation as risky and refrain from investing.

Cultural distance between the home and host country was operationalized in two ways (Estrin et al., 2009). First, considering the criticisms of Hofstede’s cultural dimensions, the GLOBE study’s nine “practices” indices were utilized as the primary measure of cultural distance (House et al., 2004 Hofstede, 2006; House, Javidan, Hanges, & Dorfman, 2002). House et al. (2004) surveyed over 17,000 managers employed in multiple organizations, in multiple

industries, throughout 62 cultures. Second, Hofstede's cultural dimensions were used to ensure robustness (Salomon & Wu, 2012). Hofstede's dimensions are based on survey data that was collected from IBM employees in the late '60s and early '70s (Kirkman et al., 2006). Hofstede's (1980) dimensions used include power distance, uncertainty avoidance, masculinity/femininity, and individualism-collectivism. Kogut and Singh's (1988) approach was utilized to calculate distance with these measures.

$$Cultural\ Distance\ (CD) = \sum_{i=1}^N [(I_{ij} - I_{iu})^2 / Var_i] / N$$

In this equation, *CD* represents the cultural distance between the home and host nation; I_{ij} represents the cultural dimension i in country j ; I_{iu} represents the cultural dimension i in country u ; Var_i represents the variance in cultural distance across all countries on cultural dimension i ; N represents the number of dimensions.

To measure formal institutional distance I utilized the Heritage Foundation's Index of Economic Freedom. This index is appropriate to operationalize formal institutional distance because it takes into account various aspects of formal institutions that have been evaluated in prior studies: property rights, corruption, monetary freedom, trade freedom, financial freedom, business freedom, government spending, etc. The Heritage Foundation provides an "overall score" based on these variables within their annual country ranking report. Scores range from 0 to 100, with higher values indicating a stronger formal economy. Absolute distance was used to generate the formal institutional distance measure. Next, geographic distance was measured using "great circle distances between capital cities" (Berry et al., 2010; Flores & Aguilera, 2007). It takes the distance in thousands of miles between the capital cities of the home and host nations. Absolute distance was used for this measure, as well. Finally, political constraints distance was measured by taking the absolute distance in Polconiii scores.

Analyses

Sample 3 analysis. To test the model with Sample 3, logistic regression with 2-way clustered standard errors was implemented to account for unobserved firm and time effects (Peterson, 2009). The model was tested piecemeal using the Baron and Kenny (1986) approach, the Sobel test, and moderated regression.

Sample 4 analysis. For this final study, entry mode serves as the dependent variable. Considering the dichotomous outcome variable, logistic regression was used to test the model

with Sample 4. Again, the model was tested piecemeal using the Baron and Kenny (1986) approach, the Sobel test, and moderated regression.

Control Variables

To avoid spurious relationships, multiple country-level and firm-level control variables were included in the analyses. Due to the four sample approach at two levels, not all controls are included in all sample analyses. Table 2 (below) helps to distinguish which controls are included in the Sample 1, 2, 3 and 4 analyses.

Country-Level

I controlled for several country-level variables. Beyond the institutional factors studied within this research, there are several other macro-economic factors that impact foreign investment. Prior research has shown that gross domestic product (GDP) and market size impact investment flows (Delios & Henisz, 2003; Wheeler & Mody, 1993). Indeed, many studies control for these variables when investigating international investment decisions because they represent the prosperity of a nation and demand (e.g., Wei, 2000; Weitzel & Berns, 2006). For these reasons, I control for *GDP* (in billions) and *population* (in millions) (Delios & Henisz, 2003). For GDP, the natural log was taken prior to conducting the analyses. Additionally, *GDP growth* and *inflation* rates are indicators of the health of the economy (Weitzel & Berns, 2006; Zhao et al., 2003). The stronger the economy and the more growth, naturally the greater the opportunity, and the more likely MNEs will invest. Thus, both of these variables were controlled.

Further, the availability and cost of labor are important factors. They relate to expenses incurred by firms, and thus, can be a critical supply factor, especially for manufacturing. *Unemployment rates* have been used as a proxy for labor availability and are controlled for (Habib & Zurawicki, 2002). Next, I controlled for the *corporate tax rate* because it can be a substantial strain of MNEs profits (Weitzel & Berns, 2006). Bilateral free trade agreements are also controlled (Lu et al., 2014). When trade barriers are reduced or eliminated between nations, FDI is impacted. Finally, *primary language (English)* is controlled (Holburn & Zelner, 2010). U.S. firms, for example, face less obstacles when a common language is in place.

Firm-Level

In addition to country-level controls, several firm-level variables were included in the analyses for Sample 3 and Sample 4. *Firm size*, *firm age*, are *firm performance* were controlled

because larger, more established, and more successful firms are increasingly likely to have the resources to expand beyond domestic borders (Henisz & Delios, 2001; Flores & Aguilera, 2007; Smarzynska & Wei, 2000). Also, *industry* and *R&D intensity* were controlled because some industries, specifically R&D intensive industries, are more likely to invest abroad (Henisz & Delios, 2001; Berry et al., 2010; Flores & Aguilera, 2007). In addition, MNEs' experience and overall international diversification impact future investment decisions. Thus, I controlled for *firm experience* and *international diversification*. *Product diversification* has been shown to interact with international diversification, and thus, is controlled (Hitt, Hoskisson, & Kim, 1997; Hitt, Tihanyi, Miller, & Connelly, 2006). Also, past research has indicated that corporate governance and executive compensation may impact higher risk strategies, including international investment decisions (Carpenter & Sanders, 2004; Sanders & Carpenter, 1998). Thus, I control for the proportion of *independent directors*, *CEO duality* (the separation of CEO and chairman of the board positions), *CEO incentive pay structure*, and *CEO total compensation*. The below table identifies each control variable and the studies in which it was included.

Table 2. *Control Variables*

Country-Level			
<i>Variable</i>	<i>Measure</i>	<i>Primary Source</i>	<i>Sample</i>
GDP growth	GDP growth	World Bank	1, 2, 3, 4
Population	Population	World Bank	1, 2, 3, 4
GDP	GDP	World Bank	1, 2, 3, 4
Corporate tax rate	Corporate Tax Rate	KPMG	1, 2, 3, 4
Inflation	Inflation rate, consumer prices	World Bank	1, 2, 3, 4
Unemployment	Unemployment rate	World Bank	1, 2, 3, 4
Free trade agreement	1 if a FTA exists between the U.S. and host, 0 otherwise	ustr.gov	3, 4
Primary language (English)	1 if a primary language is English, 0 otherwise	cia.gov	3, 4
Firm-Level			
<i>Variable</i>	<i>Measure</i>	<i>Source</i>	<i>Sample</i>
Firm size	Number of employees	WRDS	3, 4
Firm age	Firm age	Company documentation	3, 4
R&D intensity	R&D spending divided by total sales	WRDS	3, 4
Industry	Industry dummy (NAICS) 2-digit	WRDS	3
Product diversification	% of sales outside dominant industry	Company documentation	3, 4
Firm performance	ROA	WRDS	3, 4
CEO duality	1 if the CEO is also the chairman of the board, 0 otherwise	Company documentation	3, 4
Independent board members	Percentage of non-executive directors on the board	WRDS	3, 4
CEO incentive pay structure	(Total compensation – fixed compensation) / Total compensation	WRDS	3, 4

Table 2 Continued.

<i>Variable</i>	<i>Measure</i>	<i>Source</i>	<i>Sample</i>
CEO total compensation	CEO total compensation	WRDS	3, 4
Firm experience (high safety risk countries)	Count of the number of countries in the top 25% of “safety risk” (GPI) list the firm has entered at the start of the sample timeframe	Company documentation	3, 4
International diversification	% of international sales; Number of subsidiaries (outside the home country) at the start of the sample timeframe	Company documentation	3, 4

Summary

This chapter described the four samples used to test the research model. Two of the samples test investment at the country-level, and two of the samples evaluate firm-level strategies. Further, various samples, measures, and analysis techniques are used to ensure a comprehensive assessment of the relationships.

CHAPTER FIVE

RESULTS

Chapter Five presents the results of the analyses described in Chapter Four. First, results for the country-level samples are presented, including Sample 1 and Sample 2. Second, the firm-level results are presented, including Sample 3 and Sample 4. In addition to the multiple sample approach, various analysis techniques are utilized to provide a more robust assessment of the hypothesized relationships. Please note, Hypothesis 1 and Hypothesis 5 are general hypotheses that relate to all four samples. The outcomes of these hypotheses are discussed under Sample 1 but are not covered in detail under the remaining samples. Further, Hypotheses 6 and 7 only relate to Samples 3 and 4, and thus, are not discussed under the country-level samples. Table 3 summarizes the hypotheses for each sample.

Table 3. *Summary of Tested Hypotheses*

Hypothesis	Tested for Sample(s)	Results
H1: Government-based corruption is positively related to safety risk.	1, 2, 3, 4	Significant for all samples
H2: Safety risk is negatively related to international investment.	1, 2, 3, 4	Significant for Samples 1-3
H3: Safety risk partially mediates the relationship between government-based corruption and international investment.	1, 2, 3, 4	Some support for Samples 1-3
H4: Political constraints are positively related to international investment.	1, 2, 3, 4	Significant for Samples 2-4
H5: Political constraints moderate the relationship between government-based corruption and safety risk...	1, 2, 3, 4	Not supported
H6: Institutional distance is negatively related to international investment.	3, 4	Sample 3: Significant for cultural distance, formal distance, geographic distance, and political constraints distance Sample 4: Significant for cultural distance and political constraints distance
H7: Institutional distance moderates the relationship between safety risk and international investment...	3, 4	Sample 3: Significant for safety risk distance, cultural distance (GLOBE), and political constraints distance Sample 4: Significant for geographic distance

Country-Level Samples

Sample 1 and Sample 2 assess how institutional risk impacts overall attractiveness of the investment climate at the country-level. For Sample 1, the dependent variable is annual net FDI inflows into a particular country, and for Sample 2 the dependent variable is a count of sample firms investing. The correlation among these two dependent variables is .59. Prior to completing the analyses, the variables were tested for multicollinearity. With the included controls, variance inflation factors were below 1.4 and tolerance values above .72, indicating multicollinearity was not an issue.

Sample 1

The results, reviewed below, provide support for several of the hypotheses using Sample 1. Descriptive statistics and bivariate correlations are provided in Table 4. Table 5 provides the results for Sample 1 with panel data, and Table 6 provides the results with cross-sectional data. In both tables, Model 1 includes the control variables, and Model 2 through Model 8 present the regression results related to the tested hypotheses.

Hypothesis 1 predicts government-based corruption relates to safety risk (Model 2). The results of the robust regression ($b=-0.51, p<.001$) and the panel data regression ($b=-0.55, p<.001$) indicate that corruption within a nation's government relates to increased safety-related risk. Said another way, as a country becomes less corrupt, safety risk is reduced. Thus, Hypothesis 1 received support. Consistent with Hypothesis 2.1, safety risk negatively relates to net FDI inflows (Model 3). The robust regression ($b=-1.07, p<.01$) and panel data regression ($b=-4.41, p=.01$) support the hypothesized relationship.

Hypothesis 3.1 states corruption (partially) impacts net FDI inflows through safety risk (Models 2-5). To test this hypothesis, the following were evaluated (Baron & Kenny, 1986): 1) demonstrate that corruption relates to net FDI inflows, 2) demonstrate that corruption relates to safety risk, 3) demonstrate that safety risk relates to net FDI inflows, 4) find that the relationship between corruption and net FDI inflows is reduced in the presence of the mediator. Based on this analysis, all criteria were not fully met. The relationships are further detailed in Figure 3 and the subsequent tables. Also, to test the hypothesized indirect effect (corruption → safety risk → net FDI inflows), the Sobel test (formula below) was used (Iacobucci, 2007; Sobel, 1982).

$$z = (a*b) / \sqrt{b^2 s_a^2 + a^2 s_b^2}$$

According to the Sobel test, the indirect effect of corruption on net FDI inflows through safety risk is significant, with both the cross-sectional dataset using robust regression ($z=2.48, p<.05$) and the panel dataset ($z=2.43, p<.05$). In sum, Hypothesis 3.1 received partial support.

Hypothesis 4.1 failed to receive support. Political constraints do not significantly relate to net FDI inflows (Model 6). Hypothesis 5 posits political constraints moderate the relationship between corruption and safety risk (Models 7-8). This hypothesis failed to receive support. Interestingly, however, political constraints positively and significantly relate to safety risk ($b=0.50, p=.04$ – robust regression; $b=0.33, p=.09$ – panel data regression), when controlling for government-based corruption. Meaning, dispersed authority and veto power, although not hypothesized, relates to safety risk.

Figure 3. Sample 1 Mediation

Sample 2

Descriptive statistics and bivariate correlations are provided in Table 7, and Table 8 provides the results for Sample 2. Model 1 includes the control variables, and Model 2 through Model 8 present the regression results for the hypotheses. Hypothesis 1 (Model 1) continued to receive support with Sample 2 ($b = -0.55, p < .001$), and consistent with Hypothesis 2.2 (Model 2), safety risk negatively relates to the number of sample MNEs making an equity investment ($b = -0.22, p < .001$).

Hypothesis 3.2 (Models 2-5) predicts safety risk partially mediates the relationship between government-based corruption and the number of MNEs making an equity investment

(i.e., a count of sample firms with subsidiaries in a particular country). According to the Sobel test, the indirect effect of corruption on the number of MNEs making an equity investment through safety risk was significant ($z=4.71, p<.001$). However, based on the Baron and Kenny (1986) approach, partial mediation was not fully met. Scholars suggest variables should be transformed prior to evaluating mediation when a count outcome variable is used (MacKinnon & Dwyer, 1993). Transformed coefficients and standard errors are also reported in Figure 4. The transformations, however, did not impact the mediation conclusions described above.

Further, consistent with Hypothesis 4.2 (Model 6), political constraints significantly relate to the number of MNEs making an equity investment ($b=1.56, p<.001$). With increased veto power and dispersion of authority, more multinationals choose to invest. Finally, Models 7 and 8 report results related to Hypothesis 5. Although this sample does not include the U.S., all results remain unchanged when compared with Sample 1.

In sum, findings associated with Sample 2 are supportive of those reported with Sample 1. The main exception is the conclusion for Hypothesis 4.2 (Model 6). Whereas support was not found with Sample 1, Sample 2 indicates that political constraints significantly impact international investment. This difference may stem from the fact that Sample 1 takes into account the investment of all nations into a particular host country. However, Sample 2 includes 144 firms, the majority of which (118) are U.S.-based firms. It is possible that U.S. firms pay particular attention to political constraints above and beyond firms based in other nations.

Figure 4. Sample 2 Mediation

Firm-Level Samples

Sample 3 and Sample 4 assess how institutional environments impact firms' international investment decisions. Specifically, Sample 3 investigates firms' location choices and Sample 4 evaluates entry modes. The panel dataset for Sample 3 includes 118 firms, 154 countries, and 6 years (2008-2013) of investment decisions. Sample 4 includes 742 "new" entry decisions completed by 100 firms over a six year period (2008-2013). Prior to completing the analyses, the variables were tested for multicollinearity. When the firm-level control variables were added with the country-level control variables (used in Samples 1 and 2), multicollinearity was not an issue.

Sample 3

Descriptive statistics and bivariate correlations are provided in Table 9 and 10, and regression results are presented in Tables 11, 12, and 13. In Table 11, Model 1 presents the control variables, and Model 2 through Model 5 present the regression results for the hypothesized relationships. Table 12 presents standardized coefficients, and Table 13 presents the results of the institutional distance hypotheses. Consistent with Hypothesis 2.4 (Model 2), safety risk negatively relates to MNEs' decisions to make equity investments ("location choices") within a given host country ($b = -.29, p < .001$). Hypothesis 3.4 (Models 2-4) states safety risk partially mediates the relationship between government-based corruption and MNEs' location choices. According to the Baron and Kenny (1986) approach to test mediation, all criteria were not met. However, corruption relates to safety risk as discussed with Sample 1 and Sample 2 (Hypothesis 1) and MNEs' location choices ($b = .44, p < .001$). Further, the Sobel test confirms the significance of the indirect effect ($z = 4.02, p < .001$). Similar to Sample 2, because the outcome variable is dichotomous, scholars recommend transforming the coefficients and standard errors (MacKinnon & Dwyer, 1993). Although the transformations did not significantly impact the previously reported results, the transformed values are also reported in the Figure 5. In addition, standardized coefficients associated with the mediation hypotheses are reported in Table 12 and Figure 5. Standardization does not change the conclusions but may help with interpretation. Further, consistent with Hypothesis 4.4 (Model 5), political constraints positively and significantly relate to MNEs' location choices ($b = 1.90, p < .001$).

Next, the impact of institutional distance was investigated. Hypothesis 6.3a failed to receive support. Safety risk distance is not negatively, but actually positively, related to MNE

location choices. Although this result may seem counterintuitive, “distance” in this case is not always negative. If a U.S.-based MNE is investing in a safer country, safety risk distance is present. However, this distance is a positive aspect of the institutional environment. Consistent with Hypothesis 7.3a, however, the negative relationship between safety risk distance and MNEs’ location choices becomes stronger as safety risk distance increases ($b=0.16, p<.001$).

Hypotheses 6.3b and 6.3c received support. Both cultural distance ($b=-0.10, p<.01$ – using Hofstede’s cultural dimensions; $b=-0.15, p<.001$ – using the GLOBE study) and formal institutional distance ($b=-0.06, p<.001$) negatively relate to MNEs’ location choices. The hypothesized interactions between safety risk and both formal institutional distance and cultural distance (using Hofstede’s cultural dimensions) were non-significant. However, when the GLOBE study dimensions were used, support for the interaction was found ($b=0.11, p<.05$). Thus, Hypothesis 7.3b failed to receive support, and Hypothesis 7.3c received partial support. Next, although geographic distance negatively and significantly relates to MNEs’ location choices ($b=-0.06, p<.001$), supporting Hypothesis 6.3d, the interaction between safety risk and geographic distance was non-significant, failing to support Hypothesis 7.3d. Finally, political constraints distance negatively and significantly relates to MNEs’ location choices, providing support for Hypothesis 6.3e ($b=-1.92, p<.001$). And consistent with Hypothesis 7.3e, political constraints moderate the direct relationship between safety risk and MNE location choices ($b=-0.35, p<.05$).

It is important to note that several countries in the sample are not ranked on the Heritage Foundation’s Index of Economic Freedom (used as the formal institutional distance measure), and thus, were not included in the formal institutional distance analyses for Sample 3 and 4. In total, 97,685 observations out of 101,172 were included for Sample 3. Similarly, Hofstede’s and the GLOBE study’s cultural dimensions are not available for all countries in the sample. For this reason, a subset of the full dataset was used to analyze the cultural distance hypotheses. For Sample 3’s cultural distance analysis, 63,614 were included when using Hofstede’s cultural dimensions, and 38,120 were included when using the GLOBE study (out of 101,172).

In conclusion, the results are generally supportive of those reported under Sample 1 and Sample 2 and provide additional conclusions surrounding institutional distance. Specifically, safety risk distance, cultural distance (using the GLOBE study), and political constraints distance moderate the safety risk-location choice relationship. Further, cultural distance, formal

institutional distance, geographic distance, and political constraints distance negatively relate to MNEs' international investments. None of the reported findings contradict those reported under the prior sample.

Figure 5. Sample 3 Mediation

Table 4. *Sample 1, Descriptive Statistics and Bivariate Correlations (Panel Data)*

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1 FDI Net Inflows	10.88	35.22	1									
2 Corruption	-0.10	1.03	0.22*	1								
3 Safety Risk	2.35	0.78	-0.13*	-0.72*	1							
4 POLCON	0.29	0.20	0.03	0.36*	-0.19*	1						
5 GDP (log)	4.19	1.97	0.50*	0.47*	-0.29*	0.22*	1					
6 GDP growth	3.45	6.12	-0.01	-0.20*	0.15*	-0.17*	-0.11*	1				
7 Population	46.37	152.30	0.59*	-0.06	0.11*	-0.09*	0.38*	0.08*	1			
8 Unemployment	8.35	5.76	-0.07*	-0.04	0.06	0.02	-0.12*	-0.13*	-0.12*	1		
9 Tax rate	25.54	8.70	0.11*	-0.05	0.12*	-0.04	0.12*	0.03	0.12*	-0.14*	1	
10 Inflation	6.31	8.13	-0.09*	-0.29*	0.20*	-0.17*	-0.13*	-0.02	0.02	-0.03	.12*	1

a. $n=879$

b. * $p<.05$

Table 5. *Regression Results for Sample 1 (Panel Data)*

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Corruption		-0.55** (0.05)		4.58** (1.69)	3.74* (1.80)		-0.57** (0.05)	-0.63** (0.09)
Safety Risk			-4.41* (1.78)		-1.52 (1.73)			
POLCON						-2.24 (6.30)	0.33^ (0.19)	0.37* (0.18)
Corruption*POLCON								0.18 (0.19)
GDP (log)	5.49** (1.79)	0.01 (.02)	4.87** (1.71)	4.25* (1.76)	4.27* (1.76)	5.55** (1.75)	0.01 (0.02)	0.00 (0.02)
GDP Growth	-0.07 (0.09)	0.00 (0.01)	-0.01 (0.08)	0.03 (0.06)	0.03 (0.07)	-0.08 (0.07)	0.00 (0.01)	0.00 (0.01)
Population	0.11* (0.05)	0.00 (0.00)	0.11* (0.06)	0.12* (0.06)	0.12* (0.06)	0.11* (0.05)	0.00 (0.00)	0.00 (0.00)
Unemployment	0.10 (0.14)	0.01 (0.01)	0.15 (0.14)	0.13 (0.13)	0.15 (0.14)	0.10 (0.14)	0.01 (0.01)	0.01 (0.01)
Tax Rate	0.09 (0.21)	0.01 (0.01)	0.15 (0.23)	0.13 (0.22)	0.14 (0.22)	0.09 (0.21)	0.01 (0.01)	0.01 (0.01)
Inflation	-0.27 (0.17)	0.00 (0.00)	-0.21 (0.15)	-0.15 (0.14)	-0.15 (0.14)	-0.28 (0.18)	0.00 (0.00)	0.00 (0.00)
F-Statistic	24.26**	178.00**	21.06**	21.67**	19.32**	20.95**	183.75**	181.27**
R-Squared	0.436	0.539	0.443	0.447	0.448	0.436	0.530	0.547

a. $n=879$

b. ^ $p<.10$; * $p<.05$; ** $p<.01$

c. The dependent variable is safety risk for Models 2, 7, and 8. For the remaining models, net FDI inflow serves as the dependent variable.

Table 6. *Regression Results for Sample 1 (Cross-Sectional Data)*

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Corruption		-0.51** (0.06)		1.61** (0.39)	1.43** (0.51)		-0.52** (0.06)	-0.52** (0.09)
Safety Risk			-1.07** (0.41)		-0.30 (0.57)			
POLCON						-0.85 (1.70)	0.50* (0.25)	0.50^ (0.26)
Corruption*POLCON								0.00 (0.23)
GDP (log)	1.70** (0.17)	0.05^ (.03)	1.60** (.17)	1.41** (0.20)	1.42** (0.20)	1.71** (0.17)	0.05^ (0.03)	0.05^ (.03)
GDP Growth	-0.05 (0.11)	0.00 (0.02)	-0.03 (0.11)	0.00 (0.12)	0.00 (0.12)	-0.06 (0.11)	0.00 (0.02)	0.00 (0.02)
Population	0.04** (0.00)	0.00 (0.00)	0.05** (0.06)	0.06** (.00)	0.06** (0.00)	0.04** (0.00)	0.00 (0.00)	0.00 (0.00)
Unemployment	-0.02 (0.05)	0.01 (.01)	-0.01 (0.05)	-0.02 (0.06)	-0.01 (0.06)	-0.02 (0.05)	0.01 (0.01)	0.01 (0.01)
Tax Rate	0.01 (.04)	0.01 (.01)	0.02 (0.04)	0.01 (0.04)	0.01 (0.04)	0.01 (0.04)	0.01 (0.01)	0.01 (0.01)
Inflation	-0.20 (0.06)	0.01 (0.01)	-0.18** (0.06)	-0.15* (0.07)	-0.15* (0.07)	-0.20** (0.06)	0.01 (0.01)	0.01 (0.01)
R-Squared	0.205	0.474	0.212	0.217	0.217	0.205	0.485	0.485

a. $n=155$

b. ^ $p<.10$; * $p<.05$; ** $p<.01$

c. The dependent variable is safety risk for Models 2, 7, and 8. For the remaining models, net FDI inflow serves as the dependent variable.

Table 7. *Descriptive Statistics and Bivariate Correlations for Sample 2*

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1 Subsidiaries (count)	20.95	23.98	1									
2 Corruption	-0.12	1.02	0.60*	1								
3 Safety Risk	2.35	0.78	-0.35*	-0.72*	1							
4 POLCON	0.28	0.20	0.31*	0.36*	-0.19*	1						
5 GDP (log)	4.15	1.93	0.84*	0.46*	-0.28*	0.21*	1					
6 GDP growth	3.47	6.14	-0.17	-0.20*	0.15*	-0.17*	-0.11*	1				
7 Population	44.56	151.23	0.32*	-0.08*	0.12*	-0.09*	0.36*	0.09*	1			
8 Unemployment	8.35	5.78	-0.12*	-0.04	0.06	0.02	-0.12*	-0.13*	-0.12*	1		
9 Tax rate	25.44	8.65	0.09*	-0.06	0.13*	-0.04	0.09*	0.03	0.10*	-0.14*	1	
10 Inflation	6.34	8.15	-0.20*	-0.28*	0.20*	-0.17*	-0.12*	-0.02	0.03	-0.03	.12*	1

a. $n=873$

b. * $p<.05$

Table 8. *Regression Results for Sample 2*

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Corruption		-0.55** (0.05)		0.29** (0.03)	0.31** (0.05)		-0.57** (0.05)	-0.63** (0.09)
Safety Risk			-0.22** (0.04)		0.03 (0.06)			
POLCON						1.56** (0.16)	0.33^ (0.19)	0.37* (0.18)
Corruption*POLCON								0.18 (0.19)
GDP (log)	0.66** (0.02)	0.01 (0.02)	0.63** (0.02)	0.58** (0.02)	0.58** (0.02)	0.63** (0.02)	0.01 (0.02)	0.00 (0.02)
GDP Growth	-0.03** (0.01)	0.00 (0.01)	-0.02** (0.01)	-0.02** (0.01)	-0.02** (0.01)	-0.02** (0.01)	0.00 (0.01)	0.00 (0.01)
Population	0.00** (0.00)	0.00 (0.00)	0.00* (0.00)	0.00* (0.00)	0.00 (0.00)	0.00* (0.00)	0.00 (0.00)	0.00 (0.00)
Unemployment	-0.01^ (0.01)	0.01 (0.01)	-0.01 (0.01)	-0.01^ (0.01)	-0.01^ (0.01)	-0.01** (0.01)	0.01 (0.01)	0.01 (0.01)
Tax Rate	-0.01** (0.00)	0.01 (0.01)	-0.01^ (0.00)	-0.01* (0.01)	-0.01* (0.01)	-0.01** (0.00)	0.01 (0.01)	0.01 (0.01)
Inflation	-0.01^ (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
F-Statistic		176.57**					182.40**	179.54**
R-Squared		0.536					0.542	0.544
Alpha	0.568**		0.548**	0.507**	0.506**	0.491**		
AIC	5987		5963	5917	5918	5895		
SBC	6025		6006	5960	5966	5938		

a. $n=873$

b. ^p<.10; *p<.05; **p<.01

c. The dependent variable is safety risk for Models 2, 7, and 8. For the remaining models, the dependent variable is a count of sample MNEs investing.

Table 9. *Descriptive Statistics and Bivariate Country-Level Correlations for Sample 3*

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1	MNE location decision	0.15	0.35	1										
2	Corruption	-0.12	1.02	0.29*	1									
3	Safety risk	2.35	0.78	-0.17*	-0.72*	1								
4	POLCON	0.28	0.20	0.15*	0.36*	-0.19*	1							
5	GDP (log)	4.15	1.93	0.39*	0.46*	-0.28*	0.21*	1						
6	GDP growth	3.47	6.14	-0.08*	-0.20*	0.15*	-0.17*	-0.11*	1					
7	Population	44.56	151.23	0.15*	-0.08*	0.12*	-0.09*	0.36*	0.09*	1				
8	Unemployment	8.35	5.78	-0.06*	-0.04*	0.06*	0.02*	-0.12*	-0.13*	-0.12*	1			
9	Tax rate	25.44	8.65	0.04*	-0.06*	0.13*	-0.04*	0.09*	0.03*	0.10*	-0.14*	1		
10	Inflation	6.34	8.15	-0.10*	-0.28*	0.20*	-0.17*	-0.12*	-0.02*	0.03*	-0.03*	0.12*	1	
11	USFTA	0.12	0.32	0.09*	0.15*	-0.04*	0.02*	0.10*	-0.01	-0.06*	-0.09*	-0.03*	-0.11*	1
12	English	0.13	0.33	0.02*	0.06*	0.05*	0.06*	-0.11*	0.00	-0.05*	0.00	0.18*	0.09*	-0.01*

Table 10. *Descriptive Statistics and Bivariate Firm-Level Correlations for Sample 3*

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1	MNE location decision	0.15	0.35	1											
2	Firm age	82.34	48.92	0.07*	1										
3	Firm size (log emp)	4.41	0.99	0.03*	0.04*	1									
4	Firm perf. (ROA)	0.05	0.07	0.04*	-0.10*	0.09*	1								
5	Board independence	0.82	0.12	0.05*	0.19*	0.00	0.02*	1							
6	CEO duality	0.66	0.47	0.07*	0.22*	0.04*	0.00	0.29*	1						
7	Product diversification	0.34	0.26	0.07*	0.14*	0.02*	-0.03*	0.05*	0.09*	1					
8	Int'l diversification	0.32	0.25	0.26*	0.19*	0.01*	0.17*	0.06*	0.05*	0.21*	1				
9	Foreign subs (count)	23.34	24.85	0.42*	0.11*	0.08*	0.08*	0.05*	0.14*	0.17*	0.58*	1			
10	CEO pay structure	0.86	0.15	0.03*	0.09*	0.01	0.06*	0.06*	0.17*	-0.02*	-0.01*	0.06*	1		
11	CEO total comp.	14.16	10.35	0.03*	0.00	0.10*	0.07*	-0.06*	0.05*	0.06*	0.09*	0.17*	0.44*	1	
12	Firm exp. (high risk)	2.71	3.60	0.40*	0.10*	0.10*	0.09*	0.02*	0.10*	0.17*	0.53*	0.95*	0.05*	0.14*	1
13	R&D intensity	0.02	0.05	0.15*	0.13*	0.02*	0.25*	0.10*	0.02*	0.01*	0.37*	0.31*	0.04*	0.17*	0.27*

a. $n=101,172$ b. * $p<.05$

Table 11. *Regression Results for Sample 3*

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Corruption			0.44** (0.05)	0.51** (0.05)	
Safety risk		-0.29** (0.67)		0.15* (0.06)	
POLCON					1.90** (0.23)
GDP (log)	1.04** (0.05)	1.01** (0.05)	0.94** (0.02)	0.93** (0.04)	1.01** (0.05)
GDP growth	-0.04* (0.02)	-0.04* (0.02)	-0.03* (0.01)	-0.03* (0.01)	-0.03* (0.01)
Population	0.00^ (0.00)	0.00 (0.00)	0.00** (0.00)	0.00** (0.00)	0.00 (0.00)
Unemployment	-0.01 (0.01)	0.00 (0.01)	0.00 (0.00)	0.00 (0.01)	-0.01^ (0.01)
Tax rate	-0.01** (0.00)	-0.01* (0.00)	-0.01* (0.00)	-0.01* (0.00)	-0.01** (0.00)
Inflation	-0.03** (0.01)	-0.02* (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.02* (0.01)
Free trade agreement	0.77** (0.10)	0.82** (0.09)	0.74** (0.09)	0.70** (0.09)	0.85** (0.10)
English (primary language)	0.63** (0.09)	0.62** (0.09)	0.49** (0.09)	0.36** (0.09)	0.57** (0.09)
Firm age	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Firm size (log emp.)	0.09 (0.12)	0.09 (0.11)	0.09 (0.11)	0.09 (.11)	0.09 (0.12)
Firm perf. (ROA)	-0.58 (0.83)	-0.52 (0.81)	-0.51 (0.84)	-0.52 (.84)	-0.55 (0.84)
Board independence	0.08 (0.63)	.10 (0.64)	0.10 (0.65)	0.09 (0.65)	0.10 (0.64)
CEO duality	-0.13 (0.14)	-0.14 (0.14)	-0.13 (0.14)	-0.13 (0.14)	-0.13 (0.14)
Product diversification	0.02 (0.24)	0.02 (0.24)	0.02 (0.24)	0.02 (.24)	0.01 (.24)
Int'l diversification	0.69^ (0.39)	0.71^ (0.40)	0.71^ (.40)	0.70^ (.40)	0.69^ (0.40)
Foreign subs (count)	0.09** (0.01)	0.09** (0.01)	0.09** (0.01)	0.09** (0.01)	0.09** (0.01)
CEO pay structure	1.13** (0.15)	1.17** (0.13)	1.17** (0.12)	1.16** (0.13)	1.16** (0.14)
CEO total comp.	-0.03** (0.01)	-0.03** (0.01)	-0.03** (0.01)	-0.03** (0.01)	-0.03** (0.01)
Firm exp. (high risk)	-0.19* (0.07)	-0.19* (0.07)	-0.19* (0.07)	-0.19* (0.07)	-0.19* (0.07)
R&D intensity	1.03 (1.91)	0.99 (1.93)	0.98 (1.93)	0.99 (1.94)	1.01 (1.94)
Wald chi2	7320.93**	7344.78**	7075.69**	7044.57**	7523.9**
Pseudo R-Squared	0.497	0.499	0.506	0.507	0.505

a. $n=101,172$ b. ^ $p<.10$; * $p<.05$; ** $p<.01$

c. The dependent variable is MNE location choice for all models.

Table 12. *Standardized (Mediation) Regression Results for Sample 3*

Variable	Model 1	Model 2	Model 3	Model 4
Corruption	-0.72** (0.06)		0.45** (0.05)	0.53** (0.05)
Safety risk		-0.23** (0.05)		0.11* (0.05)
POLCON				
F-Statistic	177.64**			
R-Squared	0.536			
Wald chi2		7344.78**	7075.69**	7044.57**
Pseudo R-Squared		0.499	0.506	0.507

a. $n=101,172$

b. $\wedge p < .10$; * $p < .05$; ** $p < .01$

c. For Model 1 the dependent variable is safety risk, and for Model 2-4, MNE location choice is the dependent variable.

Table 13. *Institutional Distance Results for Sample 3*

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Safety risk		-0.18 (0.53)		0.12 (0.09)		-0.28* (0.14)		-0.28* (0.12)		-0.20^ (0.10)		-0.26** (0.07)
Safety risk distance	0.28** (0.07)	-0.44 (.56)										
Safety risk*safety distance		0.16** (0.04)										
Formal distance			-0.06** (0.00)	-.06** (0.01)								
Safety risk*formal distance				-0.001 (0.00)								
Cultural distance (Hofstede)					-0.10** (0.03)	-0.13^ (0.07)						
Safety risk*cultural distance (Hofstede)						0.03 (0.03)						
Cultural distance (Globe)							-0.15** (0.04)	-0.40** (0.11)				
Safety risk*cultural distance (Globe)								0.11* (0.05)				
Geographic distance									-0.06** (0.01)	-0.04^ (0.02)		
Safety risk*geographic distance										-0.01 (0.01)		
POLCON distance											-1.92** (0.23)	-1.18* (0.49)
Safety risk*POLCON distance												-0.35* (0.16)
GDP (log)	1.02** (0.05)	1.03** (0.05)	0.96** (0.04)	0.97** (0.04)	0.93** (0.05)	0.93** (0.05)	0.97** (0.05)	0.95** (0.05)	1.04** (0.05)	1.01** (0.05)	1.01** (0.05)	0.99** (0.05)
GDP Growth	-0.04* (0.02)	-0.04* (0.02)	-0.04* (0.02)	-0.04* (0.02)	-0.03^ (0.01)	-0.02^ (0.01)	-0.06** (0.02)	-0.06** (0.02)	-0.04* (0.02)	-0.03* (0.01)	-0.03* (0.01)	-0.03* (0.01)
Population	0.00 (0.00)	0.00 (0.00)	0.00** (0.00)	0.00** (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00** (0.00)
Unemployment	0.00 (0.01)	-0.01 (0.01)	0.00 (0.01)	0.00 (0.01)	-0.02** (0.01)	-0.02^ (0.01)	0.00 (0.01)	0.00 (0.01)	-0.02* (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)
Tax Rate	-0.01* (.00)	-0.01* (.00)	0.00 (0.00)	0.00 (0.00)	-0.01** (0.00)	-0.01* (0.00)	-0.01* (0.01)	-0.01 (0.01)	-0.02** (0.00)	-0.01* (0.00)	-0.01** (0.00)	-0.01* (0.00)

Table 13 Continued.

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Inflation	-0.02** (0.01)	-0.03** (0.01)	0.01 (0.00)	0.01 (0.00)	-0.04** (0.01)	-0.03** (0.01)	0.00 (0.00)	0.00 (0.00)	-0.03** (0.01)	-0.02** (0.01)	-0.02** (0.01)	-0.01* (0.01)
Free trade agreement	0.82** (0.09)	0.80** (0.08)	0.42** (0.11)	0.37** (0.10)	0.70** (0.08)	0.73** (0.08)	0.67** (0.09)	0.69** (0.09)	0.66** (0.09)	0.69** (0.08)	0.85** (0.10)	0.89** (0.09)
English (primary language)	0.62** (0.09)	0.66** (0.09)	0.19* (0.09)	0.17^ (0.10)	0.40** (0.10)	0.42** (0.10)	0.40** (0.10)	0.44** (0.11)	0.65** (0.09)	0.65** (0.09)	0.57** (0.09)	0.56** (0.09)
Firm age	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Firm size (log emp.)	0.09 (0.12)	0.09 (0.12)	0.09 (0.12)	0.09 (0.12)	0.11 (0.12)	0.12 (0.12)	0.16 (0.11)	0.16 (0.11)	0.09 (0.12)	0.09 (0.12)	0.09 (0.11)	0.09 (0.12)
Firm perf. (ROA)	-0.56 (0.83)	-0.52 (0.84)	-0.62 (0.89)	-0.64 (0.89)	-0.53 (0.84)	-0.49 (0.83)	-0.42 (0.79)	-0.41 (0.79)	-0.56 (0.84)	-0.50 (0.82)	-0.52 (0.83)	-0.47 (0.82)
Board independence	0.11 (0.64)	0.10 (0.65)	0.03 (0.65)	0.02 (0.64)	0.06 (0.60)	0.06 (0.61)	0.11 (0.52)	0.11 (0.53)	0.08 (0.64)	0.10 (0.66)	0.12 (0.64)	0.14 (0.66)
CEO duality	-0.13 (0.14)	-0.13 (0.14)	-0.13 (0.14)	-0.12 (0.14)	-0.15 (0.15)	-0.16 (0.15)	-0.23 (0.15)	-0.23 (0.15)	-0.13 (0.14)	-0.14 (0.15)	-0.13 (0.14)	-0.14 (0.15)
Product diversification	0.02 (0.24)	0.02 (0.24)	0.01 (0.24)	0.01 (0.24)	0.01 (0.25)	0.01 (0.26)	0.07 (0.29)	0.07 (0.29)	0.02 (.24)	0.02 (.24)	0.01 (.24)	0.01 (.24)
Int'l diversification	0.71^ (0.40)	0.71^ (0.40)	0.66^ (0.40)	0.65 (0.40)	0.60 (0.40)	0.61 (0.40)	0.65^ (0.37)	0.66^ (0.37)	0.70^ (0.40)	0.72^ (0.40)	0.70^ (0.40)	0.72^ (0.40)
Foreign subs (count)	0.09** (0.01)	0.09** (0.01)	0.09** (0.01)	0.09** (0.01)	0.10** (0.01)	0.10** (0.01)	0.10** (0.01)	0.10** (0.01)	0.09** (0.01)	0.09** (0.01)	0.09** (0.01)	0.09** (0.01)
CEO pay structure	1.17** (0.15)	1.16** (0.16)	1.06** (0.15)	1.04** (0.16)	1.21** (0.20)	1.22** (0.20)	1.30** (0.28)	1.31** (0.29)	1.14** (0.14)	1.17** (0.13)	1.18** (0.14)	1.22** (0.13)
CEO total comp.	-0.03** (0.01)	-0.03** (0.01)	-0.03** (0.01)	-0.03** (0.01)	-0.03** (0.01)	-0.03** (0.01)	-0.04** (0.01)	-0.04** (0.01)	-0.03** (0.01)	-0.03** (0.01)	-0.03** (0.01)	-0.03** (0.01)
Firm exp. (high risk)	-0.19* (0.07)	-0.19* (0.07)	-0.19* (0.07)	-0.19* (0.07)	-0.20** (0.07)	-0.20** (0.07)	-0.21** (0.07)	-0.21** (0.07)	-0.19* (0.07)	-0.19* (0.07)	-0.19* (0.07)	-0.19* (0.07)
R&D intensity	1.00 (1.91)	0.99 (1.94)	1.09 (1.99)	1.11 (1.99)	1.34 (2.13)	1.33 (2.14)	0.23 (2.40)	0.22 (2.41)	1.03 (1.92)	0.98 (1.94)	0.98 (1.94)	0.93 (1.96)
Wald chi2	7321**	7519**	6545**	6758**	6222**	6563**	5155**	5455**	7585**	7640**	7672**	7653**
Pseudo R-Squared	0.497	0.50	0.508	0.509	0.474	0.475	0.479	0.48	0.50	0.503	0.505	0.508

a. $n=101,172$ (Models 1,2,9,10); $n=97,685$ (Models 3,4); $n=63,614$ (Models 5,6); $n=38,120$ (Models 7,8)

b. ^ $p<.10$; * $p<.05$; ** $p<.01$

c. The dependent variable is MNE location choice for all models.

Sample 4

Sample 4 evaluates *new* entry mode decisions. More specifically, I investigate if the variables of interest impact MNEs' decisions to invest in particular countries with subsidiaries over partnership entry modes. In total, Sample 4 includes 742 new entry decisions completed by 100 firms over a six year period (2008-2013). Tables 14 and 15 present descriptive statistics and bivariate correlations for Sample 4, and Tables 16 and 17 presents the regression results related to Sample 4's hypotheses.

Safety risk and government-based corruption do not significantly impact MNEs' entry mode decisions (Table 16, Models 2-3). Thus, Hypothesis 2.4 and Hypothesis 3.4 failed to receive support. Consistent with Hypothesis 4.4 (Table 16, Model 4), however, political constraints significantly relate to MNEs' use of subsidiary entry modes ($b=3.95$, $p<.001$).

In regard to institutional distance (Table 16, Models 5-10), safety risk distance, geographic distance, and formal institutional distance do not significantly relate to MNEs' entry mode decisions. However, cultural distance using both Hofstede's cultural dimensions ($b=-0.65$, $p<.001$) and the GLOBE study's cultural dimensions ($b=-0.60$, $p=.05$), as well as political constraints distance ($b=-3.90$, $p<.001$) negatively relate to MNEs use of subsidiary entry modes, as hypothesized. In sum, Hypothesis 6.4a (safety risk distance), 6.4b (formal distance), and 6.4d (geographic distance) failed to received support. And Hypotheses 6.4c (cultural distance) and 6.4e (political constraints distance) received support. For interaction Hypotheses 7.4a-7.4e (Table 17), only Hypothesis 7.4d received support. Geographic distance significantly strengthens the relationship between safety risk and MNEs use of subsidiary entry modes. As discussed under Sample 3, the datasets for formal and cultural distance included several missing values. Thus, subsets of the full dataset were utilized to analyze hypotheses related to these variables.

In conclusion, sample four investigated new entry mode decisions. Whereas Samples 1, 2, and 3 evaluated where firms invest, this sample evaluated how firms invest. Considering the different objective for this sample, a subset of the other datasets was utilized. No support for mediation was found with Sample 4. However, political constraints, political constraints distance, and cultural distance relate to entry mode choices, as indicated by the prior samples. And geographic distance moderates the safety risk-entry mode relationship.

Table 14. *Descriptive Statistics and Bivariate Country-Level Correlations for Sample 4*

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1	Entry mode	0.92	0.27	1										
2	Corruption	0.40	1.10	0.02	1									
3	Safety risk	2.06	0.74	0.01	-0.75*	1								
4	POLCON	0.33	0.19	0.21*	0.32*	-0.20*	1							
5	GDP (log)	5.69	1.70	-0.21*	0.28*	-0.12*	-0.02	1						
6	GDP growth	2.47	4.80	-0.14*	-0.29*	0.28*	-0.41*	-0.02	1					
7	Population	120.20	309.49	-0.26*	-0.26*	0.24*	-0.37*	0.46*	0.32*	1				
8	Unemployment	26.04	8.72	0.14*	-0.09*	0.17*	0.17*	-0.20*	-0.22*	-0.19*	1			
9	Tax rate	26.04	8.72	-0.10*	-0.04	0.06	-0.14*	0.25*	0.04	0.09*	-0.08*	1		
10	Inflation	5.07	5.76	0.03	-0.48*	0.35*	-0.22*	-0.22*	0.16*	0.03	-0.02	0.02	1	
11	USFTA	0.13	0.33	0.07	0.17*	-0.01	-0.07	-0.04	0.06	-0.12*	-0.11*	-0.03	-0.12*	1
12	English	0.12	0.33	0.03	0.21*	-0.04	0.09*	-0.02	-0.05	-0.10*	0.08*	0.02	-0.02	0.13*

Table 15. *Descriptive Statistics and Bivariate Firm-Level Correlations for Sample 4*

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1	Entry mode	0.92	0.27	1											
2	Firm age	86.97	45.39	0.06	1										
3	Firm size (log emp)	4.50	0.93	-0.09*	0.00	1									
4	Firm perf. (ROA)	0.07	0.12	0.02	0.01	0.20*	1								
5	Board independence	0.83	0.11	0.04	0.22*	0.05	0.09*	1							
6	CEO duality	0.63	0.48	0.08*	0.35*	0.08*	0.15*	0.36*	1						
7	Product diversification	0.36	0.25	-0.10*	0.18*	0.02	-0.25*	0.09*	0.13*	1					
8	Int'l diversification	0.40	0.22	-0.04	0.30*	0.14*	0.12*	0.16*	0.12*	0.13*	1				
9	Foreign subs (count)	29.01	23.60	0.18*	-0.04	0.25*	0.05	0.16*	0.16*	0.12*	0.51*	1			
10	CEO pay structure	0.87	0.12	0.07*	0.11*	0.00	-0.07*	0.08*	0.09*	0.00	0.00	0.04	1		
11	CEO total comp.	14.16	8.77	-0.03	-0.04	0.17*	-0.12*	-0.06	0.15*	0.13*	-0.06	0.07	0.40*	1	
12	Firm exp. (high risk)	3.39	3.52	0.17*	-0.05*	0.22*	0.04	0.07*	0.05	0.17*	0.50*	0.94*	0.05	0.00	1
13	R&D intensity	0.03	0.06	0.04	0.16*	0.09*	0.22*	0.24*	0.17*	-0.16*	0.30*	0.05	-0.05	0.00	-0.03

a. $n=742$ b. * $p<.05$

Table 16. *Regression Results for Sample 4*

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Corruption			0.28 (0.23)							
Safety risk		-0.03 (0.28)								
POLCON				3.95** (1.09)						
Safety risk distance					-0.03 (0.29)					
Formal distance						-0.03 (0.03)				
Cultural distance (Hofstede)							-0.65** (0.19)			
Cultural distance (GLOBE)								-0.60* (0.31)		
Geographic distance									-0.08 (0.06)	
POLCON distance										-3.90** (1.08)
GDP (log)	-0.14 (0.16)	-0.14 (0.16)	-0.15 (0.16)	-0.18 (0.17)	-0.14 (0.16)	-0.13 (0.16)	-0.25 (0.18)	-0.35 (0.24)	-0.17 (0.17)	-0.18 (0.17)
GDP Growth	-0.14** (0.05)	-0.14** (0.05)	-0.13* (0.05)	-0.09 (0.06)	-0.14** (0.05)	-0.13* (0.05)	-0.06 (0.06)	-0.06 (0.07)	-0.13* (0.05)	-0.09 (0.06)
Population	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Unemployment	0.12^ (0.07)	0.12^ (0.07)	0.14* (0.07)	0.10 (0.06)	0.12^ (0.07)	0.15* (0.07)	0.10 (0.08)	0.08 (0.08)	0.09 (0.06)	0.09 (0.06)
Tax Rate	-0.02 (0.02)	-0.02 (0.02)	-0.03 (0.02)	-0.01 (0.02)	-0.02 (0.02)	-0.02 (0.02)	-0.02 (0.02)	0.01 (0.04)	-0.02 (0.01)	-0.01 (0.02)
Inflation	0.00 (.04)	0.01 (.04)	0.03 (.04)	0.02 (.03)	0.00 (.03)	0.03 (.05)	0.01 (.04)	0.05 (.07)	0.00 (.04)	0.01 (.03)
Free trade agreement	1.21^ (0.67)	1.22^ (0.68)	1.19^ (0.67)	1.60* (0.70)	1.21^ (0.68)	1.00 (0.69)	1.24^ (0.68)	0.41 (0.74)	1.21^ (0.68)	1.60* (0.70)
English (primary language)	-0.25 (0.56)	-0.25 (0.56)	-0.42 (0.57)	-0.42 (0.57)	-0.24 (0.56)	-0.49 (0.59)	-1.68* (0.72)	-0.96* (0.71)	-0.23 (0.55)	-0.43 (0.57)
Firm age	0.01* (0.00)	0.01* (0.00)	0.01* (0.00)	0.01^ (0.00)	0.01* (0.00)	0.01* (0.00)	0.01^ (0.00)	0.01^ (0.01)	0.01* (0.00)	0.01^ (0.00)

Table 16 Continued.

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Firm size (log emp.)	-0.51** (0.19)	-0.51** (0.19)	-0.51** (0.19)	-0.55** (0.19)	-0.51** (0.19)	-0.52** (0.19)	-0.41* (0.20)	-0.40^ (0.22)	-0.51** (0.19)	-0.54** (0.19)
Firm perf. (ROA)	4.07 (2.64)	4.08 (2.65)	4.29 (2.68)	3.74 (2.60)	4.07 (2.65)	4.19 (2.65)	1.11 (2.67)	2.95 (3.57)	4.24 (2.67)	3.81 (2.62)
Board independence	0.33 (1.72)	0.33 (1.72)	0.28 (1.71)	1.01 (1.74)	0.33 (1.72)	0.25 (1.72)	0.37 (1.84)	0.79 (2.12)	0.42 (1.70)	1.06 (1.73)
CEO duality	0.37 (0.37)	0.37 (0.37)	0.35 (0.37)	0.36 (0.37)	0.36 (0.37)	0.33 (0.37)	0.39 (0.40)	0.28 (0.46)	0.33 (0.37)	0.37 (0.37)
Product diversification	-1.62* (0.71)	-1.63* (0.71)	-1.60* (0.71)	-1.49* (0.72)	-1.62* (0.71)	-1.63* (0.71)	-2.19** (0.77)	-1.79* (0.93)	-1.66* (0.71)	-1.50* (0.72)
Int'l diversification	-3.04** (0.90)	-3.04** (0.90)	-3.20** (0.92)	-3.31** (0.91)	-3.04** (0.90)	-3.24** (0.93)	-3.54** (0.97)	-3.81** (1.13)	-3.16** (0.91)	-3.28** (0.91)
Foreign subs (count)	0.02 (.03)	0.03 (.03)	0.03 (.03)	0.03 (.03)	0.02 (.03)	0.03 (.03)	0.03 (.03)	0.05 (.04)	0.03 (.03)	0.02 (.03)
CEO pay structure	1.35 (1.19)	1.36 (1.19)	1.49 (1.19)	1.78 (1.25)	1.34 (1.19)	1.42 (1.19)	1.42 (1.19)	1.39 (1.53)	1.35 (1.19)	1.83 (1.25)
CEO total comp.	-0.01 (0.02)	-0.01 (0.02)	-0.01 (0.02)	-0.01 (0.02)	-0.01 (0.02)	-0.01 (0.02)	-0.02 (0.02)	-0.03 (0.02)	-0.01 (0.02)	-0.01 (0.02)
Firm exp. (high risk)	0.24 (0.18)	0.24 (0.18)	0.22 (0.18)	0.25 (0.18)	0.24 (0.18)	0.22 (0.18)	0.23 (0.19)	0.07 (0.23)	0.24 (0.18)	0.25 (0.18)
R&D intensity	-1.98 (3.16)	-1.98 (3.16)	-1.70 (3.14)	-1.77 (3.18)	-1.98 (3.16)	-1.28 (3.18)	-0.47 (3.38)	-2.30 (4.21)	-1.91 (3.16)	-1.97 (3.18)
Likelihood ratio	121.53**	121.54**	123.06**	135.69**	121.54**	122.18**	125.27**	90.15**	123.42**	135.46**
AIC	337.29	339.28	337.75	325.12	339.28	337.79	305.05	238.70	337.39	325.35

a. $n=742$ (Models 1-5, 9-10); $n=737$ (Model 6); $n=650$ (Models 7); $n=480$ (Models 8)b. ^ $p \leq .10$; * $p \leq .05$; ** $p \leq .01$

Table 17. *Interaction Results for Sample 4*

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Safety risk	-2.18 (1.80)	-0.07 (0.58)	0.24 (0.85)	0.06 (0.82)	-1.34^ (0.71)	-0.05 (0.36)
Safety risk distance	-2.07 (1.91)					
Safety risk*safety distance	-0.05 (0.36)					
Formal distance		-0.07 (0.06)				
Safety risk*formal distance		0.01 (0.03)				
Cultural distance (Hofstede)			-0.72 (0.56)			
Safety risk*cultural distance (Hofstede)			0.02 (0.27)			
Cultural distance (Globe)				-0.12 (0.89)		
Safety risk*cultural distance (Globe)				-0.20 (0.37)		
Geographic distance					-0.37* (0.16)	
Safety risk*geographic distance					0.14* (0.07)	
POLCON distance						-4.30 (3.21)
Safety risk*POLCON distance						0.22 (1.64)
GDP (log)	-0.14 (0.16)	-0.14 (0.16)	-0.27 (0.19)	-0.31 (0.26)	-0.14 (0.17)	-0.19 (0.18)
GDP Growth	-0.14** (0.05)	-0.13* (0.05)	-0.06 (0.06)	-0.06 (0.07)	-0.11* (0.05)	-0.09 (0.06)
Population	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Unemployment	0.14^ (0.07)	0.14^ (0.08)	0.08 (0.08)	0.09 (0.09)	0.09 (0.07)	0.10 (0.07)
Tax Rate	-0.03 (0.02)	-0.02 (0.02)	-0.02 (0.02)	0.00 (0.04)	-0.02 (0.02)	-0.01 (0.02)
Inflation	-0.01 (0.04)	-0.03 (0.05)	-0.01 (0.05)	0.10 (0.09)	0.01 (0.04)	0.02 (0.04)
Free trade agreement	1.21^ (0.68)	0.94 (0.72)	1.18^ (0.68)	0.45 (0.75)	1.74* (0.75)	1.61 (0.70)
English (primary language)	-0.21 (0.56)	-0.57 (0.61)	-1.73* (0.74)	-0.95 (0.76)	-0.33 (0.56)	-0.42 (0.57)
Firm age	0.01* (0.00)	0.01* (0.00)	0.01^ (0.00)	0.01^ (0.01)	0.01* (0.00)	0.01^ (0.00)
Firm size (log emp.)	-0.52** (0.19)	-0.52* (0.19)	-0.40* (0.20)	-0.41^ (0.23)	-0.54** (0.19)	-0.55** (0.19)
Firm perf. (ROA)	4.66 (2.76)	4.13 (2.65)	1.08 (2.68)	3.08 (3.63)	4.63* (2.68)	3.87 (2.65)
Board independence	0.39 (1.71)	0.28 (1.73)	0.40 (1.86)	0.77 (2.11)	0.37 (1.75)	1.03 (1.74)
CEO duality	0.38 (0.37)	0.30 (0.37)	0.36 (0.40)	0.30 (0.47)	0.30 (0.37)	0.37 (0.37)

Table 17 Continued.

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Product diversification	-1.65* (0.72)	-1.59* (0.72)	-2.19** (0.78)	-1.83* (0.93)	-1.61* (0.71)	-1.49* (0.72)
Int'l diversification	-3.13** (0.91)	-3.26** (0.93)	-3.57** (0.98)	-3.82** (1.12)	-3.10** (0.92)	-3.27** (0.91)
Foreign subs (count)	0.02 (0.03)	0.21 (0.18)	0.03 (0.03)	0.05 (0.03)	0.03 (0.03)	0.03 (0.03)
CEO pay structure	1.49 (1.18)	1.39 (1.19)	1.43 (1.34)	1.51 (1.55)	1.55 (1.21)	1.83 (1.25)
CEO total comp.	-0.01 (0.02)	-0.01 (0.02)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Firm exp. (high risk)	0.25 (0.18)	0.21 (0.18)	0.24 (0.19)	0.06 (0.23)	0.21 (0.18)	0.25 (0.18)
R&D intensity	-1.82 (3.16)	-1.07 (3.20)	-0.42 (3.42)	-2.24 (4.22)	-1.99 (3.15)	-1.98 (3.18)
Likelihood ratio	123.02**	122.63**	126.11**	91.11**	127.23**	135.48**
AIC	341.79	341.33	308.21	241.74	337.58	337.58

a. $n=742$ (Models 1,5,6); $n=737$ (Model 2); $n=650$ (Models 3); $n=480$ (Models 4)

b. $^{\wedge}p \leq .10$; $*p \leq .05$; $**p \leq .01$

CHAPTER SIX

DISCUSSION

International investment decisions, including investment flows, location decisions, and entry strategies are the focus of many global strategy studies (Werner, 2002). More specifically, scholars evaluate how institutional risk factors, including government-based corruption, political constraints, and institutional distance impact these investment decisions (Demirbag et al., 2007; Peng, 2006). Despite the abundance of research in this area, institutional risk factors are largely studied individually, and prior findings fail to yield consistent conclusions. From an institutional theory lens, this dissertation evaluates how the aforementioned institutional risk factors interact with one another and ultimately drive or deter foreign investment. Further, this study introduces a largely overlooked institutional risk factor, safety risk, and investigates if it is an important by-product of corruption and/or directly alters investment.

This dissertation uses a four-sample approach to test how institutional risk factors – government-based corruption, safety risk, political constraints, and institutional distance – impact both location and entry mode choices. The multiple sample approach provides stronger support for the validity of findings (Eden, 2002; Schmidt, 2009). Samples 1, 2, and 3 evaluate where firms invest, and Sample 4 evaluates how firms invest. Further, Sample 1 and Sample 2 investigate how multiple home countries invest in multiple host countries (at the country-level). And Sample 3 and 4 investigate where and how a sample of U.S.-based firms invest in multiple host countries. The presented hypotheses and empirical tests work to answer the following: “Is safety risk an important mediator of the relationship between government-based corruption and international investment?” and “How do institutional variables interact to explain international investment?”

This chapter 1) reviews the findings of the analyses and their implications, 2) discusses the theoretical and practical contributions of this dissertation, and 3) presents limitations and future research directions.

Overview of Findings and Implications

Where Firms Invest (Samples 1, 2, and 3)

With few exceptions, the findings of the first three samples are consistent. Again, these samples test where MNEs invest. Although the models are similar, three different measures of international investment are evaluated: net FDI inflows (Sample 1), the number of sample MNEs making an equity investment (Sample 2), and MNEs' location choices (Sample 3). Further, Sample 3 tests if and how several aspects of institutional distance relate to international investment. Below, the findings of Samples 1, 2, and 3 are discussed. Following this, the findings of the entry mode study are discussed.

Sample 1 consists of 155 countries. The panel dataset includes net FDI inflows into these countries for a six year period (2008-2013). Due to missing data on key variables (i.e., safety risk), several of the sample countries are not included for all six years. However, the majority span the full range. In total, there are 879 country-year observations in the panel dataset. As a robustness check, a cross-sectional dataset is also used to test the relationships of interest. To create the cross-sectional dataset, the averages across years were taken for the 155 sample countries. Similar to Sample 1, Sample 2 includes 154 countries over the same six year period (873 total observations). However, in this case, the U.S. as an investment location is not included, and the outcome is a count of sample firms investing. Finally, Sample 3 includes the location choices of 118 U.S.-based firms into 154 countries over a six year period (2008-2013). In total, 101,172 firm-country-year observations are included.

As hypothesized, government-based corruption significantly relates to safety risk, and safety risk significantly relates to international investment decisions. These relationships are confirmed with all three samples and are central to this dissertation and its overall contributions to theory, practice, and policy. When government-based corruption is high, spillover effects occur, and safety risk becomes pervasive. In turn, this safety-related risk negatively impacts foreign investment into a particular nation, controlling for opportunities. Partial mediation is also hypothesized, but was not fully supported. There is much debate in the literature surrounding what constitutes mediation. For example, Zhao, Lynch, and Chen (2010), among others, argue that scholars should focus on the significance of the indirect effect. They also point out that confirming the partial effect of the mediator on the dependent variable, when controlling for the independent variable, may be unnecessary. A strong relationship between the independent variable and the dependent variable, as I have in this dissertation, can “inflate the standard error

of b'' (Zhao et al., 2010: 202). These points are important to consider while interpreting my mediation results.

Further, in Sample 1, the results indicate that political constraints do not effect net FDI inflows. However, with Sample 2 and Sample 3 support is found. This contradiction in findings is likely a result of the investing countries included in each sample. Again, Sample 1 includes investment of all nations, whereas Samples 2 and 3 primarily evaluate U.S. firms. Considering these mixed results, it is possible that U.S. firms carefully consider how other governments are organized (i.e., concentration of power and distribution of preferences) when making international investment decisions. Yet, MNEs based in other nations are less concerned about this aspect of institutional risk.

In addition to the direct relationship between political constraints and investment, this dissertation evaluates if political constraints moderate the relationship between government-based corruption and safety risk. Specifically, Hypothesis 5 states when power is concentrated among government officials with similar preferences, the relationship between government-based corruption and safety risk is weakened. This is because a concentrated, powerful government has increased authority to reign in the spillover effects of government actions and more closely control who engages in corruption. Hypothesis 5 failed to receive support. Considering this, it may be important to test other potentially important moderators of the corruption-safety risk relationship.

As discussed in Chapter 4, in the current study, political constraints is operationalized with an objective measure. However, a subjective measure may be more appropriate. How people behave largely depends upon perceptions of their environment. Thus, despite high levels of corruption, whether or not citizens engage in behaviors that generate safety risk likely depends upon if they *perceive* the government as being very powerful. If the citizens are generally fearful of how the government will retaliate against their behavior, they are less likely to participate in activities such as murder and violent crime. Also, how long the government has been in power may impact the corruption-safety risk relationship. If the government is corrupt and has been in power for a long time, it is more likely that these unproductive actions at the government-level have spilled over into the private sector, generating safety risk. Alternatively, if the current government is corrupt but has only been in power for a short period, the leadership has not had time to fully redefine the rules of the game. And unproductive practices, although developing,

have not become the normal way of life within society. Additionally, if the government is corrupt but 1) people like and respect the government leadership (it is seen as legitimate), and/or 2) the economy is very strong, they are less likely to engage in behaviors that lead to safety risk. If these aspects are present, government corruption is likely overshadowed. Because there are outliers that have high corruption but low safety risk and vice versa, trying to understand key moderators of this relationship is an important pursuit. The prior discussion is intended to provide several examples of variables that scholars may consider in the future.

Interestingly, although the hypothesized interaction was not found, political constraints directly relate to safety risk when controlling for corruption. Meaning, as governments become more “democratic” (more independent veto points and increased distribution of preferences) safety risk increases. Although this relationship was not hypothesized it provides some important implications for future research. It is generally assumed that political constraints are positive and less authoritarian governments are preferred. Yet, these results indicate that safety risk may be a negative implication of political constraints.

Various aspects of institutional distance are evaluated with firm-level Sample 3. Specifically, safety risk distance, formal institutional distance, cultural distance, geographic distance, and political constraints distance are considered. Their direct effects on investment as well as their interactions with safety risk are hypothesized and empirically tested. Cultural distance, formal institutional distance, geographic distance, and political constraints distance all negatively relate to MNEs’ location choices, as hypothesized. Further, safety risk distance, cultural distance (using the GLOBE study dimensions), and political constraints distance strengthen the negative relationship between safety risk and MNEs’ location choices. These findings support the notion that unfamiliar environments generate risk for MNEs, potentially increasing their liabilities of foreignness and threatening their legitimacy. This is not only the case when nations are culturally disparate (the most commonly studied aspect of distance) but also when a potential investment location 1) is geographically far, 2) has different laws, rules, regulations, and policies (formal institutional distance), and 3) has a government that is organized differently. The findings also indicate that distance impacts perceptions of risk. More specifically, the perception of safety risk and its impact on investment is greater when there are substantial cultural, safety risk, and political constraint differences between the home and host nation.

It is important to note there are several significant control variables. The “risk” side of investing is the focus of this dissertation. However, the “reward” side, although not central to this study, is important to consider. The results indicate that several opportunity factors positively and significantly impact investment. For example, GDP and population, which represent the demand or size of the market, relate to investment in most of the models for Samples 1, 2, and 3. Other country-level aspects negatively impact investment. For instance, inflation and the corporate tax rate are found to reduce investment in several of the models. When looking specifically at the investment decisions of U.S.-based firms, MNEs are more likely to invest in another nation when English is a primary language and when there is a free trade agreement in place. In addition to country-level control variables, Sample 3 includes several firm-level controls that increase or decrease the likelihood of investment. For example, international diversification and CEO incentive-based pay positively relate to investment, and CEO total compensation deters investment.

How Firms Invest (Sample 4)

A substantial amount of research focuses on MNEs’ entry mode choices (Hitt *et al.*, 2006; Canabal & White, 2008). Thus, the purpose of Sample 4 is to evaluate if the studied institutional risk factors are associated with how firms choose to invest, in addition to where they choose to invest. The sample includes 742 new entries completed by 100 firms from 2008 to 2013. Subsidiaries versus partnership (alliance/joint venture) entry modes are considered.

Unlike the previously discussed findings for Samples 1-3, safety risk and corruption do not relate to entry modes. However, when political constraints are present, MNEs are more likely to invest using subsidiaries. Further, the only aspects of institutional distance that directly matter in this case are cultural distance and political constraints distance. As far as the interaction hypotheses, geographic distance is the only institutional distance variable that significantly moderates the safety risk-entry mode relationship. In sum, once a firm decides to invest in a particular country, institutional risk factors play far less of a role in how the firm invests. Because subsidiaries and alliances/joint ventures require an arguably substantial investment, the results may be more meaningful if subsidiaries versus non-FDI modes were evaluated (e.g., franchising, licensing). Several firm- and country-level control variables are significant for Sample 4. For example, GDP growth, product diversification, international diversification, and firm size negatively relate to MNEs’ use of subsidiaries in several of the models.

Summary

As hypothesized, safety-related risk is a by-product of government based corruption. When government officials engage in bribery they set the tone for a wider range of unproductive activity throughout society, namely safety risk. This safety risk, in turn, reduces investment into a particular country. Further, when U.S.-based firms are evaluated, political constraints motivate investment. In addition, cultural, formal, political, and geographic distance deter investment, and safety risk distance, political constraints distance, and cultural distance amplify the negative relationship between safety risk and investment. Although institutional risk factors have less of an impact on MNEs' entry mode decisions, political constraints, cultural distance, and political constraints distance negatively relate to the use of subsidiaries over partnerships, and geographic distance is a significant moderator.

Theoretical and Practical Contributions

The theoretical contributions related to the findings surrounding the corruption→ safety risk→ international investment relationships are twofold. First, the equivocal corruption-international investment relationship is further clarified. Second, an additional institutional risk factor – safety risk – is introduced and its role in MNEs' investment decisions is theoretically delineated.

As previously described, prior findings surrounding the impact of government-based corruption on international investment are mixed. For instance, while some studies find corruption negatively impacts investment (Voyer & Beamish, 2004; Wei, 2000a), others find there is no effect (Hines, 1995; Wheeler & Mody, 1992). Scholars have even worked to identify the benefits of corruption (Huntington, 1968; Leff, 1964; Lui, 1985).

Considering the various perspectives and empirical findings, this dissertation contributes to the literature by studying the potentially broader effects of corruption as well as mediators and moderators of the corruption-international investment relationship. More specifically, safety risk is introduced. To my knowledge, this institutional risk factor is not central to the current literature nor is it studied when evaluating international investment decisions. By introducing safety risk, this study shows that government-based corruption is not isolated to government transactions. The government is a powerful institutional actor that sets the rules of the game, allocates a substantial amount of resources across the economy, and largely shapes the

institutional environment (Scott & Davis, 2007; Zucker, 1987). These unproductive activities infiltrate norms and behaviors well beyond government and ultimately generate safety-related risk (e.g., violent crime, violent demonstrations, homicides, organized conflict, terrorist activity) in the private sector. In turn, this safety risk deters investment from the global community. In sum, the findings of this dissertation indicate safety risk is an important by-product of corruption. In addition to the noteworthy relationship between corruption and safety risk, safety risk is an important institutional risk factor that reduces the likelihood of international investment. Therefore, it should be considered in addition to the other institutional risk factors (political constraints, corruption, institutional distance) in future studies.

Building off the above, the effects of each institutional risk factor are typically studied individually. This dissertation works to evaluate the impact of some of these factors on one another, and ultimately, the implications for foreign investment. Understanding the complexity of these relationships within an institutional environment is an important pursuit to resolve issues surrounding mixed empirical results and fragmentation of the literature. The findings indicate the both corruption and political constraints relate to safety risk. Further, safety risk distance, political constraints distance, cultural distance, and geographic distance moderate the relationship between safety risk and investment. There is more work to be done on how various institutional aspects directly impact and interact with one another to explain investment behavior. Hopefully these results generate interest in further understanding the complexity of institutional environments.

This dissertation also makes contributions to both policy and business practice. Foreign investment is an important component of a nation's prosperity, growth, and position in the global economy. Thus, understanding government-directed policies that enhance or deter foreign investment is an important pursuit. Government practices and policies are largely controllable (i.e., corruption). And developing, or even developed, economies that make strides to shift these policies can ultimately change the wealth of their nation and the prosperity of their people. When considered in isolation, corruption may seem like a relatively harmless practice that grants government officials additional, yet illegally obtained, funds or gifts. However, when the wider implications are taken into account, nations may realize the detrimental effects of corruption. Not only on investment, but also on the safety of their people.

Further, from a business standpoint, executives should pay increased attention to government-based corruption. Even if policies are in place so that firms themselves do not engage in corruption (i.e., the Foreign Corrupt Practices Act, firm-level training programs), it is important that they consider this institutional aspect because of the wider effects it can have on the safety and stability of the country. In addition, U.S.-based firms are less likely to invest in countries with minimal political constraints. However, it is important for executives to understand that increased political constraints do not necessarily translate to a safer investment climates. Indeed, the results of this study support the opposite.

Finally, the results indicate that distance impacts investment, both directly and as a moderator. If executives become aware of how their perceptions impact investment, they may more accurately evaluate international investment options. This is not to say that cultural distance, for example, is an invalid concern. At times, however, executives may unintentionally weigh this criteria over others when objectively the firm would benefit from investing. Of course, many factors beyond institutional risk are considered when making international investment decisions. Nonetheless, executives should be cognizant of 1) the connections between these various institutional factors and 2) how their individual biases can impact evaluation of risk, and ultimately their investment decisions. Becoming aware of these factors can help executives to make more educated decisions and to understand the potentially long-term implications of government policies and practices.

Limitations and Future Research Directions

There are several limitations of this study that hopefully provide fruitful avenues for future research. First, although Sample 1, and to some extent Sample 2, include non-U.S. firms, Samples 3 and 4 only include the investment decisions of U.S. firms. The majority of results are consistent across Samples 1-3. However, it is important to test the relationships across a wider sample of “home” countries. This may help to explain the inconsistent findings surrounding the impact of political constraints. In addition, interesting conclusions may arise from testing the institutional distance hypotheses on a multi-country sample. Although safety risk distance and cultural distance moderate the safety risk-international investment relationship for U.S. MNEs, future studies may find perceptions are impacted differently for firms based in other nations. Further, prior studies have found U.S. firms are more concerned with corruption than many other

nations due to federal regulations, such as the FCPA (Hines, 1995). For this reason, the corruption-investment relationship considered in this dissertation is important to evaluate with a more diverse sample of firms.

Second, data availability for Sample 4 was a limitation. For my sample of firms, I was able to collect the year in which a cross-border partnership (alliance/joint venture) occurred from the SDC database. However, accurate data on the duration of the partnerships were not available. It would be beneficial to evaluate partnerships across multiple years as I did with the subsidiary analysis in Sample 3. In the future, additional entry mode studies may be conducted with alternate datasets to better understand how the institutional risk factors studied here impact entry mode choices. In addition, this dissertation considered the dichotomy of subsidiary versus partnership entry. It is potentially more meaningful to study high equity investments (i.e., wholly-owned subsidiaries, greenfields) versus non-equity investments (i.e., franchising, licensing). This type of distinction would likely provide significant insight into the importance of these institutional risk factors to executives. Both subsidiary and partnership entry modes require relatively substantial investments. After a firm chooses to invest in a host country, selecting subsidiary over joint venture, for example, may not greatly depend upon risk generated from corruption or safety risk.

Third, secondary data provides benefits as well as limitations. It is difficult to obtain accurate data on sensitive issues such as kidnapping, drug trafficking, murder, rape, etc. from countries. For example, although the UNODC reports statistics on these aspects for multiple countries, they must rely on how the countries track these statistics and what they openly report. This results in many missing values as well as seemingly inaccurate comparisons across countries. For example, according to the United Nations, Canada, Australia, France, the UK, and Germany have some of the highest kidnapping rates in the world. Due to this limitation, indicators from the GPI's dataset served as the sole measure of safety risk. Although this measure accurately captures "safety risk" as defined here, future studies should attempt to develop additional measures of this construct from primary data sources. For instance, a case study approach may help to further understand 1) the dimensions of safety risk, 2) what aspects of the institutional environment (beyond corruption) interact with it, 3) how it impacts nations' long-term stability and prosperity, and 4) how it impacts MNEs' investment choices. In addition, I conducted a factor analysis while developing the safety risk measure used for this dissertation.

Although the analysis supported the seven items used to measure safety risk as defined here, there may be other types of safety risk that are important to evaluate going forward. For example, the implications of external safety risk or safety risk generated by military aspects may be interesting to consider in future research. The focus of this dissertation was on one type of safety risk. However, the interaction effects of different types of safety risk may produce important findings.

Fourth, and rightfully so, strategic management scholars are intently focused on the performance implications of specific strategies. Going forward, scholars should research the performance implications of investing in high safety risk countries, for example. Further, modes used to enter nations with different levels of safety risk can potentially impact firms' financial performance. These issues were not considered here, only if a firm entered a specific location and which entry mode was used. Of course, the long-term implications of these actions are important to understand.

Fifth, although control variables related to governance (independence and CEO duality) are largely irrelevant in most of the analyses, CEO compensation does play a role. Whereas total compensation generally deters investment, higher incentive pay motivates investment. It would be interesting to further explore executive compensation as well as other leadership characteristics to further understand how they impact investing (or not investing) in various types of institutional environments. Sixth, this dissertation only explores investment in particular host countries, not disinvestment. Understanding how shifts in the institutional environment, be that corruption, safety risk, or otherwise relate to exit strategies is another important pursuit. Informing CEOs, for example, on how changes in government organization or corruption impact safety risk may allow them to preemptively exit countries before their employees and resources are put at risk.

Seventh, this dissertation did not take into account stakeholder demands. In practice, however, many international investment decisions are made at the demands of clients. This is especially true for service firms. Future studies should work to understand how various stakeholders' needs are taken into account when making international investment choices. This is a largely unexplored area of research.

Finally, future research should dig deeper into the dimensions of institutional risk variables. To this point, scholars research if corruption effects investment, if political constraints

effect investment, if cultural distance effects investment, and so on. Yet, there are likely different aspects of all of these variables that if teased apart could tell us something interesting about the complexity of the institutional environment and MNEs' investment decisions. For example, there are multiple facets of corruption (Doh et al., 2003). With limited exception, it is generally wrapped up into one value (i.e., CCI, CPI). Perhaps there are certain aspects of corruption and how it is mandated that are more or less detrimental to the investment climate, and safety risk, for example. The same can be argued for all of the institutional risk factors studied.

Conclusion

This dissertation sought to evaluate the potential by-products of government-based corruption as well as investigate if and how various institutional risk factors impact one another, and in turn, international investment decisions. The results of the four-sample study indicate that government-based corruption has spillover effects and results in increased safety risk. Thus, actions taken within the public sector impact safety in the private sector. Further, although safety risk does not relate to how firms invest (entry modes), it does relate to where they choose to invest (location choices). While political constraints do not deter net FDI inflows for all investing nations, they do deter investment and the use of subsidiaries by U.S.-based multinationals. In addition, aspects of institutional distance directly relate to location choices (cultural distance, formal institutional distance, political constraints distance, and geographic distance) and entry modes (cultural distance, political constraints distance). And safety risk distance, political constraints distance, and cultural distance strengthen the negative relationship between safety risk and location choices, while geographic distance strengthens the relationship between safety risk and entry mode choices. In sum, this dissertation highlights the importance of safety risk and the complexity of institutional risk factors.

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BIOGRAPHICAL SKETCH

Kaitlyn DeGhetto is a Strategic Management Ph.D. candidate at Florida State University. Her research interests include global strategy, corporate governance, entrepreneurship, and acquisition processes. Kaitlyn teaches Strategic Management and Business Policy to upper-level undergraduate students at FSU. She received her MBA and BA in Business Administration from the University of Florida. Prior to entering the doctoral program at FSU, Kaitlyn worked in the health care and wholesale/distribution industries, as both a business development manager and product manager.