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Graduate School of Management

Master in Management Program

THE INFLUENCE OF INSTITUTIONAL DISTANCE ON OWNERSHIP STRATEGIES OF RUSSIAN COMPANIES IN THE PROCESS OF INTERNATIONALIZATION

Master's Thesis by the 2nd year student
Concentration — Master in International Business
Anna Kalioshko

Research advisor:
Ph. D., Professor, Andrey Panibratov

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АННОТАЦИЯ

Автор	Калиошко Анна Андреевна
Название магистерской диссертации	Влияние институциональной дистанции на стратегии собственности российских компаний в процессе интернационализации
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	компаний и в развитых, и в развивающихся странах; • размер русской диаспоры в развитой стране целевого рынка компании и нормативная дистанция с данной страной имеет отрицательную зависимость с долей собственности российской компании.
Ключевые слова	Институциональные различия, стратегия собственности, компании из развивающихся стран

ABSTRACT

Master Student's Name	Kalioshko Anna Andreyevna
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Description of the goal, tasks and main results	The goal of the research: to investigate how institutional distance influences ownership strategies of Russian companies in the process of their internationalization Tasks of the research: • analyze types and direction of influence of institutional distance on ownership strategies; • identify set of variables for measuring regulatory, normative and cognitive distance between home and host market; • find out differences in factors that influence ownership-related decisions of Russian companies in developed and emerging economies. The main results: • distance in Economic Freedom and Political stability between Russian and host market has influence on ownership strategies of Russian firms in case if the market is developed, while distance in Doing business matters when Russian firm enter emerging market; • membership in the same international organizations of Russia and a target country has major impact on ownership strategies of Russian firms, both in

	emerging and developed market; • distance in the level of corruption has no impact on ownership strategies of Russian firms, either in developed, or emerging countries; • size of Russian diaspora in host developed market and cultural distance are negatively correlated with ownership stake of Russian firms.
Keywords	Institutional distance, ownership strategy, emerging-market firms

ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЫ

Я, Калиошко Анна Андреевна, студент второго курса магистратуры направления «Менеджмент», заявляю, что в моей магистерской диссертации на тему «Влияние институциональной дистанции на стратегии собственности российских компаний в процессе интернационализации», представленной в службу обеспечения программ магистратуры для последующей передачи в государственную аттестационную комиссию для публичной защиты, не содержится элементов плагиата.

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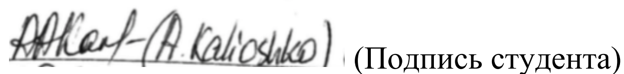
Мне известно содержание п. 9.7.1 Правил обучения по основным образовательным программам высшего и среднего профессионального образования в СПбГУ о том, что «ВКР выполняется индивидуально каждым студентом под руководством назначенного ему научного руководителя», и п. 51 Устава федерального государственного бюджетного образовательного учреждения высшего образования «Санкт-Петербургский государственный университет» о том, что «студент подлежит отчислению из Санкт-Петербургского университета за представление курсовой или выпускной квалификационной работы, выполненной другим лицом (лицами)».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STATEMENT ABOUT THE INDEPENDENT CHARACTER OF THE MASTER THESIS

I, Kalioshko Anna, second year master student, program «Management», state that my master thesis on the topic «The influence of institutional distance on ownership strategies of Russian companies in the process of internationalization», which is presented to the Master Office to be submitted to the Official Defense Committee for the public defense, does not contain any elements of plagiarism.

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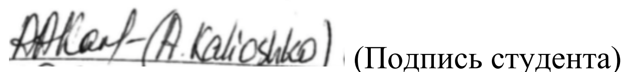
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Introduction

This paper contributes to the research on institution-based view of internationalization determined by the distance in home and host country development. We examine the differential effects of regulative, cognitive and normative distance on ownership strategies of Russian firms.

Traditionally, all papers on outward investment have been predominantly focused on internationalization strategies of firms from developed markets (Hoskisson et al., 2000). However, as EMFs are more and more actively engaging in worldwide investment, they are attracting much attention of scholars. Although significant number of studies are devoted to motivations of EMFs and volume of investments (e.g. number of M&A, amount of investments), little attention is paid to ownership strategies of emerging market firms, such as modes of entry and ownership stake in foreign subsidiary (Yang & Hyland, 2012). This paper focuses on such under-studied strategic decision as level of ownership participation in cross-border corporate deals of Russian companies.

Ownership participation of a company in international corporate deal is a critical strategic decision which determines firm' success and survival. A poor choice of ownership strategy often results in mismatch in resource commitment between target and acquiring firms and incompetent integration (Lahiri et al, 2012). Prior literature on corporate deals of emerging firms has largely been focused exclusively on M&A (Yang, 2015; Panibratov et al, 2015) or choice between partial or full acquisition (Brouthers & Hennart, 2007). Studies on institutional determinants and ownership strategies of internationalizing companies have demonstrated significant relationship (Contractor, et al., 2014; Tihanyi et al., 2005).

Research problem, objectives and delimitation

This paper is aimed to fill the gap in theoretical and applied knowledge on impact of differences in home-host country institutional environment on ownership strategies of Russian firms as well as to identify whether institutional factors that influence ownership strategies of Russian firms in developed and emerging countries differ. After an extensive literature review across leading academic journals, we can conclude that this paper is the first quantitive research that is focused on the influence of institutional distance on ownership strategies of EMFs within Russian context. The study expands research on emerging economies testing and adapting variables that influence ownership strategies of EMFs.

The research questions are stated as follows:

- What factors influence ownership-related decisions of Russian firms in the process of internationalization?
- To which extent do the factors that influence ownership strategies of Russian firms in developed and emerging countries differ?

This research has a goal to investigate how institutional distance influences ownership strategies of Russian companies in the process of their internationalization. The main tasks of this paper are the following:

- Analyze types and direction of influence of institutional distance on ownership strategies;
- Identify set of variables for measuring regulatory, normative and cognitive distance between home and host market;
- Find out differences in factors that influence ownership-related decisions of Russian companies in developed and emerging economies.

The subject of the study is the relation between institutional distance and ownership strategies of Russian companies in the process of internationalization. The object of the study are international corporate deals of Russian companies.

Research methodology and organization of the study

The research method of the paper is empirical study. The data on internalization patterns of Russian company, in particular market entry methods, will be collected from such databases as ZEPHYR Bureau van Dijk, Thomson Reuters, Marketline. Then the variables measuring LOF drivers will be proposed. Statistical methods will be used (regression analysis, cluster analysis, factor analysis) in order to test the main hypothesis of the study.

The study is organized in the following way. Firstly, the literature review on institutional distance concept is presented with a particular focus on the influence of institutional distance on ownership strategies. Then the research method is explained. After that the hypothesis are stated and tested, the main conclusions are made. Finally, the main findings, scientific contribution of the study, theoretical and managerial applications as well as the limitations are discussed.

1 LITERATURE REVIEW

1.1 Internationalization theories

1.1.1 Internalization theory

Internalization theory is a firm level theory. It determines the motive behind the firm's decision to establish its own production facilities instead of cooperation with local firms in destination country. According to Hymer (1970), MNCs have to adapt to local environment in each country and coordinate their activities across various subsidiaries around the world, stimulating flows of information between them. A firm can maximize profits if it integrates business activities in different «imperfect» markets. The optimum size of the form is where the costs and benefits of further internalization equals the margin. This choice is defined by owners, managers of enterprises and based on internal information flows between «internal markets» of the enterprises. Two types of internalization re distinguished by Buckley and Casson (2009): operational and knowledge internalization. The authors state that acquires are inclined to internalize intangible assets of the target in case of overseas acquisitions.

1.1.2 Transaction Cost Theory

Transaction Cost Theory is based on two main assumptions: bounded rationality of economic agents and likelihood of opportunistic behavior of economic agents (Williamson, 1981). Due to uncertainty and complexity of world economics and information asymmetries (Dosi, 1988), individuals tend to pursue non-rational goals instead of undertaking rational actions, such as maximizing profits. The object of analysis in TCT is transaction which is defined as an event which occurs when a good or service is transferred across technologically separable interface within the frame of contractual relationship, implying concessions among agents involved. The relationships may be inter- or intra-firm (Williamson, 1985). The transaction is characterized by three intrinsic attributes: frequency, uncertainty and asset specificity (Williamson, 1981). Limited rationality of economic agents leads to the situation when they are not able to make agreements which can predict and adjust measures for all transactions that may take place in the future. The theory puts emphasis on efficiency of transactions between different production facilities and their transaction costs as the basis for choice between internalization and use of markets (Coase, 1937).

1.1.3 Eclectic paradigm, or OLI framework

Eclectic Paradigm developed by John Dunning (1977, 1981, 1988, 1998) is aimed to explain why MNCs exist and why they may be comparatively more successful than domestic firms (Hymer, 1976; Dunning, 1988). It is an approach which explains the motivations, location and way of development of cross-border production of MNCs through FDI. The eclectic

paradigm suggests that a firm should possess three types of advantages while internationalizing its activities: ownership (O), location (L) and internalization (I) advantages. The combination of all three types of advantages is preferable if MNC decides to enter foreign country through FDI rather than other modes of entry (Dunning, 1981). For instance, Dunning claims that prerequisite for establishing international production is the existence of ownership-specific advantage that can bring benefit to the company in case if it is transferred across national boundaries rather than sold. Herewith, ownership advantage means ownership of tangible (equipment, machinery) or intangible assets (knowledge, property rights, trademarks, licenses). Location advantage implies place or country chosen based on business opportunity to extract benefits from country's resources. Internalization advantage is based on perceived advantage of integration of firm's internal or cross-border market activities (Rugman, 2011). A tendency of the firm to internalize overseas makers of these and attractiveness of location for overseas production, as a rule, increases overseas production. Hence, this tendency will vary based on motives behind production activities: market-seeking, resource-seeking or efficiency seeking motive.

Motives that companies pursue entering foreign market also affect the internationalization strategies of companies. Following the classification conceptualized by Dunning's eclectic paradigm (Dunning & Lundan, 2008), companies from EMs have resource- and capability-seeking motives whereas DMFs pursue market- and efficiency-seeking motives. EMFs demonstrate gradual market commitment starting operations from exports and then moving to mergers with and acquisitions of small firms in DMs. This helps them to mitigate LOF by obtaining strategic resources.

1.1.4 Uppsala theory of internalization

The intellectual approach to internationalization of the firm constructed by Johanson and Wiederscheim-Paul accounts for attitudes and actual behavior of the firm. The authors state that firms start internationalization from local markets incrementally increasing resource commitment: no regular export, export through representatives, establishing wholly-owned sales subsidiaries and production facilities. Such approach is explained by the fact that firm gains information about foreign markets. It also implies that stage of internationalization influences perceived opportunities and risks, which subsequently affect firm's decisions on resource commitment and current activities (Johanson &Vahlne, 1990). The theory was further expanded accommodated dynamics, processes of learning, organizational trust and level of commitment. However, the theory doesn't explain inorganic growth strategies of foreign business operations.

1.1.5 Resource-based-view (RBV) theory

According to Penrose (1959) who is considered to be a pioneer of the RBV theory, there is direct relationship between different types of firm's resources and ideas, knowledge and

experience of its managers and owners. Thus, resources become the basis for achieving competitive advantages (Grant, 1991). The firm needs to utilize its tangible and intangible resources, including firm-specific managerial resources to facilitate sustainable growth (Wernerfelt, 1984). Specifically, resources need to be valuable, rare, difficult to imitate and irreplaceable. The differences in performance of firms are explained by the heterogeneity of firms' resources (Barney, 1991). It is hypothesized that firms that possess significant advantage if other firms do not have such reproducible resources. In Rugman's and Verbeke's view, the ultimate goal of firm's decisions in resource-based approach is to gain abnormal returns as compared to rivals. The internationalization of the firm is a common way to obtain exclusive resources through strategic alliances or acquisitions (Karim & Mitchell, 2000). Moreover, they allow to create value as they increase economies of scale and/or scope, increase bargaining power over customers and suppliers (Barney, 1986). In other words, firms may grow much faster if they select inorganic strategies rather than organic.

1.1.6 Liability of foreignness

Liability of foreignness (LOF) is one of the well-established concepts of international business. It presumes that companies incur additional economic and social costs when they internationalize. It has been initially introduced by Hymer (1976). He distinguishes four types of disadvantages the company has when entering foreign market as compared to local firms:

- Lack of information: the company face costs of acquiring the information which domestic firms already have;
- Foreign exchange currency fluctuation risk;
- Host governments can undertake discriminatory measures to foreign firms so that the latter pay additional costs for establishing operations;
- Home governments can also restrict companies' foreign expansion.

The firm-specific sources of LOF are named by Hymer (1976) as CDBA that stands for «cost of doing business abroad». These costs do not depend on the output, so they are considered to be fixed and they are supposed to diminish the longer the company operates in the foreign market. Moreover, they are much higher than the costs that domestic firms incur in their local market.

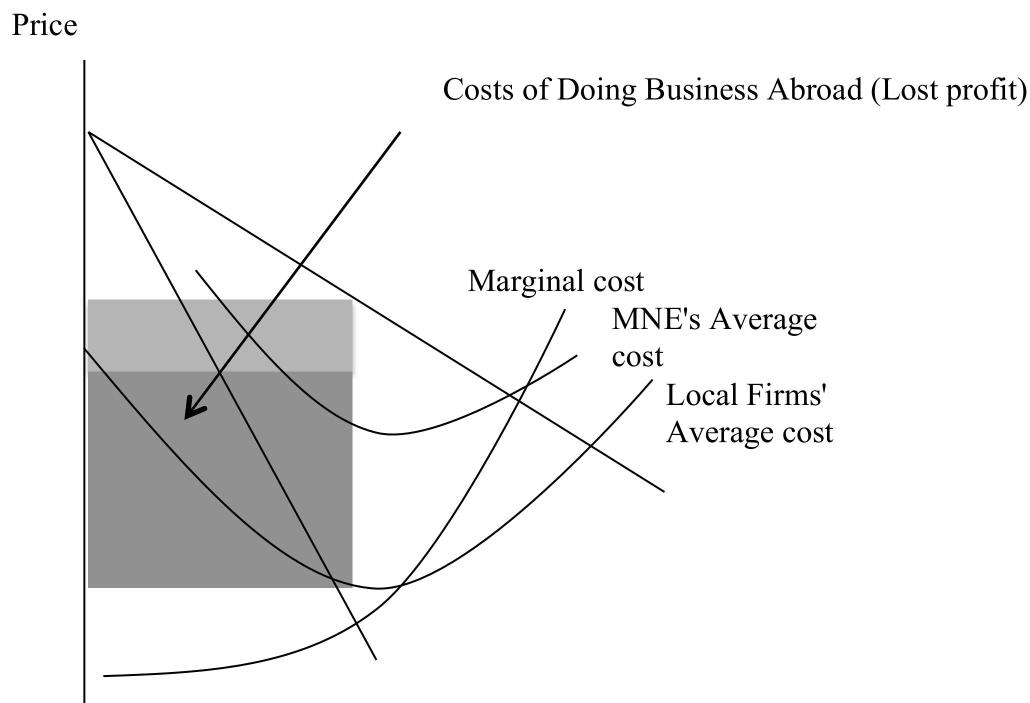

Figure 1 Costs of doing business abroad

Source: Hymer (1976)

In the figure above two rectangles (dark grey and grey) show the profit that the local firms earn, while blue one demonstrates the profit earned by MNEs in the host market, which is much lower due to the fact that MNE faces CDBA. The latter are illustrated by cost curve of MNE lying above the cost curve of the local firm (Wöcke & Moodley). In order to offset CBDA MNE need to have a firm-specific advantage, which either can facilitate sales growth or reduce costs.

Some cultural and economic challenges can be eliminated over time, while other such as government discrimination remain longer and put the foreign firm in unfavorable position in comparison with local firms (Eden & Miller, 2004).

Several scholars (Buckley & Casson, 1976; Hennart, 1982) suggest their lists of additional costs, which can be associated with doing business abroad:

- costs of resources, communications, management, host government discrimination;
- costs of travel, communication, foreign exchange, lack of information about host country culture, institutions.

Eden and Miller (2004) argue that LOF does not equal CDBA, but rather LOF is a key component of CBDA. The former refers to social costs the company incurs while operating abroad, in particular, costs of dealing with unfamiliarity, discriminatory and relational challenges. These challenges arise from institutional distance. CBDA concept embraces not only

social costs, but also economic costs such as cost of production, marketing and distribution, transportation, communications, foreign exchange, trade barriers. These activity-based costs can be easily measured, while social costs cannot be well anticipated and quantified, that is why LOF remains the key challenge in doing business abroad.

The concept of LOF is closely related to the institutional distance (see figure below). Institutional distance results in LOF represented by unfamiliarity, relational and discrimination hazards that challenge the foreign firms' legitimacy and increase costs of doing business. In order to mitigate the influence of these hazards, firms need to select appropriate ownership strategy in foreign market.

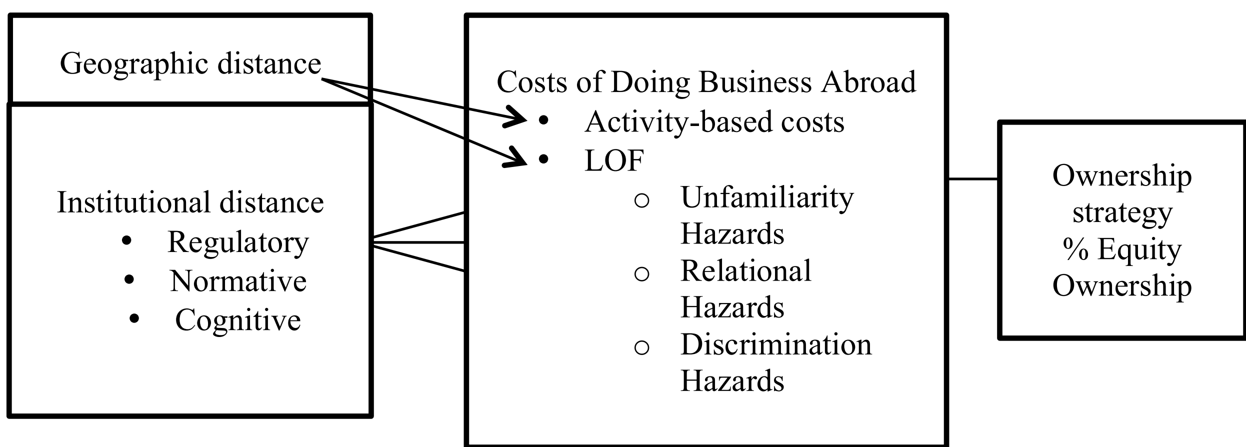

Figure 2 Institutional Distance, Costs of Doing Business Abroad and Ownership Strategy

Source: Eden and Miller (2004)

According to Eden and Miller (2004), there are 3 hazards of LOF:

- Unfamiliarity hazards. As the company lacks knowledge of the foreign market, it needs to incur additional costs of acquiring information about its environment. LOF depends not on the age of the firm, but rather on how long the firm operates in the host environment.
- Discrimination hazards. LOF needed to be viewed from two standpoints: unfamiliarity of the firm with host country environment and unfamiliarity of the host country with the foreign firm, which enters the market. The latter results in versatile discriminatory treatment of the government (political prerequisites (Henisz &Williamson, 1999) or consumers (consumer ethnocentrism (Sundaram & Black, 1992)). So the company faces additional costs of gaining external legitimacy.
- Relational hazards. There are two types of them. The first is intra-organizational costs. They are related to difficulties of managing people abroad: conflicting lines of authorities (Sundaram & Black, 1992), opportunistic behavior (Hennart, 2001), and different cultural backgrounds (Calhoun, 2002). Another kind of relational costs are inter-organizational costs, which refer to cost of doing business with other parties. They include costs of negotiations,

monitoring, dispute settlement and trust building.

1.1.7 Institutional theory

The action system of the society is defined by institutional matrix that consists of formal structure of delegation and control and a social structure (Selznick, 1948). Moreover, institutional rules influence organizational structures and their implementation and, subsequently, inter- and intra-firm relationships.

Institutions are defined by Scott (1995) as «regulative, normative, and cognitive structures that provide stability and meaning to social behavior». Consequently, institutional theory refers to the influence of laws, regulations, the judicial system and socio-cultural values on decisions and behavior of the firm (North, 1990). There are two types of institutions that impact and control individual and society actions: formal (e.g., economic rules, political rules, including corruption, law enforcement, property rights protection, contracts adherence) and informal (e.g., ethical norms, customs, traditions, code of conduct). According to North, institutional regulations and provisions are particularly vital for overseas investment decisions and firm performance. Trevino et al. (2008) stated that institutionalization process could legitimize host market for a foreign investor, working through all three pillars: cognitive, regulative and normative. Moreover, Alfaro et al. (2008) stated that high level of institutional laws development could facilitate attraction of foreign investments and, in turn, utilization of these investments for achieving higher economic growth.

Institutional theory, from sociological perspective, implies that institutional context, referring to the combination of rules, informal constraints and the way of their enforcement, predefines action patterns of the firms that may not reflect true economic efficiencies. It means that apart from securing survival and success firms need to gain legitimacy (Scott, 1995). Scott and Meyer (1994) suggest that an institutional model is comprised of several key elements. In particular, the origins of environmental rationalization influence the pattern of organizing. These origins result in particular dimensions of a rationalized environment, so that rules and ideologies describing organizational practices create grounds for continuous changes in and across organizations. These rules and ideologies lead to creation of specific mechanisms shaping organizations and their action patterns. Finally, each organization with its identity and action patterns is a result of institutional forces influencing it.

DiMaggio and Powell (1983) introduce three types of institutional pressures: coercive, normative and mimetic. By responding to coercion, organizations illustrate procedural and structural isomorphism. Organizations functioning in the same institutional environment demonstrate structural similarities. This isomorphism influences organizations so that they aim to gain external legitimacy, rather than focus on internal efficiency. External assessment criteria

are employed in order to identify the value of structural elements. Reliance on external institutions reduces volatility and secures stability. Based on this typology of Meyer et al. (1991) states that regulatory pillar of institutional context reflect coercive pressures, normative corresponds to normative pressures and cognitive elaborates the concept of mimetic pressures.

Institutional theory represents useful tool for explaining the choice of organization ownership strategy, as organizations have to gain and maintain legitimacy, thus selecting governance modes that can attenuate institutional pressures. First, the three pillars of institutional environment provide bases for obtaining legitimacy as organizations are rewarded if they deploy structures, policies and practices that are considered appropriate within some socially constructed system of norms, values and beliefs (Suchman, 1995). Second, institutional theory is contingent on cross-country differences in institutional factors. Although regulatory pillar has been integrated in transaction cost theory, it does not account for normative and cognitive institutional aspects. So, some governance mode decisions may be sensitive to various idiosyncratic institutional pressures, e.g., existing value systems, legal rules and cognitive practices.

1.1.8 Institutional distance

Initially, institutional distance was introduced by Johanson and Vahle (1977), Hofstede (1980), Kogut and Singh (1988) who sought to examine how the differences in economic development, languages, educational level and culture influence internationalization strategies of firms. Kostova (1996) tried to understand how home and host country institutional environments influence the transfer of practices from headquarters to subsidiaries, taking into account internal and external environment factors. After Kostova's publication, number of research devoted to internationalization of emerging market firms have emerged (Dikova & Wittloostujn, 2007; Peng et al, 2009).

The study includes the discussion of cultural distance which indicates differences between home and host country (Hall, 1976, Kogut & Singh, 1988). The distance implies uncertainty that constraints flow of knowledge and information and increases costs of doing business abroad.

Johanson and Vahlne (1977) have developed a concept of “psychic distance” in order to capture differences across countries and analyze adaptation of business to foreign institutions. The concept refers to combination of factors that impede information flow from home and host market and accommodates “differences in language, education, business practices, culture and industrial development” (Johanson & Vahlne, 1977). Based on four Hofstede’s cultural dimensions, Kogut and Singh (1988) suggested assessment of cultural distance. These dimensions include uncertainty avoidance, masculinity/feminity, power distance,

individualism/collectivism. These pillars were measure across IBM managers in 40 countries in the 1970s. Later the database was expanded to larger number of countries. However, the methodology was criticized due to the fact that the study was based on IBM corporate culture only. Another limitation is that the variables are static and do not change over time while cultural peculiarities of country population are constantly evolving. Due to these limitations, empirical results based on the methodology is ambiguous and contradictory (Slangen & Hennart, 2007).

Different scholars sought to approach the concept of institutional distance from various perspectives. Hennart and Larimo (1998) tried to account for cultural differences based on transaction cost theory. According to Ghemawat (2001), there are the following pillars of distance:

- Geographic distance (physical distance between countries and the size of host market;
- Economic distance (differences in market size, amount of natural, human, financial resources; purchasing power, access to knowledge);
- Cultural distance (differences in languages, religion, norms, values);
- Institutional distance (differences in economic and political systems as well as colonial heritage).

Generally, this literature refers to the influence of institutional distance on two aspects:

- Gaining legitimacy in host market;
- Possibility to transfer organizational practices (Xu & Shenkar, 2002).

These scholars suggested extending the scope of the concept by trying to understand process of location and entry mode selection. New insights on the issues emphasized that cultural distance is only one of the pillars of institutional distance (Berry, et al., 2010), trying to integrate diversity of differences across countries. The table below illustrates of types of differences proposed by Berry et al. (2010).

Table 1 Institutional distance dimensions

Dimension of distance	Definition
Economic	Differences in economic development and macroeconomic characteristics
Financial	Differences in financial sector development
Political	Differences in political stability, democracy and trade asociations membership
Administrative	Differences in colonial ties language, religion, legal system
Cultural	Differences in attitudes towards authority, trust, individuality,

	balance between work and family
Demographic	Differences in demographic characteristics
Knowledge	Differences in patents and scientific development
Connectedness	Differences in tourism and internet usage
Geographic	Distance between capitals of counties

Source: Berry et al (2010).

However, Kostova and Zaheer (1999) truly contributed to research on influence of institutional distance on performance of firms in foreign markets by suggesting such dimensions of institutional distance as regulatory, cognitive and normative. Our research is based on their classification.

Regulatory dimension presumes formal laws and regulations sanctioned by the government (Xu & Shenkar, 2002). They can be easily identified and interpreted by foreign firms. Normative dimension relates to the ideas and norms, which are considered legitimate in the society (Kostova, 1997). They are deeply rooted in culture and tacit, so they are opaque to foreign firms. Cognitive institutions refer to values, beliefs and mentality of people, their traditions, symbols, and stereotypes.

There are two types of challenges that MNCs encounter abroad due to institutional distance. Firstly, embeddedness in different institutional contexts inhibits interaction between a company and its foreign subsidiary, thus impeding internal coordination and integration between them and, secondly, institutional pressures from home environment that impede adoption of host-country practices.

1.1.9 Institutional distance and ownership strategies

Variations in international business strategies and operations are traditionally explained by the concept of «distance». If the distance between home and host country is large, MNCs need to manage normative, regulatory and cognitive differences and choose appropriate ownership strategies, adjust organizational forms and practices to account for the differences (Johansen & Vahlne, 1977; Kogut & Singh, 1988; Kostova & Roth, 2002).

Multinational corporations (MNCs) decide on what ownership strategy to pursue in foreign subsidiary by examining such crucial considerations, as level of ownership control and resource commitment (Taylor & Zou, 1998; Delios & Beamish, 1999). Transaction cost theory suggests that uncertainty of host market environment impedes negotiating with and interpreting actions of foreign partners. Increased ownership control reduces transaction costs, thus, improving governance efficiency (Brouthers & Hennart, 2007; Yang, 2015). However, scholars suggest that in case when firms do not evaluate transaction costs they opt for lower ownership strategy in order to diversify investment risks in unfamiliar market (Zhao et al, 2004).

Consequently, institutional theory strives to improve entry strategy research serving as alternative framework for analysis of national differences (Martin, 2014). Institutional theory proponents claim that institutions provide rules of the game that companies should adhere to obtain legitimacy crucial for their survival (DiMaggio & Powell, 1983). Dissimilarities between home and host country environment leads to a situation when foreign firm faces threat of obtaining external legitimacy, selection of proper entry mode becomes crucial for mitigating the threat (Estrin et al, 2007).

Entry modes choice implies diverse strategies ranging from modes with the lowest commitment such as exporting, licensing or franchising to the modes with the highest commitment such as foreign direct investment. FDI can be conducted in two ways. First way is to establish a production facility (Greenfield investment) or acquire already existing business (acquisition). Second decision refers to the issue whether the company establishes business alone or in cooperation with local partner. (Peng et al., 2008). Each mode of entry is characterized by particular level of commitment, control and property pursued by the firm. The availability and need for resources is another crucial issue which should be considered in order to reach strategic goals of the company (Meyer & Estrin, 2001).

In academic literature on international management choice of entry mode is one of the major area of study (Werner, 2002). According to Cho and Padmanabhan (1995), studies are most commonly devoted to the two directions. The first type of research is aimed to examine factors which influence the choice between greenfield investments and acquissition (Hennart & Park, 1993; Brouther & Brouthers, 2000; Harzing, 2002; Larimo, 2003; Dikova & Witteloostuijin, 2007), the second seeks to analyze the decision whether to share control over operation by establishing joint venture or independent subsidiary.

Li et al. (2012) strive to explain entry mode decisions of emerging-market firms into developed markets based on interorganizational imitation theory. They state that these firms pay particular differential attention to prior actions of reference groups – by type of country of origin and by entry mode.

Despite theoretical development is this area, Slangen and Hennart (2007) claim that there is the need to construct theories which would explain factors determining choice on entry mode. Analytical frameworks proposed by scholars are dedicated primarily to firm-specific factors or industry-specific or both. However, there is a number of studies which analyze the influence of institutional environment on entry mode selection. Specifically, Estrin et al. (2009) have analyzed institutional distance based on North's classification. It is divided into two fundamental pillars:

- Formal institutions which comprise set of rules with which economic actors have

to interact;

- Informal institutions that refer to norms, values and beliefs shared by society.

It is stated that institutional distance impact ownership strategy through 3 mechanisms. The first one is external isomorphic pressure, which results in adoption of lower level ownership strategies to gain legitimacy in a host market (Agarwal & Ramaswamy, 1991). Second, institutional distance accentuates liability of foreignness that refers to additional costs caused by discrimination and unfamiliarity hazards faced by foreign firms. One of the ways to mitigate liability of foreignness may be lower level of control over foreign operations (Eden & Miller, 2004). Third, MNE tend to deploy lower ownership strategies as institutional distance impedes knowledge and managerial practices transferability to foreign subsidiaries of a firm (Xu & Shenkar, 2002).

To summarize, DiMaggio and Powell (1983) introduced three types of institutuional pressure: coercive, mimetic and normative. Agarwal and Ramaswamy (1991) stated that these pressures result in two challenges faced by the firm: attenuate legitimacy threat and to obtain governance efficiency. Further, Kostova and Zaheer (1999) suggested classification of three types of institutional distance that create institutional pressure: regulatory, cognitive and normative, respectively. So, in order to overcome challenges caused by institutional pressures, firms have to choose and pursue proper ownership strategies. Thus, based on institution-based view, we present the conception framework of this paper below.

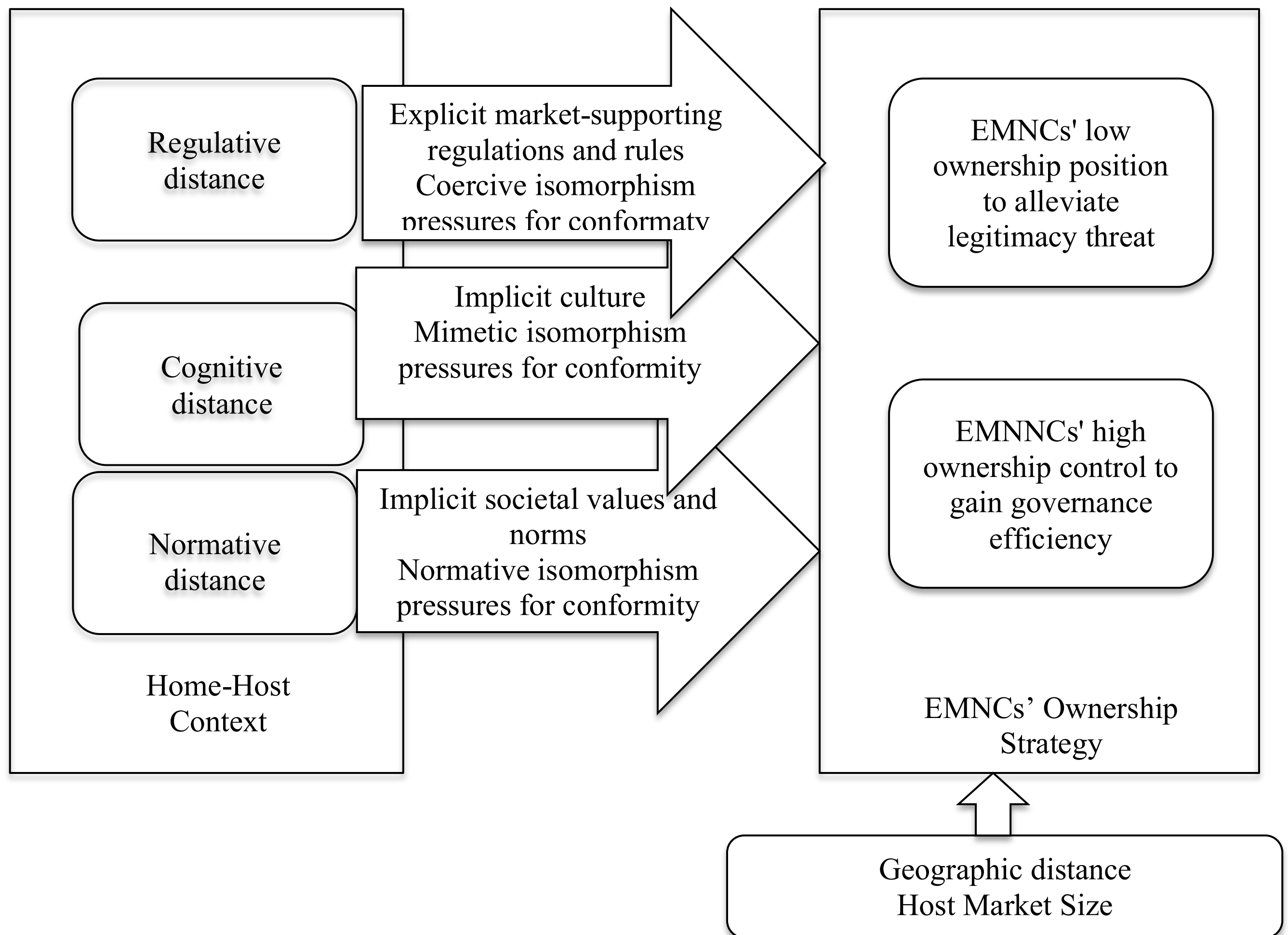

Figure 3 Conceptual framework of Institutions and EMNCs' Ownership Strategy

Source: Adopted from Liou et al. (2015); Agarwal & Ramaswamy (1991); Kostova & Zaheer (1999); DiMaggio & Powell (1983)

To sum up, it should be highlighted that many scholars in international business sought to explain internalization process of companies from different perspectives: transaction cost theory, resource-based view, eclectic paradigm, institutional theory etc. In this paper we draw upon the concept of institutional distance suggested by Kostova and Zaheer (1999). Institutional distance is a crucial issue in international business literature and has direct impact on internationalization process of companies. The success of overseas operations depends on decision on choice of entry mode of the company which reflects operating efficiency of foreign subsidiary and competitiveness of MNC (Cuervo-Cazuro & Narula, 2015).

1.1.10 Institutional distance in Emerging and Developed markets

Contemporary international trade is characterized by the following trends: growing internationalization of EMFS, regionalization of MNEs and rise of number of multilateral regional trade agreements (RTAs).

Emerging economies are defined as «low-income, rapid growth countries using economic liberalization as their primary engine for growth» (Hoskisson et al., 2000). They are characterized by undeveloped infrastructure and capital markets (Khanna & Palepu, 1997). Nevertheless, they are very import part of global economy as they account for more than half of world's population (Global Edge, 2006) and comprise 30% of world GDP and 45% of world's exports. Prior literature on IB has been focused on research on developed country MNEs (e.g. Johanson & Vahlne, 1977, Rugman & Verbeke, 2004). Thus, EMFs global orientation is understudied.

Due to international trade restrictions in emerging economies such as policies favoring import substitution over exports, preference for non-market approaches to economic growth, tariff barriers, they have latecomer status to internationalization and have to overcome obstacles that DMFs have overcome long ago (Luo & Tung, 2007; Ramamurti, 2009). However, governments in EM have been adopting greater openness and promotion of internationalization, partially due to greater competition from developed market firms which enter their home markets.

Another major dissimilarity of EMFs from their developed markets counterparts is that they possess fewer firm-specific advantages that can provide competitive edge in internationalization, so they need to catch up and find new sources of advantage such as cost leadership (Aulakh et al. 2000). In order to catch up, they frequently leapfrog some stages of internationalization, trying to compensate asset gaps and latecomer status disadvantages (Luo & Tung, 2007). That is why there are eager to obtain cutting-edge technologies and best practices or draw on home-specific advantages such as low labor costs or preferential access to rich base of natural resources.

Thirdly, there are institutional constraints that EMFs encounter in their home markets such as property rights protection and law enforcement, poor developed infrastructure, corruption, limited market size, political instability. These limitations raise the costs and risks of doing business, while creating greater volatility.

Some scholars addressed the ownership strategies of EMFs either in developed or emerging countries. For example, Li et al. (2012) strive to explain entry mode decisions of emerging-market firms into developed markets based on interorganizational imitation theory. They state that these firms pay particular differential attention to prior actions of reference groups – by type of country of origin and by entry mode.

Delios and Henisz (2003) claimed that institutional distance is particularly critical for Western MNCs that enter emerging economies where regulatory environment impede international business. Legal regulations for market transactions are considered to be less

extensive, there may be inefficient law enforcement, especially with regard to property rights protection. In order to accommodate variations in institutional development forms needs to develop managerial practices and routines for collecting and interpreting information. Firms need to account for institutional differences in order to gain legitimacy in host market and transfer organizational practices and knowledge (Xu & Shenkar, 2003). The greater the difference between home and host countries, the more difficult the adaptation. That is why emerging countries firms can overcome challenges of adaptation more easily when they enter similar institutional environment. Thus, we draw upon this line of argumentation and state that we need to examine institutional factors affecting ownership strategies of EMFs separately in emerging countries and developed countries.

		Host country	
		Emerging markets	Developed markets
Home country	Emerging markets	Low	High
	Developed markets	Medium	Low

Figure 4 Internationalization Paths and Liability of Foreignness

Source: Gaur and Kumar (2011)

As a rule, institutions are underdeveloped in emerging markets. So, companies there have to develop its political, organizational capabilities in order to compensate for disadvantages arising from lack of efficient institutions needed for market-based economic transactions. These capabilities can help companies to internationalize to other emerging markets with similar level of institutions development. Firms from developed markets may face lower LOF than firms from emerging markets. Additionally, as the difference in institution development between home and host country increases, LOF becomes higher. However, firms from developed countries have an advantage over emerging markets firms in this case, although the institutional distance is the same. This can be attributed to the fact that firms from DM build very strong brands and their products are often associated with inferior quality (Gaur & Kumar, 2011). Given the argumentation above and the fact that different levels of LOF result in pursue of different strategies, we state that ownership strategies of EMFs varies across develop and emerging economies.

1.2 Hypothesis Development

Institutional distance is defined as the extent of similarity or difference between home and host countries' institutions (Kostova, 1997). It results in barriers for an MNC to extract

benefits from internationalization to full extent (Dikova et al. 2010).

Institutional theory suggests that ownership strategy of the company is influenced by difference of uncertainty between home and host country environment. Specifically, larger dissimilarity between institutional factors lead to lower ownership strategy in order the company could remain flexible if it faces investment risks (Brouthers & Hennart, 2007). Moreover, the company thus strives to mitigate risks of opportunistic behavior of partners, lack of knowledge about foreign market. Xu et al. (2004) have proved that larger institutional distance leads to lower ownership participation. Similarly, Dikova et al. (2010) have provided empirical evidence that there is less likelihood of cross-border M&A deal completion if the acquiring firm encounters larger formal and informal institutional distance.

The majority of cross-border M&As studies focus on informal institutional distance to accommodate dissimilarity in regulatory environment, while national cultural differences are subject to informal institutional research (Dikova et al., 2010).

Firms, which enter host market, need to gain legitimacy by responding to institutional pressure (Raaijmakers et al., 2015), it can be accomplished through the number of means. In order to respond to regulative pressures, such as regulations and laws which are explicitly codified and enforced by government agencies, and operate legally, a firm needs to adjust its practices to adhere to host country rules (Scott, 1995). Following informal institutional requirements presents a greater challenge for foreign firms as they need to centralize coercive mechanism to gain legitimacy (Kostova & Zaheer, 1999).

Gaur and V. Kumar (2011) in one of the recently published articles strive to examine how firms entering foreign markets interact with home and host country environment based on concept of liability of foreignness. They state that LOF is derived from two sources. One source is home and host country environment-specific factors such as home and the host country governments, institutions, the nature and structure of industry and culture (Nachum, 2003).

Larger institutional distance results in higher LOF, increasing additional cost of doing business in the host market (Bajk et al., 2013). Lack of knowledge about host market, relationships with the local firms, discrimination hazards lead to legitimacy threat for a foreign firm (Eden & Miller, 2004). In order to mitigate effect of LOF firms can cooperate with local partners with the existing external legitimacy and can provide necessary knowledge and access to the existing business network of suppliers and consumers (Xu et al, 2004).

The choice of proper entry mode is a prerequisite for successful operations of the company in the host market. The entry method should allow to take the most of firm-specific advantages and to accommodate risks, which result from market uncertainty. Some scholars consider that companies need to choose and intermediary ownership strategy in foreign market

in order to overcome the LOF effect, to gain access to local resources and business networks, while other stand for the opinion that wholly owned subsidiaries decrease transaction costs (Dunning, 1988) and help firms to utilize their unique firm resources capabilities to the maximum extent possible (Hymer, 1976).

However, from a dynamic perspective contemporary firms should go beyond the trade-off of exploitation and exploration to sustain its competitive advantage (Hamel & Prahalad, 1990). They should deploy its own resources while extracting benefits from external environment.

Buckley and Casson (1998) developed a very comprehensive work linking economic costs to entry mode decision. They tried to predict which mode entry the company would choose taking into account cost of production abroad, transaction costs, production technology adaptation and information costs. However, they ignored socio-institutional costs.

Davis et al. (2000) argue that the decision on mode of entry is largely rely on tradeoff between local responsiveness and global integration. They found out that exporting helps to achieve the highest host-country isomorphism, while wholly owned subsidiaries mostly conform to parent -company practices.

El Said and McDonald (2002) in their studies empathize importance of reliance on either formal or informal institutions when choosing the market entry strategy. In developed countries formal institutions are well established while in emerging countries they are, on the contrary, weak and the role of networks, trust is crucial there. That explains the reason, why foreign firms prefer to have local partners there.

Xu and Shenkar (2002) propose that the higher the institutional distance between countries, the more likely that the foreign country would prefer low ownership strategy due to twin challenges of achieving external legitimacy and parent company isomorphism.

Eden and Miller (2004) go further and examine influence of CDBA (not only economic, but also social costs) caused by institutional and geographic distances on ownership strategy that the company pursues. Ownership strategy refers to the percentage of equity the company hold in its foreign operations. 0% represents exporting while 100% - wholly owned subsidiary. They suggest that MNEs should select the entry method which would minimize CDBA, both economic costs and costs resulting from LOF. As the activity-based costs can be easily identified and quantified, costs of dealing with LOF become decisive and determine the firm's ownership strategy. They argue that as the institutional distance is increasing, the more likely that MNE would choose the lower level of market commitment.

If the regulatory institutions are weak (lack of intellectual property rights protection), then the inter-relational hazards are higher as foreign partners cannot be protected from

counterfeiting, opportunistic behavior of partners or intellectual piracy, so they will avoid intermediary strategies.

Liou et al. (2016) state that higher informal distance (cognitive and normative) leads to low-ownership strategies, thus, alleviating legitimacy threat, while large formal institutional distance requires gaining of dominant ownership control. They also argue that home-market conditions such as market size and efficiency of regulatory bodies exert additional moderating effect.

1.2.1 Regulative distance

Regulatory pillar refers to rules and regulations that are taken for granted or supported by law enforcement or public opinion (Nystrom, 1976) which are aimed at encouraging certain behaviors and discouraging other. Regulatory pillar corresponds to coercive mechanisms that are typically enforced by a powerful actor in order to secure compliance and are associated with resource interdependence, state-sponsored legitimacy, governmental mandate and subtle political processes. Firms undertake actions that establish and enhance their legitimacy, making them adhere to prevailing regulations, rules and requirements (Oliver, 1991).

Economic Freedom

Economic freedom is frequently used as a measure of regulative environment in literature devoted the influence of institutional distance on market entry modes. It refers to lack of government constraints on production, distribution and consumption of goods and services. The Heritage Foundation has been capturing level of development of regulatory environment in 186 countries by tracking time-variance index of economic freedom since 1995 (Johnson and Sheeny, 1996).

Dissimilarity in level of economic freedom can be a source of uncertainty and result in additional costs for MNEs (Demirbag et al., 2011). These costs are caused by unfamiliarity hazards faced by MNE. Distance in level of economic freedom represents differences in strength of market economy institutions. Previous research indicates that if economic distance is high and a firm decides to conduct an acquisition, it may face government intervention in firm's activities and strategies due to differences in antitrust regulations (Estrin et al., 2009) as well as managerial problems. However, recent evidence on M&As deal provided by Contractor et al. Contractor et al. (2014) suggest that when EMFs face lower institutional distance they opt for minority acquisition over majority or full acquisition. The latter scholar focused on Chinese and Indian firms. In line with their findings we suggest to test the following hypothesis for Russian firms:

Hypothesis 1. The larger the distance in Economic Freedom between Russia and a host market, the more likely a Russian firm will opt for higher ownership stake.

There are two types of regulatory environment: less restrictive and more restrictive. In the first case, governments initiate policies that are based on trust and goodwill. In such environment civil and political rights as well as media interdependence are well protected, corruption is minimized and laws and regulations are respected. On the contrary, in more restrictive environments, laws are poorly enforced, legal protection is weak, policies and practices are ambiguous and immature, and governments are less effective.

It is difficult to gain legitimacy in more restrictive institutional environments as it is complicated to overcome regulatory restrictions in such country-specific regulatory environments. In such environments, firms deploy lower ownership strategy, for example, by making partnerships with local partners. This allows to access knowledge about host country rules and regulations, thus mitigating liability of foreignness (Zaheer, 1995).

However, firms originating from emerging are familiar with how to deal with regulatory unprotectability and inefficiencies in such markets. The capability of firms to cope with and capitalize on institutional voids represents a unique asset of EMFs that can utilize it in order to compete with multinationals in their home countries and in other emerging market (Khanna & Palepu, 2006). Operating in low information transparency environment, EMFs are more likely to adopt command structures in order to deal with high uncertainty.

On the contrary, EMFs are not familiar with less restrictive environments. Although firms from developed markets which invest in emerging markets has provided some internationalization knowledge to EMFs, the latter have not gained any useful insights of how to deal with regulatory conditions in developed markets. So, inward investments do not curtail liability of foreignness of EMFs, particularly in developed markets (Luo & Tung, 2007). Seeking to learn fast how to cope with regulatory environment in advanced economies, EMFs would prefer to establish any kind of partnerships with local actors.

However, this lack of experience may not obligatory lead to adoption of lower ownership stake of EMFs in the process of internationalization in developed markets. Emerging economies demonstrate totally different approaches to work culture and labor management as compared to developed countries. Managers of EMFs face bureaucratic approach in their home market, pervasive corruption, so they may be unable to adapt to highly competitive environment of developed markets. At the same time, reluctance of EMFs to adopt new organizational structures and practices in acquired firm in developed market can be even higher as their managerial approaches are inefficient, so adaptation complications discourage them from acquiring minority shares.

Emerging countries have less strict requirements for listing and registration in a stork market of the companies, weaker protection of investor rights, less stringent accounting

standards (Marosi & Massound, 2008). So, entering of firms originating from emerging markets the markets with stronger regulative institutions can be beneficial for them and perceived as an opportunity to advance accounting standards and attract foreign investors. So, EMFs can be motivated to acquire majority stake.

Hypothesis 1 a. The positive relationship between distance in Economic Freedom between Russia and a host market and the likelihood of adoption of higher ownership strategy is stronger in developed host markets than in emerging.

Economic historians refer to economic freedom as a determinant of economic development, growth in different countries (North, 1990). It is argued that higher level of economic freedom is an important prerequisite for FDI inflows and should be developed by policy makers, especially, in emerging markets (Cole, 2003). Countries with greater economic freedom, which provide protection of private property and rights of foreign investors, receive increased FDI inflows and become destination for active MNEs' operations. It has been found out that in markets with higher investor protection, the likelihood of a firm to conduct an acquisition is higher. It is further enhanced by the flexibility allowed for required restructuring of acquired firm. In order to encourage FDI, emerging markets need to remove restrictions on investments of foreign MNEs. If host countries secure favorable regulative context, MNEs tend to show more commitment.

Political stability

Political risk arises from political violence, government instability and impact of military coups and results in subsequent threat of property expropriation (Kobrin, 1979). More recent research also illustrates the risk of indirect expropriation as a result of checks and balances which represent institutional constraints (Henisz, 2000).

Political instability is often another distinctive feature of more restrictive environment. Firms may opt for lower ownership in order to mitigate risks associated with political instability. One of the ways to do that is to acquire minority stake in a firm owned by local firm that possesses knowledge of how to cope with uncertainty caused by politically unstable environment.

Political uncertainty results in frequent changes in industrial and economic policies, policies relating to property protection, thus, influencing on performance of business operations. These changes require alterations of firm's practices and increase costs of doing business abroad. Kotabe (2005) state that firms entering politically stable countries are more prone to invest more resources and conduct acquisitions rather than using collaborative ventures to minimize exposure of specific assets.

Holburn and Zelner (2010) state that political institutions in firm's home market have and impact on firm's ability to overcome political constraints in host markets. Firms originating from countries with weaker institutional constraints on policy-making possess an advantage at dealing with unfavorable policy outcomes as compared to their counterparts from countries with stronger institutional constraints. The main prerequisites for this advantage are processes of imprinting – utilization of representations of reality for interpreting environment and governing firm’s actions under conditions of uncertainty - and organizational learning.

Hypothesis 2. The larger the distance in political stability between Russia and a host market, the more likely a Russian firm will opt for higher ownership stake.

Political capabilities of a firm from emerging countries help to reduce unpredictability associated with policy outcomes in countries with weak institutional constraints and, consequently, attenuate entry-deterring effect of host country policies. In addition, these firm-specific capabilities may lead to firm’s superior performance and, thus, firms are more prone to commit more resource and, thus, use entry modes with higher level of control for entering other host countries with lower political stability.

Hypothesis 2 a. The larger the distance in political stability between Russia and a developed host market, the more likely a Russian firm will opt for higher ownership stake.

Hypothesis 2 b. The distance in political stability between Russia and an emerging host market will not impact ownership-related decisions of Russian firms.

Doing Business

We argue that we can measure distance in doing business in order to capture dissimilarity in regulatory quality and efficiency in Russia and a host market. No studies in international distance apply this measure for discussion of ownership-related decisions of firms in the process of internationalization. We state that Ease of Doing business covers aspects that can be crucial for a foreign investor in the process of selection proper ownership strategy for entering a particular market such as conditions for starting business, ease of getting versatile permissions, protection of property rights, registration of the business, labor market regulations etc. We believe that in host markets where business regulations are very complicated and cumbersome investors would prefer to transfer these bureaucratic issues on local counterparts, thus, choosing ownership strategies with lower commitment. So, we aim to assess significance of this factor.

Hypothesis 3. The larger the distance in Doing business between Russia and a host market, the more likely a Russian firm will opt for lower ownership stake.

This measure from year to year also embraces new business reforms. As emerging markets are at the stages of rapid development they tend to introduce more new regulations that can be very unpredictable and sometimes even illogical. Thus, we suppose that in order to

attenuate the influence of the uncertainty Russian firms will be reluctant to commit more resources if the dissimilarity of these regulations is higher.

Hypothesis 3 a. The larger the distance in Doing business between Russia and an emerging host market, the more likely a Russian firm will opt for lower ownership stake.

Developed markets, on the contrary are considered more stable and less restrictive, legal and economic regulations are already well-developed there, so foreign investors are unlikely face substantial shift in policy, thus we believe that this measure will have no influence on decisions regarding ownership strategies of Russian firms in developed markets.

Hypothesis 3 b. The distance in Doing business between Russian and a host developed market will not impact ownership-related decisions of Russian firms.

Corruption

According to recent research (Slangen, Van Tulder, 2009), scholars emphasize the influence of host country governance structure on ownership strategies. One of the most important dimensions of this infrastructure is corruption that has broad effect on the economy.

Such dimension of institutional distance as corruption was first introduced by Habib and Zurawicki (2002) who found out that corruption distance had negative correlation with FDI. Demirbag et al. was the first scholar who examined the influence of corruption distance on entry modes. This study presented evidence on higher likelihood of establishment of joint ventures in case of greater corruption distance. Based on data from Central and Eastern European countries, Bhaumik et al. (2010) have identified negative correlation between corruption distance and level of foreign ownership.

Corruption refers to inappropriate business practice (Lambert-Mogiliansky et al., 2007) or issues that impedes the legal system. In some works, (DiRienzo et al., 2007) corruption is viewed as an economic externality which increases costs of doing business in foreign countries, while others compare it with other host country factors (Rodriguez et al., 2006).

Corruption is defined as any action against legal system resulting in improper business practices and is considered to affect all aspects of economic and social life (Kaufmann & Kraay, 2008) or misuse of public power for private benefit. (Rodruguez et al., 2005). It can be exemplified by the sale of government property and misappropriation of public funds by public officials, bribery, nepotism, and patronage. Corruption, being present in all levels of society, is believed to impede economic growth, influence political and societal stability (Abed & Gupta, 2002) and reduce government legitimacy (Anderson & Tverdova, 2003). Corruption represents a challenge not only for emerging countries, but also for advanced economies (Bellos & Subasat,

2012). According to OECD report (2013)[1], corruption increases cost of doing business by 10%. Moreover, International Monetary Fund estimates that investments into countries with high level of corruption are 5% lower as compared to less corrupt countries. Thus, as firms take into account this increase in costs of doing business associated with corruption, it influences strategic decisions.

Public sector corruption is a challenge for entering firm which is not familiar it how this corruption works. That is why the entering firm will likely prefer to establish relationships with incumbent firms which are aware of the extent to which corruption is considered common and whether it is effective or not (Rodriguez et al., 2005).

Hypothesis 4. The larger the distance in the level of corruption between Russia and a host market, the more likely a Russian firm will opt for lower ownership stake.

Institutional theory examines political-related factors of host countries, but corruption in emerging market becomes crucial factor in ownership strategies.

There are two characteristics of corruption: pervasiveness and arbitrariness (Rodriguez et al., 2005). Both dimensions of corruption create uncertainty for foreign investors. The first characteristic refers to the likelihood that the company will face corruption in its relationships with government relationships while the second exhibits uncertainty of the outcomes of corruption. In countries with pervasive corruption it is considered to be socially acceptable and quite regular. In this case there is no point for a foreign company to select an intermediary ownership strategy as the local company can neither influence the likelihood of bribery nor reduce the payment. As this practice can be anticipated and does not negatively influence external legitimacy, MNE is more likely to choose high ownership strategy.

Only in case the corruption is arbitrary, intermediary strategy can be preferable as the local partner can reduce uncertainty of corruption. Furthermore, if the arbitrary corruption distance between host and home country is high, choosing a local partner becomes even more advisable. Such corruption usually exists in countries with weak formal regulations and relations-driven economic transactions, so local partner can be valuable as a method to embed in local social networks (Peng, 2003).

Arbitrariness of corruption can be exemplified by the situation when similar transactions are treated in different ways. Uncertainty associated with corruption arbitrariness refers to the ambiguity of corrupt transactions, while pervasiveness of corruption implies the average likelihood of facing corruption in routine transactions with government officials. So, pervasiveness of corruption is described as dispersion of corruption in public sector in a country.

[1] Organization for Economic Co-operation and Development. (2014). Cleangovbiz. Integrity in practice [Data file]. Retrieved from https://www.oecd.org/cleangovbiz/49693613.pdf

Pervasive corruption is considered as being fully institutionalized in commercial operations. Arbitrariness of corruption raises ethical uncertainty and, thus, liability of foreignness for MNEs as well as reduces firm's ability to adhere to government regulations. In order to mitigate the effect of arbitrariness, firms need to find other sources of stability and support. Cooperation with local partner can reduce uncertainty as they have experience of interacting with local government officials. It can also help to obtain external legitimacy. Subsequently, if foreign actors are legitimized, the risk of encountering corrupt actors becomes lower. On the contrary, if the firm is not seen as legitimate, it is less risky for state officials to behave in arbitrary fashion. So, in order to reduce pressure of corruption, firms may prefer lower ownership strategy.

In terms of impact of pervasive corruption on ownership strategies, it is suggested that such type of corruption reduces the benefits of having the local partner. As soon as MNEs encounter corruption and complies with it, it gains political access that decreases complexity of institutional environment. In this case local partner can enable to reduce risk of potential damages. However, they can face resistance from their home governments, which monitor corrupt practices in foreign operation of firms and their JV partners. This is especially relevant for firms originating from developed countries and operating in emerging markets where corruption is pervasive (Uhlenbruck et al., 2006). In case of EMF, their home market regulations do not make them accountable for corrupt practices of their JV partners. So, in case if they enter other emerging countries where arbitrariness and pervasiveness is even more pronounced, they will also opt for lower ownership to gain local legitimacy.

Research on the impact of corruption on ownership strategies demonstrates contradictory results. Smarzynska and Wei (2002) state that foreign investors perceive high level of corruption as a risk factor and, thus, avoid ownership strategies, which require higher commitment of resources. Uhlenbruck et al. (2006) find that if the level of pervasiveness of corruption is high, companies are prone to acquire more control over subsidiaries. Asiedu and Esfahani (2001) find no influence of corruption on ownership strategies of American companies.

However, Lui (1996) state that under certain conditions bribery can help international firms to overcome bureaucratic complications at relatively little cost and, thus, increase, efficiency. So, it can serve as a tool for circumventing strict economic regulations and, thus, even encouraging foreign investment.

Tekin-Koru (2006) presented evidence that firms from countries with lower level of corruption prefer acquiring higher stake as compared to firms from less corrupt countries. Duanmu (2011) found that in case of larger corruption distance between emerging country and host country firms prefer to establish wholly owned subsidiaries. Based on the example of China, Duanmu stated that if the level of corruption in the home market is lower than in China, the

firms would favor acquisitions rather than joint ventures.

In vein of developing institutional theory, Uhlenbruck et al. (2006) examined that if a firm enters emerging economy, it will adapt to corruption-related challenges by establishing partnerships with local companies and developing adaptive strategy. Selecting joint venture as an entry mode relies on the trade-off between having a local partner who helps to cope with complications of institutional systems and its opportunistic behavior that can lead to lower returns for foreign investor and expropriation of assets (Henisz, 2000). Monitoring of local partner behavior also represents additional cost of doing business. Although having local partner is beneficial for overcoming bureaucratic issues and dealing with corrupt officials, this also leads to poor protection of specific assets of a foreign firm (Wu, 2006). Misappropriation of assets can result in a potential reputation damage.

Based on argumentation above, we argue that if firms enter emerging countries where level of corruption differs from that in Russia, they will opt for lower ownership stake in order to increase uncertainty associated with pervasiveness of corruption. In case of developed countries, we believe that the negative relationship between corruption distance and ownership strategy will be lower.

Hypothesis 4 a. The larger the distance in the level of corruption between Russia and a host emerging market, the more likely a Russian firm will opt for lower ownership stake.

Hypothesis 4 b. The distance in the level of corruption between Russian and a host developed market will not impact ownership-related decisions of Russian firms.

Membership in international organizations

Internationalization of EMFs is partly caused by global efforts to create «flatter» world encouraging information, capital flows and imposing fewer barriers on trade (Ramamurti, 2009). Entry in Regional trade agreements represents one of the ways for promoting flatter world that exemplifies institutional change. These institutional changes in turn influence firm's strategy (North, 1990). Peng et al. (2008) highlight that the role of context increases when institutions are unstable, creating both constraints and opportunities and affecting firm's strategy. EMFs firms can be influenced to the greater extent if there is more institutional variation in EMS and more instability and acceptance of market mechanisms.

To date, the influence of economic and regional agreements on trade and foreign direct investment have been studied primarily in macroeconomics literature (Bhagwati & Krueger, 1995). Literature on impact of such agreements on firm strategy has been devoted to how MNEs select location of the production (Buckley, 2001).

So, membership in international organizations is another dimension of regulatory distance between countries. We argue that fewer inter-state trade barriers and free flow of

investments developed by different types of economic and political integration positively influence ownership strategies of Russian companies.

Hypothesis 5. The more the number of international organizations in which Russia and a target host market have membership, the more likely that a Russian firm will opt for higher ownership stake.

The majority of countries, being members of the same international organizations (CIS, BRICS, Asia-Pacific Economic Cooperation, Shanghai Cooperation Organization, Eurasian Economic Community) in which Russia also has membership are classified as emerging, so it is logical to expect that Russia will adopt ownership strategies of higher commitment in emerging countries.

Hypothesis 5 a. Membership of Russia and a target emerging market in the larger number of the same international organizations will have positive relationship with Russian firm's ownership strategy.

Hypothesis 5 b. Membership of Russia and a target developed market in the larger number of the same international organizations will not impact ownership-related decisions of a Russian firm.

1.2.2 Cognitive distance

Decision makers in a firm construct cognitive categories as they comprehend the environment which, in turn, determine strategic decisions. Professionals, the state and mass media rationalize cultural rules and perceive firm performance as socially intrinsic and highly dependent upon firm's conformity to social rules and requirements needed to gain social support, resources and, thus, legitimacy. In order to conform to these requirements and reach mimetic isomorphism firms can imitate behaviors of referent actors, which are considered legitimate. This strategy of imitating responses to environmental pressures appears to be successful and efficient, especially in case of unpredictable environment. So if social actors prefer a certain type of action and it is institutionalized, others will undertake the same action in order to gain cognitive legitimacy in wider social structure (DiMaggio & Powell, 1983). Firms that do not follow legitimized course of action can be considered inefficient and less responsive. Only few EMFs possess international experience, so uncertainty for them may be perceived to be higher. So, responding to these challenges, firms intensify mimetic behavior.

Cognitive pillar of the society also reflects how information is obtained, organized and interpreted. It also determines the routines developed by organizations to shape employees behavior in solving problems. Performance of the foreign affiliates is influenced by how managers and employees process new information and relevance of adopted routines. This pillar is very difficult to operationalize.

EMFs are believed to possess an advantage when they enter other emerging countries, as they are better familiar with undeveloped institutional environment, although it depends on host market conditions. Moreover, they do not need to adjust their business models to the dynamics of emerging countries as compared to firms originating from developed countries. Moreover, EMFs may have disadvantages if they enter developed countries as they lack resources and capabilities to compete in more advanced environments. Thus, EMFs have to imitate more from local partners through acquiring minority stakes in developed host countries.

Cultural distance contributes mostly to increased unfamiliarity hazards. The local partner will help to meet these challenges. But once the foreign has incurred one-time costs of acquiring information about local environment from its partner, it later acquires the share of the partner. It is explained by the reluctance of companies to incur double-layered acculturation and to adapt to each other. But if the cultural distance results not from cognitive institutions differences, but rather from normative, then cooperation with local partner could be prolonged.

Cultural distance results in heterogeneous customer preferences, business practices and, consequently, information asymmetry (Luo & Shenkar, 2011). It also increases costs and risks of communications and management opportunistic behavior. It requires more time and effort to learn about implicit cultural factors, thus presenting more challenges for MNCs than regulative environment. According to Chen and Hennart (2004), when cultural dissimilarities are larger, companies opt for lower resource commitment to diminish risks of uncertainties. In addition, Barkema and Vermeulen (1998) have found that partly owned acquisitions dominate complete acquisition in case of greater cultural distance. Similarly, Tihanyi et al. (2005), based on empirical study of entries US-based MNCs, claim that there is strong negative association between cultural distance and entry mode choice. As for EMFs, Contractor et al. (2014) have found that if uncertainty avoidance distance is high, there is likelihood that a firm would prefer minority acquisition over majority one.

Implicit essence of cultural rules posits obstacles for EMFs to comply with legitimacy requirements and manage acquired subsidiaries. According to profound cross-cultural research, there is no universally accepted managerial approach to management of subsidiaries across all cultures. In each particular country a firm needs to utilize a managerial approach that is coherent to local employees' values. In this case, job satisfaction would be higher and employees' cooperation would be voluntarily. Cooperation of EMFs with acquired firm can result in better support of local stakeholders (employees, suppliers) as operational practices of local firm are congruent with local cultural beliefs and norms. Consequently, given the above argumentation, it is reasonable to suggest that as cultural distance is increasing, there is more likelihood that the firm will share ownership with local partner.

Diaspora

According to Buckley et al. (2007), historically MNCs from emerging markets enter markets with large diaspora community that results in decrease in transaction costs. However, some recent studies suggest that EMFs have invested in markets with no immigrant communities (Luo & Tung, 2007). Luo and Tung (2007) point out that foreign entries of Chinese, Indian, Mexican and Turkish firms epitomize that there is less dependence on ethnic ties and size of diaspora community. They also claim that these firms-latecomers in the global market strive to secure their tacit knowledge from culturally different countries and, that is why, use acquisition as an entry mode. This argumentation contradicts entry mode literature, but mostly due to the fact that the literature is based on experience of developed markets firms (Brouthers & Hennart, 2007). However, given asset-seeking motives of EMFs, the learning argument is applicable and explains acquisitions and wholly-owned greenfield investments, thus diminishing the effect of cultural distance on equity ownership of affiliates.

There is no consent among scholars regarding entry modes of MNCs from emerging markets in case of high cultural distance. Some of them argue in favor of full or majority ownership (Padmahabhan & Cho, 1999) while other state that it leads to use of JVs (Agarwal, 1994). We adopt the view that EMFs when entering culturally distant countries need to learn how to do business there, that is why they prefer to cooperate with local partner who is more aware about tacit elements of culture.

Hypothesis 6. The larger the size of Russian diaspora in a host country, the more likely a Russian firm will opt for lower ownership stake.

Building on data on Chinese outward FDI, Buckley and Casson (2009) stated that, diaspora contributed to the integration of China into the world economy. They state that personal relationships and social connections across countries positively influence business dealings and patterns of institutionalization. They argued that family networks and ethnic ties represent firm-specific advantage for emerging-market firms due to reduction of business risk and transaction costs associated with spotting business opportunities in other countries. This ethic closeness simplifies communications and encourages any form of cooperation with foreign firm.

According to the recent report published by Migration policy institute of the United Nations, Russian diaspora abroad is the third largest in the world, following India and Mexico and exceeding Chinese diaspora. Majority of people moved to former republics of the Soviet Union and did not contemplate that once they would become a part of Russian diaspora in foreign countries. So, in our case it is suggested that firms would firstly invest in countries with large resident population of ethnic Russians. Such countries are mostly classified as emerging. On the contrary, Russian diaspora in developed countries is almost negligible and will, have no

impact on ownership strategies of Russian companies abroad. Thus, greater Russian diaspora in a host emerging market will positively relate to ownership strategies of Russian firms in emerging host market, but will have no impact on ownership strategies in a developed host market.

Hypothesis 6 a. The larger the size of Russian diaspora in a host emerging country, the more likely a Russian firm will opt for lower ownership stake.

Hypothesis 6 b. Size of Russian diaspora in a host developed country will not impact ownership-related decisions of a Russian firm.

Cultural distance is key variable in entry mode decisions of companies, however, such aspect of culture as linguistic distance has been largely ignored by international business scholars with the exception of only few studies (Demirbag et al., 2007; Dow & Karunaratna, 2006). Linguistic distance is recognized as a complement, or even dominant to cultural distance, especially, in business transaction of emerging market firms. Linguistic differences also influence observed dissimilarities in managerial values between countries (West & Graham, 2004). Linguistic and genetic relationships amongst 130 nations were clustered by Chen, Sokal and Ruhlen (1995) and these clustering results in familiarity with host country market. Welch et al. (2001) proved that during the initial stage of internationalization firms remain within their language group. Psychic and linguistic proximity is prerequisite for understanding host environment (Nordstrom & Vahlne, 1994) and bilateral trade (Disdier & Mayer, 2006), so this logic is applicable for operations of MNCs.

Following this argument, Gomes-Casseres (1990) provided evidence for strong interrelation between familiarity with host environment and establishment of joint ventures. It is believed that linguistic proximity results in better cooperation with local partner. It also encourages trust, which, in turn, reduces the need for formal control, providing means for social control (Sohn, 1994). Beamish provided example of firms from Taiwan which preferred joint ventures in China than Western counterparts due to ethically closeness. Effect of risk perception of managers on entry modes is influenced by linguistic distance, while there are no reasons to suggest that linguistic closeness influence ownership stake of internationalizing companies, that is why we do not include this element of culture in our empirical model.

1.2.3 Normative distance

Normative institutional pillar is embedded in national culture reflecting values, norms, assumptions and beliefs about human behavior that are shared by all members of the society and are considered to be acceptable. Prescriptive and evaluative nature of this pillar predetermines legitimacy of actions evolve through continuous interactions into norms of acceptable behavior. Normative mechanisms refer to cultural expectations about the behavior of professionals that all

actors are compelled to respect in a particular country. (DiMaggio & Powell, 1983). Cultural expectations of their organizations, upon which actors are dependent, exert pressures in terms of contract law, financial reporting requirements, norms and rituals of adherence to wider institutions. Normative isomorphism is reached when firms demonstrate behavior that is considered socially appropriate in the environment. It is suggested that in markets where regulatory environment is weak, informal constraints such as values, norms of behavior and attitudes come into play (North, 1990).

LOF increases with the growth of institutional distance between home and host country, forcing company to be more locally responsive to host-country institutions. But the most influential pillar for global integration is normative as it explains difficulties of transferring MNE's practices to host country (Xu & Shenkar, 2002).

Big normative institutional distance makes difficult for a company to obtain external legitimacy and to effectively transfer MNE's practices. That is why foreign companies in this case would prefer to enter the joint project with local partner to offset the unfamiliarity hazards. The same logic works in case of increasing cognitive institutional distance arising from consumer ethnocentrism. Unfavorable perception of and stereotyping against foreign firms result in higher discriminatory hazards. They can be attenuated with the help of a local partner which is respected and supported by locals but still does not share ethnocentrism. Another option for a big firm can be taking advantage of its financial strength, brand recognition, bargaining power and so establishing wholly owned subsidiaries, but it can be risky as in countries with high ethnocentrism, where consumers are more prone to react to such a move.

Hypothesis 7. The larger the normative distance between Russia and a host market, the more likely a Russian firm will opt for lower ownership stake.

Cultural distance results in a challenge to obtaining social legitimacy. Firms need to comprehend mental maps of the host environment in order to conform to it (Hofstede, 2001). Cultural distance leads to increase in costs related to transfer of information, knowledge, skills and systems across borders. Cultural similarity simplifies communications and problem solving. However, there is a phenomenon that small to medium cultural distance results in fewer interaction problems than in case of culturally similar actors (Ghemawat, 2003). It can be explained by the fact that when managers have to work with people originating from culturally distant environments, they are aware of the differences and adjust their behaviors accordingly that results in more effective communications. Conversely, cultural similarities can lead to negligence and behaviors are taken for granted.

Emerging markets are characterized by prevalence of informal mechanisms, that is why EMFs may be reluctant to invest heavily in sophisticated host country markets that are culturally

less distant (other emerging markets).

It can be very difficult to interact with legitimizing actors in case of larger cultural distance when substantial differences arise due to lack of understanding about values, norms, assumptions which provide grounds for individual and organizational behavior.

EMFs are prone to expect cultural constraints in developed countries due to larger cultural distance in comparison with other emerging markets. However, there is also substantial diversity of cultural values across emerging markets (Khanna et al., 2005). So, EMFs need to account for this diversity and work out appropriate behaviors when entering other emerging markets. At the same time, it is easier to get access to the information regarding potential cultural constraints in developed markets. Coupled with the argument that EMFs tend to anticipate and appreciate cultural dissimilarities between them and developed host markets, we come up with the following hypothesis.

Hypothesis 7 a. The negative relationship between normative distance between Russian and a host market and the likelihood of higher ownership stake is stronger in emerging markets than in developed host markets.

1.2.4 Control factors

Market attractiveness

The potential of a destination country is determinant of firm's decision on market selection and choice of market entry strategy. It is believed that firms prefer to enter markets with high potential by establishing their wholly-owned subsidiaries as they allow for generating higher profits in long-term perspective (Taylor et al., 1998). Markets of higher size can absorb additional capacity and thus enhance firm's efficiency. Furthermore, firms in such markets opt for vertical integration to gain economies of scale and achieve long-tern market presence (Agarwal & Ramaswami, 1992). Higher resource commitment is positively related to internalization (Davidson & McFetridge, 1985). The need for internalization is also caused by the higher potential risk associated with shirking in attractive markets (Gromes-Casseres, 1990). Based on the assumption that the higher share of costs is fixed, firm can gain higher profits in large host country market due to economies of scale (Agarwal & Ramaswami, 1992).

Hypothesis 8. The larger the market size of a host market, the more likely a Russian firm will opt for higher ownership stake.

Viable economy and high available incomes are crucial for growth of business activity. Firms pursuing growth opportunities and market-seeking motives select large consumer market with growing market volume. Such markets become even more appealing if they are still relatively unsaturated, show high demand for foreign products, and population there is quite concentrated. So, host market economy is a determinant firms' expansion into these markets.

Countries with strong economic development are usually characterized by high level of political and economic stability. (Hermann & Datt, 2002). This is especially true for developed markets, so we believe that firms will commit more resources and deploy higher ownership modes in such market rather than emerging markets which are usually pose more risk.

Hypothesis 8 a. The positive relationship between host market size and the likelihood of adoption higher ownership strategy will be stronger in a developed, rather than in an emerging host market.

Geographical distance

Geographical distance appears to be one of the most important measures of psychic distance. Many IB scholars have shown that it is positively relates to measurement of psychic distance (Johanson & Wiederscheim-Paul, 1975; Dow & Karunaratna, 1998; Brewer et al., 2007). Despite the process of globalization and related process of decreasing distances, it is still a factor which influences firm’s internationalization decisions. Larger geographical distances increase uncertainty and decreases speed of communication, and leads to delays, inaccuracies, confusion of information flows (Dow & Karunaratna, 2006). Thus, we state that

Hypothesis 9. The larger the geographical distance between Russia and a host market, either emerging or developed, the more likely a Russian firm will opt for higher ownership stake.

In this chapter we come up with hypotheses regarding regulative, cognitive and normative distance between home and host country as well as control (moderating) variables. We also hypothesize that different institutional factors are critical for selection of ownership strategies of Russian companies in developed and emerging economies.

2 METHODOLOGY

2.1 Sample

The study is based on the Zephyr Bureau Van Dijk Database which contains information about more than 500 000 corporate deals all over the world on mergers and acquisitions, IPO, private equity, leveraged buyouts, management buyouts etc. The data on international corporate deals of Russian companies for the last 10 years was exported. The time period of 2006-2015 was chosen, first of all, in order to generate representative dataset and perform reliable statistical analysis. The second reason is that this particular period is characterized by the largest FDI outflows from Russia.

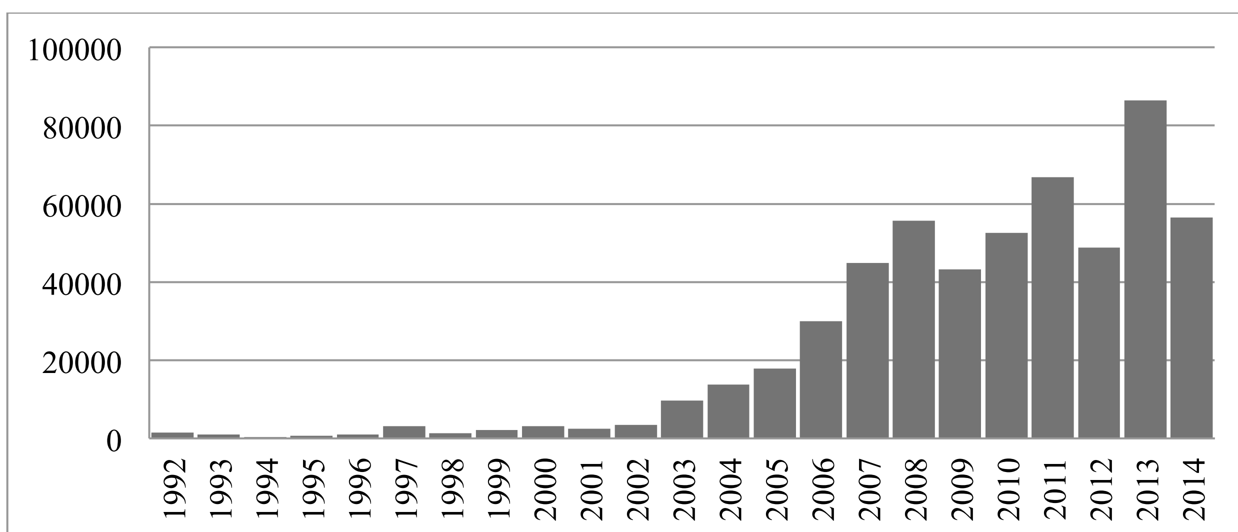

Figure 5 Foreign direct investment of Russia: Outward flows, annual, 1992-2014, mln US dollars

Source: UNCTAD FDI statistics[2]

The database provides information about target company and country of destination, acquirer, vendor, deal type, stake, date the deal was completed or assumed completed and deal value. Appendix 1 presents example of information available about international corporate deals of Russian companies.

Table below presents the description of our dataset. The dataset comprised for the purpose of this research initially contained information about 1311 international deals of Russian enterprises, but then, in line with other scholars, we excluded all the deals which were completed in countries of destinations classified as "offshore zone" for Russian companies. Thus, we obtained 1021 deals in 78 countries, 545 of which were conducted in developed countries while 476 in emerging countries. Approximately half of the deals are comprised of establishment of

[2] United Nations Conference on Trade and Development. (2015). World Investment Report 2015 [Data file]. Retrieved from http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf

wholly-owned subsidiaries, minority stake acquisitions are the second largest category, joint ventures are the third and there were only several mergers undertaken by Russian companies.

Table 2 Dataset description

Mode of entry	Developed economies	Emerging Economies	Total
Acquisition	232	277	509
Joint venture	34	98	132
Merger	2	1	3
Minority stake	277	100	377
Total	545	476	1021

Source: created by the author

The diagram illustrates that there were more acquisitions conducted in emerging countries than in developed as well as joint ventures established. Moreover, Russian companies more frequently acquire minority stakes in developed countries rather than in emerging.

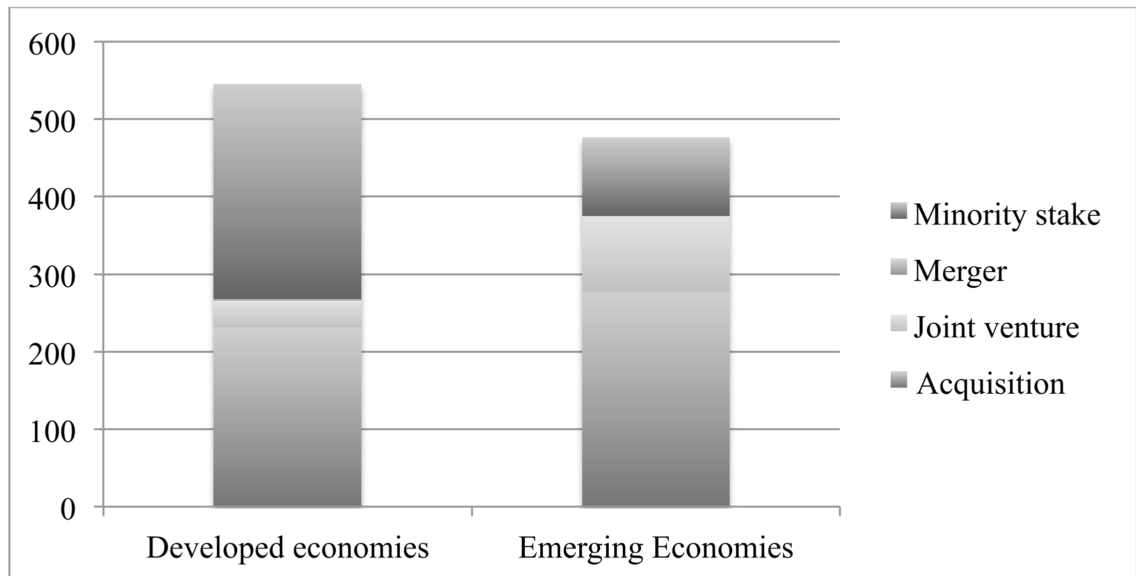

Figure 6 Number of corporate deals of Russian companies abroad

Source: created by the author

2.2 Model and measures

2.2.1 Models

We construct three models in order to identify how institutional distance influences ownership strategies of Russian firms in their corporate deals in the process of internationalization. To examine the relationships affecting the degree of ownership we conduct a multiple linear regression analysis, as the dependent variable is a continuous variable.

Model 1 covers all the deals and can be represented as follows:

$Y_i = \beta_0 + \beta_1 Economy_dummy_i + \beta_2 ln(GDP)_i + \beta_3 ln(Geographical\ distance)_i + \beta_4 Economic\ Freedom_i + \beta_5 Political\ stability_i + \beta_6 Doing\ business_i + \beta_7 International\ organizations_i + \beta_8 Corruption_i + \beta_9 Diaspora_i + \beta_{10} CD_i + \varepsilon_i$,

where Y_i – degree of ownership of Russian firm; i = 1, 2,…1021 – corporate deal; β_n – explanatory variables; n – number of variables.

Explanatory variables are presented in table 3.

Further we divide the sample into two parts in order to capture differences of factors affecting degree of ownership of Russian firm separately in emerging and developed countries.

Two separate equations are introduced for sample incorporating deals of Russian firms in emerging markets and developed markets: model 2 and 3, respectively.

Model 2:

$Y_i = \beta_0 + \beta_1 ln(GDP)_I + \beta_2 ln(Geographical\ distance)_i + \beta_3 Economic\ Freedom_i + \beta_4 Political\ stability_i + \beta_5 Doing\ business_i + \beta_6 International\ organizations_i + \beta_7 Corruption_i + \beta_8 Diaspora_i + \beta_9 CD_i + \varepsilon_i$;

Model 3:

$Y_i = \beta_0 + \beta_1 ln(GDP)_I + \beta_2 ln(Geographical\ distance)_i + \beta_3 Economic\ Freedom_i + + \beta_4 Political\ stability_i + \beta_5 Doing\ business_i + \beta_6 International\ organizations_i + \beta_7 Corruption_i + \beta_8 Diaspora_i + \beta_9 CD_i + \varepsilon_i$.

2.2.2 Dependent variables

In order to test the hypotheses, we input ownership equity stake as a dependent variable.

Each ownership strategy is characterized by particular level of control, resource commitment, dissemination of risk and flexibility (Driscill & Paliwoda, 1997). However, external variables, which we examine in this study, influence ownership strategy based primarily on the level of resource commitment (Hill, Hwang & Kim, 1990). For the purpose of this study we input a dependent variable aimed at defining the level of resource commitment of the firm measured as the percentage of equity ownership the company. A minimum equity stake equals to 1%. The ownership strategy ranges as follow: 1-20% - low ownership strategy; 21-50% - medium internship strategy; 51-100% - high ownership strategy. We use equity participation as a continuous variable, thus, allowing for fine-grained distinctions between factors influencing 20-percent equity stake and those influencing 80-percent equity stake (Chen & Hennart, 2004).

2.2.3 Independent variables

Regulatory distance

Regulatory distance between Russia and destination country is measured by the calculation of distance in Economic Freedom index, Doing business index, Corruption perception, membership in the international organizations.

Economic freedom reflects fundamental rights of individuals for property and labor. In developed countries people are free to work, produce, consume and invest. Moreover, the principle of free movement of labor, capital and goods/services. It is well-known that poverty, sickness and ignorance are decreased with economic prosperity. The Index of Economic Freedom documents economic freedom of countries based on 10 qualitative and quantitative characteristics combined in 4 main pillars: rule of law (property rights, freedom from corruption); limited government (fiscal freedom, government spending); regulatory efficiency (business freedom, labor freedom, monetary freedom). Each of the freedoms graded from 0 to 100, the average score with equal weights to all dimensions is calculated to identify overall score for the country.

Regulatory distance can be also measured by distance in Doing Business index which is comprised every year. Every country takes a relative position in rating comprised of 189 places. The higher the position of the country in this rating, the more favorable the conditions for starting up an enterprise and its functioning. The ranking is calculated based on aggregate evaluation of the following indicators:

- launch of an enterprise;
- gain of permission for construction;
- obtainment of electricity;
- registration of property;
- getting loan;
- protection of minority investors;
- payment of taxes;
- trading across borders;
- enforcement of contracts;
- resolution of insolvency.

The rating embraces enormous dataset of economic data from 2003 to the present days.

For the purpose of this study we account for membership of Russian a host country in the following international political and economic organizations: Union State, Commonwealth of Independent States, Collective Security Treaty Organization, Organization for Security and Cooperation in Europe, Organization of the Black Sea Economic Cooperation, Council of Europe, G-20, BRICS, Asia-Pacific Economic Cooperation, Shanghai Cooperation Organization, Eurasian Economic Community.

Political stability indicator and Absence of Violence and Terrorism reflect the views on likelihood of political instability or politically-motivated violence, including terrorism. Political stability indicator is taken from World Governance Indicators dataset. This is a research dataset that summarizes the perception of the quality of governance of large number of enterprises, citizen and expert survey respondents in developed and developing countries. The data are derived from survey institutes, non-governmental organizations, private sector firms (Kaufman et al, 2010).

Public sector corruption is a challenge for entering firm which is not familiar it how this corruption works. That is why the entering firm will likely prefer to establish relationships with incumbent firms which are aware of the extent to which corruption is considered common and whether it is effective or not (Rodriguez et al., 2005).

The Corruption Perception Index is a global research on rating of countries, which assesses indicators of diffusion of corruption in public sector. Its calculated based on methodology of independent international organization Transparency International

Cognitive distance

A crucial variable that characterizes cultural relations between countries is the size of Russian diaspora in the host country. So, we insert absolute number of people living in country of destination based on data derived from Migration Policy Institute of the United Nations.

Normative distance

The differences in norms are very difficult to capture. Hofstede introduced the most illustrating index in 1980. Since that time no reliable measure of normative distance appeared.

The following dimensions of the index are relevant to this study as they capture expected social behavior of people:

- Power Distance: depicts the attitude of people to other people with higher or lower social position;
- Individualism/Collectivism describes whether or not people are prone to act in a group and in favor of them;
- Masculinity/Femininity illustrates the status of values associated with female or male role models;
- Uncertainty avoidance reflects people's attitude to unusual situations. In some cultures, people adhere to strict rules and laws and feel uncomfortable themselves in unusual situations while in other they are relativists, have few rules and feel at ease in unstructured situations.

Kogut and Singh (1988) suggested formula to measure distance between countries based on Hofstede's dimensions:

$$CD_j = \sum_{i=1}^{4} \frac{(I_{ij} - I_{ih})^2}{V_i} / 4,$$

where: CD_j – Cultural distance between home country and country j;

I_{ij} – Index of cultural dimension I n country j;

Vi – Index variance of dimension I;

H – Home country.

2.2.4 Control variables

As pointed out in the literature, control variables are needed to account for important effects on internationalization decisions (Coeurderoy & Murray, 2008). Numerous scholars incorporate control variables in their analysis of entry mode decisions (Chan & Makino, 2007; Javorcik & Wei, 2009).

In this study we include factors which are distinct from institutional distance, but are closely linked to the decision of the firm to invest abroad. First, we include different dimensions of distance which have an impact on decision-making. Geographic distance is measured by distance between Moscow and capital city of the destination country (Slangen & Beugelsdijk, 2010). Second, variable to control market potential is included in line with the existing studies of entry modes in different countries (Tsang & Yip, 2007). Market potential is captured by absolute value of GDP of country of origin.

The summary of methodology is presented in the table below.

Table 3 Measures

Dependent variable	**Measure**	**Source**
Ownership strategy	% equity stake ownership	Bureau Van Dijk
Control variables		
Economic distance	Natural logarithm of GDP of destination country	World Bank Database http://www.worldbank.org
Geographic distance	Natural logarithm of distance between capital cities	http://www.distancefromto.net
Independent variable	**Measure**	**Source**
Regulatory distance		
Economy classification	Dummy: 1 – developed	OECD

	economy; 2 – emerging economy	https://www.oecd.org
Difference in conditions for starting up the business	Doing Business index	World Bank Group http://www.doingbusiness.org
Distance in Political stability and Absence of Terrorism/Violence	Political stability and Absence of Terrorism/Violence index	World Governance Indicators http://info.worldbank.org/governance/wgi/index.aspx
Distance in Economic Freedom	Index of Economic Freedom	Heritage Foundation http://www.heritage.org/index/
Corruption	Corruption Perception Index	Transparency International http://www.transparency.org
Membership in international political and economic organizations	Absolute scale	
Normative distance		
Cultural distance	Hofstede index	The Hofstede centre https://www.geert-hofstede.com
Cognitive distance		
Size of Russian diaspora	Natural logarithm of the number of Russian living in destination country	Migration Policy Institute of the United Nations http://www.migrationpolicy.org

Source: created by the author

3 EMPIRICAL RESULTS

Model one is estimated with ownership stake as a dependent variable. We performed multiple regression analysis to test the hypothesis stated in Chapter 2. Table 4 presents the results for model 1. F-statistics and p-value show (F = 17,267, p-value = 0,000) that the model is statistically significant.

Table 4 Model 1. ANOVA

Model		Sum of Squares	df	Mean square	F	Sig.
1	Regression	279075,320	10	27907,532	17,267	0,000[b]
	Residual	1218612,777	754	1616,197		
	Total	1497688,097	764			

Source: created by the author in SPSS

R in table 5 shows that the model explains 43,2% of variation in the dependent variable. Durbin-Watson statistic can in the range from 0 to 4. Durbin-Watson close to 2 can indicate that the model is significant and can be used for explaining variation in dependent variable; in this case it equals to 1,727.

Table 5 Model 1. Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,432[a]	0,186	0,176	40,201956628407050	1,727

Source: created by the author in SPSS

In order to identify the potential problem of multicollinearity, VIF-test is performed. VIF values greater than 10 can indicate a problem of multicollinearity. In our model, the values obtained are within the acceptable limits.

Table 6 presents results for model 1. Dummy variable standing for economy classification (1 – developed economy, 0 – emerging economy) appears to have significant impact on ownership strategies of Russian firms. In particular, β=15,326 that indicates that higher ownership strategy is pursued by Russian firms in developed countries. As for control variables, the table shows that GDP is significant for ownership strategy, but the relationship is negative. It means that the firm chooses modes of entry requiring low resource commitment to countries with high market potential. This can be explained by the argument that Russian firms strive to enter attractive markets by acquiring minor stakes in order to gain external legitimacy with the help of local partners. Geographic distance appears to be insignificant for ownership strategy of Russian firms. That contradicts other studies (Harzing, 2003), which state that as the geographic distance increases, firms need greater control over foreign operations.

Regulatory distance is represented by distance in several dimensions. Distance in Economic Freedom is also a significant factor ($p < 0,05$), however, the relationship of this variable with ownership strategies of Russian companies is negative (β = - 1,170) that indicates that H_1 is to be rejected. Significance of distance in Political stability index between Russia and a host market ($p < 0, 05$; β=0,280) supports H_2. Another important aspect of regulatory pillar is the level of corruption. The negative correlation of distance in Doing business with ownership strategy of a Russian firm indicates that H_3 is true. Distance in Corruption perception, notwithstanding findings of other scholars in international business (Di Guardo et al., 2016) is found to be insignificant ($p > 0,05$) for ownership strategies of Russian firms abroad, so we have to reject H_4.

Membership in the larger number of the same international organizations is a prerequisite for choosing higher ownership strategy for Russian firms ($p<0,05$; β=4,783), so H_5 is supported.

As for cognitive distance, we have operationalized it by the size of Russian diaspora in a host market. Size of Russian Diaspora appears to be significant ($p<0,05$), however, it is negatively related to ownership strategy (β=-3,469), thus supporting H_6.

Moreover, there is negative significant relationship between normative distance and ownership strategy of a Russian firm. So, as the value of Kogut-Singh cultural distance index increases, the more likelihood that the firm will prefer modes of entry with lower commitment. β-coefficient = -5,068 suggests that H3 that claims that the higher the normative distance, the more likely the firm will opt for lower ownership strategy is supported.

Table 6 Model 1. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	VIF
		B	Std. Error	Beta			
1	(Constant)	249,528	27,838		8,964	,000	
	Economy_dummy	15,326	6,673	,161	2,297	0,022	4,718
	ln (GDP)	-5,999	1,801	-,271	-3,331	0,001	6,138
	ln (Geographic distance)	,396	3,647	,008	0,109	0,914	4,934
	Economic Freedom	-1,170	0,475	-,292	-2,465	0,014	5,979
	Political stability	0,280	0,105	,143	2,682	0,007	2,622
	Doing business index distance	-0,124	0,061	-0,154	-2,013	0,044	5,391

	Corruption perception index distance	0,155	0,208	0,077	0,744	0,457	5,816
	Membership in int org	4,783	1,878	0,118	2,546	0,011	1,975
	ln (Russian Diaspora)	-3,469	0,881	-0,185	-3,939	0,000	2,045
	Cultural distance	-5,068	1,585	-0,212	-3,197	0,001	4,080

Source: created by the author in SPSS

In order to identify what factors, in particular, affect decision of a Russian firm to increase or decrease ownership stake, we divide our dataset according to the classification and perform separate regression analysis.

Institutional factors influencing ownership strategies in Emerging economies

Based on the results presented above, we run regression analysis for emerging countries and developed countries separately. The table below shows that the model on ownership stake of Russian companies in emerging countries is statistically significant (F = 3,002, p-value <0,05). In total, there are 261 observations.

Table 7 Model 2 ANOVA

Model		Sum of Squares	df	Mean square	F	Sig.
2	Regression	45216,110	9	5024,012	3,002	0,002[b]
	Residual	379887,625	227	1673,514		
	Total	425103,734	236			

Source: created by the author in SPSS

The coefficient of determination (R) illustrates that independent variables inserted explain 32,6% of variation in ownership stake of Russian companies in emerging countries.

Table 8 Model 2. Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
2	0,326[a]	0,106	0,071	40,908602583156270	1,951

Source: created by the author in SPSS

In case of emerging countries, in line with findings of the first model, GDP has negative relationship (β = - 15,468) with ownership strategy of Russian firms, while geographic distance has no impact on ownership-related decisions.

Regarding regulatory dimension, only two measures are significant for ownership strategies of Russian firms in corporate deals of Russian firms in emerging markets: distance in

Doing business (β = - 0,187) and membership of Russia and a target emerging market in a larger number of the same international organizations (β = 12,108), thus supporting H_{3a} and H_{5a}. We also find support for $H_{2a,}$ which states that distance in Political stability does not influence decisions of Russian firms regarding their ownership strategies abroad. At the same time, distance in Economic Freedom appears to be insignificant, so we can neither support, nor reject $H_{1a.}$ In contradiction with $H_{6a,}$ size of Russian diaspora does not impact ownership-related decisions of Russian firms, neither does normative distance.

Table 9 Model 2. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.	VIF
		B	Std. Error	Beta	т.		
2	(Constant)	317,208	123,079		2,577	0,011	
	ln (GDP)	-15,468	5,323	-0,505	-2,906	0,004	7,680
	ln (Geographic distance)	18,915	10,461	0,436	1,808	0,072	4,784
	Economic Freedom	-0,550	1,423	-0,066	-0,386	0,700	4,317
	Political stability	0,148	0,223	-,055	0,661	0,509	1,756
	Corruption perception index distance	-1,643	1,409	-0,271	-1,166	0,245	3,773
	Membership in int org	12,108	5,659	0,350	2,139	0,033	6,794
	Doing business index distance	-0,187	0,116	-0,140	-1,611	0,044	1,913
	ln (Russian Diaspora)	-0,030	2,933	-0,002	-0,010	0,992	5,533
	Cultural distance	1,835	6,128	0,039	0,300	0,765	4,292

Source: created by the author in SPSS

Institutional factors influencing ownership strategies in Developed Economies

The dataset on internationalization of Russian companies in developed countries is comprised of 527 observations. The linear regression model is significant (F=15,990, p <0,05).

Table 10 Model 3. ANOVA

Model		Sum of Squares	df	Mean square	F	Sig.
3	Regression	226700,141	9	25188,905	15,990	,000[b]
	Residual	816017,681	518	1575,324		

	Total	1042717,822	527			

Source: created by the author in SPSS

The model summary indicates that 46,6% of variation in ownership stake of Russian companies is explained by input predictors.

Table 11 Model 3. Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
3	0,466[a]	0,217	0,204	39,690347810124460	1,610

Source: created by the author in SPSS

Results on the model constructed for developed economies are substantially dissimilar to the findings regarding ownership strategies of Russian companies in emerging countries. First of all, GDP is insignificant for ownership strategy of a Russian firm as well as geographical distance. We also find evidence for partial rejecting H_{1a} as there is negative correlation between distance in Economic Freedom (β = - 1,140) and ownership stakes of Russian firms. At the same time, we prove that political stability is positively correlated with ownership stake of Russian firms in developed markets, thus, H_{2a} gains evidence. Distance in corruption, in line with both models described earlier, does not impact ownership strategies of Russian firms, so we support $H_{4b.}$ Membership in the same organizations, notwithstanding our expectations, is also substantial predetermining of acquiring higher ownership stake (β = 5,768) by Russian firms. Size of Russian Diaspora in host developed markets is highly negatively correlated with ownership strategies of Russian firms, so we have to reject H_{6b}. In case of internationalization of Russian firms into developed markets, normative distance matters (p-value <0,05β = -7,332).

Table 12 Model 3. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	VIF
		B	Std. Error	Beta			
3	(Constant)	238,387	29,465		8,091	0,000	
	ln (GDP)	-3,603	2,123	-0,160	-1,697	0,090	5,901
	ln (Geographic distance)	-5,394	4,653	-0,093	-1,159	0,247	4,237
	Economic Freedom	-1,140	0,656	-0,151	1,738	0,046	4,317
	Political stability	0,262	0,135	0,094	1,938	0,043	1,549

Doing business index distance	-0,044	0,075	-0,031	-0,582	0,561	1,880
Corruption perception index distance	0,116	0,216	0,038	,539	0,590	3,260
Membership in int org	5,768	2,409	0,116	2,394	0,017	1,555
ln (Russian Diaspora)	-4,934	1,736	-0,165	-2,843	0,005	2,229
Cultural distance	-7,332	1,874	-0,250	-3,913	0,000	2,708

Source: created by the author in SPSS

Table 13 Results of hypotheses testing

Hypotheses	Supported (+) or rejected (-), neither rejected or supported (0)
Hypothesis 1. The larger the distance in Economic Freedom between Russia and a host market, the more likely a Russian firm will opt for higher ownership stake.	-
Hypotheses 1 a. The positive relationship between distance in Economic Freedom between Russia and a host market and the likelihood of adoption of higher ownership strategy is stronger in developed host markets than in emerging.	-/0
Hypothesis 2. The larger the distance in political stability between Russia and a host market, the more likely a Russian firm will opt for higher ownership stake.	+
Hypothesis 2 a. The larger the distance in political stability between Russia and a developed host market, the more likely a Russian firm will opt for higher ownership stake.	+
Hypothesis 2 b. The distance in political stability between Russia and an emerging host market will not impact ownership-related decisions of Russian firms.	+
Hypothesis 3. The larger the distance in Doing business between Russia and a host market, the more likely a Russian firm will opt for lower ownership stake.	+

Hypothesis 3 a. The larger the distance in Doing business between Russia and an emerging host market, the more likely a Russian firm will opt for lower ownership stake.	+
Hypothesis 3 b. The distance in Doing business between Russian and a host developed market will not impact ownership-related decisions of Russian firms.	+
Hypothesis 4. The larger the distance in the level of corruption between Russia and a host market, the more likely a Russian firm will opt for lower ownership stake.	0
Hypothesis 4 a. The larger the distance in the level of corruption between Russia and a host emerging market, the more likely a Russian firm will opt for lower ownership stake.	0
Hypothesis 4 b. The distance in the level of corruption between Russian and a host developed market will not impact ownership-related decisions of Russian firms.	0
Hypothesis 5. The more the number of international organizations in which Russia and a target host market have membership, the more likely that a Russian firm will opt for higher ownership stake.	+
Hypothesis 5 a. Membership of Russia and a target emerging market in the larger number of the same international organizations will have positive relationship with Russian firm’s ownership strategy.	+
Hypothesis 5 b. Membership of Russia and a target developed market in the larger number of the same international organizations will not impact ownership-related decisions of a Russian firm.	-
Hypothesis 6. The larger the size of Russian diaspora in a host country, the more likely a Russian firm will opt for lower ownership stake.	+
Hypothesis 6 a. The larger the size of Russian diaspora in a host emerging country, the more likely a Russian firm will opt for lower ownership stake.	0
Hypothesis 6 b. Size of Russian diaspora in a host developed country will not impact ownership-related decisions of a Russian firm.	-
Hypothesis 7. The larger the normative distance between Russia and a host market, the more likely a Russian firm will opt for lower ownership stake.	+

Hypothesis 7 a. The negative relationship between normative distance between Russian and a host market and the likelihood of higher ownership stake is stronger in emerging markets than in developed host markets.	+-
Hypothesis 8. The larger the market size of a host market, the more likely a Russian firm will opt for higher ownership stake.	-
Hypothesis 8 a. The positive relationship between host market size and the likelihood of adoption higher ownership strategy will be stronger in a developed, rather than in an emerging host market.	-
Hypothesis 9. The larger the geographical distance between Russia and a host market, either emerging or developed, the more likely a Russian firm will opt for higher ownership stake.	0

Source: created by the author

Testing assumptions

In order to identify whether multiple regression is an appropriate model for explaining our data, each model has been tested on satisfying 6 assumptions:

- Our dependent variable (ownership stake) is measured at a continuous scale (from 0 to 100 in our case);
- we input more than two independent variables, which are either continuous or categorical;
- each time we perform Durbin-Watson statistics in order to show the independence of observations (the value are bounded between 0 and 4);
- we test whether there is a liner relationship between each independent variable and dependent variable by visually inspecting scatterplots; the relationship is linear in each case;
- we test our models for homoscedasticity by constructing normal standardized residual plots, in particular histogram and normal probability plot which provide evidence that the variances along the line of best fit remain similar as we move along the line;
- our data do not show multicollinearity which occurs when two or mode independent variables are highly correlated to each other. We excluded all variables that showed VIF value more than 10 in order to avoid problems with understanding which independent variable contributes to the variance explained in the dependent variable;
- we delete significant outliers, high leverage points and highly influential points in order not to affect the regression equation in negative way and increase predictive accuracy of our results as well as statistical significance;
- we used a histogram and normal P-P plot in order to check that residuals are

approximately normally distributed.

We run all the tests described above and managed to prove that our data can be analyzed using multiple regression and obtain valid results.

The coefficients of the control variables suggest the contradictory results to the ones presented in Model 1. Geographic distance has significant and positive relationship with ownership stake of the company. It actually supports the conclusions of the scholars mentioned above. At the same time, GDP is not significant for the company when managers make decisions on the acquisition of the particular equity stake in foreign firm.

In this model another dimension of regulatory distance is significant: Economic freedom. It is positively related to the company's decision on percentage of ownership in the foreign firm. It can be explained by the logic that if the owners feel confident about rule enforcement, regulatory efficiency, fiscal regulations in host market, the will dedicate more investments to the country where the rights of the investors are fully protected. As for cultural dimensions, amount of Russian population is significant and positively related to the dependent variable. It means that if there are cultural links with host country, the acquirer would tend to possess higher stake in host market' firms.

To sum up, we have tested our hypotheses stated in the first chapter with the use of multiple regression analysis. We have checked the adherence of the model to the main statistical assumptions. We have also come up with separate multiple regression models for developed and emerging economies in order to identify what factors, specifically, influence ownership strategies of Russian companies.

Discussion

The aim of this research to analyze the influence of institutional distance between home and host country environment on ownership strategies of Russian companies. Specifically, we examine several dimensions of institutional distance: regulatory, normative and cognitive distance. We contribute to the existing studies in international business by conducting quantitative research.

The formal regulations are explicitly codified making them easy to find and interpret, so the company can gain legitimacy by following rule of law in the host market. If the regulatory distance is positive, it means that regulations are more developed in host market and managers feel confident about the protection of the rights and freedom. Our findings suggest that if we ground our analysis on all corporate deals of Russian firms, conducted for the period being examined, all the dimensions of regulatory pillar introduced – distance in Economic Freedom, Ease of Doing Business, Political stability, membership in international organizations – are significant, but we aim to identify which of these distances, in particular, are more important when Russian firms enter emerging and developed countries. First of all, distance in Economic Freedom is negatively correlated with ownership stake acquired by a Russian firm. Moreover, it is also negative in case of internationalization into developed economies, while it is insignificant for ownership-related decisions of Russian firms in emerging markets. These results contradict our initial research hypotheses. We expected that in developed markets firms will take a chance to develop their accounting standards and, thus, being listed in stock exchange, attract more investments into the firm. Also we argued that it would be difficult to adopt advanced managerial practices of foreign firms in developed countries. Instead, our findings go in line with arguments of Luo and Tung (2007) who argue that EMFs, lacking experience of doing business in less restrictive environments, prefer lower ownership strategies there. Furthermore, we hypothesized that capabilities of Russian firms of coping with more restrictive and unpredictable environment in home market will be a competitive advantage for them in other emerging countries. However, we can neither support, nor reject this hypothesis as distance in Economic Freedom with other emerging markets is not significant for ownership-related decisions of Russian firms.

In line with argumentation of Kotabe (2005), we provide evidence that distance in political stability is positively related to ownership stakes of Russian firms in all markets, but it is mostly driven by significance of this factor in case of developed markets. We prove that, first of all, Russian firms are ready to commit more resources if they enter politically stable countries. Furthermore, we argue that distance in political stability have no influence of ownership-related

decisions of Russian firms. If they successfully operate in the home environment characterized by high level of uncertainty, institutional constraints in other markets will present no challenge for them.

One of the findings that should be highlighted is that the measure we have introduced for examining the influence of political and economic integration appears to be not only significant, but also has major impact on ownership strategies of Russian firms, both in emerging and developed countries. Membership of Russia and a destination country in the larger number of the same international organizations is a prerequisite for acquiring larger ownership stake in a foreign firm by Russian investors, the effect is stronger in deals conducted in emerging markets (β=12,108), rather than developed (β=5,768), though. Apart from this measure of regulatory distance, distance in Ease of Doing Business is also significant. Out of all dimensions we have introduced for regulatory pillar (Economic Freedom, Political stability), conditions for starting and developing business are critical for Russian firms entering emerging markets. So, if business regulations and constraints in a target emerging country are similar to those in Russian, then it is easier for Russian firms to comply with them.

Inconsistent with the hypotheses postulated, distance in corruption perception has no influence on ownership strategies of Russian firm, either in developed or emerging countries. It can be explained by the argument that facing arbitrary and pervasive corruption at home, Russian firms can overcome challenges posed by it in other emerging countries whereas in developed countries where corruption is less diffusive, firms can gain legitimacy via compliance with formal regulations. So, Russian firms are not prevented from internationalizing having to deal with different level of corruption.

As for cognitive pillar, based on empirical results we claim that the size of Russian diaspora is negatively correlated with ownership stake, which supports evidence of EMFs provided, by Luo and Tung (2007). EMFs, including those originating from Russia, are prone nowadays to preserve their tacit knowledge from culturally distant countries and, thus, conduct acquisitions. There is decreasing dependence on ethnic ties and size of diaspora community.

Normative distance represents implicit people' values and norms which are less understandable for foreigners. This, in turn, inhibits free flow of information and knowledge between a company and its foreign subsidiaries. In order to overcome this obstacle, companies prefer to cooperate with local partner who is well familiar with way of doing business in the country. Thus, in line with many research on the topic, Russian companies prefer lower ownership stake in case if normative distance is large, it is relevant mostly for ownership-related decisions of Russian firms in developed countries. We can suggest that this institutional pillar is not applicable for internationalization of Russian companies in emerging markets. Instead,

Eclectic paradigm would best explain that, regardless of normative distance, resource-/efficiency-/market-seeking motivations are more important for selection of proper entry modes.

As for control variables, in our major model geographical distance is insignificant while GDP is negatively correlated with ownership stake of Russian firms, in particular, in emerging markets. It may be caused by irrelevance of this variable if the firm entries the emerging market with resource- (rich natural resources, cutting-edge technology) or efficiency-seeking motive (e.g. lower labor costs).

To summarize, we contribute to the international business research on influence of institutional distance on ownership strategies of Russian firms by providing evidence that, firstly, we should take into account different aspects of regulations while internationalizing into emerging or developed markets (distance in Political stability and Economic Freedom in developed, distance in Doing Business in emerging). Secondly, we highlight the importance of economic and political integration as a prerequisite for higher ownership stake. Thirdly, normative distance matters only in case of entering developed economies. Finally, ownership strategies are less contingent on ethnic ties, rather on preservation of tacit knowledge and national culture, resulting in acquisition of higher ownership stakes, especially in developed countries.

Managerial relevance

The insights generated in this research have potential implications for managers. They enhance understanding of how institutional distance influences ownership strategies of Russian companies. So, the study provides managers a framework that can be used as a basis for strategic decisions on internationalization and indicates the importance for managers to consider all pillars of institutional distance. Managers should consider relative position of home country and host country when choosing ownership strategy in the process of internationalization.

Our results can be also applied by policymakers in attracting foreign investments. They should bear in mind that foreign investors will commit more resources to countries with higher level of regulatory development. Therefore, governments should develop effective legal systems and stable public institutions, protect rights of foreign investors secure their transactions, thus encouraging them to invest.

Conclusion

The current study contributes to the institution-based view on ownership strategies of Russian firms in the process of internationalization. First of all, based on literature review, we examined the differential effect of regulatory, cognitive and normative distances on Russian firms' ownership strategies in foreign countries. Secondly, we came up with a set of relevant variables for measuring all three pillars of institutional distance. Regulatory distance was operationalized by distance in Index of Economic Freedom, Ease of Doing Business, Corruption perception index, Index Political Stability and Absence of Violence. We also argue that in growing tendency for regional integration membership of home and host country in the same political and economic international organizations becomes crucial factor for selection of ownership strategies by internationalizing firms. We measured normative distance by Cultural Distance formula, suggested by Kogut and Singh (1988). Cognitive distance was captured by substantially ignored in academic literature measure – size of Russian diaspora in host country.

We provide evidence that factors that influence ownership strategies of Russian companies in emerging and developed countries differ. In case of developed countries, the main prerequisite for higher ownership strategy is political stability, economic freedom in destination country and well as market potential. As for ownership strategies of Russian companies in emerging countries, the critical factors include similar to home market conditions for doing business. Membership in the larger number of the same international organization is a predeterminant for higher ownership stake of Russian firms, either in developed, or emerging countries. As for cognitive and normative pillars, size of Russian diaspora in a host market as well as cultural distance, respectively, are negatively correlated with ownership stakes of Russian firms.

Our findings contribute to literature on ownership strategies by demonstrating that ownership strategies of EMFs in developed and emerging countries have not been accurately addressed in academic literature. Drawing upon institutional theory, we suggest that ownership strategies of emerging-market firms should be assessed separately in emerging and developed countries through all three dimensions of institutional distance: regulatory, cognitive and normative.

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Appendix 1 Extract from research dataset

Target	Country	Acquiror	Ownership stake (%)	Date	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10
NAUTILUS MINERALS INC.	Canada	KHOLDINGOVAYA KOMPANIYA METALLOINVEST OAO	42,5	03.11.2006	1	27,9	8,9	25,0	62,0	-75,0	60,0	3,0	3,6	11,3
RAMBLER MEDIA LTD	United Kingdom	PROF-MEDIA ID ZAO	55,0	15.01.2007	1	28,7	7,8	27,7	46,2	-88,0	61,0	3,0	5,3	10,7
KLEPP SPAREBANK	Norway	TURRIS AS	5,2	03.01.2008	1	26,9	7,4	18,8	75,1	-96,0	58,0	1,0	3,9	9,8
SOUTH STREAM GREECE SA	Greece	GAZPROM OAO	50,0	13.07.10	1	26,4	7,7	12,4	22,6	-11,0	14,0	1,0	1,0	10,9
RAIL-CONTAINER LLC	China	TSENTR PO PEREVOZKE GRUZOV V KONTEINERAKH TRANSKONTEINER OAO	50,0	25.10.10	0	29,4	8,7	0,7	6,1	-31,0	14,0	1,0	3,0	8,0
SPG MINERAÇÃO SA	Brazil	SEVERSTAL OAO	25,0	11.05.11	0	28,6	9,4	5,8	23,6	4,0	13,3	1,0	0,6	7,4
SYMBIOTEC GMBH	Germany	INSTITUT STVOLOVYK	44,0	27.05.11	1	29,0	7,4	21,3	53,8	-101,0	56,0	1,0	3,1	13,9

		H KLETOK CHELOVEKA OAO												
NETCACAO SA	France	IVORY COAST CACAO	100,0	07.02.12	1	28,6	7,8	12,7	43,1	-92,0	43,0	1,0	0,9	11,1
LIDYANA ELEKRONIK HIZMETLER ITHALAT IHRACAT PAZARLAMA SANAYI VE TIC AS	Turkey	RU-NET LTD	25,0	20.06.12	0	27,4	7,5	12,0	-7,1	-50,0	21,0	2,0	0,5	9,9
SOVEREIGN METALS LTD	Australia	ATERRA CAPITAL	12,6	18.01.13	1	28,1	9,6	31,5	61,1	-102,0	53,0	2,0	4,3	10,1
CONTARINI VINI E SPUMANTI SPA (ITALY)	Italy	IGRISTYE VINA ZAO	100,0	24.04.14	1	28,4	7,8	9,0	45,6	-13,0	16,0	1,0	2,6	11,3
EVRONE SRO	Czech Republic	AVTONOMNAYA NEKOMMERCHESKAYA ORGANIZATSIYA AGENTSTVO STRATEGICHESKIKH INITSIATIV PO PRODVIZHENIYU NOVYKH	7,0	29.09.14	1	26,0	7,4	20,3	63,6	-24,0	24,0	3,0	1,3	10,4

		PROEKTOV												
SERMILIK TRAWL APS	Denmark	MURMANSKII TRALOVYI FLOT OAO	33,3	07.05.15	1	26,6	7,4	24,2	61,2	-51,0	62,0	3,0	6,4	8,7

Source: created by the author

V1 – Economy_dummy: 1 – Developed economy; 0 – Emerging economy;

V2 – ln(GDP)

V3 – ln (geographical distance)

V4 – Distance in Economic Freedom index

V5 – Distance in Political stability index

V6 – Distance in Doing business index

V7 – Distance in Corruption perception index

V8 – Memebership in international organizations

V9 – Cultural distance

V10 – Size of Russian Diaspora