International Journal of Business and Economics Research
2022; 11(2): 54-64
http://www.sciencepublishinggroup.com/j/ijber
doi: 10.11648/j.ijber.20221102.11
ISSN: 2328-7543 (Print); ISSN: 2328-756X (Online)

Political Risk, Volume of FDI, and Ownership Strategy: Contextual Analysis of African Markets

Abubakari Zakari[1], Joyce Francisca Addo[2], Marian Maclean[1], Kakraba Ben Komla[3], Wang Min[4], Abubakari Iddrisu[5]

[1]Department of Management Studies, Kumasi Technical University, Kumasi, Ghana

[2]Faculty of Creative Arts and Technology, Kumasi Technical University, Kumasi, Ghana

[3]Directorate of Finance, Kumasi Technical University, Kumasi, Ghana

[4]Department of Management and Economics, University of Electronic Science and Technology of China, Chengdu, China

[5]Department of Mathematics, Dormaa Senior High School, Dormaa Ahenkro, Ghana

Email address:

zakcuul78@yahoo.com (A. Zakari), abubakari.zakari@kstu.edu.gh (A. Zakari), Joyfuljoyandsons@gmail.com (J. F. Addo), joyce.faddo@kstu.edu.gh (J. F. Addo), marianmaclean@yahoo.com (M. Maclean), kakrababen@yahoo.com (K. B. Komla), wangmin@uestc.edu.cn (W. Min), alhajilee@gmail.com (A. Iddrisu)

To cite this article:

Abubakari Zakari, Joyce Francisca Addo, Marian Maclean, Kakraba Ben Komla, Wang Min, Abubakari Iddrisu. Political Risk, Volume of FDI, and Ownership Strategy: Contextual Analysis of African Markets. *International Journal of Business and Economics Research*. Vol. 11, No. 2, 2022, pp. 54-64. doi: 10.11648/j.ijber.20221102.11

Received: January 22, 2022; **Accepted**: February 21, 2022; **Published**: March 15, 2022

Abstract: This research examines the relationship between political risk and the volume of FDI activity and ownership strategy of foreign firms in Africa. Our study employs panel regression models to examine 2,360 FDIs into four low political risk and five high political risk African countries during the period 2010-2017. This data represents FDIs from the top 10 countries with the most investments in Africa (UNCTAD, 2018). We find that there is a progressive increase in the volume of FDI activity by multinationals in high political risk countries, even though low political risk countries remain the preferred FDI destinations. We also find that joint venture (JV) is the preferred ownership strategy by foreign multinationals in high political risk African countries. The preferred ownership strategy in this research helps firms mitigate potential hostile government policies such as expropriations. This research contributes both theoretically and empirically to enrich the political economy and international business literature.

Keywords: Political Risk, FDI, Ownership Strategy, Africa, Entry Strategy

1. Introduction

Political risk has been examined in relation to internationalization in an early stage of development, rate of international expansion and level of commitment in entry mode [1]. According to Howell [2], political risk is a change in a political environment that arises because of government decisions. These decisions may decrease the possibility of a multinational's achievement of its business objectives in another political environment. Nevertheless, some multinationals ignore the dangers of political risk and strategically pursue investments overseas to garner future opportunities despite the risk they face [3, 4]. In other words, not all risks associated with an investment should be avoided. This means firms can forgo profit in the current period when they invest to have higher capital stock and returns in the future despite any potential risk they might be faced with at their initial entry. Consequently, the importance of political risk for multinationals' operation in international markets has increased significantly with the growing rate of volume of foreign direct investment activity [5, 6]. And the assessment of how multinationals can operate successfully and profitably in foreign economies despite the presence of political risk has continued to gain attention [7-9]. However, until the past decade or so, research on political risk and its effects on foreign direct investment (FDI) have received relatively little attention within the context of African markets, compared to other developing countries in Asia, Eastern Europe, and Latin

America [10, 11]. Furthermore, most political risk reports or research on African markets have dwelled on a single event in one country. It has therefore become necessary to expand the scope of political risk research in the continent to reflect the growing number of foreign subsidiary operations. This approach will unearth any inherent biases, which was one of the key criticisms of risk analysis prior to the global financial risk in 2007. Against the backdrop of these challenges, our article intends to investigate the effect of political risk on the volume of FDI activity and ownership strategy. Specifically, we are interested in the research question: is a host country's political risk more likely to affect the volume of FDI activity and the choice between joint ventures (JVs) and wholly-owned subsidiaries (WOSs)? The results of this research might be a reference framework for multinationals targeting African economies as investment destinations.

We focus on the African context because this continent has experienced rapid political, economic, and institutional development in the past decade, making it an increasingly attractive investment destination, yet academically underexplored [12]. The relationship between political risk and FDI activity and ownership strategy is examined through a cross-country analysis, with data from the SDC Platinum database and the Financial Times (fDi Markets) database, among other sources. We test the data to establish how the political risk of the host country affects ratings that are used by multinationals in their decisions on FDI activity and choice of ownership strategy in a foreign country. We examine 2,360 FDI entries into the manufacturing and non-manufacturing sectors in four low and five high political risk African countries during the period 2010-2017. This sample reflects almost all the sub-regions of Africa (North Africa, Southern Africa, West Africa, and East Africa). The findings suggest that political risk leads to the preference for ownership joint ventures over wholly-owned subsidiaries. This, however, does not translate into less FDI, as our findings suggest that political risk destinations progressively receive FDI, even though less risky jurisdictions remain the most attractive foreign investment destinations.

The following sections are organized as follows: The next section presents the literature review on existing studies regarding political risk in relation to volume of FDI activity and foreign ownership strategy followed by hypotheses. Following this section is our methodology and research design including data description, sources, and measurement. We shall then present our findings followed by policy and managerial implications and concluding remarks.

2. Literature Review

2.1. Political Risk

Managing political risk has been a popular topic in the field of international business (e.g., exporting, franchising, establishment mode and ownership mode, etc.). However, political risk emerged as a distinct field of study without an all-encompassing construct setting forth the underlying principles that show how multinationals respond to host countries' policies [13, 14]. As a result, a consensus has yet to reach on the definition of political risk and its effect on the internationalization process of multinationals. For example, in the economic literature, this concept has historically been linked to the political events of the 1960s when newly independent countries, to overcome their lack of capital took over foreign subsidiaries of multinational companies (expropriation or nationalization). Furthermore, the rise of the communist regimes during the second half of the 20th century, corresponding to the Cold War period, led many states to take actions aimed at politically controlling the activities of multinational companies [15]. Because of this, confiscations, expropriations, and nationalizations became critical concerns for companies with operations overseas [16].

Similarly, after the fall of the Shah of Iran in 1979, issues of political instability became part of international investment risk variables [17-19]. Also, the attacks on the World Trade Center in New York in 2001, brought terrorism to the fore, as a form of political risk; and it has become a major source of concern for international investment and business [15]. In addition, Lehkonen & Heimonen [20] highlighted the Arab Spring as a recent event that had a direct impact on international business decisions. They believe that this event might trigger similar protests in other oil-producing countries, and even in natural resource endowed countries in general. This means that political risk gets altered and expanded as historical phenomena move forward and become more complex. Consequently, the literature on political risk keeps responding to find definitions for this phenomenon. For example, it has been argued that political risk in international business manifests itself as governmental discontinuities in the business environment [14]. These discontinuities are difficult to predict and are the result of political changes that could significantly affect the objectives of multinationals, such as profits and survivability.

2.2. Political Risk, Volume of FDI, and Ownership Strategy

FDI by a multinational is the purchase of physical assets or setting up an entirely new plant or a substantial amount of ownership of stock of a firm in another country to gain a portion of management control. The consensus on the importance of FDI has grown, and developing countries seem to have shifted from opposing it to promoting it. Nevertheless, governments still employ policies that have negative effects on multinationals' success, whether directly or indirectly [21]. Political risk may either be manifested indirectly through forced renegotiation of previously agreed conditions or directly in the form of nationalization or expropriation [22], which could lead to loss of ownership and other risks of property rights violations. For example, during his 14years in office, Chavez nationalized major industries within the oil, finance, agriculture, gold, telecommunications, transport, and others [23], and President Nicholas Maduro announced the Venezuelan government's expropriation of Clorox Spain assets in 2014, one of the many expropriations which occurred in the country since the early 2000s [24]. Another such direct government takeover was the

expropriation of YPF to the Spanish company Repsol by the Argentine government, or that of the subsidiary of Red Electrica de Espana in Bolivia [6]. Political risks have, therefore, been identified as having significant impact on foreign direct investment and that firms have limited means of reducing these risks [25]. Making this risk worse, is the inability to recover investment once made [26].

Even though, the World Bank organizes international forums for the purpose of protecting the rights of foreign investors against actions by their host states, host governments are not obliged to respect the conventions set forth by these forums. The host country is often not held legally accountable to a higher authority when it does not fulfill its promise to protect foreign assets [27]. For this, and many other reasons, FDI is inevitably susceptible to the risk of property and ownership rights violations. Therefore, a country's political environment is a fundamental factor that determines the amount of FDI that a particular country attracts and the form of ownership structure that the established firms will assume [28, 29]. Hence, apart from the volume of FDI, an important strategic choice of the multinational enterprise (MNE) in a foreign environment entails the subsidiary ownership strategy i.e., whether to establish a WOS or form a JV with a local partner [30-32]. Although some scholars suggest that politically motivated expropriations and nationalizations in Africa were concentrated in just a few countries such as Algeria, Angola, and Ethiopia between 1960 and 1980 or that they largely declined after 1960 [33-35], expropriation of revenue stream continues being a risk. Again, there have been much recent expropriations and government interference in the management of foreign owned enterprises in a few African countries, notably Zimbabwe. Host governments can renegotiate tax rates, depreciation schedules, tariff rates, and several other policies that directly affect the investing firm's operations [36]. It is common convention in research that a government with pro-labor ideology which favors labor interest and state interventions in the economy is more likely to encourage expropriations of foreign assets. Consequently, Dutt and Devashish (2005) and Campbell et al. (2012) argue that political hostile governments will adopt more protectionist trade policies that will not inure to the greater benefit of foreign investors. However, another stream of literature disagrees with this position. For instance, it is argued that FDI inflows tend to be larger to governments that cater to labor; they contend that FDI inflows react differently to political risk when separated into industries [27, 37-39]. Consequently, they argue that FDI inflows do not follow one-way traffic.

In the context of foreign subsidiary ownership decisions, it is argued that a higher level of ownership by a foreign investor means more commitment towards its subsidiary, and this could result in consequences such as expropriations in politically risky environments. This is because important local resources in politically risky countries may be restricted to state-owned enterprises and some influential business groups [40-42]. Therefore, full ownership in those environments will increase not only the uncertainty in addressing unfamiliar institutions but also the risk of expropriations of MNEs' assets by the government or other hostile pressure groups [43]. Consequently, some scholars have suggested that the negative effects of host government regulations could be reduced via partnership with firms that are embedded in the host environment [44-46]. These partnerships (JVs) are important drivers of MNE's subsidiary success. Furthermore, the transaction costs theory also relates host country riskiness to ownership mode choices, predicting that low resource commitment modes like JVs are likely to be preferred in high-risk environments [47, 48]. And since high control advantages in politically risky environments are limited, therefore firms are likely to be better off using collaborative options like JVs. Since the existing literature on the effect of political risk on foreign direct investment and ownership strategy is not extensive, our goal is to further evaluate this effect. The overall hypotheses are that political risk in a jurisdiction will translate into less FDI and that foreign subsidiary ownership in such environments will tend to favor JVs.

Hypothesis 1: Political risk in a jurisdiction will translate into less FDI.

Hypothesis 2: Foreign subsidiary ownership strategy in high-risk political jurisdictions is likely to take the form of joint ventures (JVs) as opposed to wholly owned subsidiaries (WOSs).

3. Methodology

3.1. The Model and Measurement of Predictor and Dependent Variables

The present data set has 2,360 firms classified as Joint Ventures (JVs) or wholly-owned subsidiaries (WOs) in Africa in a panel form from 2010 to 2019. The main independent variable for the study is political risk and the dependent variables are volume of FDI activity (VFDIA), ownership strategy [joint venture (JV) = 1 and wholly-owned subsidiary (WOS) = 0]. Political institutions are relevant in determining issues such as tax rates, regulations, restrictions to foreign trade and investment, and government protection on the private and intellectual property [49] in relation to the volume of FDI activity and ownership strategy. Our study employ panel regression models to examine the impact of the independent variable i.e. political risk (high risk and low-risk countries) as a factor, and control variables [prior experience, manufacturing & non-manufacturing market entry (MNMME), bilateral trade, host country corruption (HCC), market size, parent firm size (PFS), product relatedness, economic development and government-related ownership (GRO)] as a covariate on dependent continuous variables: VFDIA and ownership strategy [JV and WOS]. Using panel regression models, the Hausman test is used to select the appropriate model among fixed effect and random effect. Two-panel regressions are used due to the nature of the dependent variables; we employ linear panel regression to assess the effect of political risk on VFDIA due to its continuous outcome and we use logistic panel regression to

assess the effect of political risk on ownership strategy due to its binary outcome. We add the covariates to reduce error terms such that the analysis would eliminate covariates' effect on the relationship between the independent grouping variable and the continuous dependent variable.

We operationalize the independent variable using the item of *Political Stability and Absence of Violence/Terrorism* of Kaufmann's Worldwide Governance Indicators [50, 51]. This item captures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism. We also operationalize the dependent variables using data from the SDC Platinum and the Financial Times (fDi Markets) databases. The SDC Platinum database has been used as a primary source to track mergers and acquisitions [52, 53] while the Financial Times fDi Markets database provides comprehensive data on cross-border greenfield investments. We identify FDI entries into the nine countries in Africa during the period under review and match individual entrants with firm-level ownership information from Osiris. We confirm the above data with information from the investment promotion agencies of the nine African countries under review.

3.2. Measurement of Other Variables

To minimize omitted-variable bias, we control for various other factors that have been found to influence the VFDIA and ownership strategy [JVs and WOSs] [54, 55]. Consequently, we control for an MNE's prior experience with VFDIA and ownership strategy [WOSs and JVs] by the number of prior entry experiences in the same or similar political risk environments in Africa. Prior experience has been found to play important role in the choice of entry mode [56, 57]. In this study, we searched the SDC Platinum and the Financial Times (fDi Markets) databases to count the total number of entries for each firm in the same or similar environment as that of the current FDI host country in the five years prior to entry, supplemented by data from investment promotion centers of the respective African countries. We also control for *manufacturing and nonmanufacturing* market entries with data from the SDC Platinum database and the Financial Times fDi Markets database. Consequently, we enter a dummy variable coded 1 for MNEs operating in the manufacturing industry and 0 for subsidiaries operating in the nonmanufacturing sectors i.e., services or wholesale [58-60]. This variable is important in that, it has been argued that FDI inflows react differently to political risk when separated into industries. High risk political environments will have more FDI into such sectors as manufacturing while low risk environments will attract FDI into the nonmanufacturing sectors [27, 37]. We control for the effect of *bilateral trade* between the host and home countries of MNEs. The level of bilateral trade between countries is an important determinant of the amount of future FDI flows. We operationalize it by the log of export value of home country to host country percentage of total trade [61] with data from the World Trade Organization (WTO). We also control for the level of *host country corruption* as an important factor that influences FDI inflows [62-65]. We employ the Corruption Perception Index of Transparency International as a proxy for the level of host country corruption. We control for the attractiveness of the host market. Past international business (IB) research indicates that the *market size* of the host country attracts foreign investors to that host market and subsequently influences their ownership strategy [66, 67]. We measure it by the logarithm of gross GDP of each host country's market with data from the World Bank. We control for *parent firm size,* which is a key determinant of investment size and, thus, has an impact on entry mode decisions. We measure it by the natural Log of Global sales of the parent MNE in the year preceding to the investment changed to Euros [68, 69].

To control for the effect of similarity or dissimilarity in the product offering we include *product relatedness*. For instance, in setting up a horizontal investment in the same or related industry in a foreign market, firms that possess industry-specific capabilities will be unwilling to seek such resources from a local partner through JVs [70]. In other words, affiliates offering different products from their parents are likely to have been set up as JVs instead of WOSs. We operationalize it with data from the SDC Platinum database, Financial Times (fDi markets) database, and data from the investment promotion centers of the respective African countries. Following standard practice e.g. [58], we control for the effect of the level of *economic development* of the host countries. We measure this variable by host countries' gross domestic product per capita in the year before entry with data from the World Bank. Finally, we control for the influence of government-related ownership of the domestic partner because attitudes of host countries are usually more conservative toward cross-border business deals initiated by firms that are government-involved than those initiated by privately-owned firms [71]. This potential for host country restrictions on FDI entry is another control variable that could potentially overwhelm all other factors [72, 73] and impact how much ownership stake a foreign firm can acquire in the target firm [74]. This is a dummy variable coded 1 when the domestic firm is marked as government owned/involvement by the investment promotion agencies of respective African countries under consideration and 0 if otherwise.

4. Empirical Results

4.1. Descriptive Statistics

Table 1 shows the descriptive statistics indicating the mean, standard deviation values of 2,360 entries observed. The table indicates the continuous nature of the dependent variables; VFDIA (mean = 6.552 and Standard Deviation = 2.7278), Ownership strategy (mean = 0.59, Standard Deviation= 0.492) showing interval scale measurements and the categorical nature of the predictor variable i.e., political risk (mean = 6.738, Standard Deviation= 4.0359). The dependent, independent and covariate continuous variables for the study were screened along two standard deviations($\bar{x} \pm 2\sigma$) away from the mean to establish the absence of outliers as depicted

in the correlation matrix. This eliminates outliers in each related group of the independent variable for any of the dependent variables. The correlation matrix table indicates that the dependent variables in the model are not highly correlated $r_{corr.} < 0.6$ with one another and cause no problem of multicollinearity among them. The independent variable (political risk) is significantly correlated with ownership strategy at 1% level [2-tailled] ($r_{Ownership\ Strategy} = 0.099^{**}$) and VFDIA at 1% level [2-tailled] $r_{VFDIA} = -0.092^{**}$). This indicates that ownership strategy in favor of JVs is highly linked to political risk than WOS. Again, since the correlation coefficient for the VFDIA as against political risk is negative and significant at 1%, we argue that VFDIA is negatively linked to political risks; hence high political risk will translate into fewer FDIs. VFDIA will decrease marginally as political risk increases due to the small numerical value of the correlation coefficient. We further examined the partial correlation of independent variables i.e., political risk on the dependent variables excluding the influence of control covariates. Partial correlation is a measure of the strength and direction of a linear relationship between two continuous variables whilst controlling for the effect of one or more other continuous variables (also known as 'covariates' or 'control' variables). The results in Table 1 indicate that political risk has a significant negative correlation on VFDIA [-0.1363*] and a significant positive correlation on ownership strategy. The correlation matrix table also indicates that the covariate variables are all moderately correlated with all the dependent variables and are significant at 5% and 1% levels. This implies that there is 95% and 99% confident that there exists a correlation between the variables and the dependent variables.

Table 1. *Descriptive statistics and Spearman rank correlation coefficient of 2360 entry observations.*

	Mean	Stdv	Partial Corr. (VFDIA)	Partial Corr. (O. Strategy)	1	2	3	4	5	6	7	8	9	10	11	12
VFDIA	6.552	2.7278	---	---	1											
Ownership strategy	.59	.492	----	---	-.033	1										
Political risk	6.738	4.0359	-0.1363*	0.1219*	-.092**	.099**	1									
Prior experience	7.229	1.4388	0.2536**	0.2475*	.323**	.022	.110**	1								
Bilateral trade	7.6272	1.41033	-0.0753*	-0.3397	.212**	-.130**	.117**	.673**	1							
Manufacturing & non -manufacturing firms	0.42	0.37	-0.4275	0.2051	-.492**	.186**	-.035	-.646**	-.441**	1						
Host country corruption	-.625	13.2237	-0.1267	0.0954	-.051*	.038	-.023	.001	-.063**	-.099**	1					
Market size	.958	7.5923	0.1933*	0.1412*	.110**	-.028	-.022	-.203**	-.284**	.028	.165**	1				
Parent firm size	.45	.497	0.2752	0.4580	.067**	.293**	-.021	-.117**	.146**	.079**	-.100**	-.368**	1			
Product relatedness	207.36	168.717	-0.0366*	-0.1743	.001	-.170**	-.096**	-.481**	-.296**	.036	.066**	.275**	.201**	1		
Economic development	4.150	.5316	-0.1607*	-0.1033*	.124**	.000	.063**	.711**	.392**	-.416**	-.005	-.306**	.013	-.226**	1	
Gov related ownership	0.34	.3928	-0.2802	-0.0344	.238**	.006	.091**	.838**	.592**	-.680**	.037	-.207**	.017	-.365**	.552**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

VFDIA=volume of FDI Activity, JV=Joint Ventures, WOS=Wholly Owned Subsidiaries, Pol. Risk=Political Risk, Prior Exp. =Prior Experience, Bilateral Tr. =Bilateral Trade, MNMME=Manufacturing and Non-manufacturing Multinational Enterprises, HCC=Host Country Corruption, PFS=Parent Firm Size, Product Rel. =Product Relatedness, GRO=Government Related Ownership, Econ Dev. =Economic Development.

Table 2. *Variance inflation factor (VIF).*

variable	VIF	1/VIF
Prior_ Expe~e	8.64	0.115722
Gov _Relate~p	4.09	0.244297
Economic _D~t	2.54	0.292028
Manufactur ~r	2.42	0.411848
Bilateral_ ~e	2.20	0.455122
Product_Re~s	1.92	0.519026
Market _ Size	1.54	0.650145
Parent_ Fir~e	1.47	0.680827
Host _ count ~n	1.05	0.951496
Political_ ~k	1.02	0.979822
Mean VIF	2.69	

4.2. Multicollinearity Test

We tested the variance inflation factor (VIF) of the independent variable among the chosen covariate control variables. The results of the VIF in Table 2 are all less than 10, indicating that there is no multicollinearity among the independent and the covariate control variables. This shows that the independent and control covariate variables independently predict the dependent variables used in the model.

4.3. Hausman Test

The Hausman test was used to select the choice between the fixed-effect and random-effect estimator to assess the

significant effects of political risk on VFDIA [Hypothesis 1] and significant effect of political risk on ownership strategy [JVs = 1 and WOs =0] [Hypothesis 2]. A p-value of less than 5% signifies a rejection of the null hypothesis that the random-effect model is the best after we fit linear random and fixed effect models on the panel data for the study to investigate hypothesis 1. Hausman test was employed for the model section. The test results indicate that p-value = 0.000 < 5%, random effect model was rejected. We employed a linear fixed effect model to assess the impact of political risk on VFDIA, which is where all observations are pooled together and allow observations to have individual intercepts. The test result is shown below.

Table 3. *Test results for liner random and fixed effects (Hypothesis 1).*

Test: Ho: difference in Coefficients not Systematic
Chi (1) = (b-B) [(V_b -V_B) ^ (-1)] (b - B)
= 6.99
Prob>chi2 = 0.0082

Again, we fit logistic random and fixed effect models on the panel data for the study to investigate hypothesis 2, Hausman test was employed for the model section. The test results indicate p-value = 0.000 < 5%, i.e., random effect model was rejected. We employed a logistic fixed effect model to assess the impact of political risk on ownership strategy [JVs=1, WOs=0]. The test result is shown below.

Table 4. *Test results for logistic random and fixed effects (Hypothesis 2).*

Test: Ho: difference in coefficients not systematic
Chi2 (1) = (b -B) " [(V_b-V_B) ^ (-1)] (b-B)
= 22.64
Prob>chi2 = 0.0000

4.4. Panel Autocorrelation Test

Again, we employed Durbin Watson of autocorrelation in panel data to assess the existence of autocorrelation across the panels. The test results indicate no autocorrelation or serial correlation. The non-existence of autocorrelation indicates that there is no influence across the panel.

Table 5. *Panel autocorrelation test.*

- estat durbinalt
Durbin's alternative test for autocorrelation

Lags (p)	**Chi2**	**df**	**prob > chi2**
1	38.360	1	0.0000

Table 6. *Fixed effect linear and logistic panel regression model (Dependent variable = VFDIA and OWNERSHIP STRATEGY).*

Independent variable	**VFDIA (LINEAR)**				**OWNERSHIP STRATEGY (LOGISTIC)**			
	β_{VFDIA}	**St. Err**	**t**	$P > \|t\|$	$\beta_{O.STRATEGY}$	**St. Err**	**t**	$P > \|t\|$
Political risk	-0.1284	0.0188	-6.8300	0.000	0.3466	0.0354	9.7700	0.000
Control variables								
Prior experience	1.2031	0.0900	13.3500	0.000	4.7510	0.2798	16.980	0.000
Bilateral trade	-0.2282	0.0488	-4.6700	0.000	-4.7836	0.2960	-16.1600	0.000
Manufacturing & non-manufacturing firms	-0.2716	0.0119	-22.7700	0.000	0.1919	0.0181	10.5900	0.000
Host country corruption	-0.0208	0.0034	-6.0500	0.000	0.0246	0.0045	5.400	0.000
Market size	0.0698	0.00709	9.8400	0.000	0.0823	0.0114	7.1800	0.000
Parent firm size	1.5326	0.1059	14.4700	0.000	5.2214	0.2836	18.4100	0.000
Product Relatedness	-0.0042	0.00037	-1.1100	0.265	-0.0021	0.0005	-4.0900	0.000
Economic development	-1.3496	0.1447	-9.3200	0.000	-2.3678	0.2048	-11.5600	0.000
Government related ownership	-3.0982	0.2385	-12.9900	0.000	0.0007	0.3495	0.000	0.998
Constant	23.348	1.0355	22.1500	0.000				
Adj. R-sq before political risk	0.3650				LR Chi-square (10) with Pol. Risk = 1186.70			
Adj. R-sq after political risk	0.3717				Prob. > Chi-square = 0.000			
Political risk effect	0.0067 (0.67%)				LR Chi-square (10) without Pol. Risk = 1052.15			
Rho for overall model	0.1504				Prob. > Chi-square = 0.000			
F-statistics	142.76				Effect on LR =134.55			
P-value (overall)	0.0000							

Source: Author, 2019. Coefficients are significant at 5% significance levels, Dependent variables: VFDIA and Ownership strategy.

4.5. VFDIA Results and Analysis

VFDIA is influenced negatively by political risk and the following control variables; bilateral trade, manufacturing and non-manufacturing enterprises, host country corruption, product relatedness, economic and government-related ownerships, prior experience, market size and parent firm size are all significant at 5% level except for product relatedness. The effect of political risk on VFDIA is statistically significant; the coefficient of its effects on the VFDIA is -0.1284* indicating inverse relationship. This indicates that higher political risk decreases VFDIA. The overall effect of political risk on the VFDIA in the model indicates 0.67% improvement over the adjusted R- square value of 0.3650% without political risk. This indicates that political risk improves control covariate variables to explain more of the variability on the VFDIA in Africa. The overall model F – Statistic [F-Statistic= 142.76, p-value = 0.0000] is statistically significant, indicating that cumulatively the selected control variables and political risk have significant effect in predicting VFDIA in Africa. The intra firm correlation coefficient [Rho = 0.1504], is a measure of variance or variability of VFDIA, which explains firm characteristics across the panel. The Intra firm correlation (Rho) indicates that 15.04% of the variance or variability of VFDIA is due to differences between firms across panels. The overall Adjusted R-square of 0.3717 shows that 37.17% of the variability of VFDIA is explained by all

independent variables in the model, holding other variables constant.

Hypotheses test

Hypothesis 1: Political risk in a jurisdiction will translate into less FDI

The above hypothesis was supported by the model as indicated by the following values: the negative coefficient $\beta_{political\ risk} = -0.1284$ for political risk on VFDIA with $t_{1/\alpha} = -6.8300$ and p-value < 0.05. This shows that high-risk political jurisdictions will translate into less FDI.

4.6. Ownership Strategy Results and Analysis

Ownership strategy is a dummy with JVs = 1 and WOs = 0. This variable is influenced positively by political risk and the following control variables: prior experience, market size, manufacturing, and non-manufacturing enterprises, host country corruption, parent firm size, and government-related ownerships. Other variables that have a negative effect on ownership strategy include product relatedness, bilateral trade, and economic development which are all significant at a 5% level except for government-related ownerships. The effect of political risk on the ownership strategy of JVs is statistically significant; the coefficient of its effects on the ownership strategy choice of JVs is 0.3466* indicating a direct relationship. This shows that the likelihood that higher political risk will translate into ownership strategy of joint ventures (JVs) is higher in Africa. The overall effect of political risk on ownership strategy choice of JVs in the model indicates 134.55 improvements of likelihood ratio value over the likelihood ratio value of 1052.15% without political risk. This indicates that political risk improves control covariate variables to explain more of the variability on the ownership strategy in Africa. The overall chi-square probability value = 0.0000 is statistically, indicating that cumulatively the selected control variables and political risk have significant likelihood in predicting ownership strategy choice of JVs in Africa.

Hypothesis 2: Foreign subsidiary ownership strategy in high-risk political environments is likely to take the form of joint ventures (JVs) as opposed to wholly-owned subsidiaries (WOSs).

The above hypothesis was supported by the model, thus the coefficient of $\beta_{Political\ Risk} = 0.3466$ on ownership strategy dummied [JVs =1 and WOs = 0] with $t_{1/\alpha} = 9.7700$ and p-value < 0.05, significant at 0.05 level (2-tailed). This shows that the likelihood of opting for JVs over WOs in Africa if political risk increases by a unit is 0.3466. Therefore, high-risk jurisdictions have an advantage on issues of JVs over low-risk jurisdictions.

5. Discussion and Managerial Implications

The first hypothesis this research attempts to assess is "*Countries with high political risk ratings are more likely to attract less FDI"*. Support is found for this claim, where the results indicate that riskier political environments will translate into fewer FDI inflows. The result is in line with the position of most of the scholars who argue that if countries present a higher political risk, they will attract less FDI. Consequently, firms have no option but to continue to keep and increase their investments in safer destinations in Africa. Based on the above finding, Jimenez, Luis-Rico, and Benito-Osario [6] argue that for firms to be able to invest in high-risk jurisdictions, they should have exposure to, and accumulated experience dealing with political risk. This experience allows firms to better implement a wide set of political actions such as negotiation of entry conditions, lobbying, reduced transaction costs, and increased long-term sustainability to the firm. They contend that these advantages facilitate investments in countries with higher and more diverse levels of risk and make political risk to be positively associated with the firm's scope of internationalization. This argument, perhaps, supports the findings of some researchers who argue that when managers perceive that the potential benefits associated with pursuing a risky strategy are large enough to be worth or outweigh the amount of potential loss, they will go ahead to pursue the risky investment [75]. This probably explains why Angola, a resource-rich African country keeps attracting more FDI, even though it remains a political risk destination.

Our second hypothesis "that MNEs are more likely to enter high political risk countries as JVs instead of WOSs" is supported. The regression coefficients depict that host country political risk is significant for low commitment ownership mode choice and MNEs preferred JV formation in high political risk or hostile countries. This result is consistent with previous international business studies which mention that high country risk including political risk is associated with the adoption of market entry modes involving lower costs and resource commitments [76-79]. In high-risk countries, multinationals tend to limit their equity involvement by avoiding full ownership but opt for options that offer necessary flexibility, low switching costs and tend to attract regime favors [80]. JVs have, therefore, emerged as a favored choice of ownership mode as it offers the opportunities of cost and risk-sharing with a partner in a high-risk environment [54, 79, 81-84]. Among our control variables, bilateral trade has a significant effect on the VFDIA while manufacturing and nonmanufacturing market entry has a significant effect on WOSs. Host country corruption has a significant effect on WOSs while government-related ownership has a significant effect on JVs and WOSs.

Policy and managerial implications: As multinationals search for investment opportunities in markets all over the world for purposes of international expansion, the measurement of the effect of political risk has become increasingly important. Host governments with perceived and real political risks, and which wish to reduce these risks could offer more explanations of their policies regarding property and ownership rights violations such as expropriation, nationalization, and other hostile policies for multinationals to be able to judge host governments of countries they wish to invest in. Governments should also be mindful of the opportunity costs of reputation reflected by political risks

ratings and formulate and introduce policies aimed at promoting FDI. This could be done through increased and sustained government guarantees, protection, and insurance. Therefore, policies such as the establishment of a special economic zone and special comprehensive insurance coverage for foreign multinationals will help in this direction. The removal of restrictive policies and promotion of specific pro-capital economic policies will instill confidence and encourage foreign multinationals to diversify their ownership strategies to include more of WOSs. This is because it has been identified that such pro-capital economic measures and state support to foreign investors, in general, attract multinationals and that they tend to increase their equity shareholding substantially [85, 86]. In this situation, having the state as a shareholder or a major source of financing (such as a sovereign guarantee) might act as a protection against such risks as political risks and fragile institutions [87]. Finally, to be able to interact with risky political environments, multinationals can evaluate the state of their own political capabilities and resource mix or combination for the specific host markets they intend to enter [88, 89]. This is because the more developed their political capabilities and resource combination the stronger their ability to deal with hostile or risky political environments [90]. In other words, firms with capabilities and characteristics, especially in connection with international experience and lobbying, are more likely to be able to maneuver risks since they are better able to manage and maintain the overall amount of political risk faced by the firms in their internationalization process.

6. Conclusion and Limitations

The aim of this paper is to evaluate whether the political risk in a jurisdiction will translate into less FDI and whether the ownership strategy of foreign multinationals will favor JVs or WOSs. The underlining theories propose that volume of FDI activity in high political risk countries is significantly lower compared to FDI inflows into low-risk environments. Again, it has been argued that ownership strategy in high political risk environments will favor JVs rather than WOSs. It is believed that since the property rights violations are likely to be higher in such environments, international investors will be discouraged to expand into these countries through high commitment equity modes such as WOSs. Both hypotheses 1 and 2 have been confirmed by the results. It is worthy to note that JV formation with an established and reliable local partner can reduce uncertainty and political risks such as expropriations and higher tax regimes targeting foreign firms [32, 91]. The JVs will help the foreign investor in understanding the embedded patterns of the local business environment, such that actions that have the potential to provoke the government and local pressure groups to target the firm could be avoided.

Like all other research projects, this research has several limitations. First, the research only addressed VFDIA and ownership mode choices in political risk environments. Consequently, elements like MNEs' establishment mode choice (acquisitions or greenfield investments), diversification strategy in the host country, product portfolio choice, human resource strategy, etc. are not included in this discussion. Second, since most of the discussions center on theories and theoretical paradigms used in past IB and political strategy studies, the effect of macroeconomic theories of FDI, addressing impacts of variables like exchange rates, tariffs, taxations, subsidies, etc. in the home and host countries are also not included in the study. We also call for future research into other antecedents such as strategic asset-seeking intent, financial abundance, and inward internationalization that can affect the volume of FDI activity and ownership strategy of the firm. Future research could also incorporate mediators to ensure a better internal validity and reliability, as this current research falls short of those interaction variables.

Conflicts of Interest

The authors declare that they have no competing interests.

Appendix

List of African countries under review

LOW RISK

1. Botswana
2. Cape Verde
3. Mauritius
4. Namibia

HIGH RISK

1. Algeria
2. Angola
3. Kenya
4. Nigeria
5. Zimbabwe

Source: www.amfori.org/info@amfori.org

Full interactive access to aggregate indicators and the underlying source data is available at www.govindicators.org

Application

For amfori BSCI, countries are classified into two different categories:

RISK COUNTRIES: Countries with a Worldwide Governance Indicators (WGI) average rating between 0-60 or three or more individual dimensions rated below 60.

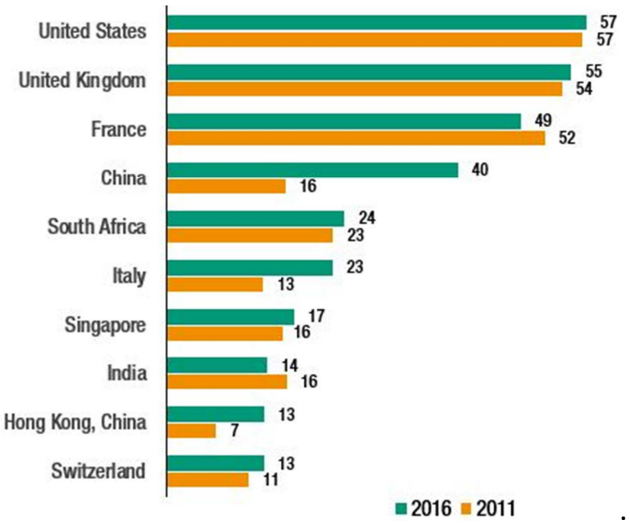
(For the purpose of this study we selected only African countries whose overall ratings fell below 20 for high-risk countries, and for low-risk countries, we selected all countries whose overall ratings were above 60).

LOW-RISK COUNTRIES: Countries with a WGI average rating higher than 60 and no more than two individual dimensions rated below 60.

Validity

This Country Risk Classification version 2018 enters into force on 1 January 2018. It overrules BSCI list of risk countries version 1/2014 and will remain valid until any subsequent version is produced.

Source: www.amfori.org/info@amfori.org



(Billions of dollars) Source: UNCTAD, World Investment Report 2018

Figure 1. *The top investor economies in Africa, 2011 and 2016.*

References

[1] R. C. Shrader, B. M. Oviatt, and P. P. McDougall, "How new ventures exploit trade-offs among international risk factors: Lessons for the accelerated internationalization of the 21st century," *Acad. Manag. J.*, vol. 43, no. 6, pp. 1227–1247, 2000.

[2] D. L. Howell, "Evaluating political risk forecasting models: what works?," *THUNDERBIRD Int. Bus. Rev.*, vol. 56, no. 4, pp. 305–316, 2014.

[3] K. D. Brouthers, K. E. Brouthers, and S. Werner, "Resource-based advantages in an international context?," *J. Manage.*, vol. 34, pp. 189–217, 2008.

[4] A. M. Rugman and J. Li, "Will China's multinationals succeed globally or regionally?," *Eur. Manag. J.*, vol. 25, pp. 333–343, 2007.

[5] K. Baek and X. Qian, "An analysis on political risks and the flow of foreign direct investment in developing and industralised economies," *Econ. Manag. Financ. Mark.*, vol. 6, no. 4, pp. 60–91, 2011.

[6] A. Jimenez, I. Luis-Rico, and D. Benito-Osorio, "The influence of political risk on the scope of internationalization of regulated companies: insights from a Spanish sample," *J. World Bus.*, vol. 49, no. 3, pp. 301–311, 2014.

[7] E. Cleeve, "Political and institutional impediments to foreign direct investment inflows to sub-Saharan Africa," *THUNDERBIRD Int. Bus. Rev.*, vol. 54, no. 4, pp. 469–477, 2012.

[8] A. Kerner and J. Lawrence, "What's risk? Bilateral investment treaties, political risk and fixed capital accummulation," *Br. J. Polit. Sci.*, vol. 44, no. 1, pp. 107–121, 2014.

[9] M. M. Khan and M. I. Akbar, "The impact of political risk on foreign direct investment," *Int. J. Econ. Financ.*, vol. 5, no. 8, pp. 147–165, 2013.

[10] A. Al-Khattab, J. R. Achor, and E. M. Davies, "The institutionalization of political risk assessment (IPRA) in Jordanian international firms," *Int. Bus. Rev.*, vol. 17, no. 6, pp. 688–702, 2008.

[11] A. A. Khattab, J. Anchor, and E. Davies, "Managerial perceptions of political risk in international projects," *Int. J. Proj. Manag.*, vol. 25, no. 7, pp. 734–743, 2007.

[12] M. J. Mol, C. Stadler, and A. Arino, "Africa: the new frontier for global strategy scholars," *Glob. Strateg. J.*, vol. 7, no. 1, pp. 3–9, 2017.

[13] R. Grosse and J. N. Behrman, "Theory in international business," *Transnatl. Corp.*, vol. 1, no. 1, pp. 93–126, 1992.

[14] S. H. Robock, "Political risk-identification and assessment," *Columbia J. World Bus.*, vol. 6, no. 4, pp. 6–20, 1971.

[15] C. E. Sottilotta, "Political risk assessment and the Arab Spring: What can we learn?," *THUNDERBIRD Int. Bus. Rev.*, vol. 57, no. 5, pp. 379–390, 2015.

[16] B. Fagersten, "Political risk and the commercial sector: aligning theory and practice," *Risk Manag.*, vol. 17, no. 1, pp. 23–39, 2015.

[17] D. A. Schmidt, "Analyzing political risk," *Bus. Horiz.*, vol. 43–50, no. 29, p. 4, 1986.

[18] L. D. Howell and B. Chaddick, "Models of political risk for foreign investment and trade: an assessment of three approaches," *Columbia J. World Bus.*, vol. 29, no. 3, pp. 70–91, 1994.

[19] C. E. Sottilotta, "Political risk: concepts, definitions, challenges," ISSN: 2282-4189, 2013.

[20] H. Lehkonen and K. Heimonen, "Democracy, political risks and stock market performance," *J. Int. Money Financ.*, vol. 59, pp. 77–99, 2015.

[21] N. M. Jensen, "Political risk, democratic institutions, and foreign direct investment," *J. Polit.*, vol. 70, pp. 1040–1052, 2008.

[22] A. Jimenez, J. C. Puche-Regaliza, J. A. Jimenez-Euizabal, and I. Alon, "Political discretionality and corruption: the impact of institutional quality on formal and informal entrepreneurship," *Eur. J. Int. Manag.*, vol. 11, no. 3, pp. 280–300, 2017.

[23] R. I. for the S. of Journalism, "Digital News Report (Business News Consumption)," Oxford, 2012.

[24] "'Maduro Government Affirms Expropriation of Clorox De Venezuela; Venezuela Asset Sale Process Ends,'" *Yahoo Finance*, 2014.

[25] P. Collier and A. C. Pattillo, *Investment and Risk in Africa*. New York: St. Martin's Press, 2000.

[26] J. A. Frieden, "International investment and colonial control: A new interpretation," *Int. Organ.*, vol. 48, no. 4, 1994.

[27] N. M. Jensen *et al.*, *Politics and foreign direct investment*. Michigan: Ann Arbor: University of Michigan Press, 2012.

[28] J. H. Dunning, *Multinational Enterprises and the Global Economy*. Wo-Kingham: Addison-Wesley Publishing Company, 1993.

[29] A. A. Bevan and S. Estrin, "The determinants of foreign direct investment into European transition economies," *J. Comp. Econ.*, vol. 32, no. 4, pp. 775–787, 2004.

[30] A. Delios and P. W. Beamish, "Ownership strategy of Japanese firms: transnational, institutional, and experience influences," *Strateg. Manag. J.*, vol. 20, pp. 915–933, 1999.

[31] S. J. Chang and P. M. Rosenzweig, "The choice of entry mode in sequential foreign direct investment," *Strateg. Manag. J.*, vol. 22, no. 8, pp. 747–776, 2001.

[32] C. Dhanaraj and P. W. Beamish, "Effect of equity ownership on survival of international joint ventures," *Strateg. Manag. J.*, vol. 25, no. 3, pp. 295–305, 2004.

[33] S. J. Kobrin, "Foreign enterprise and forced divestment in LDCs," *Int. Organ.*, vol. 34, no. 1, 1980, doi: DOI: 10.1017/S0020818300003970.

[34] S. J. Kobrin, "Expropriation as an attempt to control foreign firms in LDCs: Trends from 1960 to 1979," *Int. Stud. Q.*, vol. 28, no. 3, pp. 329–348, 1984.

[35] C. Lipson, "Private cooperation in rescheduling sovereign debts," *World Polit.*, vol. 38, no. 1, pp. 200–225, 1985.

[36] N. M. Jensen, *Nation-States and the Multinational Corporation: Political Economy of Foreign Direct Investment*. Princeton: Princeton University Press, 2006.

[37] P. M. Pinto and M. M. Pinto, "The politics of investment partisanship: And the sectoral allocation of foreign direct investment," *Econ. Polit.*, vol. 20, no. 2, pp. 216–54, 2008.

[38] N. M. Jensen *et al.*, *Politics and Foreign Direct Investment. Ann Arbor*. university of Michigan Press, 2012.

[39] C. F. Pinto, M. P. Ferreira, C. Falasha, M. T. L. Fleury, and A. Fleury, "Ownership in cross-border acquisitions and the role of government support," *J. World Bus.*, vol. 52, no. 4, pp. 533–545, 2017.

[40] T. Khanna and J. Rivkin, "Estimating the performance effects of business groups in emerging markets," *Strateg. Manag. J.*, vol. 22, no. 1, pp. 45–74, 2001.

[41] M. W. Hansen, T. Pedersen, and B. Petersen, "MNC strategies and linkage effects in developing countries," *J. World Bus.*, vol. 44, pp. 121–130, 2009.

[42] M. W. Peng, "Institutional transitions and strategic choices," *Acad. Manag. Rev.*, vol. 28, no. 2, pp. 275–296, 2003.

[43] M. Wright, I. Filatotchev, R. E. Hoskisson, and M. W. Peng, "Strategic research in emerging economies: challenging the conventional wisdom," *J. Manag. Stud.*, vol. 42, no. 1, pp. 1–33, 2005.

[44] A. Delios and P. W. Beamish, "Survival and Profitability: The roles of experience and intangible assets in foreign subsidiary performance," *Acad. Manag. J.*, vol. 44, pp. 69–91, 2001.

[45] A. Delios and W. J. Henisz, "Political harzards and the sequence of entry by Japanese firms," *J. Int. Bus. Stud.*, vol. 34, no. 3, pp. 227–241, 2003.

[46] Z. Abubakari, W. Min, and I. Abubakari, "The moderating effects of related experience and firm size: Will multinationals opt for acquisitions in high informal institutional settings?," *Eur. J. Int. Manag.*, vol. 16, no. 1, pp. 85–117, 2021, doi: 10.1504/EJIM.2019.10017017.

[47] J. Jaemin, "Acquisitions or joint ventures: foreign market entry strategy of US advertising agencies," *J. Media Econ.*, vol. 17, no. 1, pp. 35–50, 2004.

[48] R. Mudambi and S. M. Mudambi, "Diversification and market entry choices in the context of foreign direct investment," *Int. Bus. Rev.*, vol. 11, no. 1, pp. 35–55, 2002.

[49] D. Dikova, P. R. Sahib, and A. van Witteloostuijn, "Cross-border acquisition abandonment completion: The effect of institutional differences and organisational learning in the international business service industry," *J. Int. Bus. Stud.*, vol. 41, no. 2, pp. 223–245, 2010.

[50] D. Dikova and A. van Witteloostuijn, "Foreign direct investment mode choice: Entry and establishment modes in transition economies," *J. Int. Bus. Stud.*, vol. 38, pp. 1013–1033, 2007.

[51] I. Kolstad and A. Wiig, "Better the devil you know? Chinese foreign direct investment in Africa," *J. African Bus.*, vol. 12, no. 1, pp. 31–50, 2011.

[52] R. Chen, L. Cui, S. Li, and R. Rolfe, "Acquisition or greenfield entry into Africa? Responding to institutional dynamics in an emerging continent," *Glob. Strateg. J.*, vol. 7, no. 2, pp. 212–230, 2017.

[53] B. N. Anand and T. Khanna, "Do firms learn to create value? The case of alliances," *Strateg. Manag. J.*, vol. 21, pp. 295–315, 2000.

[54] A. Arslan and Larimo J, "Ownership strategy of enterprises and the impacts of regulative and normative institutional: Evidence from Finnish foreign direct investments in Central and Eastern Europe.," *J. East-West Bus.*, vol. 16, no. 3, pp. 179–200, 2010.

[55] J. Larimo and A. Arslan, "Determinants of foreign direct investment ownership mode choice: Evidence from Nordic investments in Central and Eastern Europe," *J. East Eur. Manag. Stud.*, vol. 18, no. 2, pp. 232–263, 2013.

[56] K. D. Brouthers and K. E. Brouthers, "Acquisition or greenfield start-up?," *Strateg. Manag. J.*, vol. 21, no. 1, pp. 89–97, 2000.

[57] T. Anderson and R. Svensson, "Entry modes for direct investment determined by the composition of firm-specific skills," *Scand. J. Econ.*, vol. 96, no. 4, pp. 551–560, 1994.

[58] A. H. Slangen and D. Dikova, "Planned marketing adaptation and multinationals' choices between acquisitions and greenfields," *J. Int. Mark.*, vol. 22, no. 2, pp. 68–88, 2014.

[59] K. D. Brouthers and D. Dikova, "Acquisitions and real options: the greenfield alternative," *J. Manag. Stud.*, vol. 47, no. 6, pp. 1048–1071, 2010.

[60] A. H. Slangen and J.-F. Hennart, "Do multinationals really prefer to enter culturally distant countries through Greenfields rather than through Acquisitions? The role of parent experience and subsidiary autonomy," *J. Int. Bus. Stud.*, vol. 39, no. 3, pp. 472–490, 2008.

[61] M. Nagano, "Similarities and differences among cross-border M&A and greenfield FDI determinants: evidence from Asia and Oceania," *Emerg. Mark. Rev.*, vol. 16, pp. 100–118, 2013.

[62] R. Reinikka and R. Svensson, "Local capture: evidence from a central government transfer program in Uganda," *Q. J. Econ.*, vol. 119, no. 2, pp. 679–705, 2004.

[63] J. Svensson, "Who must pay bribes and how much?," *Q. J. Econ.*, vol. 118, no. 1, pp. 207–230, 2003.

[64] B. A. Olken and P. Baron, "The simple economics of extortion: evidence from trucking in Aceh," *J. Polit. Econ.*, vol. 117, no. 3, pp. 417–452, 2009.

[65] B. A. Olken, "Monitoring corruption: evidence from a field experiment in Indonesia," Manuscript, 2004.

[66] P. J. Buckley, L. J. Clegg, A. R. Cross, X. Liu, H. Voss, and P. Zheng, "The determinants of Chinese outward foreign direct investment," *J. Int. Bus. Stud.*, vol. 38, no. 4, pp. 499–518, 2007.

[67] P. J. Buckley, M. T. Devinney, and J. J. Louviere, "Do managers behave the way theory suggests? A choice-theoretic examination of foreign direct investment location decision-making," *J. Int. Bus. Stud.*, vol. 38, pp. 1055–1068, 2007.

[68] J. F. Hennart and Y.-R. Park, "Greenfield vs acquisition: the strategy of Japanese investors in the United States," *Manage. Sci.*, vol. 39, no. 9, pp. 1054–1070, 1993.

[69] J.-F. Hennart and Larimo J., "The impact of culture on the strategy of multinational enterprises: Does national origin affect ownership decisions?," *J. Int. Bus. Stud.*, vol. 29, no. 3, pp. 515–538, 1998.

[70] S. Estrin and K. E. Meyer, "Institutional Distance and International Entry Strategies," 2007.

[71] L. Cui and F. Jiang, "State ownership effect on firms' FDI ownership decisions under institutional pressure: a study of Chinese outward-investing firms," *J. Int. Bus. Stud.*, vol. 43, no. 3, pp. 264–284, 2012.

[72] E. Asiedu, "Foreign direct investment in Africa: the role of natural resources, market size, government policy, institutions and political stability," *World Econ.*, vol. 29, no. 1, pp. 63–77, 2006.

[73] K. S. Powell and M. Rhee, "Experience in different institutional environments and foreign subsidiary ownership structure," *J. Manage.*, vol. 42, no. 6, pp. 1434–1461, 2016.

[74] R. S. Liou, M. C. H. Chao, and M. Yang, "Emerging economies and institutional quality: assessing the differential effects of institutional distances on ownership strategy," *J. World Bus.*, vol. 51, no. 4, pp. 600–611, 2016.

[75] M. A. Carpenter, T. G. Pollock, and M. M. Leary, "Testing a model of reasoned risk-taking: Governance, the experience of principals and agents, and global strategy in high-technology IPO firms," *Strateg. Manag. J.*, vol. 24, pp. 803–820, 2003.

[76] P. J. Buckley and M. C. Casson, "Analyzing foreign market entry strategies: extending the internalization approach," *J. Int. Bus. Stud.*, vol. 29, no. 3, pp. 539–561, 1998.

[77] A. M. Rugman, *International Diversification and the Multinational Enterprise*. Lexington, MA: Lexington Books, 1979.

[78] E. Anderson and H. Gatignon, "Modes of entry: A transaction cost analysis and propositions," *J. Int. Bus. Stud.*, vol. 11, pp. 1–26, 1986.

[79] K. D. Brouthers and K. E. Brouthers, "Why service and manufacturing entry mode choices differ: The influence of transaction cost factors, risk and trust," *J. Manag. Stud.*, vol. 40, no. 5, pp. 1179–1204, 2003.

[80] M. K. Erramilli and P. C. Rao, "Services firms' international entry mode choice: A modified transaction-cost analysis approach," *J. Mark.*, vol. 57, no. 3, pp. 19–150, 1993.

[81] H. Gatignon and E. Anderson, "The multinational corporation's degree of control over foreign subsidiaries: An empirical test of a transaction cost explanation," *J. Law, Econ. Organ.*, vol. 4, no. 2, pp. 305–336, 1988.

[82] C. W. Hill, P. Hwang, and W. C. Kim, "An eclectic theory of choice of international entry mode," *Strateg. Manag. J.*, vol. 11, pp. 117–128, 1990.

[83] W. C. Kim and P. Hwang, "Global strategy and multinationals' entry mode choice," *J. Int. Bus. Stud.*, vol. 23, pp. 29–53, 1992.

[84] Y. Lou, *How to Enter China: Choices and Lessons*. Michigan: Michigan: University of Michigan Press, 2000.

[85] G. L. F. Holburn and B. A. Zelner, "Political capabilities, policy risk, and international investment strategy: evidence from the global electric power generation industry," *Strateg. Manag. J.*, vol. 31, no. 2, pp. 1290–1315, 2010.

[86] D. Quer, E. Claver, and L. Rienda, "Political risk, cultural distance, and outward foreign direct investment: empirical evidence from large Chinese firms," *Asia Pacific J. Manag.*, vol. 29, no. 4, pp. 1089–1104, 2012.

[87] C. H. Knutsen, A. Rygh, and H. Hveen, "Does state ownership matter? Institutions' effect on foreign direct investment revisited," *Bus. Polit.*, vol. 13, no. 1, pp. 1–31, 2011.

[88] T. Lawton and T. Rajwani, "Designing lobbying capabilities: managerial choices in unpredictable environments," *Eur. Bus. Rev.*, vol. 23, no. 2, pp. 167–189, 2011.

[89] T. Lawton, T. Rajwani, and J. P. Doh, "The antecedents of political capabilities: A study of ownership, cross-border activity and organization at legacy airlines in a deregulatory context," *Int. Bus. Rev.*, vol. 228–242, no. 22, p. 1, 2013.

[90] M. De Villa, T. Rajwani, and T. Lawton, "Market entry modes in multipolar world: untangling the moderating effect of political environment," *Int. Bus. Rev.*, vol. 24, no. 3, pp. 419–429, 2015.

[91] S. T. Makino and A. Delios, "Local knowledge transfer and performance: Implications for alliance formation in Asia," *J. Int. Bus. Stud.*, vol. 27, pp. 905–928, 1996.