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## Journal of International Management

journal homepage: [www.elsevier.com/locate/intman](http://www.elsevier.com/locate/intman)

# Country institutional environments and international strategy: A review and analysis of the research

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## ARTICLE INFO

### Keywords:

Institutions  
Institutional distance  
International strategy  
Research review and analysis

## ABSTRACT

We review and analyze the growing body of literature that addresses the institutional context of international strategy. By examining articles in eleven major journals from January 2008 to July 2020, we identify six major categories of international strategies and implementation approaches: market entry and internationalization, political strategies, multinational technology and innovation, multinational corporate social responsibility, multinational headquarters and subsidiary relationships, and international human resources management. A parallel analysis of the relevant institutional variables categorizes institutions into eight types: economic institutions, political institutions, regulatory institutions, normative institutions, administrative institutions, cultural/cognitive institutions, demographic institutions, and knowledge institutions. These eight categories allow us to contextualize the institutional environment in which the six international strategies and implementation approaches are employed. Our review identifies important progress in international strategy research that has yielded a greater understanding of institutional impact on multinational activities. Yet, it also reveals that many areas of international strategy research remain fragmented, highlighting the need for future research and suggesting new directions for such investigations. Our analysis concludes by identifying knowledge gaps in each of the six strategy categories and making a series of suggestions for relevant future research.

## 1. Introduction

Attempts to identify and understand the influence of institutions on international strategies started gaining traction in the 1990s (Dunning and Lundan, 2008). The number of studies on this topic has grown exponentially since then. Indeed, institutional differences between host and home countries are considered to be significant factors in the formulation and implementation of international strategies (Hennart and Larimo, 1998; Kostova, 1999; Shenkar et al., 2008; Xu and Shenkar, 2002). Studies in this area generally examine and deepen our understanding of specific institutions, international strategies, and/or research settings. However, comparing and contrasting these research findings across disciplinary boundaries, geographic locations, and/or temporal periods often uncovers contradictions and discontinuities.

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<https://doi.org/10.1016/j.intman.2020.100811>

Received 21 September 2019; Received in revised form 4 September 2020; Accepted 4 September 2020

Available online 13 November 2020

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Several prior reviews and meta-analyses have examined international strategies and institutions. For example, [Hiitt et al. \(2016\)](#) conducted a review of research on international strategies. They divided their review into several major sections, including one focused on institutional environments and another on international strategies. However, they did not specifically examine the interrelationship between institutions and international strategies. A meta-analysis by [Marano et al. \(2016\)](#) examined the significant body of research on internationalization and firm performance. They also examined the moderating effect of specific home country institutions on the internationalization–performance relationship. In the meta-analytic study conducted by [Geleilate et al. \(2016\)](#), the authors examined the effects of home country institutions on the multinationality–firm performance relationship. They found that several specific institutional policies had stronger effects for developed market firms and weaker effects for emerging market firms. These three meta-analytic studies provide a useful view of institutions as a moderator, but they only allow a partial interpretation of the relationship between institutions and international strategies. A more specialized meta-analysis, conducted by [Lindner et al. \(2016\)](#), examined the relationship between internationalization and firm capital structure. An extension of their analyses included the firm’s home-country institutional environment—but it was not a major focus of their study, thereby leaving a gap in our understanding of institutional effects on internationalization.

In summary, while the prior research has suggested the importance of the relationship between institutions and internationalization, it has also left large gaps in our knowledge. To clarify the relationships and provide a more complete picture of how and when institutions influence the development and implementation of international strategies, a thorough review of the recent research is needed. Thus, in this paper, we offer a holistic review of the strategic issues that multinational enterprises (MNEs) face when expanding their businesses or operations into different institutional environments. The purpose of our review is to summarize, reconcile, and clarify the scholarly research on this topic.

Our analysis of the relevant literature identifies six major categories of international strategies and implementation approaches: market entry and internationalization, political strategies, multinational technology and innovation, multinational corporate social responsibility (CSR), multinational headquarters (HQ)–subsidiary relationships, and international human resources management (HRM).

To ensure a meaningful analysis of the institutional factors, we adopt a broad definition of institutions, following [Scott \(2013\)](#) suggestion that “institutions are multifaceted, durable social structures, made up of symbolic elements, social activities, and material resources.” Relying on these multifaceted institutional structures, “institutions impose restrictions by defining legal, moral, and cultural boundaries setting off legitimate from illegitimate activities”; institutions also “support and empower activities and actors” ([Scott, 2013: 50](#)). Thus, institutions regulate individual behaviors through both enabling and constraining functions. Based on these definitions, we examined several works that guided us to categorize institutions into eight types: economic institutions, political institutions, regulatory institutions, normative institutions, administrative institutions, cultural/cognitive institutions, demographic institutions, and knowledge institutions ([Berry et al., 2010](#); [Holmes et al., 2013](#); [Kostova and Zaheer, 1999](#)).<sup>1</sup> Definitions of each of these types are provided in Appendix 1. The eight categories allow us to contextualize the institutional environment relevant to the aforementioned six international strategies and implementation approaches. Our model is depicted in [Fig. 1](#).

Our review contributes to the international business/international management (IB/IM) field in several ways. First, we offer a comprehensive and organized analysis of the research regarding the effects of countries’ institutional environments on firms’ international strategies. This holistic review not only considers both the effect of geographic location and temporal period on the relationship between institutions and international strategies, but also has the potential to reconcile prior contradictory findings. For example, the effects of the institutional environment on entry mode decisions have attracted considerable research attention (e.g. [Hennart and Slangen, 2015](#); [Slangen, 2013](#)), but also produced contradictory findings. Our comparison across studies suggests that entry mode decisions are complex, involving both home-country (e.g. [Chen et al., 2017](#)) and host-country (e.g. [Sartor and Beamish, 2018](#)) institutions, which may also combine with industry factors ([Paik and Zhu, 2016](#)), firm age ([Xie, 2017](#)), and other factors to produce specific influences. Given the complex nature of this research topic, a comprehensive approach helps us to construct a more complete picture of the relationship between institutions and international strategies.

Second, our analysis suggests that institutional environments are not static. We have witnessed the dominance of the globalization mindset over the past few decades; however, with the more recent focus on de-globalization ([Cuervo-Cazurra et al., 2017](#)), the relationship between institutions and international strategies has become more dynamic and uncertain. The rapid emergence of MNEs in developing economies (and especially in emerging economies), the double standards applied to international operations in the home and host countries, and the (perceived) uneven benefits of globalization across geographic locations are among the catalysts for the recent de-globalization trend. Understanding the current multifaceted, dynamic, and uncertain institutional environments is important for MNEs’ international strategies ([Batjargal et al., 2013](#)), and also has the potential to reshape future research on this topic ([Ahlstrom et al., 2020](#)).

Lastly, we identify several promising research avenues based on a thorough review of the research on institutions and international strategies, highlighting the importance of integrating theoretical lenses from economics, sociology, and political science. The segmentation of these three perspectives in the development of institutional theory is a historical distinction; their integration both now and in the future can provide a more complete view that enriches our understanding. At the phenomenon level, the highly interdependent, dynamic, uncertain, and complex institutional environments further open the door to new and potentially valuable research opportunities.

<sup>1</sup> We did not include geographic distance as a type of institution, as very few of the studies we reviewed considered geographic distance as an institution, even if they examined geographic distance as a salient factor.

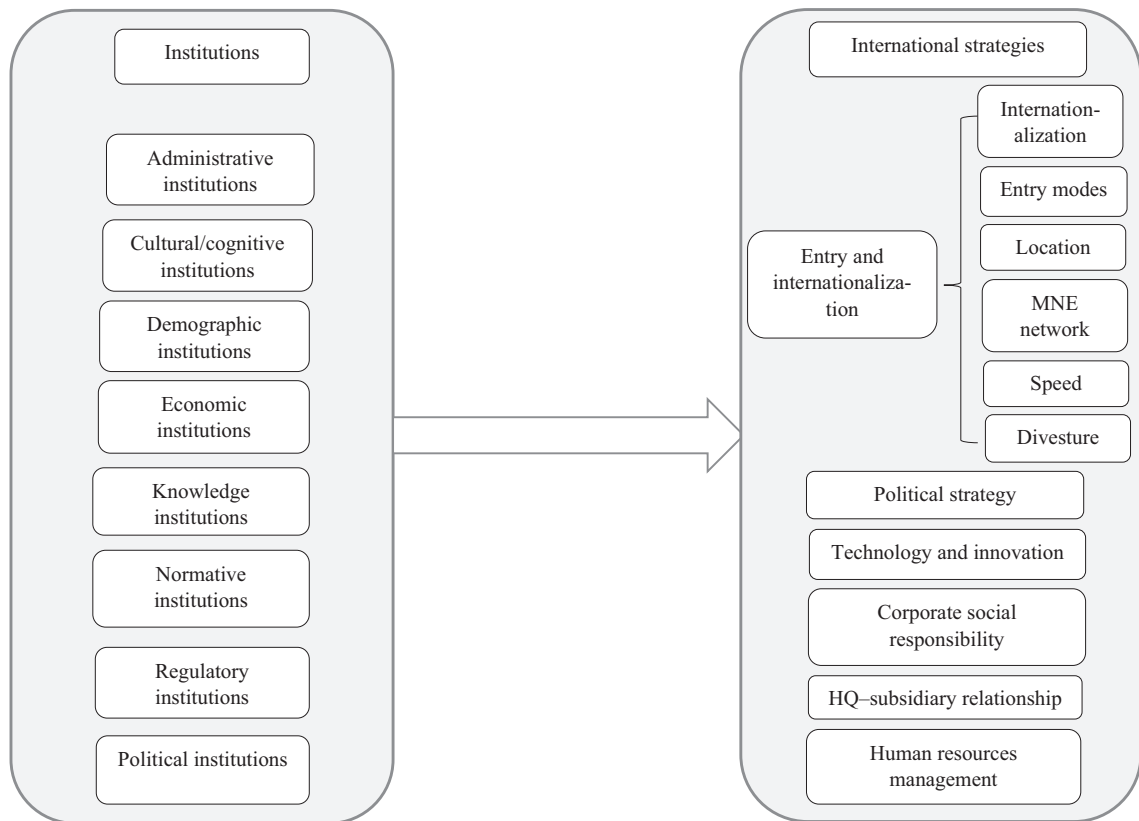


Fig. 1. Review structure.

## 2. Research methodology

### 2.1. Sample

To identify the sample, we first conducted a systematic search of the relevant literature. First, we focused on eleven major journals publishing scholarly research in the international business field. This choice allowed us to concentrate on the relevant international business field and ensured a high level of quality for the published research due to the rigorous peer-review process adopted by these journals. The journals selected for inclusion in our review were *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *Global Strategy Journal*, *Journal of International Business Studies*, *Journal of International Management*, *Journal of Management*, *Journal of Management Studies*, *Journal of World Business*, *Organization Science*, and *Strategic Management Journal*.<sup>2</sup> We examined all articles published during the period of January 2008–July 2020 in these journals.

Comparing our journal selection choices to previous reviews, our journal scope is broader than that adopted by Lu (2003) and Peng and Zhou (2006), who reviewed similar topics. In addition, we followed White et al. (2016) approach, which used the impact factor as a guide for journal selection. In terms of the time frame, the choice of the January 2008–July 2020 span reflected two considerations. First, focusing on the most recent decade of research ensured that the papers accurately reflected the current state of development of the research topic in the field, thereby providing the most effective base for recommendations of future research. Second, our review and evaluation demonstrated the increasing popularity of this research topic in the IB/IM literature since 2008.

The criterion for initial selection in the search efforts was a mention of “institution\*” in the abstract. This digital search process was supplemented with a manual search to ensure the inclusion of articles that examined specific institutions (e.g., economic policies), but did not use the precise keywords we employed in the initial screen. The initial search yielded 1035 articles, which then constituted our

<sup>2</sup> All of these journals are considered to be of high quality (high impact scores, high rankings). Our goals were to be as inclusive as possible, yet to focus only on high-quality research and to keep the journal list manageable for intensive review and analysis. For the last two journal slots, we considered four journals: *Global Strategy Journal*, *International Business Review*, *Journal of International Management*, and *Management International Review*. Examining the major rankings of journal quality (e.g., Australian Business Deans Council Journal Rankings, Harzing Journal Quality List), all four journals were rated similarly. Our analysis suggested that more articles on international strategy and institutions have been published in *Global Strategy Journal* and *Journal of International Management* in recent years. Thus, they were selected for inclusion in the review.

base for coding.

## 2.2. Coding and analysis

Our first task in the coding process was to eliminate those articles that were not focused on international strategies. Two of the authors independently read each of the identified articles to determine whether institutions and international strategies were key topics in each article. When they disagreed, a third author checked the articles, with any inconsistencies then being resolved through discussion among all authors. Using this approach, we identified 429 articles in which institutions and international strategies were a key focus of the research. Table 1 shows the number of articles selected from each journal.

In the second step, two of the authors independently assigned categories of international strategies and institutions for each article. Thereafter, each article was carefully analyzed by two authors independently to determine the role for and influence of institutions on international strategies. Again, when disagreements occurred, a third author checked the articles, and any inconsistencies were resolved through discussion among all authors. A detailed overview of the 429 studies appears in Appendix 2, and the number of studies in the institutions–international strategies matrix is shown in Appendix 3.

## 3. Research themes

Institutional theory has been developed in three independent but interrelated fields: economics (e.g. North, 1990), political science (Hardgrave and Bill, 1981), and sociology (e.g. DiMaggio and Powell, 1983). Using the theoretical frameworks from these three fields, IB/IM scholars have examined the various effects that institutions exert on international strategies. In the following sections, we provide an overview of the theoretical perspectives emerging from each of the three fields.

### 3.1. Economics perspective

Economics research considers how institutions affecting economic transactions arise. For example, North (1990) explored the origins of cultural, political, and legal frameworks and their effects on economic forms and processes. In doing so, North (1990) defined formal institutions as a set of rules within a normative hierarchy similar to those found in modern legal systems; in contrast, informal rules originate in the mind of individuals, but reflect the prevailing cultural conditions.

This economics perspective on institutional theory has been adopted by most IB/IM studies examining the relationship between institutions and international strategies from a transaction costs perspective (Dikova et al., 2010; Kostova et al., 2008) or an agency perspective (Kostova et al., 2018). For instance, Liou et al. (2016) suggested how formal and informal institutional distance increases transaction costs, which in turn influence the ownership position taken by MNEs investing in emerging economies. In a meta-analysis, van Essen et al. (2012) found that formal and informal institutions function in a complementary manner to shape the performance sensitivity of executive compensation from agency perspective.

### 3.2. Political science perspective

According to the political science perspective, institutions influence the political process, political choices, and political activities (Martin and Vanberg, 2014). In recent years, a stream of research examining the relationship between political institutions and international strategies has taken this perspective. In particular, many of these studies have focused on the link between legal institutions and corruption. For example, Muellner et al. (2017) recommended hiring local managers if legal institutions are strong and the levels of corruption in the home and host countries are similar. Integrating both formal institutional structures and informal rules from the political science perspective, Keig et al. (2015) found that higher levels of formal and informal corruption environments in a firm's operating portfolio are related to higher levels of MNEs' corporate social irresponsibility.

**Table 1**  
Number of studies in journals.

Journal	Number of studies	Percentage
<i>Academy of Management Journal</i>	15	3.50
<i>Academy of Management Review</i>	1	0.23
<i>Administrative Science Quarterly</i>	5	1.17
<i>Global Strategy Journal</i>	52	12.12
<i>Journal of International Business Studies</i>	113	26.34
<i>Journal of International Management</i>	66	15.38
<i>Journal of Management</i>	6	1.40
<i>Journal of Management Studies</i>	18	4.20
<i>Journal of World Business</i>	116	27.04
<i>Organization Science</i>	10	2.33
<i>Strategic Management Journal</i>	27	6.29
Total	429	100

### 3.3. Sociological perspective

DiMaggio and Powell (1983) distinguished three important mechanisms—coercive, mimetic, and normative—by which institutional effects become diffused throughout organizational fields, and they emphasized structural isomorphism as an important consequence of both competitive and institutional processes. In turn, the application of institutional theory to international strategies using a sociological perspective largely focuses on legitimacy concerns. This line of research has revealed that even though all MNEs face legitimacy concerns in host countries regardless of their country of origin (Husted et al., 2016; Peng and Beamish, 2019), MNEs headquartered in developing countries face more challenges in their attempts to legitimize their operations in developed-country markets (Pant and Ramachandran, 2012a).

### 3.4. Integrated perspectives

Legitimacy is a major concern in IB/IM primarily because of institutional dissimilarities across countries and the resulting liability of foreignness (Forstenlechner and Mellahi, 2011; Fortwengel and Jackson, 2016; Gifford and Kestler, 2008; Gifford et al., 2010; Kostova and Zaheer, 1999; Newenham-Kahindi and Stevens, 2017; Zhou and Guillen, 2016). These foci often require the use of multiple theoretical perspectives for effective analysis and more complete understanding. Thus, some studies have integrated the theoretical perspectives from economics, political science, and sociology to better understand how the international strategies can be designed and implemented to achieve legitimacy (Lahiri et al., 2020; Marano et al., 2020; Salomon and Wu, 2012). As an example, Krause et al. (2016) extended the research on boards of directors and firm legitimacy by combining the economics and sociological perspectives. They argued that the cultural-cognitive institutions prevalent in customers' home countries influence their judgments regarding firm legitimacy. That is, firms with significant operations in high-power-distance cultures are more likely to have powerful CEOs. However, this CEO choice may create an agency problem in low-power-distance countries. Li and Yao (2010) examined the mimetic international strategies taken by foreign firms when entering China and considered how culture or government meddling influenced this strategy.

In the next section, we examine the extant research on the relationship between institutions and international strategy. Our analysis of this substantial body of literature enabled us to identify six categories of international strategies and implementation approaches: (1) market entry and internationalization, including internationalization, entry mode, location, speed/timing of entry, and divestment/exit strategies; (2) political strategies, including lobbying, negotiation, and strategies used to cope with political hazards and wars; (3) multinational technology and innovation strategies; (4) CSR; (5) multinational headquarters–subsidiary relationships, and (6) HRM strategies employed by MNEs, including expatriates and local hiring policies. Our review follows the logic of these six categories (and subcategories, where relevant), and in each case we focus on those institutions that have shown to be the most relevant in the literature.

## 4. Market entry and internationalization

The strategic options, approaches, and implications of how firms enter and establish their operations in foreign markets represent a core set of topics in IB/IM (Hennart and Slangen, 2015; Morschett et al., 2010; Xu et al., 2020) and international strategy (Álvarez and Marín, 2010; Brouthers and Hennart, 2007; Slangen, 2013) research. In this section, we examine six categories of international strategy research—internationalization, entry mode (including ownership), location, MNE networks, speed/timing of entry, and divestment/exit—to understand how institutions influence these strategies.

### 4.1. Internationalization

Even though research has shown that the institutional environments in both their home and host countries have a significant influence on MNEs' internationalization strategy, our focus in this section is on home-country institutions. We review how host-country institutions affect MNEs' international strategies in Section 4.3, which focuses on location choices.

Broadly speaking, a favorable home-country institutional environment facilitates MNEs' internationalization. Economic, political, regulatory, and cultural institutions are the most studied institutions in this regard.

Studies of economic institutions and international strategy are typically undertaken in the context of emerging economies, and often emphasize the incentives created by economic institutions—such as urbanization and market-oriented institutional change—for MNEs' internationalization in these countries (Deng, 2009; Estrin et al., 2017; Gao et al., 2009; Hoskisson et al., 2013; Kim et al., 2010; Perez-Batres and Eden, 2008; Popli et al., 2017; Shinkle and Kriauciunas, 2010). The general finding is that economic development and pro-market reforms in these countries act as the driving forces for the exponential growth of international activities (Cuervo-Cazurra et al., 2019). Some studies have specifically focused on state-owned enterprise (SOE) internationalization in the midst of pro-market reforms (Chittoor et al., 2015b; Li et al., 2014; Mariotti and Marzano, 2019; Nguyen et al., 2013; Sun et al., 2015). Yet, as Landau et al. (2016: 51) point out, not all firms can take advantage of the favorable economic institutions in their home country. Indeed, such “favorable conditions” benefit only those firms that “are capable of creating idiosyncratic resources via interaction with their institutional environment.”

Studies of political institutions suggest that a stable and supportive political environment in the home country generally creates favorable conditions for MNEs' global expansion (Anderson and Sutherland, 2015; Filippaios et al., 2019; Mariotti and Marzano, 2020; Rangan and Sengul, 2009; Tan and Chintakananda, 2016; Yang et al., 2020). Nevertheless, research on exporting activities in emerging

economies has consistently shown that political uncertainty and an unfavorable domestic market in the home country are oftentimes the primary motivation for market exploration in a foreign country (Carney et al., 2016; Cuervo-Cazurra et al., 2018b; Dau, 2012; Fathallah et al., 2018; Jean et al., 2020; Kalotay and Sulstarova, 2010; Lee and Makhija, 2009; Meyer and Thein, 2014; Shi et al., 2017; Wang and Ma, 2018). For similar reasons, MNEs in emerging economies rely on cross-border acquisitions to relieve resource constraints experienced in their home countries (Madhok and Keyhani, 2012; Rui and Yip, 2008; Sun et al., 2010).

Another unique phenomenon often evident in emerging and developing economies is strong government support that seeks to boost MNEs' foreign direct investment (FDI) activities (Buckley et al., 2018; Cuervo-Cazurra and Genc, 2011; Finchelstein, 2017; Gaur et al., 2018; Hennart et al., 2017; J. Li et al., 2019; Luo et al., 2010; Nuruzzaman et al., 2020; Pinto et al., 2017; Ramamurti and Hillemann, 2018; Yan et al., 2018), with SOEs being the major beneficiaries of these investments (Hennart et al., 2017; Li et al., 2018b; Ren et al., 2019; Wang et al., 2012). Most of these SOEs receiving government support are larger firms, even though small- and medium-size firms actually need much more government support to conduct international strategies (Maksimov et al., 2017). Because of their more abundant resources, SOEs are able to enter countries with higher cultural distance (Y. Li et al., 2020)—a path not open to less well-endowed firms. Interestingly, the importance of government support gradually diminishes as economic development in the home country grows (Benito et al., 2016; Rugman and Oh, 2008). At the same time, some studies caution that government support for internationalization may be accompanied by strong government control and reduced firm autonomy (Cui and Jiang, 2012; Kalasin et al., 2020; Rodrigues and Dieleman, 2018; Xiao et al., 2013). In such a setting, MNEs may need to accept a tradeoff between government support and loss of autonomy.

Similar to the case that arises with political institutions, some MNEs are motivated to explore foreign opportunities due to potentially problematic regulatory institutions in their home countries (Areneke and Kimani, 2019; Barnard and Luiz, 2018; Mingo et al., 2018), such as strong labor protection (Weng and Peng, 2018).

Research on the effect of home-country cultural institutions on MNEs' internationalization is relatively sparse. Studies have shown that culture can influence strategic decision-making processes in the internationalization, such as hierarchical decentralization, lateral communication, and formalization (Dimitratos et al., 2011). In addition, Li and Parboteeah (2015) found that both the individualism–collectivism level and the power distance level in the home country significantly affect firms' responsiveness to mimetic pressures. Lastly, relying on a case analysis, Clampit et al. (2015) illustrated how, when, and why culture affects offshoring partnerships.

Several studies have recognized that the institutional environment operates as a system. Thus, for example, the extent to which incentives provided by a specific institution enable internationalization depends on the extent to which these incentives are consistent with other institutional norms and values. This interwoven nature suggests that a more integrated approach to examining institutional influences is needed. Research has shown that different combinations of institutions affect international strategies. For instance, normative, regulatory, and political institutions may be integrated as a system to narrow the gap in the level of internationalization of SEOs versus privately owned companies in emerging economies (Estrin et al., 2016). Likewise, the combination of economic, regulatory, political, knowledge, and demographic institutions (Contractor et al., 2016; Geleilate et al., 2016; Shukla and Cantwell, 2018; Sugathan and George, 2015)—or even more broadly the combination of formal and informal institutions (Marano et al., 2016; Zhu et al., 2019)—can significantly influence the internationalization–performance relationship. In addition, both industry legitimization (Lamin and Livanis, 2020) and political democracy (Arora and De, 2020) act to strengthen the credibility of firms from weak institutional environments.

In sum, institutions in home countries create important incentives for MNEs to venture into international markets, even though the strength of those incentives varies significantly across countries, ownership types (e.g., state-owned versus nonstate-owned), and levels of international experiences, among other dimensions.

## 4.2. Entry modes

Market entry modes are a major research topic in IB/IM, as demonstrated by the large number of such studies included in our review. In this section, we provide an overview of the research into each type of entry mode—namely, international joint ventures, strategic alliances, mergers and acquisitions, and greenfield investments—in order of increased control and risks.<sup>3</sup> Complementing the choice of entry modes, we also review the ownership choice.

### 4.2.1. International joint ventures (IJVs)

Due to concerns related to control difficulties in IJVs (Chen et al., 2010; Hsieh et al., 2010), some studies suggest that a favorable institutional environment—that is, one characterized by high governance quality (Roy, 2012), a functioning legal environment (Roy and Oliver, 2009), similar culture (Hong and Lee, 2015), or the existence of alternative institutions that fill one or more institutional voids (Lu and Ma, 2008; Pinkham and Peng, 2017)—supports new market entries through IJVs. The same conditions also facilitate the selection of suitable IJV partners (Shi et al., 2012). Further, Karhunen (2008) and Sartor and Beamish (2018) suggest that an IJV is the preferred entry mode when corruption is prevalent in the host country, as local partners can help the new market entrant cope with the uncertainty resulting from a corrupt institutional environment. In these environments, IJV partners play a crucial role in buffering

<sup>3</sup> We reviewed the institutional impact on exporting in Section 4.1 because exporting activities are mainly influenced by home-country institutions, whereas exporters are less exposed to the host country's institutional environment. In addition, exporting is commonly used to measure internationalization, the major theme of Section 4.1.



political risks.

#### 4.2.2. Strategic alliances

Given the emphasis on collaboration in research and development (R&D) alliances, factors such as high cultural distance (Choi and Contractor, 2016) and differences in rule of law (Li et al., 2012), require caution in MNEs' adoption of this ownership structure in host-country markets. They also suggest interactive and complex designs are needed to maintain collaborative relationships among alliance partners. The institutional difference often requires managers with good social skills to maintain an effective working relationship (Pesch and Bouncken, 2018).

#### 4.2.3. Mergers and acquisitions (M&As)

Entry into new international markets through cross-border M&As was the most prevalent entry mode in the research we reviewed. Compared to greenfield investments, which also entail taking a full equity ownership position, M&As are more effective in helping MNEs mitigate the liability of foreignness (Klossek et al., 2012).

Various institutions influence each step of M&A transactions. In the target selection stage, MNEs typically prefer targets located in countries with more favorable institutions—such as pro-labor regulations (Alimov, 2015; Levine et al., 2020), similar cultures (Ang et al., 2015; Basuil and Datta, 2015; Bazel-Shoham et al., 2020; Dikova et al., 2010; Zhu et al., 2020), low political and regulatory institutional distance from their home country (Bhaumik et al., 2018; Chen et al., 2017), a stronger institutional framework (Meyer et al., 2009), good country governance (Alon et al., 2020; Ellis et al., 2017), less corruption (Bertrand et al., 2019), tax competitiveness (Gan and Qiu, 2019), and advanced innovation systems (Álvarez and Marín, 2010)—and ideally located in the same geographic region (Blevins et al., 2016). These kinds of favorable institutions can help the acquiring firms better understand and operate in the new environment. Moreover, they facilitate integration of the target's operations into the MNE after acquisition. In contrast, political protectionism (Clougherty and Zhang, 2020) and lack of a bilateral investment treaty (Chen et al., 2019) deter foreign M&As, while political uncertainty in the host country increases the acquiring firm's bargaining power (Lee, 2018).

In the transaction stage, M&As are less likely to face host government intervention if the home and host countries already enjoy high-quality bilateral political relations (Bertrand et al., 2016). Moreover, Renneboog et al. (2017) found that bondholders respond more positively to an M&A if the target is located in a country with stronger creditor rights and more efficient claims enforcement through courts. Conversely, formal and informal institutional distances are negatively related to M&A deal completion and positively related to the duration of the deal-making (Dikova et al., 2010). In other words, greater institutional distance complicates the negotiation and completion of M&As.

After the transaction is completed, cultural differences (Kang and Kim, 2010; Lewis and Bozos, 2019; Reus, 2012; Reus and Lamont, 2009; Stahl and Voigt, 2008; Vaara et al., 2014), political and regulatory institutional distance (Tsui-Auch and Chow, 2019; Zhu et al., 2015), political affinity of the host and home countries (Hasija et al., 2020), and labor market flexibility and efficiency (Bauer et al., 2018) all affect post-M&A integration, which in turn determines post-M&A performance. Lower cultural difference, lower institutional distance, and greater labor market flexibility and efficiency facilitate the integration of M&A partners, leading to higher post-M&A performance.

#### 4.2.4. Greenfield investments

MNEs making greenfield investments face heightened investment risks. Given these risks, firms tend to be careful in selecting a host country for their new ventures, preferring to invest in those characterized by lower cultural distance (Beugelsdijk et al., 2018; Estrin et al., 2009), higher institutional quality (Lindner et al., 2016), less political uncertainty (Slangen, 2013), lower violence (Witte et al., 2017), and little corruption (Yamanoi and Asaba, 2018). The greenfield investment research we reviewed suggests that MNEs are more aware of potential institutional risks when choosing entry modes without local partners.

#### 4.2.5. Ownership

The form of ownership chosen in the context of internationalization reflects MNEs' concerns about control, legitimacy, and risks involved in market entry. In general, MNEs from emerging economies prefer a lower ownership position to mitigate the liability of foreignness/liability of operating from an emerging context (De Beule et al., 2014; Grøgaard et al., 2019; Liou et al., 2016; Meyer et al., 2014), institutional risks (Petrou and Thanos, 2014), regulatory and demographic differences (Ellis et al., 2017), and cultural (Dow et al., 2020; Malhotra et al., 2011) and informal institutional distance (Sartor and Beamish, 2014). Next, we compare some of the ownership choices that have attracted the most scholarly attention.

**4.2.5.1. Equity versus non-equity.** The choice between equity and non-equity expansion is highly dependent on investment risks and uncertainties imposed by the local institutional environment (Maekelburger et al., 2012), such as the amount of geographic and cultural distance (Gooris and Peeters, 2014); the legal environment—specifically, the extent of contract enforcement; and the economic development of the host country (Taussig and Delios, 2015). Drawing on transaction costs economics, research shows that MNEs prefer entry into international markets through equity investment if the legal systems do not provide sufficient contract enforcement. However, even an average-quality institutional condition would be sufficient for non-equity, “market-like” expansion (Jandik and Kali, 2009: 578).

**4.2.5.2. Joint venture (JV) versus wholly owned subsidiary (WOS).** Following a similar logic, an unfavorable institutional

environment—for instance, one characterized by high institutional distance between the developed home country and the developing host country (Lahiri et al., 2014), higher political risk (Morschett et al., 2010; Zhong et al., 2019), greater linguistic distance (Demirbag et al., 2009) or regulatory distance (Konara and Shirodkar, 2018), and higher corruption (Duanmu, 2011; Karhunen and Ledyeva, 2012)—is negatively related to the likelihood of adopting a WOS ownership structure. Even if a MNE enters a country with higher political risk using a WOS, some operations (such as trade on an international scale) would be adopted to mitigate the external risks (Feinberg and Gupta, 2009).

**4.2.5.3. Majority versus minority.** Similarly, MNEs are less likely to choose majority ownership when they face a less favorable institutional environment, such as one characterized by low transparency of regulatory institutions (Hernández and Nieto, 2015; Powell and Rhee, 2016).

**4.2.5.4. Escalation of commitment.** Recently, a new stream of research has looked beyond entry ownership, to examine post-entry ownership changes. MNEs are likely to increase their post-entry ownership stake because this escalation of commitment strategy provides greater flexibility when entering an uncertain and unfamiliar environment (Akbar et al., 2018; Li and Li, 2010; Puck et al., 2009; Santangelo and Meyer, 2011). Higher institutional quality (Chang, 2019; Fisch, 2011; Putzhammer et al., 2018; Surdu et al., 2019), positive institutional changes (Putzhammer et al., 2020), financial market development (Figueira-de-Lemos and Hadjikhani, 2014; Fisch and Schmeisser, 2020), and reduced corruption (Driffield et al., 2016) may all motivate MNEs to escalate their commitment after the initial entry into the new market. Thus, MNEs are more likely to make additional investments in markets wherein positive institutional changes occur.

In sum, the entry mode research suggests that MNEs choose to enter countries with lower institutional distance or lower institutional risks when selecting high ownership entry modes, whereas lower ownership entry modes are generally preferred when they enter a country with higher institutional distance or higher institutional risks. While prior research has largely examined the entry mode as a static decision, recent studies have considered the ownership decision in a more dynamic way, examining escalation of commitment and sequential decision making (Xu et al., 2020).

### 4.3. Location

The MNE's ultimate goal when making a location choice is to maximize financial returns and minimize investment risks. To achieve this goal, MNEs search for host countries with favorable institutional environments considering the full spectrum of institutional attributes. In this section, we first analyze how institutions, either individually or collectively, influence location choice. Then, we focus on a few specific research settings that have gained considerable research traction, including location choices of MNEs from emerging economies, location choices for FDI in emerging economies, and contingencies in the relationship between institutions and location choices.

A broad range of research has investigated institutional conditions that help boost MNEs' survival rate and performance in newly entered markets—such as lower political and economic risks (Cordero and Miller, 2019; Giambona et al., 2017; Nguyen et al., 2018; Slangen and Beugelsdijk, 2010; Vaaler, 2008; Witte et al., 2020); higher economic development (Enright, 2009); lower economic distance between home and host countries (Demirbag et al., 2011); a regulatory framework facilitating business transactions (Chacar et al., 2010; Chao and Kumar, 2010; Coeurderoy and Verbeke, 2016; Hoffman et al., 2016; Nielsen et al., 2017; Valentino et al., 2019); stronger investor rights protection (Guler and Guillén, 2010), lower demographic and administrative distance between home and host countries (Bailey and Li, 2015; Li, 2020; Y. Li et al., 2019; Stallkamp et al., 2018; Zhou and Guillen, 2016), including lower egalitarianism distance between home and host countries (Siegel et al., 2013); high receptivity to foreign investment (Faulconbridge and Muzio, 2016; Wu and Salomon, 2017); favorable taxation policy (Foss et al., 2019; Ting and Gray, 2019); and a developed knowledge infrastructure (Bunyaratavej et al., 2008; Demirbag and Glaister, 2010).

Recently, some studies have taken a systematic view, examining the combinative effects of institutions on location choices. For instance, Holmes et al. (2013) examined the influence of formal and informal institutions on a country's FDI activities. Similarly, Fuentesaz et al. (2020) found that formal institutional distance mitigates the negative effect of informal institutional distance on location choice. From a regional-level institutional perspective, Arregle et al. (2016) argued that extremely low or high regional institutional diversity has negative effects on internationalization in that region, whereas moderate institutional diversity can boost internationalization in the region. Importantly, location preferences are commonly contingent on other factors (discussed next).

#### 4.3.1. MNEs from emerging economies

Generally speaking, MNEs from emerging economies face a higher liability of foreignness when entering foreign markets (Kalasin et al., 2014; Li and Fleury, 2020) due to their lack of legitimacy—a perception mainly derived from their country of origin and/or resource constraints (Stevens and Newenham-Kahindi, 2017; Zhang et al., 2018). Therefore, those MNEs from emerging economies choose to enter developed countries typically possessing some unique national competitive advantages, such as specific resources or supplier inputs (Barnard, 2010; Chittoor et al., 2009; Griffin-El and Olabisi, 2018; Kolstad and Wiig, 2012), diaspora of migrants from their home country (Estrin et al., 2018), or cultural similarity (Cuervo-Cazurra, 2008). In addition, they are eager to acquire knowledge and technologies from the host country. Thus, instead of choosing locations with strong intellectual property protection (IPP), they often search for locations whose IPP requirements are weaker than (Yoo and Reimann, 2017) or similar to their home countries' requirements (Luiz et al., 2017).



SOEs, as a special group of MNEs in emerging economies owing to their direct ties with their home governments, often experience higher scrutiny by the host country's government and/or local customers. As a result, they prefer entry into host countries with a lower level of nationalism (Shi et al., 2016). Also, research suggests that SOEs are attracted to countries with rich natural resources (Duanmu, 2012).

#### 4.3.2. FDI in emerging economies

MNEs' investments in emerging economies have attracted scholarly attention because such firms face a higher level of uncertainty and risk due to the low policy stability in the host countries (Luo et al., 2019). Research recommends a variety of ways to cope with uncertainty and risk. For example, James and Vaaler (2018) suggested that MNEs adopt a minority state ownership in the local subsidiary to buffer policy instability. Rana and Sørensen (2020) proposed that subsidiaries could facilitate institutional innovation in their internationalization process in host countries having institutional voids. We will present a detailed discussion of the strategies for coping with political risks in Section 5, which covers political strategy.

Another characteristic of many emerging economies is their highly fragmented subnational regions. Subnational institutions, including market development (X. Ma et al., 2013; X.F. Ma et al., 2013), have a significant influence on location choice. Diverse subnational institutions provide the opportunity for regional arbitrage across countries, as described by Arregle et al. (2016).

#### 4.3.3. International experience and firm characteristics

Some studies have focused on specific firm characteristics that may potentially influence MNEs' location preferences. Of these, international experience is among the most studied characteristics. Knowledge developed from international experience can effectively reduce the risk that managers experience or perceive when entering a new country market (Cannizzaro and Weiner, 2018); it can also help managers mitigate the potential negative effects of formal and informal institutional distance (Jiang et al., 2014). Thus, MNEs with international experience (versus no such experience) are more likely to enter a host country with a less favorable institutional environment. Even operational experience obtained in their home country (Ramos and Ashby, 2013; Yang, 2018) or gleaned from other MNEs from the same country of origin (vicarious learning) can help MNEs better cope with challenging local institutional environments (Tan and Meyer, 2011). For instance, a few studies have suggested that MNEs can mimic the strategies of domestic firms or other MNEs operating in the market to achieve legitimacy in a foreign country (Kuilman and Li, 2009; Wu and Salomon, 2016). At the same time, Perkins (2014) warns that international experience has crucial relevance: MNEs attempting to use institutional experience developed outside of the target country are more likely to fail.

Other factors that encourage MNEs to choose locations characterized by higher uncertainty include family ownership (Hernández et al., 2018; Ilhan-Nas et al., 2018), intense home-country competition (Alcantara and Mitsuhashi, 2012), business group affiliation (Castaldi et al., 2019; Gaur et al., 2019), and social capital investment in local customers (Presutti et al., 2016).

Notwithstanding the indispensable influence of host-country institutions on MNEs' international expansion, McGahan and Victor (2010) argued that the institutional system has a stronger impact on domestic firms than on foreign MNEs that invest in a particular country. Echoing these findings, albeit in a more focused context, Cuervo-Cazurra and Dau (2009) and Kafouros and Aliyev (2016) found that pro-market reforms are more beneficial to domestic firms than to foreign firms in developing countries. For example, reforms encouraging greater foreign investments provide opportunities for domestic firms to partner with and learn from foreign MNEs (Hitt et al., 2005).

To summarize, even though MNEs prefer locations with a more developed institutional environment, this preference is highly contingent on the MNEs' home-country institutional environment, on the market and institutional conditions of the host country, on MNEs' international experience, and on certain specific firm characteristics.

#### 4.4. MNE networks

Managing multiple subsidiaries located in different countries can be very challenging, given the cultural differences across countries (Hutzschenreuter et al., 2011; Lew et al., 2016). However, it can also be rewarding if MNEs are able to achieve an institutional advantage (Martin, 2014; Meyer et al., 2020) through international pricing strategies (Sousa and Bradley, 2008), institutional entrepreneurship (Fortwengel and Jackson, 2016), operational flexibility (Belderbos et al., 2014), mutual forbearance among competitors (Yu et al., 2009), exploratory innovations in international networks (Khan et al., 2018), and/or cohesion among subsidiaries (Hatani and McGaughey, 2013). A few studies that focused on venture capital and private equity firms drew similar conclusions, suggesting that economies of scale, portfolio diversification, and access to the global market for external resources outweigh the costs of dealing with cultural and formal institutional distances (Buchner et al., 2018; Dai and Nahata, 2015; Mingo et al., 2018; Taussig, 2017).

#### 4.5. Speed or timing of entry

Research on the speed and timing aspects of international strategy has most often focused on born-global firms and international entrepreneurship (Knight and Cavusgil, 2004), concentrating on two contexts. The first context is industries with high R&D intensity. To earn returns on their high R&D expenditures, firms in R&D-intensive industries tend to enter international markets earlier than firms in other industries. Yet, due to concerns about technology leakage, they are reluctant to enter countries characterized by high technological turbulence and political risk (Efrat and Shoham, 2012) or by high cognitive and regulative distance, as those factors nurture a different set of business norms and values (Pogrebnyakov and Maitland, 2011). The second research context is MNEs located

in emerging economies. Recently, many such MNEs have been able to engage in rapid international expansion, thanks to the technological progress associated with the digital economy (Deng et al., 2018; McCormick and Somaya, 2020). New developments in technology and the increasing emphasis on the digital economy in many countries have enhanced market opportunities for emerging-economy MNEs.

#### 4.6. Divestment/exit

While inferior performance is generally assumed to be the main cause of divestment, research has shown that country market growth and stable policy counteract the negative relationship between performance and market exit (Berry, 2013; Song, 2014). In the Chinese context, Mohr et al. (2016) also showed that state participation reduces the risk of IJV dissolution for Chinese MNEs. Interestingly, previous exit may accelerate re-entry after market conditions improve, especially in countries with high institutional quality (Surdu et al., 2019; Surdu et al., 2018).

### 5. Political strategy

In this section, we first review three political strategies that MNEs adopt to cope with local institutional environments: conforming, decoupling, and institutional entrepreneurship. We then focus on two lines of research on political strategies: building political connections and strategies adopted during political hazards and wars. These political strategies are deemed to be critical to MNEs' survival in uncertain institutional environments.

Due to the high political uncertainty inherent in many emerging markets and developing countries, MNEs' survival and prosperity are at least partly dependent on the political strategy they formulate in those countries. Research has focused on three political strategies—conforming, decoupling, and institutional entrepreneurship (Regnér and Edman, 2014)—that are effective in mitigating political risk. The choice among these strategies is largely contingent on MNEs' internal resources and on the severity of political uncertainty in the host countries.

The first political strategy, which many MNEs adopt, is to conform to the political pressure of the host country (De Villa et al., 2019). For example, Jeong and Weiner (2012) found that managers conformed to environments in which bribery is likely to bring significant rewards, and this bribery pressure is likely to increase when the MNE relies on local partners (Spencer and Gomez, 2011). Regarding the home country's political pressure, Morck et al. (2008) and Clegg et al. (2018) found that SOEs are more likely to conform to the government's call for outward FDI in some autocratic countries, such as China.

Instead of passively conforming to the local environment, some MNEs choose to proactively locate their subsidiaries in a foreign country wherein institutions are similar to those of their home country or to their own values. For example, family firms typically prefer to operate in foreign locations where the government subscribes to a socially conservative and family-oriented ideology (Duran et al., 2017). Similarly, MNEs from countries with high governmental discretion—defined as the degree to which governments and regulators can unilaterally alter the conditions under which a firm carries out its activities in a country—are more likely to invest in countries with similar governmental discretion (Fernández-Méndez et al., 2015).

The second political strategy is to at least partially decouple from local institutional requirements. MNEs with more experience and resources are more skillful at decoupling when they are navigating their host country's political environments (Fernández-Méndez et al., 2015; Gamso and Nelson, 2019; Oh and Oetzel, 2017). For example, Petrou (2015) recommended the use of expatriate managers to cope with the arbitrariness of corruption thanks to expatriate managers' ability to obtain resources from the parent firm's network. Another reason for decoupling is the existence of a significant gap between home-country and host-country institutions. In such a case, instead of simply conforming to home-country or host-country institutions, MNEs have to carefully develop and use firm-specific political tactics developed in the home and host countries to balance their differing institutional requirements (Brown et al., 2018; Prud'homme and von Zedtwitz, 2019; Zhang et al., 2016).

Lastly, MNEs with more resources and experience may be able to choose the third political strategy, institutional entrepreneurship. Such MNEs leverage their resources and experience to change the local institutional environments (Kline and Brown, 2019; Lubinski and Wadhvani, 2020; Mbalyohere and Lawton, 2018; Parente et al., 2019; Prithwiraj et al., 2012; Zhu and Sardana, 2020), thereby rendering the operating environment more palatable to them. This strategy may be more commonly adopted by firms in countries with left-leaning governments (Patnaik, 2019).

#### 5.1. Political connections

The reasons that MNEs build and maintain political connections are threefold: to shield against political risk (Cuervo-Cazurra et al., 2018a; Darendeli and Hill, 2015; Schnyder and Sallai, 2020), to increase their bargaining power when negotiating with governments (Boddewyn, 2016), and to obtain political knowledge (Fernández-Méndez et al., 2018). Political ties with local governments are crucial to avoid political risk and arbitrary governmental actions for almost all MNEs entering an emerging economy or a developing country (Chen et al., 2018; Dang et al., 2020; White et al., 2015; White et al., 2018; Wu and Ang, 2020). They are especially critical for foreign firms in the extraction or infrastructure sectors (Fernández-Méndez et al., 2015; Jiménez et al., 2014). As a result, MNEs in these industries are more likely to form political ties with host-country governments (Bucheli and Salvaj, 2018; Jiang et al., 2015).

In a similar vein, political connections can help MNEs increase their bargaining power (King, 2015; Mbalyohere et al., 2017; Stevens et al., 2016). In rare cases, even the political ties between home-country and host-country governments can help MNEs increase their bargaining power (Cannizzaro, 2020; Li et al., 2018a; Li et al., 2013; Makino and Tsang, 2011) and offset the investment

risks they face when entering the new market (Albino-Pimentel et al., 2018).

Despite the advantages just mentioned, political connections can be a double-edged sword. Very deeply embedded political connections may prove a detriment to the overall value of a MNE in the longer term when the local market becomes increasingly liberalized (Sun et al., 2010).

## 5.2. Strategies for coping with political hazards and wars

Some studies have focused on the international strategies adopted by MNEs operating in extreme political climates characterized by significant political turmoil. Political conflicts between their home and host countries often strongly limit MNEs' investment in the latter (Arikan and Shenkar, 2013; Jallat and Shultz, 2011; C. Li et al., 2020), and this effect is likely to persist for decades after the conflict ends (Arikan et al., 2020; Gao et al., 2018). If the political hazard is too severe for MNEs to tolerate, they sometimes choose to exit from the host country (Sartor and Beamish, 2020; Soule et al., 2014).

Political risks in a host country can lead to significantly negative outcomes for a MNE and, therefore, have drawn considerable research attention in the past decade. With the recent de-globalization trend, this topic is likely to continue attracting research attention.

## 6. Multinational technology and innovation strategies

Another type of international strategy that country-specific institutions can influence is multinational technology and innovation strategies. In this section, we examine the three major strategies covered in this research stream: knowledge transfer and global integration, new technology development and innovation, and technology protection and IPP.

### 6.1. Knowledge transfer and global integration

MNEs tend to be more innovative and profitable when they successfully integrate multinational knowledge across countries. It is a highly challenging task to achieve such integration, due to the varied and distinct institutional environments across countries. Previous studies have cited cultural differences (Evangelista and Hau, 2009; Sarala and Vaara, 2010; Vaara et al., 2012), geographic distance (Ambos and Ambos, 2009; Zhang et al., 2019), linguistic distance (Ambos and Ambos, 2009), lack of marketization (Xie and Li, 2018), and government inefficiency (Galang, 2012; Galang, 2014) as primary constraints on global technology transfer and knowledge integration. Informal mechanisms, such as social capital (Ado et al., 2017) and expatriates (Rickley and Karim, 2018), can be helpful in managing institutional distance between home and host countries, thereby facilitating knowledge transfer.

### 6.2. New technology development and innovation

Traditionally, high-tech MNEs have entered foreign markets for the purpose of exploiting their technological advantage, especially in emerging economies (Guimón et al., 2018; Li and Kozhikode, 2009; Liao and Yu, 2012; Sun et al., 2020). Recently, an increasing number of MNEs have begun to explore technological opportunities through technology development and innovation in these foreign markets (Huang and Li, 2019; Lamin and Ramos, 2016; Rosenbusch et al., 2019; Wu and Park, 2019), especially through equity investments in R&D collaboration alliances (Choi and Contractor, 2016; Krammer, 2018). In other cases, non-equity collaborations, such as outsourcing (Griffith et al., 2009; Santangelo et al., 2016) and social networking (Mesquita and Lazzarini, 2008), are used to achieve this goal. Indeed, social networks (Vasudeva et al., 2013), subsidiary networks (Back et al., 2014; Wu et al., 2016), and business groups (Chittoor et al., 2015a) play boundary-spanning roles, boosting innovation investment and innovation performance when R&D-focused firms enter a country with institutional voids.

In addition, a few studies have examined individual-level factors suggesting that cultural tightness—the extent to which a country is characterized by strong social norms and low tolerance for deviant behaviors—has a significant negative impact on how employees engage in and succeed at creative tasks in foreign countries (Chua et al., 2015). Similarly, Boone et al. (2019) found that MNEs with diverse top management teams tend to be more innovative only if they are headquartered in home countries characterized by low power distance.

### 6.3. Technology protection and IPP

Technology misappropriation is a legitimate concern for all MNEs that transfer their core technology to a foreign subsidiary, and especially to subsidiaries located in countries with weak IPP. Three strategies have been recommended to prevent misappropriation of firms' valuable technologies.

The first strategy relates to location choice. A country with stronger IPP is generally preferred by MNEs with high R&D investments (Khoury et al., 2014; Khoury and Peng, 2011; Nandkumar and Srikanth, 2016; Prud'homme, 2019). The strong IPP is especially important for young firms, which typically have fewer resources and less international experience (Coeurderoy and Murray, 2008). In contrast, high legal and cognitive distances between the home and host countries significantly increase the misappropriation risks (Fainshmidt et al., 2014; Paik and Zhu, 2016), while downstream commercialization activities substitute for weak IPP (Lampert et al., 2018).

The second strategy involves the ownership choice. Specifically, MNEs are more likely to choose low equity ownership structures

(e.g., licensing or exports) if host countries offer a stronger IPP (Ivus, 2015; Ivus et al., 2017). In contrast, internal protection is more effective than formal institutions in protecting the innovation when IPP is weak in the host country (Huang et al., 2017).

The last strategy relates to institutional entrepreneurship, through which MNEs advocate for improvements in the host nation's IPP. MNEs may choose to work with the host country's government (Jiang et al., 2015) or via international organizations, such as the World Trade Organization (Brandl et al., 2019).

To summarize, MNEs can leverage their innovative capabilities through their international innovation networks if they can formulate effective strategies to protect their technologies in the host countries, especially in those characterized by lower IPP.

## 7. Multinational CSR

CSR is an emerging area in the IB/IM literature. MNEs may adopt different CSR strategies based on their global strategy, home-country institutions, and host-country institutions.

### 7.1. Global CSR

Oftentimes, MNEs strategically tailor their CSR policies to the local institutional contexts (Rathert, 2016). However, on some special occasions, MNEs prefer more unified (or global) CSR practices or higher CSR standards across their international operations, rather than adapting their policies to the local requirements. These occasions include firms pursuing cross-listing in different country stock exchanges (Del Bosco and Misani, 2016), emerging-economy firms entering a developed country (Fiaschi et al., 2017), and firms seeking to secure local resources (Yakovleva and Vazquez-Brust, 2018). Global CSR strategies are actually challenging even for resourceful MNEs, partly because of the complex institutional requirements that exist across countries (Marano and Kostova, 2016) and the difficulties of investigating and verifying all the operational activities along the value chains (Kim and Davis, 2016).

### 7.2. Home-country CSR environment

Strict CSR requirements at home are a universal motivation for MNEs to move their most polluted operations to emerging or developing countries (Bu and Wagner, 2016; Li and Zhou, 2017). To combat this trend, some home-country governments with higher CSR standards have recently required MNEs to adopt such standards across all their foreign subsidiaries in an effort to make the home-country and host-country CSR standards consistent, or at least similar to the CSR practices in the home country (Buchanan and Marques, 2018). Unfortunately, MNEs located in emerging economies tend to have a lower level of CSR than they declare in their CSR reports (Tashman et al., 2019).

### 7.3. Host-country CSR environment

It is common for MNEs to adopt CSR practices that meet the host country's standards (Madsen, 2009). This practice can lead to corporate social irresponsibility if the host country has low CSR requirements or weak enforcement (Keig et al., 2015). More recently, MNEs have been found to take on more social responsibility in emerging economies in an effort to achieve greater external legitimacy in those environments and beyond (Brammer et al., 2009; Gifford and Kestler, 2008). Pressure to adopt higher CSR standards may stem from the expectations of home-country stakeholders (Santangelo, 2018; Surroca et al., 2013), local mid-level employees (Reimann et al., 2012), local nongovernmental organizations (Kourula, 2010), or even online activists (Zhang and Luo, 2013) and the press (Wang and Li, 2019), rather than the local government.

Considering the home and host institutional environments together, some scholars suggest that MNEs need to carefully balance CSR policies in both the home and host countries to achieve internal and external legitimacy (Durand and Jacqueminet, 2015; Gifford et al., 2010; Pinkse and Kolk, 2012).

In our final two categories in this review of institutional environments and international strategy research, we focus on topics especially related to implementation of international strategies: HQ–subsidiary relationships and multinational HRM.

## 8. Multinational headquarters–subsidiary relationships

Studies of HQ–subsidiary relationships have largely concentrated on the strategic choice between global integration and local autonomy among MNEs' subsidiaries. Institutional distance between the home and host countries plays an important role in this decision. In general, studies have found that institutional distance—including cultural distance (Beugelsdijk et al., 2018; Oldroyd et al., 2019; Slangen and Hennart, 2008), administrative distance (Beugelsdijk et al., 2017; Pla-Barber et al., 2018), regulatory distance (Curchod et al., 2020), and economic distance (Beugelsdijk et al., 2017) between the home and host countries—creates obstacles to achieving global integration. The institutional environments in some host countries fraught with high economic uncertainty, political risk (Bucheli and Kim, 2015; Lee et al., 2020; Rabbiosi and Santangelo, 2019; Slangen, 2013), or institutional distance (Geleilate et al., 2020) are also a source of difficulties for MNEs seeking global integration of their subsidiaries. As a result, local autonomy is usually higher under these conditions (Clark and Ramachandran, 2019). If MNEs decide to adopt a global integration strategy, a greenfield entry mode (instead of an M&A) (Slangen and Hennart, 2008) and a strong home–host tie (Rangan and Drummond, 2011; Riddle et al., 2010a) increase the possibility of global integration, even in the presence of high institutional distance or uncertain local institutional environments: Greenfield investments and strong home–host ties are effective in mitigating incompatible practices and shaping the

values held by local employees.

## 9. International HRM

International HRM is another important international strategic approach influencing MNEs' legitimacy and profitability in a host country (Li et al., 2016; Tan and Meyer, 2010), as it embodies two crucial resources used by MNEs to compete internationally—namely, corporate talent and knowledge management (Beaumont et al., 2016). There are two primary streams of research on this general topic: expatriates and local hiring.

### 9.1. Expatriates

Use of expatriate employees to implement a foreign venture is a sensitive HRM practice for both the expatriates and the MNEs. For individual expatriates, the culturally unfamiliar context to which they may be assigned can be challenging. It is especially difficult for expatriates from countries with high xenophobia (Wang, 2015); thus, care must be taken in selecting expatriates from such countries to ensure that they do not have strong biases against the host-country culture. Adjustment-facilitating, supportive ties may alleviate at least some of the challenges faced by expatriate employees (Farh et al., 2010). Interestingly, some English-speaking expatriates enjoy enhanced status in a subsidiary that adopts English as its official business language (Neeley and Dumas, 2016). Even so, it is important for expatriates to understand both the local language and the culture of the country to which they are assigned so that they can engage in nuanced communications and relationships with locals. Ideally, this approach will circumvent or reduce conflicts between expatriates and local employees and enable them to build effective working relationships. Dispatching expatriates with personal ties to the host country can offer a good solution to these conflicts (Furusawa and Brewster, 2019).

For MNEs, the deployment of expatriates requires a delicate balance between enforcing parent-company control and developing and maintaining local legitimacy. On the one hand, expatriates can be highly beneficial to the MNE over time. Such managers can help mitigate arbitrary corruption (Petrou, 2015), facilitate technology transfer (Berry, 2015), and protect technology from misappropriation in a host country with weak IPP (Berry, 2017). When reassigned to the home office or to another division/subsidiary of the MNE, they carry the knowledge gained as an expatriate to other parts of the organization. On the other hand, MNEs may hesitate to deploy a large number of expatriates in a culturally distant country (Shin et al., 2017; Wilkinson et al., 2008) because of potential concerns regarding their effects on legitimacy in the local market (Peng, 2012).

### 9.2. Local hiring

Research on local hiring has consistently shown that firms adopt this HRM practice to gain institutional legitimacy. Gaining legitimacy facilitates the MNE's implementation of its strategy in the new market. In fact, it can be especially important in culturally distant countries (Forstenlechner and Mellahi, 2011; Reimann et al., 2012) or hazardous industries requiring higher occupational health and safety standards at the country level (Maggioni et al., 2019). However, local hiring needs to be pursued with caution. For example, the local hiring of managers in a corrupt environment can potentially increase operational costs for the subsidiary and create other concerns for the parent firm as well (Muellner et al., 2017). In addition, institutional differences—such as discrimination laws (Wu et al., 2008), gender equality (Siegel et al., 2018; van der Straaten et al., 2019), and cultural-related attitudes and behaviors (Chung et al., 2014)—may make it more difficult for MNEs to implement unified hiring standards across their subsidiaries, thus reducing their ability to achieve global integration (Williams et al., 2017).

In short, expatriate studies emphasize the need for ongoing parent-company control, while local hiring is largely focused on developing and maintaining local legitimacy. The balance between expatriates and local hiring is crucial for MNEs' local survival and prosperity.

## 10. Future research directions

In this review, we provide a meta-framework to integrate views and findings across disciplines and levels of analysis to gain a better understanding of the effects of the institutional environment on a firm's international strategies. As demonstrated in this review, institutional environments are multifaceted, complex, and dynamic, presenting numerous challenges to MNEs. In this section, we identify research questions and opportunities for future research on the topic of institutions and international strategies. We begin with focused research questions derived from the identification of gaps discovered by our review of each major international strategy and implementation approach. We then identify more general research questions that highlight some major foci that remain largely underdeveloped in the current literature.

### 10.1. Selected research questions based on knowledge gaps in each strategic category

In this section, we summarize prior research examining the relationships between institutional environments and international strategies and their implementation. Although much research has been done, our review demonstrates that more is required to develop a better understanding of the most effective actions employed in each strategic category. We highlight research questions that exemplify research opportunities within each of these categories.



### 10.1.1. Internationalization and market entry strategies

Although abundant research has examined how home-country institutions influence internationalization and market entry strategies, comparisons among home-country institutions and between home- and host-country institutions are lacking. Therefore, we propose the following research questions for future research: (1) Are certain host country institutions more important than others for market entry decisions? If so, what heightens their importance? (2) How does the confluence of institutions (institutional system) in the home and host countries affect each of the specific types of market entry modes? (3) Which types of institutions are the most influential for emerging-market firms seeking to overcome liabilities of foreignness in developed countries? (4) Do some types of host institutions motivate MNEs to use high-equity entry modes even when political risk is high? (5) What role do both the institutional environment and institutional change play in the sequential decision-making process used when entering international markets? (6) In the wake of the COVID-19 pandemic, which types of institutional changes are likely to have the greatest effect on emerging-market firms entering developed markets and on developed-market firms entering emerging markets?

### 10.1.2. Political strategies

Political strategies are especially crucial to MNEs investing in countries characterized by higher political risks. In addition, the contemporary trend of de-globalization clearly requires MNEs to exercise nuanced political skills and political strategies to cope with this *new normal* (Ahlstrom et al., 2020; Hasija et al., 2020). Therefore, we propose the following research questions: (1) How do major political changes—such as Brexit, the replacement of NAFTA with the USMCA, or the ongoing tensions between China and the United States, to mention just the most crucial and recent trends—in host countries affect foreign MNEs' political strategies? (2) In what ways can political embeddedness positively and negatively affect MNEs legitimacy and performance over time?

### 10.1.3. Multinational technology and innovation strategies

Innovation is a potential catalyst for a firm's sustainable growth, yet research also shows that technology misappropriation is a legitimate concern for all MNEs operating in countries with weak IPP. Based on our review of this topic, a few research directions might be worth pursuing: (1) What are the major institutional factors prompting a firm to increase its internationalization so as to earn greater returns on its innovations? (2) What are the major institutional factors driving a firm to increase its internationalization so as to enhance its innovative capabilities? (3) Which institutional conditions influence high-tech MNEs' decisions to enter markets with low IPP?

### 10.1.4. Multinational CSR

Home-country CSR environments have a formative role in the operational routines of domestic firms. When these firms enter foreign markets, they must choose either to extend these routines overseas or to establish new routines that conform to the foreign environment. Whether to implement global or multiple-domestic CSR criteria, and the long-term performance consequences of this choice, have been debated over time. However, answering the following research questions could improve our understanding of this topic: (1) Do emerging-economy firms entering countries with higher CSR standards inculcate the institutional logics from these foreign markets into their CSR practices in their home market? (2) Do MNEs from countries with high CSR standards that enter countries with low CSR standards enjoy higher financial performance over time when they engage in high CSR in that host country (gain higher legitimacy)? (3) Do MNEs from countries with high CSR standards that enter countries with low CSR standards enjoy higher financial performance over time when they engage in CSR that meets the lower standards of the market (lower CSR costs)?

### 10.1.5. Multinational headquarters–subsidiary relationship

Technology development in the recent decade has made global integration a less costly strategy. However, the trend toward greater nationalism, along with increasing local customer awareness, requires a high level of adaptation to the local market (localization). Research suggests that the balance between global integration and local autonomy is highly dependent on the local institutional environment. Answers to the following questions could help MNEs identify an optimal strategy: (1) What institutional conditions in the host country best allow firms to maintain a balance in the level of control between headquarters and subsidiary? (2) How do the relationships among multiple MNE subsidiaries influence subsequent internationalization and implementation in other countries?

### 10.1.6. International HRM

Our review demonstrates the importance of international HRM in facilitating local operations and in increasing local legitimacy in an institutionally distant environment. At least two lines of future research may add value to this research area: (1) How do MNEs reconcile the differences in compensation paid to expatriate, local, and third-country managers within the same subsidiary? (2) In what ways do institutions influence the establishment of global HRM policies and practices?

## 10.2. General limitations in the current research

As we mentioned in the introductory section, there are conflicting findings regarding the effects of specific institutions on certain international strategies. Our thorough review suggests that these discrepancies generally arise for two reasons.

First, the institutional environments of both the home and host countries matter. When entering a host country, MNEs from developed countries or emerging economies tend to choose different entry mode strategies (Cuervo-Cazurra and Genc, 2011; De Beule et al., 2014). Similarly, a MNE is likely to choose different strategies when entering a developed country versus an emerging economy (Xie and Li, 2018). Future research incorporating the institutional dimensions from both home-country and host-country perspectives

likely can help reconcile the conflicting findings.

Second, throughout our review process, one issue has drawn our attention: The same variables have been used to measure different institutional concepts. For example, the six indicators—voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption—developed by Kaufmann et al. (2007) have been used to measure the quality of the institutional system (Álvarez and Marín, 2010), the rule of law (Kshetri and Dholakia, 2009), the quality of governance (Håkanson and Ambos, 2010), and many other institutional concepts. This research practice is understandable, given the limited databases of high-quality measures for institutional environments across countries. However, this commonly adopted research practice reduces our ability to compare and contrast the different effects of same institutions based on findings across studies. Future research to develop institutional measures with high reliability and validity would greatly benefit institutional research in the IB/IM field.

Next, we focus on a few emerging theories whose development might enrich our knowledge in the field and provide a deep understanding of how institutions influence international strategies and their implementation.

### 10.3. New theoretical frameworks

To date, a considerable number of studies have examined the focal relationship in the context of developing and emerging economies. Based on the recent prominence of MNEs headquartered in developing and emerging economies, some new theoretical perspectives have been proposed to explain their international strategies, which are distinct from those adopted by MNEs headquartered in developed countries (Cuervo-Cazurra, 2012).

The springboard theory was first introduced in 2007 to explain the international strategies of firms in developing and emerging economies (Luo and Tung, 2007). This framework suggests that MNEs in emerging economies use international expansion as a means to acquire strategic resources and reduce their institutional and market constraints at home or to buffer against them. Luo and Wang (2012) and Luo and Tung (2018) further developed the springboard framework by articulating the unique strengths and weaknesses of MNEs in these countries, including their vulnerability and complexity caused in part by home-country institutions. Maksimov et al. (2017) empirically tested the springboard theory and found that small and medium-size firms are able to increase wages in their home countries by utilizing the profits generated from exporting. More empirical research is needed on this theory, especially on the various international strategies and the institutional environments that can be better understood by using this theoretical framework.

Another new theoretical framework suggested by Hoskisson et al. (2013) focuses on *mid-range* emerging economies. These authors proposed an enriched typology of emerging economies, in which mid-range emerging economies are positioned between traditional emerging economies and newly developed economies. In particular, they argued that there is a need for a finer-grained understanding of mid-range emerging economies along two dimensions: (1) institutional development and (2) infrastructure and factor market development. Compared to traditional emerging economies—which generally have low institutional development as well as low infrastructure and factor market development—mid-range emerging economies often exhibit higher development in either the institutional environment or their infrastructure and factor markets. We agree with Hoskisson et al. (2013) that MNEs from these mid-range emerging economies often adopt unique international strategies, thus requiring a theoretical extension of prior thinking to understand the institutional environments in these emerging economies and their effects on inbound international strategies or MNEs headquartered in these countries.

Our review suggests that the extent to which institutional theory helps us understand the relationship between institutions and international strategies differs across contexts. The wisdom accumulated by MNEs from developed countries may not apply to MNEs from emerging economies. Development of theoretical frameworks dedicated to these countries could greatly improve our understanding. Similarly, we identified a large number of studies concentrated in few emerging economies, such as China, India, Brazil, and Mexico. More studies on other emerging economies and developing countries could not only enable us to test the robustness of the findings from these markets, but also provide new insights into their differing institutional environments.

### 10.4. Institutional complexity

In our review, most of the papers focused on specific institutions or specific research contexts. Recently, research in sociology and strategic management has suggested that institutional environments are multifaceted, complex, and dynamic, thus presenting crucial challenges for MNEs (Batjargal et al., 2013; Ostrom, 2010). The complex nature of an institutional system is reflected in previous studies in the following ways.

First, although the research has identified some direct effects of institutions on specific types of international strategies (e.g., location choices and entry modes), it also suggests that institutions have indirect effects. For example, Marano et al. (2016) found that firms' home-country institutions moderated the relationship between their international strategies and performance. Additionally, many institutional influences on firms are indirect, and their effects may vary across different industries. For example, Hitt et al. (2019) recently found that the effects of firms' integrated home-country institutions on their strategies were mediated by industry characteristics. In other words, institutions affected industry attributes, which in turn influenced firm strategies. Extending this line of research, we suggest that future studies take a more systemic view and consider the importance of institutional complexity. Adopting such a perspective calls for a more complete and nuanced understanding of institutional influences on international strategies and their outcomes.

Second, Arregle et al. (2013) highlighted the importance of supranational regional institutions for understanding firm internationalization. The examination of the institutional environment at the regional level is important because MNEs' degree of internationalization is influenced by both national and regional institutional environments (Arregle et al., 2016, 2018; Blevins et al., 2016;

Griffith, 2010; Hagigi and Sivakumar, 2009; Mauri et al., 2017; Sofka and Zimmermann, 2008); in other words, it is multidimensional (Hutzschenreuter et al., 2014). The formation of the European Union (EU) is a good example of the increasingly less-definitive country boundaries of institutions. Consequently, future research emphasizing regional boundaries and their effects on specific international strategies—such as market entry strategies within particular regions—is important.

The subnational institutions within various countries have begun to receive attention as well (Lu et al., 2018; Nguyen et al., 2013). Institutions that influence firms are often created by authorities at multiple levels of society, such as regional (e.g., the EU), national, subnational, and industry levels (Hitt et al., 2004; Ostrom, 2010; Scott, 2013). The ultimate institutional influence on organizations is determined by the relative power of institutions across these levels. In some emerging economies, because firms in the same subnational region possess similar resources, compete for the same markets, and/or utilize similar strategies (X.F. Ma et al., 2013), subnational institutions can induce local firms to adopt isomorphic behaviors. These concerns require research attention. In particular, we need to understand the contingency conditions that empower subnational institutions relative to national institutions, as well as the specific subnational institutions that enable versus constrain firms' internationalization strategies.

Taking the regional and subnational levels together, future research into a multilevel framework combining regional, country, and subnational institutional environments is needed. Such research could help reconcile some of the conflicting findings produced by previous studies. At the very least, we need a more nuanced understanding of the effects of institutional environments on firms' international strategies.

### 10.5. Immigrant entrepreneurship

One factor of greater importance for institutions is the emergence of immigrant entrepreneurs. With rapidly increasing immigration taking place around the world, immigrant entrepreneurs can play an important role in connecting countries within a region or across regions (Griffin-El and Olabisi, 2018; Riddle et al., 2010b). At the same time, they create challenges in both their home and host countries, due to the liability of foreignness in both countries (Gregorič et al., 2020; Mata and Alves, 2018). Immigrant entrepreneurs may experience more challenges in their domestic operations during anti-immigrant backlash movements. To cope with this difficult situation, they may accelerate their international expansion to their countries or regions of origin (Inouye et al., 2020). Research focusing on the interdependent effects of immigrant entrepreneurs and national institutions could be especially informative, especially given the current political controversy related to immigration in many developed countries.

### 10.6. The new global landscape

In recent times, pressure for de-globalization has been increasing (Buckley and Hashai, 2020; Butzbach et al., 2020; Cuervo-Cazurra et al., 2017; Cuervo-Cazurra et al., 2020; Devinney and Hartwell, 2020; Petricevic and Teece, 2019; Witt, 2019), as evidenced by Brexit and the United States' withdrawal from the Trans-Pacific Partnership (TPP). Boddewyn (2016) urged us to anticipate rocky international relations between businesses and governments marked by much greater political disorder and less economic multilateralism, along with non-market strategies that may remain localized. More recently, works by Ahlstrom et al. (2020) and by Armour and Sako (2020) have suggested that the combination of significant technological, sociological, and institutional changes has created a *new normal environment* for MNEs. This ongoing evolution of the global political environment and the IB/IM arena is, in turn, exerting unique pressure on MNEs' operations and international strategies.

In the face of these trends, managers and academic scholars alike are compelled to search for answers to questions such as the following: (1) Should MNEs begin to move their foreign operations back to their home country? (2) If they choose to move their operations back home, how should the supply chain be changed? Which parts of the supply chain should be brought back to the home country, if any? (3) How would these relocations influence the current competitive landscape in the home country and in international markets? (4) If MNEs choose not to make these changes or the foreign operations cannot be moved, how can these firms cope with the institutional pressures imposed by the home-country governments? (5) Can foreign firms effectively respond to institutional pressures by increasing their investment in their foreign subsidiaries or by relocating their operations to other countries? Answering these questions will require careful research, and the results would have scholarly implications not just for the IB/IM field but for supply chain research as well. Based on the results of our review, we suspect that multiple contingencies must be taken into account (e.g., strategies tailored for each set of individual firm circumstances).

Interestingly, we found very few studies examining the enabling institutions for MNEs headquartered in developed countries, despite the strong anecdotal evidence that there are stronger enabling institutions in developed countries. For example, the Tax Cuts and Jobs Act (TCJA) signed into law in 2018 reduced the U.S. federal corporate income tax rate from 35% to 21%. Tax reductions have also been implemented by several countries in the EU (e.g., Portugal, Ireland, Malta), with the aim of attracting foreign investments. How these government-enabling institutions reshape the competitive landscape in a country and in other regions of the world is an important question that requires more research for a complete understanding. Future research on these issues and other types of enabling institutions could provide critical evidence, adding value to both the scholarly work and managerial practice.

### 10.7. Microfoundations of institutions and international strategies

Both IB/IM scholars (Coviello et al., 2017; Prashantham and Floyd, 2012) and institutional theorists (Chandler and Hwang, 2015; Powell and Colyvas, 2008) have called for studies on the microfoundations of these two fields. McGaughey et al. (2016) proposed that institutions are the outcomes of agency; they represent purposive actions taken by individuals, firms, coalitions, and other actors.

Future research in this arena might provide insights to extend our knowledge of both institutional theory and international strategies. Potential exemplar research questions include the following: (1) How does perceived (Weber et al., 2020)—rather than objective—institutional distance by executives influence the formulation of firms' international strategies? (2) How do top executives of MNEs facilitate institutional changes in a foreign country? More precisely, which personal characteristics of top executives (e.g., risk preferences, proactiveness, or international experiences) motivate these executives to engage in institutional changes in a foreign country and to change their international strategies in response to specific institutional environments? (3) How do the power dynamics between large MNEs and local governments influence the pathways of these institutional changes? (4) How do foreign firms influence the institutional evolution within a host country?

## 11. Conclusion

Due to increased interdependency among countries, the emphasis on institutions and institutional differences between home and host countries has greatly increased, especially for MNEs' international strategies. This review has covered a broad range of studies examining the effects of institutions on a variety of international strategies. We identified important progress in recent international strategy research that has provided a greater understanding of MNE activities. Yet, our analysis also reveals that many areas of international strategy research remain fragmented, highlighting the need for future research and new directions. In addition, we highlighted emerging research themes related to the new global competitive landscape, multilevel and complex institutions (e.g., subnational institutions), and microfoundations of institutions and international strategies. With the intent to stimulate new scholarly conversations, we provide a range of suggestions for future research.

## Appendix A. Supplementary data

Supplementary data to this article can be found online at <https://doi.org/10.1016/j.intman.2020.100811>.

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