

Corruption and MNCs' entry mode. An empirical econometric study of Portuguese firms investing in PALOPs

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Abstract: Extant literature on FDI entry modes and corruption tend to convey the idea that corruption leads to the choice of low equity, *i.e.* joint-ventures with local partners, or non-equity modes, namely export and contracting, in order to avoid the contact with corrupt state officials. Recently, however, Demirbag *et al.* (2010) argument that, despite corruption, linguistic and historical ties between home and host countries guide MNCs to prefer high equity modes (namely, wholly-owned subsidiaries). Focusing on a rather unexplored setting, the African countries, most specifically the PALOP (*Países Africanos de Língua Oficial Portuguesa*), which includes countries with both very high (Equatorial Guinea, Guinea-Bissau, and Angola), high (Mozambique, São Tome and Príncipe) and middle (Cape Verde) levels of corruption, and that maintain quite close linguistic and historical ties with Portugal, we aim at testing Demirbag's argumentation; in particular, we aim at assessing the extent to which PALOP's corruption levels influence the entry modes of Portuguese MNCs in these countries.

Keywords: Corruption; Emerging Economies; Entry mode

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1. Motivations and research aims

Multinational companies (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 *et al.*, 2009). Specifically, the analysis is centred on quantifying FDI flows and to assess how firms adapt their entry mode to existing corruption (Straub, 2007).

In such contexts, evidence is found that firms prefer joint-ventures to wholly owned subsidiaries (Rodriguez *et al.*, 2005; Uhlenbruck *et al.*, 2006; Straub, 2007; Javorcik *et al.*, 2009; Demirbag *et al.*, 2010). Regardless whether firms face petty bureaucratic or high-level political corruption (Straub, 2007), and the level of pervasiveness and arbitrariness of corruption (Rodriguez *et al.*, 2005; Uhlenbruck *et al.*, 2006; Demirbag *et al.*, 2010), existing empirical studies suggest that corruption influences the entry mode, particularly towards the choice of non-equity modes or partnering. More recently, however, some evidence was found that in case of positive relationships between home and host country MNCs revealed preference for wholly owned subsidiaries (Demirbag *et al.*, 2010).

It is important to underline that these studies that analyze the relationship between corruption and its impact on MNCs' choice of entry mode focused mainly on Eastern Europe (Javorcik *et al.*, 2009) and Asia (Demirbag *et al.*, 2010) or took a general overview based on a cross-country composition (Uhlenbruck *et al.*, 2006; Straub, 2007). Similar analyses encompassing African

countries have been rather neglected in this regard. On the one side, there is the importance that FDI potentially has in the case of African countries which have experienced in the last decade dismissal growth performances (Asiedu, 2002). On the other side, these countries' institutional settings are in general paved by considerable degree of political instability, businesses uncertainties and corruption (Transparency International, 2009).

Among African countries, a sub-set of countries, the PALOP (*Países Africanos de Língua Oficial Portuguesa*), includes countries with both very low (Equatorial Guinea, Guinea-Bissau, and Angola), low (Mozambique, São Tome and Príncipe) and middle (Cape Verde) levels of transparency as perceived by the Corruption Perception Index (Transparency International, 2009). Given the close relationship ties between Portugal and the PALOP based on linguistic and historical factors, and following Demirbag's (2010) argument, it would be scientifically pertinent to analyze the extent to which PALOP's corruption levels influence the entry modes of Portuguese MNCs in these countries. Given the above mentioned linguistic and historical proximity between Portugal and the PALOP, it would be expectable, according to Demirbag (2010), that Portuguese MNCs which invest in PALOP see wholly owned subsidiaries as the preferred mode of entry, despite the high degree of corruption/institutional weaknesses of these countries.

The empirical analysis undertaken in the present study aims therefore to assess the extent to which Portuguese MNCs' entry modes in PALOP corroborates Demirbag's (2010) thesis. Moreover, it contributes to the scarce

literature on corruption and MNCs' entry models by analyzing an under explored context, the PALOPs.

This thesis proposal is structured as follows. In Section 2 we revise existent literature on theories and determinants of MNCs' entry modes and on corruption, deepening the analysis of existent articles about the impact of corruption on MNCs' entry mode. In Section 3 we detail the methodological considerations of the study: data gathering procedures, questionnaire, target firms (Portuguese firms that internationalized to the PALOPs), and the specification of the econometric model which will permit to quantify the net impact of corruption on entry mode choice.

2. Corruption and MNCs' entry modes: the literature

2.1. Defining Corruption

Being one of the most widespread political problems worldwide (Frischmann, 2010), in recent years there has been considerable empirical research on the causes and effects of corruption across countries (Goel *et al.*, 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, what could increase per capita incomes by 400 percent (Dreher *et al.*, 2007).

According to the significant impact and the numerous studies on corruption, there are lots of definitions of this phenomenon (Detzer, 2010). In order to represent this diversity of definitions and the type of measurement, Table 1 serves to exemplify this scenario through some studies on corruption.

The most common definition is the one used by the World Bank, describing corruption as "the abuse of public office for private gain". Transparency International has a very similar designation, defining corruption as "the misuse of entrusted power for private gain". Another often cited, but less clear and focused, definition is corruption as the "behaviour 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

complex, Friedman *et al.* (2000: 462) say 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"

Definitions may differ slightly in their formulation but there is consensus, (Dey, 1989; Mauro, 1998; Treisman, 1998; Dietrich, 2010; Reiter *et al.*, 2010), 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 (Jain, 2002).

As we can observe in Figure 1, corruption has a very broad scale being present in lots of approaches of the institutional environment. It is an integrated part of governance quality, institutional transparency and even political stability, because it interferes directly with each of these approaches, influencing them on average negatively (Slangen *et al.*, 2008; Chiao *et al.*, 2010).

Besides the general definition of corruption, it is important to subdivide this concept into two very different types: A) political corruption and B) administrative or bureaucratic corruption (Jain, 1998; Straub, 2008). Political corruption is when political decision-makers use the political power they are armed with to sustain their power, status and wealth (Amundsen, 1999). Taking place at the high levels 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 make a different division distinguishing between i) pervasiveness of corruption which reflects the degree to which corruption is dispersed broadly (institutionalized) throughout the public sector in a country and ii) arbitrariness which reflects the degree of uncertainty and capriciousness associated with public sector corruption. Bureaucratic corruption as well as pervasiveness of corruption reflect entirely 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).

Table 1: Examples of studies on corruption

Definition of corruption	Proxies	Studies (date)
Corruption as the misuse of public office for private gain.	Corruption Perceptions Index (TI ⁱ)	Treisman, 1998; Reiter <i>et al.</i> , 2010
	Corruption Index (ICRG ⁱⁱ)	Mauro, 1998; Dietrich, 2010
Corruption as bribery.	Bribe ratio (questionnaire)	Henderson <i>et al.</i> , 2010
	Bribery Index (GCS ⁱⁱⁱ)	
Corruption as 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.	Corruption Perception Index (GCS ⁱⁱⁱ)	Friedman <i>et al.</i> , 2000
	Corruption Perceptions Index (TI ⁱ)	
	Corruption Index (ICRG ⁱⁱ)	

Notes: ⁱ TI: Transparency International; ⁱⁱ INCR: International Country Risk Guide; ⁱⁱⁱ GCS: Global Competitiveness Survey

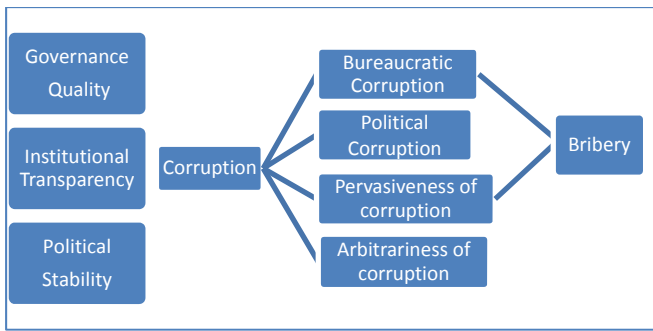


Figure 1: Taxonomy of corruption
Own elaboration

Economic literature on corruption tends to focus on bribery (Berg, 2001). In this sense there are many studies that analyze bribery denominating it as corruption (Klitgaard, 1989; Lien, 1990; Henderson et al., 2010). Rose-Ackerman (1999), for example, does not seem to distinguish between the two and 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 how to measure this occurrence. The most well-known corruption indicator is the Corruption Perceptions Index (CPI), published annually by Transparency International (Berg, 2001). In the CPI, evaluated countries 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, 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, 2003).

Demirbag *et al.* (2010), who focus on the specific type of corruption, bribery, use the bribe *ratio* to measure this behaviour. It is calculated by the total bribe value divided by total income in the same period (Berg, 2001). In studies like this the measurement is used as a representative indicator for corruption (Henderson, 2010) or, more precisely, the pervasiveness of corruption (Demirbag *et al.*, 2010).

Besides the mentioned methods of measuring corruption, there is a diversity of corruption and bribery indexes elaborated from 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 *et al.*, 2009). The measurement methodology uses to be the same utilized in the CPI or by the ICRG, nevertheless they are clearly different because there is a variance of the selected variables, the analyzed years, and the sample of countries. Because it covers

generally lots of countries (more than 150) and there is data for a large period (1995-2010), CPI tends to be the preferable indicator for countries’ corruption, Transparency International (n.d.).

2.2. The MNCs’ choice of entry modes

2.2.1. Defining MNCs entry modes

International entry modes represent the third most researched field in international management, being directly related to MNC’s international activity (Canabal *et al.*, 2008). Entry modes vary largely in its scale of entry (Peng, 2009), being mostly divided into two categories: equity and non-equity (Tian, 2007) (see Figure 2).

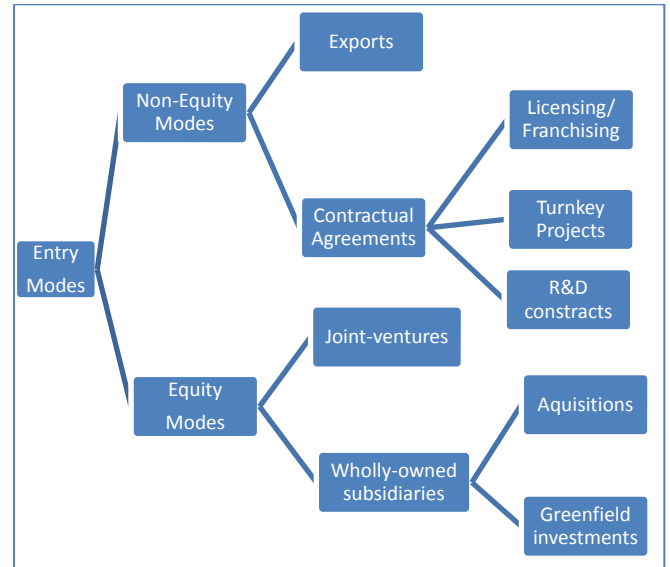


Figure 2: Taxonomy of entry modes
Own elaboration.

Equity entry modes include joint-ventures and wholly-owned subsidiaries. The former consists in 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 might involve both greenfield investments (that consists in establishing a new firm) and acquisitions of already existing firms (Razin, 2007). In the case of equity mode, the resource commitment, *i.e.* the scale of entry, is very high because there is a direct establishment in the foreign market (Hill *et al.*, 2009).

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

2.2.2. Main theoretical approaches and determinants of MNCs entry modes

An exploratory bibliographic search in the Scopus database using as search keywords ‘MNCs’ entry modes’

permitted to frame MNCs' entry mode literature and put forward the main aspects related to the subject. Scopus is the world's largest abstract and citation database of peer-reviewed literature indexing nearly 18,000 titles: <http://www.info.sciverse.com/scopus/about>, 27 Oct 2010.

Out of 126 articles which refer MNCs' entry modes, 68 articles dealt with the issues of the determinants of MNCs' choice of the entry mode. These articles were read and classified into main theoretical approaches (cf. Tables 2-7). The 58 excluded articles focused on various issues related to entry modes but which 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 issues, 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 *et al.*, 2007) and optimal entry mode timing (Cui, 2005). Thus, as such studies do not stand square on the main research agenda of the present study, we excluded them from the analysis.

It is important to recall that most of theories on FDI and MNCs intent to explain why firms involved themselves in several types of internationalization processes. In general, the very distinct theoretical approaches (early studies FDI; 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 their focus is on highlighting key determinants of foreign direct

investment. By adapting the existing theoretical approaches on FDI and internationalization, we provide a new systematization (*cf.* Tables 2-7), mixing existing contributions under the transaction cost analysis, the broader theoretical framework, the Dunning's eclectic paradigm, and the institutional approach.

Transaction cost analysis has been widely used by researchers to examine determinants of entry mode choices (Table 2 - Chen *et al.*, 2002). Most theorists who study this cost-related approach favour the establishment of joint-ventures (Madok, 1998), because other entry modes require a higher financial effort (Slangen *et al.*, 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 *et al.*, 2008). The entry via JV reduces significantly these financial efforts (Raff *et al.*, 2009) and helps to fill the information gap due to socio-cultural differences (Chun, 2009).

Facing indirect costs pointed out in the transaction cost approach, trade barriers, for example, lead to a direct establishment (WOS or JV) in order to avoid trade with the host country (Eicher *et al.*, 2005). In contrast, when market imperfections dominate the industry, a moderate involvement is advisable (Mok *et al.*, 2002). Having only studied the option of Acquisition and 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 might choose a Greenfield investment, or a Acquisition in case that they already have a JV.

Table 2: Approaches and determinants of MNC's entry mode choices – the Transaction Cost Approach (TCA)

Determinants		Impact on MNC's entry mode	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 <i>et al.</i> , 2008
	Entry costs	To avoid high entry costs, MNCs tend to rely on a partner entering foreign markets via JVs . When entry costs are very high, MNC's prefer acquisitions to Greenfield investments.	Madok, 1998 Fatica, 2010
Indirect costs	Trade barriers	Markets with high entry barriers favor entry via FDI , rather than export as long as FDI fixed costs are not too large.	Eicher <i>et al.</i> , 2005
	Market imperfections	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

Starting from the micro-level, of Dunning's eclectic paradigm (Table 3), the ownership dimension highlights firm-level determinants such as income-generating assets and firms' ability to coordinate them with other assets abroad (Cantwell, 2003). Given the perspective on firms' abilities, we might associate the firm's competences, skills and assets from the resource-based

theory (Hill, 2009) to this approach (Luo, 1999). In concrete, for firm-specific assets (Madok, 1998; Sreenivas *et al.*, 2000) such as technology intense resources (Sun, 1999; Javorcik *et al.*, 2009) and inventive/R&D intense activities (Bhaumik *et al.*, 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 *et al.*, 1998; Chen *et al.*, 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 *et al.*, 2002; Martin *et al.*, 2003). Chen (2010) proposes an alternative for WOS, namely technology licensing, where the control level over the assets supposedly remains the same. In the case we have internationally experienced firms there is a

preference for WOS (Tseng, 2010; Chiao *et al.*, 2010). Indeed, MNCs with cumulated knowledge in internationalization are less likely to rely on the support of a joint-venture partner, because they already have the needed know-how to do business abroad (Mutinelli *et al.*, 1998). In contrast, when a MNC does not have any experience, JV can be used to complement internal R&D resources and to exchange knowledge on an interfirm basis level (Mutinelli *et al.*, 1998).

Table 3: Approaches and determinants of MNC's entry mode choices – the ownership dimension of the eclectic paradigm

Determinants	Impact on MNC's entry mode	Studies (date)
Intangible assets	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, 2010
	When MNC's competitive success depends on its capabilities, JVs are used to complement internal R&D resources and to exchange knowledge interfirms.	Mutinelli <i>et al.</i> , 1998
	When firm-specific assets are transferred MNCs choose WOS , to protect them from opportunistic JV partners.	Sreenivas <i>et al.</i> 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 <i>et al.</i> , 2002
	Experienced MNCs tend to enter foreign markets via WOSs , thanks to cumulative learning.	Mutinelli <i>et al.</i> , 1998; Chiao <i>et al.</i> , 2010
	When firm-specific activities need a high level of control, MNCs tend to avoid JVs, preferring WOSs .	Edwards <i>et al.</i> , 1998
	MNCs with high technological resources prefer entering markets via WOSs , rather than by JVs.	Sun, 1999
	Technology licensing is an adequate entry mode for MNCs with technology intense assets.	Chen, 2010
Technology intense assets	To avoid technology spillovers to domestic firms, the optimal entry modes for technology intense MNCs are direct entry modes (WOSs).	Chung, 2009
	High-technological firms prefer WOS to protect intangible assets.	Javorcik <i>et al.</i> , 2009
	Greenfield investments are dominant when MNC's technological intensity is high.	Kuemmerle, 1999; Bhaumik <i>et al.</i> , 2005; Dikova <i>et al.</i> , 2007
	Transfer of management know-how is more likely in WOSs and JVs , but not with contracts and export.	Meyer, 2001
Knowledge based assets	To protect knowledge based assets from misappropriation, MNCs enter foreign markets via WOS .	Martin <i>et al.</i> , 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	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 <i>et al.</i> , 2002;
	Firm size was found to be a non-significant determinant of entry mode choice.	Esperança <i>et al.</i> , 2006

The internalization approach from 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, 2005) (see Transaction Cost Approach).

Table 4: Approaches and determinants of MNC's entry mode choices – the internalization dimension of the eclectic paradigm

Determinants		Impact on MNC's 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, MNC's prefer acquisitions to Greenfield investments.	Fatica, 2010
Indirect costs	Trade barriers	Markets with high entry barriers favor entry via FDI , rather than export as long as FDI fixed costs are not too large.	Eicher <i>et al.</i> , 2005

Table 5: Approaches and determinants of MNC's entry mode choices - the location dimension of the eclectic paradigm

Determinants		Impact on MNC's entry mode	Studies (date)
Cultural differences between home and host country	Cultural distance	When cultural distance is large, MNCs prefer WOSs over JVs .	Chen <i>et al.</i> , 2002
		Culturally distant markets favor WOSs , rather than JV , because cooperation expectations are low.	Pennings <i>et al.</i> , 2004
		High levels of cultural distance increase the likelihood that MNCs choose Greenfield over acquisitions.	Drogendijk <i>et al.</i> , 2006
	Socio-cultural distance	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 choose a JV over a WOS .	Demirbag <i>et al.</i> , 2009	
Industry-specific assets	Competition intensity	When markets are very much or very little competitive, Greenfield is preferred, while for intermediate values acquisition.	Müller, 2007
	R&D Intensity of the industry	In high concentrated markets, MNCs tend to enter via Greenfield , because acquiring existent firms is too expensive.	Elango <i>et al.</i> , 2004
		MNCs enter R&D intense industries via JVs or acquisitions to gain access to overseas capabilities.	Belderbos, 2003
	Complementary assets	MNCs prefer to establish JVs rather than establishing WOSs as the R&D intensity of the industry increases.	Demirbag <i>et al.</i> , 2009
Economic strength of local partners	To gain access to location-specific complementary assets, MNCs often choose JV to enter these markets.	Hennart, 2009	
Location-specific assets	Location-specific advantages	The presence of strong local partners conducts MNCs to choose JVs , because they usually have extensive local networks.	Yeung <i>et al.</i> , 2000
	Market size	By identifying location-specific advantages, firm's choose mostly integrated entry modes (WOS, JV, Strategic Alliances).	Brouthers <i>et al.</i> , 1996; Moon, 1997
		FDI (compared with contracting) is the desirable mode of entry when entering a large market.	Horstmann <i>et al.</i> , 1996
	Market attractiveness as gateway to other markets	In large markets MNCs are more likely to enter via acquisitions .	Eicher <i>et al.</i> , 2005
	MNC's entry mode is motivated not only by the entering market potential, but also by its ability to serve as a gateway to other neighbor markets. In this case a MNC would intensify its involvement via, for example, FDI .	Javalgi <i>et al.</i> , 2010	

In the location-specific approach extracted from Dunning's Eclectic Paradigm, cultural distance is a dominant determinant of entry mode choice (*cf.* Table 5). According to Chen (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 favour MNCs entry via **WOS**, rather than by **JV** (Chen *et al.*, 2002; Pennings *et al.*, 2004; Drogendijk *et al.*, 2006). Also high potential

industries (Chen *et al.*, 2002) and competition intense markets (Elango *et al.*, 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 for intense 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.” 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 *et al.*, 2000). Besides this, the junction of firms may be beneficial for both firms, due to R&D intense spillovers (Belderbos, 2003; Demirbag *et al.*, 2009). Location-specific advantages, such as market attractiveness as gateway to other markets (Javalgi *et al.*, 2010), favour integrated entry modes (WOS or majority share JV) (Brouthers *et al.*, 1996). FDI, in general, is preferred when entering large markets (Horstmann *et al.*, 1996; Eicher *et al.*, 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 6), the determinants of 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 *et al.*, 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 the protection from manipulative JV partners, whose knowledge about 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 host countries’ institutions (Meyer, 2001) and decrease uncertainty due to political differences between host and home country (Bianchi *et al.*, 2006; Slangen *et al.*, 2008). JV can also function as a protection from governmental intervention (Luo, 2001) and political constraints oriented to foreign firms (Yiu *et al.*, 2002; Demirbag *et al.*, 2009). Facing corruption, JV would help to avoid excessive transaction costs related to corruptive government officials (Javorcik *et al.*, 2009).

On a more general ground, FDI (WOS and JV) should be considered when entering corruptive (Acs *et al.*, 1997; Paul *et al.*, 2008) or politically risky markets (Rasheed, 2005).

FDI is also favoured 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). Other authors argue that entry into corruptive host countries should be based on non-equity modes (Rodriguez *et al.*, 2005; Straub, 2007), such as export and sub contracting (licensing, franchising and turnkey projects), to protect foreign investors from eventually corruptive joint-venture partners (Slangen *et al.*, 2009).

Table 6: Approaches and determinants of MNC’s entry mode choices – Institutional approach

Determinants		Impact on MNCs entry mode	Studies (date)
Political risk		In presence of political hazards, 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, it is 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
Host countries’ institutional quality		For small and medium-sized firms the preferred entry in countries with weak protection of IPR is establishing a JV with an existent MNC (JV).	Acs <i>et al.</i> , 1997
		When IPR are not well protected MNCs prefer establishing a WOS .	Luo, 2001
	Intellectual Property Rights	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 MNC’s entry via export .	An <i>et al.</i> , 2008
	When IPR are poorly protected, the preferred entry mode is a JV .	Che <i>et al.</i> , 2009	
International risk (political, financial, etc.)		When MNCs perceive high risk levels, it is more likely to enter the market via high control modes (WOSs).	Ahmed <i>et al.</i> , 2002
Governmental intervention		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 <i>et al.</i> , 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 MNC's 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 <i>et al.</i> , 2008	
	MNCs prefer JVs to avoid excessive transaction costs related to corruptive government officials.	Javorcik <i>et al.</i> , 2009	
	By entering corruptive markets, MNCs should enter via JVs .	Li <i>et al.</i> , 2009	
	Facing corruptive markets, a MNC should enter via 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 <i>et al.</i> , 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 <i>et al.</i> , 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, conducting MNC's entry mode towards export , rather than acquisition.	Tekin-Koru, 2009	
Local content requirement	Export is more likely to be adopted for a high LCR level than FDI.	Qiu <i>et al.</i> , 2001	
Distance between home and host country	Uncertainty (institutional differences)	When uncertainty is high, MNCs prefer enter via WOSs , because they contribute to uncertainty reduction.	Li <i>et al.</i> , 2007
		When MNC's perception of institutional differences is high, it tends to enter by WOSs .	Chiao <i>et al.</i> , 2010
	Political differences	Facing remarkable political differences in the entering market, MNCs should consider JVs instead of solely entry modes (WOSs).	Bianchi <i>et al.</i> , 2006
	Psychic distance	JVs are more feasible in distant locations, because the lack of proximity and familiarity hampers MNC's 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 <i>et al.</i> , 2004
	Access to information/performance under uncertainty	Due to asymmetric information between home and host firms, foreign MNCs prefer enter the market via FDI (WOS or JV) , rather than export.	Moner-Colonques <i>et al.</i> , 2008
	Industry structure	In less developed banking markets, internationalized banks prefer entry via acquisition .	Lehner, 2009
		MNCs choose WOSs over JVs, when entering high potential industries.	Chen <i>et al.</i> , 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

Table 7: Approaches and determinants of MNC's entry mode choices – 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 its main line of business enter through Greenfield.	Mudambi <i>et al.</i> , 2002
Nature of MNCs activity	Concerning to service-oriented nature (very firm-specific assets) of MNC's activity, there is a tendency of entering foreign markets via FDI .	Williams <i>et al.</i> , 2008
International strategy and objectives	Acquisitions are more likely for multidomestic companies and Greenfields are more likely for global companies.	Harzing, 2002

We found some determinants that are not classifiable within our theories, but that also, according to extant empirical literature, have an impact on entry mode choice (cf. Table 7). Indeed, entry modes can be influenced by the nature of MNCs activity (Williams *et al.*, 2008). Specifically, firms from the service sector are more likely to opt for FDI entry modes (WOS or JV).

Additionally, firm's international strategies lead to a certain entry mode, being Acquisitions more likely for multi-domestic companies and Greenfields for global companies (Harzing, 2002). Finally, MNCs with more diversified products are likely to enter foreign markets through acquisition, while MNCs which focus on its main line of business enter through Greenfield (Mudambi *et al.*, 2002).

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

MNCs which enter into 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. Governmental intervention directs MNCs to join a local partner, rather than establishing a firm on its own.

To the extent that Dunning's Eclectic Paradigm focuses traditionally on ownership, location and internalization advantages (Dunning *et al.*, 2003), the tendency of this theory is more directed to 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 entry via establishment of wholly-owned subsidiaries.

Thus, generally speaking, there is a main inclination for 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.

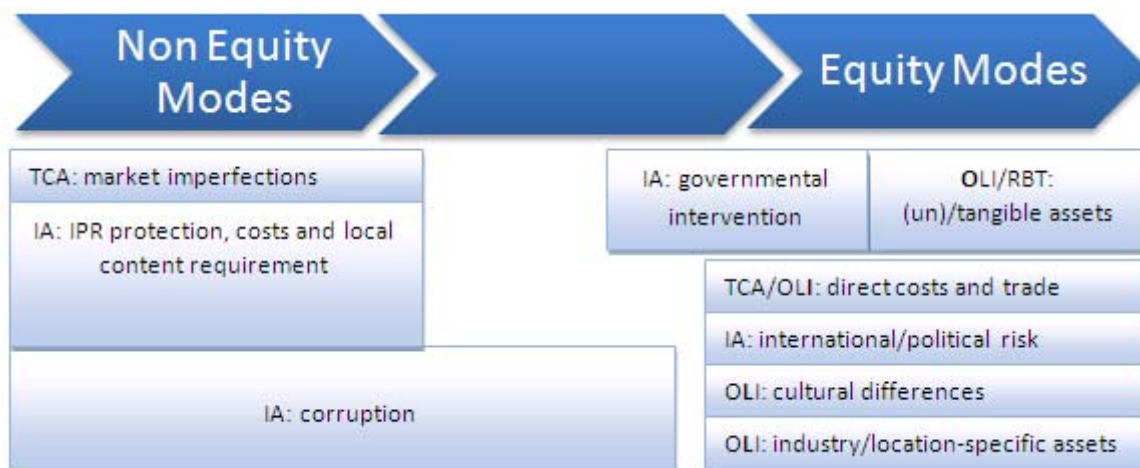


Figure 3: Entry mode choice- overall tendency

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

2.3. Corruption and MNCs' entry mode. Is there a linkage?

The few studies that simultaneously focus on corruption and entry modes (e.g., Uhlenbruck *et al.*, 2006; Straub, 2007; Paul *et al.*, 2008; García *et al.*, 2009; Javorcik *et al.*, 2009; Slangen *et al.*, 2009; Demirbag *et al.*, 2010) perform a quantitative analysis, formulating hypothesis and testing them with an econometric model (cf. Table 8). Specifically, Rodriguez *et al.* (2005), analyzing the impact of government corruption on MNCs entry strategies, also fit in this set but differentiate their study by making a qualitative literature review on existent studies.

Focusing first on the quantitative studies, we observe that there is a diversity of measures utilized in order to quantify corruption and a variety of analyzed entry

modes. Indeed, corruption is rarely defined and measured in the same way. Demirbag *et al.* (2010: 214), analyzing the pervasiveness of corruption defined as "the average firm's likelihood of encountering corruption in its normal interactions with state officials", quantifies bribes with Transparency International's bribe payers index (BPI). This index is based on a questionnaire where executives were asked about the propensity of foreign firms that do business abroad to pay bribes or to make undocumented extra payment to public officials (Mak, 2007). To calculate the BPI, the answers were converted to a score from 0 (low) to 10 (high) in order to elaborate a ranking reflected by the average score (Demirbag *et al.*, 2010).

Javorcik *et al.* (2009) and Slangen *et al.* (2009) use a junction of several indicators (cf. Table 8). In concrete,

Javorcik *et al.* (2009) employ the corruption index from the World Development Report, which is based on a survey undertaken by the World Bank, completing it with the corruption index used in Kaufmann *et al.* (1999) and a corruption perception index reached by a questionnaire made by the German journalist, Peter Neumann. This index measures the proportion of exports by certain German firms to a host country that involved corrupt payments. The index value of 1 corresponds to 10% of transactions involving corrupt payments, 2 to 20% and so on (Javorcik *et al.*, 2009).

Slangen *et al.* (2009) measure corruption through Kaufmann *et al.*'s (2004) analysis of several hundreds of variables measuring governance quality. This measurement was drawn from 25 sources such as the International Country Risk Guide, the Economic Freedom Index, the World Bank's Country Policy and Institutional Assessments, and the World Economic Forum's Global Competitiveness Report. Kaufmann *et al.* (2004)

identified six dimensions along which countries differ from one another in terms of their governance quality. Slangen *et al.* (2009) adopted these dimensions, using them as proxies for corruption in their analysis.

García *et al.* (2009) merge the Corruption Perception Index (CPI) with the International Monetary Fund's (IMF) indices to include corruption (measured by the CPI) as well as political stability (considered by the IMF) in their study. Straub (2007) does not diversify the sources of corruption's measurement, but includes different indexes of the International Country Risk Guide (corruption index and index of bureaucratic quality) in order to distinguish between bureaucratic and political corruption in his analysis. Paul *et al.* (2008) focus on liberalization and market-oriented reforms, using the Operations Risk Index and the Country Liberalization Index in order to quantify the effects on MNCs entry mode choices.

Table 8: Corruption's impact on MNCs entry mode choice: a synthesis of the literature

Entry Modes	Definition of corruption	Proxy	Methodology	Effect	Author (date)	
WOS vs. JV	Pervasiveness of corruption: the average firm's likelihood of encountering corruption (bribes) in its normal interactions with state officials	Bribery Index (TI ⁱ)	Multi dimensional framework	WOS -	Demirbag <i>et al.</i> , 2010	
		Perceived risk (questionnaire)		JV +		
		corruption index (ICRG ⁱⁱ)		WOS -		
Franchising via WOS; via JV; via contract (FVC); Master Franchising (MF)	No concrete definition is made, but how it is measured by TI, corruption may be faced as: the misuse of entrusted power for private gain	Corruption Perception Index (TI ⁱ)	Binary logistic regression	JV -		García <i>et al.</i> , 2009
		Political Stability Index (IMF ⁱⁱⁱ)		FVC +		
				MF -		
				JV -		
WOS vs. JV	Corruption is faced as an act that makes local bureaucracy less transparent and acts as a tax on foreign investors	Corruption index (WDR ^{iv})	Single-equation probit	WOS -	Javorcik <i>et al.</i> , 2009	
		Corruption index (Kaufmann <i>et al.</i>)		JV +		
		Perceived corruption (questionnaire)		WOS -/0		
WOS vs. JV	Corruption reflects the degree to which public power is exercised for private gain	Voice and accountability ^v	Multivariate regression	JV +		Slangen <i>et al.</i> , 2009
		Political stability ^v		WOS +		
				JV -		
		Government effectiveness ^v		WOS +		
		Regulatory quality ^v		JV -		
		Rule of law ^v		WOS +		
Control of corruption ^v	JV -					
Equity (EQ) vs. Non-Equity modes (NEQ)	This study focuses on country stability and the progress with market-oriented reforms and liberalization (≠corruption).	Cumulative Liberalization Index	Two Stage Model	EQ +	Paul <i>et al.</i> , 2008	
Equity (EQ) vs. Non-Equity modes (NEQ)	Political corruption is characterized by the interaction with the risk of expropriation, what reduces the informational advantage of foreign firms.	Risk of government repudiation of contracts (ICRG ⁱⁱ)	Multivariate regression	EQ -	Straub, 2007	
		corruption index (ICRG ⁱⁱ)		NEQ +		
				EQ -		
				NEQ +		

Entry Modes	Definition of corruption	Proxy	Methodology	Effect	Author (date)
	Bureaucratic corruption acts as an additional tax for foreign investors.	Index of bureaucratic quality (ICRG ⁱⁱ)		EQ - NEQ + WOS -	
	Corruption is defined as the abuse of public power for private benefit.	Political risk (PRS Group)		JV + CON + WOS -	
WOS; JV; contracting (CON)	Pervasiveness of corruption reflects the degree to which corruption is diffused broadly in the public sector.	Pervasiveness of corruption (WBES ^{vi})	Multivariate regression	JV - CON + WOS -/0	Uhlenbruck <i>et al.</i> , 2006
	Arbitrariness reflects the degree of uncertainty and capriciousness associated with public sector.	Arbitrariness of corruption (WBES ^{vi})		JV -/0 CON +/-0	
	Pervasiveness and arbitrariness of corruption as defined above.	Junction of pervasiveness and arbitrariness (WBES ^{vi})		WOS - JV - CON +	

Legend: + positive effect with statistical significance; +/-0 positive effect without statistical significance; - negative effect with statistical significance; -/0 negative effect without statistical significance

Notes: ⁱ TI: Transparency International; ⁱⁱ ICRG: International Country Risk Guide; ⁱⁱⁱ IMF: International Monetary Fund; ^{iv} WDR: World Development Report; ^v WGI: Worldwide Governance Indicators; ^{vi} WBES: World Business Environment Survey

According to the entry modes studied in these articles, we observe that there are two main groups. On the one side, there is the analysis of wholly-owned subsidiaries versus joint-ventures (Javorcik *et al.*, 2009; Slangen *et al.*, 2009; Demirbag *et al.*, 2010) and, on the other side, there are those studies focusing on FDI (wholly-owned subsidiaries and joint-ventures) versus non-equity modes (*e.g.*, Rodriguez *et al.*, 2005; Uhlenbruck *et al.*, 2006; Straub, 2007; Paul *et al.*, 2008). Only García *et al.* (2009) falls out of this scheme concentrating just on franchising and subdividing this entry mode into franchising via direct establishment (WOS), franchising via joint-venture, direct franchising via contract and franchising via a local intermediary (Master Franchising). Besides being a different approach in relation to the observed general tendency, we can transpose this analysis with the other authors' because it contains the same structure of direct establishment, partnering and contracting.

A general observation regarding each of the analyzed articles demonstrates that corruption discourages the establishment of wholly-owned subsidiaries (WOS). Nevertheless, in specific cases like large-sized operations, cultural proximity (Demirbag *et al.*, 2010) and high-technological firms (Javorcik *et al.*, 2009) MNCs may enter via 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 purposes this entry mode in presence of pervasive corruption that can encourage MNCs' involvement in corruption to achieve legitimacy but, at the same times, might cause internal conflicts within MNCs internal norms. In this sense, the articles which oppose wholly-owned subsidiaries (WOS) to joint-ventures (JV) consider this second option as advisable being a strategic mean for integration in social networks and to enforce MNC's external legitimacy (Demirbag *et al.*, 2010) and to avoid excessive transaction costs (Javorcik *et al.*, 2009). According to Slangen *et al.* (2009) this option may protect MNCs from external uncertainties but creates

internal uncertainties originated by the local partner. Thus, it may be more adequate to choose an entry mode which requires less involvement in the host-country.

Regarding the articles which analyzed the opposition FDI versus non-equity modes, the establishment of a joint-venture (JV) also appears as a viable option in case of arbitrary corruption in order to protect themselves from discriminating policies towards foreign firms (Uhlenbruck *et al.*, 2006), 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 allied to 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 option of these studies consists in 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 favours this entry mode in order to preserve asymmetric information. Uhlenbruck *et al.* (2006) and Rodriguez *et al.* (2005) argue that in presence of pervasiveness, even when combined with arbitrariness, MNCs choose non-equity modes to avoid the costs related to corruption. Using Paul *et al.*'s (2008) arguments, we can affirm that when the host country exhibits greater progress towards market-oriented reforms and being 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.

Following Demirbag *et al.*'s (2010) argument that, even in the presence of corruption, due to historical and linguistic ties between home and host country, MNCs entry mode choice tends to move towards high equity-modes (mostly WOS). In this sense, we will include

wholly-owned subsidiaries and joint ventures in our study in order to find out if this argument is supported. With the intention of elaborating a most complete analysis, we will also incorporate non-equity modes focusing mainly on the opposition: FDI versus non-equity mode.

Summing up, based on the literature, we might put forward that MNCs entry mode choice depends on four main groups of determinants, namely on the three dimensions of Dunning's Eclectic Paradigm (or OLI model) and the institutional approach. We left out the Transaction Cost Approach because, as earlier noted, its determinants are included in the internalization approach, one of the dimensions of OLI model.

In this line of argumentation, the control variables utilized in order to cover the key determinants of MNCs' entry mode (specifically, FDI vs. non-equity) is the following. In the case of the ownership dimension we include R&D intensity of the firm (R&D_int); firms size

(Size_firm), and international experience of the firm (International_exp). Regarding the internalization approach, the following variable is considered: the level of the host economy's openness (Openness_market). Respecting the location dimension we have: competition intensity (Compet_intensity); host market size (Size_market), and cultural distance between home and host country (Cul_dist). Finally, in relation to the institutional approach, we control for legal restrictions from the host government (Legal_restrictions) and host country's governance quality (Governance_quality).

Being corruption the focus of the present work. we considered it separately in the model and choose the Corruption Perception Index (CPI) from Transparency International as its proxy.

The 'theoretical model' that will be adopted to assess the influence of corruption and other the determinants on MNCs' entry mode choice in corrupt markets is:

$$FDI/non-equitymode = f(Ownership; Internalization; Location; Institutional; Corruption) \quad (1)$$

Ownership variables → R&D_Int; Size_firm; International_exp

Internalization variable → Openness_market

Location variables → Compet_intensity; Size_market; Cul_dist

Institutional variables → Legal_restrictions; Governance_quality

Corruption variable → Corruption_Perception_Index

3. Corruption and MNCs' entry mode: methodological considerations

Similarly to other studies, which analyze the role of the several determinants on MNCs' entry mode options (e.g., Uhlenbruck *et al.*, 2006; Straub, 2007; Slangen *et al.*, 2009), the present study resorts to a multivariate econometric model, more specifically, a logistic regression, to assess how corruption affects firms' entry mode in countries characterized by widespread levels of corruption (the PALOPs) and that maintains historical and language affinities with the MNCs' home country (Portugal).

In this sense, our unit of analysis encompasses Portuguese MNCs investing in one or more of the PALOP countries. In order to construct a database of these firms-countries to be surveyed, we use a list, provided by the AICEP (*Agência para o Investimento e Comércio Externo de Portugal*), of firms that export to PALOP countries together with a list of firms that are either planning their internationalization or are already established in the analyzed countries.

As earlier mentioned, the entry modes that this study focuses on are FDI (wholly-owned subsidiaries and joint-ventures) versus non-equity modes (mainly, exports). In order to evaluate the impact of corruption on MNCs choice between these entry modes, we need to control for the other relevant determinants put forward by the literature reviewed earlier and put forward in our 'theoretical model'. The proxies for such determinants are summarized in Table 9.

Concerning to the ownership dimension of Dunning's Eclectic Paradigm we choose, in line with Straub (2007) and Paul *et al.* (2008), the R&D intensity as proxy for intangible or firm-specific assets, determinants which are clearly predominant in this approach (Table 3). Following the literature (e.g., Javorcik *et al.*, 2009) we compute the ratio of a firm's R&D expenditure to the value of sales. This data will be collected through direct questionnaire (*cf.* Appendix 1) including a question on the percentage of the firm's R&D expenditure of its total net sales. In order to include the firm's size and its international experience, our questionnaire will also ask about the number of employees, the year in which the firm internationalized, and the number of countries where they operate.

The internalization dimension from the Eclectic Paradigm will be represented by the host countries openness to trade. It will be measured, as in Javorcik *et al.* (2009), by the sum of exports and imports as a share of GDP as it gives us an average on indirect costs related to entry barriers in the market.

The third dimension from the Paradigm, related to location advantages, will be proxied by competition intensity, host market size and growth, and cultural distance. Competition intensity will be measured, as in Elango (2004), by analyzing the degree of firm concentration in the industry and the extent of market share held by imports. The host market size is measured by GDP *per capita* (Straub, 2007). Cultural distance will be measured through our questionnaire asking the

entering firms the importance (in a Likert scale of 1 to 7) of common linguistic and historical ties between the home country (Portugal) and the host country (PALOPs) for the decision to enter into the selected markets. This proxy is included in our study being a clearly dominant determinant of this approach and because we aim at corroborating Demirbag *et al.*'s (2010) argument on the

linguistic and historical distance. Accordingly, in the event there are strong cultural ties between our home and host countries, it is expected that it influences the entry mode choice moving it towards high equity modes, namely wholly-owned subsidiaries, even in the presence of highly corrupted environments.

Table 9: Proxies for the key variables of the 'theoretical model' of MNCs' entry mode option

Determinants	Proxy		Studies (date)
	Indicator	Question asked in the questionnaire	
Eclectic Paradigm: ownership	R&D intensity	In relation to your annual value of sales which percent do you spend in R&D?	Paul <i>et al.</i> , 2008; Straub, 2007; Javorcik <i>et al.</i> , 2009
	Firm's size	How many employees does your firm have?	Demirbag <i>et al.</i> , 2010
	International experience	When did your firm's internationalization process started?	García <i>et al.</i> , 2009
Eclectic Paradigm: internalization	Openness of the host economy	$\frac{X + M}{GDP}$	Slangen <i>et al.</i> , 2009 Javorcik <i>et al.</i> , 2009
	Competition intensity	Degree of firm concentration in the industry; The extent of market share held by imports	Elango, 2004
Eclectic Paradigm: location	Host market size	GDP per capita	Straub, 2007
	Host market growth	$\frac{GDP1}{GDP2 - GDP1}$	
Institutional Approach	Cultural Distance	How important were linguistic and historical ties between home and host country in the decision to enter the market? (1: no importance.... 7: critical)	Demirbag <i>et al.</i> , 2010
	Legal Restrictions	To what extent was the entry mode choice influenced by legal restrictions in the country? (1: no influence.... 7: extremely influenced)	Slangen <i>et al.</i> , 2009
	Governance Quality	Worldwide Governance Indicators	Slangen <i>et al.</i> , 2009
Corruption		How would you classify the perceived corruption level? (1: no corruption.... 7: extremely corrupted) To what extent did corruption influenced the entry mode choice? (1: no influence.... 7: extremely influenced)	Demirbag <i>et al.</i> , 2010
		Corruption Perception Index (CPI)	García <i>et al.</i> , 2009

Regarding the institutional approach, we focus on the legal restrictions and governance quality. Legal restrictions are included here as entry mode choices vary in presence of host country's imposition (García *et al.*, 2009; Slangen *et al.*, 2009). Thus, firms will be asked to evaluate (in a Likert scale of 1 to 7), for each market, to what extent their entry mode choice was influenced by legal restrictions from the host government. In what concerns governance quality's indicator, it will be

measured by the Worldwide Governance Indicators produced by Daniel Kaufmann (Brookings Institution), Aart Kraay (World Bank Development Economics Research Group) and Massimo Mastruzzi (World Bank Institute). This index reports aggregate and individual governance indicators for 213 economies over the period 1996–2009, for six dimensions of governance: voice and accountability; political stability and absence

of violence; government effectiveness; regulatory quality; rule of law; control of corruption.

As earlier mentioned, we use Transparency International's Corruption Perception Index (CPI) as a proxy for the level of corruption in each country, being the only corruption index which covers our whole sample. This is a measure of the degree to which

corruption is perceived to exist in public officials and politicians in the country. In order to complement this proxy with the perception of our surveyed firms, we ask them in our questionnaire about the perceived corruption level and to what extent this determinant had influenced their entry mode choice.

4. Provisional chronogram of the research work

	Jan.	Feb.	Mar.	Apr.	May	Jun.
Literature Review						
Data collection via questionnaire						
Data processing						
Econometric analysis of the relationship: Entry mode – corruption						
Conclusion and Introduction						
Complete thesis draft						
Submission						

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