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Linking entry mode choices of MNCs
with countries' corruption. A review



Marlene Grande; Aurora A. C. Teixeira



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>> **FICHA TÉCNICA**

LINKING ENTRY MODE CHOICES OF MNCs WITH COUNTRIES' CORRUPTION. A REVIEW

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>> **ÍNDICE**

1. Introduction	5
2. Defining the key concepts: corruption and entry mode choices of MNCs	7
3. The determinants of the entry mode choices of MNCs	11
4. Corruption and the entry mode choices of MNCs. Paths for future research	21

>> RESUMO

Apesar de existir uma vasta literatura sobre a corrupção e a escolha de modos de entrada de empresas multinacionais, enquanto fenómenos independentes, subsiste uma grande falha na ligação de ambos, nomeadamente no impacto da corrupção sobre a escolha de modos de entrada de uma empresa multinacional.

Para superar esta lacuna, este estudo fará uma revisão e sistematização da literatura empírica que incide sobre a corrupção e a escolha dos modos de entrada. Desta análise resulta que, em geral, na presença de mercados com elevados níveis de corrupção, as multinacionais preferem envolver-se moderadamente no mercado (i. e., joint-ventures com parceiros locais) ou evitar a presença directa no país (ou seja, exportações e contratação).

No entanto, o estudo também revela que, nalguns casos específicos, tais como a proximidade cultural, mesmo havendo corrupção generalizada, as multinacionais podem entrar através de subsidiárias detidas a 100%. Tais conclusões desvendaram pistas interessantes para investigação futura, explorando um contexto bastante negligenciado: a escolha de modos de entrada de multinacionais provenientes de países desenvolvidos em países africanos com os quais estes países desenvolvidos possuem laços históricos e culturais.

Keywords: Corrupção; Modos de entrada

JEL-Codes: F21; F23; K42

>> ABSTRACT

Despite voluminous literature on corruption and the entry mode choices of MNCs in isolation, a comprehensive account which details the mechanisms through which corruption impacts on MNCs' entry modes is lacking. To overcome such a gap, we systematically review and provide an up-to-date overview of the empirical literature on corruption and the entry mode choices of MNCs. The review demonstrates that, in general, when in presence of markets with high levels of corruption, MNCs prefer low equity (i.e., joint-ventures with local partners) or non-equity (namely exports and contracting) entry mode choices. Nevertheless, it also reveals that, in some specific cases, such as cultural proximity, even when there is pervasive corruption, MNCs may enter via wholly-owned subsidiaries. Such conclusions uncovered an interesting path for future research by exploring a rather neglected context: entry mode choices of MNCs from developed countries in African countries with which these developed countries possess historical and cultural ties.

Keywords: Corruption; Entry modes ; MNCs

JEL-Codes: F21; F23; K42

>> 1. INTRODUCTION

Entry mode research, i.e., academic interest and publications on entry mode decisions, has significantly increased since 1980 (Canabal and White, 2008). This research field assumes an enormous importance considering that the MNCs' choice of entry mode is a central factor that will influence its future performance (Rasheed, 2005). Nevertheless, the very distinct theoretical approaches to the determinants of firms' internationalization processes are not, in general, directly and explicitly aimed at explaining MNCs' entry modes. Instead they are more focused on highlighting key determinants of Foreign Direct Investment (FDI). By adapting the existing theoretical approaches to FDI and internationalization, we provide a new systematization to frame existing contributions on the issue of the entry mode choices of MNCs based on transaction cost analysis, a broader theoretical framework, Dunning's eclectic paradigm and the institutional approach.

Particularly through the location dimension of the eclectic paradigm, and above all, the institutional approach, corruption emerged as a key variable associated to the entry mode choices of Multinational companies (MNCs). Indeed, MNCs are increasingly influenced by institutional instability, perceived risk and uncertainty in their process of investing in emerging economies (Uhlenbruck *et al.*, 2006). Extant literature suggests the existence of a negative correlation between inflows of FDI and corruption (Uhlenbruck *et al.*, 2006; Javorcik and Wei, 2009).

Despite the voluminous literature on the issue of entry mode choices (see Faeth, 2009, for a survey) and corruption (see Jain, 2001, for a survey) in isolation, a comprehensive account of the links between corruption and the entry mode choices of MNCs is lacking. Several high-quality empirical, international business studies suggest that corruption influences MNCs' entry modes, particularly with regard to the choice of non-equity modes or partnering with a view to establishing wholly-owned subsidiaries (Rodriguez *et al.*, 2005; Uhlenbruck *et al.*, 2006; Straub, 2007; Javorcik and Wei, 2009; Demirbag *et al.*, 2010). However, such evidence is fragmented and disperse, which demands an integrated and unified overview of the subject.

Given the existence of distinct types of corruption and MNCs' entry modes, such an integrated overview would broaden our understanding of the mechanisms by which distinct types of corruption lead MNCs to making dis-

tinct entry modes choices. Indeed, although some studies emphasize that, in the presence of petty bureaucratic, high-level political corruption (Straub, 2007), or the pervasiveness and arbitrariness of corruption (Rodriguez *et al.*, 2005; Uhlenbruck *et al.*, 2006), MNCs would prefer 'less demanding' entry modes, such as non-equity modes or partnering, more recently, Demirbag *et al.* (2010) found that in the case of direct historical and cultural ties between home and host countries, MNCs may reveal preference for wholly-owned subsidiaries.

The present study contributes to the literature on international business on two grounds. Firstly, it provides a comprehensive literature review on the determinants of the entry mode choices of MNCs. Secondly, by focusing on the mechanisms by which corruption impacts on the MNCs' choice of entry mode, it helps to uncover rather unexplored issues in this particular domain.

This paper is structured as follows. Section 2 defines the key concepts – corruption and entry modes – in analysis. Then, in Section 3, the main determinants of MNCs' entry modes are reviewed. In the final section (Section 4), we broaden the analysis of existing studies on the impact of corruption on MNCs' entry mode, pointing out the main paths for future research in this domain.

>> 2. DEFINING THE KEY CONCEPTS: CORRUPTION AND ENTRY MODE CHOICES OF MNCS

As one of the most prevalent political problems worldwide (Frischmann, 2010), in recent years there has been considerable empirical research on the causes and effects of corruption across countries (Goel and Nelson, 2010). The World Bank has estimated that more than 1 trillion USD is paid in bribes each year and that countries that fight corruption, improve governance and the rule of law, could increase per capita incomes by 400 percent (Dreher *et al.*, 2007).

Given its significant impact and the numerous studies on corruption, there are naturally a wide variety of definitions for this phenomenon (Detzer, 2010). The most common definition is that of the World Bank, describing corruption as “the abuse of public office for private gain”.¹ Transparency International, in a similar vein, defines it as “the misuse of entrusted power for private gain”.² Another often-cited, but less clear and focused, definition of corruption is “behavior which deviates from the formal duties of a public role because of private regarding [...] pecuniary or status gains, or violates rules against the exercise of certain types of private regarding influence” (Nye, 1989: 966 *in* Frischmann, 2010: 2). Also Friedman *et al.* (2000: 462) provide a more complex description; in their view corruption can be characterized by “illegal activities that represent costs imposed on business by bureaucrats from which the government obtains no revenue and which do not generate any positive benefits for society”.

All these definitions may differ slightly in their formulation, but there is nevertheless consensus that corruption refers to acts in which the power of public office is used for personal gain in a manner that contravenes the rules of the game (Dey, 1989; Mauro, 1998; Treisman, 1998; Jain, 2001; Dietrich, 2010; Reiter and Steensma, 2010).

Corruption is an integral part of governance quality, institutional transparency and even political stability, because it interferes directly with each of these dimensions, influencing them negatively (Slangen and Hennart, 2008; Chiao *et al.*, 2010). Besides the general definition of corruption, it is important to subdivide this concept into two very different types, i.e., into political cor-

¹ “Helping Countries Combat Corruption: The Role of the World Bank”, at: <http://www1.worldbank.org/publicsector/anticorrupt/corruptn/cor02.htm>, accessed on 20th November 2010.

² “How do you define corruption?”, at: http://www.transparency.org/news_room/faq/corruption_faq, accessed on 20th November 2010.

ruption and administrative or bureaucratic corruption (Jain, 1998; Straub, 2008) (cf. Figure 1).

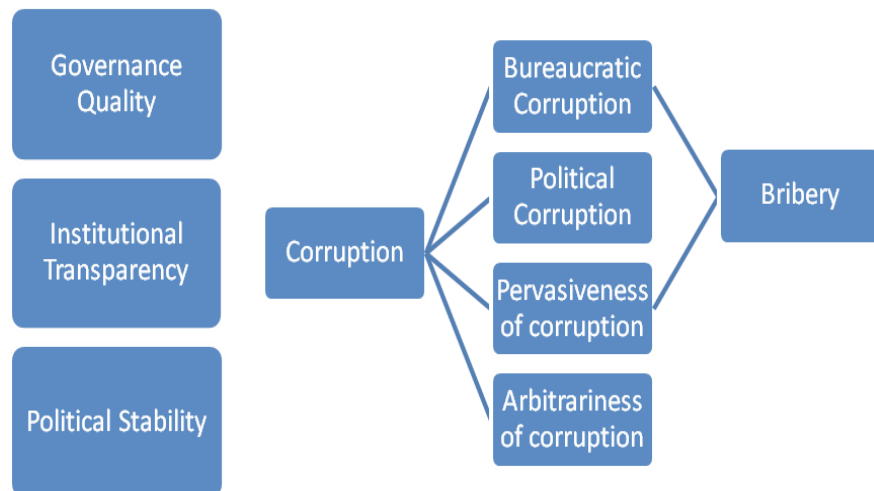


Figure 1: Taxonomy of corruption

Source: Authors

Political corruption involves political decision-makers who use the political authority they are entrusted with to sustain their power, status and wealth (Amundsen, 1999). Taking place at the high reaches of the political system, this type has a much stronger impact and is much more pervasive than bureaucratic corruption (Rodriguez *et al.*, 2005; Uhlenbruck *et al.*, 2006; Straub, 2008). Some authors make a different division, distinguishing between the pervasiveness of corruption, which reflects the degree to which corruption is dispersed broadly (institutionalized) throughout the public sector in a country, and arbitrariness which reflects the degree of uncertainty and capriciousness associated with public sector corruption. Bureaucratic corruption as well as the pervasiveness of corruption are entirely reflected in the phenomenon commonly known as bribery (Straub, 2008; Demirbag *et al.*, 2010), that is, when private actors make payments to public officials to obtain a benefit or to avoid harm, and when these are pocketed by the recipient or used for partisan political purposes (Jain, 1998).

Economic literature on corruption tends to focus on bribery (Berg, 2001). In this sense there are many studies on bribery that denominate it as corruption (Klitgaard, 1989; Lien, 1990; Henderson and Kuncoro, 2010). Rose-Ackerman (1999), for example, does not seem to distinguish between the two, whereas Wei (1999: 4), focusing on the public sector, simply defines

corruption as “government officials abusing their power to extract/accept bribes from the private sector for personal benefit.”

Another issue arising in the analysis of corruption is the question of how to measure this phenomenon. The most well-known corruption indicator is the Corruption Perceptions Index (CPI), published annually by Transparency International (Berg, 2001). In the CPI, the countries evaluated are assigned a number from 1 (worst) to 10 (best) representing the “degree to which corruption is perceived to exist among public officials and politicians” (Transparency International, 2009). This index is often used in studies on corruption in order to include it as a quantified indicator in a theoretical model (Treisman, 1998; Friedman, 2010; Reiter and Steensma, 2010). Another method for constructing composite indicators of corruption is given by the International Country Risk Guide (ICRG) (Mauro, 1998; Dietrich, 2010). This measurement comprises 22 risk variables, representing three major components of country risk, namely economic, financial and political (Hoti and McAleer, 2004). Demirbag *et al.* (2010), focusing on the specific type of corruption, bribery, use the bribe ratio to measure this behavior. It is calculated by the total bribe value divided by total income in the same period (Berg, 2001). In such studies, the measurement is used as a representative indicator for corruption (Henderson and Kuncoro, 2010) or, more precisely, the pervasiveness of corruption (Demirbag *et al.*, 2010).

Besides the methods to measure corruption mentioned above, there is a diversity of corruption and bribery indexes developed by different entities, such as the World Economic Forum (Friedman *et al.*, 2000), the International Monetary Fund (García *et al.*, 2009), and the World Bank (Javorcik and Wei, 2009). Although the measurement methodology is basically the same as that used in the CPI or by the ICRG, there are nevertheless clear differences, particularly deriving from the variance in selected variables, the years analyzed, and the sample of countries. Because the CPI generally covers many countries (more than 150) and the data collected covers a broad time period (1995-2010), it tends to be the preferred indicator for gauging the countries' corruption level.³

International entry modes represent the third-most researched field in international management, since they are directly related to the international activity of MNCs (Canabal and White, 2008). Entry modes vary largely with regard to their scale of entry (Peng, 2009), and are basically divided into two categories: equity and non-equity (Tian, 2007) (see Figure 2).

³ “Surveys and Indices”, at: http://www.transparency.org/policy_research/surveys_indices/about, accessed on 11th December 2010.

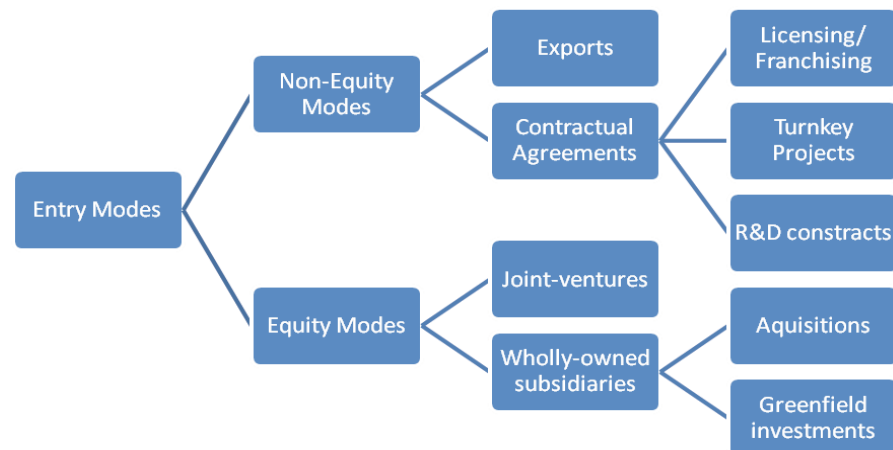


Figure 2: Taxonomy of entry modes

Source: Authors

Equity entry modes include joint-ventures and wholly-owned subsidiaries. The first consists of a sharing arrangement between a foreign MNC and a local firm, where resources, risk and operational control are divided between the partners (Julian, 2005), whereas the latter may comprise both greenfield investments involving the establishment of a new firm and the acquisition of already existing firms (Razin and Sadka, 2007). The commitment of resources, i.e., the scale of entry, in the equity mode is very high because there is direct establishment in the foreign market (Hill and Jones, 2009).

Non-equity modes are exports and contractual agreements such as licensing, franchising, turnkey projects and R&D contracts. In this case, the scale of entry is lower because the relations with the host market are based on contracts that do not imply direct establishment (Peng, 2009).

>> 3. THE DETERMINANTS OF THE ENTRY MODE CHOICES OF MNCs

An exploratory bibliographic search in the Scopus database using as search keywords 'MNCs' entry modes'⁴ provided the basis to frame the literature on MNCs' entry modes and to put forward the main aspects related to the subject. Out of 126 articles referring to MNCs' entry modes, 62 articles dealt with the matter of the determinants of the MNCs' choice of entry mode.⁵ These articles were read and classified into their main theoretical approaches (cf. Tables 1-6).

It is important to recall that most of the theories on FDI and MNCs intend to explain why firms are involved in several types of internationalization processes. In general, the very distinct theoretical approaches (early FDI studies; the neoclassical trade theory; ownership advantages; aggregate variables; ownership, location and internalization advantage (OLI) framework; horizontal and vertical FDI; the knowledge-capital model; risk diversification models; and policy variables – cf. Faeth, 2009), are not directly and explicitly aimed at explaining MNCs' entry modes but instead they focus on highlighting key determinants of foreign direct investment. By adapting the existing theoretical approaches to FDI and internationalization, we provide a new systematization (cf. Tables 1-6) to frame existing contributions under three main theoretical frameworks: transaction cost analysis, a broader theoretical framework, Dunning's eclectic paradigm, and the institutional approach.

Transaction cost analysis has been rather widely used by researchers to examine the determinants of entry mode choices (Chen and Hu, 2002) (Table 1). Most theorists working on this cost-related approach favor the establishment of joint-ventures (JV) (Madok, 1998), because other entry modes require a higher financial effort (Slangen and Hennart, 2008; Raff *et al.*, 2009). The direct costs responsible for this shift are, for example, entry costs like tariffs (Madok, 1998) or exit costs like the disadvantageous sale of a firm or equipment (Slangen and Hennart, 2008). Entry via JVs reduces these financial

⁴ Scopus is the world's largest abstract and citation database of peer-reviewed literature and quality web sources. It contains nearly 18,000 titles from 5,000 publishers worldwide (Source: <http://www.info.sciverse.com/scopus/about>, accessed on 27 October 2010).

⁵ The 58 excluded articles focused on various issues related to entry modes but ignored the impact of certain determinants on entry mode choice. Specifically, some studies analyze the inverted effect, i.e., the impact of entry mode choice on other aspects, for example, on the domestic market structure (Haller, 2009) or on subsidiaries' performance (Pangarkar *et al.*, 2003; Ogasavara *et al.*, 2007); others highlight the optimal location choice of FDI (Ma and Delios, 2007) and optimal entry mode timing (Cui and Lui, 2005). Thus, such studies do not stand square on the main research agenda of the present study and they were therefore excluded from the analysis.

efforts significantly (Raff *et al.*, 2009) and helps to fill in the information gap deriving from socio-cultural differences (Chun, 2009).

Table 1: Approaches and determinants of the entry mode choices of MNCs – the Transaction Cost approach

Determinants	Impact on MNCs' entry mode choices	Studies (date)
Direct costs	Fixed costs	In order to minimize fixed costs related to Greenfield, mergers and acquisitions, MNCs tend to enter foreign markets via JVs . Raff <i>et al.</i> , 2009
	Exit costs	MNCs are more likely to enter a foreign market through JVs , because they require fewer resources and have lower exit costs than WOS. Slangen and Hennart, 2008
	Entry costs	To avoid high entry costs, MNCs tend to rely on a partner entering foreign markets via JVs . Madok, 1998
Indirect costs	Trade barriers	When entry costs are very high, MNCs prefer acquisitions to Greenfield investments. Fatica, 2010
	Market imperfections	Markets with high entry barriers favor entry via FDI , rather than exports as long as FDI fixed costs are not too large. Eicher and Kang, 2005
		In the presence of high costs due to market imperfections, MNCs prefer to conduct their business activities through non-equity modes . Mok <i>et al.</i> , 2002

With regard to the indirect costs pointed out in the transaction cost approach, trade barriers, for example, lead to direct establishment (Wholly-Owned Subsidiaries (WOS) or JVs) in order to avoid trade with the host country (Eicher and Kang, 2005). In contrast, when market imperfections dominate the industry, moderate involvement is advisable (Mok *et al.*, 2002). Restricting his study to the option of Acquisitions versus Greenfield investments, Fatica (2010) argues that, when entry costs are very high, MNCs prefer Acquisitions to Greenfield investments and that for intermediate levels of entry costs, they may choose a Greenfield investment, or an Acquisition in cases where they already have a JV.

Based on the micro-level of Dunning's eclectic paradigm (Table 2), the ownership dimension highlights firm-level determinants such as income-generating assets and the firms' ability to coordinate them with other assets abroad (Cantwell and Narula, 2003). Given the perspective of the firms' abilities, we could associate the firm's competences, skills and assets from the resource-based theory (Hill and Jones, 2009), which seeks to explain the relationship between a firm's resource endowment and its performance and

growth (Lockett *et al.*, 2009), to this approach (Luo, 1999). In concrete, for firm-specific assets (Madok, 1998; Sreenivas Rajan and Pangarkar, 2000) such as technology-intensive resources (Sun, 1999; Javorcik and Wei, 2009) and innovative/R&D-intensive activities (Bhaumik and Gelb, 2005; Chung, 2009), the mostly preferred entry mode is the establishment of wholly-owned subsidiaries (WOS), via Greenfield or Acquisition investments. This is justified on the basis that firm-specific resources and activities need a high level of control (Edwards and Buckley, 1998; Chen and Hu, 2002), which would not be possible in a joint-venture (JV) where knowledge has to be transferred to the partner (Chiao *et al.*, 2010; Yiu and Makino, 2002; Martin and Salomon, 2003).

Table 2: Approaches and determinants of the entry mode choices of MNCs – the ownership dimension of the eclectic paradigm

	Determinants	Impact on MNCs' entry mode	Studies (date)
Intangible assets	Firm's capabilities	In competitive markets with technological dynamism, MNCs prefer WOSs than JVs to remain competitive.	Madok, 1998
		MNC's with a strong market linking capability are more likely to use WOSs to enter a market than JVs.	Tseng and Lee, 2010
		When MNCs' competitive success depends on its capabilities, JVs are used to complement internal R&D resources and to exchange inter-firm knowledge.	Mutinelli and Piscitello, 1998
	Firm-specific assets	When firm-specific assets are transferred MNCs choose WOS , to protect them from opportunistic JV partners.	Sreenivas Rajan and Pangarkar, 2000
		MNCs with strong firm-specific assets (less need for complementary assets, R&D capability) enter via WOSs .	Chiao <i>et al.</i> , 2010
		WOSs are more likely chosen than JVs, to maintain higher control over firm-specific assets.	Chen and Hu, 2002
	International experience	Experienced MNCs tend to enter foreign markets via WOSs , thanks to cumulative learning.	Mutinelli and Piscitello, 1998; Chiao <i>et al.</i> , 2010
		Necessity of control	When firm-specific activities need a high level of control, MNCs tend to avoid JVs, preferring WOSs .
	Technology-intensive assets	MNCs with high technological resources prefer entering markets via WOSs , rather than by JVs.	Sun, 1999
			Technology licensing is an appropriate entry mode for MNCs with technology intense assets.
To avoid technology spillovers to domestic firms, the optimal entry modes for technology-intensive MNCs are direct entry modes (WOSs).		Chung, 2009	
High-technological firms prefer WOS to protect intangible assets.		Javorcik and Wei, 2009	

(...)

Determinants		Impact on MNCs' entry mode	Studies (date)
	Managerial knowledge	Transfer of management know-how is more likely in WOSs and JVs , but not with contracts and exports.	Meyer, 2001
	Knowledge-based assets	To protect knowledge-based assets from misappropriation, MNCs enter foreign markets via WOS .	Martin and Salomon, 2003
	Resource competitiveness	When a MNC possesses adequate resources to compete in a foreign market, it is more likely to enter by Greenfield than by acquisition.	Anand, 2002
Tangible assets	Proprietary assets	To avoid the risk of unwanted dissemination of their proprietary assets or their rents to the JV partners, MNCs are likely to choose WOS .	Yiu and Makino, 2002;
	Human resources	Firm size was found to be a non-significant determinant of entry mode choice.	Esperança <i>et al.</i> , 2006

Chen (2010) proposes an alternative to WOS, namely technology licensing, where the control level over the assets supposedly remains the same. In the case of internationally experienced firms, there is a preference for WOS (Tseng and Lee, 2010; Chiao *et al.*, 2010). Indeed, MNCs with accumulated knowledge in internationalization are less likely to rely on the support of a JV partner, because they already have the required know-how to do business abroad (Mutinelli and Piscitello, 1998). In contrast, when a MNC does not have any experience, JVs can be used to complement internal R&D resources and to exchange knowledge on an inter-firm basis (Mutinelli and Piscitello, 1998).

The internalization approach in Dunning's Eclectic Paradigm stems from the removal of the market relationship between an importer and an exporter, which provokes high transaction costs for the internationalized MNC (Peng, 2009). This theory is based on the advantages that are created when a MNC enters foreign markets via FDI, avoiding entry costs and trade barriers (Cantwell and Narula, 2003) (see Transaction Cost Approach).

Table 3: Approaches and determinants of the entry mode choices of MNCs – the internalization dimension of the eclectic paradigm

Determinants		Impact on MNCs' entry mode	Studies (date)
Direct costs	Entry costs	To avoid high entry costs, MNCs tend to rely on a partner entering foreign markets via JVs .	Madok, 1998
		When entry costs are very high, MNCs prefer acquisitions to Greenfield investments.	Fatica, 2010
Indirect costs	Trade barriers	Markets with high entry barriers favor entry via FDI , rather than exports as long as FDI fixed costs are not too large.	Eicher and Kang, 2005

In the location-specific approach extracted from Dunning's Eclectic Paradigm, cultural distance is a central determinant of entry mode choice (cf. Table 4). According to Chen and Hu (2002: 196) "[c]ulture is shared values and beliefs. Cultural distance is the difference in these values and beliefs shared between home and host countries. Large cultural distances lead to high transaction costs for multinationals investing overseas". Culturally distant markets favor MNCs entry via WOS, rather than by JV (Chen and Hu, 2002; Pennings and Sleuwaegen, 2004; Drogendijk and Slangen, 2006). Also high potential industries (Chen and Hu, 2002) and competition intensive markets (Elango and Sambharya, 2004; Müller, 2007), guide MNCs to choose WOS as the optimal entry mode. Nevertheless, to gain access to industry-specific assets such as R&D capabilities (Belderbos, 2003) and complementary assets (Hennart, 2009) MNCs use joint-venture partners as intermediaries to guarantee their availability.

Preference for JV establishments exists when there are considerable socio-cultural differences between home and host countries (Sun, 1999; Chun, 2009). According to Sun (1999: 643), "[s]ocio-cultural distance refers to the difference in social culture between countries. [...] MNCs find it difficult to transfer home technologies and management techniques to an unknown operating environment, [because] operating in a foreign culture at a distance increases business uncertainty and unpredictability."

Table 4: Approaches and determinants of the entry mode choices of MNCs - the location dimension of the eclectic paradigm

Determinants	Impact on MNCs' entry mode	Studies (date)
Cultural differences between home and host country	When cultural distance is large, MNCs prefer WOSs over JVs.	Chen and Hu, 2002
	Culturally distant markets favor WOSs , rather than JV, because cooperation expectations are low.	Pennings and Sleuwaegen, 2004
	High levels of cultural distance increase the likelihood that MNCs choose Greenfield over acquisitions.	Drogendijk and Slangen, 2006
	There was no evidence found that cultural distance influences MNCs entry modes.	Demirbag <i>et al.</i> , 2009
	The socio-cultural distance between home and host country discourages MNCs to invest in WOS, preferring JVs .	Sun, 1999
	MNCs tend to hold a lower equity share and to depend on a local partner (JV) when entering a socio-culturally distant country.	Chun, 2009
Linguistic distance	The greater the linguistic distance between home and host country, the more likely MNCs will choose a JV over a WOS.	Demirbag <i>et al.</i> , 2009

(...)

Determinants		Impact on MNCs' entry mode	Studies (date)
Industry-specific assets	Competition intensity	When markets are very competitive or not at all, Greenfield is preferred, while for intermediate it is valued acquisition.	Müller, 2007
		In highly concentrated markets, MNCs tend to enter via Greenfield , because acquiring existent firms is too expensive.	Elango and Sambharya, 2004
	R&D Intensity of the industry	MNCs enter R&D-intensive industries via JVs or acquisitions to gain access to overseas capabilities.	Belderbos, 2003
		MNCs prefer to establish JVs rather than establishing WOSs as the R&D intensity of the industry increases.	Demirbag <i>et al.</i> , 2009
Complementary assets	To gain access to location-specific complementary assets, MNCs often choose JV to enter these markets.	Hennart, 2009	
Location-specific assets	Economic strength of local partners	The presence of strong local partners leads MNCs to choose JVs , because they usually have extensive local networks.	Yeung and Li, 2000
	Location-specific advantages	By identifying location-specific advantages, firms choose mostly integrated entry modes (WOS, JV, Strategic Alliances).	Brouthers <i>et al.</i> , 1996; Moon, 1997
	Market size	FDI (compared with contracting) is the desirable mode of entry when entering a large market.	Horstmann and Markusen, 1996
		In large markets MNCs are more likely to enter via acquisitions .	Eicher and Kang, 2005
Market attractiveness as gateway to other markets	MNCs' entry mode is motivated not only by the entered market potential, but also by its ability to serve as a gateway to other neighboring markets. In this case a MNC would intensify its involvement via, for example, FDI .	Javalgi <i>et al.</i> , 2010	

Linguistic distance (Demirbag *et al.*, 2009) influences entry modes in the same direction; specifically, MNCs overcome such "cultural barriers" through the support of JV partners (Sun, 1999). These partners are often embedded in local networks which are advantageous for foreign MNCs' performance (Yeung and Li, 2000). Besides this, the fusion of firms may be beneficial for both firms, due to R&D-intensive spillovers (Belderbos, 2003; Demirbag *et al.*, 2009). Location-specific advantages, such as market attractiveness as a gateway to other markets (Javalgi *et al.*, 2010), favor integrated entry modes (WOS or majority share JV) (Brouthers *et al.*, 1996). In general, FDI is preferred when entering large markets (Horstmann and Markusen, 1996; Eicher and Kang, 2005) and when countries have low development levels (Lehner, 2009; Al-Kaabi *et al.*, 2010).

Focusing now on the more macro level approaches, namely the institutional approach (Table 5), the determinants of the firms' entry mode include items such as political risk (Henisz, 2000; Ketata, 2006), perceived uncertainty due to risky environments (Taylor *et al.*, 2000; Ahmed *et al.*, 2002; Li and Rugman, 2007), and institutional differences (Luo, 2001; Chiao *et al.*, 2010). In these cases the preferable entry mode choice is WOS. One reason of this choice may be protection from manipulative JV partners, whose knowledge of the institutional environment is more detailed than that of foreign investors (Henisz, 2000). On the other hand, entering into a market allied to a local partner can minimize the lack of familiarity with the host countries' institutions (Meyer, 2001) and decrease uncertainty due to political differences between host and home countries (Bianchi and Ostale, 2006; Slangen and Hennart, 2008). JVs can also function as a protection from governmental intervention (Luo, 2001) and political constraints oriented to foreign firms (Yiu and Makino, 2002; Demirbag *et al.*, 2009). With regard to corruption, JVs could help to avoid excessive transaction costs related to corrupt government officials (Javorcik and Wei, 2009).

Table 5: Approaches and determinants of the entry mode choices of MNC – Institutional approach

Determinants		Impact on MNCs' entry mode	Studies (date)
Host countries' institutional quality	Political risk	In the presence of political risks, MNCs tend to choose WOSs (or majority-owned plants) to protect themselves from potentially manipulative JV partners.	Henisz, 2000
		SMEs are more likely to choose equity-based modes (JV or WOS) when entering risky markets.	Rasheed, 2005
		When MNCs perceive risky environments, they are more likely to enter via WOS (acquisition or Greenfield).	Ketata, 2006
	Perceived risk	MNCs tend to opt for high control modes (WOS) when the risk of doing business in the host country is high.	Taylor <i>et al.</i> , 2000
	Intellectual Property Rights	For small and medium-sized firms the preferred entry in countries with weak protection of IPR is establishing a JV with an existing MNC (JV).	Acs <i>et al.</i> , 1997
		When IPR are not well protected MNCs prefer establishing a WOS .	Luo, 2001
		Weak intellectual property rights reinforce exporting , and decreases FDI, relative to licensing, in industries with shorter rent-extraction times.	Maskus <i>et al.</i> , 2008
		Markets with weak IPR increase the probability of MNCs' entry via exports .	An <i>et al.</i> , 2008
	International risk (political, financial, etc.)	When IPR are poorly protected, the preferred entry mode is a JV .	Che and Facchini, 2009
	Governmental intervention	When MNCs perceive high risk levels, they are more likely to enter the market via high control modes (WOSs).	Ahmed <i>et al.</i> , 2002
JVs are preferred if perceived governmental intervention is high.		Luo, 2001	
	MNCs are more likely to form a JV with local partners than establish a WOS as the degree of regulative and normative pressures in a host country increases.	Yiu and Makino, 2002	

(...)

Determinants	Impact on MNCs' entry mode	Studies (date)	
Host countries' institutional quality	MNCs adapt to the pressures of corruption via short-term contracting and JVs .	Uhlenbruck <i>et al.</i> , 2006	
	High levels of corruption reduce the possibility of MNCs' entry via WOS or direct franchising, increasing entries via JV .	García <i>et al.</i> , 2009	
	In the presence of arbitrary and pervasive corruption, MNCs tend to enter foreign markets by non-equity modes .	Rodriguez <i>et al.</i> , 2005	
	In more risky environments it is advisable to enter via contracting, i.e., non-equity modes .	Paul and Wooster, 2008	
	MNCs prefer JVs to avoid excessive transaction costs related to corrupt government officials.	Javorcik and Wei, 2009	
	When entering corrupt markets, MNCs should enter via JVs .	Li <i>et al.</i> , 2009	
	In the face of corrupt markets, a MNC should enter via a JV .	Demirbag <i>et al.</i> , 2010	
	MNCs often choose JV over WOS to protect themselves from external uncertainties, but in this case they may expose themselves to internal uncertainties.	Slangen and van Tulder, 2009	
	Countries with high political corruption are most frequently entered via non-equity modes .	Straub, 2007	
	Governance quality (= low external uncertainty)	MNCs are more likely to enter countries with a low overall governance quality through JVs rather than through WOSs.	Slangen and Hennart, 2008
Local policy/political constraints	The more restricted political measures are, the more likely MNCs choose JVs over WOSs.	Demirbag <i>et al.</i> , 2009	
Costs	High tariffs may act as an entry barrier, directing MNCs' entry mode towards exports , rather than acquisitions.	Tekin-Koru, 2009	
Local content requirement	Exports is more likely to be adopted for a high LCR level than FDI.	Qiu and Tao, 2001	
Distance between home and host country	When uncertainty is high, MNCs prefer entry via WOSs , because they contribute to reducing uncertainty.	Li and Rugman, 2007	
	When MNCs' perception of institutional differences is high, it tends to enter by WOSs .	Chiao <i>et al.</i> , 2010	
	Political differences	When facing remarkable political differences in the entered market, MNCs should consider JVs instead of solely entry modes (WOSs).	Bianchi and Ostale, 2006
	Psychological distance	JVs are more feasible in distant locations, because the lack of proximity and familiarity hampers MNCs' entry without reliance on a local partner.	Meyer, 2001
	Entry barriers	To overcome entry barriers, such as liability of foreignness, it is more likely that MNCs enter by acquisitions or JVs .	Elango and Sambharya, 2004
Industry structure	Access to information/performance under uncertainty	Due to asymmetric information between home and host firms, foreign MNCs prefer entering the market via FDI (WOS or JV) , rather than exports.	Moner-Colonques <i>et al.</i> , 2008
		In less developed banking markets, internationalized banks prefer entry via acquisition .	Lehner, 2009
		MNCs choose WOSs over JVs, when entering high potential industries.	Chen and Hu, 2002
	In less developed markets, MNCs prefer enter via mergers and acquisitions than via Greenfield, in order to enable market development.	Al-Kaabi <i>et al.</i> , 2010	

On more general grounds, some authors have argued that FDI (WOS and JV) should be considered when entering more corrupt (Acs *et al.*, 1997; Paul and Wooster, 2008) or politically risky markets (Rasheed, 2005). Following a similar line of reasoning, some authors claim that FDI should also be favored when entering markets with weak Intellectual Property Rights protection systems (Maskus *et al.*, 2008) and difficult access to business information (Moner-Colonques *et al.*, 2008). In contrast, other authors argue that entry into more corrupt host countries should be based on non-equity modes (Rodriguez *et al.*, 2005; Straub, 2007), such as exports and subcontracting (licensing, franchising and turnkey projects), to protect foreign investors from possibly corrupt joint-venture partners (Slangen and van Tulder, 2009).

Some determinants highlighted by extant empirical literature as having an impact on entry mode choice are not classifiable within the proposed theories (cf. Table 6). Indeed, entry modes can be influenced by the nature of the MNCs' activity. Specifically, Williams and Deslandes (2008) found that firms from the service sector are more likely to opt for FDI entry modes (WOS or JV). Additionally, the firm's international strategies may determine a certain entry mode, where Acquisitions are more likely for multidomestic companies and Greenfields for global companies (Harzing, 2002). Finally, MNCs with more diversified products are likely to enter foreign markets through acquisitions, while MNCs which focus on their main line of business enter through Greenfield investments (Mudambi and Mudambi, 2002).

Table 6: Approaches and determinants of the entry mode choices of MNC – Others

Determinants	Impact on MNCs' entry mode	Studies (date)
Product diversification	MNCs with more diversified products are likely to enter foreign markets through acquisition , while MNCs which focus on their main line of business enter through Greenfield.	Mudambi and Mudambi, 2002
Nature of MNCs' activity	Given the service-oriented nature (very firm-specific assets) of MNCs' activity, there is a tendency to enter foreign markets via FDI .	Williams and Deslandes, 2008
International strategy and objectives	Acquisitions are more likely for multidomestic companies and Greenfields are more likely for global companies.	Harzing, 2002

Figure 3 summarizes the contributions reviewed above, framing them into main trends of entry mode choices, starting with equity modes and evolving to non-equity modes. It shows that market imperfections, as well as Intellectual Property Rights protection, costs and local content requirements, tend to be mostly related to pure non-equity modes, such as exports. Additionally,

MNCs which enter markets where corruption is highly diffused prefer mainly non-equity modes or joint-ventures, rather than purely equity modes, such as Greenfield investments or Acquisitions. Government intervention directs MNCs to join a local partner, rather than establish a firm on their own.

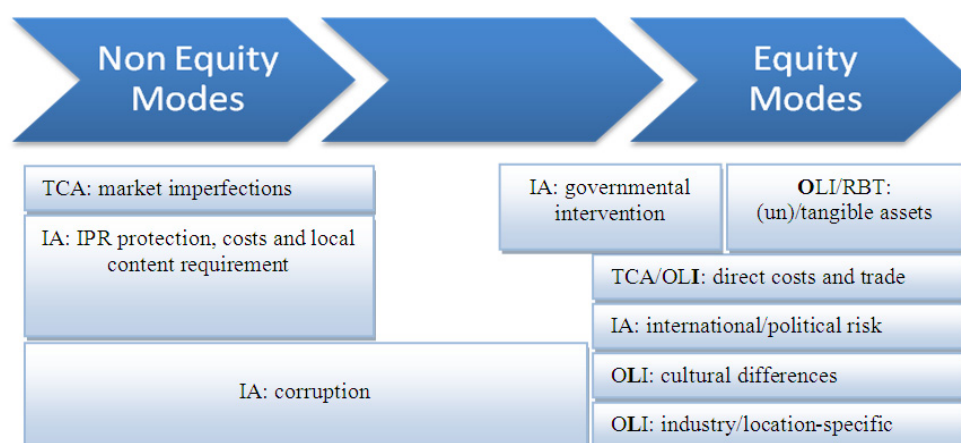


Figure 1: Entry mode choice- overall tendency

Legend: TCA – Transaction Cost Approach; IA – Institutional Approach; OLI- ownership dimension; OLI- location dimension; OLI- internalization dimension from the Eclectic Paradigm
Note: Own elaboration

To the extent that Dunning's Eclectic Paradigm focuses traditionally on ownership, location and internalization advantages (Dunning and Gray, 2003), this theory is more directed at the choice of equity modes. The justification relates with the fact that in order to maintain these ownership, location and internalization advantages within the firm, it is advisable to enter via the establishment of wholly-owned subsidiaries. Thus, generally speaking, there is a prevalent inclination towards equity mode choice when taking into account the Eclectic Paradigm theory, whereas the non-equity mode choices are more in line with the institutional approach. This is in part explained by the fact that institutional theory focuses mainly on constraining determinants while the Eclectic Paradigm highlights the benefits of MNCs' internationalization.

>> 4. CORRUPTION AND THE ENTRY MODE CHOICES OF MNCs. PATHS FOR FUTURE RESEARCH

The survey performed on the empirical studies that relate corruption with the entry mode choices of MNCs, summarized in Table 7, demonstrates that, in general, corruption discourages the establishment of wholly-owned subsidiaries (WOS).

Focusing first on the studies that oppose wholly-owned subsidiaries (WOS) in preference for joint-ventures (JV), some authors regard the latter (JV) as the more advisable option, as they are a strategic means by which to integrate social networks and to enforce the MNCs' external legitimacy (Demirbag *et al.*, 2010), as well as to avoid excessive transaction costs (Javorcik and Wei, 2009). According to Slangen and van Tulder (2009), although JVs may protect MNCs from external uncertainties, they may create internal uncertainties originated by the local partner. Accordingly, it may be more appropriate to choose an entry mode which requires less involvement in the host country, i.e., a non-equity mode.

With regard to articles which analyze the opposition between FDI versus non-equity modes, the establishment of a joint-venture (JV) surfaces as a viable option in cases of arbitrary corruption, since it affords some measure of protection against discriminating policies towards foreign firms (Uhlenbruck *et al.*, 2006), as well as enabling firms to avoid direct contact with corrupt government officials and to achieve legitimacy via networking (Rodriguez *et al.*, 2005). Transposing the results of García *et al.* (2009), we can state that entering markets characterized by high levels of corruption increases the possibility of entry in alliance with a local partner (joint venture or master franchise) due to the associated assistance by managing the environment in socio-economic and political aspects.

The third and dominant strain in the studies reviewed is entering corrupt markets via non-equity modes. According to Straub (2007), petty bureaucratic corruption causes a shift towards non-equity modes because firms try to avoid bribes related to ownership and high-political corruption also favors this entry mode in order to preserve asymmetric information. Several authors (e.g., Uhlenbruck *et al.*, 2006; Rodriguez *et al.*, 2005) argue that in the presence of pervasiveness, even when combined with arbitrariness, MNCs choose non-equity modes to avoid the costs related to corruption. Thus, when the host country exhibits greater progress towards market-oriented reforms and is highly liberalized, MNCs tend to enter via high equity modes, but in more risky environments, it is advisable to enter via contracting, or generally, via

non-equity modes such as exports, franchising or licensing (Paul and Wooster, 2008).

Despite the general tendency - corruption discourages the establishment of wholly-owned subsidiaries -, in specific cases, such as large-sized operations, cultural proximity (Demirbag *et al.*, 2010), or high-technological firms (Javorcik and Wei, 2009), MNCs may enter via wholly-owned subsidiaries (WOS) in order to protect their firm-specific assets from, for example, joint-venture partners or because the cultural environment is very similar to the home countries'. Rodriguez *et al.* (2005) also propose this entry mode (WOS?) when pervasive corruption exists, which, although encouraging MNCs' involvement in corruption to achieve legitimacy, may cause internal conflicts within MNCs' internal norms.

Albeit the richness of the empirical studies on corruption and the entry mode choices of MNCs, it is important to underline that such studies either took a general overview based on a cross-country composition (Uhlenbruck *et al.*, 2006; Straub, 2007) or have focused mainly on Eastern Europe (Javorcik and Wei, 2009) or Asian countries (Demirbag *et al.*, 2010). Similar analyses encompassing African countries have been rather neglected in this regard. This is quite unfortunate for two orders of reasons. On the one hand, the widely recognized importance that FDI would potentially have in the case of African countries, which have experienced dismissal growth performances in the last decade (Asiedu, 2002). On the other, given their particular institutional setting, marked by pervasive instability and corruption (Transparency International, 2009) and the close relational ties, based on linguistic and historical factors, that some group of these African countries have with more developed countries (e.g., the PALOP, the Portuguese-speaking African countries: Angola, Cape Verde, Guinea Bissau, Mozambique and São Tomé and Príncipe, with Portugal; Gambia, Sierra Leone, Ghana and Nigeria, with the UK), an interesting and challenging path for future research arises. Indeed, it would be quite pertinent to analyze the extent to which African countries' corruption levels influence the entry mode choices of MNCs from their historically linked countries.

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