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**Host Country Risk and Foreign Ownership Strategy:
Meta-Analysis and Theory on the Moderating Role of Home Country Institutions**

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Highlights:

- the country risk–ownership strategy relationship (CR–OS) is positively moderated by institutional constraints on policymakers and risk-taking tendencies in a firm’s home country
- the CR–OS relationship is negatively moderated by the joint effect of institutional constraints on policymakers and risk-taking tendencies in a firm’s home country
- the agenda for future theory development in international business is proposed according to these findings

Host Country Risk and Foreign Ownership Strategy: Meta-Analysis and Theory on the Moderating Role of Home Country Institutions

ABSTRACT

Empirical evidence for the relationship between host country risk and a firm's ownership level in its foreign entry strategy is inconclusive. We revisit this relationship by integrating the internalisation logic with an institution-based view to examine the moderating effects of formal and informal institutions in the home country. By meta-analysing 64 empirical studies involving 52,229 ownership decisions on foreign market entry, this study gives support to theoretical arguments that the focal relationship is positively moderated by institutional constraints on policymakers and risk-taking tendencies in the home country but is negatively moderated by the joint effect of these two institutional factors. These findings shed new light on the literature of host country risk and foreign ownership strategy. Besides describing the implications of the findings for theory and practice, we discuss the agenda for future theory development in international business.

Keywords: host country risk, ownership strategy, home country institutions, meta-analysis

1. Introduction

As a primary source of external uncertainty, country risk has been widely recognised as a central issue in international business (IB) research (Cosset & Roy, 1991; Miller, 1992). Over the past three decades, a number of empirical studies have examined how host country risk may affect the level of ownership in a firm's foreign market entry strategy (e.g., Erramilli, Agarwal, & Kim, 1997; Slangen & van Tulder, 2009; Wooster, Blanco, & Sawyer, 2015). Some found that firms may choose a low level of ownership to enter a high-risk host country, and others found the opposite (see Ahsan & Musteen, 2011; Morschett, Schramm-Klein, & Swoboda, 2010; Surdu & Mellahi, 2016). The inconclusive empirical evidence implies that far from having reached a

mature understanding of the country risk–ownership strategy (CR–OS) relationship, the IB field has yet to fully understand the mechanism of ownership strategy as a way to internalise external uncertainty rooted in host country risk. We argue that the inconsistent findings in prior research on the CR–OS relationship result mainly from the inadequacy of this research to take into account home country formal and informal institutions.

The extant literature has paid growing attention to home country effects on firm internationalisation. For example, a home country’s institutional framework (Buckley, Voss, Cross, & Clegg, 2011), institutional stability (Barnard & Luiz, 2018), labour protection (Weng & Peng, 2018), autocracy (Clegg, Voss, & Tardios, 2018) and subnational institutions (Tang, 2019) have been found to influence firm internationalisation. The home country is important for IB research because it shapes a business ecosystem in which firms compete and collaborate to obtain resources for internationalisation (Hobdari, Gammeltoft, Li, & Meyer, 2017), and it determines comparative advantages and disadvantages, country-of-origin merits and liabilities, and firms’ practices of learning in and escaping from the home country (Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018). Yet, despite such importance, little effort has been made to examine the moderating effect of home country institutions on the CR–OS relationship. The majority of empirical studies on this relationship, including prior meta-analyses, have either focused on institutional distances between home and host countries, taken home country institutions as a given background, or relied on a narrow conceptualisation of the home country effect by using a dummy variable (e.g., Morschett, et al., 2010; Zhao, Luo, & Suh, 2004). Such a gap in the literature hinders our understanding of the impact of country risk on firm internationalisation and, especially, the boundary condition of this impact.

This study addresses this gap both theoretically and empirically. Theoretically, we complement internalisation theory with an institution-based view by relying on the former to

understand the strategy for handling external uncertainty and the latter to analyse the effects of home country formal and informal institutions. Specifically, we view a firm's foreign ownership strategy as a decision on the degree to which the firm will internalise international activities in an environment in which outcomes of international expansion are unpredictable (Buckley & Casson, 1976; Miller, 1992) and consider home country contexts as complex rules and norms that define essential structures of a society and regulate the behaviour of members in the society (North, 1990). Within a country, formal institutions are often taken to mean that the rules are made explicit or written down, particularly if they are enforced by the state. In contrast, informal rules are implicit in that "informal constraints defy, for the most part, neat specification" (North, 1990, p. 36). Such informal rules include "codes of conduct, norms of behaviour, and convention" as well as "extensions, elaborations and modifications of formal rules", and they "are a part of the heritage that we call culture" (North, 1990, pp. 36 - 40). Home country formal and informal institutions shape managerial cognition and facilitate or constrain the use of strategic resources and capabilities and, therefore, are fundamental for firms to develop and maintain competitive advantages in internationalisation (Cuervo-Cazurra, 2011; Jackson & Deeg, 2008).

Empirically, we employ advanced meta-analytic techniques to examine the findings of prior research directly and synthesise a number of single-country studies to develop a single multi-country model, thereby maximizing the diversity of home country contexts, in which hypotheses about home institutional effects on the CR–OS relationship are tested. Specifically, our meta-analytic study combines empirical findings of 64 studies with 52,339 entry strategy decisions and tests a set of hypotheses with meta-regression models based on 38 studies with 32,854 entry strategy decisions. This enables us to demonstrate the impacts of formal and informal institutions and their joint effect on the focal relationship and makes a significant improvement over previous

meta-analyses (Morschett, et al., 2010; Zhao, et al., 2004) that have included the CR–OS relationship as a small fraction in their analyses and left the inconsistency problem unsolved.

The contributions of this study are threefold. First, we extend the internalisation logic by revealing a set of boundary conditions on the CR–OS relationship. These conditions are home country institutions. Their variation is attributed (partly) to the inconclusive findings in previous studies on the focal relationship. As such, our analysis goes beyond the objective of research synthesis towards theory extension. Second, our study contributes to the body of institution-based studies by distinguishing formal and informal institutions in an IB decision-making context. Prior studies have found the impact of institutions on firm internationalisation, and our study shows positive effects of home country formal and informal institutions on the CR–OS relationship as well as their different roles in strengthening this relationship. Third, we contribute to the knowledge of the interaction between formal and informal institutions by developing and testing competing hypotheses on whether the two types of institutions function as complements or substitutes. We find empirical support for the substitute argument.

The rest of this paper proceeds by first discussing theoretical underpinnings and then developing hypotheses to formulate our theoretical predictions about the moderating effects of formal and informal institutions. After this, we describe research methods and present the results of both main and supplementary analyses. We conclude this paper with a discussion of future research paths, implications, and limitations.

2. Theoretical background and hypothesis development

2.1. Internalisation theory and foreign market entry strategy

Firms can choose different entry strategies to expand in foreign markets. These strategies entail different levels of organisational control, risk exposure, resource requirements, and

expectations of future returns (Anderson & Gatignon, 1986; Buckley & Casson, 1998) in the way that a high (low) level of ownership in an entry strategy indicates a high (low) level of control, risk exposure, required resources, and expected returns (Magnusson, Baack, Zdravkovic, Staub, & Amine, 2008). When firms are confronted with market imperfections in a high-risk host country, they may handle such imperfections by either undertaking international activities internally within the corporate hierarchy (e.g., a high level of ownership in a foreign subsidiary), or utilising external market mechanisms, such as exporting and cross-border distribution (Dunning & Rugman, 1985). This choice depends on the degree to which firm resources can be successfully exploited in the host country using direct investment (Buckley & Casson, 1976).

This classic rationale for a decision on foreign ownership strategy is provided by internalisation theory. Rooted in the intellectual foundations of Coase (1937), this theory assumes that firms minimise the costs of international activities by entering the best locations with the most efficient strategies (Buckley & Casson, 1976) and suggests that firms exploit imperfections and organise cross-national interdependencies within corporate boundaries (Hennart, 1982). If the external imperfections of host market structures outweigh the internal uncertainty caused by external uncertainty, efficiency-driven economic actors take hierarchical governance approaches to the attainment of global efficiency goals; otherwise, they rely on external markets (Rugman, 1981). Internalisation theory has been widely accepted in the IB literature and applied to the analysis of foreign ownership strategy (Surdu & Mellahi, 2016).

Despite its popularity, internalisation theory needs to be extended to take home country effects into account for firms' strategic responses to host market environments. Because the theory was initially formulated in advanced economies (e.g., globally leading firms in Buckley & Casson, 1976; Canadian firms in Rugman, 1981) where the influence of home country institutions was assumed to be not apparent, its focus has been mainly on the host country side of

internationalisation, thereby implying potential theoretical concerns. First, internalisation theory assumes—albeit implicitly—the home environment as a given background (Buckley, et al., 2007; Ramamurti & Hillemann, 2018). Yet institutional environments of the home country are key determinants of firm resources and strategies (Cuervo-Cazurra, 2011; Cuervo-Cazurra, et al., 2018; Hobdari, et al., 2017). In particular, following the growth of emerging-market firms’ direct investment in developed economies, prior approaches to the integration of corporate governance and inefficient host markets may not still be effective (Luo & Tung, 2017; Voss, Buckley, & Cross, 2010). Second, internalisation theory assumes that firms are naturally equipped with the capabilities to predict costs in a host country and, if necessary, these firms internalise externalities there (Chi, 2015). However, such capabilities vary among firms headquartered in different countries. Prior research has shown that, for example, firms from home countries characterised by weaker formal institutions may be less sensitive to explicit rules for minimising transaction costs in foreign countries (Holburn & Zelner, 2010), therefore being incapable of understanding actual costs. Finally, although prior research based on internalisation logic has intensively investigated cultural contexts in host countries and home–host cultural differences (Magnusson, et al., 2008; Zhao, et al., 2004), internalisation theory downplays the impact of home country informal institutions on a firm’s international expansion (Peng, Sun, Pinkham, & Chen, 2009). Despite the analytical reliance of foreign market entry on formal and rational procedures, informal institutions may at times override an entry decision based on rational calculations. Therefore, the internalisation logic may need modification to model the relationship between host country risk and a firm’s ownership-specific decision on foreign market entry, and the logic can be complemented with an institution-based view to take account of the moderating effect of home country institutions.

2.2. The institution-based view: moderating effects of home country institutions

Institutions are regarded as rules and norms that structure the interaction among social entities (North, 1990). According to the institution-based view, a central premise of international business is that a firm's strategies and practices, as well as their consequences, are contingent on institutional factors—the formal and informal “rules of the game” (Kostova, Roth, & Dacin, 2008; Meyer & Rowan, 1977). These institutional factors influence the internationalisation of firms residing in a country by limiting the set of resources available for an entry strategy and influencing firms' preferences for and assessment of the strategy (Buckley, 2018) because formal and informal institutions shape an economy's resource environment and thus the resources and capabilities of firms embedded in the environment (Jackson & Deeg, 2008). For example, firms from a politically uncertain environment have strong abilities to deal with policy risk overseas (Jiménez, Benito-Osorio, Puck, & Klopff, 2018). Therefore, formal and informal institutions may be modelled as moderators to explain variance in the CR–OS relationship across home countries.

Prior research has shown the impact of formal and informal institutions on firm internationalisation. For example, an array of studies have examined the effect of formal institutions on international business strategies, such as the scope of global expansion (Wu & Chen, 2014), export and investment activities (Sun, Peng, Lee, & Tan, 2015), subsidiary strategies (Wei & Nguyen, 2017), and foreign establishment mode decisions (Liu & Yu, 2018), demonstrating that formal institutions have strong influences on firm internationalisation. Likewise, authors of another stream of the literature have investigated the effect of informal institutions on international business decisions, including a firm's foreign market entry strategy (Guillén, 2003), foreign market entry timing (Stevens & Dykes, 2012), and offshoring innovation (Sartor & Beamish, 2014). In addition, a third group of prior studies have focused on moderating effects of home institutions on the relationships between international experience and FDI

location choices (Lu, Liu, Wright, & Filatotchev, 2014), firm internationalisation and performance (Marano, Arregle, Hitt, Spadafora, & van Essen, 2016), and state ownership and internationalisation (Estrin, Meyer, Nielsen, & Nielsen, 2016). In the present study, we investigate the moderating effects of home country formal and informal institutions on the CR–OS relationship in that home country institutions may facilitate or impede firms’ capabilities of handling host country risk with a certain level of ownership.

2.3. *Formal institutions*

Formal institutions are deliberately devised to buttress market efficiency by monitoring behaviour, sanctioning defection, and enabling social entities to exchange information (North, 1990; Williamson, 2000). Being established and enforced by governmental authorities, formal institutions are intended to shape an environment that leads firms to pursue their interests and make choices rationally (Meyer & Rowan, 1977; Pejovich, 1999). The force of formal institutions is rooted in *institutional constraints on policymakers*. These constraints in a firm’s home country may affect the CR–OS relationship by shaping a politically stable home environment and providing effective support for the firm (Jackson & Deeg, 2008), both of which enable the firm to focus on transaction costs in foreign countries and leverage existing resources to handle foreign market uncertainty.

Institutional constraints check and balance diverse institutional actors in policymaking systems. In a system with relatively weak constraints, policymaking authority is either concentrated in the hands of several policymakers or shared among policymakers with similar political preferences, implying the ease of policy change and, consequently, unstable formal institutions. Prior research, for example, has identified weak institutional constraints as a central determinant of political hazards and a consequent threat of indirect, or “creeping”, expropriation

(Henisz, 2000; Knack & Keefer, 1995). Conversely, a country with strong institutional constraints is characterised by well-distributed policymaking authority. Within such a system, individual policymakers with different partisan affiliations populate multiple constitutionally separate branches of a government, implying balanced policymaking forces and stable institutions. The mainstream logic of political research states that a more democratically oriented policymaking system provides more certainty and predictability in a society (Olson, 1993).

Firms from such a society, therefore, are less likely to be distracted by an institutionally unstable environment at home and, instead, able to pay more attention to foreign country risk, thereby allocating more resources to handle risk in a foreign country. Because formal institutions are designed to reduce uncertainty for relatively predictable behaviour, an unstable political environment where formal rules are changed frequently and unpredictably (due to weak institutional constraints) becomes a source of uncertainty (Banalieva, 2014), but strong institutional constraints result in a stable environment with less uncertainty. Also, strong institutional constraints require the government to allocate national resources transparently and provide support without preferences for firms affiliated with a certain political party, suggesting that the majority of firms can equally obtain governmental support and develop specific competence in handling difficulties in a foreign environment (Cuervo-Cazurra, 2011). Furthermore, firms from countries with strong institutional constraints have been found to be inadequate for controlling policy-related transaction costs in foreign countries (Holburn & Zelner, 2010). These firms need to avoid incorrect anticipation of positive outcomes in a foreign market and make market entries profitable by controlling host country externalities within their corporate hierarchy if they choose to enter the foreign market (Agarwal, 1994), though firms from countries with weak institutional constraints are more politically capable of handling

transaction costs rooted in formal institutions via market mechanisms (e.g., external partners in host countries). Therefore, we propose the following:

Hypothesis 1. Home country institutional constraints strengthen the relationship between host country risk and the ownership level of a firm's entry strategy such that the higher (lower) the level of institutional constraints in the firm's home country, the stronger (weaker) the relationship between host country risk and the firm's ownership strategy.

2.4. Informal institutions

Informal institutions are socially shared rules (usually unwritten norms) that are created, communicated, and enforced outside of formal policymaking systems. These institutions represent "the cultural filter that provides continuity so that the informal solution to exchange problems in the past carries over into the present and makes those informal constraints important sources of continuity in long-run societal change" (North, 1990, p. 37). In this sense, informal institutions are grounded in specific cultures, not changed easily by deliberate policies, and continuously re-enacted through generations (Hofstede, 1980; House, Hanges, Javidan, Dorfman, & Gupta, 2004).

Similar to formal institutions, informal institutions may affect a firm's strategy for entering a foreign country, but there are differences between formal and informal institutions. First, the enforcement of formal institutions relies on the coercive power of the state, such as through courts or arbitration bodies (Dyer & Singh, 1998), but informal institutions are self-enforced by means of sanctions, such as expulsion from the community and ostracism by friends and neighbours (Pejovich, 1999). Second, while formal institutions are regulated by the third-party enforcement mechanisms, informal institutions may have regulatory potential from the manipulation of intangible resources, including reputation, legitimacy, and status (Deephouse &

Suchman, 2008), which define the best practices for organisations in a country and determine their foreign market entry strategy (Schwens, Eiche, & Kabst, 2011). Because the fundamentals of informal institutions are embedded in the culture of a society, uncertainty avoidance—an important dimension of culture—reflects the social norm in regard to risk-taking behaviour and represents a type of informal institutions that are most directly related to a decision in the presence of host country risk.

Uncertainty avoidance indicates the extent to which social actors may be threatened by ambiguous situations and the extent to which uncertainty is tolerated in a society (House, et al., 2004). Societies with strong uncertainty avoidance tend to “take more moderate calculated risks” with “risk aversion”, and those with weak uncertainty avoidance are likely to “be less calculating when taking risk” and to engage in “risk taking” activities (House, et al., 2004, p. 618). In the context of foreign market entry, a high level of country risk means more unpredictable economic outcomes and potential political hazards (Cosset & Roy, 1991; Miller, 1992), but such risk is less likely to be resisted by firms from a society with strong *risk-taking tendencies* (i.e., weak uncertainty avoidance). These firms are willing to handle a high level of country risk and are likely used to dealing with external risks by engaging in a hierarchical ownership structure because such a strategy enables them to control external uncertainty internally (Henisz, 2002; Hennart, 2001; Klein, Frazier, & Roth, 1990). In contrast, firms from risk-averse societies (i.e., strong uncertainty avoidance) may prefer a low level of ownership to enter a high-risk host country because a low degree of resource commitment leads to less exposure to risk and allows for maintaining lower long-term costs (Brouthers, 2002; Delios & Beamish, 1999). We therefore posit the following:

Hypothesis 2. Risk-taking tendencies strengthen the relationship between host country risk and the ownership level of a firm's entry strategy such that the higher (lower) the level of risk-taking tendencies in the firm's home country, the stronger (weaker) the relationship between host country risk and the firm's ownership strategy.

2.5. Interactions between formal and informal institutions

While formal and informal institutions originate from different sources, they coexist in a society and influence each other (Paxton, 2002; Webb, Khoury, & Hitt, 2019). In the context of firm internationalisation, formal and informal institutions may fulfil similar voids in facilitating firms' strategies (Peng & Khoury, 2009). Thus, after investigating the separate effects of formal and informal institutions, an intuitive question to ask is how they jointly and interdependently affect the CR–OS relationship. The extant literature provides two competing views.

One view is that formal and informal institutions *complement* each other, in that one type improves the effectiveness of the other, and that their joint effects are conducive to economic growth and firm internationalisation (Hall & Soskice, 2001). Hall and Gingerich (2009) argue that “One set of institutions is said to be complementary to another when its presence raises the returns available from the other” (p. 450), suggesting a reciprocal association between the two types of institutions. On the one side, the effectiveness of formal institutions depends on informal institutions because the latter provide the background within which the former are embedded (Williamson, 2000) and “the [informal] norms . . . provide the essential ‘legitimacy’ to any set of formal rules” (North, 1995, p. 25). On the other side of the reciprocal association, informal institutions rely on formal institutions to develop. When formal institutions are changing in a society, informal rules that gradually evolve as extensions of previous formal institutions may survive the change (North, 1990). Also, in countries where economic structures and legal systems

are more effective, informal institutions such as trust, civic norms, and social capital are stronger (Hall & Gingerich, 2009).

The institutional complementary view applies to the focal relationship examined in this current study in multiple ways. First, institutional constraints on policymakers in a country with a strong risk-taking tendency may be more effective in providing support to firms that enter a high-risk host country. Policymakers from the risk-taking culture are likely to support risk-taking behaviour. When their decisions on policies are better aligned with the interests of the majority of social entities (due to institutional constraints), firms will gain stable support from formal institutions at home to handle host country risk. Second, informal norms of risk taking may more effectively guide firms to take a high level of control in a high-risk host country when institutional constraints can force formal institutions to support managerial decisions on the high-level ownership strategy for entering an uncertain environment. Putting this together, the combination of formal and informal institutions may strengthen the CR–OS relationship through joint effects of both institutional types. Consequently, a hypothesis based on the institutional complementary view is as follows:

Hypothesis 3a. The effectiveness of institutional constraints in regard to strengthening the relationship between host country risk and the ownership level of a firm’s entry strategy *increases* in the presence of strong risk-taking tendencies and vice versa.

Another view holds that formal and informal institutions *substitute* for each other in the sense that they can independently strengthen the focal relationship and may not necessarily come into effect simultaneously in promoting certain behaviour. One reason is that they represent different institutional objectives in the way that formal institutions aim to support more anonymous forms of exchange, but informal institutions facilitate relational exchange approaches

for which social identity and reputation are important (Gilson, 2007). This divergence suggests conflicting expectations that indicate inconsistent directions to social entities that seek normative guidance and constraints (Lee & Weng, 2013). In particular, it may be inefficient and uneconomic to maintain two institutional systems in parallel (Peng & Khoury, 2009; Peng, et al., 2009).

Prior research has shown that formal rules shape only a small, though important, part of an institutional environment and informal norms are often pervasive (North, 1990). If formal constraints are absent from or incomplete for supporting firm internationalisation, informal norms may intervene by assessing host country risk and guiding firms to choose a strategy (Peng & Khoury, 2009). During the institutional transition in a country, informal institutions are often expected to fill formal institutional voids (Kim & Song, 2016) and to encourage firms to develop informal relationships (Lee, Abosag, & Kwak, 2012). In countries where formal institutions are well developed, however, these institutions may take the place of informal institutions in regard to business activities (Shaner & Maznevski, 2011), and the effect of informal institutions becomes weak (Paxton, 2002).

When both formal and informal institutions are in place, they may exert independent impacts on firm strategies (Keig, Brouthers, & Marshall, 2015), and there may be institutional contradictions that increase the costs of compliance (Millar, Eldomiaty, Choi, & Hilton, 2005). Competing and redundant institutional structures provide contradictory directions (Peng, et al., 2009; Sun, et al., 2015), which lead to confusion and sway opinions about risk-taking activities. Although some factors such as international experience may facilitate firms' expansion in a risky environment (e.g., Jiménez, et al., 2018), firms' capability to take advantage of these factors may not be improved when both types of institutions are highly effective in causing contradictions. Accordingly, a hypothesis derived from the substitute view is as follows:

Hypothesis 3b. The effectiveness of institutional constraints in regard to strengthening the relationship between host country risk and the ownership level of a firm’s entry strategy *decreases* in the presence of strong risk-taking tendencies and vice versa.

3. Meta-analysis

3.1. Procedure

We followed the most recent meta-analytic studies (e.g., Bailey, 2018; Lindner, Klein, & Schmidt, 2018; Tang & Gudergan, 2018) and best-practice recommendations for meta-analysis in international business and management (Buckley, Devinney, & Tang, 2014; Geyskens, Krishnan, Steenkamp, & Cunha, 2009) as the methodological baseline for our study. Table 1 provides an overview of our meta-analytic methods.

Insert Table 1 about here

3.2. Variables

In line with prior meta-analyses (Morschett, et al., 2010; Zhao, et al., 2004), we defined ownership strategy as an entering firm’s proportion of equity investment in an international operation (Shieh & Wu, 2011; Surdu & Mellahi, 2016) and host country risk as the external uncertainty rooted in the unpredictability of political and macroeconomic factors (Cosset & Roy, 1991; Miller, 1992). The correlation between country risk and ownership strategy was the central variable of our analyses.

The first moderator of this correlation—*institutional constraints*—was measured using a political constraints index developed by Henisz (2000; 2002), which has been widely used as an institutional measure in IB studies (e.g., Jung, Beamish, & Goerzen, 2008; Laufs, Bembom, & Schwens, 2016; Lu, Li, Wu, & Huang, 2018; Maekelburger, Schwens, & Kabst, 2012). This

index evaluates the extent to which formal relationships among a country's branches of government (i.e., executive, legislative, and judicial) and the partisan composition of the individual actors inhabiting these branches constrain any one institutional actor from unilaterally effecting a change in policy (Henisz, 2000; Holburn & Zelner, 2010). In this sense, strong institutional constraints mean a high level of difficulty to change and, consequently, a stable formal institutional environment. The scale of this index ranges from 0 to 1, with 0 suggesting the absence of institutional constraints on policymakers.

Another moderator of the CR–OS relationship, *risk-taking tendencies*, was operationalised by the uncertainty avoidance index of the GLOBE cultural framework (House, et al., 2004). It measures a society's tolerance of uncertainty and tendency to take a risk. A similar index is available in Hofstede's cultural framework (Hofstede, Hofstede, & Minkov, 2010), which defines uncertainty avoidance as “the extent to which the members of a culture feel threatened by ambiguous or unknown situations” (p. 191). In comparison with this, GLOBE provides a more relevant concept to our theoretical argument. This cultural framework defines a higher uncertainty-avoidance society as people who tend to “take more moderate calculated risks”, and a lower uncertainty-avoidance society as “[to] be less calculating when taking risks” (House, et al., 2004, p. 618). In the robustness tests below, we took the Hofstede uncertainty avoidance index as an alternative measure of risk-taking tendencies, which produced consistent results. Moreover, we chose the society practices dimension of GLOBE's uncertainty-avoidance index to examine the actual (i.e., “as is”) risk-taking tendencies of a society because the society values dimension demonstrates what people may value in a society and often is the opposite of how people actually behave (Brewer & Venaik, 2010). Because this index was originally scored between 1 and 7, with 1 indicating that a society is extremely risk taking, we reverse coded the index so that a higher value represents strong risk-taking tendencies.

Furthermore, we controlled for the confounding effects of three groups of variables: (1) other institutional factors, (2) methodological artefacts, and (3) potential publication bias. First, we took the influence of other institutional factors into consideration by including *GDP*, *judicial proceedings*, and *investor protection*. Second, we controlled for methodological influence by including *manufacturing industry*, *SMEs*, *international experience*, *median sample year*, and *cross-sectional data*. Third, we included *published work* and *journal impact factor* to control for the potential publication bias. Measures of these control variables are detailed in Table 2.

Insert Table 2 about here

4. Results

4.1. Meta-analytic results of the CR–OS relationship

Table 3 shows the correlation-based meta-analytic results for the focal relationship, revealing a modest but negative and significant association between host country risk and the ownership level of a firm’s entry strategy (mean $\rho = -0.101$, p -value < 0.05). Saliently, nevertheless, the level of heterogeneity is significant ($Q = 2,101$; $I^2 = 0.97$), suggesting a high variance in the distribution of effect sizes. The funnel plot in Figure 1 also demonstrates a wide distribution of effect sizes. Putting results of the heterogeneity test and the funnel plot together suggests that the mean ρ is best considered as an average, rather than a common true correlation value (Hedges & Olkin, 1985), implying the need for moderation analyses.

Insert Table 3 and Figure 1 about here

Further inspection of the subgroup analyses in Table 3 reveals the cross-national differences in the focal relationship, suggesting the presence of home region–specific moderating

effects. Specifically, while the integrated effect sizes of developing- and developed-economy groups are negative and statistically significant, associational directions vary among individual countries. For example, the subgroup mean ρ for Finland is positive (0.129) and statistically significant (p -value < 0.05), but that of Japan is negative (-0.188) and significant (p -value < 0.05), further recommending meta-regression to better understand the moderation effects of home country institutions. Results of additional analyses at the study-, firm-, and industry- levels provide further evidence for this recommendation (Appendix 2).

4.2. Results of the moderating effects of home country institutions

Table 4 presents descriptive statistics and correlation coefficients of variables included in the meta-regression analysis. This analysis was based on 38 primary studies, each of which collected data in a single home country. We noted several high correlations and, therefore, conducted variance inflation factor (VIF) tests. Given the acceptable VIF values (i.e., all are smaller than 5.11), multicollinearity was not a serious concern in the meta-regression analyses (O'Brien, 2007).

Insert Table 4 about here

Table 5 displays meta-regression results for testing our hypotheses. Model 1 includes control variables only. Models 2 and 3 add *institutional constraints* and *risk-taking tendencies*, respectively. Model 4 includes both variables, and Model 5 shows their interaction effect. The incremental R -squared values from Model 1 to Model 5 demonstrate the statistical power of these models for hypothesis testing.

Insert Table 5 about here

Hypothesis 1 predicts that institutional constraints of the home country have a positive impact on the CR–OS relationship. The coefficient of *institutional constraints* is positive and statistically significant in Model 2 ($\beta = 0.847$, p -value < 0.01) as well as Models 4 and 5 (p -value < 0.05), suggesting that, as institutional constraints increase by 1 SD (i.e., 0.22), ceteris paribus, the correlation between host country risk and the ownership level of a firm’s entry strategy increases by approximately 0.186. Considering that the mean ρ is -0.101 , the moderating effect of institutional constraints is substantial. Thus, Hypothesis 1 is supported.

Hypothesis 2 expects that firms from countries with strong risk-taking tendencies are more likely to enter a high-risk host country with a high level of ownership. In Model 3, the coefficient for *risk-taking tendencies* is 0.250 (p -value < 0.05), which is also consistently significant in Models 4 and 5. This means that a 1–SD increase of risk-taking tendencies (i.e., 0.55) may, ceteris paribus, result in the focal correlation’s increase by approximately 0.138. Thus, Hypothesis 2 gains support.

Hypothesis 3a posits a positive effect of the interaction of institutional constraints and risk-taking tendencies on the focal relationship, but Hypothesis 3b argues the opposite. Model 5 shows a negative and statistically significant coefficient of the interaction term of *institutional constraints* and *risk-taking tendencies* ($\beta = -1.552$, p -value < 0.05), suggesting that institutional constraints become less effective when risk-taking tendencies are strong and vice versa. This finding rejects Hypothesis 3a but supports Hypothesis 3b.

To illustrate the analytic results, we plotted the effects suggested in Hypotheses 1, 2, and 3, respectively, in Figures 2a, 2b, and 2c. As Figure 2a illustrates, the CR–OS relationship increases when institutional constraints increase, suggesting that strong institutional constraints in home countries may result in a higher level of ownership for entering a high-risk host country (i.e., a positive impact of institutional constraints on the CR–OS relationship, as predicted in Hypothesis

1). Likewise, Figure 2b demonstrates a positive impact of risk-taking tendencies on the CR–OS relationship, which is consistent with Hypothesis 2. In Figure 2c, there are two lines—one dashed and one solid—representing the effectiveness of institutional constraints in the presence of different levels of risk-taking tendencies. Specifically, the dashed line illustrates the effect of institutional constraints at a low level of risk-taking tendencies, and the solid line shows the effect at a high level. When risk-taking tendencies are weak (the dashed line), the greater the institutional constraints, the stronger the CR–OS relationship. However, when risk-taking tendencies are strong (the solid line), the greater the institutional constraints, the weaker the CR–OS relationship. In other words, institutional constraints become less effective if risk-taking tendencies are strong, thereby demonstrating evidence consistent with the theoretical prediction in Hypothesis 3b.

Insert Figure 2 about here

4.3. *Non-publication bias and robustness tests*

We checked for non-publication bias and robustness in multiple ways. First, we assessed non-publication bias with the fail-safe N method and the trim-and-fill method (Duval & Tweedie, 2000; Hunter & Schmidt, 2004). Results shown in the last column in Table 3 indicate that non-publication bias is not a serious issue. Second, we adopted a winsorising procedure to address outliers by truncating the meta-regression data set (Barnett & Lewis, 1994). This procedure replaced any value above the 95th percentile of the sample data with the 95th percentile. Meta-regression results based on the winsorised data (Model R1 in Table 6) are largely consistent with those in Table 5. Third, we reran Model 5 in Table 5 with alternative measures of *institutional constraints* and *risk-taking tendencies*. Specifically, we measured institutional constraints with a

regulatory efficiency indicator of the Index of Economic Freedom, which is co-published by the *Wall Street Journal* and the Heritage Foundation. It gauges the quality of regulatory environments in a country. Also, we measured risk-taking tendencies with the original value of the Hofstede uncertainty avoidance index. Meta-regression results with these alternative measures are in Models R2 and R3 in Table 6, respectively, showing consistent findings with those used to test our hypotheses. Fourth, we employed the multi-level regression technique to assess the nested effects between country- and study- levels (Hox, 2010). Results in Model R4 in Table 6 are largely consistent with those in Table 5. Fifth, we note that multiple articles present studies based on Japanese samples from the database maintained by Koyo Keizai. While these studies collected data in different years, the potential of data overlap deserves scrutiny. We therefore estimated an additional regression model by excluding Chan and Makino (2007) and Jung, et al. (2008). The former is based on 4,451 Japanese observations from 1988 to 1998, and the latter is based on 9,741 observations in 1985, 1991, 1993, 1996, 1998, and 1999, implying potential data overlap (Lipsey & Wilson, 2001). After excluding the two studies, the remaining data set included four Japan-specific studies (Appendix 1). The regression results are in Model R5 in Table 6. Sixth, we conducted a subgroup analysis to rule out potential bias related to the overall development stage of home countries by running meta-regression with developed-country samples only. We obtained largely consistent results in Model R6 in Table 6.

Insert Table 6 about here

5. Discussion and future research

5.1. Theoretical contributions and future paths to theory development

This study makes three main contributions to the literature. The foremost one is that the study extends the internalisation logic by integrating it with the institution-based view to reveal

the contingency effects of home country institutions on the CR–OS relationship. Previous studies found that firms make internalisation decisions when the transaction costs of collaborative arrangements are higher than those of hierarchical governance (e.g., Brouthers, 2002; Taylor, Zou, & Osland, 1998). This study shows that the degree to which a firm engages in hierarchical governance is contingent on the firm’s home country institutional environments that set the limits of available resources at home. As such, our study extends internalisation theory from a home country institutional perspective and answers a research question regarding boundaries of the internalisation logic (Buckley & Casson, 1976). This effort responds to the call for research questions that a single IB theory cannot answer alone, thereby developing the theory further (Buckley, Doh, & Benischke, 2017).

Related to this contribution, our second contribution is to demonstrate the mechanisms of home country–specific formal and informal institutions in the context of foreign market entry. Previous studies predicted the critical impact of formal and informal institutions on firm strategies and practices (Keig, et al., 2015) as well as their outcomes (Peng, et al., 2009). Our study extends this prediction by showing the positive effects of home country institutional constraints and risk-taking tendencies on the ownership level of a firm’s strategy in entering a risky environment. In so doing, this study distinguishes the effects of two institutional types and demonstrates how they affect firm internationalisation.

Third, our study furthers knowledge on the interaction of formal and informal institutions. The extant literature shows that the two institutional types are complementary (Hall & Soskice, 2001) as well as being a substitute for each other (Peng & Khoury, 2009). In the context of a firm’s choice of ownership strategy to enter a foreign country, our study finds supportive evidence for the substitute view so that the effect of formal institutions towards a strong CR–OS relationship is alleviated by the influence of informal institutions and vice versa. This finding

provides a parsimonious understanding of the country-level institutional factors, suggesting that institutions of one type may not solely determine home country conditions for firm internationalisation. Because a combination of institutional factors may not have the same impact as that of one factor, a prediction based on one type of institution may not always stand when taking another type into account. In this sense, firms from similar formal institutional environments may not behave in the same way if informal institutions vary between their home countries.

Putting these contributions together suggests several paths to further develop IB theory. First, this paper widens the scope of internalisation theory by relaxing the unduly rigid assumptions about the home country and, more specifically, its formal and informal institutions. This suggests home country-specific approaches to advancing the theory. For instance, a firm's home country may determine what resource configurations are available for the firm to internalise foreign market imperfections. These configurations do not take only home country-specific advantages into consideration (Rugman, 1981) but disadvantages as well (Holburn & Zelner, 2010), both of which and the way to configure them define the conditions of firm internationalisation. In a similar vein, market imperfections of the home country may influence a firm's decision on hierarchical expansion in foreign countries in that resource constraints do not always allow for internalising external imperfections in multiple markets, which suggests a firm's trade-off between internalisation at home and abroad. This implies an alternative view of theory development.

Second, emphasising both formal and informal institutions in the home country is a road to further and better theorising. Without unduly complicating the theory, incorporating the impacts and consequences of institutional constraints and cultural norms can extend the theory and help to encompass troublesome areas such as risk propensities in foreign market entry decisions by

showing how and why such propensities are shaped prior to internationalisation. Formal and informal institutions shape the environment where firms reside and managers live. A better understanding of such institutions facilitates both examination and extension of IB theory in a more parsimonious manner.

Furthermore, the roles of both host and home country institutions can be factored into internationalisation theory, thus extending its power in a way that considers relative conditions in host and home countries. IB researchers have recently been reappraising the role of risk in firm internationalisation (e.g., Jiménez, et al., 2018), and our study shows that the home country perspective has a significant impact on the assessment of risk in foreign entry. An extension of this view is that the impact of host country institutions on firm internationalisation may vary between firms originating from different home countries. Using this lens, an alternatively generalisable proposition may be that an institutional factor in host countries may not alone determine firm internationalisation but its relative effect compared with that in the home country may do so. In the context of country risk, for example, a more rigorous view would be the relative risk between home and host countries, showing whether and how much a country is riskier or less risky than another country, rather than an absolute value of the difference between risk levels. This proposition is consistent with previous research on the integration of institutional distance and directions (e.g., Zaheer, Schomaker, & Nachum, 2012) and deserves careful investigation in future research.

Lastly, future research may make theoretical contributions by examining contingent factors of the complement–substitute debate on formal and informal institutions. A more nuanced theory of the relationship between formal and informal institutions may show how they influence each other and under what conditions, recommending a possible theory-development path starting from our findings. In an entry strategy context, our study demonstrates the substitution effect

between formal and informal institutions, and this finding may be verified in other IB decision-making contexts. Besides examining IB decisions, another possible approach to addressing the debate may be taking the institutional diversity across countries into consideration (e.g., Jackson & Deeg, 2008). For instance, formal and informal institutions may complement each other in one context but become substitutes in another, suggesting an extension of our theoretical arguments in this study.

5.2. Empirical contributions and methodology considerations

This study offers a comprehensive synthesis of empirical studies on foreign ownership in a risky environment and builds on two prior meta-analyses related to this topic (Morschett, et al., 2010; Zhao, et al., 2004). In this study, we found a modestly negative and significant CR–OS relationship. This is largely consistent with prior meta-analyses, but we offered theoretical clarification on the effect of country of origin presented in Zhao, et al. (2004) and provided the reasoning behind the mixed findings in Morschett, et al. (2010). The former study focuses on the U.S.-originated influence on entry mode choices, and the latter recognises inconsistent findings but does not explore the reasons for such inconsistencies. Our study demonstrates home institutional effects across a group of countries and attributes the heterogeneity of home country effects to the variation and interaction of formal and informal institutions.

Given the modestly negative CR–OS relationship revealed in our study, we recommend that entry strategy and country risk scholars refocus their empirical settings from host country contexts to home country–specific contexts. Some recent studies have shown that greater sensitivity to the home country–specific mechanisms has the potential to explain variance in firm internationalisation (Cuervo-Cazurra, et al., 2018). Yet the extant literature still lacks the variety of home country settings, though many conventionally important international decisions (e.g.,

entry strategy) deserve re-examination in different home country contexts. Such re-examination may verify empirical findings obtained from developed countries (e.g., Japan) and popularly investigated developing economies (e.g., China). Our meta-analysis shows, for example, there are six single-country studies based on Japanese samples and eight single-country studies based on Chinese samples. While our robustness tests show that the exclusion of some primary studies does not materially change the results, the large proportion of one country's samples in the literature may be a methodological concern that deserves future investigation.

Furthermore, our meta-regression shows that effects of some control variables are not as significant as they are expected, suggesting re-examination of some factors related to the CR–OS relationship. For example, while international experience has been found to affect firms' ownership strategies (e.g., Tang & Gudergan, 2018), this factor did not obtain a significant coefficient in the regression model when other factors were taken into consideration. Also, subgroup analyses about international experience (Appendix 2) show that the CR–OS relationship is -0.148 in the subgroup with above-average experience and -0.102 in the below-average subgroup. Compared with the overall CR–OS relationship (mean $\rho = -0.101$), the difference of the two subgroups (i.e., 0.04) does not seem to be substantial. Incorporating the regression results with the subgroup analyses suggests that the difference in international experience may not significantly alter the CR–OS relationship. In other words, although a firm with more international experience than average firms is prudent to choose a high-ownership strategy in a risky environment, another firm with less international experience may be prudent as well. This finding implies that international experience may not materially change the negative relationship between host country risk and a firm's ownership strategy. Similar logic applies to other nonsignificant control variables in the meta-regression models, but further investigation into these contingency effects of the CR–OS relationship will contribute to the literature.

5.3. Managerial implications

This study has implications for managers in charge of foreign market entry. Our findings show that the CR–OS relationship is moderated by home country institutions, suggesting that firms from countries characterised by strong institutional constraints on policymakers or strong risk-taking tendencies are likely to take a high level of ownership to enter a high-risk host country. Thus, we recommend that managers first assess, before an entry strategy decision, the extent to which their home country environment may facilitate a certain level of foreign ownership.

5.4. Limitations

Besides the contributions and future research paths, we note several limitations in this study, suggesting the possibility of overinterpreting the empirical results and requiring close scrutiny. First, because the effect sizes analysed in this study are correlations, a causal association between host country risk and the level of foreign ownership cannot be assumed. Second, both formal and informal institutions have various aspects and dimensions, though this study examines institutional constraints on policymakers and risk-taking tendencies with an assumption that these two institutional factors are more directly related to a firm’s strategy for entering a risky environment. Future studies may benefit from relaxing this assumption and testing various institutional types. Third, like what many other review studies have shown, it is almost impossible to account for all relevant studies. We have put significant efforts into searching the literature, but there could be missing studies.

6. Conclusion

This study proposes that the relationship between host country risk and foreign ownership strategy is contingent on formal and informal institutions in the home country and their joint

effect. Our tests of theoretical arguments based on the internalisation logic and the institution-based view demonstrate the positive impacts of institutional constraints and risk-taking tendencies and, jointly, their negative impact on the focal relationship. These findings shed new light on the literature of host country risk and foreign ownership strategy by taking home country institutions into consideration for firm internationalisation.

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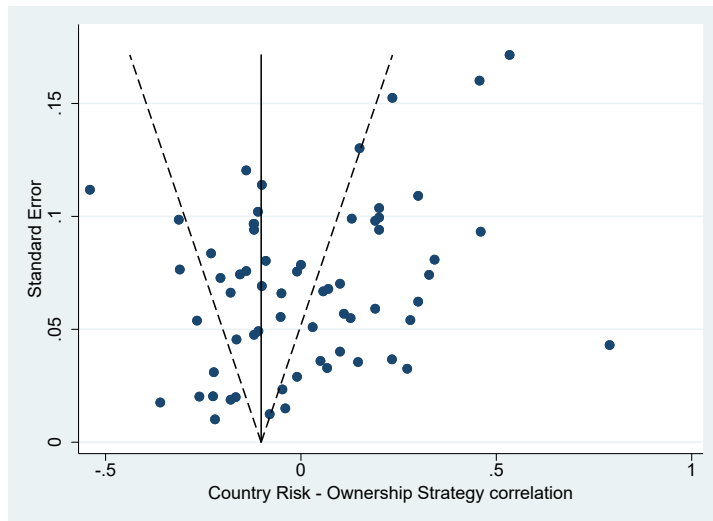
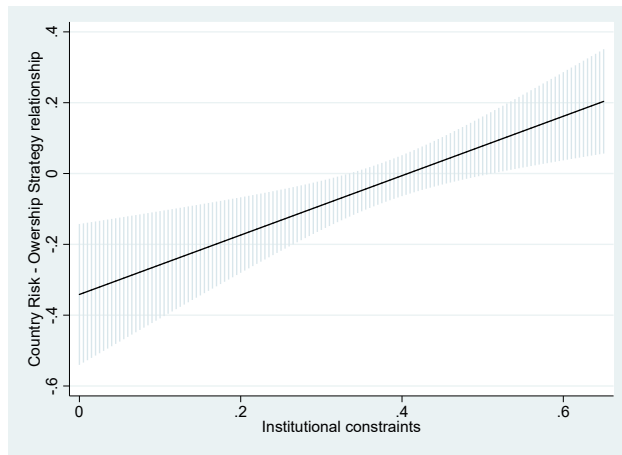


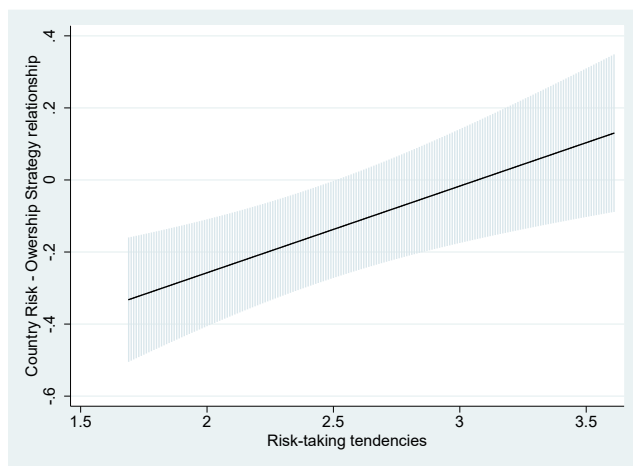
Figure 1

Funnel plot for the relationship between host country risk and the ownership level of a firm's entry strategy^a

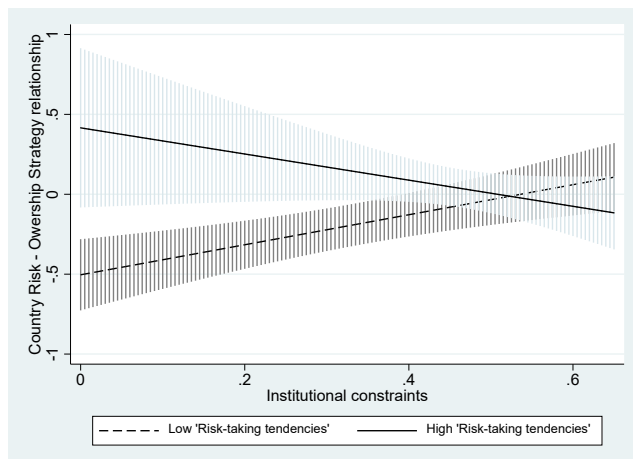
^a The solid vertical line indicates the fixed-effect summary estimate. The two dashed lines that make up the funnel are 95% confidence intervals around the projected means.



(a) Effect of institutional constraints on the country risk–ownership strategy relationship



(b) Effect of risk-taking tendencies on the country risk–ownership strategy relationship



(c) Interaction between institutional constraints and risk-taking tendencies

Figure 2
Illustrations of hypothesized effects ^a

^a Predictive margins with 95% confidence intervals

Table 1

An overview of the methodology

| | |
|--|--|
| Literature Search and Screening | <p>Four complementary methods were used to identify published and unpublished relevant studies:</p> <ol style="list-style-type: none"> 1. Searching the ABI, Ebsco, and JSTOR database with a combination of two sets of keywords, one of which is about foreign market entry strategy (Morschett, et al., 2010; Zhao, et al., 2004), and another of which is about country risk (Cosset & Roy, 1991; Miller, 1992), for published work; and seeking for unpublished research via AIB and AOM networks, and through the eLibrary of SSRN and Academia.edu. 2. Manually searching ten top-tier journals in international business, management, marketing, and other disciplines alike (Harzing, 2018). 3. Using snowball technique to manually search citations of the included papers and references of relevant review papers (e.g., Brouthers & Hennart, 2007; Canabal & White III, 2008; De Villa, Rajwani, & Lawton, 2015; Malhotra, Agarwal, & Ulgado, 2003; Morschett, et al., 2010; Schellenberg, Harker, & Jafari, 2018; Surdu & Mellahi, 2016; Surdu, Mellahi, & Glaister, 2018; Zhao, et al., 2004) for identifying studies missed in the prior steps. 4. Contacting authors for correlation matrixes if these were not reported. <p>These steps resulted in an initial reservoir of 772 articles.</p> |
| | <p>We further screened the identified studies according to the following inclusion criteria:</p> <ol style="list-style-type: none"> 1. Relevant to the focal relationship. 2. Quantitative studies. 3. Sample size and correlation coefficients for the focal relationship were reported. 4. Independent studies, which were defined as those that reported statistical information based on different datasets. <p>Following these criteria, we retained 58 articles that reported 64 independent studies. A list of these articles is in the Appendix 1.</p> |
| Study Coding | <p>Following the recommendations of Lipsey and Wilson (2001), we constructed the final dataset in the following steps:</p> <ol style="list-style-type: none"> 1. A coding protocol was developed after reading the retained articles. 2. With the protocol, an author and a research assistant surveyed the retained studies independently to extract article information and correlation coefficients of the focal relationship, resulting in inter-coder reliability of 0.97 (Cohen's κ coefficient, Cohen, 1960). 3. Two coders reached consensus on discrepancies by reviewing the coding protocol and the literature together. |
| Analysis Procedures | <p>We conducted our analysis in two stages:</p> <ol style="list-style-type: none"> 1. Following Hedges and Olkin (1985), we aggregated effect sizes of all studies to evaluate the mean effect size of the focal relationship, and computed the Q and I^2 statistics to assess the homogeneity of the effect size (Hedges & Olkin, 1985; Higgins, Thompson, Deeks, & Altman, 2003). 2. We tested our hypotheses using meta-regression analyses (weighted least squares) recommended by Lipsey and Wilson (2001). <p>We conducted robustness tests and reported them in the Results section.</p> |

Table 2
Measures of the control variables

| Variable | Measure |
|--------------------------|--|
| GDP | To control the economy development status, we included the log of gross domestic product (GDP) of the home country. |
| Judicial proceedings | We controlled for the legal environment by including the resolving insolvency scale of the Distance to Frontier composed by the World Bank. This scale measures the strength of the legal framework applicable to judicial liquidation that reflects the degree to which a firm is easy to do business in a country. |
| Investor protection | We included the minority investor protection scale of the Distance to Frontier to take potential expropriation into consideration. This scale measures the degree to which investors are protected in the presence of conflicts of interest. |
| Manufacturing industry | To control for the variance between industry sectors, we included a dummy variable. It is 1 if a primary study uses a sample of manufacturing firms; 0, otherwise. |
| SMEs | Taking firm size into consideration, a dummy variable was controlled as 1 for primary studies using a sample of small- and medium- sized enterprises (SMEs); 0, otherwise. We followed the size standards of the US Small Business Administration to define SMEs. |
| International experience | We controlled for international experience that could affect a firm's foreign entry strategies by including a dummy variable. It is 1 if a study is based on a sample whose international experience is above the average level of included studies that measured international experience in the same way as the study did; 0, otherwise. |
| Median sample year | We added the median year of the sample window to control for the possibility that the focal relationship weakens over time. |
| Cross-sectional data | To control for the variance between research methods, a dummy variable was included. It is 1 for primary studies based on cross-sectional data; 0, otherwise. |
| Published work | = 1 if a study was published, 0 otherwise. This dummy variable addresses the "file drawer problem". |
| Journal impact factor | To test for the publication quality effect, we included each publication outlet's 5-year ISI impact factor. |

Table 3Meta-analysis results for the relationship between host country risk and foreign ownership strategy ^a

| Predictor | k | N | Mean ρ | s.e. | Q | I^2 | Fail-safe N |
|---|----|--------|-------------|-------|--------------|-------|-------------|
| <i>Country risk – Ownership strategy (CR-OS) relationship</i> | 64 | 52,229 | -0.101 * | 0.005 | 2,101.11 *** | 0.970 | 86 |
| <i>Home regions</i> | | | | | | | |
| Developing economies | 10 | 5,188 | -0.131 * | 0.014 | 109.85 *** | 0.918 | 15 |
| China | 8 | 2,517 | -0.022 | 0.020 | 30.55 *** | 0.771 | 8 |
| Other developing economies | 2 | 2,671 | -0.233 * | 0.019 | 21.71 *** | 0.954 | 3 |
| Developed countries | 38 | 29,525 | -0.116 * | 0.006 | 1,288.11 *** | 0.971 | 52 |
| Finland | 2 | 529 | 0.129 * | 0.044 | 22.50 *** | 0.956 | 2 |
| Germany | 3 | 625 | -0.010 | 0.040 | 10.72 *** | 0.813 | 3 |
| Japan | 6 | 22,492 | -0.188 * | 0.007 | 242.23 *** | 0.979 | 6 |
| The Netherlands | 3 | 1,144 | 0.066 * | 0.030 | 18.91 *** | 0.894 | 3 |
| Portugal | 2 | 421 | 0.162 * | 0.049 | 2.01 | 0.501 | 3 |
| Swiss | 2 | 272 | 0.190 | 0.098 | 2.29 | 0.56 | 3 |
| US | 4 | 536 | 0.015 | 0.044 | 31.25 *** | 0.9 | 4 |
| Other developed countries | 16 | 3,506 | 0.170 * | 0.017 | 430.26 *** | 0.97 | 16 |

^a k = number of effect sizes; N = total sample size; Mean ρ = mean of population correlation; s.e. = standard error; Q = Cochran's homogeneity test statistics; I^2 = scale free index of heterogeneity; Fail-safe N = the measure of non-publication bias.

Results of additional analyses at industry-, firm-, and study- levels are available in Appendix 2.

* p -value < 0.05, *** p -value < 0.001.

Table 4Descriptive statistics and correlation coefficients of variables in meta-regression ^a

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|-----------------------------|--------|--------|--------|--------|--------|--------|-------|--------|--------|--------|-------|------|
| 1 Institutional constraints | 1 | | | | | | | | | | | |
| 2 Risk-taking tendencies | 0.385 | 1 | | | | | | | | | | |
| 3 GDP | -0.310 | 0.074 | 1 | | | | | | | | | |
| 4 Judicial proceedings | 0.786 | 0.272 | -0.121 | 1 | | | | | | | | |
| 5 Investor protection | 0.257 | 0.555 | -0.028 | 0.430 | 1 | | | | | | | |
| 6 Manufacturing industry | -0.181 | -0.070 | 0.069 | -0.140 | -0.097 | 1 | | | | | | |
| 7 SMEs | 0.147 | 0.234 | -0.118 | 0.125 | 0.076 | -0.130 | 1 | | | | | |
| 8 International experience | 0.039 | -0.186 | -0.120 | 0.150 | -0.130 | 0.089 | 0.214 | 1 | | | | |
| 9 Median sample year | -0.063 | -0.460 | -0.146 | -0.180 | -0.386 | -0.168 | 0.164 | -0.087 | 1 | | | |
| 10 Cross-sectional data | -0.240 | 0.024 | -0.220 | -0.191 | 0.134 | -0.086 | 0.333 | -0.052 | 0.198 | 1 | | |
| 11 Published work | 0.132 | 0.307 | 0.091 | 0.240 | 0.339 | 0.175 | 0.139 | 0.163 | -0.315 | -0.268 | 1 | |
| 12 Journal impact factor | 0.160 | 0.351 | 0.299 | 0.160 | 0.193 | -0.104 | 0.069 | 0.028 | -0.351 | -0.183 | 0.411 | 1 |
| Mean | 0.38 | 2.48 | 28.3 | 74.15 | 56.32 | 0.26 | 0.18 | 0.24 | 2001 | 0.26 | 0.92 | 4.39 |
| SD | 0.22 | 0.55 | 1.47 | 22.81 | 11.35 | 0.45 | 0.39 | 0.43 | 6.95 | 0.45 | 0.27 | 3.17 |
| VIF | 5.11 | 2.81 | 1.67 | 4.22 | 2.27 | 1.21 | 1.59 | 1.37 | 1.95 | 1.82 | 1.75 | 1.59 |

^a Correlation coefficients with absolute values greater than 0.33 are statistically significant at p -value < 0.05, N=38.

Table 5Results of meta-regression on the country risk–ownership strategy relationship ^a

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 |
|------------------------------------|--------------------|---------------------|---------------------|---------------------|---------------------|
| H1: Institutional constraints (IC) | | 0.847** (0.258) | | 0.569* (0.227) | 3.823* (1.511) |
| H2: Risk-taking tendencies (RT) | | | 0.250* (0.093) | 0.161* (0.077) | 0.818* (0.318) |
| H3: IC × RT | | | | | -1.552* (0.706) |
| GDP | -0.044 (0.037) | -0.008 (0.037) | -0.047 (0.030) | -0.021 (0.035) | -0.029 (0.031) |
| Judicial proceedings | -0.003 (0.002) | -0.009** (0.002) | -0.003 † (0.002) | -0.007** (0.002) | -0.007** (0.002) |
| Investor protection | 0.001 (0.006) | 0.001 (0.004) | -0.003 (0.005) | -0.001 (0.004) | 0.001 (0.004) |
| Manufacturing industry | 0.055 (0.104) | 0.049 (0.101) | 0.049 (0.103) | 0.049 (0.103) | 0.073 (0.088) |
| SMEs | 0.179 (0.166) | 0.100 (0.151) | 0.043 (0.157) | 0.042 (0.155) | 0.002 (0.127) |
| International experience | -0.038 (0.099) | 0.028 (0.102) | 0.051 (0.103) | 0.060 (0.107) | 0.051 (0.085) |
| Median sample year | 0.002 (0.007) | 0.001 (0.007) | 0.009 (0.007) | 0.006 (0.007) | 0.004 (0.007) |
| Cross-sectional data | -0.121 (0.123) | -0.021 (0.110) | -0.099 (0.104) | -0.040 (0.107) | -0.081 (0.095) |
| Published work | -0.102 (0.119) | -0.023 (0.114) | -0.102 (0.106) | -0.050 (0.103) | -0.090 (0.112) |
| Journal impact factor | 0.005 (0.018) | -0.003 (0.018) | 0.000 (0.017) | -0.003 (0.018) | 0.001 (0.015) |
| Constant | -2.442 (14.694) | -0.949 (13.625) | -16.103 (15.129) | -10.459 (13.977) | -9.395 (13.631) |
| F | 1.120 | 2.680* | 2.010 † | 4.670*** | 10.100*** |
| R-squared | 0.184 | 0.368 | 0.359 | 0.418 | 0.530 |

^a Robust standard errors in parentheses. The estimation results from the weighted least squares regression on Stata 15.1. k = 38, N = 32,854.

† p -value < 0.10, * p -value < 0.05, ** p -value < 0.01, *** p -value < 0.001.

Table 6Robustness tests on the meta-regression results ^a

| | Model R1 | Model R2 | Model R3 | Model R4 | Model R5 | Model R6 |
|--------------------------------|---------------------|----------------------|---------------------|---------------------|---------------------|--------------------------------|
| Institutional constraints (IC) | 3.820* (1.511) | 0.096* (0.037) | 1.618** (0.512) | 4.008*** (1.098) | 3.867* (1.514) | 3.410* (1.500) |
| Risk-taking tendencies (RT) | 0.817* (0.318) | 3.423* (1.418) | 0.014* (0.006) | 0.836*** (0.228) | 0.826* (0.315) | 0.723* (0.268) |
| IC × RT | -1.551* (0.706) | -0.038* (0.017) | -0.029* (0.013) | -1.598** (0.508) | -1.562* (0.702) | -1.335 [†] (0.647) |
| GDP | -0.029 (0.031) | 0.011 (0.038) | -0.016 (0.030) | -0.024 (0.022) | -0.027 (0.031) | -0.012 (0.040) |
| Judicial proceedings | -0.007** (0.002) | -0.002 (0.003) | -0.007** (0.002) | -0.007** (0.002) | -0.007** (0.002) | -0.008* (0.003) |
| Investor protection | 0.001 (0.004) | -0.004 (0.004) | 0.002 (0.004) | 0.002 (0.003) | 0.001 (0.005) | -0.002 (0.005) |
| Manufacturing industry | 0.073 (0.088) | 0.168 (0.106) | 0.077 (0.088) | 0.082 (0.062) | 0.070 (0.089) | 0.207 [†] (0.103) |
| SMEs | 0.002 (0.126) | 0.007 (0.148) | 0.012 (0.124) | -0.015 (0.081) | -0.006 (0.127) | -0.143 (0.127) |
| International experience | 0.051 (0.085) | 0.094 (0.098) | 0.030 (0.087) | 0.077 (0.069) | 0.074 (0.089) | 0.145 (0.098) |
| Median sample year | 0.004 (0.007) | 0.014* (0.007) | 0.002 (0.006) | 0.005 (0.005) | 0.005 (0.007) | 0.009 (0.007) |
| Cross-sectional data | -0.081 (0.095) | -0.071 (0.081) | -0.071 (0.097) | -0.060 (0.077) | -0.078 (0.096) | 0.147 (0.180) |
| Published work | -0.090 (0.112) | -0.156 (0.110) | -0.016 (0.130) | -0.126 (0.122) | -0.082 (0.114) | 0.125 (0.200) |
| Journal impact factor | 0.001 (0.015) | 0.007 (0.015) | 0.000 (0.014) | 0.000 (0.010) | -0.002 (0.016) | 0.014 (0.019) |
| Constant | -9.392 (13.621) | -37.144* (15.036) | -3.804 (12.458) | -10.344 (9.982) | -9.883 (13.807) | -17.980 (14.544) |
| F | 10.180*** | 6.270*** | 8.760*** | | 8.220*** | 50.610*** |
| R-squared | 0.530 | 0.512 | 0.493 | | 0.537 | 0.652 |
| Wald chi2 | | | | 46.700*** | | |
| Log likelihood | | | | 16.991 | | |

^a Robust standard errors in parentheses. k = 38, N = 32, 854, except Models R5 and R6.[†] p-value < 0.10, * p-value < 0.05, ** p-value < 0.01, *** p-value < 0.001.

Model R1: winsorised data. Model R2: Institutional constraints is measured as a regulatory efficiency indicator of the Index of Economic Freedom. Model R3: Risk-taking tendencies is measured as the uncertainty-avoidance index (the original value) of the Hofstede cultural framework. Model R4:

Multilevel cross-effects regression. Number of study-level observations = 38, number of country-level observations = 16. Model R5: samples excluding Chan and Makino (2007) and Jung, et al. (2008), k = 36, N = 18,662. Model R6: developed-country samples only, k = 29, N = 27,886.

Appendix 1

Studies included in the meta-analysis

| Reference | Sample Size | r | Home country or economy |
|---|-------------|--------------------|---|
| Arslan and Dikova (2015) ^b | 184 | 0.16 ^c | Finland |
| Arslan and Larimo (2010) ^b | 345 | -0.28 ^c | Finland |
| Arslan, Tarba, and Larimo (2015) | 348 | 0.27 ^c | Finland, Sweden, Denmark, Norway |
| Brouthers and Brouthers (2003) ^a | 146/72 | -0.14/-0.23 | The Netherlands, Germany, United Kingdom |
| Brouthers and Nakos (2004) | 185 | -0.33 ^c | The Netherlands, Greece |
| Brouthers (1995) ^b | 106 | 0.31 ^c | United States |
| Brouthers (2002) | 178 | -0.01 | Europe |
| Brouthers, Brouthers, and Werner (2000) | 116 | 0.12 ^c | Europe |
| Brouthers, Brouthers, and Werner (2002) | 116 | -0.20 ^c | Europe |
| Brouthers, Brouthers, and Werner (2003) | 158 | -0.09 | The Netherlands, Germany, United Kingdom |
| Brouthers, Brouthers, and Werner (2008) | 99 | 0.11 ^c | The Netherlands, Greece |
| Chan and Makino (2007) ^b | 4,451 | -0.04 | Japan |
| Chang, Kao, Kuo, and Chiu (2012) ^b | 2,451 | 0.26 ^c | Taiwan |
| Contractor and Kundu (1998) | 745 | 0.23 | North America, Europe, Asia |
| Cuyppers and Martin (2010) | 6,472 | -0.08 | 41 countries (names not specified) |
| Czinkota, Grossman, Javalgi, and Nugent (2009) ^b | 62 | 0.15 | United States |
| Delios and Beamish (1999) ^b | 1,043 | -0.22 | Japan |
| Delios and Henisz (2000) ^b | 2,827 | -0.18 | Japan |
| Efrat and Shoham (2013) ^b | 104 | 0.20 | Israel |
| Elia, Massini, and Narula (2017) | 486 | 0.17 ^c | Australia, Austria, Denmark, France, India, Ireland, Japan, Luxembourg, Norway, Spain, Switzerland, The Netherlands, United Kingdom, United States |
| Erramilli, et al. (1997) ^b | 177 | -0.14 | South Korea |
| Grande and Teixeira (2012) ^b | 334 | 0.13 | Portugal |
| Hollenstein and Berger (2015) ^{ab} | 107/110 | -0.12/0.19 | Austria, Swiss |
| Ji and Dimitratos (2013) ^b | 233 | -0.05 | China |
| Jiang, Fu, Akter, Li, and Wu (2015) ^b | 775 | 0.05 | China |
| Jung, et al. (2008) ^b | 9,741 | -0.22 | Japan |
| Laufs, et al. (2016) ^b | 192 | -0.21 | Germany |
| Lojacono, Misani, and Tallman (2017) | 261 | -0.30 ^c | Algeria, Argentina, Malaysia, Australia, Mexico, Belarus, The Netherlands, Belgium, New Zealand, Brazil, Norway, Bulgaria, Pakistan, Canada, Philippines, China, Poland, Colombia, Ireland, Czechoslovakia, Russian, Denmark, Saudi Arabia, East Germany, Singapore, Egypt, Slovak Republic, Finland, South Africa, France, South Korea, Germany, Spain, Hong Kong, Switzerland, Hungary, Taiwan, India, Thailand, Indonesia, Turkey, Iran, Ukraine, Israel, Unit. Arab Em., Italy, United Kingdom, Japan, United States, Jordan, Uzbekistan, Kazakhstan, Vietnam |

Appendix 1 (continued)

| Reference | Sample Size | r | Home country or economy |
|---|-------------|--------------------------|--|
| Lu (2002) ^b | 1,194 | -0.01 | Japan |
| Lu, et al. (2018) ^b | 110 | 0.12 ^c | China |
| Luo (2001) ^b | 174 | -0.31 | China |
| Maekelburger, et al. (2012) ^b | 206 | 0.10 | Germany |
| Mardanov (2003) ^a | 46/42/37 | 0.23/0.46/0.53 | Canada, Czech Republic, Estonia, Finland, France, Germany, Hungary, Kazakhstan, Lithuania, Italy, Latvia, Sweden, Switzerland, The Netherlands, Sweden, Ukraine, United Kingdom, United States |
| Mutinelli and Piscitello (1998) ^b | 947 | 0.27 | Italy |
| Nakos and Brouthers (2002) ^b | 118 | -0.46 ^c | Greece |
| Nielsen and Nielsen (2011) ^b | 165 | 0.00 | Swiss |
| Pak and Park (2004) ^b | 3,236 | -0.36 | Japan |
| Pan (1996) | 2,516 | -0.17 | United States, Japan, Europe, Hong Kong, Asia other |
| Parola, Satta, Persico, and Di Bella (2013) | 416 | 0.11 ^c | (names not specified) |
| Pinho (2007) ^b | 87 | 0.30 | Portugal |
| Pla-Barber, Sanchez-Peinado, and Madhok (2010) ^b | 328 | -0.05 | Spain |
| Rajan and Pangarkar (2000) ^b | 83 | -0.54 | Singapore |
| Richards and Yang (2007) | 543 | 0.79 | United States, Germany, Japan, United Kingdom, Canada |
| Roh, Cho, Moon, and Lee (2013) | 96 | -0.20 ^c | (names not specified) |
| Schwens, et al. (2011) ^b | 227 | 0.06 | Germany |
| Shao, Hasan, and Shao (1995) ^b | 156 | -0.34 ^c | United States |
| Shieh and Wu (2011) | 929/796 | 0.07/-0.05 | Taiwan, Singapore, Hong Kong, and China |
| Shieh and Wu (2012) ^a | 1,831 | 0.15 | South Korea, Taiwan, Europe, Japan, Singapore, United States, Hong Kong, China, Malaysia |
| Shrader, Oviatt, and McDougall (2000) ^b | 212 | -0.10 | United States |
| Slangen and van Tulder (2009) ^b | 231 | -0.18 | The Netherlands |
| Tsai and Cheng (2002) | 105 | 0.13 | Taiwan, Singapore, Hong Kong, and China |
| Tsang (2005) | 2,416 | 0.23 ^c | United States, Europe, Japan, China, Hong Kong, Macau, and Taiwan, Singapore, South Korea, Thailand |
| (Uhlenbruck, Rodriguez, Doh, & Eden) | 220 | 0.07 | 96 emerging countries (names not specified) |
| Williams and Martinez (2012) ^b | 624 | 0.19 | The Netherlands |
| Williams, Lukoianova, and Martinez (2016) ^b | 289 | -0.10 ^c | The Netherlands |
| Xie (2014) ^b | 445 | -0.10 | China |
| Xie (2017) ^b | 388 | 0.11 | China |
| Xie and Li (2017) ^{ab} | 80/312 | -0.12/-0.03 ^c | China |

^a Articles reporting multiple studies.

^b Studies included in the meta-regression analysis.

^c Reverse coded prior to analyses, if the study operationalises variables in a different direction from others (e.g., a study operates entry strategy as 0 for wholly owned subsidiaries and 1 for joint ventures, but other studies take 1 for wholly owned subsidiaries and 0 for joint ventures).

Appendix 2

Results of additional meta-analyses of the country risk–ownership strategy relationship ^a

| Predictor | k | N | Mean ρ | s. e. | Q | I ² | Fail-safe N |
|--|----|--------|-------------|-------|--------------|----------------|-------------|
| Country risk – Ownership strategy (CR-OS) relationship | 64 | 52,229 | -0.101 * | 0.005 | 2,101.11 *** | 0.970 | 86 |
| <i>Median sample year</i> | | | | | | | |
| Before 1990 | 6 | 10,810 | -0.075 * | 0.009 | 139.87 *** | 0.964 | 6 |
| Between 1990 and 2000 | 26 | 27,878 | -0.106 * | 0.006 | 1,016.04 *** | 0.975 | 34 |
| After 2000 | 32 | 13,541 | -0.115 * | 0.009 | 538.93 *** | 0.942 | 48 |
| <i>Industry</i> | | | | | | | |
| Manufacturing | 13 | 7,814 | -0.109 * | 0.011 | 501.94 *** | 0.976 | 19 |
| Service | 8 | 2,311 | 0.007 | 0.021 | 75.56 *** | 0.907 | 8 |
| not specified | 43 | 42,104 | -0.106 * | 0.005 | 1,099.51 *** | 0.962 | 58 |
| <i>Firm size</i> | | | | | | | |
| Small- and medium-sized enterprises | 15 | 5,545 | -0.190 * | 0.014 | 326.59 *** | 0.957 | 23 |
| Large firms | 22 | 25,776 | -0.125 * | 0.006 | 538.44 *** | 0.961 | 28 |
| not specified | 27 | 20,908 | -0.050 * | 0.007 | 728.99 *** | 0.964 | 35 |
| <i>International experience</i> | | | | | | | |
| Above average | 17 | 14,458 | -0.148 * | 0.008 | 659.18 *** | 0.976 | 24 |
| Below average | 27 | 26,810 | -0.102 * | 0.006 | 640.12 *** | 0.959 | 34 |
| not specified | 20 | 10,961 | -0.040 * | 0.010 | 333.98 *** | 0.943 | 29 |
| <i>Measure of country risk</i> | | | | | | | |
| Political constrains index by Henisz | 6 | 14,270 | -0.189 * | 0.008 | 65.25 *** | 0.923 | 9 |
| Euromoney's country risk index | 7 | 8,932 | -0.091 * | 0.011 | 77.82 *** | 0.923 | 7 |
| Institutional Investor's country risk ratings | 6 | 9,435 | -0.065 * | 0.010 | 247.16 *** | 0.980 | 8 |
| International country risk index by the PRS Group | 8 | 7,282 | 0.076 * | 0.012 | 367.53 *** | 0.981 | 12 |
| World governance index by the World Bank | 10 | 5,756 | -0.113 * | 0.013 | 163.64 *** | 0.945 | 15 |
| World competitiveness index by IMD | 2 | 3,332 | -0.344 * | 0.017 | 28.35 *** | 0.965 | 3 |
| survey | 22 | 2,714 | 0.021 | 0.019 | 152.10 *** | 0.862 | 25 |
| other indices ^b | 3 | 508 | 0.017 | 0.045 | 8.03 * | 0.751 | 4 |
| <i>Measure of ownership strategy</i> | | | | | | | |
| Wholly owned subsidiaries vs. Joint ventures | 29 | 26,534 | -0.137 * | 0.006 | 801.84 *** | 0.965 | 42 |
| Equity vs non-equity strategies | 21 | 3,755 | 0.129 * | 0.016 | 109.26 *** | 0.817 | 23 |
| multiple strategies | 14 | 21,940 | -0.098 * | 0.007 | 564.28 *** | 0.977 | 14 |

^a k = number of effect sizes; N = total sample size, Mean ρ = mean of population correlation; s.e. = standard error; Q = Cochran's homogeneity test statistics; I² = scale free index of heterogeneity; Fail-safe N = the measure of non-publication bias.

^b “Other indices” include country risk reported by the Business Environment Risk Intelligence and the Economist Intelligence Unit, and the Hermes Country Risk Rating.