Internationalisation into developing countries

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Table of Contents

List of Figures

List of Tables

List of Abbreviations

BRICS	acronym for the following countries: Brazil, Russia, India, China and South Africa
BUND	German Federation for the Environment and Nature Conservation
BUS	business
CDBA	cost of doing business abroad
CEO	Chief Executive Officer
CFP	Corporate financial performance
CIVETS	acronym for the following countries: Columbia, Indonesia, Vietnam, Egypt, Turkey and South Africa
CMS	critical management studies
CPA	corporate political activity
CSR	Corporate Social Responsibility
DANGO	Direct Action Oriented NGO
DNA	deoxyribonucleic acid
EMNC	emerging market multi-national corporation
FDI	foreign direct investment
FTE	full time equivalents
GDP	Gross domestic product
GNI	gross-national income
HD	human development
HDI	Human Development Index
HSBC	Hong Kong & Shanghai Banking Corporation Holdings PLC
IB	international business
IBGR	International business - government relations
IM	International Management
IMF	international monetary fund
IT	Information technology
JIBS	Journal of International Business Studies
JWB	Jour of World Business
LoF	liability of Foreignness
MNC	multi-national corporation

MNE	Multi-national enterprise
NBS	national business system
NGO	non-governmental organisation
NPO	non-profit organisation
OECD	organisation of economic co-operation and development
PETA	People for the Ethical Treatment of Animals
PONGO	Partnership Oriented NGO
PPP	Purchase power parity
PPP	public private partnership
R&D	research & development
RBV	resource-based view
RMC	Rural Market Collection
RMP	rural maintenance program
ROA	return on assets
ROE	return on equity
ROI	return on interest
SCSR	strategic corporate social responsibility
SME	Small and medium sized companies
SMS	short message service
SoE	state-owned enterprise
SSP	social system of production
TBL	triple bottom line
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNODC	United Nations Office on Drugs and Crime
USA	United States of America
VoC	varieties of capitalism
WONGO	Watchdog Oriented NGO
WTO	World Trade Organisation
WWF	World Wide Fund for Nature

1. Introduction

1.1. Problem Statement and Objective

When a firm wants to internationalise from its home country[1] into a foreign market it typically faces a variety of challenges and difficulties (Al-Laham, 2009; Denk, Kaufmann, & Roesch, 2012; Hymer, 1960; Zaheer, 1995). Besides a lack of local market knowledge and market characteristics, limited access to government officials or inter-governmental organisations, firms can also face cultural differences[2] and communication difficulties with a variety of stakeholders (Cahen, Lahiri, & Borini, 2016; Denk et al., 2012; Porter, 1980). Especially when a firm decides to enter into a developing country[3], these challenges can become more severe and additional difficulties may arise[4] (Hoskisson, Eden, Ming Lau, & Wright, 2000; Lawton, McGuire, & Rajwani, 2013; Todaro & Smith, 2015; Vachani, Doh, & Teegen, 2009). Most importantly, institutional voids, "*the absence or underdevelopment of institutions that enable and support market activity*" (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017: 293), pose a significant and relatively new challenge for companies from developed countries internationalising into developing countries (Doh et al., 2017; Khanna & Palepu, 1997; Punnett, 2018).

Institutional voids reflect institutional conditions that hinder buyers and sellers to interact efficiently. This results in higher operating costs for procuring materials, skills and finding interested buyers for products which in turn creates a higher uncertainty for the internationalising firm (Doh et al., 2017; Khanna & Palepu, 1997). Yet, contrary to other institutional approaches (e.g., institutional distance or institutional logics), which see institutions as a given constraint, the institutional voids perspective also highlights an active component regarding missing institutions, in which each potential void is an actionable

[1] Assuming an internationalising company from a developed country and not from an emerging country. Even though research on this matter has increased Cuervo-Cazurra and Genc (2008); Eren-Erdogmus, Cobanoglu, Yalcın, and Ghauri (2010)), the focus of this treatise is solely put on multi-national corporations from developed countries internationalising into developing countries.
[2] In the literature it is often also discussed as the phenomenon of cultural distance (Hutzschenreuter, Kleindienst, and Lange (2016)).
[3] Developing countries mostly differ to emerging or developed countries with regard to their institutional fragility (i.e. institutional voids), high unemployment rates and a high importance of the informal sector (Hemmer (2002); Todaro and Smith (2015)). For further delineation please see Chapter 3.
[4] These challenges can be an uncertainty of market, economic and especially political developments, or significant necessary product adaptations that become highly relevant in developing countries Dahan, Doh, Oetzel, and Yaziji (2010b); Hoskisson, Eden, Ming Lau, and Wright (2000); Pan and Tse (2000) . Other challenges are explained in more detail in Chapters 2.4 and 3.3.

construct that can be reacted to or shaped by an organisation or a collective (Ghoul, Guedhami, & Kim, 2017; Khanna & Palepu, 1997; Pinkham & Peng, 2017). Yet, this approach necessitates a certain amount of embeddedness[5] within relevant institutional networks as well as within the social fabric of the host country, something an internationalising company cannot necessarily only derive from collaborations with other for-profit firms (Doh, McGuire, & Ozaki, 2015; Kolk, 2016; Oetzel & Doh, 2009; Porter, 1990; Villa, Rajwani, & Lawton, 2015). As Meyer, Mudambi, and Narula (2011: 236) state „*Knowledge of and embedding in local context remains a key success factor*" during the internationalisation of multi-national corporations[6] into foreign developing markets (Kolk, 2016; Meyer et al., 2011), and striving for embeddedness in the social and institutional fabric of the developing country is an important aspect of this strategy to become a relevant and accepted actor of and for society (Bhavnani & Lee, 2018; Brahm, 1994; Dacin, Ventresca, & Beal, 1999; Kolk, 2016).

Therefore, internationalising companies, especially MNCs, have started to experiment with multiple options of market entries to mitigate or actively use institutional voids and other challenges (Dahan, Doh, Oetzel, & Yaziji, 2010b; Kourula & Laasonen, 2010; Pinkham & Peng, 2017). Besides the standard market-based approaches such as export, licensing or wholly owned subsidiaries (Leonidou, 2004; Werner, 2002), MNCs have also started to endorse more innovative approaches in conjunction with the standard options to become embedded in the local host country environment (Kantimm, 2014; Kourula & Laasonen, 2010; Vachani et al., 2009). For instance, collaborations with the non-market environment (e.g. corporate political activity through collaboration with governmental organisations or corporate social responsibility through collaboration with non-governmental organisations (NGOs)) seem to become an increasingly important option (Boddewyn & Doh, 2011; Doh & Teegen, 2002; Thieme & DeKoszmovszky, 2012). In this

[5] Taking a broad perspective, the concept of embeddedness is "*used simply as indicating the state of dependence on the context*" (Ratajczak-Mrozek (2017: 88)) making embeddedness so broad that almost everything can be seen as embeddedness or becomes embedded (Powell (1996); Ratajczak-Mrozek (2017)). Narrower views try to conceptualise embeddedness in four different perspectives with each of them highlighting a specific area of application: the institutional embeddedness, the social embeddedness, the inter-organisational network embeddedness and the territorial embeddedness (Dacin, Ventresca, and Beal (1999); Hess (2004); Powell (1996). More information will be given in Chapters 4 and 5.

[6] A multi-national corporation is an enterprise operating in several countries, but mostly managed from one (home) country. Generally, any company or group that derives a quarter of its revenue from operations outside of its home country is considered a multinational corporation (Pitelis and Sugden (2000)).

regard especially NGOs seem to be a promising vehicle, as they possess valuable capabilities to unclose collaboration possibilities with companies, such as strong network connections with non-market actors or a facilitated bypass of existing institutions like local governments (Austin & Seitanidi, 2012b, 2012a; Oetzel & Doh, 2009; Selsky & Parker, 2005). Furthermore, especially local NGOs have the potential to provide companies with access to customer knowledge, early perceptions of market changes, distinct network ties and legitimacy (Ählström & Sjöström, 2005; Dumont du Voitel, 2013; Schuster & Holtbrügge, 2014a; Yaziji, 2004).

Most recently, scholars from the international business community also positioned these types of collaborations as an important option to mitigate or modify institutional voids and other challenges during the internationalisation efforts of MNCs (Doh et al., 2017; Mair, Martí, & Ventresca, 2012; Oesterle & Röber, 2017). For instance, Teegen, Doh, and Vachani (2004: 477) see NGOs as "*increasingly important new actors*" in the international business context and furthermore Doh et al. (2017: 294) suggest that "*nonmarket exchanges are embedded in logics other than those of rationality and price, such as social (Granovetter, 1985) and political (Fligstein, 1996)*" and thus have the potential to foster creative and unconventional problem solving initiatives in developing countries (Dahan et al., 2010b; Kostova & Hult, 2016; Pinkham & Peng, 2017). Even though the organisational form of NGOs has started to gain recognition in the research community on international business (Doh & Teegen, 2002; Kourula & Laasonen, 2010; Ritvala, Salmi, & Andersson, 2014), many international business theories and frameworks lack an adequate recognition of this new actor. This is surprising as collaborations with NGOs can help embed the internationalising company into the "*social fabric*" (Oetzel & Doh, 2009: 112) of the host country; an issue that is particularily relevant for developing countries with highly specific challenges faced by internationalising companies (e.g. institutional voids). Additionally, it seems to be difficult for MNCs to find the right strategic partner NGO for such an endeavour, as multiple types and agendas exist for NGOs. Nevertheless, so far NGOs have mostly been viewed as a coherent organisational form within the international business literature (Dahan, Doh, & Teegen, 2010a; Doh & Teegen, 2002; Vachani et al., 2009). Furthermore, studies on embeddedness of MNCs have so far mainly concentrated on inter-organisational network embeddedness[7], not recognising the role of social, territorial or other dimensions of embeddedness, even though these dimension of embeddedness can be very crucial during the internationalisation process into developing countries (Dahan et al., 2010b; Kantimm, 2014; London, Rondinelli, & O'Neill, 2006).

Thus, this treatise aims to conceptually articulate multiple views on the internationalisation effort of MNCs into developing countries and the importance of NGOs during this internationalisation process. Based on various streams of literature (e.g. internationalisation research, embeddedness research, non-market environment research and cross-sector partnership research), this treatise will form an integrative, conceptual framework for MNCs to identify favourable resources and capabilities of NGOs for particular internationalisation challenges. Depending on the most severe challenge that a MNC faces during its internationalisation, the framework will highlight important dimensions of embeddedness for the internationalisation and propose favourable resources and capabilities that a particular NGO should possess in order to support the MNC's internationalisation efforts. Afterwards, a conclusion regarding the most dominant category of a NGO on which the internationalising MNC should primarily focus on during its selection process will be made.

The conceptual approach of this treatise is in line with current calls for more conceptual research in the management and international business areas (Cornelissen, 2017; Hillman, 2011; Oesterle & Wolf, 2011). For instance, Oesterle and Wolf (2011) highlight a range of research questions and corresponding research methods in their review on 50 years of international management research; with one method being a conceptual research method for holistic and integrative research questions. This is exactly what this treatise aims to accomplish. It conceptually combines multiple literature streams from international business literature and nearby disciplines to form a coherent conceptual framework for MNCs regarding their NGO partner selection choice for market entries into developing countries based on multiple interdependency effects. **Figure 1** on the next page shows all four research methods articulated by Oesterle and Wolf (2011), including the proposed conceptual

[7] A specific dimension of embeddedness focusing on networks and relationship at the interorganisational level. This dimension of embeddedness will be explained in more detail in Chapter 5.

research method (upper right quadrant) for the broad, holistic and integrative research questions of this treatise.

***Figure 1:* Range of Research Questions and Corresponding Research Method**

Range of research question	Empirical	Conceptual
Broad/holistic/ Integrative (big questions)	Big samples are preferable (Hofstede, PIMS) ("big problems need big tools") but small-scale research is suitable if results can be linked and coordinated into a "big answer." If not, there is a misfit of problem and method	This approach was successful in the past. Its major prerequisites are a broad knowledge of the field and of neighbouring disciplines, and a "feeling for real business"
Narrow/ Isolated	Individualistic research. The main motive is promoting one's academic career, not producing truth	No suitable approach exists since conceptual work leads not to detailed answers to detailed questions so that there is a misfit of problem and method
	Research method	

(source: Oesterle & Wolf, 2011: 741)

1.2. Approach

This conceptual treatise is structured as follows. After introducing this work with the problem statement, the objective and the approach of this treatise in Chapter 1, it starts with a thorough foundation of internationalisation research in Chapter 2. Thereby internationalisation itself is defined and general motives for internationalisation are given (2.1) in order to create a broad overview of the research field and the relevance of internationalisation for companies. Chapter 2.2 characterises relevant reference frameworks as well as the three major theoretical views on international business, which are relevant to understand the holistic approach and the multiplicity of the research field. In line with this argumentation, Chapter 2.3 focuses on the most relevant process models of internationalisation to elucidate how MNCs typically internationalise and which aspects are relevant in this regard. Chapter 2 closes with an explanation of general internationalisation challenges for internationalising companies into developed countries (2.4).

After the general introduction to the field of literature in international business (Chapter 2), Chapter 3 focuses on developing countries and the specific internationalisation challenges within these countries. As the term developing country is used very ambiguously in the literature, Chapter 3.1 starts with a short country classification and illustrates the most important indices used for country development differentiation purposes. This is necessary as to understand the ambiguity and complexity of categorising countries and their development. Chapter 3.2 highlights the most important characteristics of developing countries, before Chapter 3.3 ends the Chapter with a thorough delineation of specific internationalisation challenges for companies internationalising into developing countries.

Chapter 4 gives a short interim conclusion summarising the aforementioned aspects of the previous Chapters, before Chapter 5 elaborates on the theory of embeddedness. Since this treatise sees embeddedness (in its multiple kinds) as the core motivation and driver for MNCs to collaborate with NGOs as it will be explained in Chapter 4 and 5, Chapter 5.1 puts an emphasis on the origins of the theory, its mechanisms and the outcomes. As the theory is multifaceted, it has gained significant attention in international business research and is used and characterised in different ways. Therefore, Chapter 5.2 focuses on four major perspectives of embeddedness used in international business (5.2.1) as well as additional phenomena discussed in the international business literature (5.2.2). After these two subchapters a third subchapter will establish a comprehensive framework of embeddedness dimensions, needed for the overall conceptual framework derived in this treatise.

Chapter 6 introduces the aspect of non-market strategies in international business. While subchapter 6.1 gives a short overview on the three-sector model as an introduction and overview of the field of research, subchapter 6.2 and 6.3 highlight the aspects of corporate political activity and corporate social responsibility. Both streams of literature stand for the establishment of one major collaboration partner for internationalising companies; governmental organisation (6.2) and non-governmental organisations (6.3).

Chapter 7 elucidates the research on cross-sector collaborations with a focus on NGOs as a particular collaboration partner. Therefore, Chapter 7.1 focuses on a short introduction into the broad field of cross-sector collaboration (7.1.1), before Chapter 7.1.2 exemplifies the four main types of cross-sector collaboration for a comprehensive overview. The subchapter finishes with Chapter 7.1.3 in which the Collaboration Continuum of

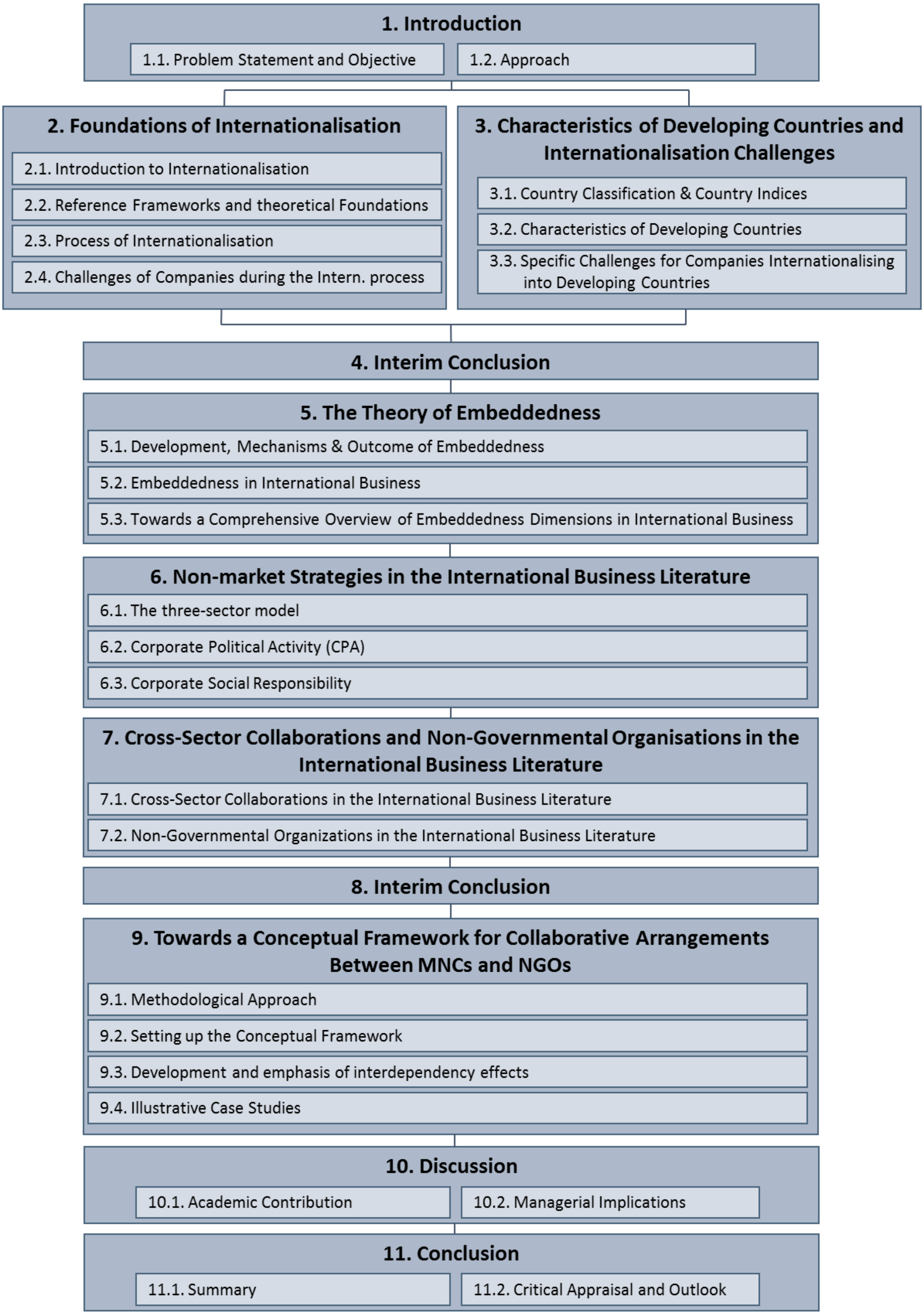
NGO-Business Collaborations by Austin (2000) and Austin and Seitanidi (2012b, 2012a) is articulated. It is the most cited framework with regard to this type of collaboration and exemplifies the varying collaboration stages adequately. Chapter 7.2 solely focuses on the NGO as a focal organisation and collaboration partner for MNCs. The NGO is categorised via multiple dimensions (7.2.2) and various resources and capabilities which a NGO can possess will be portrayed. Subchapter 7.2.4 finishes the chapter linking the two most important NGO dimensions and the various potential resource and capability combinations of NGOs.

Before Chapter 9, Chapter 8 gives a short interim conclusion connecting the previously discussed content of the Chapters 5, 6 and 7. The interim conclusion is further used to set-up the upcoming Chapter, Chapter 9, in which all relevant content will be combined in the established conceptual framework and interdependency effects are derived. Chapter 9, the core of this treatise, establishes interdependency effects regarding the collaborative arrangements between internationalising companies and NGOs with regard to the different dimensions of embeddedness. Therefore, subchapter 9.1 gives an overview of the methodological approach, before subchapter 9.2 builds the underlying conceptual framework needed for the construction of the interdependency effects in subchapter 9.3. After the interdependency effects have been elucidated in subchapter 9.3, subchapter 9.4 ends this Chapter with three illustrative case studies from practice. Thereby, each illustrative case study focuses on one interdependency effects from subchapter 9.3.

Chapter 10 discusses the findings of the treatise. Thereby, subchapter 10.1 highlights academic contributions to the varying fields of research that have been taken into account in this treatise. Furthermore, subchapter 10.2 discusses managerial implications as well as potential challenges for practitioners to implement the decision framework within their companies.

Chapter 11 concludes this treatise with a short summary (11.1) as well as a critical appraisal and an outlook on future research potential in the interdisciplinary field of international business as well as cross-sector-partnerships (10.2). The complete structure of this treatise can been seen in a graphical visualisation in **Figure 2**.

Figure 2: **Outline of the Treatise**



(source: own representation)

2. Foundations of Internationalisation

As the title of this treatise suggests, internationalisation itself and more specifically, the internationalisation into developing countries play a crucial role as they highlight the core markets for future analysis of this treatise. Therefore, the following Chapter will highlight the foundations of internationalisation literature, the varieties of process research on internationalisation and the specific challenges, which a company may face before, during and after its internationalisation efforts. This approach is taken for two main reasons. First, as the topic of internationalisation is very broad and interdisciplinary, a broad overview (e.g. reference frameworks and generic processes of internationalisation) needs to be given to introduce the overall field of research and to integrate the overall research question adequately. Second, especially generic aspects of internationalisation challenges are indispensable to a thorough discussion as much of the existing research has centred on this question and many challenges of internationalisation into developing countries only differ in their severity from challenges of companies internationalising into developed countries.

2.1. Introduction to Internationalisation

Therefore, the following subchapter will introduce the topic of internationalisation via giving a short overview on the history of the research field, a definition and demarcation of the terminologies *international* and *internationalisation* and a description of objectives and motives for companies to internationalise.

2.1.1. History & Definition

The phenomenon of internationalisation has been part of society since many centuries (Kutschker & Schmid, 2011). The establishment of the Silk Road which connected Europe with China and Japan almost 2.500 years ago, colonial efforts famously organised via the British *East-India-Company* or the Dutch *Vereenigde Oostindische Compagnie,* and the industrial revolution introducing foreign direct investments are only some, but very powerful examples of how trade and business activities have been international since a long time (Dunning & Lundan, 2008; Hahn, 2009; Kutschker & Schmid, 2011). Thus, internationalisation itself is not a new phenomenon, even though scientific research in the field of international management and international business has only started in the 1960s (Hymer, 1960; Vernon, 1966).

In the recent decades, researchers started to differentiate between two distinctive terms in the scientific literature: *international* and *internationalisation*.[8,9] While the term *international* is referring to the description of a static state of a company, *internationalisation* refers to the actual process of a company expanding its boundaries beyond national territory (Macharzina, 2003; Matlay, Ruzzier, Hisrich, & Antoncic, 2006; Prym, 2014; Simon, 2007). Therefore, the term *international* describes, in a static way through quantitative and qualitative measures, the international status of a company. Quantitative measures such as structural attributes (e.g. direct investments abroad or organisational structure) or performance attributes (e.g. revenue or number of employees abroad) and qualitative measures (e.g. mind-set and behaviour of top-management) are used to estimate the extent to which a company is operating internationally (van Roessel, 1988). The term *internationalisation* on the other side focuses on the process of how, why and where a company internationalises and sees its environment as a dynamic and constantly changing state (Matlay et al., 2006). With regard to the research question of this treatise, *internationalisation* will be in the core focus and therefore a deeper categorisation of the term is shown next.

Besides the demarcation discussions on definitions of *international* and *internationalisation*, there has been an ongoing definition debate on the term of internationalisation itself since the inception of the scientific international business and international management literature in the 1960s (Hymer, 1960; Johanson & Vahlne, 1977; Kolk, 2016; Matlay et al., 2006; Vernon, 1966). As a common ground, most researchers agree that internationalisation refers to profit-seeking (sometimes even profit-maximising)

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[8] Besides internationalisation, the term globalisation also plays a significant role in the international management and international business literature. For Matlay, Ruzzier, Hisrich, and Antoncic (2006: 478) Globalization "*usually refers to a stage in which the firm's operations are managed on a global scale, not in just a few selected countries. It is characterized by the worldwide integration of ever more competitive markets and companies facing global competition*". Thus, globalisation refers to a broader/global scope of business activities and is therefore neglected in this analysis as the emphasis in this treatise is placed on rather international companies.

[9] Besides the phenomenon of internationalisation (i.e. entering) a new market, the phenomenon of de-internationalisation (i.e. consciously exiting international market) is also discussed in international business literature (Matlay et al. (2006)). Yet, it is not of further importance for this treatise and will therefore be neglected.

activities of a company that involve the crossing of country borders (Matlay et al., 2006; Perlitz, 2004; Prym, 2014; Seno-Alday, 2010; Wright, 1970; Wright & Ricks, 1994). Yet there are different views on the breadth of internationalisation, varying from a very narrow to a broad perspective on internationalisation. While a narrow view on internationalisation only accounts the internationalisation of certain business activities (e.g. marketing, resource sourcing or partial production) which need to be allocated abroad, the broader perspective focuses on the overall company, its internal value chain and the environment in which the company will be embedded. Kolk (2016: 25) for example sees internationalisation from a rather broad perspective:

"*First, it is concerned with firm-level business activity that crosses national boundaries or is conducted in a location other than the firm's home country (. . .). Second, it is concerned in some way with the interrelationships between the operations of the business firm and international or foreign environments in which the firm operates.*"

In her view, Kolk (2016) describes internationalisation not only based on firm-level activities that cross country borders, but more broadly incorporates the external environment of the company as well. A perspective that has been increasingly incorporated in academic research over the recent years, as the environment and its specific context seems to play a crucial role during a company's internationalisation process, especially in developing countries (Heidenreich, 2012c; Mellahi, Frynas, Sun, & Siegel, 2015; Vachani et al., 2009).[10] Summarising, the scientific literature in the field of international business and international management can be best described on a continuum between a broad and a narrow view of internationalisation (Kolk, 2016; Matlay et al., 2006; Prym, 2014). This treatise is adopting a broader view on internationalisation as the phenomenon of cooperation between inter-sector partners (e.g. companies and NGOs) itself is inherent to the external environment (context) of the internationalising firm. Furthermore, the special context of

[10] Besides the referred articles, the broadening view on international business can also be seen by looking at the topics of some of the recent and upcoming special issues in the *Journal of International Business Studies (JIBS)* and the *Journal of World Business (JWB)*:

- 2015: Global governance and international nonmarket strategies (JWB)
- 2017: International Business Responses to Institutional Voids (JIBS)
- 2018: Multinational Enterprises and Sustainable Development in the Extractive and Natural Resource Sectors (JWB)
- 2018: Contextualizing International Business Research: Enhancing Rigor and Relevance (JWB)
- Upcoming (2020): Informal Institutions and international business (JIBS)

developing countries has also been identified as a particular environment with idiosyncratic properties.

2.1.2. Objectives and Motives of Internationalisation

When companies internationalise, their objectives and motivations are manifold ranging from revenue-increasing activities to cost-saving initiatives (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Dunning, 1992; Moghaddam, Sethi, Weber, & Wu, 2014; Prym, 2014). Therefore, in the following the main objectives for companies to internationalise are derived based on multiple conceptualisations. Motives and objectives can be clustered into internal objectives, at the firm- and individual level, as well as external objectives, at the home-country- and host-country-level (Dunning, 1992; Dunning & Lundan, 2008; Moghaddam et al., 2014). Since the study of international business and international management is a highly diverse and scattered field of research, a single classification of internationalising objectives is hard to come by. Thus, the following objectives are aggregated from multiple conceptualisations and serve as an overview why firms might want to internationalise (Kim, Mahoney, & Tan, 2015a; Moghaddam et al., 2014; Zhao, Luo, & Suh, 2004). **Figure 3** at the end of this subchapter summarises the different aspects that are being discussed in a graphical representation.

At the firm-level of internal objectives to internationalise, one can distinguish between exploitative and explorative motives of the internationalising company (Kim et al., 2015a). Exploitative objectives can be further divided into natural resource-seeking, market-seeking and efficiency-seeking objectives. Natural resource-seeking companies often internationalise to secure raw material inputs for their value-chain. These raw materials are oftentimes acquired at a cheaper rate than the market rate and additionally give the company better access to stable supply and thus increase the overall stability and predictability in the value-chain (Kim et al., 2015a). Market-seeking initiatives often refer to an end-customer market-seeking initiative and are pursued in order to increase the internationalising companies' revenue and secure future market potential (Dahan et al., 2010b; Dunning & Lundan, 2008; Moghaddam et al., 2014). Sometimes a company might also follow its domestic clients to offer their service abroad. These investments are often due to the idiosyncratic network position in which a company is positioned (Johanson & Vahlne, 2009; Matlay et al., 2006)[11]. Efficiency-seeking objectives are mostly relevant for companies that internationalise into low-wage labour countries. These initiatives are mainly production- or supply-centred. Explorative motives of companies can also be regarded as strategic asset seeking objectives and include knowledge-seeking, technology-seeking and global value consolidation-seeking initiatives (Cui, Meyer, & Hu, 2014). Knowledge-seeking objectives can be rather upstream or downstream activities as the pursuit of R&D knowledge is typically considered an upstream initiative, while the pursuit of marketing and sales knowledge is considered a downstream activity (Dunning, 1992; Moghaddam et al., 2014). Technology-seeking activities can be considered similar to R&D knowledge seeking activities as a company can gain technological access via an acquisition of an international competitor (Moghaddam et al., 2014). Yet within this group of internationalising objectives the focus lies on the dispersion of a companies' own technological competitive advantage through internationalisation (Kothari & Lahiri, 2012). The last explorative objective on the firm-level is the quest for global value consolidation (Dunning & Lundan, 2008). Global value consolidation is the idea of creating a global brand recognition via global branding initiatives and an overall cost reduction through strategic cost-consolidation (Dunning, 1992; Moghaddam et al., 2014). This objective shows again the difficulty of clustering internationalisation objectives, as the global up- and downstream consolidation of a company can also be regarded as an exploitative motive, when only seen from a cost perspective (Moghaddam et al., 2014). Yet, the author refrains from this view as the strategic opportunities, including cost-cutting opportunities, but not being limited to them, prevail.

At the individual-level, characteristics such as ownership structure and decision-maker characteristics are prevalent (Cui et al., 2014; Oesterle, Elosge, & Elosge, 2016; Oesterle, Richta, & Fisch, 2013). Ownership structure refers to the degree of ownership concentration[12] and researchers found out that a higher ownership concentration leads to an increased degree of internationalisation (Oesterle et al., 2013). Again, this characteristic highlights the difficulty of classifying objectives and motives, as depending on the type of ownership (e.g. institutional or privately held ownership) one could also group this characteristic to a firm-level determinant (Cui et al., 2014; Oesterle et al., 2013).

[11] See Chapter 2.3.3 for further elaboration.

[12] From a principal-agent theory perspective, a high degree of ownership concentration can be related to a low degree of freedom for the managers within a company (Oesterle, Richta, and Fisch (2013).

Decision-maker characteristics influencing the firm's motivation and objectives to internationalise can be further grouped into international orientation and CEO narcissism (Cui et al., 2014; Oesterle et al., 2016). Especially in small and medium-sized enterprises (SME) the international orientation of a manager is a core motivation and predictor to internationalise. Personal relationships and informal business contacts are oftentimes used to support the international expansion strategy (Matlay et al., 2006). In a recent paper, Oesterle et al. (2016) found out that CEO narcissism can also be a significant factor for internationalisation as managers want to be perceived as an individual managing an international organisation and therefore initiate an international expansion, regardless if it is objectively justifiable.

After discussing internal objectives and motives of companies and individuals to invest in an international expansion, the focus shifts to external objectives and motivations now. These can be mainly clustered into objectives and motives at the home-country level as well as at the host-country level (Buckley et al., 2007; Dixit & Yadav, 2015; Leonidou, Katsikeas, Palihawadana, & Spyropoulou, 2007; Moghaddam et al., 2014).

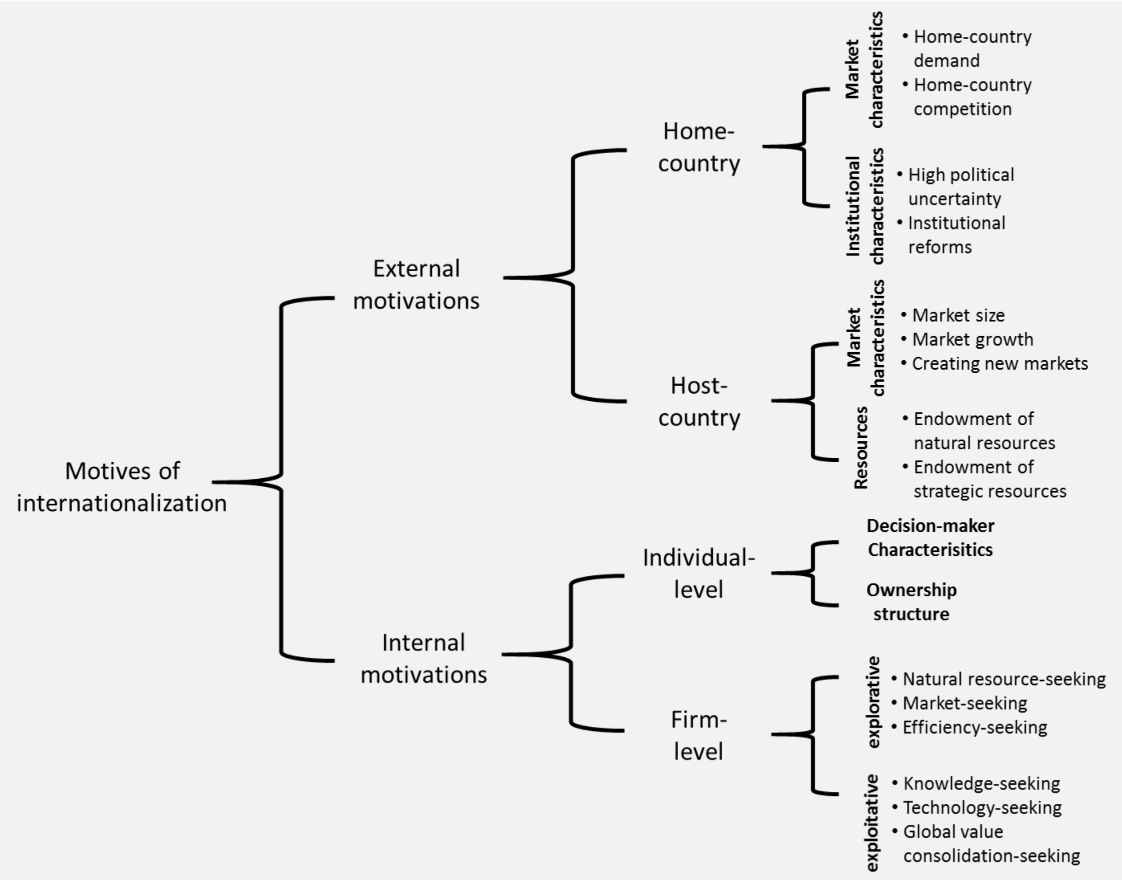
At the home-country level, one can distinguish between market characteristics, institutional characteristics and political influence-seeking (Leonidou et al., 2007; Moghaddam et al., 2014). The market characteristics are further divided into home-country demand and home-country competition. If home country demand is stagnant or declining it can create pressure on a company to establish additional revenue streams and sales potential. Furthermore a small domestic market can lead companies into international efforts to stay competitive (Leonidou et al., 2007). Home-country competition can also be an influencing factor for internationalisation as a high degree of competition can lead companies to search for additional sales abroad. Additionally a high degree of competition in a domestic market can lead to competitive advantage in a foreign market, as the pressure for efficiency is typically very high in the competitive domestic markets, but lower in the international market (Porter, 1990). Institutional characteristics[13] of a country can also play a significant role for the internationalising behaviour of companies. Especially when a home-country has

[13] Institutional characteristics such as political, infrastructural, educational or financial characteristics describe a countries' institutional profile and can ease the market entry for an internationalising company if available. Yet, if several institutions are missing, institutional voids can create a strong uncertainty for an investment environment. Chapter 3.2.4, 3.3.1 & 5 will focus on this phenomenon in more detail.

a high political uncertainty or undergoes many institutional reforms, firms can be prone to internationalise to create a more stable environment for the company and diversify their operating risks (Leonidou et al., 2007; Moghaddam et al., 2014). Furthermore, companies can undertake internationalisation efforts as a politically motivated activity by its home-government. Through government incentives or subsidies, they can be forced to enter new, international markets. This behaviour is mostly seen at companies from emerging markets and within industries of particular interest for the government (Dunning & Lundan, 2008; Moghaddam et al., 2014; Oesterle et al., 2016).

At the host-country level, market characteristics and resources play an important role for the internationalising behaviour of a company (Buckley et al., 2007; Leonidou et al., 2007; Moghaddam et al., 2014; Oesterle et al., 2016). With regard to market characteristics the market size as well as market growth are of great importance. Additionally the potential of creating a new market which is already existing in the home country, but absent in the host-country can be of great relevance for an internationalising company as well (Buckley et al., 2007; Eren-Erdogmus, Cobanoglu, Yalcın, & Ghauri, 2010). The endowment of resources of the host-country is another important motivational factor. The endowment of natural resources of a country as well as the endowment of strategic assets (e.g. advanced technology, skilled labour, and organisational knowledge) are important categories (Buckley, Forsans, & Munjal, 2012; Moghaddam et al., 2014). Whereat it needs to be noticed that the endowment of strategic assets of a country is a dynamic variable and can be influenced by the government in charge. **Figure 3** gives an overview of the above described motives again.

Figure 3: **Motives of Internationalisation**



(source: own representation based on multiple sources mentioned in the Chapter)

2.2.Reference Frameworks and Theoretical Foundations

After the short introduction to the field of international business and the motives for internationalisation, the following subchapter will highlight three different reference frameworks that are relevant for this treatise as they embedded the research question in the overall framework of international business research. Furthermore, the three most important theoretical foundations that are being used for research in the international business area are discussed.

2.2.1. Reference Frameworks

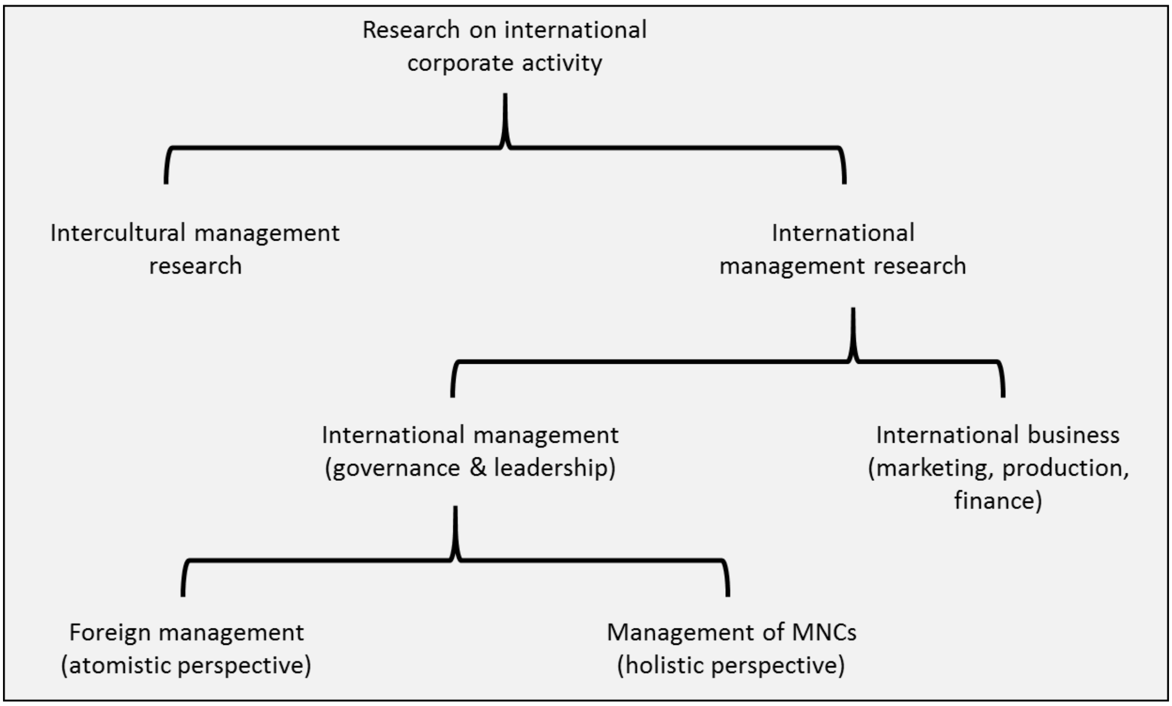
Research in international business and management is multi-faceted and oftentimes interdisciplinary (Hymer, 1960; López-Duarte, Vidal-Suárez, & González-Díaz, 2016; Werner, 2002). Especially since a dedicated research stream has only been established during the 1960s, many scientific publications have its roots in diverse fields, ranging from psychology to organisational studies (Hofstede, 1980; Kogut & Singh, 1988; Welge & Holtbrügge, 2006). Therefore, this treatise is drawing from multiple frameworks and conceptual differentiations to embed the research question of this treatise in the literature on international business and management. In the following, three renowned conceptualisations in the international management community are portrayed (Seno-Alday, 2010; Welge & Holtbrügge, 2006; Werner, 2002). All three conceptualisations have been chosen due to different reasons. Welge and Holtbrügge (2006) nicely distinguish between different levels and distinctions of research in the international management research and intercultural management research. Therefore, this conceptualisation serves as a great introduction into the categorisation of the field. The second conceptualisation by Werner (2002) is much more detailed, yet still very broad (in comparison to other much more narrow reviews, such as Surdu, Mellahi, and Glaister (2018) on emerging market multi-nationals or Pehrsson (2009) on market entries) and nicely points out four relevant fields within international management research for this treatise. Additionally it is one of the most regarded and cited reviews in the area of international business. Lastly, the review by Seno-Alday (2010) takes a different approach and conceptualises the field of research based on four guide-lining questions, which has been the main reason for its selection for this treatise.

2.2.1.1. Conceptual Framework by Welge and Holtbrügge (2006)

In order to structure and group publications within the international context, Welge and Holtbrügge (2006) proposed a simple categorisation of internationalisation research. At the first level, they differentiate between *intercultural management research* and *international management research.* Intercultural management research focuses on research questions regarding varying cultures in the context of international business activities. As their most prominent researcher postulates: "*The business of international business is culture*" (Hofstede, 1994). Thus, this research stream assumes that different cultures and their characteristics are the core differentiator between doing business in a home market and abroad (Hofstede, 1994; Hofstede, 2001; Hofstede, Hofstede, & Minkov, 2010).

International management research on the other hand takes the internationalising company as its research focus and aims to identify recommendations for the optimisation of exchange processes (Fayerweather, 1978; Welge & Holtbrügge, 2006). While intercultural management research is not divided further into any subgroups, international management research splits into *international management* and *international business*. Studies in international management research focus on governance and leadership aspects of internationalisation, while international business research is mainly interested in the effects of internationalisation on specific business activities such as marketing, finance and production (Welge & Holtbrügge, 2006). Within the dimension of international management, Welge and Holtbrügge (2006) differentiate even further into an *atomistic* and *holistic* view. The atomistic view highlights the aspects and questions a company is dealing with *during* its internationalisation, while the holistic view concentrates on research questions regarding companies, which *are* already internationally, or even globally, present. Its focus rather lies on management aspects of multi-national companies, than on the process of internationalisation and its underlying management implications. **Figure 4** displays the above described differentiations.

***Figure 4:* Focus of International Corporate Activity Research**



(source: adapted from Welge & Holtbrügge, 2006: 35)

2.2.1.2. A Conceptualisation of International Management Research by Werner (2002)

Besides this broad research categorisation of research containing international aspects from Welge and Holtbrügge (2006), Werner (2002) reviewed the top 20 management journals and introduced a thorough conceptualisation of the academic field. **Figure 5** shows his conceptualisation and highlights the complexity and intertwining aspects of the field and its identified themes. In his work, Werner (2002) identifies 12 current themes in international management research, whereby he does not explicitly differentiate between international management and international business. His themes range from the broad conceptualisation of the *global business environment* to the focused, company-centric theme of *expatriate management* within a subsidiary (Werner, 2002). In the following, only the most relevant themes for this treatise will be introduced: the global business environment, internationalisation, multinational enterprises and international strategic alliances & networks.

The *global business environment* with the global economy, political and regulatory environments, market structures and environmental risks as its sub-topics is an important theme as all sub-topics can be assumed to have a great impact on collaboration decisions of an internationalising company (Guillen, 2000; McNamara & Vaaler, 2000; Moon & Lado, 2000). For instance, the political system as well as corporate social responsibility aspects have been identified as important influencing factors of the political & regulatory environment as one dimension of the Global business environment in Werner's conceptualisation (Aguinis & Glavas, 2012; Guillen, 2000). The second important theme is *internationalisation*. This theme consists of three subtopics: description & measurement, antecedents and lastly the consequences of internationalisation. Within this topic, the process of internationalisation (description & measurement sub-topic) as well as firm & industry characteristics (antecedents) are the most relevant fields of research for this treatise even though much research has been carried out with a focus on the consequences of internationalisation (e.g. performance, growth, survival, etc.) (Hendry, 1996; Sarkar, Cavusgil, & Aulakh, 1999). *Multinational Enterprises* (MNE)[14] as another theme of

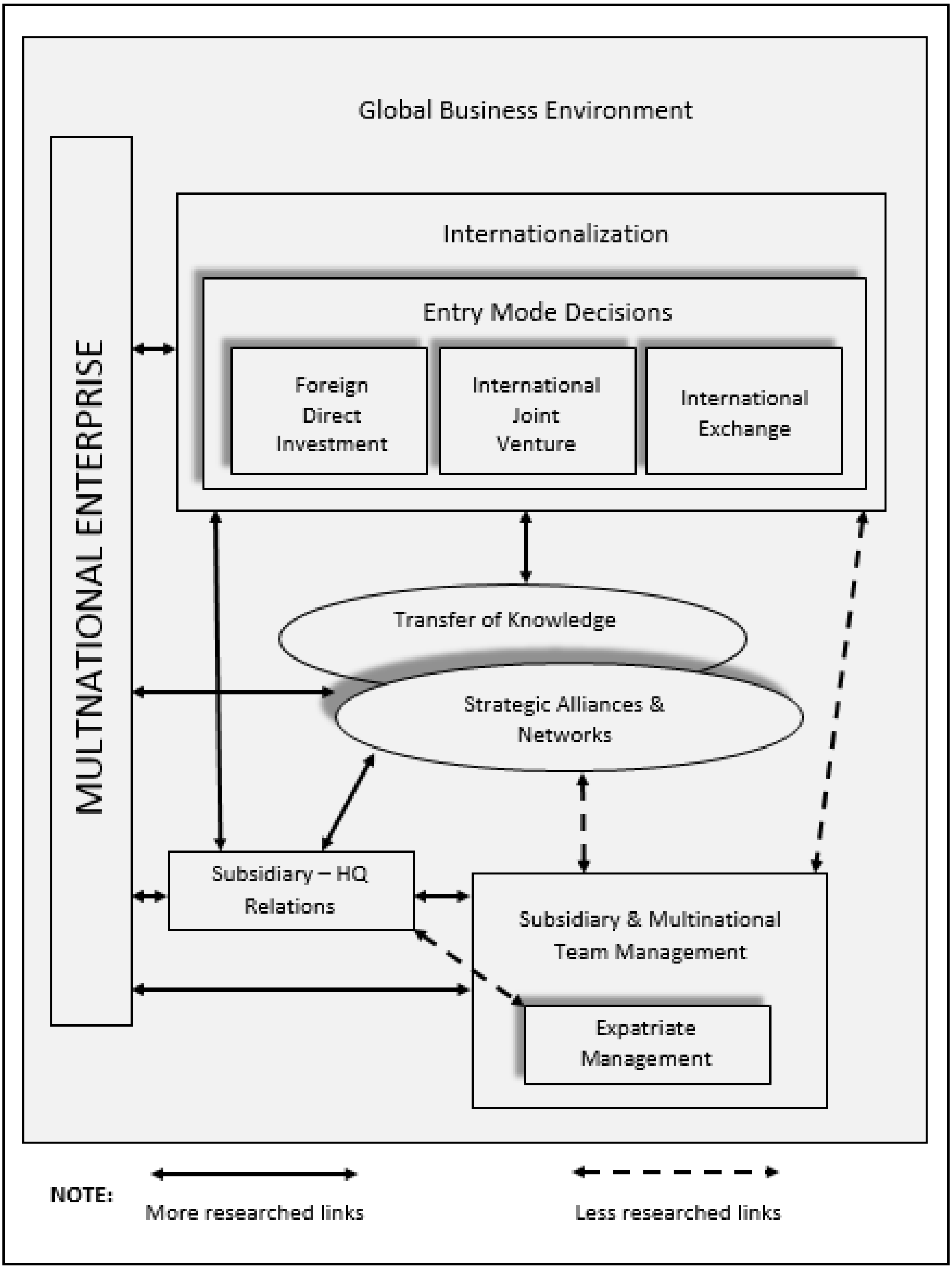
[14] The terms multi-national enterprise and multi-national corporation are often used interchangeably. Since this category by Werner (2002) is termed MNE, it will not be changed with regard to the description of the findings

Werner's (2002) systematic review is also important for this treatise, since MNE policies, MNE strategies and Models & Descriptions of MNEs are included in this themes subtopics. Especially the strategic fit between the MNE and the host country as well as environmental policies and non-market strategies[15] of the MNE are frequently studied areas in this theme (Brouthers & Brouthers, 2000; Buckley & Casson, 1998; Kostova & Zaheer, 1999; Lawton & Rajwani, 2015). The last important theme for this treatise is considering *international strategic alliances & networks*. Hereby Werner (2002) means the issues within strategic alliance relationships (e.g. trust, stability, learning), the aspects of business networks which are especially relevant in developing countries and the consequences of Strategic Alliances (e.g. performance, innovativeness, monitoring) (Dyer & Chu, 2000; Langfield-Smith & Greenwood, 1998). Even though inter-sectoral collaborations have not been explicitly mentioned by Werner (2002) within this subtopic, their importance has grown continuously over the recent decades (Doh & Boddewyn, 2014; Kourula & Laasonen, 2010; Teegen et al., 2004). Again, **Figure 5** on the next page highlights Werner's conceptualisation and shows the complexity of the research field and the important areas of research for this treatise.

of this particular paper. Yet overall, this treatise will continue to refer to a MNC rather than to a MNE with regard to this terminology.

[15] Nonmarket strategies consist of 'social, political, legal, and cultural arrangements that constrain or facilitate firm activity (Doh, McGuire, and Ozaki (2015)). Chapter 6 will take a closer look on this phenomenon.

***Figure 5:* Current Themes in Pure International Management Research**



(source: adapted from Werner, 2002: 282)

It needs to be noted that Werner's (2002) review is more than 17 years old and that the focus during his research was on top tier management journals rather than international management journals. This is mainly due to the fact that some journals with an internationalisation focus have not yet been established in 2002 (i.e. European Journal of International Management, Global Strategy Journal or Multinational Business Review). Nevertheless, it serves as a great delineation and conceptualisation of the discussed topics in the international management and business literature, but a more recent review with a different approach will therefore also be considered in the following (Seno-Alday, 2010).

2.2.1.3. Themes of International Business Research by Seno-Alday (2010)

In her review, Seno-Alday (2010) criticises the ordinary review classifications in international business. In her view, most reviews are differentiating between disciplinary and functional lines (e.g. economics, marketing, finance, etc.) or between topics and themes with regard to future research which is not an adequate description of the field and especially not an adequate guideline for future research (Seno-Alday, 2010). Thus, her approach is to cluster the field of international business into four overarching research questions (Seno-Alday, 2010: 20):

1. *"What is the unique nature of international business?*
2. *How does business internationalise?*
3. *What is the nature of the interaction among the various actors and players in international business?*
4. *What is the impact of internationalisation on business?*"

The most relevant questions for this treatise, questions two and three, will be discussed in more detail in the following. Thereby, the second question of the review is important for this treatise as it mainly focuses on the question with whom to collaborate during the internationalisation, while the third question is relevant as it portrays one major factor of developing countries, since interaction among various and heterogeneous actors is very important in these countries (Cantwell, Dunning, & Lundan, 2010; Meyer et al., 2011).

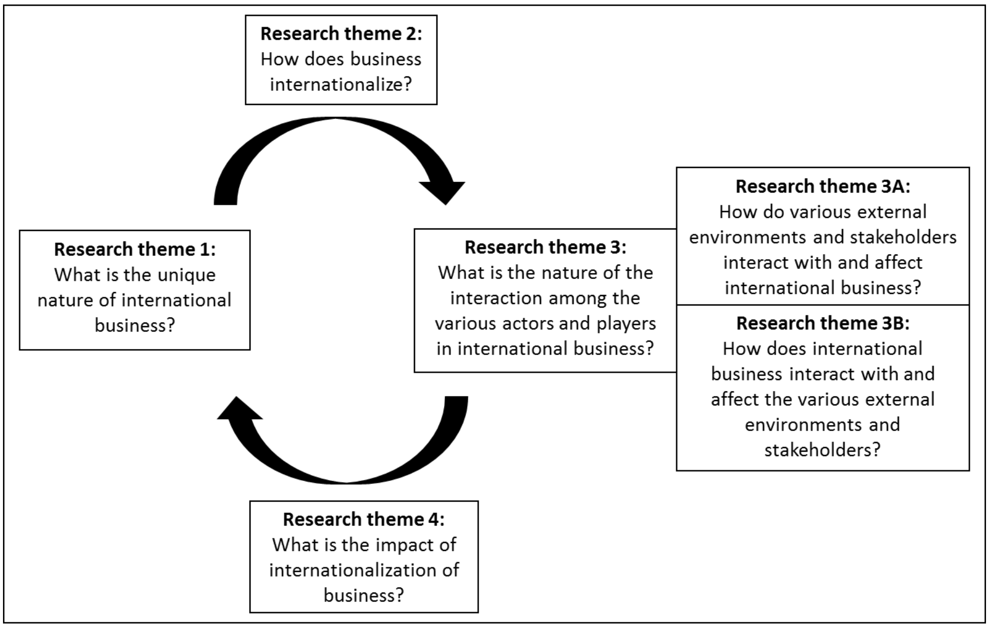
The second question of her review is concentrated around the topic of how businesses internationalise. Therefore the "*dynamic process of business internationalisation*" (Seno-

Alday, 2010: 21) is in the focus of this research area and studies examine how barriers and opportunities are assessed in the international environment. Elements such as entry mode decision, regionalisation vs. globalisation, partner choice or speed and magnitude of internationalisation are researched (Seno-Alday, 2010).

The third question rather focuses on the external environment of international business. Hereby Seno-Alday (2010) differentiates between two types of research; seeing the international business firm as a dependent variable (i.e. the international firm being influenced by external circumstances) and seeing the international business firm as an independent variable (i.e. the international firm being influencer of the external environment). Thus, there are two questions, which are posted within this field of research: "*How do various external environments and stakeholders interact with and affect international business?*" (Seno-Alday, 2010: 21) and "*How does international business interact with and affect the various external environments and stakeholders?*" (Seno-Alday, 2010: 21). While the former field focuses on business functions and their need to adapt to multiple national environments, norms and cultures, the latter concentrates on the influence of the international business firm on national economies and the global economy. Oftentimes an international company can be a first mover for change. Both subthemes can be analysed on various levels (e.g. city, country, regional or global level) and especially relationships between the international business firm and other institutional actors (e.g. governments, NGOs, unions, etc.) are of primer interest in both research subareas (Seno-Alday, 2010). These two questions are of particular relevance to this treatise as the show the complexity of research on MNCs being a dependent or independent variable in various research settings. With regard to this treatise, a MNC also needs to take into account the external environment (i.e. context), yet in order to overcome challenges of internationalisation, the MNC will need to become an active part to actively alter the external environment of the focal developing country[16]. **Figure 6** again illustrates and interrelates all questions presented in Seno-Alday's (2010) review.

[16] For a more in-depth explanation see chapter 3 and chapter 5.

Figure 6: **Themes of International Business Research**

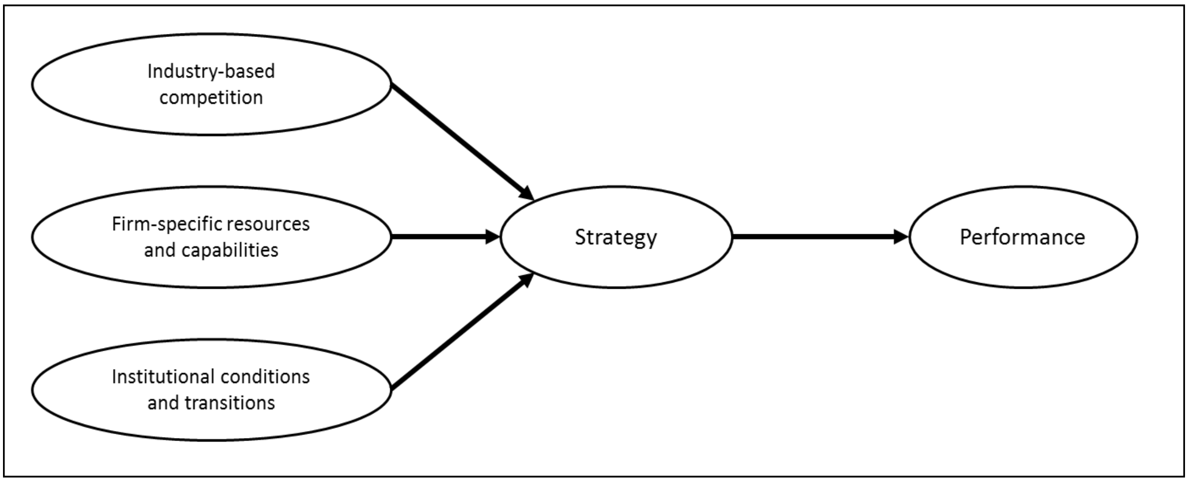


(source: Seno-Alday, 2010: 23)

2.2.2. Theoretical Foundations of International Business Research

In its beginnings, international business research has mainly been rooted in two theoretical approaches; the industrial organisation view and the resource-based view taken from strategic management research (Barney, 1991; Peng, Wang, & Jiang, 2008; Porter, 1980, 1990). Both approaches focus on an industry perspective or a company perspective in their analysis of drivers of strategy and thus competitive advantage. Since the recent decade and especially due to the ever increasing relevance of emerging and developing countries an additional theoretical approach, the institution-based view, has been developed to highlight the importance of context and the institutional environment of a company (Lewis, 2001, 2001). In the following, all three theoretical approaches will be distinguished in more detail as they serve as the theoretical basis for this treatise. Thereby, a special focus is put on the institution-based view as due to the developing country focus of this treatise and the importance of context, it serves the overall argumentation most adequately. Additionally, the industrial organisation view as well as the resource-based view both see the well-functioning of institutions and of markets as a given dimension and therefore do not take into account the potentially dominant role of institutions and how they might influence behaviour and can be actively altered. Yet this becomes especially relevant when firms internationalise into a developing country. **Figure 7** graphically summarises the interrelation of the three theoretical approaches and links them to strategy and performance.

***Figure 7:* The Institution-Based View: a Third Leg of the Strategy Tripod**



(source: Peng, Wang, & Jiang, 2008: 923)

2.2.2.1. The Industrial Organisation View

The industrial organisation view, also called industry-view of the firm is rooted in the field of industrial economics (Peng et al., 2008; Porter, 1980, 1985). Based on the „structure – conduct – performance“ paradigm by Burgess and the model of strategy formulation and implementation by Andrews, Porter (1979, 1980, 2008) developed his strategy development approach focusing on the market structure of an industry. Thus, deriving the success potential for an industry and its companies based on the conditions within that industry. His approach differentiates between five competitive forces, each of them exercising a different amount of pressure or power on the focal corporation within the analysed industry. The five types of competitive forces are; the bargaining power of suppliers, the bargaining power of buyers, the rivalry among existing competitors, the threat of new entrants and the threat of substitute products or services (Porter, 1979, 1980, 1985, 1990, 2008). The bargaining power of suppliers and buyers is mainly determined by the concentration of buyers and suppliers, the importance of the product for the buyer and supplier and the heights of switching costs. The most narrow dimension in the model, the rivalry among existing competitors, is especially high if companies are of a similar strength or if the industry is not growing or even decreasing. The threat of new entries into the market is mostly determined by economies of scale and capital costs as well as regulation and the threat of substitutes highly depends on the cost-utility-relation of the offered products and potential trends influencing this relation. These five competitive forces can have a severe impact on the profitability of a firm as they may determine pricing barriers and other changes in the competitive landscape for the focal company (Porter, 1979, 1980, 2008).

Another model aligning industry structure with overall company performance within an international context is the competitive advantage of nations model by Porter, also known as the diamond model (Grant, 1991; Porter, 1990). In this approach, Porter compares the national competitiveness of industries between borders. He argues that strong national competition within an industry can create strong competitors for international competition and thus facilitate internationalisation. Based on Porter (1990), factor conditions, demand conditions, related and supporting industries as well as firm strategy, structure and rivalry influence the competitiveness of a focal company compared to international competitors. Besides these four dimensions, which can be interdependent, there are two more important determinants acting independently from the others; the aspect of chance and the government. While 'chance' includes phenomenon such as random events or natural disasters, the 'government' subsumes aspects including industry regulation or government policies.

2.2.2.2. The Resource-Based View

Contrary to the industry-view on strategy and international business, the resource-based view does not focus on the analysis of the market structure and other determinants outside the firm (Barney, 1991; Porter, 1980). Its focus lies on firm-specific differences that drive strategy and thus performance (Barney, 1986a, 1991). The firm-specific differences are based on the two important assumptions that firm resources are immobile and heterogeneously distributed. Due to the imperfect mobility of resources, a firms strategic resources may be long-lasting within a firm and thus create a long-term competitive advantage. As for the resource-based view the classification of resources is of high importance and multiple approaches exist. For instance, Barney (1991) differentiates between three different types of resources: physical capital resources, human capital resources and organisational capital resources (Becker, 1964; Tomer, 1987; Williamson, 1975), while Amit and Schoemaker (1993) divide resources in four different types: financial, intangible, physical and organisational. Regardless of the used classification, the different resources within these approaches all have the potential to be of strategic value for a company, yet not every resource that a firm possesses exerts this strategic value (Amit & Schoemaker, 1993; Barney, 1991; Graf & Rothlauf, 2012).

To analyse if a specific resource has the potential to create a sustained competitive advantage for a firm, Barney (1991) introduced four categories to test exactly that. In order to become a strategic resource for a firm, a resource needs to have value, rareness, imperfect imitability and non-substitutability. A resource can be considered as valuable when it enables a firm to "*conceive or implement strategies that improve its efficiency and effectiveness*" (Barney, 1991: 106). Yet, it needs to be rare as it cannot be possessed by every competing firm. Additionally, Lippman and Rumelt (1982) and Barney (1986a, 1986b) coined the term of the imperfect imitability of a resource. In order to create a sustained competitive advantage, another firm not possessing the focal resource shall not be able to obtain it over a longer period of time. Based on Barney (1991: 107) resources can be imperfectly imitable for three reasons:

"(a) the ability of a firm to obtain a resource is dependent upon unique historical conditions*, (b) the link between the resources possessed by a firm and a firm's sustained competitive advantage is* causally ambiguous*, or (c) the resource generating a firm's advantage is* socially complex*".*[17]

The last aspect of evaluating if a resource of a company can create a sustained competitive advantage is the aspect of substitutability or rather non-substitutability of the focal resource. This means that a strategic resource cannot have an equivalent resource offering the same attributes to a company but not being rare or perfectly imitable. If such a resource exists the focal strategic resource could potentially be substituted and a sustained competitive advantage no longer exists. Thus, with these four attributes in mind firms can analyse if they possess strategically important resources.

[17] For further and a more detailed elaboration on the sources of imperfect imitability see Barney (1991). For the understanding of this treatise and the relevance of specific resources in varying contexts the broader introduction of the concept given in this paragraph is suitable.

It needs to be noted that within the industry-view as well as the resource-based view of strategic management the environment does have an influence on performance and to a certain amount this has already been modelled into both approaches (Barney, 1991; Porter, 1980, 2008). Nevertheless, the focus of the analysed environment has almost exclusively always been the "task environment" which rather focuses on economic variables as well as technological change, but not on institutions and institutional change (Lawton & Rajwani, 2015; Narayanan & Fahey, 2005; Oliver, 1997; Peng, 2002b). One explanation for this negligence is that when markets function smoothly, which is often the case in developed markets, institutions play a rather invisible role and serve in the background. Yet in developing economies, these institutions are oftentimes not yet well established and a firm must also consider broader influences, such as the state, society, culture and an environments' institutions when designing and implementing its strategy, especially in highly volatile institutional environments (McMillan, 2018; Meyer & Peng, 2016; Oliver, 1997; Peng, 2000, 2006; Vachani et al., 2009). The introduction of the institution-based view in the early years of the new millennial does exactly that (Oliver, 1997; Peng, 2002b; Peng et al., 2008; Peng, Sun, Pinkham, & Chen, 2009).

2.2.2.3. The Institution-Based View

Institutions are the fundamental arrangements through which societies seek to deal with social and economic problems and the institution-based view "*focuses on the dynamic interaction between institutions and organisations, and considers strategic choices as the outcome of such interaction*" (Peng, 2002a: 55) (Ingram & Silverman, 2002; Seitanidi, 2010). Firms are embedded in and influenced by the formal and informal institutions which drive the level of market competition and also influence the types of resources that firms are encouraged to develop in order to mitigate their faced challenges (Kim, Kim, & Hoskisson, 2010; North, 1990; Vachani et al., 2009). Thus, the institutional context has a crucial effect on a MNC strategy (Vachani et al., 2009). The institution-based view has its theoretical underpinnings in the research areas of institutional economics, neo-institutional theory from sociology, organisational theory and the analysis of business-government bargaining (Khanna & Palepu, 1999; Meyer & Peng, 2016; North, 1990; Scott, 1995; Teegen et al., 2004). Yet before clarifying what the institution-based view exactly entails, the term "institution" will be defined more concretely.

As previously mentioned, literature on institutions draws its reasoning from multiple disciplines with institutional economics and neo-institutional theory from sociology being the most prominent two areas of research (Heidenreich, 2012c; North, 1990; Peng et al., 2008; Scott, 1995). North (1990), an institutional economist, describes institutions as "*the humanly devised constraints that shape human interaction*", often also referred to as "*the rules of the game*" (North, 1990: 3). Institutions are important elements within a societal environment that can reduce uncertainty and thus transaction costs. They assure that property rights are respected, that information flows smoothly and that individuals as well as firms fulfil their commitments (North, 1990, 2005; Peng et al., 2008). North (1990) differentiates between two types of institutions; formal and informal. While formal institutions manifest through laws, regulations and rules, informal institutions are embedded in norms, culture and ethics. From an institutional economic perspective, it is highly relevant to differentiate between the terms institution and organisation. While many other disciplines use these terms interchangeably, they differ significantly from an institutional economic perspective as institutions are seen as "*the rule of the game*" and organisations are "*groups of individuals bound by some common purpose to achieve objectives*" (North, 1990: 4). This treatise follows the institutional economics perspective and strictly differentiates between both terms.

Scott (1995), a sociologist, defines institutions as "*…cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour" that they are "transported by various carriers - cultures, structures and routines - …*" (Scott, 1995: 33). He identified three pillars that make up or support institutions. These pillars are the regulative, the normative and the cognitive pillar. The regulative pillar emphasises regulatory processes such as establishing rules or sanctioning human behaviour. These processes can be formal (e.g. via the police and the law) or informal. The normative pillar relies on social obligation with norms and values as the core drivers for behaviour. At last, the cognitive pillar focuses on the institutions' effect on an individual response to an external stimuli. It refers to taken-for-granted beliefs that are oftentimes internalised by the individual via cultural effects (Scott, 1995).

As North (2005) and Scott (1995) noted, both academic perspectives have certain aspects in common. For instance, the aspect of institutional development. Both researchers see institutions as a dynamic construct that can either evolve over time or be created and altered. Additionally, Peng et al. (2009) developed a partial integration of both approaches aligning different sub-constructs of institutions to similar examples given by both researchers. **Table 1** shows the integration and nicely illustrates how formal institutions (North, 1990) and the regulative supportive pillar (Scott, 1995) base parts of their argumentation on the same examples (i.e. laws, regulations and rules). Subsequently, informal institutions are similar to normative and cognitive supportive pillars and both view become more concrete in the similar examples of norms, cultures and ethics[18].

Table 1: **Dimensions of Institutions**

<table>
<tr><th>Degree of Formality
(North, 1999)</th><th>Examples</th><th>Supportive Pillars
(Scott, 1995)</th></tr>
<tr><td rowspan="3">Formal Institutions</td><td>Laws</td><td rowspan="3">Regulative (Coercive)</td></tr>
<tr><td>Regulations</td></tr>
<tr><td>Rules</td></tr>
<tr><td rowspan="3">Informal Institutions</td><td>Norms</td><td>Normative</td></tr>
<tr><td>Cultures</td><td rowspan="2">Cognitive</td></tr>
<tr><td>Ethics</td></tr>
</table>

(source: Peng, Sun, Pinkham, & Chen, 2009: 64)

Even though Scott and North agreed on a usability and a potential for an integration of both approaches, other researchers did not agree with them, trying to make younger researchers pick sides for their endeveaours. Thus, when Peng (2000; 2002a) was outlining his theoretical underpinnings for several research endeavours, which used aspects of both approaches, he was also pressured by the scientific community to pick a side (Peng & Khoury, 2009). To avoid this confrontation and to keep his previously articulated line of thought in order, he developed the institution-based view of international business that

[18] Nevertheless it needs to be mentioned that there are also differing aspects between the two approaches on institutions. Especially with regard to what could be considered an institution, economist tend to have a much narrower view than sociologists. For instance, the previously mentioned differentiation between institutions and organisations can be regarded as one of these examples.

complements the industry-based view and resource-based view with regard to the theoretical underpinning in the international business literature.

In the institution-based view, there are three important aspects for an internationalising company to consider within the international environment; the level of institutional development, the institutional distance and the institutional dynamism (Peng et al., 2008; Vachani et al., 2009). The level of institutional development makes a country or an environment comparable to others and gives an information about the establishment and stability of institutions. The institutional distance differentiates between comparison pairs and highlights relevant aspects that might differ in the institutional environment between the compared contexts. The last aspect, institutional dynamism, highlights the dynamics of an environment and the pace through which it changes its institutions.[19] Governments are seen as the main shapers of an institutionally dynamic environment. Yet especially in developing countries MNCs and NGOs can also play a significant role and influence the dynamics of institutional change (Doh et al., 2017; Doh & Lucea, 2013; Doh & Teegen, 2002; Peng, 2003).

Besides the three aspects of the institutional environment that are relevant for the institution-based view, the institution-based view bases its analysis on two core assumptions. Firstly, "*managers and firms rationally pursue their interest and make choices within the institutional constraints*" (Peng, 2006: 117). This assumption points away from the classical industry-based view and resource-based view, as it brings institutions and their influence on behaviour into the spotlight. Secondly, "*formal and informal institutions combine to govern firm behaviour, in situations where formal constraints fail, informal constraints play a larger role in reducing uncertainty and providing consistency to managers and firms*" (Peng, 2006: 117). This assumption becomes especially relevant in environments with high institutional dynamism or institutionally fragile states, such as developing countries or even failed states[20]. This assumption might also explain why informal networks and personal

[19] All of these aspects, especially the first two aspects, can be aggregated, identified and compared through the analysis of various indices that are available to describe varying country development. Chapter 3.1.2 gives more information on this regard.
[20] For a more in-depth distinction, see Chapter 3.

connections between individuals play a significant role in emerging and developing countries[21].

2.3. Process of Internationalisation

Since the middle of the 20th century, the field of international business started to identify the internationalisation paths of companies as a crucial area of research and tried to conceptually differentiate between the differing paths of internationalisation (Hymer, 1960; Johanson & Vahlne, 1977; Kuivalainen, Olejnik, & Swoboda, 2012; Kutschker & Schmid, 2011). Thus, many theoretical concepts and approaches have been developed to explain internationalisation behaviour of companies and this subchapter focuses on the most relevant process models of internationalisation to elucidate how MNCs typically internationalise and which aspects are relevant in this regard (Dunning, 1988; Johanson & Vahlne, 1977; Matlay et al., 2006; Ricardo, 1817; Vernon, 1966).

The following subchapter therefore gives a short overview on the most prominent research streams and theoretical concepts, identifying the internationalisation processes of companies. Namely, I will concentrate on the stage model of Johanson and Vahlne (1977)[22], the eclectic paradigm by Dunning (1988), the network approach (Matlay et al., 2006; Welch & Welch, 1996) and the phenomenon of born global firms, as these four conceptualisations have received the most attention of researchers in the recent years (Cavusgil & Knight, 2015; Knight & Cavusgil, 1996; Zander, McDougall-Covin, & L Rose, 2015). The Uppsala-model has been chosen because it is still seen as the most relevant model for internationalisation as Johanson and Vahlne (1977) were the first who answered the questions of *what* and *where* to internationalise, using a case study method with Swedish companies. Yet, since criticism remains high regarding their concept, the eclectic theory is also chosen as it adds a location perspective and furthermore highly contradicts the Uppsala-model, stating that not every firm undergoes the same internationalisation pattern (Dunning, 1988, 1992). Thirdly, concepts that highlight the importance of networks and the embeddedness within certain networks are discussed as networks and collaborations per se play a crucial role within this treatise. Fourthly, research on the born-global firm is characterised, as it represents another very important stream of research regarding internationalisation patterns. Yet as its focal

[21] For more information of the characteristics of developing countries, see Chapter 3.2.
[22] Also known as the Uppsala model.

research focus is mainly put on the individual-level (i.e. personnel within a corporation), the impact for this treatise is rather slim. Therefore, this research stream is only discussed shortly.

2.3.1. The Uppsala Model of Internationalisation

Based on the behavioural theory of foreign direct investments by Aharoni (1966), the theory of the firm by Cyert and March (1963) and the economic theory of firm growth by Penrose (1966), Johanson and Vahlne (1977) created a model of gradual internationalisation of domestic firms. In their research, Johanson and Vahlne (1977) base their theory building on a thorough investigation of four Swedish companies undertaken in an earlier research project by Johanson and Wiedersheim-Paul (1975). Based on the creation of a distance chain and an establishment chain, they argue that every internationalising firm undergoes the same pattern of internationalisation. Their model is also called the Uppsala-model of internationalisation, as Johanson was an early scholar at the University of Uppsala.

With their research, Johanson and Vahlne (1977) introduced a view consisting of two main aspects to characterise internationalisation patterns of companies: the *distance chain* and the *establishment chain*. The distance chain describes the temporal pattern of how firms internationalise in which the factor of *psychic distance* plays a crucial part. It is defined as *"factors preventing or disturbing the flows of information between firms and market."* (Johanson & Wiedersheim-Paul, 1975: 308). Thus, Johanson and Vahlne (1977) assume that the more distant two countries are in terms of their geographical distance, political system, language, culture or the level of education, the more unlikely an instant internationalisation becomes as firms are generally internationalising into trusted and psychic near countries at first.

How the firms internationalise is conceptualised via the *establishment chain*, as it is not focusing on the selection of the country, but on a later stage of the internationalisation efforts: the selection of the market entry mode. Ideally, as Johanson and Wiedersheim-Paul (1975) propose, firms proceed in four steps as they move up the establishment chain[23]:

1. No regular export activity
2. Exports via independent agents
3. Sales departments in foreign country
4. Production facilities in foreign country.

In order to move up the establishment chain, Johanson and Vahlne (1977) propose their model of learning during the internationalisation process consisting of state aspects and change aspects. In their model, derived from the empirical observations of Johanson and Wiedersheim-Paul (1975), market commitment and market knowledge serve as the two important state aspects and commitment decisions and current activities as the important change aspects to explain the process of internationalisation. The interplay of these aspects incrementally gives the international firm more experience in international markets and thus leads to a gradual internationalisation by moving up the establishment chain and entering more psychically distant markets. Therefore it is important to notice that the model by Johanson and Vahlne (1977) is purely evolutionary and not revolutionary. Changes only occur on an incremental level.

The aspect of market commitment is derived by two factors, the amount of resources committed by the firm and the degree of that commitment (the relation to other resources not committed to the international operation). In their paper, Johanson and Vahlne (1977) state that a higher resource commitment leads to a higher market commitment as resources become tied to the foreign country. The other state aspect, market knowledge, is also divided into two parts, objective knowledge and experiential knowledge. While objective knowledge is seen as knowledge transferable within the organisation, experiential knowledge is bound by employees and therefore hardly transferable. The authors' differentiation is based on

[23] Besides Johanson and Wiedersheim-Paul (1975), other researchers also propose five steps of the establishment chain with a more fine-grained view on export (direct vs. indirect) and licensing (Petersen and Pedersen (1997)).

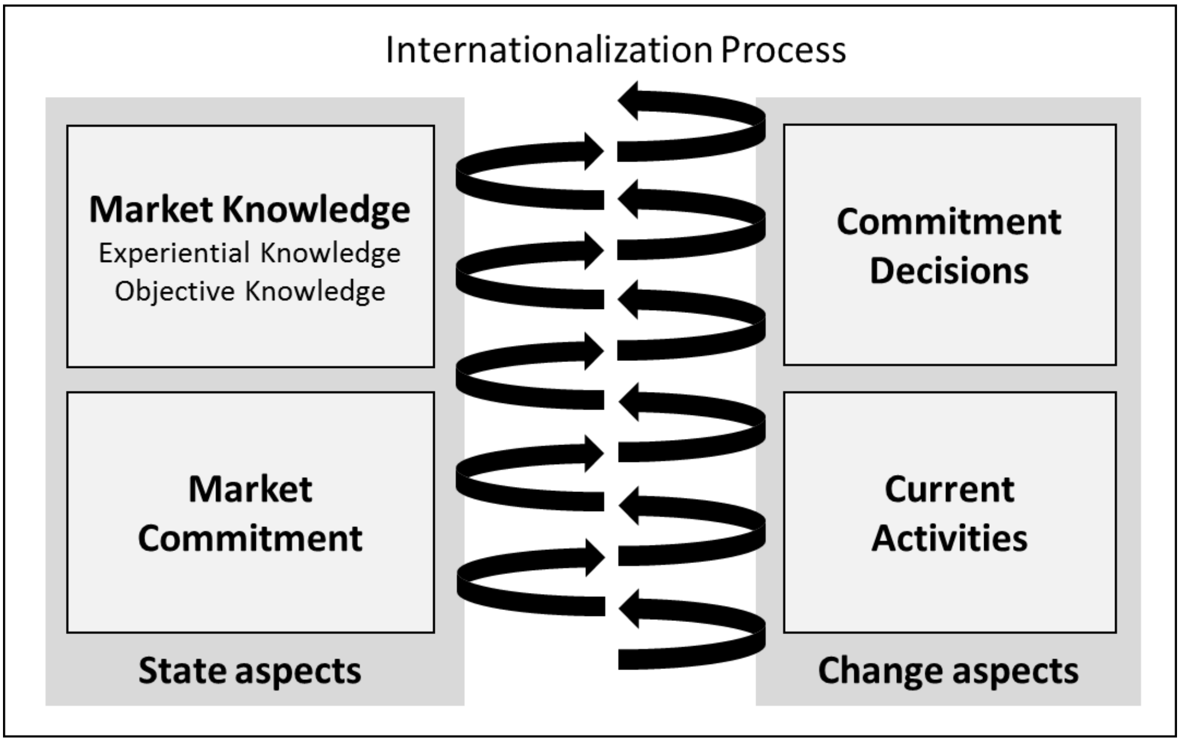
Penrose's (1966) article in which he clearly differentiates between both types of knowledge as follows:

"*One kind can be formally taught, can be learned from other people or from the written word, and can, if necessary, be formally expressed and transmitted to others. The other kind is also the result of learning, but learning in the form of personal experience*" (Penrose, 1966: 48)

Johanson and Vahlne (1977) argue that even though both types of knowledge are important for internationalisation, experience knowledge is more critical as it is harder to obtain and retain, especially when internationalising into developing countries as experienced managers of western MNCs in developing countries are hardly found (Chelekis & Mudambi, 2010; Doh & Boddewyn, 2014; Nandonde & Kuada, 2016).

Next to state aspects, change aspects form the second important dimension of the Uppsala model of internationalisation. Johanson and Vahlne (1977) identified two important factors: current activities and commitment decisions. Current activities are the main source of experiential knowledge. They reflect all current activities, which the company is undertaking on behalf of its internationalisation efforts. It needs to be mentioned that many impacts only become visible as soon as activities are carried out continuously and on a routine basis. Commitment decisions are decisions by the firm to deploy certain amounts of resources for internationalisation. The commitment of resources triggers more current activities, which results in higher market commitment and market knowledge. Since these decisions often incur great risks, they are highly dependent on the risk aversion of the decision makers. As shortly mentioned above, the two change aspects influence the state aspects, which then become dynamic and the internationalising firm is gradually becoming more embedded into the host country via moving up the establishment chain. **Figure 8** illustrates the described relationship again on a graphical level.

Figure 8: **The Basic Mechanism of Internationalisation - State and Change Aspects**



(source: adapted from Johanson & Vahlne, 1977: 26)

As a ground breaking research article in the international business literature, the Uppsala model of internationalisation has inevitably received a considerable amount of positive and negative critique (Johanson & Vahlne, 1977; Kutschker & Schmid, 2011; Petersen & Pedersen, 1997). The most important criticism based on scholarly recognition will be discussed below.

From a methodological point of view, researchers criticise the slim empirical basis on which the model is based upon. Since Johanson and Vahlne (1977) base the model only on the empirical results of four Swedish companies and their approach to internationalisation, other researchers argue that this highly diminishes their claims of generalisability (Macharzina, 2003; Petersen & Pedersen, 1997; Yin, 2009). Additionally the aspect of time plays an important role in the Uppsala-model, yet the model lacks concrete statements how long a company should remain in each internationalisation mode. Another critique aims at the deterministic role of the establishment chain. Generally speaking, an internationalising firm has many market entry options to choose from, when it decides to internationalise. Yet with regard to Johanson and Vahlne (1977), their choice is already predefined through the establishment chain. Various researchers, showing that companies also use wholly owned subsidiaries or green field investments as their first mode of entry, have already negated this assumption made by Johanson and Vahlne (1977) (Cavusgil & Knight, 2015; Dunning, 1988; Kutschker & Schmid, 2011; Macharzina, 2003; Simon, 2007). Thus, companies are leap-frogging substantial modes of entry with regard to the establishment chain.

Even though there has been critique regarding the methodology of the researchers and the propositions of the model for internationalisation, it remains one of the most important frameworks for internationalisation. Yet this critique led its way to other internationalisation frameworks, the most important being the eclectic paradigm, the network-view of internationalisation and the born-global phenomenon. They are discussed in the upcoming subchapters.

2.3.2. The Eclectic Paradigm

Contrary to the Uppsala model of internationalisation, Dunning (1977) does not assume that every firm undergoes the same pattern of internationalisation and thus created the eclectic theory of internationalisation to justify the varying internationalisation approaches of companies. The eclectic theory by Dunning (1977) combines three theoretical approaches in order to determine the best market entry strategy for an internationalising company (Dunning, 1977, 1988). Through the combination of multiple theories (eclectic approach), Dunning tries to determine the optimal market entry strategy or entry mode (e.g. international contracts, export or foreign direct investment) for internationalising companies. He bases his assumptions on knowledge from the monopolistic advantage theory (Hymer, 1960; Kindleberger, 1969), internalisation theory (Buckley, 1988; Buckley & Casson, 1976) and location theories (Kutschker & Schmid, 2011; Matlay et al., 2006) and proposes that through the combination and analysis of three advantage types (ownership, internalisation and location) a company can choose its optimal entry strategy (Dunning, 1977; 1988). In the following, the concept will be discussed in detail as it combines important streams of international business research and serves as a theoretical cornerstone in this area.

The first category of Dunning’s (1977) model, ownership advantage, is based on the monopolistic advantage theory by Hymer (1960) & Kindleberger (1969). Their theory of monopolistic advantages states that a subsidiary in a foreign country needs to have a sustainable advantage compared to the local competition in order to mitigate competitive disadvantages due to the foreignness of the company. Classical disadvantages can be higher information and communication costs, risks of changes in the exchange rate and discriminatory challenges (Dülfer & Jöstingmeier, 2014).[24] From Dunning's perspective, ownership advantages for internationalising companies can be derived from three groups:

1. Better access to resources
2. More experience
3. Risk reduction via diversification.

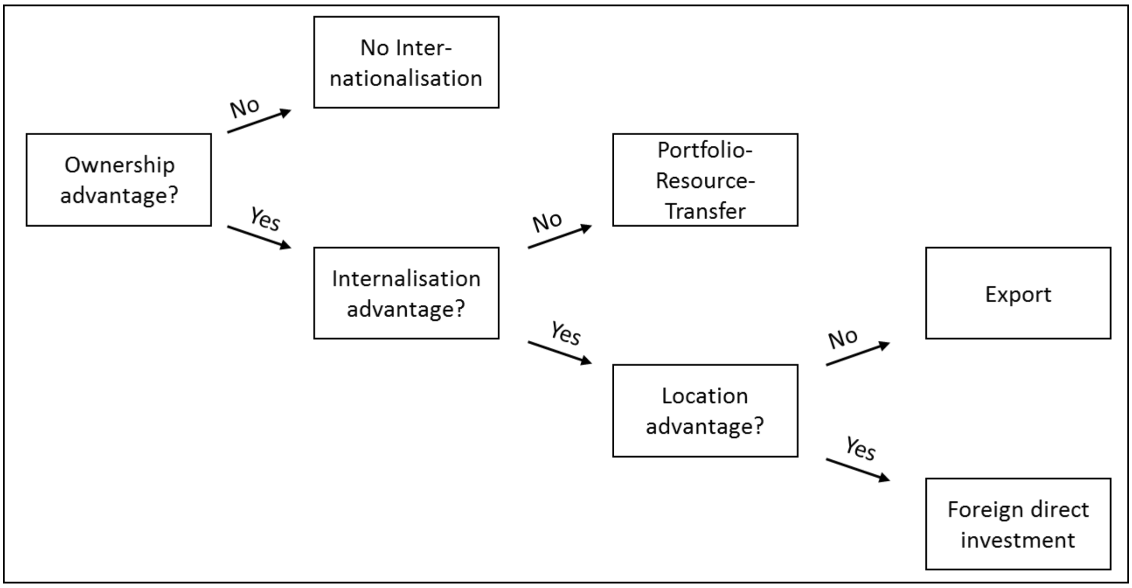
With regard to the first group, Dunning (1977, 1988) assumes that internationalising companies can generate economies of scale and use their patents, brand strength, reputation and business networks more effectively. Additionally the company can gain more experience and might be able to transfer accumulated knowledge from other countries to their home country. For instance, experiences with new markets and administrative challenges can be transferred and adapted to home country organisational processes. Furthermore the company reduces risk when it internationalises in diversified geographical markets (Dunning, 1977, 1988; Dunning & Lundan, 2008). If the above mentioned ownership advantages exist for a company, Dunning (1977) proposes to internationalise via international contracts, such as licensing or franchising.

The second category introduced by Dunning (1977, 1988) is based on the internalisation theory by Buckley and Casson (1976) and is a determinant for the choice between international contracts or export as the preferred market entry mode. If the internationalising company possesses internalisation advantages, Dunning (1977, 1988) proposes export as the optimal market entry option for the company. If not, he proposes international contracts (Dunning, 1977; 1988). Internalisation advantages arise if a company's internal value creation is mainly structured via internal markets and thus transactions can be made at a lower price than via external input markets or intermediate markets. The internationalising company does not need to rely on external markets (Matlay et al., 2006).

[24] Note that disadvantages and challenges of internationalising companies will be discussed in more detail in the upcoming Chapter 2.4.

While the first two categories focus on an internal company perspective, the third type of advantage, location advantages, focuses on a company's external perspective and refers to institutional and productive factors available in certain geographical areas. A common distinction is drawn between *macro-economic factors*, such as political, regulative, economical, ecological, demographical and cultural factors, and *micro-economic factors*, market- and industry-environment factors, that can play an important role in the analysis of location advantages (Kutschker & Schmid, 2011; Matlay et al., 2006). If a particular location possesses enough advantages, a company can decide to enter the market via foreign direct investments. **Figure 9** summarises the three types of advantages and its resulting decision tree for market-entry mode options.

Figure 9: **Decision Logic of the Eclectic Theory**



(source: adapted from Sure, 2017: 37)

The multi-causal approach by Dunning (1977, 1988), combining three different theoretical approaches in a single model does not come without criticism. For instance, Itaki (1991) highlights the analytical redundancies between the three types of advantages and additionally criticises the interdependencies of the three categories. He states that certain ownership and internalisation advantages can only be fulfilled in specific locations and therefore these location advantages must exist in order to create ownership and internalisation advantages in a second step (Itaki, 1991; Macharzina, 2003). Additionally

Dunning's approach is based on the neoclassical idea which assumes that companies are strictly following the goal of profit maximisation (Dunning, 1977, 1988). This assumption can be criticised as well, since especially for international business activities other aspects such as risk reduction, embeddedness, input factor securing also need to be taken into account by the management (Heidenreich, 2012c; Miller, 1992).

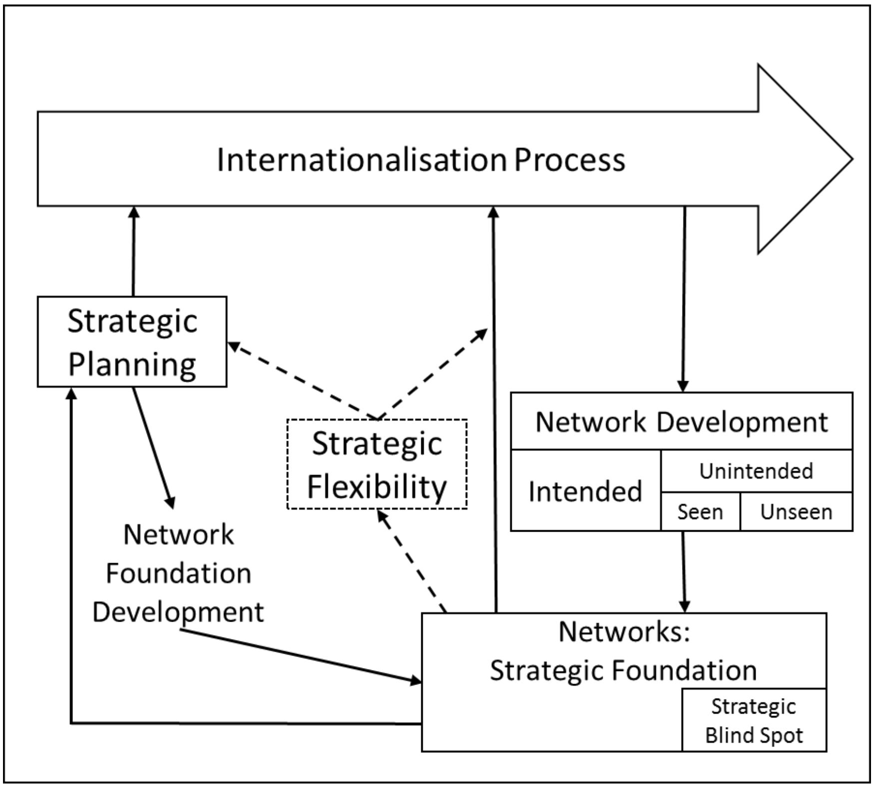
2.3.3. The Network-View of Internationalisation

Besides research on the internationalisation process from a learning perspective, a market perspective or a location perspective, researchers have also started to incorporate the aspect of networks into their efforts to analyse internationalisation processes of companies (Johanson & Vahlne, 2009; Matlay et al., 2006; Welch & Welch, 1996). Even though the findings and approaches of the researchers often differ mainly due to their focus of analysis – i.e. types of networks (e.g. individual, inter-organisational, intra-organisational, position within a network), they all have one thing in common: the importance of networks (Chen & Chen, 1998; Chetty & Blankenburg-Holm, 2000; Johanson & Vahlne, 2011). They highlight the importance of networks and of certain positions within a network as well as the relevance of being endowed with the capability to create new network relationships for the internationalisation process, a capability that is especially relevant when internationalising into developing countries (Doh et al., 2017; Dyer & Singh, 1998; Martin, Swaminathan, & Mitchell, 1998; Styles, Loane, & Bell, 2006; Vahlne & Johanson, 2013; Webb, Kistruck, Ireland, & Ketchen, 2010). In the following, two models will be described in further detail to give a quick overview and illustrate the variety in depth and breadth of research available in this area. The first model by Welch and Welch (1996) conceptualises the relationship between the internationalisation process, strategic management and networks as it aligns the aspect of networks within the scientific discussion of the internationalisation process. The second model by Johanson and Mattsson (1988) focuses on the network dimension in the overall discussion and creates a typology of four types of internationalising companies solely based on their network characteristics and positions within these networks.

In their article, Welch and Welch (1996) combine the necessity of strategic planning and flexibility with the importance of network development as well as network position and link the identified dimensions to the overall internationalisation process. Welch and Welch

(1996) highlight the relevance of a strategic network foundation development which feeds into the establishment of networks which in turn is linked to a strategic planning aspect and the internationalisation process itself. With a well-organised network foundation development, consisting of the identification and evaluation of networks, additional network linkages (intended or unintended) can be created which in turn might advance the company on its internationalisation process (Welch & Welch, 1996). An important contribution of the model to the field is to make the process of network development salient and point out the relevance of intended and unintended network development. Since every internationalisation process is complex and networks or more importantly network ties are often based in individuals, many relationships are created unintendedly. Therefore the evolution of networks can be difficult to predict which leaves a strategic blind spot in the model to compensate for the uncertainty derived out of unintended relationships (Welch & Welch, 1996). Overall it needs to be noted that within the model many dimensions are intertwined and it can be stated that Welch and Welch (1996) see the internationalisation process and the development of networks as a complex and iterative process. **Figure 10** gives a graphical overview of their model.

Figure 10: **Internationalisation and Strategic Networking**



(source: Welch & Welch, 1996: 20)

Johanson and Mattsson (1988) focus in their network-based internationalisation approach on the importance of network embeddedness for a company. For the researchers, the position of the firm within the network is the most important influencing factor for internationalisation. It is conceptualised via two elements: the degree of internationalisation of the firm and the degree of internationalisation of the network. They see the internationalisation of a company as an evolutionary path conducted in three sequential stages:

1. Market expansion – finding a new position in a market
2. Market penetration – improve position in the market
3. Market integration – improve harmony between different positions in the market.

Due to the position of a company within a network, Johanson and Mattsson (1988) try to predict the companies' international and national activities. Depending on a high or low degree of internationalisation of the firm and of the network, they created four types of internationalising companies: the early starter, the late starter, the lonely international and the international among others. *The early starter* has a low degree of internationalisation itself and within its network. Oftentimes these firms do not have access or knowledge about the global market, but they are keen on acquiring it. *The late starter* on the other hand operates in an environment that is already international, while the focal firm is not. These companies often have a weaker position than many competitors do and the creation of a tight network is difficult. *The lonely international* is operating as an international company, but its environment is not yet very international. Due to their access to international markets, these types of companies often possess an advantage over their competitors. The last type of internationalising company, *the international among others,* is a company operating in an international environment and is endowed with the capabilities to do so. These companies have oftentimes shaped their position within the market already and created tight networks with others, which enables them to internationalise into further territories (Johanson & Mattsson, 1988). **Figure 11** summarises the created typology by Johanson and Mattsson (1988).

Figure 11: **Network Model of Internationalisation**

		Degree of Internationalisation of the market	
		Low	High
Degree of Internationalisation of the firm	Low	The Early Starter	The Late Starter
	High	The Lonely International	The International among Others

(source: Johanson & Mattsson, 1988: 312)

2.3.4. The Born-Global Firm

Despite the efforts of long-standing international business research in the above described areas, these disciplines are hardly able to explain the activities of companies that internationalise directly after their foundation (Cavusgil & Knight, 2015; Knight & Cavusgil, 2004; Sharma & Blomstermo, 2003). The so-called born-global firm[25] is a phenomenon that was heavily coined by Knight and Cavusgil (2015; 1996; 2004), but already began being researched in the early 1990's (Jolly, Alahuhta, & Jeannet, 1992; Knight & Cavusgil, 1996; Oviatt & McDougall, 1994; Rennie, 1993). Born-globals are described as companies that follow an early and rapid internationalisation, right after starting their business in their home country (Gabrielsson & Manek Kirpalani, 2004; Knight & Cavusgil, 2004; Sharma & Blomstermo, 2003). Today, about one-fifth of all newly established companies in Europe are considered to be a born-global company (Cavusgil & Knight, 2015). Besides the

[25] Other terms used in the literature are the following: International new ventures (Phillips McDougall, Shane, and Oviatt (1994)), High Technology Start-ups (Jolly, Alahuhta, and Jeannet (1992) and Global Start-ups (Oviatt and McDougall (1994).

phenomenon of born-global firms, there are also born-regional firms[26] as well as born-again global firms[27] discussed in the scientific literature (Asmussen, 2008; Bell, Mc Naughton, & Young, 2001). Yet, their impact on the scientific community remains scarce until today.

Born-global firms are showing a higher pace of development and can often be found in knowledge-intensive industries and niche markets where production facilities and high capital endowments are generally not needed (Andersson & Berggren, 2016; Cavusgil & Knight, 2015; Lopez, Kundu, & Ciravegna, 2009). A specific focus in born-global firms is typically placed on the founder or the manager of the international operation, as he[28] and his characteristics often have a high impact on the companies' agility (Zander et al., 2015). Born-globals have great capabilities with regard to network building and often embed in high-quality networks (Sharma & Blomstermo, 2003; Zander et al., 2015).

Research in the 1990's regarding born-global firms has mainly been descriptive with a lack of theoretical alignment (Jolly et al., 1992; Knight & Cavusgil, 1996; Oviatt & McDougall, 1994; Rennie, 1993). The focus rather laid on the description of the phenomenon as well as the categorisation and definition of the born-global firm itself (Jolly et al., 1992; Rennie, 1993). Questions such as, 'When can a company be considered a born-global?' or 'What is a born-global company' were in the focus (Knight & Cavusgil, 1996; Rennie, 1993). A theoretical alignment emerged about a decade later, when researchers started to understand the phenomenon and understood the lack of theory behind the phenomenon explanation. Since the born-global firm is generally seen as an agile, resource-constrained, but skilled organisation with the founder or an internationalisation manager as a key employee, most researchers identified the link between international entrepreneurship and international business as the most promising avenue for theoretical alignment (Knight & Cavusgil, 2004; Sharma & Blomstermo, 2003; Zander et al., 2015). Therefore, the focus of analysis has rather been on the individual-level of analysis and inter-disciplinary

[26] Born-regional firms solely focus on regions in their internationalisation. In this regard regions as seen as multiple countries combined to one region (Lopez, Kundu, and Ciravegna (2009)).
[27] Born-again global firms is a phenomenon that describes firms which do not internationalise for a very long time and then suddenly start to internationalise rapidly on a global scale (Bell, Mc Naughton, and Young (2001); Sheppard and McNaughton (2012)).
[28] This treatise solely uses the masculine form for representation purposes. Yet with the use of this form the author is always referring to masculine and feminine individuals.

approaches from entrepreneurship theory or psychology than organisation theory or strategic management.

Since the focus of this treatise is rather on the organisational decision-making effects and individual-level characteristics are rarely taken into account, the ongoing analysis will refrain from intensive alignments to the born-global literature in international business, yet since this type of internationalisation approach does represent around 20% of all internationalisation efforts, it needed to be characterised shortly as it represents an important fraction of the literature (Cavusgil & Knight, 2015).

2.4. Challenges of Companies during the Internationalisation Process

When internationalising, companies face a significant amount of challenges before, during and after entering new markets (Denk et al., 2012; Miller, 1992). In the three recent decades, researchers have identified multiple challenges and different research streams that highlight specific aspects of internationalisation challenges have been established (Bhanji & Oxley, 2013; Eden & Miller, 2001; Miller, 1992). These research streams range from internal to external challenges, include the well-established concept of the liability of foreignness as well as other liabilities and distance problems that may arise from the geographical distance between the home and the host country of the internationalising firm (Crick, 2004; Denk et al., 2012; Hutzschenreuter, Kleindienst, & Lange, 2016; Miller, 1992).

The challenges are discussed in the following subchapter and will show the complexity of the field of research, as certain elements occasionally overlap between the research fields and heterogeneous terminology is used to describe similar aspects. As a generic overview of internationalisation challenges of companies makes it easier to allocate specific risks of internationalising into developing countries, the following Chapter focuses on a generic representation of internationalisation challenges potentially encountered by internationalising companies. Later, in Chapter 3, an additional focus is placed on the specific delineation of internationalisation challenges in developing countries. This approach is chosen due to two reasons. First, even though some challenges in developed and developing countries are the same, their severity regarding the potential impact on the internationalising firm is oftentimes different. For instance, the aspect of a volatile macro-economic environment can pose a challenge in both country contexts. Yet the severity of the challenge can impact a company that is internationalising into a developing country much more as these volatile environments can easier turn into great economic down turns and capital shortages (Doh et al., 2017; Miller, 1992; Todaro & Smith, 2015). Second, literature on challenges for internationalising into developing countries is a relatively new field of research compared to internationalising challenges into developed countries (Annushkina, Merchant, Trinca Colonel, & Berselli, 2016; Doh et al., 2017). Thus, in order to get an overarching picture of all potential challenges an internationalising company might face, a review of both literature streams becomes inevitable.

2.4.1. Overview of Internal and External Challenges

One way to cluster the relevant challenges for internationalising companies is to divide the occurring challenges into internal and external challenges (Leonidou, 2004). While internal challenges can be analysed on an individual level as well as a firm level, external challenges focus on home-country and host-country challenges (Cahen et al., 2016; Leonidou, 2004; Matlay et al., 2006).

2.4.1.1. Internal Challenges

Internal challenges before, during or after the internationalisation can be clustered into an individual-level and a firm-level. Thereby, the individual-level focuses on the personal level, mainly including characteristics and missing capabilities by the firms' decision maker (Matlay et al., 2006). Typically, this is the internationalisation manager in a multi-national company or the owner in a small and medium-sized enterprise (Matlay et al., 2006). On the firm-level, mainly organisational challenges such as financial capabilities or marketing and human capital aspects are influencing challenges (Leonidou, 2004; Leonidou et al., 2007). Additionally, managerial aspects play an important role.

With regard to the decision-maker characteristics at the individual-level, it needs to be noted that a certain risk aversion as a character trait by the decision-maker is a challenge before and during the internationalisation process, since the market entry into foreign markets is always uncertain and very risky. Yet additionally an overestimation of capabilities (i.e. a lack of competence) on the other hand has also been identified as a key problem on the individual level. Oftentimes, decision-makers underestimate the additional complexity that a step into a foreign market implicates and thus make wrong decisions (Cahen et al., 2016).

Shifting the perspective from the individual-level to the firm-level, internal firm-level challenges can be grouped into four categories: Financial, human resources, managerial and marketing barriers (Denk et al., 2012; Kahiya, 2013; Leonidou, 2004). Especially for SMEs, financial aspects are a core problem when internationalising (Hutchinson, Quinn, & Alexander, 2006; Maeseneire & Claeys, 2012). The shortage of capital, especially for riskier market-entry efforts, is one of the most important challenges in this category. Before and during the internationalisation process, companies may also face significant challenges with regard to human resources. A lack of qualified personnel, for the preparation in the home-country as well as in the foreign market can be detrimental (Kahiya, 2013; Leonidou, 2004). Furthermore a language barrier might arise, depending on the chosen international market. In this case, also the communication difficulties between personnel communicating via English as their second language should not be neglected (Uner, Kocak, Cavusgil, & Cavusgil, 2013). The third category of firm-level challenges are of a managerial nature. Most importantly, procedural challenges need to be mentioned within this category as tariffs and the documentation of paperwork often differs significantly compared to the home-market (Leonidou, 2004; Uner et al., 2013). Additionally the lack of international experience of the employees as well as the lack of knowledge regarding international endeavours are important challenges a company might face during their internationalisation. It is important to notice that some of these challenges are of an individual character, yet since they do not occur on the level of the decision-maker they are rather of a structural and managerial kind than of an individual kind (Hutchinson et al., 2006; Suarez-Ortega, 2003). The last category of internal challenges on the firm-level are marketing related challenges. These challenges are mostly product and market-research related (Kahiya, 2013). Many times internationalising companies underestimate the importance of product adaptations to the specific requirements of the local market (Cahen et al., 2016). Furthermore the lack of available market-data can make it much more complicate to draw the correct conclusions (Kolk, 2016; Landau, Karna, & Täube, 2016).

2.4.1.2. External Challenges

External challenges focus on home-based and host-based challenges for the internationalising company. They are mainly viewed at a country-level with governmental and institutional influences as the main challenges from a home-based perspective and economic, political & legal challenges from a host-based perspective.

Regarding the home-based challenges, the home-countries' government plays an important role as, "*The government must create an environment that facilitates and stimulates international trade*" (Maeseneire & Claeys, 2012: 418). Yet, oftentimes these environments do not exist as such, creating a challenge for the internationalising company. Besides the lack of support by government concerning governmental incentives and a favourable environment to internationalise, there is also a lack of financial support (Leonidou, 2004). Yet, most importantly and creating the biggest home-based challenge for an internationalising company is the lack of governmental assistance regarding low cost loans as well as the provision of basic market data and the assistance with bureaucratic procedures with the host-country. Especially SMEs are reliant on this kind of support due to their structural constraints (Fayos Gardó, Calderón García, & Mollá Descals, 2015; Maeseneire & Claeys, 2012).

Host-based challenges refer to the economic landscape as well as the political and legal environment of the host-country (Fayos Gardó et al., 2015). Within the host-country, a firm might experience unfavourable economic conditions, mostly determined by a lack of domestic purchasing power or an economic downturn. Especially when a company decides to internationalise into markets with a lower purchasing power it is crucial to analyse the potential developments of the interested market to affirm the companies' internationalisation efforts. Another host-country challenge that needs to be accounted for is the risk of currency volatility as this can create a high level of monetary uncertainty for a companies' financial statement (Fayos Gardó et al., 2015; Maeseneire & Claeys, 2012). Besides the economic factors, political and legal factors can also become a challenge in the internationalisation process. Especially political stability is a factor that can be absent when internationalising into developing countries and thus needs to be taken very seriously in these types of countries[29]. With regard to legal challenges posed by the host-country, rules and regulations as well as tariffs can play a significant role during the internationalisation (Leonidou, 2004; Uner et al., 2013). For instance, a country might impose price controls, special documentation obligations or require specific import permits that are hard to obtain (Kahiya, 2013). Summarising, external factors in the host-country as well as in the home-country can pose significant challenges to the internationalising company.

2.4.2. Liability of Foreignness

Besides the internal/external perspective, one important classification of challenges for internationalising companies is the concept of the Liability of Foreignness (LoF). The phenomenon originates from the early work of Hymer (1960, 1976) in which he names the additional costs of foreign firms operating outside their home country as the "Costs of doing business abroad (CDBA)". In line with that, he argued that foreign firms need to be equipped with great capabilities in order to overcome the advantages of local firms (Hymer, 1976). The actual term "liability of foreignness" was first coined by Zaheer (1995) and can be defined as "*the additional tacit and social costs that foreign firms face when entering a particular host market*" (Denk et al., 2012: 323). Thus, within this conceptualisation of internationalisation challenges the focus rather lies on social costs than on purely financial and economic costs, taking up on the early work of Hymer (1976), but also differentiating from it with a higher focus on more subtle and tacit costs (Eden & Miller, 2001; Kostova & Zaheer, 1999; Zaheer, 1995). The stream of literature divides the liabilities of internationalising companies (also called "*hazards of internationalisation*") into three sub-groups: the unfamiliarity, the relational and the discriminatory hazards. They are causing additional costs regarding the foreign market entry of the company (Eden & Miller, 2001; Eden & Miller, 2004; Mosakowski & Zaheer, 1997; Zaheer, 1995). While Zaheer (1995) started her conceptualisation with four categories[30], the scientific consensus today agrees on

[29] For a further analysis on the specific challenges on internationalising into developing countries, please see Chapter 3.3.

[30]For Zaheer, the four sources of the liability of foreigness are the following, *"(1) costs directly associated with spatial distance, such as the costs of travel, transportation, and coordination over distance and across time zones; (2) firm-specific costs based on a particular company's unfamiliarity with and lack of roots in a local environment; (3) costs resulting from the host country environment, such as the lack of legitimacy f foreign firms and economic nationalism; (4) costs from the home country environment, such as the restrictions on high-technology sales to certain countries imposed on U.S.-owned MNEs.*" (Zaheer (1995: 343))

the three aforementioned hazards (Denk et al., 2012; Eden & Miller, 2004; Sethi & Judge, 2009).

Before highlighting these hazards in more detail in the upcoming subchapters, four important aspects regarding the overall concept of the liability of foreignness need to be addressed. First, as research on the concept of the liability of foreignness grew significantly over the recent years, definitions vary greatly and put their focus on differing aspects of the liability of foreignness (e.g. on the individual-level, the firm-level or the geographic level such as local, country or regional) (Fang, Samnani, Novicevic, & Bing, 2013; Goerzen, Asmussen, & Nielsen, 2013; Nachum, 2015; Qian, Li, & Rugman, 2013; Zhou & Guillen, 2016). In this treatise, my analysis focuses on the firm-level from a country-dyadic perspective (i.e. a cross-border, country-to-country perspective) and liabilities of foreignness are defined as mentioned above by Denk et al. (2012: 323) as "*the additional tacit and social costs that foreign firms face when entering a particular host market*". Second, the theoretical underlining is often scarce (Denk et al., 2012; Eden & Miller, 2001; Sethi & Judge, 2009). Many studies are only using the esteemed concept of liability of foreignness as a theoretical basis, without aligning it to a basic theory (Denk et al., 2012). Yet, as the liability of foreignness can be rooted in the concept of distance[31], as the drivers for each individual hazard can be rooted in one or more specific types of distance, institutionalism serves as a valuable theoretical basis for this analysis. Third, the dyadic perspective. As mentioned earlier, this treatise focuses on a dyadic (specifically, a country-to-country) perspective as this view is the pre-dominant view in the literature field and simplifies the analysis in an already highly complex environment (Denk et al., 2012; Eden & Miller, 2001; Eden & Miller, 2004). Fourth, up until today researchers remain ambivalent about the dynamic nature of the liability of foreignness (Denk et al., 2012; Eden & Miller, 2004; Mosakowski & Zaheer, 1997). Early studies clearly formulate a static phenomenon arguing that once a company has entered a foreign market their challenges are to be over (Eden & Miller, 2004; Hymer, 1960, 1976). Yet, many scholars have challenged this view suggesting that the companies' challenges will fade over time or even that the level of perceived LoF will vary in time and can decrease, but also increase (Mosakowski & Zaheer, 1997; Newenham-Kahindi & Stevens, 2017; Petersen & Pedersen, 2002). As an example, Mithani (2017)

[31] A detailed acknowledgment of the distance related literature will be given in Chapter 2.4.3.

suggests that due to significant aid by foreign firms in the aftermath of a natural disaster and the following social restructuring processes, foreign MNCs were able to significantly reduce their liability of foreignness instantly.

At last it also needs to be noted, that within the recent years, several scholars started to claim that besides the often acclaimed liability of foreignness, a company can also be part of the so-called “country-of-origin”-effect (Chattalas, Kramer, & Takada, 2008; Eden & Miller, 2004; Godey et al., 2012). The country of origin entails the information in which country a product is made and thus customers and consumers might reflect attributes of that particular country to the specific firm internationalising from that country (Chattalas et al., 2008; Godey et al., 2012). Oftentimes this effect has a positive impact on the internationalising company (Chattalas et al., 2008; Godey et al., 2012). Yet, some firms might also deliberately disguise their country of origin in order to bypass unfavourable treatment from customers or consumers (e.g. Russian IT-firms and in general companies from developing countries are specifically prone to these actions) (Cuervo-Cazurra & Genc, 2008; Panibratov, 2015).

2.4.2.1. Unfamiliarity Hazards

Unfamiliarity hazards are additional costs that occur for internationalising firms due to incorrect market assessments, insufficient or even false information or inadequate knowledge of the host countries norms, values and business practices (Denk et al., 2012; Petersen & Pedersen, 2002). This unfamiliarity makes it difficult for the internationalising firm to comply with legislation and adjust to local social values and norms (Wu & Salomon, 2016, 2017). Thus, these proclaimed insufficiencies can lead to higher costs compared to local firms and might create a competitive disadvantage for the internationalising firm (Eden & Miller, 2004). In this regard, not the age of the company, but its prior experience in a particular market is of relevance. Additionally, a company’s learning aspiration and its open-mindedness might reduce unfamiliarity hazards significantly, as it can lead to adaptations early in the internationalisation process (Johanson & Vahlne, 2009). Yet, if an internationalising company pursues a global strategy[32] the unfamiliarity hazards can sustain

[32] This strategy concept is adapted from Bartlett and Ghoshal (2002) and significantly focuses on standardization and the creation of economies of scale without any adaptation to local requirements.

for a while (Eden & Miller, 2004; Petersen & Pedersen, 2002). Drivers of unfamiliarity hazards can be a lack of local business and institutional knowledge as well as a lack of embeddedness in networks and a lack of international experience (Denk et al., 2012; Eden & Miller, 2001; Wu & Salomon, 2017).

2.4.2.2. Relational Hazards

As a second challenge, scholars identified relational hazards as an important internationalisation challenge. Relational hazards are additional cost occurring during the internationalisation process due to complex and unforeseeable relationship building efforts for the internationalising company (Mosakowski & Zaheer, 1997; Zaheer, 1995). Thus, they typically manifest through higher organisational and administrative costs for internal and external transactions (Denk et al., 2012). More specifically, Eden and Miller (2004) differentiate between intra-relational hazards and inter-relational hazard. While intra-relational hazards can be due to higher communication costs with the internal work-force abroad or other managerial problems with local employees, inter-relational hazards focus on difficulties in firm-to-firm interactions due to different cultural backgrounds, varying norms and oftentimes a lack of trust (Denk et al., 2012; Eden & Miller, 2004; Sethi & Judge, 2009). Thus, the internationalising company needs to invest in relationship building measures to ensure a successful establishment of a local network (Eden & Miller, 2004). Furthermore, Sethi and Judge (2009) distinguish between the host country context and the multinational context in their analysis on relational hazards and other liabilities of foreignness. They illustrate that some hazards arise due to the specific characteristics of a host-country, while others are a consequence of an expanding firm network of a multi-national company which oftentimes entails administrative and coordination efforts (Sethi & Judge, 2009). For example, they highlight the problem of a multi-national company and their strategy alignment between a subsidiary and the parent company as well as the rising complexity associated with transactions through global supply chains.

2.4.2.3. Discriminatory Hazards

The last hazard category in the concept of the liability of foreignness is the discriminatory hazard. Discriminatory hazards can occur before, but especially during the internationalisation efforts of a firm (Kostova & Zaheer, 1999; Mosakowski & Zaheer, 1997). These hazards typically arise when local stakeholders or the host government treat the entering company in an unfavourable way (Balabanis, Diamantopoulos, Mueller, & Melewar, 2001; Morschett, Schramm-Klein, & Swoboda, 2010). Specifically, the host government can hold foreign firms more accountable for pollution and require measures against global warming or for local community engagement by the foreign firm (Kostova & Zaheer, 1999). Furthermore, they can impose taxes on foreign firms that local firms do not have to pay (Aharoni & Brock, 2010; Denk et al., 2012; Eden & Miller, 2004). Another example of a typical discriminatory effort by the host country government or by domestic firms is the higher number of lawsuits opened up against foreign firms in comparison to domestic firms (Bhattacharya, Galpin, & Haslem, 2007; Mezias, 2002). Additionally, on the local and regional level domestic firms might hesitate to collaborate with the entering company due to the foreign origin of the company (Moeller, Harvey, Griffith, & Richey, 2013; Sethi & Judge, 2009). Furthermore, even local consumers can act in a discriminatory way with regard to the foreign firms as previously illustrated by the country-of-origin-effect (Balabanis et al., 2001; Moeller et al., 2013; Sethi & Judge, 2009).

2.4.3. Challenges of Distance

The research on distance has been implicitly mentioned in the previous subchapters already (i.e. psychic distance), yet it is very important to address this research stream again in a separate manner, as it has become one of the most researched streams within the field of intercultural management and international business (Denk et al., 2012; Hutzschenreuter et al., 2016; Shenkar, 2012; Zaheer, Schomaker, & Nachum, 2012). Even though the concept itself is discussed ambiguously due to its multiple facets and perspectives, the underlying assumption, that distance prevents and disturbs the flow of information between the firm and the market, proposed by Johanson and Wiedersheim-Paul (1975), can still be seen as a common ground. In doing so, when talking about distance, researchers typically refer to the extent of differences between country pairs (Bartlett & Ghoshal, 2002; Hutzschenreuter et al., 2016; Johanson & Wiedersheim-Paul, 1975). Besides this common ground, perspectives and angles on the concept of distance in international business vary significantly (Hofstede, 1980; Hutzschenreuter et al., 2016; Johanson & Wiedersheim-Paul, 1975; North, 1990). The most known and researched concept is the concept of cultural distance followed by the concept of institutional distance (Hofstede, 1980; Hofstede, 1994; 1994; López-Duarte et al., 2016; Malhotra, Sivakumar, & Zhu, 2009; North, 1990). These concepts will be highlighted in more detail in the following subchapters, before the last subchapter identifies other, less researched concepts of distance such as geographic, linguistic, network and civil society distance (Chen, 2003; Denk et al., 2012; Hutzschenreuter et al., 2016; Kourula, 2010).

2.4.3.1. Cultural Distance

The concept of cultural distance is the most researched aspect of distance and some researchers see this type of distance as the core with regard to distance problems during the internationalisation process of companies (López-Duarte et al., 2016; Ricks, Toyne, & Martinez, 1990; Tihanyi, Griffith, & Russell, 2005). When talking about culture, the four cultural dimensions (power distance, individualism vs. collectivism, uncertainty avoidance and masculinity vs. femininity) defined by Hofstede (1980), are mostly used as the differentiating dimensions between country cultures. Power distance as the first dimension describes the "*extent to which the less powerful members of organisations and institutions (like the family) accept and expect that power is distributed unequally*" (Hofstede, 1994: 2). The higher the power distance, the higher the clarity of an established hierarchy within a society. The second dimension describes the individualistic vs. collectivistic aspect of cultures. It highlights the "*degree to which people in a society are integrated into groups*" (Hofstede, 1994: 2). Once individuals are integrated into a group, they are strewn with loyalty. The third dimension is the aspect of uncertainty avoidance. It is defined as "*a society's tolerance for ambiguity*" (Hofstede, 1994: 4). Thus, cultures with a high level of uncertainty avoidance often have strict codes of behaviour, guidelines and laws, which generally only allow one absolute truth. A lower level of uncertainty avoidance generally speaks for a higher acceptance of differing thoughts and ideas. The last of the four dimensions created by Hofstede (1980) is the aspect of masculinity vs. femininity. While a rather masculine culture adheres to "*achievement, heroism, assertiveness and material rewards for success*" (Hofstede, 1994: 3), a rather feminine culture has a preference for "*cooperation, modesty, caring for the weak and quality of life*" (Hofstede, 1994: 3). Later on, two additional dimensions (i.e. long-term vs. short-term orientation and indulgence vs. restraint) were added to the construct (Hofstede et al., 2010; Hofstede & Bond, 1988; Minkov, 2007). The fifth dimension is related to the choice of focus for people's efforts, mostly regarding the future or the present and past (Hofstede, 1991, 2001; Hofstede & Bond, 1988). The sixth dimension is related to the gratification and the control of basic human desires (Hofstede et al., 2010; Minkov, 2007). These cultural dimensions were frequently used to differentiate the cultural distance between country pairs and thus to estimate the difficulty of internationalisation for companies.

While Hofstede (1980) analysed each dimension individually, Kogut and Singh introduced a single, aggregated measure of cultural distance in 1988, based on the proposed dimensions by Hofstede. Until today, the KS-index remains an important measure for cultural distance (Alvarez-Garrido & Guler, 2018; Clark, Li, & Shepherd, 2018; Klüppel, Pierce, & Snyder, 2018). Yet due to the relatively old conceptualisation by Hofstede (1980; 1991, 2001), newer conceptualisations have emerged with the GLOBE project as the most frequently used approach to proxy culture (House, Hanges, Javidan, Dorfman, & Gupta, 2004). Based on Hofstede's idea of creating cultural dimensions, the project created nine different cultural dimensions and through their survey of more than 17,000 participants they were able to group all participating countries into 10 clusters. The cultural dimensions are closely aligned to Hofstede's cultural dimensions, with the dimensions of uncertainty avoidance, power distance, gender egalitarianism, future orientation and performance orientation being almost equal. Yet the project is enriched by dimensions such as Institutional collectivism and in-group collectivism (House et al., 2004). As already mentioned the participating countries were clustered into 10 different groups with Confucian Asia (Taiwan, Singapore, Hong Kong, South Korea, China, Japan and Vietnam) or Latin Europe (Italy, Portugal, Spain, France, Switzerland [only the French and Italian speaking parts]) being just two examples. The overall distribution can be seen in **Appendix 1**.

Besides the KS-index based on Hofstede's cultural dimensions (1980; 1991, 2001) and the culture conceptualisation by the GLOBE study (House et al., 2004), some researchers have developed their own items and scores to estimate cultural distance (Driscoll & Paliwoda, 1997; Luo, 2002a; Solberg, 2008). These estimations are mostly based on self-composed indices or survey responses and oftentimes these authors do not use country-level variables, making a country pair analysis impossible (Luo, 2002a; Simonin, 1999; Solberg, 2008). Again, this shows the difficulty in the comparability of the approaches to cultural distance due to the scattered methodologies and boundaries of the field. Additionally, with the decade award-winning paper of the Journal of International Business Studies by Shenkar (2001), valid criticism on the construct of cultural distance itself has emerged and continues until today (Harzing & Pudelko, 2016). While Shenkar (2001) mostly criticised the construction of the KS-index at first, Harzing and Pudelko (2016) suggest an alternative approach of focusing on context, rather than distance. In particular, they among others suggest focusing on the home and host country context in future analysis (Harzing, 2004; Harzing & Pudelko, 2016; Shenkar, 2001; Yeganeh, 2011). Thus a thorough analysis and description of the context of analysis becomes inevitable and especially highly relevant for research focusing on a highly diverse and heterogeneous context such as developing countreis. Therefore, the upcoming chapter will focus on a thorough description of that particular context.

Nevertheless, it is important to give an overview on the most relevant concepts of distance in the field of international business as despite the controversial discussions, they remain at the centre of research for international business scholars.

2.4.3.2. Institutional Distance

Compared to the studies on cultural distance, institutional distance is relatively new and fewer studies on the matter of institutional distance in particular have been published (North, 1990; Scott, 1995, 2014). Yet it remains the second most studied aspect with regard to distance research (Hutzschenreuter et al., 2016). The main argument for the establishment of the institutional distance aspect is that cultural distance alone does not entirely capture the overall complexity and challenges of international activities of companies (DiMaggio & Powell, 1983).

Institutional distance mainly describes the differences between countries on three adjacent institutional levels. These levels constitute the three pillars of the institutional framework by Scott (1995, 2014): the regulatory, the normative and the cognitive pillar. The regulatory pillar of the institutional framework forms the basis as it outlines the ground rules for doing business, reflected by the law and regulations. Additionally to the pure existence of the laws and regulations and effective monitoring and enforcement needs to be taken into account. The normative pillar consists of values and norms that define an expected behaviour within a society. Thereby values are seen as a construction of standards that can be compared and assessed and norms specify how things should be done. The cognitive pillar relies on cognitive structures that are embedded in the given society, such as widely shared social knowledge or cognitive categories (DiMaggio & Powell, 1983; Scott, 1995, 2014; Zukin & DiMaggio, 1990).

The pillars provide a broad basis to differentiate aspects of different institutional profiles of countries (DiMaggio & Powell, 1983; Scott, 1995, 2014). The cultural aspect is thereby covered within the normative and cognitive dimension of institutions, which other researchers also coined as formal and informal institutions (Dikova, Sahib, & van Witteloostuijn, 2010; North, 1990)[33]. With regard to international business, it needs to be noted that all dimensions, the regulatory, the normative and the cognitive pillar influence strategies and operations of foreign companies (Kostova & Roth, 2002; Kostova & Zaheer, 1999; Malhotra et al., 2009).

2.4.3.3. Other Distance Related Challenges

Besides the most important aspects of distance research, i.e. cultural distance and institutional distance, other dimensions of distance have been started to be researched in the recent years. Namely; economic distance, network distance, linguistic distance and civil society distance (Chen, 2003; Kourula, 2010; Malhotra et al., 2009; West & Graham, 2004).

With economic distance in the focus, measures such as GDP per capita or the comparison of outward and inward FDI ties of the particular countries are mostly used as proxies (Brewer, 2007; Malhotra et al., 2009; Tsang & Yip, 2007). Yet, these proxies are typically not analysed in isolation, as their effects are more ambiguous than in other concepts of distance. Thus, they are oftentimes incorporated into multi-dimensional measures (Dow & Karunaratna, 2006; Hutzschenreuter et al., 2016).

Furthermore, network distance is the "*difficulty to provide the network support from the home base, taking into account physical distance, shipping convenience, official barriers*

[33] More information on the institutional theory, the institution-based view and institutional voids, typically visible in developing countries, are given in Chapter 2.2.2, 3.2.4 and 3.3.1

to the mobility of goods and services and the compatibility of the network structures between the home base and the host country" (Chen, 2003: 1111). Based on the argumentation of Johanson and Vahlne's (1977; 1990) Uppsala model, Chen (2003) assumes that network distance will decrease over time as companies spin new networks and find new, additional partners in the foreign country. Nevertheless, he also sees the potential for companies to leap-frog certain stages, due to a strong partner that can provide many of the items used to measure network distance.

Linguistic distance was introduced by West and Graham (2004) and can be used as another proxy for cultural distance. It differentiates countries based on the genetic classification which classifies language dissimilarities based on the existence (or inference) of common linguistic ancestors (Dakubu, 1992; West & Graham, 2004). This measure searches for grammatical as well as lexical similarity of the compared languages as overlapping vocabulary is one basis for establishing the proxy (Ruhlen, 1991; West & Graham, 2004).

A last, and very new, concept, is the concept of civil society distance (Kourula, 2010). Here, the focus of analysis is not placed on the individual, but on the management of existing stakeholder relations, in particular relations with non-governmental organisations. Thus, the metric proposed by Kourula (2010) measures the difference between the NGO bases in different countries.

2.4.4. Summary of Internationalisation Challenges

After introducing multiple theoretical fields for the conceptualisation of internationalisation challenges for companies in this subchapter, **Figure 12** graphically summarises all important aspects again to give a comprehensive overview of existing internationalisation challenges into developed countries.

Figure 12: **An Overview on Challenges of Internationalisation**

Challenges of internationalisation

Internal & External

Individual-level
- Underestimation of complexity
- Characteristics and missing capabilities of firms decision makers

Firm-level
- Marketing resource scarcity
- Financial resource scarcity
- Lack of managerial and organizational capability
- Challenges in human resources

Home-based
- Government-related
- High competition for resources

Host-based
- Economic challenges
- Political & legal challenges

Liability of Foreignness

Unfamiliarity hazards
- Incorrect market assessment
- Inadequate knowledge of host countries norms, values and business practices

Relational hazards
- Complex and unforeseeable relationship building efforts
- Intra- vs. Inter-relational hazards

Discriminatory hazards
- Unfavorable treatment by local stakeholders
- Unfav. treatment by the govern.
- Foreign firm taxes

Challenges of Distance

Cultural distance
- Hofestede studies
- KS-index of measurement
- GLOBE study

Institutional distance
- Regulatory
- Normative
- Cognitive

Others distances
- Economic distance
- Network distance
- Linguistic distance
- civil society distance

(source: own representation)

3. Characteristics of Developing Countries and Internationalisation Challenges

After giving an introduction to the scientific research field of international business, its prevailing theoretical frameworks and the challenges a company can face during its internationalisation into developed markets, the following Chapter will now focus on the characteristics of developing countries and the potential challenges for entering firms. Thereby, the Chapter begins with a country classification to delineate between developed, emerging and developing countries as well as so-called failed states. Additionally, this subchapter will introduce important indices used for classification and further individual description of the development of countries. After that, a complete subchapter is devoted to the special characteristics of developing countries as they are at the focus of this treatise and thus play a crucial role for analysis. The Chapter closes with a detailed outline of the particular challenges of firms internationalising into developing countries.

3.1. Country Classification & Country Indices

The first part of this subchapter focuses on the description of different country classification levels, differentiating four different developmental stages of countries. Afterwards, the second part of this subchapter highlights four important indices used for the illustration of country development differences. Both approaches are relevant for this treatise as to understand the complexity and ambiguity that often arises through the classification of countries. Therefore, the illustration of various, thoroughly crafted, indices shall help to give a clearer picture on the complexity as well as on important dimensions of country development measurements.

3.1.1. Country Classification

Before starting an analysis on the market entry and collaboration processes of internationalising firms into developing countries it is important to clearly distinguish between the different types of countries that have been identified by researchers over the recent decades. There are multiple terminologies used to differentiate between the country types, such as third world vs. first-world countries, Southern vs. Northern countries or modern vs. traditional states (Annushkina et al., 2016; Punnett, 2018). One reason for this delineation could be that not only the scientific community, but also especially supra-national organisations (i.e. the international monetary fund (IMF), the United Nations (UN) and the organisation of economic co-operation and development (OECD)) as well as other organisations from practice (i.e. Bloomberg, ING and Morgan Stanley) tried to cluster the different types of countries. Many classifications remain heterogeneous, as they vary greatly in their country allocations and a clear distinction often seems difficult, since not every country that is grouped in the same cluster, shows every characteristic for being grouped into a particular cluster (Annushkina et al., 2016). Furthermore, developments of countries can lead to an up- or down-grading of a country over time. As it is not in the scope of this treatise to give new recommendations for country clustering approaches, this treatise chose the following conceptualisation of four different types of countries for the ongoing analysis: developed, emerging, developing and failed countries. This classification was chosen due to two reasons: it is the most established and the most used classification approach available until today. The classification will be explained shortly in the following sub-chapters and a detailed list of countries and their adjacent cluster can be seen in **appendix 2**. Besides the discussion on country classification, it also needs to be noted that international business scholars use varying terminology with regard to *countries* and *markets*. Some scholars focus on developing or emerging *markets*, while others speak about developing or emerging *countries* even though they are characterising the same aspect (Acquaah, 2009; Annushkina et al., 2016; Hoskisson et al., 2000; Punnett, 2018). Thus, for this treatise the terms are used synonymously, yet the focus will lay on a country perspective.

3.1.1.1. Developed Countries

Developed countries, also coined industrialised countries, first-world countries or advanced economies, are oftentimes characterised by economic criteria at first (Punnett, 2018). Therefore, the gross domestic product (GDP) as well as the income per capita are the most commonly used differentiators. Generally speaking, a country with a greater per capita income than US$ 20,000 (per year) can be counted as a developed country. In 2016, developed countries comprised approximately 60% of the total GDP, which underlines the strength of these countries until today (International Monetary Fund, 2015). Nevertheless it needs to be noted that this gap is continuously closing year by year (coming from approx. 80% of total GDP creation by developed countries in 1990)[34]. This again highlights the high growth rates of the emerging and developing countries and their potential for future investment opportunities (International Monetary Fund, 2015). Another economic criterion used to differentiate between countries is the level of industrialisation. In fact, most developed countries have even moved partly from an industrialised to a service economy in which the service sector (i.e. quaternary sector) has become more important than the industrial (i.e. tertiary) sector. With regard to infrastructure and technological infrastructure, one can say that developed countries are well advanced compared to developing ones. More recently, another measure, the Human Development Index (HDI) [35], has become very prominent. It combines an economic measure, national income, with other measures, such as indices for life expectancy and education. This criterion defines developed countries as those with a very high (HDI) rating, taking away the focus of a solely economic perspective as it was the case in most of the previous definitions (Hoskisson et al., 2000; Punnett, 2018).

Some of the differences between developed, emerging and developing countries can be nicely illustrated by the following facts, summarised by Punnett (2018: 22). In her seminal book published in 2018, she aligns income (high, middle, low) to the development stage of the country (developed, emerging, developing) and nicely points out some differences in various dimensions (e.g. kilowatt hours of electricity per capita, doctors per 100,000 people or enrolment in secondary school). The aspects are summarised in **table 2.**

[34] Please note that in this comparison emerging countries, as well as developing and failed states have been combined as one country cluster compared to developed countries.
[35] More detailed information on this index is given in Chapter 3.1.2.2.

Table 2: **Overview of Differentials in Country Development**

aspect	Developed (high income)	Emerging (middle income)	Developing (low income)
kilowatt hours of electricity per capita per year	5,783	1,585	188
% of paved roads	92	51	19
Newspapers per 1,000 people	286	75	13
Radios per 1,000 people	1,3	383	147
Doctors per 100,000 people	253	n.a.	73
Enrolment in primary school in %	Almost 100	n.a.	86
Enrolment in secondary school in %	96	n.a	60

(source: Punnett, 2018: 22)

3.1.1.2. Emerging Countries

"*The emerging world, long a source of cheap labour, now rivals the rich countries for business innovation*" and "*The United Nations World Investment Report calculates that there are now around 21,500 multinationals based in the emerging world*", states The Economist in 2010. Additionally, investment flows to emerging and developing countries reached a record high of $778 billion in 2015 accounting for 54 percent of the worldwide investment flows, underlining the steady growth and investment potential of these countries (UNCTAD, 2014).

The terms emerging country and developing country are often used synonymously in the international business literature without a clear distinction and thereby subsuming over 100 countries into only one category (Berger, Pukthuanthong, & Jimmy Yang, 2011; Cavusgil, Ghauri, & Akcal, 2002; Coussy, 2008; Ramamurti, 2004). Furthermore, definitions of the terminology vary greatly and fail to cover the heterogeneity of countries subsumed by the terms whenever researchers only portray one single category (Annushkina et al., 2016; Burgess & Steenkamp, 2006; Coussy, 2008; Hansen, Ørberg Jensen, & Petersen, 2016). Therefore, it is crucial to differentiate between the two types of countries even though a separation remains very difficult since similar characteristics may apply (Annushkina et al., 2016; Kearney, 2012).

Even though the definition approaches are relatively fractured, three features for emerging and developing countries can be identified; a *low-income*, but *rapidly growing economy* with a *government pursuing economic liberalization towards a free market* (Arnold & Quelch, 1998; Hoskisson et al., 2000; Luo, 2002b). Yet compared to developing countries, emerging countries seem to have a higher GDP and a higher score in the Human Development Index (HDI)[36] than developing countries (Hemmer, 2002; United Nations Development Programme, 2016).

In 2016, Annushkina et al. tried to thoroughly classify emerging countries. In their approach, they used the distinction of a broad and a narrow type of emerging country. With regard to this treatise, this distinction could nearly be translated into an emerging country (narrow emerging country) and a developing country (broad emerging country). Annushkina et al. (2016) subsumed their criteria of emerging countries under three categories: institutional traits, macro-economic development traits and local market traits.

For them, institutional traits can be aspects such as the quality of the local business environment, the role of the state in business, the importance of formal and informal networks as well as reforms (i.e. increasing the openness of the economy) or the development of financial markets. Additionally the institutional environment is often conceptualised via institutional voids[37], as they play a significant role in emerging and developing countries (Khanna & Palepu, 1997; Peng, 2003; Ramamurti, 2004). When differentiating between both types of countries these voids are often more severe for developing countries, yet they do also occur in emerging countries on multiple levels. For example, developing countries are characterised by a lower level of infrastructure, meaning that roads and transportation systems only work ineffectively and that telecommunication systems, electricity and sanitary facilities can be a scarce resource, yet many of these aspects can also be an issue in an emerging economy (Arnold & Quelch, 1998; Hemmer, 2002). Doh et al. (2017) assume that also for emerging countries the weak or sometimes fluid nature of institutions implies that certain activities of firms revolve more around social networks and families as well as other social connections to embed in the local and regional institutional framework and gain legitimacy. This holds true for developing countries even more (Doh et

[36] See Chapter 3.1.2.2.
[37] Institutional voids are missing institutions within a particular country. They are explained in more detail in Chapter 3.3.1.

al., 2017). In addition to the different specifications of institutional voids, developing countries also differ from emerging countries in the strength of the informal sector[38], the importance of informal networks and hence a high information asymmetry causing higher uncertainties for doing business. The macro-economic development as a second category by Annushkina et al. (2016) highlights aspects such as the prospects for economic growth, economic instability (i.e. recurring financial crises or a countries default history), the level of the economic development and the quality of local resources and inputs. The last category of local market traits focuses on the volatility of the business environment and characteristics of the local competitive environment (i.e. the formation of a large array of new firms or the entrance of competent foreign companies).

Besides scientifically categorising emerging countries via different characteristics, the financial industry, namely Goldman Sachs & HSBC, also created acronyms (such as BRICS[39] or CIVETS[40]) to group different countries within the emerging country cluster. Yet they fail to thoroughly describe these countries and since the acronyms were also established with a marketing idea behind it, this treatise refrains from this clustering approach.

Due to the aforementioned fact of a high heterogeneity of the emerging and developing countries, the implications drawn by this treatise might occasionally also hold for emerging country market entries as these types of countries can be quite similar. Yet the focus of this analysis remains on developing countries.

3.1.1.3. Developing Countries

As shortly discussed in the previous subchapter, entering developing countries can be beneficial for internationalising firms especially due to the markets high economic and population growth now and its positive estimates for the future (UNCTAD, 2014). Nevertheless, for some companies this type of country remains obscure and from their perspective an investment in these countries is only placed via development aid. Yet this perception has started to change as a quote by former US-president, Barack Obama, during

[38] This aspect will be further elaborated in section 3.2.5.
[39] The acronym “BRICS” includes the following countries: Brazil, Russia, India, China and South Africa
[40] The acronym “CIVETS” includes the following countries: Columbia, Indonesia, Vietnam, Egypt, Turkey and South Africa

his address to the Millennium Development Goals Summit in New York in September 2010, shows:

"*So let's put to rest the old myth that development is mere charity that does not serve our interests. And let's reject the cynicism that says certain countries are condemned to perpetual poverty, for the past half century has witnessed more gains in human development than at any time in history. A disease that had ravaged the generations, smallpox, was eradicated. Health care has reached the far corners of the world, saving the lives of millions. From Latin America to Africa to Asia, developing nations have transformed into leaders in the global economy.*"

Interestingly, when particularly analysing the African continent, a continent with mostly developing countries, the last 15 years have been rather successful. The continent has experienced an average growth rate of 5% and out of its 54 countries, 26 have achieved a middle-income status, while the proportion of those living in extreme poverty has fallen from 51% in 2005 to 42% in 2014 (African Development Bank, 2014; George, Corbishley, Khayesi, Haas, & Tihanyi, 2016).

Developing countries, as well as emerging countries, do have multiple terminologies and are very heterogeneous in nature. From a practice perspective, financial analysts created the term of *frontier markets,* which can be seen as an industry approach introduced to differentiate between emerging countries and developing countries (Berger et al., 2011). Other researchers use the terms low and middle income country, less developed country or underdeveloped country to denote developing countries (Annushkina et al., 2016). A good example for the heterogeneity within developing countries is that today, more than 25% of all languages worldwide are spoken only in Africa. In total this adds up to over 2,000 recognised languages that are spoken on the continent (Heine & Nurse, 2000) where the majority of its 54 countries could be considered a developing country.

From an economic perspective, developing countries are often an exporting monoculture as they typically only export one or few products or commodities with a comparably low value on a higher scale (Hemmer, 2002). Oftentimes their value creation is still focused on the primary sector (Hemmer, 2002; Kostova & Hult, 2016). With regard to political characteristics, developing countries are often operating in a highly fragile institutional framework (Hemmer, 2002). These fragile systems tend to have a high level of corruption, as the personal gain of the administrative work-force of the government has a higher value than economic and developmental goals of the country (Todaro & Smith, 2015; Uhlenbruck, Rodriguez, Doh, & Eden, 2006). The lack of political stability and high levels of corruption can also lead to an insufficient tax-collect system, resulting in far lower tax collections than in developed countries in absolute as well as relative figures (Besley & Persson, 2014). Additionally these characteristics all lead to a reduced rule of law (Besley & Persson, 2014), making it more difficult for companies to enforce contracts on other partners. Furthermore, the informal sector plays a significant role in most developing countries (Darbi, Hall, & Knott, 2016). As developing countries are the focused type of country in this treatise, a more detailed description of multiple characteristics is following in the subchapter 3.2.

3.1.1.4. Least Developed Countries

The last type of countries shortly discussed in this treatise are least developed countries, sometimes also called fragile countries or even failed states (Call, 2010; Kolk & Lenfant, 2015b; Patrick, 2007). Estimates state that, depending on the applied measures, which were rather broad for this study, around 26% of the current world population lives in fragile states (Call, 2010).

The United Nations classify a least developed country based on three criteria (United Nations Department of Economic and Social Affairs, 2016):

- Poverty (based on a gross-national income (GNI) between US-$ 1,025 and US-$ 1,230)
- Population weaknesses (based on malnutrition, lack of health and education)
- Economic weaknesses (based on instability of institutions, instability of exports of goods and services and instability of agricultural production).

Additionally, the Fund for Peace, a US-based research institution, characterises a failed state with the following characteristics; loss of control of its territory, erosion of legitimate authority to make collective decisions, inability to provide public services and the inability to interact with other states as a full member of the international community (Fund for Peace, 2012). The Fund for Peace furthermore created a Fragile States Index which underlines the democratic character of state institutions in order to determine its level of failure (Fund for Peace, 2012).

Since the least developed countries face severe institutional, territorial and public service issues they are excluded from the analysis in this treatise as these countries are in general not very interesting for a market entry by international corporations. Nevertheless, it needs to mentioned that research started to elaborate on the positive influence that a collaboration between non-governmental organisations and domestic businesses in fragile country settings can have (Bhanji & Oxley, 2013; Kolk & Lenfant, 2015a; Kolk & Lenfant, 2015b).

3.1.2. Indices illustrating country differences

Besides the general classifications existing to differentiate between the developmental stages of countries, several indices have been introduced over the recent decades in order to measure and illustrate country differences and development around the world (e.g. the Corruption Perception Index, the Human Development Index, the Index of Economic Freedom, the Happy Planet Index, etc.). In the following, the Index of Economic Freedom, the Human Development Index, the Ease of doing business index and Global Competitiveness Index will be introduced in more detail. All four indices try to classify countries and their development based on multiple characteristics and are regarded as highly relevant in the scientific community as well as in practice (Meyer, Estrin, Bhaumik, & Peng, 2009; The Heritage Foundation, 2019; United Nations Development Programme, 2016; World Economic Forum, 2018). Companies can easily use these indices as a first distinction between the characteristics of their home country and the potential host country.

Each of the indices represents an individual focus and strength which is why they have been selected for this overview. The Index of Economic Freedom is a complex multi item index focusing on the economic freedom of a country. Its main premise is that the development of institutions which develop individual freedom are a core contributor to prosperity (The Heritage Foundation, 2019). The Human Development Index rather looks at the general well-being and education of a society within a country combined with the classical GDP measure (United Nations Development Programme, 2016). The ease of doing business index takes a company perspective and therefore especially highlights aspects of regulation and legislation which are very relevant for internationalising companies (The World Bank Group, 2019). At last, the Global Competitive Index by the World Economic Forum is the most comprehensive index of these four described indices. It measures almost 100 variables grouped in four dimensions (e.g. enabling environment, human capital, markets and innovation ecosystem) and 12 categories such as institutions, financial market development, education & skill or business dynamism (World Economic Forum, 2018).

3.1.2.1. Index of Economic Freedom

The Index of Economic Freedom categorises countries on a scale of 0 (repressed) to 100 (free) and was published for the first time in 1995. The core idea of the index is to rank the economic freedom of each country in the world and thus make it comparable to others. The underlying argumentation is that the development of institutions which protect the individuals' freedom results in the greatest prosperity of a country. In fact, within the last twenty years the index has shown a correlation between economic freedom and prosperity (measured in GDP per capita) (The Heritage Foundation, 2019).

The index is grouped into four different categories (rule of law, government size, regulatory efficiency and open markets). Each category consists of three qualitative or quantitative aspects and is argued to be an important characteristic for economic freedom (The Heritage Foundation, 2019).

The first category, the rule of law, is further distinguished by the three factors: property rights, government integrity and judicial effectiveness. Property rights are derived by averaging scores for five sub-factors, namely, physical property rights, intellectual property rights, strength of investor protection, risk of expropriation and the quality of land administration. Government integrity, the second factor, is important for the rule of law as corruption and nepotism can have a significant influence on economic freedom by introducing insecurity and coercion to society. Thus, the factor is comprised out of six sub-factors: public trust in politicians, irregular payments and bribes, transparency of government policy making, absence of corruption, perceptions of corruption and governmental and civil service transparency. The last factor of the rule of law is the judicial effectiveness. This factor is comprised of three sub-factors and becomes relevant to the rule of law as a fair and efficient judicial system that is respected by everyone is very important to economic freedom. The three sub-factors of the index are judicial independence, quality of the judicial process and the likelihood of obtaining favourable judicial decisions. (The Heritage Foundation, 2019)

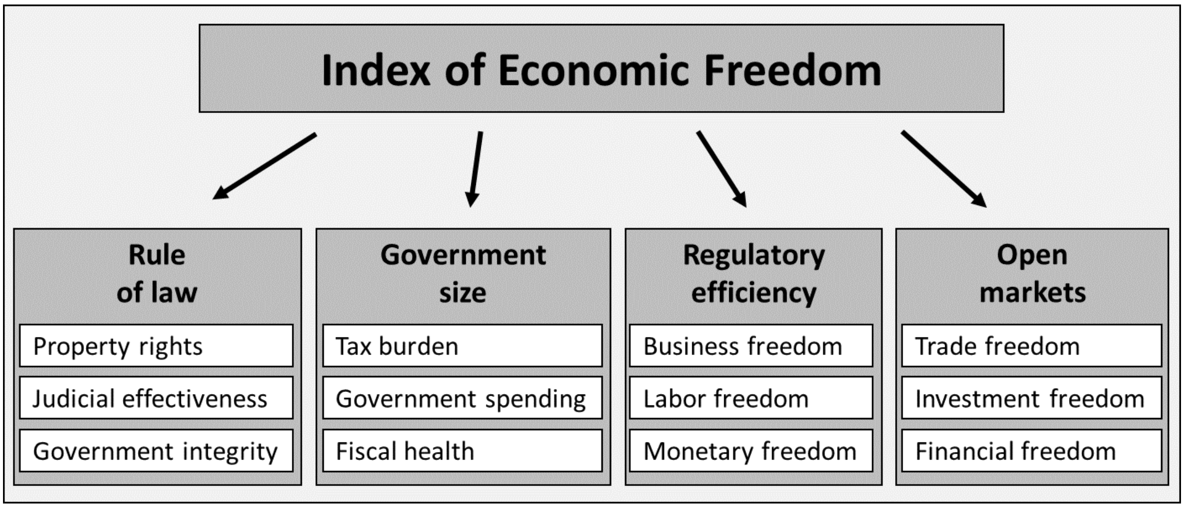
Government size takes into account the government spending, tax burdens and the fiscal health of a country. For government spending, the index uses the percentage of GDP as an indicator, while tax burdens are measured on three different levels (highest marginal tax rate on individual income, highest marginal tax rate on corporate income and total tax burden as percentage of GDP). Fiscal health as the last factor influencing the government size category is measured via two items: debt as a percentage of GDP and the average deficits as a percentage of GDP for the most recent three years. (The Heritage Foundation, 2019)

The third category of the index of economic freedom is regulatory efficiency. It consists of business freedom, labour freedom and monetary freedom. The factor of business freedom measures the constraining influence of the regulatory and infrastructural environment on efficient operations of businesses. Multiple items, assessing the starting, operating and closing of a business, derive the final score of this factor. Exemplary items are; days needed to start a business, procedures needed to obtain a license, days needed to receive electricity. The second factor, labour freedom considers the legal and regulatory framework of the country's labour market. It comprises seven items, such as rigidity of hours, difficulty of firing redundant employees, mandatory severance pay and labour force participation rate. The last factor of this category focuses on the monetary freedom within countries and combines measures of price stability and price controls. Thereby, the weighted average inflation rate for the recent three years and price controls are the core items taken into account. (The Heritage Foundation, 2019)

The fourth, and last, category of the index of economic freedom is regarding open markets. This category is measured via three factors: the trade freedom, investment freedom and financial freedom. Trade freedom is measured via the trade-weighted average tariff rate. Investment freedom is comprised of multiple items such as; Investment restrictions, national treatment of foreign investment, restrictions on land ownership or sectoral investment restrictions. Financial freedom as the last factor is looking at five different areas: extent of government regulation of financial services, government influence on the allocation of credit, the degree of state interventions in banks, the extent of financial and capital market development and the openness to foreign competition. (The Heritage Foundation, 2019)

Figure 13 graphically summarises the mentioned categories of the index of economic freedom again. For a representation of the 2019 ranking of the world[41] by economic freedom see **appendix 3**.

***Figure 13:* Categories of the Index of Economic Freedom**



(source: Miller, Kim, & Roberts, 2019)

3.1.2.2. Human Development Index

The human development index (HDI) was first introduced in 1990 and is the result of an intensive data gathering of the United Nations Development Programme (UNDP) undertaken by a small group of development economists lead by Mahub ul Haq (United Nations Development Programme, 2016). The statistical composite index was created due to critics on the sole attention on economic factors (i.e. GDP or GDP per capita) for the estimation of a countries' development and thus accommodates additional data into their analysis.

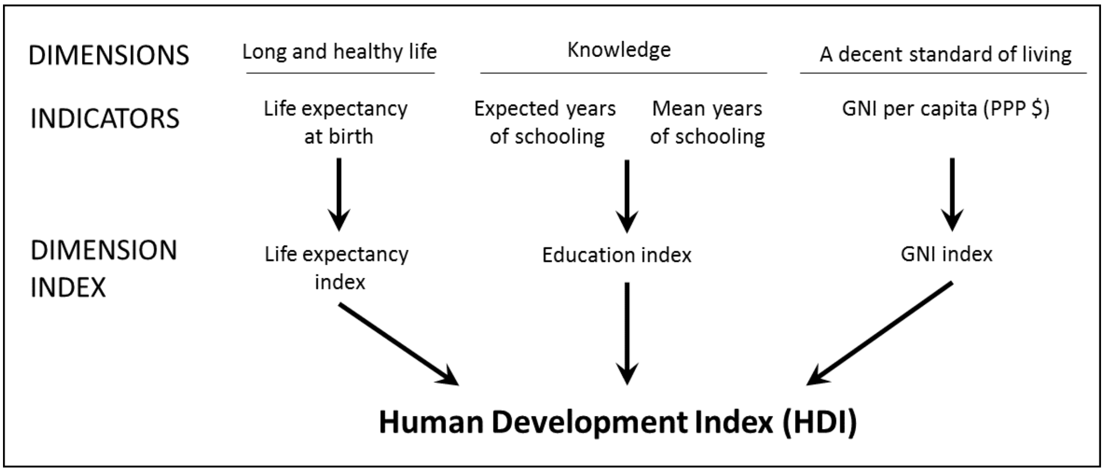
The index does not only take economic development, but also general improvements of human well-being into account. Thus, the index consists of three different dimensions taking into account several indicators. At the highest, the dimensional level, these multiple

[41] Even though not all countries were surveyed, the index includes at least 180 countries which makes it one of the most comprehensive surveys in terms of the included number of countries.

indicators are combined into indices and afterwards the three indices are combined to form the Human Development index, using the geometric mean. The three dimensions are named; long and healthy life, knowledge and a decent standard of living.

The dimension of long and healthy life is estimated by the life expectancy at birth. Knowledge as the second dimension is a combined metric of the expected years of schooling and the mean years of schooling. The last, economic dimension is estimated by the gross national income (GNI) per capita. As satisfaction derived by income is declining with a growing income, the researchers use a logarithmic scale to compensate for this effect. The 2017 index clusters almost 190 countries in four human development (HD) categories (low HD, medium HD, high HD and very high HD). The lowest rating country in 2017 was Niger with a score of 0,354, compared to the highest rating country, Norway, with a score of 0,953. All countries receive a score between 0 and 1. Interestingly, almost 60 countries were clustered in the very high human development category in the 2017 index, with Norway and Switzerland being at the top and Barbados and Kazakhstan sharing 58th place. This nicely illustrates one of the critics regarding the HDI as researcher describe the categorisations as too broad and inadequate. (United Nations Development Programme, 2016, 2018) Furthermore it can give the impression that around 60 countries in the world are in the same or at least similar developmental stage, which again illustrates the difficulty of categorising developing countries. **Figure 14** summarises the composition of the index graphically and **appendix 4** shows the overall country results with the ranking of all 189 countries.

Figure 14: **The Human Development Index**



(source: United Nations, 2013)

3.1.2.3. Ease of Doing Business Index

As a third, important index for clustering countries' development stages, the ease of doing business index can be named. The index was created by the World Bank in 2004 and focuses its report on the study of regulation and legislation. Hence, the focus of analysis in this report is to measure regulations that directly influence businesses across 190 countries. Similar to the Index of Economic Freedom, a country can score on a range between 0 (worst conditions) and 100 (perfect conditions). The higher the index number, the better the regulations and the stronger the protection of property rights, one of the key factors for prosperity based on this index' argumentation. (Meyer et al., 2009; The World Bank Group, 2019)

Every year the World Bank surveys 12,500 experts that deal with business regulations in their daily routine. The World Bank proposes a fictitious business case in which the experts in each country need to fill in the required data for launching the fictitious business. Their answers on 10 different aspects of regulation and ease of doing business are merged into an overall index. The following aspects are surveyed in detail (The World Bank Group, 2019):

- *Starting a business:* Procedures, time, cost and minimum capital to open a new business (in relation to national income)
- *Dealing with construction permits*: Procedures, time and cost to build a warehouse
- *Getting electricity*: procedures, time and cost required for a business to obtain a permanent electricity connection for a newly constructed warehouse
- *Registering property*: Procedures, time and cost to register commercial real estate
- *Getting credit*: Strength of legal rights index, depth of credit information index
- *Protecting investors*: Indices on the extent of disclosure, extent of director liability and ease of shareholder suits
- *Paying taxes*: Number of taxes paid, hours per year spent preparing tax returns and total tax payable as share of gross profit
- *Trading across borders*: Number of documents, cost and time necessary to export and import
- *Enforcing contracts*: Procedures, time and cost to enforce a debt contract

- *Resolving insolvency*: The time, cost and recovery rate (%) under bankruptcy proceeding

Even though the ease of doing business index covers many aspects of regulations some precautions need to be taken for business leaders. First of all, it needs to be mentioned that the index only focuses on regulations and does not measure other aspects of the business environment, such as macroeconomic conditions, corruption or the political stability of a country. Furthermore, it does not highlight the strengths and weaknesses of the financial systems of the analysed countries, nor does it take the finances of the government of each country into account. At last it also needs to be mentioned that even though the index focuses on regulations of the analysed countries, not all contexts of regulations are analysed. For instance, the regulations of the financial markets as well as intellectual property regulations are neglected by the index even though they might be very relevant for the private sector. (The World Bank Group, 2019)

Appendix 5 shows the country ranking of the ease of doing business index including the overall score as well as the 10 individual scores within each segments of the index.

3.1.2.4. Global Competitiveness Index

The Global Competitiveness index can be regarded as the most holistic approach compared to the previously introduced indices. It ranks the world's nations according to their Competitiveness which is measured by an aggregated index of 12 pillars which, for structural and presentation reasons, are subsumed under four broad clusters. The four clusters, *enabling environment, human capital, markets* and *innovation ecosystem,* are comprised out of 12 pillars (explained in more detail further on) with 98 variables. As its main data sources the index uses an executive survey of over 13.500 individuals worldwide carried out by the World Economic Forum, as well as openly accessible data sources from renowned supra-national organisations (e.g. World Bank, IMF, UNESCO). (World Economic Forum, 2017, 2018)

The first cluster, *Enabling Environment*, describes each countries individual environment that may enable competitiveness and prosperity. It is the most comprehensive sub-index as it is developed out of four pillars containing 42 variables overall. The four distinctive pillars to describe this environment are institutions, infrastructure, technological readiness and macroeconomic context. Institutions are widely analysed through seven categories such as security, property rights, social capital, transparency and ethics, public-sector performance and corporate governance. The category of security is analysed through variables such as ‘business costs of organised crime’ derived by the executive survey or the homicide rate derived from statistics of the United Nations Office on Drugs and Crime (UNODC). The category of property rights is, among others, derived via a subjective ‘property rights assessment’ through the executive survey as well as from a scale regarding the ‘quality of land administration’ proposed by the World Bank Group. The second pillar of infrastructure is focusing on transport and utility infrastructure. While transport infrastructure is analysing the quality of the road network as well as airport connectivity, the utility infrastructure focuses on the electrification rate as well as on the reliability of water supply. The third pillar, technological readiness, analyses the number of internet users within a country over the last three months and additionally looks at mobile-broadband subscriptions. The macroeconomic context as the last pillar of the first sub-index, looks at the inflation rate as well as on the government’s debt-to-revenue ratio. (World Economic Forum, 2017, 2018)

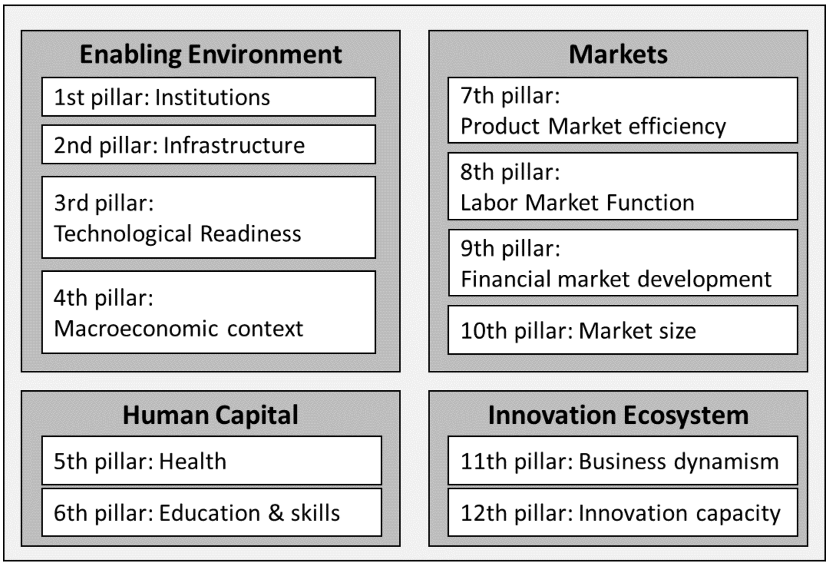
The second cluster, the human capital component, focuses on the two pillars *health* and *education & skills*. While the pillar health is only measured by the live expectancy of a new-born, the pillar education & skills analyses aspects of the current workforce (i.e. quality of vocational training or skillset of graduates), as well as of the future workforce. In this regard the index looks at the amount of critical thinking in teaching and the pupil-to-teacher ratio in primary school. (World Economic Forum, 2017, 2018)

The third cluster, markets, consists of the following four pillars: *product market efficiency*, *labour market functioning*, *financial market development* and *market size*. Product market efficiency is analysed via the categories domestic competition (e.g. the extent of market dominance), foreign competition (e.g. trade tariffs and its complexity), taxation and regulation distortions (e.g. non-labour tax rates). The pillar of labour market functioning focuses on categories such as flexibility (e.g. hiring and firing practices or workers’ rights) and talent utilisation (e.g. female participation in labour force or labour tax rate). The pillar of financial market development is divided into the two categories of depth and stability. While the category of depth looks at aspects such as the financing of SMEs or the availability of venture capital, the category of stability rather looks at banks' regulatory capital ratio or share of non-performing loans compared to the total value of distributed loans. The last pillar in the third cluster is the aspect of market size, measured via the gross domestic product as well as percentage of imported goods and services of the GDP. (World Economic Forum, 2017, 2018)

The last, fourth, cluster is called the innovation ecosystem component with *business dynamism* and *innovation capacity* as its two pillars. The two categories of business dynamism are the aspect of regulation and entrepreneurship. Regulation is measured via figures such as the time needed to start a business or the insolvency recovery rate. Entrepreneurship focuses on attitudes towards entrepreneurial risks and the growth of innovative companies. The last pillar, innovation capacity, is analysed via three aspects, the interaction and diversity (e.g. urbanisation rate or diversity of workforce), research and development (citable publications or quality of research institutions) and commercialisation (e.g. trademark applications or buyer sophistication). (World Economic Forum, 2017, 2018)

In the following, **Figure 15** graphically summarises the four clusters with its underlying pillars. Furthermore, **appendix 6** shows the 2018 ranking of the Global Competitiveness Index for 140 surveyed countries and **appendix 7** gives a more detailed overview on the scores of each country regarding all twelve pillars. Especially this data can serve companies as a great starting point for further, in-depth analysis of individual country differences.

***Figure 15:* Global Competitiveness Index 4.0**



(source: World Economic Forum, 2018: 2)

3.2. Characteristics of Developing Countries

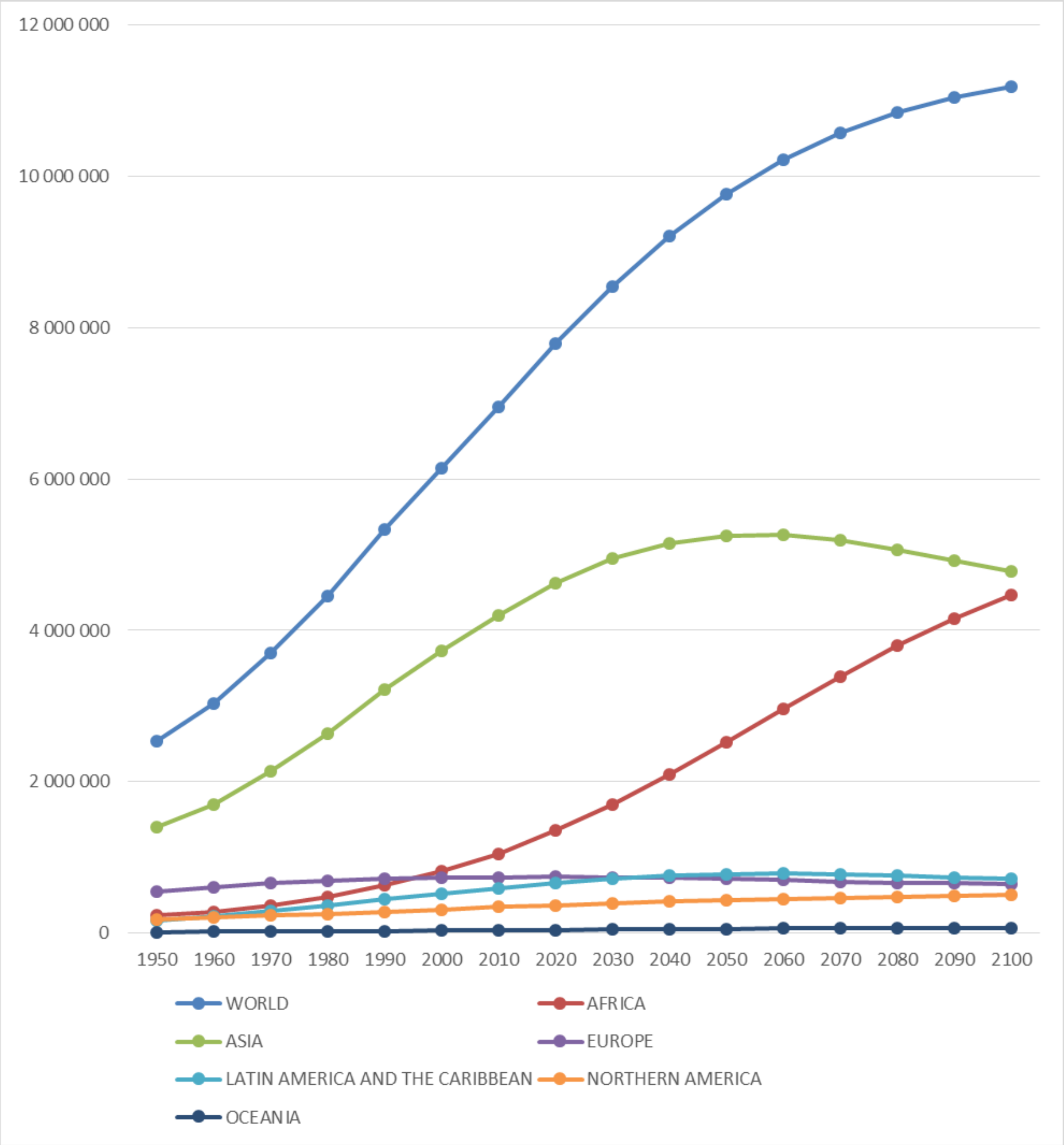
After a short overview on developing countries in the previous subchapter (3.1.1.3), I will now turn to a more detailed view on the focus country type of this treatise: developing countries. Based on multiple characteristics, I will delineate a clearer picture of the term developing country. Since the term itself is used very interchangeably and tries to group multiple, in some part very heterogeneous countries into one cluster, it is very difficult to give a clear definitional answer. Therefore, in the following I will explain the most important aspects and characteristics that a developing country can entail. It needs to be mentioned that not every country which is clustered as a developing country possesses all of the mentioned characteristics below. Yet many of the characteristics will be shared by the overall cluster of developing countries. The discussed aspects range from a demographical perspective to economic, infrastructural, social and political aspects.

3.2.1. Demographical Aspects

Developed countries account for approximately 60 percent of the world's GDP, while only 20 percent of the overall population lives in these countries. Most of the people are living in developing or even least developed countries (George et al., 2016; International Monetary Fund, 2015; Kiggundu, Jørgensen, & Hafsi, 1983). Over the next one hundred years this number is going to rise even more, as populations are mostly estimated to grow in developing countries. For instance the continent of Africa is estimated to have a population of nearly 1.6 billion people by 2035 and approximately 4 billion by 2100. This is an increase of 450 million (for 2035) and 2,9 billion (for 2100) compared to today (Credit Suisse, 2015; George et al., 2016). Reasons for this drastic growth, especially in Africa, are the high birth rates as oftentimes the family still remains to be the best economic security for people living in developing countries. Yet it needs to be mentioned, that in the recent years the birth rates have decreased significantly (Rosling, Rosling, & Rosling Rönnlund, 2018; United Nations Department of Economic and Social Affairs, 2017). Especially in Africa, where the fertility rate is the highest compared to other continents, the fertility rate has declined from 5.1 in 2005 to 4.7 in 2015 (United Nations Department of Economic and Social Affairs, 2017). **Figure 16** illustrates the population growth of the continents from 1950 until 2100 again and highlights the significant population growth in Asia and Africa for the upcoming decades.

The data is taken from the United Nations Population division and was aggregated to get a better overview. The data represents the 2017 projections by the UN in a scenario of a medium fertility variant (United Nations Department of Economic and Social Affairs, 2017).

***Figure 16:* World Population Overview and Estimates by Region**



(source: own representation based on data from the United Nations 2017 Population Prospects)

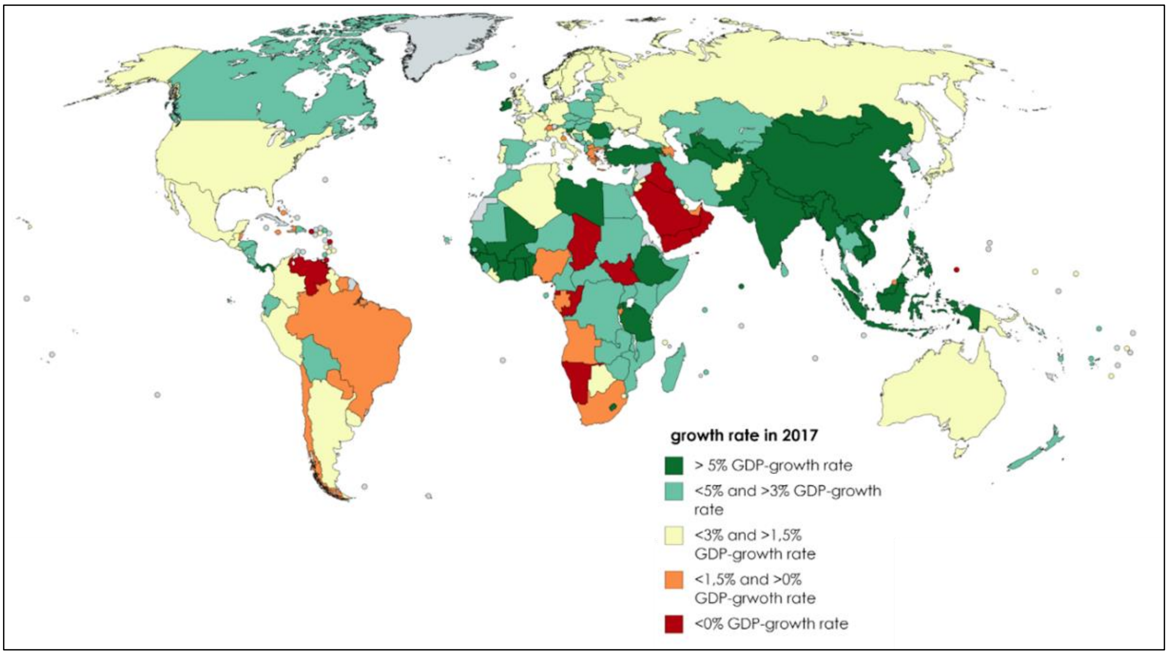
Besides the high growth estimates of developing country populations the aspect of population dispersion is also very important when characterising developing countries (Todaro & Smith, 2015). When compared to developed countries, many developing countries have a much lower urbanisation rate. While estimates by the United Nations assume that the urbanisation rate of developed countries will be around 80 percent by 2030, developing countries are only estimated to be around 55 percent (Punnett, 2018). Additionally, as education facilities are not plentiful available in developing countries, many talented people leave the country early.

Other factors which differentiate the developed countries from developing countries on the demographical level are the aspects of age distribution and life expectancy. Typically developing countries have a very young population, with a declining average age. In contrast, the average ages of most of the populations from the developed world are increasing significantly (Schaffner, 2014). In 2015, about one-third of the population in developing countries was under fifteen, while in the developed countries this figure was around 20 percent (United Nations Department of Economic and Social Affairs, 2017). With regard to life expectancy, most countries from the developing world only reach an expectancy rate between 55 – 65 years, while countries in the developed world have an average life expectancy of 75+ years (Schaffner, 2014).

3.2.2. Economical Aspects

The second dimension characterising developing countries focuses on economic aspects. Thereby the most important aspect is the high economic growth that can be observed for many developing countries (Hoskisson et al., 2000; Rosling et al., 2018). Many developing countries grow around 5 percent for a longer period of time, sometimes for up to ten or even fifteen years (Acquaah, 2009; Annushkina et al., 2016). Besides the aspect of high growth rates at the current stage, developing countries can also be characterised by the high potential of future growth which integrates a long-term perspective into the factor of growth (Meyer & Peng, 2016; Zoogah, Peng, & Woldu, 2015). **Figure 17** shows a worldwide overview of almost 140 countries' growth rates in 2017 simplified in five categories and exemplifying the substantial growth rates by many, yet not all, developing countries. Developing countries are liberalising their markets and are thus opening up for foreign direct investments which can be regarded as an important factor for growth as well (Kim et al., 2015a).

Figure 17: **GDP-Growth Rate in 2017 by Countries**



(source: own representation based on data from the IMF (2018))

Contrary to the high economic growth rates, economic instability and recurring financial crises are oftentimes also part of the economic development of a developing country (Punnett, 2018; Todaro & Smith, 2015). Partially, this instability can be due to a strong focus on agriculture and exporting monocultures which makes a country vulnerable to exogenous shocks. Yet many countries are trying to reduce their dependency on a single exporting monoculture trying to integrate additional value producing steps into their local value chain with the increase of production facilities as the primer measure within their regions.

Additionally many developing countries have to fight high unemployment rates as many of their population are rather low-skilled workers. Together with least developed countries the literacy and numeracy rate is the lowest in the world, even though it is constantly increasing (Acquaah, 2009; Punnett, 2018; Zoogah et al., 2015).

From a financial market perspective it needs to be added that many developing countries lack an adequate financial system. Therefore, the countries often show high costs of capital and a limited availability of capital.

3.2.3. The Role of the Government in the Economic System

The role of the government within the economic system of a developing country is oftentimes very different compared to the role of governments in developed countries (Annushkina et al., 2016). First of all, governments of developing countries have closer links to businesses and the society oftentimes does not see these links as inappropriate, whereas societies of developed countries normally do consider these links as highly inappropriate (George et al., 2016; Punnett, 2018). Additionally, family firms with strong governmental ties show a high prevalence in developing countries compared to firms in the developed world. Secondly, the government and its spending is responsible for a high percentage of the GDP in developing countries (Hoskisson et al., 2000). For instance, through their government expenditure, the governments of Nigeria and Ghana were responsible for over 40% (29% respectively) of their GDP (Hoskisson et al., 2000). For many developing countries the state remains a very strong actor in the economy. Nevertheless the government is oftentimes pursuing a liberalisation strategy, opening up its markets for new entrants fostering growth and attracting foreign direct investment (Dharwadkar, George, & Brandes, 2000; Kim et al., 2010; Punnett, 2018). These pro-market reforms mainly consist of corporate governance reforms as well as market liberalisation reforms (Cuervo-Cazurra & Dau, 2009).

Many, but not all, developing countries are striving for a democratisation of their governments (Annushkina et al., 2016; Todaro & Smith, 2015). For instance, today in Africa there are 18 countries which are governed by democratic principles compared to only four countries in 1991 (George et al., 2016). Yet it needs to be mentioned that these newly established democracies still function in different ways and need to be fully established compared to well-established democracies mostly situated in the developed world (Punnett, 2018). A report by the economists’ intelligence unit found out in a study from 2015 that only 9 percent of the countries in the world can be considered full democracies while 40 percent are flawed with minor limitations. Additionally, 34 percent of the worlds countries are led by an authoritarian government structure with no elections at all or obviously not free elections (Punnett, 2018).

3.2.4. Lack of Institutions

As explained in Chapter 2, institutions and the institution-based view play a significant role in international business research since 15-20 years (Ingram & Silverman, 2002; North, 1990; Peng, 2002b; Peng et al., 2008; Peng et al., 2009; Scott, 1995). Especially with regard to emerging and more importantly, developing countries, the understanding of formal and informal institutions and the aspects of institutional change become indispensable for internationalising companies coming from developed countries (Hoskisson et al., 2000; Kim et al., 2010; Peng et al., 2008).

Yet, when looking at the institutional framework of developing countries, many countries show a low development of formal institutions (i.e. market-based, society-based, governance-based, infrastructure-based institutions), deteriorating important investment criteria for international firms, such as predictability and reliability (Kearney, 2012; Oliver, 1997). As the distinction between the "rule of law" and the "rule of man" can further explicate. As Punnett (2018: 40) puts it: "*The rule of law suggests that there should be a clear statement of what is right or wrong and that it should be applied equally to all people. The rule of man suggests that what is right or wrong may depend on the situation and that each situation should be interpreted by those in positions of power. Some societies believe that rules apply the same way to all people, others that rules change depending on circumstances.*"

Therefore, within many developing countries informal institutions have developed strongly over time in order to mitigate the lack of formal institutions for businesses and the society as a whole (Ingram & Silverman, 2002; Kim et al., 2010; Meyer & Peng, 2016; Peng et al., 2008). Thus, for an internationalising company it becomes inevitable to familiarise with the formal, but especially with the informal institutions and customs of the particular developing country to embedded itself in the social fabric of the country and mitigate the problems arising from a lack of formal institutions (Acquaah, 2007; Heidenreich, 2012c; Peng et al., 2008; Zoogah et al., 2015). Non-market strategies tackling the social or political environment of the particular country offer important and suitable strategies to do so.

3.2.5. The Importance of the Informal Sector

Thus, another aspect that greatly characterises a developing country is the importance of the informal sector within the social and institutional fabric of the developing country (Darbi et al., 2016). The informal sector can be characterised as a "*key contributor to the provision of essential products and services and employment generation*" (Darbi et al., 2016: 2) for developing countries. There are many different terms that are being used to depict the informal sector, such as underground, hidden, irregular or second sector (Gerxhani, 2004). Yet from a scientific viewpoint this part of the economy is mostly referred to as the informal sector (Henry & Sills, 2006). It is a significant contributor to economic life in developing countries. For some countries, it has increased to a size of approximately 50 percent of the GDP, sometimes accounting for 40 and even up to 80 percent of the overall work force (Charmes, 2012; International Labour Office, 2004). Especially in Africa the informal economy plays a significant role as for example in very rural areas many people use barter systems[42] until today (Bruton, Ireland, & Ketchen, 2012; Zoogah et al., 2015).

In the recent years, researchers noticed a slight change in the informal sectors activities (Adom & Williams, 2012). Today, many informal sector activities include technologically advanced manufacturing and service operations compared to the older unsophisticated operations (e.g. street-vending or shoe-shining) with the informal aspects of the business not having changed (Adom & Williams, 2012; Lee & Hung, 2014). This underlines the importance of the informal structures and the cohesion of the social and institutional fabric within the informal sector and thus within a developing country. Companies willing to operate in the informal sector will need to show idiosyncratic skills (e.g. the skill of organisational bricolage[43]) with regard to the adaptation to and the communication with informal sector representatives and firms; a relationship that until now is highly under-researched (Darbi et al., 2016; George et al., 2016; Mol, Stadler, & Ariño, 2017).

[42] Barter systems are systems of exchange where participants in a transaction directly exchange goods or services for other goods or services without using a medium of exchange, such as money (O'Sullivan and Sheffrin (2003); Zoogah, Peng, and Woldu (2015)).

[43] Organisational bricolage refers to practices related to innovation and improvisation in constraint environments. In an entrepreneurial setting it can be a relevant step in the development of a concept (Duymedjian and Rüling (2010)). For more details see Chapter 7.2.3.2.

3.2.6. The Concept of the Bottom of the Pyramid

The concept of the bottom of the pyramid[44] developed by Prahalad and Hammond in 2002 has some intersections with the aspects of the informal sector, as many people from the bottom of the pyramid work in the informal sector (Kolk, Rivera-Santos, & Rufin, 2014; Prahalad & Hammond, 2002; Prahalad & Hart, 2002). Yet, due to its unique characteristics and a different focus it needs to be mentioned as a separate characteristic of developing countries.

When Prahalad and Hammond introduced the term in their influential paper in 2002, their definition was rather broad and included only the amount of 4 billion people living on less than 2,000 US-dollars per year (Prahalad, 2004; Prahalad & Hammond, 2002). Since then the term has been used, defined and characterised in many different ways, as a review conducted by Kolk et al. (2014: 351) confirms: "*the usage of the term is blurred and frequently imprecise, leading to different articles studying very different "bases" of the pyramid."* Some researchers offer a narrower view on the population of the bottom of the pyramid, only including people with a lower income than 2 US-dollars per day (Banerjee & Duflo, 2007). While others rather focus on geographical aspects in their distinction, categorising entire countries or regions as the bottom of the pyramid (Ahmad, Gorman, & Werhane, 2004; Rivera-Santos & Rufín, 2010a).

With regard to this treatise, it is important to highlight that most of the people from the bottom of the pyramid live in developing countries, as graphically illustrated in **appendix 8**. Therefore this concept serves as an important characteristic of developing countries.

The bottom of the pyramid can be characterised by a high level of poverty ranging from an extreme to a moderate and a low level of poverty with people living on less than one US-dollar per day at the very extreme (Rivera-Santos & Rufín, 2010a). Furthermore, most of the people only have an irregular income which is mainly due to the fact that they are working on a daily basis in the informal sector (Kolk et al., 2014; Rivera-Santos & Rufín, 2010a). Additionally some researchers differentiate between the rural poor who are geographically dispersed and the urban poor who live in densely populated slums.

[44] The bottom of the pyramid concept is oftentimes also called the base of the pyramid or subsistence markets in scientific literature. All terms can be used interchangeably, yet the term "bottom of the pyramid" remains the most used and adequate for this phenomenon (Kolk, Rivera-Santos, and Rufin (2014); Rivera-Santos, Rufín, and Kolk (2012)).

Regardless of the geographical location of the bottom of the pyramid, it is often associated with very strong local cultures that can be difficult to decipher for MNCs (Schuster & Holtbrügge, 2014b; Tasavori, Zaefarian, & Ghauri, 2015).

To some extent, the bottom of the pyramid characteristics can also become visible in developed countries (Kolk et al., 2014), but compared to developing countries their occurrence is rather scarce and therefore negligible for this treatise.

3.2.7. Corruption

A last aspect characterising many developing countries is the issue of corruption at the governmental and the business level, ranging from national to regional and local levels of the institutional environment (Hellman, Jones, Kaufmann, & Schankerman, 2000; Uhlenbruck et al., 2006). Corruption can be defined in multiple ways focusing on the interface of the public and private sector or the discretionary power of public officials (Bardhan, 1997; Collins, Uhlenbruck, & Rodriguez, 2009). The most simplistic and commonly used definition however is stating that it is "*the abuse (or misuse) of public power for private benefit*" (Uhlenbruck et al., 2006: 403). Rodriguez, Uhlenbruck, and Eden (2005) differentiate between two dimensions of corruption: pervasiveness and arbitrariness. While pervasiveness is defined as the "*average firm's likelihood of encountering corruption in its normal interactions with state officials" (Rodriguez et al., 2005: 385),* arbitrariness reflects the overall uncertainty for firms regarding the ambiguity of state officials and the potential for ineffectual corrupt transactions (Rodriguez et al., 2005).

The corruption perception index gives a great overview on the perception of corruption in a particular country and when analysing it in detail, it becomes visible that developing countries seem to have greater problems with corruption than developed countries. For instance, there are only industrialised nations within the top 20 countries such as Denmark, Canada, Germany and Singapore, while countries with the lowest score on the corruption perception index such as Venezuela, the Republic of Congo, Somalia and North Korea are countries that also show a very low level of development. These country examples as well as others show the potential correlation between a high level of corruption and a low level of country development. The index is created based on an array of surveys (mostly based on perceptions from experts) from multiple research institutions such as the World

Bank or the African development bank (African Development Bank, 2014; Hellman et al., 2000). **Appendix 9** gives a detailed overview on the corruption levels of different countries as measured by the corruption perception index.

Corruption can serve as a strong source of uncertainty and may create significant transaction costs for an entering firm, especially if both dimensions of corruption, pervasiveness and arbitrariness, are met within one country (Habib & Zurawicki, 2002; Rodriguez et al., 2005). Recent studies have shown that a high degree of corruption can reduce a countries' capital inflow significantly (Godinez & Liu, 2018; Jain, Kuvvet, & Pagano, 2017; Sartor & Beamish, 2018). Yet once corruption has spread into the social fabric and the institutional environment of a country it is incredibly difficult to diminish it (Bodenschatz & Irlenbusch, 2018; Uhlenbruck et al., 2006).

Although corruption remains an important characteristic of developing countries, this treatise will not focus on corruption details as in our jurisdictions it is not seen as a normal and typical business behaviour. Therefore, it will be neglected in the further analysis.

3.3. Specific Challenges for Companies Internationalising into Developing Countries

The early decades of research in the international business area were focused on the identification and characterisation of internationalisation challenges on a generic level, independent from characteristics of the host country and thus relevant for all internationalisation attempts in any type of country (Denk et al., 2012; Doh et al., 2017; Eden & Miller, 2004; Miller, 1992). Therefore, researchers did not specify internationalisation challenges on specific country or company characteristics, but rather assumed that multiple challenges can occur during every internationalisation effort (Miller, 1992). Just within the last two decades, through the study of emerging and developing markets, the literature has started to specify internationalising challenges to the characteristics of host countries (Buckley et al., 2012; Taussig, 2017) and especially with regard to the aspect of institutional voids in developing countries (Gao, Zuzul, Jones, & Khanna, 2017; Ingram & Silverman, 2002; Khanna & Palepu, 1997). For Dahan et al. (2010b: 333), the "*institutional conditions and idiosyncratic environments*" of developing countries are the main challenges for companies that want to enter these markets. "*Environmental constraints and resource* *scarcity are ubiquitous*" (Schuster & Holtbrügge, 2014b: 48) in developing countries and internationalising companies face "*significant institutional barriers in the form of a lack of formal institutions and high institutional distance*" (Webb et al., 2010: 556) during their internationalisation.

Thus, the following Chapter will put more emphasis on the specific challenges encountered by internationalising firms from the developed world during their internationalisation process into the developing world. Nevertheless, it is important to notice that all generic challenges mentioned in Chapter 2.4 can also occur during the internationalisation into developing countries. More specifically, these challenges identified in Chapter 2.4 might often have a more severe impact when a company internationalises into a developing country (Hoskisson et al., 2000; Khanna & Palepu, 1997; Oesterle & Röber, 2017). For example, from a macro-economic perspective the risk of high inflation rates and volatile foreign exchange rates is much higher in developing countries than in developed countries (Hoskisson et al., 2000). Some recent examples are the inflation crises in Mozambique in 2016/17, the ongoing crises in Venezuela since 2016 and in Argentina starting 2013 (The Economist, 2015, 2019; Waeber, 2015). Furthermore the volatility in the foreign exchange rate of the Turkish Lira starting 2017 can also be used as an example (Credit Suisse, 2015; Miller, 1992; The Economist, 2015). Additionally, due to the oftentimes fragile institutional framework or the political risk of a coup d'état, potentially unfavourable changes in the institutional framework or other policy instabilities typically need to be estimated with a higher probability than in developed countries. With regard to the unfamiliarity hazard of the liability of foreignness, researchers found out that especially in Africa local knowledge of customs and institutions is critical (Acquaah, 2009; Zoogah et al., 2015), which will be discussed in more detail later on. Additionally, consumers in developing countries are also known to change their purchasing behaviour more quickly, making good and continuous market research even more critical and difficult than in developed countries (Dahan et al., 2010b). At last, developing countries have more severe infrastructure problems (i.e. lack of electricity, transportation or telecommunications) which can have a significant impact on several aspects affecting the internationalising company in the host country (Banerjee, Oetzel, & Ranganathan, 2006; Doh & Ramamurti, 2003). In this regard some researchers call for the necessity of MNCs to actively engage as a partner for economic development (Boddewyn & Doh, 2011; Doh & Boddewyn, 2014).

Most of the described challenges are further increased based on the issue of institutional voids, a phenomenon encountered in emerging countries and in particular in developing countries (Doh et al., 2017; Khanna & Palepu, 1997, 1999; Oesterle & Röber, 2017). Thus, the following subchapter will concentrate around this issue as well as the issue of the liability of privateness (Bhanji & Oxley, 2013).

3.3.1. Institutional Voids

For nearly two decades, scholars in international business and management have explored the implications of institutional voids for firm strategy and structure (Chacar, Newburry, & Vissa, 2010; Doh & Guay, 2004; Hoskisson et al., 2000; Khanna & Palepu, 1997). Although institutional voids offer both opportunities and challenges, they have largely been associated with firms' efforts to avoid or mitigate institutional deficiencies and reduce the transaction costs associated with operating in settings subject to those institutional shortcomings (Doh et al., 2017). Institutional voids are defined as "*the failure of market-supporting and contract enforcement institutions to efficiently facilitate exchange between firms*" (Pinkham & Peng, 2017: 344). Examples range from ineffective legal frameworks, to the inconsistent enforcement of rules, the incapacity of the government or the lack of market supporting institutions (e.g. capital markets) (Dhanaraj & Khanna, 2011; Doh & Guay, 2004; Khanna & Palepu, 1997; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). In this regard, especially for internationalising companies, the risk of compromising their intellectual property as well as their brand names can be very high (Vachani et al., 2009). Institutional voids can arise when the conditions or intermediaries on which firms typically rely, such as legal, financial or human resources, are absent (Yaziji & Doh, 2009). Not every developing country is prone to the same institutional voids, yet most of them have significant problems in at least one of the respected areas, such as capital markets, labour markets, legal systems, infrastructure or property rights (Doh et al., 2015; Khanna & Palepu, 1997; Webb et al., 2010). The weak or fluid nature of institutions in developing countries suggests that activities of firms concentrate more around social networks, the family or other social connections (Doh et al., 2017). Punnett (2018) illustrates the lack of resources of developing countries through some interesting comparisons. Her analysis is focused on an infrastructural, educational and medical level. For instance, the consumption of electricity per capita/per year differs by almost 5,500 kWh when comparing high income and low income countries. Furthermore, the availability of doctors is three times higher in developed countries than in developing countries (253 per 100,000 people vs. 76 per 100,000 people) and on the educational level it needs to be mentioned that only 60% of the children in developing countries attend secondary schools. Oftentimes the lack of particular resources can describe or even foster institutional voids.

3.3.1.1. Formal Institutional Voids

After shortly introducing the generic phenomenon of institutional voids in developing countries, the focus will now be placed on the aspect of formal institutional voids as current literature mainly composes challenges of developing countries based on the notion of institutional voids and the distinction of formal and informal institutions which was introduced by North (1990, 2005). Institutional voids can occur in multiple environments and range from capital markets, to infrastructure, labour markets, property rights, contract enforcement and social services (George et al., 2016; Khanna & Palepu, 1997). Additionally also information gathering and information dissemination can be very difficult creating so-called information voids (Doh et al., 2017; Ghoul et al., 2017; Khanna & Palepu, 1997).

With regard to economic development in developing countries and the issue of institutional voids, the aspect of capital market voids is one that has been in the focus of attention since the inception of the research field (Hicks, 1969). While it is undeniable that the development of capital markets and a modern capital system has been crucial for the economic development in the western world, developing countries often still lack basic essentials of a functioning capital market such as strong equity and credit markets or strong investment banks and financial analysts (Ghoul et al., 2017; Hicks, 1969; Meyer et al., 2009). Furthermore, many developing countries lack intermediaries such as auditors, third-party certifiers or transaction facilitators such as equity exchanges or platforms (Gao et al., 2017).

Another institutional void which is closely aligned to the capital market void, yet needs to stand on its own as it is also relevant in other areas, is the issue of information voids and the time consuming and exhausting aspect of information gathering (Kingsley & Graham, 2017). Information voids reflect a lack of publicly available information about a country’s investment climate. For instance, due to the scarcity of intermediaries such as third-party analysts, potential investors might be left without any available and independent source of market analysis on a particular country or market. Additionally, a host government might also fail to collect and distribute accurate country specific data with important insights about the current and the future prospects of a country and thus hampering investments into the particular country (Doh et al., 2017; Kingsley & Graham, 2017). Besides financial information such as credit ratings or economic development figures, other types of information are also relevant for an investment decision, but oftentimes scarce in developing countries. These are for example consumer report ratings or demographic information on local levels (Kingsley & Graham, 2017).

Another institutional void which is prevalent in many developing countries is the issue of weak legal systems and property rights. Weak legal systems are often caused by a lack of formally codified, enacted and enforced structures of laws within a community or country. This mitigates the rule of law and thus contract enforcement becomes more difficult, time-consuming and expensive for companies operating in these systems. Due to the unpredictability and the arbitrariness of a weak legal system an investment can become very risky (Ghoul et al., 2017; Webb et al., 2010). Thus, the issue of contract enforcement is rather governed by informal mechanism such as group norms, reputation and power (Webb et al., 2010). Additionally, property rights are often not clarified and even if they are, some actors within the environment might not accept them (World Economic Forum, 2018).

In many developing countries also infrastructure is a significant problem and may constitute an institutional void. Oftentimes the infrastructure is very limited with regard to paved roads, railways or ports making efficient transportation and logistics very difficult and infrastructure in rural areas is often supported by private communities rather than public funds (Webb et al., 2010). Additionally many countries also do not possess a well maintained electrical grid reaching every part of the country. Thus, in some parts of the country their might be no electricity at all, or if an electricity grid is in place it might lack sufficient power. Furthermore some countries do not have a good communication network in place that is able to transfer information fast (Doh & Ramamurti, 2003; Ghoul et al., 2017; Punnett, 2018).

Another institutional void in developing countries are labour markets as the vast majority of people living in developing countries are uneducated and unskilled. Due to the high importance of the informal economy there is oftentimes also no well-functioning labour market in place making the allocation of labour difficult, unorganised and very informal.

This makes it very difficult to get a real overview on the labour conditions and the actual employment rate within a developing country (Chacar et al., 2010; Webb et al., 2010).

At last, social services such as education, health or a public retirement system are oftentimes very limited or in some places even non-existent (Webb et al., 2010). As previously mentioned this can be easily noticed via certain statistics that are even available for many developing countries. Data points as the availability of doctors per 100,000 inhabitants, or the percentage of children going to secondary school give a good estimate on the situation of the medical and educational environment within a particular developing country (Punnett, 2018).

3.3.1.2. Informal Institutional Voids

Only a handful of studies have undertaken research on the aspects of informal institutional voids so far (Boddewyn & Doh, 2011; Mair et al., 2012; Marano, Tashman, & Kostova, 2017; Rivera-Santos, Rufín, & Kolk, 2012). Nonetheless informal institutions and thus informal institutional voids play a significant role, as with the absence of formal institutions, informal institutions become more important (Mair et al., 2012; Vachani et al., 2009). Informal institutional voids are characterised as informal institutions, such as customs, traditions or religious believes, that are malfunctioning or lead to destructive consequences (Doh et al., 2017; Mair et al., 2012). Unlike formal institutional voids, informal institutional voids are harder to study as informal institutions are mostly created and established by norms and processes and the lack or the destructive consequences thereof are difficult to identify and assess (Doh et al., 2017; Scott, 1995). For instance, Mair et al. (2012) were able to identify a case where informal institutions mitigated inclusion for Bangladeshi women into the labour market. In their research, they found out that Bangladeshi women are forbidden to enter certain market places due to existing norms and customs, which made it nearly impossible for them to earn a living by themselves. Thus, when talking about informal institutional voids, it is rather not a lack of an informal institution, but a wrong type of norm or process that can create an informal institutional void (Mair et al., 2012).

In general, there are two different aspects for internationalising firms arising from informal institutional void challenges. First, these are issues arising from the research in informal institutional voids such as the example described above. Second, due to the aggravating problems created by formal institutional voids in developing countries, informal institutions are of very high importance within the institutional setting of developing countries (Doh et al., 2017; Marano et al., 2017). Thus, decoding these informal institutions and understanding how they work and function becomes of utmost importance for internationalising firms and can be especially difficult for institutionally distant firms (Doh et al., 2017). For instance, especially in African countries the rule of tribes as well as the power of local chiefs can wield a great influence in cultural, economic and social exchanges, making it very important for the internationalising firm to get acquainted to the local rules and customs (Acquaah, 2007; Zoogah et al., 2015).

3.3.2. Liability of Privateness

Besides the challenges of institutional voids and the generic internationalisation challenges, e.g. the liability of foreignness, that have already been covered in Chapter 2, Bhanji and Oxley (2013) identified another challenge for developed country firms internationalising into developing countries: the liability of privateness. Boddewyn (2016: 19) defines this liability as "*the fact that privately-owned enterprises have lower reputations than not-for-profit government agencies and NGOs because of the former's for-profit nature*". This means that when a MNC internationalises into a developing country, consumers, the society and others might not only challenge the fact that a company is foreign, but additionally, in certain instances, they seem to evaluate the private nature of a firm as a negative characteristic as well (Bhanji & Oxley, 2013; Boddewyn, 2016; Mithani, 2017; Newenham-Kahindi & Stevens, 2017). Interestingly this seems to be especially problematic in multiple African countries (Bhanji & Oxley, 2013). Yet also in general, distrust towards foreign for-profit firms seems to be prevalent in developing countries, as local citizens are not used to being exposed to foreign firms and therefore distrust their intentions and motivations, especially in rural areas of developing countries (Goerzen et al., 2013; Mithani, 2017; Newenham-Kahindi & Stevens, 2017). Thus, Mithani (2017) suggests that foreign firms encounter greater distrust in developing economies than in developed economies and recommends that MNCs need alternative strategies within these contexts.

One strategy could be a deeper engagement with the non-market environment (e.g. NGOs, governmental actors or the society as a whole) of developing countries. More specifically, a MNC could partner with an international or local NGOs in order to increase social activity and embeddedness into the institutional environment and to decrease the liability of privateness (Bhanji & Oxley, 2013). Besides these mitigation options for the liability of privateness, Bhanji and Oxley (2013) also highlight a strong relationship between the liability of foreignness and the liability of privateness. They argue that the fundamental assumption driving theories of multi-national corporations, and especially the liability of foreignness, is that foreign subsidiaries are disadvantaged on multiple levels compared to local firms due to unfamiliarity, relational or discriminatory hazards. With regard to the liability of privateness, internationalising firms are additionally disadvantaged due to the fact of their for profit nature, creating a more severe overall challenge for internationalising companies (Bhanji & Oxley, 2013; Newenham-Kahindi & Stevens, 2017).

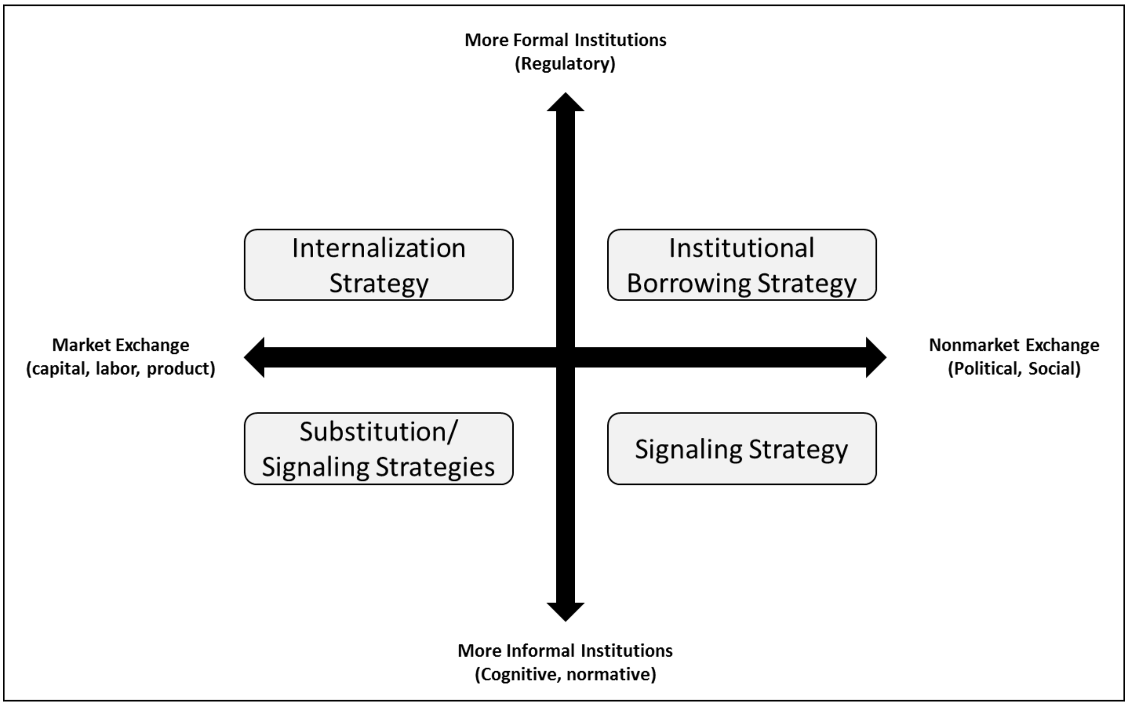
4. Interim Conclusion

The past two Chapters highlighted the foundations of international business as well as the specificities of developing countries. Thereby the second Chapter focused on sketching out an overview of the international business sphere based on three well known reviews of the field and its different theoretical foundations (e.g. industrial organisation view, resource-based view and institution-based view) that are frequently used as a theoretical basis. Furthermore, multiple theories on the internationalisation process of companies were introduced to highlight typical and relevant flows of internationalisation. Additionally, the Chapter highlighted the generic concept of the liability of foreignness which is applicable to any kind of company internationalising into a foreign market, as well as other challenges that a company can face during its internationalisation into developed countries. Chapter 3 focused its attention on the specificities of developing countries, starting with a short country classification and a delineation of several indices (e.g. Human Development Index, Ease of doing business index, etc.), which evaluate and cluster the developmental stage of countries. Afterwards the most important characteristics of developing countries (e.g. the important role of the government in the economic system, the importance of the informal sector, etc.) as well as the specific challenges for companies internationalising into developing countries (e.g. institutional voids and the liability of privateness) were explained. Thereby, a special focus was placed on formal and informal institutional voids.

Due to the severe institutional voids present in developing countries, MNCs need to invest in economic and social development (Boddewyn & Doh, 2011; Cantwell et al., 2010; Margolis & Walsh, 2001), as the "*magnitude of public challenges is often greater than the capacity of local stakeholders to address them effectively*" (Bhanji & Oxley, 2013: 290). Additionally, the institutional environments present firms with challenges which they have not yet encountered in developed markets (Doh et al., 2015; Halaszovich & Lundan, 2016; Meyer & Peng, 2016). The social, political and legal systems of developing countries present specific challenges and it is crucial to notice, that *"no single actor and, most importantly, no single sector is able to provide the complete set of institutions needed to support economic activity"* (Rivera-Santos et al., 2012: 1723) (McGuire, 2013). For MNCs, this calls for a deeper embeddedness in the institutional environment of the particular developing country in which they want to internationalise. That way, the MNC will be able to actively shape and create the institutional environment within that developing country as „*knowledge of and embedding in local contexts remains a key success factor*" (Meyer et al., 2011: 236) for a company internationalising into a developing country (Dahan et al., 2010b; Halaszovich & Lundan, 2016; Schuster & Holtbrügge, 2014a). This leads MNCs to adopt alternative strategies besides their market-driven approaches and to engage in non-market strategies (e.g. collaborations with the government or NGOs) alongside their more traditional market strategies (e.g. joint-ventures, wholly-owned subsidiaries, etc.) (Doh et al., 2015; Gupta & Wang, 2009; Kearney, 2012).

Based on research published in their special issue of the Journal of International Business Studies (JIBS) in 2017, Doh et al. (2017) suggest four strategies to overcome institutional voids in developing countries: (1) Internalisation strategy, (2) Substitution strategy, (3) Institutional borrowing strategy and (4) Signalling strategy. The internalisation strategy can be described as activities to create well-developed internal markets (e.g. within business groups) to mitigate institutional voids present in capital markets (Doh et al., 2017; Kim & Song, 2017). Secondly, the substitution strategy was developed to mitigate information voids. Kingsley and Graham (2017) showed that foreign investors focused on using their local private information if a lack of publicly available information was present. Institutional borrowing, as a third strategy to mitigate institutional voids in developing countries, focuses on contract enforcement and describes the act of incorporating the superior-functioning institutions of another country instead of local ones into a contract (Doh et al., 2017; Pinkham & Peng, 2017). Thereby, the contracting parties are borrowing better defined and exemplified institutions from other countries (Pinkham & Peng, 2017). At last, the signalling strategy through CSR can help to mitigate voids and receive better access to capital and other resources (Doh et al., 2017; Ghoul et al., 2017). Additionally, signalling through CSR creates social legitimacy within the society and leads to better perceptions of the focal MNC (Doh et al., 2017; Marano et al., 2017). This approach can be especially supporting when the MNC is challenged with the liability of privateness. Structured on a 2x2 matrix, divided by formal and informal institutions as well as market and non-market exchanges, all four strategies proposed by Doh et al. (2017) are represented in **Figure 18**.

***Figure 18:* Responses to Institutional Voids**



(source: adapted from Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017: 303)

The above shown representation again highlights the importance of non-market exchanges (e.g. political and social) with regard to the internationalisation into developing countries and thus the importance of non-market strategies for MNCs during their internationalisation efforts. Engaging with the non-market environment can lead to a higher embeddedness into the institutional environment of the focal developing country and also creates a better understanding of the formal and informal institutions that are especially relevant in developing countries, partly due to the importance of the informal sector and the existence of institutional voids. Thus, the following Chapters will first address the theory of embeddedness (Chapter 5) and subsequently the research on non-market strategies (Chapter 6) to give a foundation for these theoretical aspects which are highly relevant for the internationalisation of MNCs into developing countries. Afterwards, Chapter 7 highlights the overall aspect of cross-sector collaborations with a focus on business-NGO collaborations and NGOs as a specific actor.

5. The Theory of Embeddedness

In order to internationalise successfully into a developing country a MNC needs to become embedded in the social, institutional and business environment of the developing country as „*knowledge of and embedding in local contexts remains a key success factor*" (Meyer et al., 2011: 236). Furthermore, "*no single actor and, most importantly, no single sector is able to provide the complete set of institutions needed to support economic activity*" in developing countries (Rivera-Santos et al., 2012: 1723), which leads to collaborations of MNCs with the non-market environment. Therefore, the following Chapter will present a full picture of what this means with regard to embeddedness. From its inception by Polanyi (1944) and Granovetter (1985, 1992), to the adaptation in organisational theory and especially international business, the theory of embeddedness and its multiple perspectives are revised and articulated (Dacin et al., 1999; Halaszovich & Lundan, 2016; Heidenreich, 2012a; Hess, 2004). In order to do so, the first subchapter gives an introduction to the inception of the theory of embeddedness and the first important typologies and outcomes that existed in the field of sociology. Afterwards, the focus is shifted to embeddedness in international business with four different perspectives on embeddedness and further aspects of embeddedness being in the focus. The Chapter closes with a comprehensive overview of embeddedness dimensions which are relevant for further analysis of this treatise.

5.1. Development, Mechanisms & Outcome of Embeddedness

In the following subchapter the development of the embeddedness theory will be shortly portrayed before highlighting two typologies on the mechanisms of embeddedness. The subchapter closes with the description of various identified outcomes of embeddedness on the individual, the organisational and the institutional level.

5.1.1. The Development of Embeddedness Theory

Over the recent decades, the concept of embeddedness has grown constantly in multiple disciplines of academic research (Dacin et al., 1999; Heidenreich, 2012c; Hess, 2004; Ratajczak-Mrozek, 2017). Ranging from organisational theory to sociology and international business, some researchers focused on rather specific aspects of embeddedness such as local embeddedness (Halaszovich & Lundan, 2016), or the particular outcomes of embeddedness (Uzzi, 1996), while others tried to integrate the multiple views from varying disciplines into a coherent picture (Beckert, 2003; Granovetter, 1985; Heidenreich & Mattes, 2012; Hess, 2004; Ratajczak-Mrozek, 2017). Due to the varying fields of research, the literature shows a lack of terminological consistency and different, sometimes even opposing ways of defining it (Hess, 2004; Ratajczak-Mrozek, 2017). This leads to a variety of conceptualisations of embeddedness ranging from a broader view of embeddedness to a more narrowed one. In the broader concept, "*the concept of embeddedness is used simply as indicating the state of dependence on the context*" (Ratajczak-Mrozek, 2017: 88) making embeddedness so broad that almost everything can be seen as embeddedness or becomes embedded (Powell, 1996; Ratajczak-Mrozek, 2017). The narrower views try to conceptualise embeddedness in four different perspectives with each of them highlighting a specific area of application: the institutional embeddedness, the social embeddedness, the inter-organisational network embeddedness and the territorial embeddedness (Hess, 2004; Powell, 1996; Ratajczak-Mrozek, 2017)[45]. All of which will be discussed later on in this Chapter.

Nevertheless, what most researchers agree upon is that the embeddedness theory, first proposed by the economist Polanyi (1944) and the sociologist Granovetter (1985), highlights the importance of social structures in which the economic environment is embedded and which is oftentimes neglected in economic theories. While Polanyi actually coined the term to distinguish between traditional institutionally embedded societies based on redistribution and more modern, disembedded market societies (i.e. societies in which formal institutions are more important than social ties), Granovetter (1985) highlighted a less structural and more relational understanding of embeddedness stressing that even in market economies (i.e. disembedded market societies in Polanyi's (1944) perspective) social interactions and relationships are still of high importance. Granovetter (1985, 1992) therefore presented embeddedness as "*the contextualization of economic activity in on-going patterns of social relations*" (Dacin et al., 1999: 319). Economic action is thus embedded in structures of social relations and the behaviour of individuals and institutions are constrained by ongoing social relations (Dacin et al., 1999; Granovetter, 1985). Granovetter (1985)

[45] It needs to be noted that some researchers only distinguish between three perspectives on embeddedness and see the institutional embeddedness perspective as partly included in the social embeddedness perspective. Yet the author refrains from that distinction as a depiction of two perspectives gives a clearer distinction between institutional and social embeddedness literature.

derived his approach from analysing that the over-socialised view on generalised morality and the under-socialised view of impersonal, institutional arrangements do not adequately characterise natural human behaviour in an economic or organisational context as humans "*are closely embedded in networks of interpersonal relations*" (Ratajczak-Mrozek, 2017: 90) (Heidenreich, 2012c). Thus, his idea of embeddedness rather circles around a highly relational aspect with elements of interpersonal trust, solidarity and feelings of closeness creating a feeling of embeddedness (Granovetter, 1985, 1992; Hess, 2004). Polanyi (1944) on the other hand, rather highlighted the aspect of structural embeddedness, which can refer to the network structure of a whole network with a focus on the impersonal linkages between people of organisational units. Beckert (2003: 769) combines the structural and the relational notions of embeddedness in his following definition: „*Embeddedness refers to the social, cultural, political, and cognitive structuration of decisions in economic contexts. It points to the indissoluble connection of the actor with his or her social surrounding*". In his definition he points to the mechanisms of social, cultural, political and cognitive structuration through which embeddedness is affecting individuals, organisations and their performances (Beckert, 2003; Zukin & DiMaggio, 1990). These mechanisms are discussed in the upcoming subchapter.

In 2004, Hess introduced an overview of different views on embeddedness based on varying research arenas. In his proposed typology he differentiated between the underlying research arena, the unit of analysis (*who?*), the scope of embeddedness (*in what?*) and the geographical scale. While Polanyi's view on embeddedness focuses on the overall economy as well as on bigger systems of exchange, Granovetter (i.e. new economic sociology) rather highlights individuals and firms embeddedness in social relations. Additionally, other research areas such as economic geography and organisation & business studies put their focus on firms and networks, and their embeddedness within multiple environments with a broad geographical scale. Thereby especially research in the area of organisation and business studies created multiple new and controversially discussed dimensions of embeddedness, such as the embeddedness in technological systems or political systems (Halinen & Toernroos, 1998; Hess, 2004). **Table 3** shows the different approaches.

Table 3: **Who is Embedded in What? Different Views on Embeddedness**

Research arena	Who?	In what?	Geographical scope
Polanyi's Great transformation	'The economy', systems of exchange	'Society', social and cultural structures	No particular scale, but emphasis on nation state
Business systems approach	Firms	Institutional and regulatory frameworks	Nation state, 'home territory'
New economic sociology	Economic behaviour, individuals and firms	Networks of ongoing social (interpersonal) relations	No particular scale
Organisation and business studies	Firms, networks	Time, space, social structures, markets, technological systems, political systems …	No particular scale
Economic geography	Firms	Networks and institutional settings	Local / regional

(source: adapted from Hess, 2004: 173)

With regard to the international business literature, aspects of embeddedness have been studied for some time as well, having firms and networks as the focused units of analysis (Andersson, Forsgren, & Holm, 2001; Dacin et al., 1999; Ferraris, 2014; Meyer et al., 2011). Debating the embeddedness of MNCs, the societal context has been conceptualised in four different ways:

(1) MNCs are conceived as multi-plant and multi-activity organisations;

(2) MNCs are conceived as differentiated networks of autonomous subsidiaries;

(3) MNCs subsidiaries are embedded in external business networks to increase internal relevance;

(4) MNCs are embedded in institutionalised environments that shape organisational policies and beliefs (Heidenreich, 2012c).

Especially the fourth stream of embeddedness research in international business can be regarded as an explicit stream of embeddedness research since institutional environments and embeddedness theory stand in the centre of research (Heidenreich, 2012c; Ratajczak-Mrozek, 2017). Just recently, Halaszovich and Lundan (2016) argued that local embeddedness of internationalising companies into developing countries is highly beneficial up to a certain point. In their research, they find an inverted U-shaped connection between local embeddedness and performance (i.e. when embeddedness increases, performance also increases up to a certain threshold). Thereby confirming the importance of embeddedness during the act of internationalisation as well as the claim by Uzzi (1997) that after a certain threshold of embeddedness the performance of organisations decreases.

5.1.2. Mechanisms of Embeddedness

The most important typology on the mechanisms of embeddedness was introduced by Granovetter (1992). Based on his work from 1985 and the work by Polanyi (1944), he integrated both approaches and established the notion of structural and relational mechanisms of embeddedness. While the structural embeddedness perspective refers to the network structure and focuses on the whole network in which a focal actors' (i.e. an individual or a firm) relationships are connected, the relational mechanisms of embeddedness "*describe the nature and quality of relations between actors*" (Hess, 2004: 170). Key elements of the relational embeddedness are inter-personal trust and solidarity as well as feelings of closeness (Moran, 2005; Uzzi, 1997). Yet more important than his distinction of the two varying mechanisms was his emphasis on their togetherness. As he noted early on that "*economic action and outcomes, like all social action and outcomes, are affected by actors' dyadic relations and by the structure of the overall network of relations*" (Granovetter, 1992: 3), highlighting the complex analysis of embeddedness and its impact on performance via both types of mechanisms; structural and relational.

Besides the typology of structural and relational embeddedness based on Polanyi (1944) and Granovetter (1985, 1992), Zukin and DiMaggio (1990) offer an additional, more fine-grained typology of mechanisms of embeddedness. Their classification of embeddedness serves as a starting point to many authors, as Zukin and DiMaggio (1990) base their typology on structural elements of Polanyi (1944) and Granovetter (1992), but additionally split the relational mechanisms into political, cultural and cognitive mechanisms in order to get a more fine-grained perspective of relevant influencing factors (Moran, 2005; Ratajczak-Mrozek, 2017; Zukin & DiMaggio, 1990). That way the classification becomes more detailed and more useful as it allows for a more comprehensive analysis of varying elements of embeddedness (Hess, 2004).

Thus, the element of structural embeddedness is almost equally defined as by Granovetter (1992), focusing on the social architecture of networks and relationships (Zukin & DiMaggio, 1990). Economic actions do not occur in social voids, but are rather fostered in patterns of economic and social relationships within formal and informal communication structures (Dacin et al., 1999). The next element of Zukin and DiMaggio's (1990) typology is political embeddedness. With regard to organisations, political embeddedness can be analysed from an external as well as from an internal perspective as "*organisational action that does not conform to the economic ideal may be the result of internal, as well as external political factors*" (Dacin et al., 1999: 332). External political embeddedness, which is mostly studied in embeddedness research, highlights the institutional framework of economic action (Dacin et al., 1999; Fligstein, 1996; Jacobson, Lenway, & Ring, 1993). It argues that economic activities are shaped by regulative institutions (e.g. state actors, local politics, the legal system or the tax code) and that ties to political authorities can create opportunities and outcomes (Baum & Oliver, 1992; Dacin et al., 1999; Jacobson et al., 1993; Welch & Wilkinson, 2004). Internal political embeddedness however focuses on relationships and networks within an organisation. Here, an internal fight by managers for power, prestige and status can constrain the organisations efforts to act rationally (Pfeffer, 1981, 1997). Overall, no matter if external or internal, political embeddedness emphasises the struggle and tension for power and influence that economic actors and non-market institutions are surrounded by (Heidenreich, 2012c; Hess, 2004; Ratajczak-Mrozek, 2017). Cultural embeddedness as a third mechanism of embeddedness focuses on values, beliefs and norms of a society, an organisation or even a team. Many times, cultural embeddedness research was only focusing on the effects of national culture on behaviour and thus on embeddedness (Meyer, Boli, & Thomas, 1987; Whittington, 1992), yet more recently the concept of culture has been conceptualised via rules and practices as well as norms and beliefs (Sigfusson & Harris, 2013; Wu & Pullman, 2015). Thus, Ratajczak-Mrozek (2017: 92) defines cultural embeddedness as the "*shared collective understandings, beliefs, values and norms, which limit a person's rational economic behaviour*". As the last element of Zukin and DiMaggio's (1990) typology, they identified cognitive embeddedness as an important mechanism. The research on cognition and embeddedness is based on multiple levels of analysis and focuses on the sources and consequences of cognitive aspects with regard to embeddedness. For Zukin and DiMaggio (1990), their main focus was put on the individual level of cognition stating that cognitive embeddedness is the aspect of "*structured regularities of mental processes"*, that "*limit the exercise of economic reasoning*" (Zukin & DiMaggio, 1990: 15). They base their category on researchers that have identified widely acknowledged decision-making heuristics that show how individuals typically do not behave in a rational manner (Malhotra & Bazerman, 2008; Tversky & Kahneman, 1974). Additionally, multiple biases might rather occur at the organisational level than at the individual level. For instance, Zajac and Bazerman (1991) showed that company representatives show a number of blind spots during industry or competitor analysis. Furthermore they showed that cognitive biases such as the winner's curse, overconfidence or the escalation of commitment effect[46] can have aggravating effects on an organisations behaviour (Malhotra & Bazerman, 2008; Zajac & Bazerman, 1991). Yet another level of analysis is taken by Walsh (1995), moving away from the individual and organisational perspective to a broader perspective focusing on wider social cognitions embodied in category and classification systems that shape managerial as well as organisational action. An example can be the stipulated cognitions often found in macro-cultures (Abrahamson & Fombrun, 1994; Kraatz & Moore, 2002).

Summarising, the three additional elements of embeddedness, besides structural embeddedness, which were established by Zukin and DiMaggio (1990), give a more fine-grained notion of relational aspects of embeddedness. It needs to be noted, that multiple researchers do not see the necessity of creating additional categories for the same phenomenon as they argue that cognitive, political and cultural embeddedness could all be categorised as relational embeddedness (Andersson, Blankenburg-Holm, & Johanson, 2005; Uzzi, 1997). Yet others do exactly cherish this aspect as it gives a clearer notion for more analytical, quantitative and fine-grained studies within the field (Hess, 2004; Moran, 2005).

5.1.3. Outcomes of Embeddedness

Outcomes of embeddedness can be observed at the individual, organisational as well as the institutional level (Heidenreich, 2012c; Ratajczak-Mrozek, 2017). At the individual level, actors can be influenced by cultural, cognitive or structural mechanisms (Ratajczak-Mrozek, 2017; Zukin & DiMaggio, 1990). For the individual, this could lead to more information or better access of other resources. Nevertheless, on the negative side it can also

[46] For a more detailed description of the three mentioned biases please see Malhotra and Bazerman (2008).

lead to false information or the overestimation of cultural dimensions such as norms, beliefs and customs (Ratajczak-Mrozek, 2017). On the organisational level, embeddedness can lead to a better access of valuable resources, knowledge or competencies and capabilities (Ferraris, 2014; Gulati, 1995; Ratajczak-Mrozek, 2017). This in turn can lead a company to significant cost reductions or sales improvements due to higher efficiency or a better customer segmentation and customer understanding. On the contrary, embeddedness in multiple environments might also lead to a significant cost increase due to relationship maintaining activities (Meyer et al., 2011; Ratajczak-Mrozek, 2017). Furthermore, especially with regard to highly integrated and intensive relationships, the potential of lock-coin effects, dependence and even opportunism increases (Halaszovich & Lundan, 2016; Meyer et al., 2011; Uzzi, 1997). Interestingly, embeddedness can also change institutions (Cantwell et al., 2010; Heidenreich, 2012c). When an organisation decides to actively engage in and with the institutional environment it becomes an embedded agent[47], capable of altering the institutional framework (Cantwell et al., 2010; Heidenreich, 2012c; Walsh, 1995). Yet since the institutional environment also influences the organisation, both elements influence each other. Heidenreich (2012c) and others call this phenomenon: co-evolution (Cantwell et al., 2010; Nelson, 1994) .

Besides several well-articulated outcomes of embeddedness (e.g. survival, inter-organisational relations and organisational strategy (Gulati, 1995; Oliver, 1997; Uzzi, 1996)), Dacin et al. (1999) devote their analysis on only two "*important sets of consequences*" (Dacin et al., 1999: 333) or outcomes: *institutions* and *governance & allocation*. With regard to institutions, they highlight that normative contexts affect firm actions and thus can be sources of sustained competitive advantage, as long as these contexts are understood correctly and managed actively by the organisation (Dacin et al., 1999; Oliver, 1997). Additionally, Fligstein (1996) highlights the importance of institutional embeddedness via exemplifying the failure of US-firms to successfully internationalise to China due to a lack of political ties and the willingness to engage in infrastructural projects in the local environments. The second consequence of embeddedness, governance & allocation, is based on a study by Uzzi and Gillespie (1999) in which they find that embeddedness may reduce the need to erect formal governance mechanisms which in turn

[47] For more information see Chapter 5.2.2.3.

sets free previously needed resources and thus can significantly reduce costs. Thus, the embeddedness within a specific environment offers the potential of mitigating the necessity for formal institutions and replacing them with informal institutions created via the embeddedness in the environment. As already described in Chapter 3, this approach is especially visible in developing countries where informal institutions and the informal sector play a critical role in the daily life of the societies.

At last, the overall concept of legitimacy as an important outcome of embeddedness needs to be mentioned. Through the embeddedness of a company in a particular environment, the company can gain legitimacy with various stakeholders (Dacin, Oliver, & Roy, 2007; Ratajczak-Mrozek, 2017). There are multiple types of legitimacy (e.g. relational, market, social, investment or alliance legitimacy) that a company can acquire (Dacin et al., 2007), yet with regard to the embeddedness of a company within an economic and social environment, the aspects of market legitimacy, relational legitimacy and social legitimacy are of most importance. Market legitimacy describes "*the rights and qualifications to conduct business in a particular market*" (Dacin et al., 2007: 173), while relational legitimacy conveys the "*worthiness to be a partner*" (Dacin et al., 2007: 173) and social legitimacy highlights the "*conformity of the firm with societal rule and expectations*" (Dacin et al., 2007: 173). To gain acceptance, especially social legitimacy is of high importance for companies internationalising into developing companies (Boddewyn & Doh, 2011; Doh & Boddewyn, 2014).

5.2. Embeddedness in International Business

As previously mentioned, embeddedness research in international business has become increasingly important over the recent years (Halaszovich & Lundan, 2016; Heidenreich, 2012c; Meyer et al., 2011). Especially in emerging and developing countries the embeddedness in the local contexts and the knowledge thereof remains a key success factor (Ghemawat, 2007; Meyer et al., 2011). Additionally, the attitude of MNCs towards their institutional environments and its ability to act as an institutional change agent have become major conceptualisations of the MNC within the embeddedness literature (Meyer et al., 2011). Based on this knowledge, the following subchapters will focus on relevant views and conceptualisations of embeddedness within the international business literature such as institutional, social, network or territorial embeddedness. Additionally, it will provide a short overview on other concepts from the IB-embeddedness literature in which the MNC is influenced by multiple forces (e.g. dual or multiple embeddedness) or becomes an influencer itself (e.g. embeddedness agency). Interestingly, studies of embeddedness conducted outside the international business sphere tend to concentrate mainly on social embeddedness and thus focus more on the relational aspect of embeddedness. In contrast, within the international business sphere, the focus is mainly placed on network (more specifically inter-organisational network) embeddedness and thus focuses more on structural aspects of embeddedness (Dacin et al., 1999; Heidenreich, 2012a; Ratajczak-Mrozek, 2017).

5.2.1. Four Perspectives of Embeddedness in International Business

There are four major views currently discussed in the embeddedness literature in international business; the institutional embeddedness view; the social embeddedness view, the network embeddedness view and the territorial embeddedness view (Heidenreich, 2012c; Hess, 2004; Ratajczak-Mrozek, 2017). Besides the typology of structural, political, cognitive and cultural embeddedness by Zukin and DiMaggio (1990), these perspectives are seen as the most commonly known and used approaches to differentiate embeddedness. Within these views, the literature stream has identified different types and dimensions of embeddedness which will also be discussed in the upcoming subchapters.

5.2.1.1. Institutional Embeddedness

In international business literature, the phenomenon of institutional embeddedness[48] focuses on different types of macro institutional settings with national institutions being of special importance for MNCs with regard to their embeddedness in the societal context (Heidenreich, 2012b; Heidenreich, 2012c). Three different approaches characterise the differing macro-institutional settings most appropriate for analysis; the social system of production approach (SSP), the varieties of capitalism approach (VoC) and the national business system approach (NBS) (Hall & Soskice, 2001; Hollingsworth & Boyer, 1997; Whitley, 1999). All of them will be shortly described with regard to their overall concept as

[48] Some researchers also tend to called it corporate embeddedness rather than institutional embeddedness (Heidenreich (2012b); Jozsa (2016)).

well as their connection to embeddedness. On a critical note, the notion of institutional embeddedness in this specific regard could also be termed national embeddedness as the specific interest in the following paragraph is entirely based on the macro-institutional setting of nations and production systems. Micro-institutional settings have partially been discussed in the cultural embeddedness dimension in the previous Chapter.

The first perspective, the social system of production approach, assumes that national institutions are essentially relevant for the coordination of economic activities between companies and their stakeholders (e.g. employees, shareholder, customers, politicians, civil society) (Hollingsworth & Boyer, 1997). The emergence and stability of national production models depend on specific institutional deployments which provide customs, taken-for-granted rules, norms and behaviours and are thus required for the stabilisation of the country-specific management and organisational models. National systems can, but not necessarily do, show multiple social systems of production (Heidenreich, 2012c; Hollingsworth & Boyer, 1997). Often discussed examples for national production models are the diversified quality production in Germany or lean production in Japan (Streeck, 1991; Womack, Jones, & Roos, 1990). The most important characteristic of an SSP is the institutional complementarity of the different institutions within the national institutional environment (Boyer, 2005; Hollingsworth & Boyer, 1997). Given the assumption that institutional complementarity, "*a configuration in which the viability of an institutional form is strongly or entirely conditioned by the existence of several other institutional forms, in such a manner that their conjunction offers greater resilience and possibly better performance compared to alternative configurations*" (Boyer, 2005: 67), exists, a strong and stable institutional environment is created, facilitating the embeddedness of MNCs and their coordination activities within the institutional context.

The second perspective, the varieties of capitalism approach (VoC), places the firm and its strategies of managing major coordination problems at the centre of its interest (Hall & Soskice, 2001). The VoC believes in the capabilities of firms to actively reinforce and use the institutional environment. In line with the SSP-approach, the VoC-approach also bases many of its claims on the assumption of institutional complementarity, yet contrary to the SSP approach, it distinguishes only on two basic models of economic coordination: coordinated and liberal market economies (Hall & Soskice, 2001; Heidenreich, 2012c). Both economic models are either characterised by a high or a low degree of coordination between economic actors and core institutions with complex configurations of different, mutually reinforcing institutions (Hall & Soskice, 2001). When comparing liberal market economies to coordinated market economies, these institutions are for instance inter-firm relations (competitive vs. collaborative), modes of production (direct product competition vs. differentiated, niche production), employment conditions (short-term and fluid vs. long-term and immobile), wage bargain (on the firm-level vs. industry-level), unionisation rate (low vs. high) or innovation (radical vs. incremental) (Hall & Soskice, 2001; Hancké, Rhodes, & Thatcher, 2007; Heidenreich, 2012b). With regard to the embedded structures of the national institutional system, one can say that in general coordinated types of market economies are characterised by more embedded forms of production (e.g. Japan and Germany), while liberal market economies can be described as disembedded economies with more arm’s length forms of coordination (e.g. United Kingdom or United States of America) (Heidenreich, 2012b).

As the last of the three perspectives on institutional embeddedness, the approach of national business systems will be discussed. Whitley defines national business systems as “*systems of economic coordination and control*” (Whitley, 1999: 34). Whitley (2000) identifies six different types of business systems mostly varying in three dimensions. The three dimensions are the governance dimension (i.e. ownership control and ownership coordination), the collaborative dimension (i.e. coordination within industrial sectors and production chains) and the employment dimension (i.e. delegation of authority and general relationship between employers and employees). Through the three dimensions as well as additional institutional aspects (e.g. intermediary associations; market regulation; collaborative public training system; unions; low trust in formal institutions) the proposed business systems by Whitley (2000) range from the fragmented business systems to a state-owned business system. In between he also identified the coordinated industrial district, the compartmentalised, the collaborative and the highly coordinated business system (Whitley, 1999, 2000). Contrary to the aforementioned approaches, the NBS-approach also incorporates informal, cultural dimension of labour and labour management (Barmeyer & Krueth, 2012; Heidenreich, 2012b; Rehfeld, 2012). These informal institutions can be an important element within the organisational environment and should not be neglected. Especially with regard to developing countries, where informal institutions are of particular relevance this needs to be taken into account (Doh et al., 2017).

Summarising, the institutional embeddedness of companies with regard to the macro-institutional environment leads to a reduction of uncertainties and offers multiple solutions to organisational coordination problems facilitating management within a particular ecosystem.

5.2.1.2. Social Embeddedness

As previously mentioned, the issue of social embeddedness refers to the inaugural idea of embeddedness, stating that individuals are socially embedded in multiple relationships and environments and these relationships and environments have a significant impact on the behaviour of an individual actor (Granovetter, 1985, 1992; Halinen & Toernroos, 1998; Polanyi, 1944). In the international business literature on social embeddedness however, this perspective has been partially neglected by some researchers (Andersson et al., 2001), as they see social embeddedness as "*the fact that people, companies, and other organisations are embedded in social structures and relationships, which then affect those people, companies and organisations*" (Ratajczak-Mrozek, 2017: 109). Thus, the concept of social embeddedness from an individual actor is transferred to an organisational perspective making the notion of social embeddedness fuzzy in the international business sphere. Yet within the recent years, more and more researchers have come to understand that embeddedness from an organisational or rather inter-organisational perspective adds an additional layer to the analysis of an organisation, or an organisational unit (Figueiredo, 2011; Hagedoorn, 2006; Welch & Wilkinson, 2004). At first the organisation or the organisational unit can be seen as an embedded unit of analysis and additionally individual actors within the organisations are also influenced by embeddedness (Figueiredo, 2011; Forsgren, Holm, & Johanson, 2005). Therefore international business literature has created the additional perspective of network embeddedness, occasionally also called inter-organisational network embeddedness which will be discussed in more detail in the upcoming subchapter (McKague, Zietsma, & Oliver, 2015; Nell & Andersson, 2012; Ratajczak-Mrozek, 2017; Welch & Wilkinson, 2004).

As for social embeddedness in the international business sphere, this treatise defines it closely aligned to Hess' (2004) notion of societal embeddedness as an individual actor considering the societal background of social structures, relationships, values and beliefs as influencing mechanisms on social and economic behaviour (Halinen & Toernroos, 1998; Hess, 2004). This is in-line with regard to recent studies on social embeddedness in the international business literature, which studied the impact of social closeness[49] (Figueiredo, 2011; Uzzi & Lancaster, 2003) as well as the impact of social networks among MNC managers on subsidiary performance (Andersson, Ekman, & Erixon, 2015). All of these studies focused on individual actors' characteristics and their social embeddedness in the analysed environment.

5.2.1.3. Network Embeddedness

Research on network embeddedness[50] has been among the most researched areas in the overall embeddedness literature and especially in international business (Dacin et al., 1999; Ferraris, 2014; Heidenreich, 2012c; Hess, 2004; Kim, Park, & Kang, 2015b; Munjal & Pereira, 2015; Ratajczak-Mrozek, 2017). Based on the assumption "*What is true for individuals is also true for organisations*" (Kadushin, 2012: 69), scholars shifted social research on embeddedness from the individual level to an organisational level focusing on inter-organisational relationships and business networks, their specificities of embeddedness and their impact on organisational behaviour and performance (Ciabuschi, Holm, & Martín, 2014; Ferraris, 2014; Hagedoorn, 2006; Halinen & Toernroos, 1998). Based on this assumption, international business scholars have made use of the extensive field on network views (e.g. the relational view[51] by Dyer and Singh (1998) or the IMP approach[52] by Hakansson and Snehota (1989)) and their network characterisations to draw conclusions on several types of network embeddedness (Ciabuschi et al., 2014; Forsgren et al., 2005; Halinen & Toernroos, 1998).

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[49] Social closeness is an underlying phenomenon that creates familiarity between two or more actors (Uzzi and Lancaster (2003)).

[50] Multiple researchers also call network embeddedness inter-organisational embeddedness (Ratajczak-Mrozek (2017); Parmigiani and Rivera-Santos (2011)). Yet this treatise refrains from this approach and only talks about network embeddedness when refereeing to embeddedness within the business context as important networks can also arise within one corporation.

[51] The relational view describes how firms can gain competitive advantage through collaboration with other firms. Through the creation of relational rents founded via the collaboration with other firms, companies can create exceptional outcomes. For more information see Dyer and Singh (1998).

[52] The IMP-approach assumes that key resources of a firm cannot be controlled by the firm and are rather under direct control of various other firms. Therefore, a firm needs to engage in interactive relationships and networks to gain control of these resources (Baraldi, Brennan, Harrison, Tunisini, and Zolkiewski (2007); Hakansson and Snehota (1989)).

In general, network embeddedness is divided into two perspectives. The first perspective treats network embeddedness as "*companies' relations with, and dependence on, various types of network (...) or wider industrial settings (...) in which such business networks are embedded*" (Ratajczak-Mrozek, 2017: 96). Unfortunately this perspective lacks any differentiating factors of relationships or the term of embeddedness itself, making it a very loose definition and underlining the perception of terminological laxity within the research area (Achcaoucaou, Miravitlles, & León-Darder, 2014; Andersson et al., 2001; Ciabuschi et al., 2014). For instance in their paper on dual embeddedness[53], Ciabuschi et al. (2014: 898) state that "*In line with Granovetter (1985), we adopt a relational understanding of embeddedness, emphasizing that economic behavior is closely embedded in networks of interorganisational relations".* Yet, strictly speaking, this statement is wrong as Granovetter (1985) only writes about the social embeddedness of individuals and does not refer to any kind of inter-organisational or network embeddedness, which again illustrates the issue of terminological laxity. In the end, the above provided definition is merely a synonym of having connected relationships or being part of any kind of larger context within a business context. This issue can be related to the previously discussed problem on social embeddedness in Chapter 5.1.1 that embeddedness, defined in a lax manner, can mean anything and everything.

Thus, the second strand of network embeddedness research is more specific with regard to its definitional clarity and therefore of higher value for this treatise and the scientific community. The conceptualisation focuses on "*the intensity of resource exchange, adaptations, and trust in relationships as well as the resulting interdependence*" between relationships (Ratajczak-Mrozek, 2017: 99). In that regard, Andersson et al. (2001: 1016) define network embeddedness as "*closeness in a relationship, that reflects the intensity of information exchange and the extent to which resources between the parties in the dyad are adapted. The stronger the embeddedness, the more difficult it will be for the counterparts to change to other partners, at least in the short run*". As other authors agree with Andersson et al. (2001) on the proposed characteristics (Hagedoorn, 2006; Nell & Andersson, 2012; Volkoff, Strong, & Elmes, 2007), the second strand of network embeddedness researchers

[53] Dual embeddedness is the extent to which a subsidiary is embedded in both internal networks (within the MNC) and external networks (e.g. suppliers, customers or the environment) (Achcaoucaou, Miravitlles, and León-Darder (2014); Gammelgaard, McDonald, Stephan, Tüselmann, and Dörrenbächer (2012)). It will be discussed in further detail in Chapter 5.2.2.1.

articulates its specificity of embeddedness through well-aligned borders on the continuum of arm's length interactions and long-lasting relationships. One of the mentioned characteristics in this regard is the aspect of adaptation. It is seen as a relevant characteristic to portray network embeddedness as partners which adapt to an organisational behaviour or activity are in general highly interested in a long-lasting and nurturing relationship of interdependence. Due to its clarity on the issue of network embeddedness, the above described definition of network embeddedness by Andersson et al. (2001) will be used though out this treatise.

It needs to be noted that the perspective of network embeddedness is a rather general dimension of embeddedness comprising multiple types of embeddedness, besides the already described social embeddedness aspects explained by Granovetter (1985). They are best described in the well acknowledged typology of six types of embeddedness by Halinen and Toernroos (1998). Halinen and Toernroos (1998) identified temporal, spatial, social, political, market and technological embeddedness as the most important types of embeddedness. Interestingly, research on market and technological embeddedness, which are both types that are concerning the task-specific environment of firms, seem to have gained the most attention in the recent years (Ciabuschi et al., 2014; Hagedoorn, 2006; Livesey, 1999; Volkoff et al., 2007; Wei, 2013).

Temporal embeddedness refers to "*embeddedness in time*" (Ratajczak-Mrozek, 2017: 102) as organisations "*are bound to past, present and future modes of time*" (Halinen & Toernroos, 1998: 195). In other words, a company's history and its historic relations including their experiences can shape current expectations and thus current organisational behaviour (Halinen & Toernroos, 1995).

Spatial embeddedness refers to the importance of geography and space in business networks. Business actors can be locally, regionally, nationally or even internationally embedded in multiple business networks at the same time. Additionally, these differing regional spaces may also influence how individual actors within an organisation may perceive space and hierarchy around them, creating different networks on a cultural level. As this type of embeddedness mainly deals with geographical dispersion, it can also be described as territorial embeddedness (Ratajczak-Mrozek, 2017). An important perspective on embeddedness which will be described in the upcoming subchapter.

Social embeddedness as the third type of the embeddedness typology by Halinen and Toernroos (1998) has already received ample consideration within this treatise[54]. Halinen and Toernroos (1998) see social embeddedness in the business context as business networks that *"are necessarily embedded in various social structures, through individuals working in business. Interaction between individual employees and groups of employees form the channel for business dealings (…)*" (Halinen & Toernroos, 1998: 195). Thus, their definition on social embeddedness is closely aligned to the previously given definition by Hess (2004), which this treatise is following.

The aspect of p*olitical embeddedness* proposed by Halinen and Toernroos (1998) is closely aligned to the political embeddedness dimension given in the typology by Zukin and DiMaggio (1990). Both typologies see political embeddedness as a "*socio-political context and ongoing political processes taking place in this context and affecting network evolution"* (Halinen & Toernroos, 1998: 196) and thus organisational behaviour. Yet, the typology of Halinen and Toernroos (1998) does not explicitly differentiate between internal and external political embeddedness aspects as Zukin and DiMaggio (1990) or Welch and Wilkinson (2004) do. Thus, this treatise follows the previously given definition of political embeddedness as it is more comprehensive.

Market embeddedness describes the phenomenon of being "*embedded in a specific market defined in terms of the products and services offered, the clientele served, the functions performed and the time and territory encompassed by the company's operations*" (Halinen & Toernroos, 1998: 196). Thus, this type of embeddedness clearly focuses on the suppliers, distributors and customers with whom the focal organisation maintains close relationships and is therefore very specific to the task-environment of the focal organisation. An area which has been researched significantly (Ciabuschi et al., 2014; Hagedoorn, 2006; Nell, Ambos, & Schlegelmilch, 2011; Wei, 2013).

Technological embeddedness, the sixth and last type of embeddedness within Halinen and Toernroos' (1998) typology, focuses on the embeddedness of organisations into technological systems and the development of these systems. Over the past decade, companies have entered various technological networks with other industrial companies, as well as research clusters with laboratories, universities or even non-governmental

[54] For more information see Chapters 5.1.1 or 5.2.1.2.

organisations (Halinen & Toernroos, 1998; Livesey, 1999; Rondinelli & London, 2003). A company's embeddedness within these networks can be described as technological embeddedness.

Summarising, one can use a quote from Dacin et al. (1999, p. 318) stating that "*research on organisations and embeddedness draws heavily from concepts and approaches developed to understand the embeddedness of economic activity in wider social structures and is evolving in tandem with this broader tradition.*". In other words, the basis of embeddedness research is found in sociological interpretations of embeddedness and its idea of an overarching influence on individuals, yet research on the network embeddedness has additionally identified a more active role of organisations using aspects of embeddedness for performance gains.

5.2.1.4. Territorial Embeddedness

Territorial embeddedness constitutes another very important type of embeddedness in the international business sphere. It has been researched especially in the realm of economic geography and international business with four outstanding areas of research: location, industry clusters & regional development, national institutions and the multinational corporation (Glückler, 2001; Hess, 2004; Mattes, 2013; Ratajczak-Mrozek, 2017). Hess (2004: 176) defines territorial embeddedness as "*the extent to which an actor is 'anchored' in particular territories or places*". Additionally, territorial embeddedness concerns the relationship of economic activities and spaces or places and underlines the importance of social and cultural foundations for economic processes. The above mentioned "*particular territories*" (Hess, 2004: 176) are conceptualised in four dimensions of embeddedness: global, national, regional and local embeddedness (Halinen & Toernroos, 1998; Heidenreich & Mattes, 2012; Hess, 2004).

The phenomenon of global embeddedness is especially relevant for multinational corporations, as these organisations are typically the ones operating on a global level. Thus, in this regard the embeddedness in global networks and interrelations with supra-national organisations becomes highly relevant and an aspect of competitive advantage (Ratajczak-Mrozek, 2017).

National embeddedness, occasionally also called country embeddedness, is the "*anchoring of the firm's activity in each of the involved country contexts*" (Jørgensen, 2014: 445). The embeddedness can be measured by the type of business partners, the number of connections and the content of those connections (Jørgensen, 2014; Ratajczak-Mrozek, 2017). Additionally, there are multiple institutional, cultural settings that are being studied with regard to the national embeddedness of companies many of which were already described in the sections above.

The dimension of regional embeddedness is the next dimension to be discussed in the realm of territorial embeddedness. First of all, it needs to be mentioned that researchers have different definitions and conceptualisations of the term "*regional*", as some scholars see a "region" as a specific area including multiple countries sharing similar cultural and institutional frameworks (e.g. Arabian countries or Scandinavia), while others rather see it as an area within a particular country based on specific regional regulations or regional customs (e.g. Bavaria in Germany or Silicon Valley in the United States of America) (Asmussen, 2008; Heidenreich & Mattes, 2012; Mattes, 2013). The latter conceptualisation of regional embeddedness will also hold for this treatise as it focuses on more fine-grained differences of environments within focal countries (Heidenreich & Mattes, 2012; Mattes, 2013). When analysing regional embeddedness in detail, Heidenreich and Mattes (2012) identified four different types of embeddedness of MNCs based on two different regional strategies by MNCs (exploitative vs. augmentative) and two different regional policies (broad industrial and targeted industrial policies) of the analysed regions. Both strategies are of high importance for the overall embeddedness strategy of a company during its internationalisation efforts.

Local embeddedness as the last dimension of territorial embeddedness is defined as the "*degree of localization of a companies' inputs, production and sales*" (Halaszovich & Lundan, 2016: 1138). Thus, engaging in local sourcing activities for the product as well as an establishment of local sales activities are examples for local embeddedness activities. Especially for a multinational company, the decision to invest in the local embeddedness of a subsidiary in a task-oriented or non-task oriented environment becomes of increasing importance as purchasing behaviours in developing countries change quickly and social responsibility activities at the local sites become increasingly important (Jamali & Karam, 2018; Jamali & Keshishian, 2009; Rivera-Santos & Rufín, 2010a).

5.2.2. Further Aspects of Embeddedness in International Business

Besides the aforementioned four perspectives on embeddedness, there are more aspects of embeddedness which are discussed in the international business literature, but with a different focus and on a different scale. These aspects are the research on dual embeddedness, multiple embeddedness and embeddedness agency. All phenomena will be discussed in the following.

5.2.2.1. Dual Embeddedness

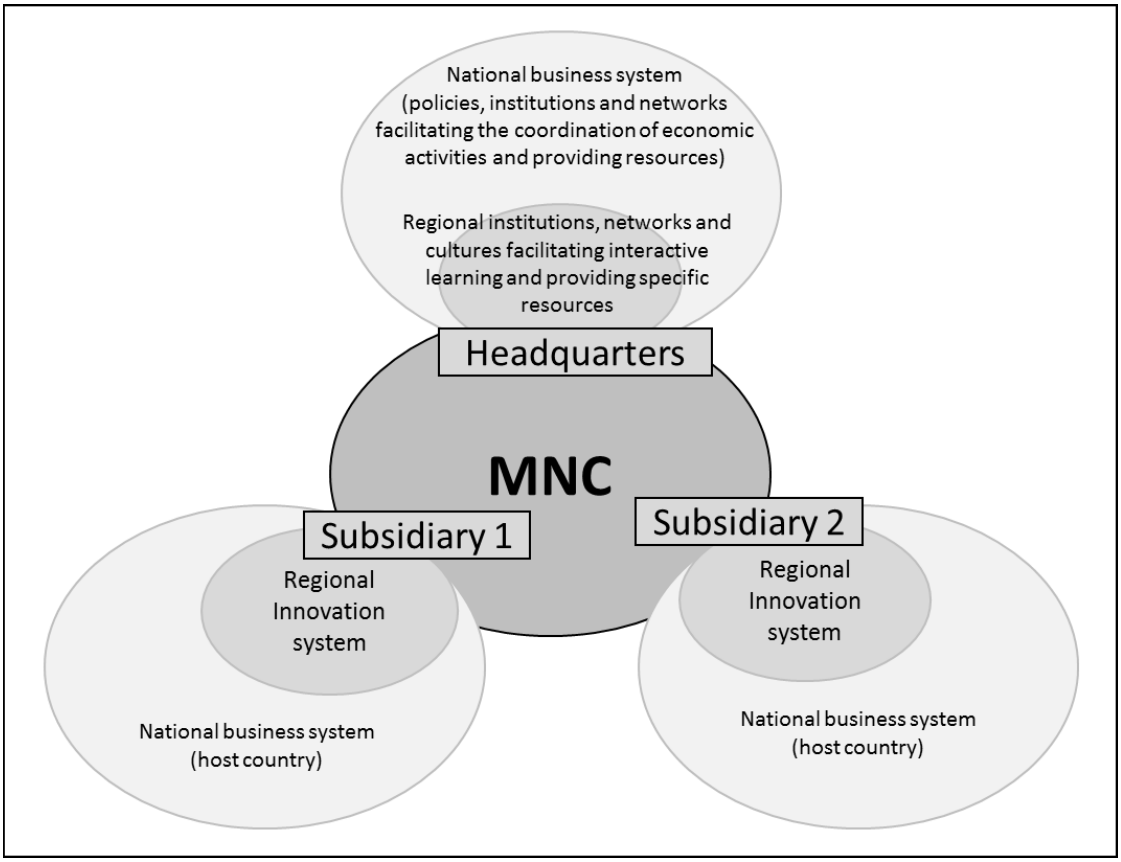
One phenomenon which has received some research attention with regard to embeddedness in international business is the aspect of dual embeddedness[55] of a multi-national company (Andersson et al., 2001; Gammelgaard, McDonald, Stephan, Tüselmann, & Dörrenbächer, 2012). This concept mostly focuses around the challenge of internal and external embeddedness of a MNC (Asmussen, Pedersen, & Dhanaraj, 2009). Internal embeddedness describes the internal networks of a MNC (e.g. between subsidiaries or between the headquarters and a subsidiary). It can be characterised as the corporate level of embeddedness of a subsidiary (Figueiredo, 2011; Ratajczak-Mrozek, 2017). External embeddedness on the other hand is characterised by all external relationships of the subsidiary at the host country level (Achcaoucaou et al., 2014; Ciabuschi et al., 2014; Tavares & Young, 2005). These relationships can be established with customers, suppliers, governmental bodies or other actors within the local environment of the subsidiary (Andersson et al., 2001; Asmussen et al., 2009; Nell et al., 2011). Figueiredo (2011) additionally proposes a similar, yet more complex perspective on dual embeddedness. In his proposed *dual relational embeddedness*, he first differentiates between internal (e.g. parent companies or sister subsidiaries) and external (e.g. universities, consulting firms, suppliers) embeddedness and furthermore acknowledges the intensity of relationships (i.e. arm's length vs. knowledge-intensive) (Figueiredo, 2011).

[55] Occasionally also called simultaneous embeddedness (Almeida and Phene (2004); Gammelgaard et al. (2012)).

5.2.2.2. Multiple Embeddedness

Closely aligned to the phenomenon of dual embeddedness is the phenomenon of multiple embeddedness. Some researchers even use the terms interchangeably, yet it is important to notice that they do differ (Heidenreich, 2012a; Meyer et al., 2011). Even though both types of embeddedness focus around the opportunities and challenges created by being embedded in multiple networks and environments, the concept of multiple embeddedness has a clear focus on the MNC and the multiple environments in which it is embedded in and which need to be managed by the MNC (Ferraris, 2014; Meyer et al., 2011). Dual embeddedness on the other hand only focuses on the relationship between a focal subsidiary and its headquarters or two subsidiaries (Figueiredo, 2011). Therefore, from a MNCs perspective multiple embeddedness can become a great advantage from an organisational viewpoint as due to many subsidiaries, which a MNC typically owns, it gets access to various, oftentimes highly heterogeneous and idiosyncratic networks (Tallman & Chacar, 2011). Through the access to these networks the MNCs can acquire specific knowledge and distribute it easily through the whole organisation. Nonetheless, the aspect of multiple embeddedness can also constrain the MNC as it can easily become chaotic and confusing when an organisation is active in too many networks and relationships which need to be maintained and handle with different attitudes (Ciabuschi et al., 2014; Hagedoorn, 2006). **Figure 19** illustrates how a MNC needs to balance the embeddedness of its different subsidiaries and the headquarters.

Figure 19: **Multinational Companies and the Dilemma Between Multiple Embeddedness and Disembeddedness**



(source: Heidenreich, 2012a: 16)

5.2.2.3. Embeddedness Agency

The last important phenomenon in embeddedness research is the issue of embeddedness agency. Embeddedness agency is describing the explicit and strategic choice of a company to actively engage in its institutional environment and embed in multiple networks with multiple actors (e.g. customer, societal or political). For instance, Kostova, Roth, and Dacin (2008: 1001) conclude that "*MNCs have an important agency role (...), they must make sense of, manipulate, negotiate, and partially construct their institutional environments*". Contrary to Polanyi (1944) and Granovetter's (1985, 1992) views on embeddedness, much of the embeddedness literature in international business portrays the active and change-driven aspects and opportunities of embeddedness itself (Cantwell et al., 2010; Halaszovich & Lundan, 2016; Hancké et al., 2007; Lane, 2007). Thus, embeddedness is not seen as an inactive, taken-for-granted phenomenon of which changes in behaviour or performance occur due to coercive or normative pressures to which MNCs have to submit

(Heidenreich, 2012c; Meyer, 2010). It is rather seen as "*a platform for the unfolding of entrepreneurial activities' by knowledgeable agents"* (Garud, Hardy, & Maguire, 2007: 961). MNCs, being a knowledgeable agent, can selectively and strategically use, manipulate and alter the varying institutional environments in which they embed and which are offered by the heterogeneous playgrounds on which a MNC operates (Garud et al., 2007; Heidenreich, 2012c). This capability becomes especially relevant with regard to the internationalisation into developing countries as institutional environments, business partners and societal perceptions about corporate activities vary greatly within these countries and need to be understood, managed and potentially altered by the MNC (Doh et al., 2017). Thus, the active role of the MNC as an embedded agent becomes crucial for a successful internationalisation into developing countries.

5.3. Towards a Comprehensive Overview of Embeddedness Dimensions in International Business

After discussing the evolution of the research field of embeddedness and highlighting multiple perspectives and dimensions of embeddedness from varying research arenas, it is now time to build a comprehensive overview with regard to embeddedness as a basis for the upcoming Chapters of this treatise. Thereby, **appendix 10** gives a short and structured overview of all dimensions and perspectives of embeddedness that have been discussed in the previous Chapter, while **table 4** focuses on the relevant dimensions for the further analysis in this treatise. A reasoning for the selection of these dimensions of embeddedness is given below.

As previously mentioned, it is important to differentiate between different perspectives and categories of embeddedness in order to comprehend the variety of units of analysis and foci within the multiple research arenas (Dacin et al., 1999; Granovetter, 1985; Heidenreich, 2012a; Hess, 2004; Polanyi, 1944; Ratajczak-Mrozek, 2017). The theory of embeddedness has been widely adapted and multiple dimensions of embeddedness have been proposed within the recent decades. Yet for this treatise not all discussed dimensions and perspectives of embeddedness are of relevance as they serve different foci and sometimes even contradict each other (Hess, 2004; Ratajczak-Mrozek, 2017). Bearing in mind that the overall goal of this treatise is to establish interdependency effects between internationalisation challenges of MNCs, dimensions of embeddedness and certain NGO collaboration partners, the first characteristic that all considered dimensions of embeddedness need to possess is *the perspective of an actively engaging actor within the environment*. The choice of a MNC how and where to collaborate and thus how and where to embed can be described as an actively chosen strategy by the MNC. Therefore, the aspect of an embedded agency perspective needs to be inherent in each dimension of embeddedness that is used for this analysis. Additionally, all relevant dimensions of embeddedness shall not focus on the individual level of analysis as the focus of this treatise is rather put on an organisational and developmental level. Starting from this vantage point, there are six dimensions of embeddedness which are actively pursuable for the MNC; external political embeddedness, cultural embeddedness, institutional embeddedness, network embeddedness with a market focus, network embeddedness with a technology focus and territorial embeddedness.

External political embeddedness highlights the institutional framework of economic action. Economic activities are shaped by regulative institutions (e.g. state actors, local politics, the legal system or the tax code) and ties to political authorities can create opportunities and positive outcomes for firms (Fligstein, 1996; Jacobson et al., 1993; Welch & Wilkinson, 2004; Zukin & DiMaggio, 1990). Especially with regard to developing countries, where institutions can be missing and formal as well as informal ties to political authorities can become very important, this dimension of embeddedness can be of high value (Doh et al., 2017). Cultural embeddedness focuses on the effects of values, beliefs and norms of a society, an organisation or even a team on behaviour and performance (Meyer et al., 1987; Wu & Pullman, 2015; Zukin & DiMaggio, 1990). This dimension of embeddedness can also be analysed at the individual actor level, yet the focus of this treatise is on the necessary cultural embeddedness at an organisational level. Depending on the particular challenge that a MNC faces, cultural embeddedness can be of high value for the internationalising firm and therefore needs to be included in the analysis. Institutional embeddedness as the third dimension highlights macro-institutional settings (e.g. SPP, VoC or NBS) that can influence organisational behaviour. It is an important dimensions as it highlights the overall production systems within a society, which might also differ on a local level within a society and can therefore be actively changed over time.

Network embeddedness with a market focus and network embeddedness with a technology focus are two additional dimensions of embeddedness which can be of relevance when internationalising into developing countries. Network embeddedness with a market focus is the embeddedness in a specific market defined in terms of the products and services offered, the clientele served, the functions performed and the time and territory encompassed by the company's operations (Halinen & Toernroos, 1998; Nell et al., 2011; Wei, 2013). The network embeddedness with a technological focus is the embeddedness of organisations into technological systems and the development of these systems which can be of high relevance within developing countries (Halinen & Toernroos, 1998; Rondinelli & London, 2003). The last dimension of embeddedness that is of relevance for the upcoming analysis in Chapter 9 is territorial embeddedness: the extent to which an actor is anchored in particular territories or places on a local, regional, national or even global level (Hess, 2004; Jørgensen, 2014; Mattes, 2013).

The dimension of social embeddedness in its various perspectives is absent in this overview as it either focuses on individual actors actively choosing their levels of embeddedness (social embeddedness with a societal focus) or it is described as an inherent phenomenon of economic activity and social interaction (social embeddedness with a structural and relational focus). Thus, it has been taken out of the future analysis. Furthermore the broad views on embeddedness proposed by Powell (1996) as well as Beckert (2003) and Zukin and DiMaggio (1990) have also been taken out of the future analysis as both dimensions are too broad in their conceptualisations. Yet parts of the typology of Zukin and DiMaggio (1990), specifically external political embeddedness and cultural embeddedness, have been included in the analysis. The geographical view on embeddedness as well as the local embeddedness dimension as a sole dimension have both been excluded from the analysis as both dimensions can partially be subsumed in the dimension of territorial embeddedness. Other dimensions that have been excluded from analysis are political embeddedness as the category is too broad and internal political embeddedness as it focuses on the embeddedness of individual actors. With regard to the political embeddedness dimension the aspect of external political embeddedness has been included into the analysis as elaborated above. Cognitive embeddedness, a dimension at the individual level which argues that mental processes within individuals limit the capacity to exert rational behaviour, is also excluded from the analysis as its focus lies strictly on the individual perspective. At last, the category of network embeddedness consisting of multiple dimensions of embeddedness will be discussed. Network embeddedness with a political focus has partially been discussed above and is represented in the analysis overview more specifically via the dimension of external political embeddedness. The spatial (geographical) focus of network embeddedness is represented in the territorial embeddedness dimensions and the temporal focus of network embeddedness is neglected in the future analysis. Network embeddedness with a temporal focus highlights the aspects of embeddedness in time and focuses on the historic relations of a company. Thus, this dimension is actively controllable for the internationalising company and can therefore be neglected in future analysis. As a reminder, **table 4** highlights the relevant dimensions for future analysis within this treatise.

Table 4: **Dimensions of Embeddedness**

Dimension of embeddedness	Description of embeddedness dimension	Sources
political embeddedness (external)	highlights the institutional framework of economic action. Economic activities are shaped by regulative institutions (e.g. state actors, local politics, the legal system or the tax code) and ties to political authorities can create opportunities	Fligstein, 1996; Jacobson, Lenway, & Ring, 1993; Welch & Wilkinson, 2004
cultural embeddedness	Focuses on the effects of values, beliefs and norms of a society, an organization or even a team on behaviour.	Meyer, Boli, & Thomas, 1987; Wu & Pullman, 2015; Whittington, 1992; Zukin & DiMaggio, 1990
institutional embeddedness	macro-institutional settings (e.g. SPP, VoC or NBS) influencing organizational behavior	Hall & Soskice, 2001; Heidenreich, 2012b; Whitley, 1999
network embeddedness (market focus)	embedded in a specific market defined in terms of the products and services offered, the clientele served, the functions performed and the time and territory encompassed by the company's operations	Halinen & Toernroos, 1998; Nell, Ambos, & Schlegelmilch, 2011; Wei, 2013
network embeddedness (technology focus)	the embeddedness of organizations into technological systems and the development of these systems	Halinen & Toernroos, 1998; Rondinelli & London, 2003
territorial embeddedness	the extent to which an actor is ‘anchored’ in particular territories or places	Hess, 2004; Jørgensen, 2014; Mattes, 2013;

(source: own representation)

6. Non-market Strategies in the International Business Literature

Besides the aspects of market strategies, which were discussed as the main topic of international business early in the development of the research area (Aharoni & Brock, 2010; Ekeledo & Sivakumar, 2004; Hymer, 1976; Johanson & Vahlne, 1977), non-market strategies as a research area of multiple sector interactions have mostly become relevant within the three recent decades (Baron, 1995; Boddewyn, 2016; Doh et al., 2015; Doh, Lawton, & Rajwani, 2012; Mellahi et al., 2015). Non-market strategies refer to a firm's specific actions to improve its performance by managing the institutional or societal context of economies, the non-market environment (Mellahi et al., 2015: 144). Doh and Lucea (2013: 172) based on Baron (1995) define the non-market environment as "*(the) set of forces [that] are manifested outside of markets but often work in conjunction with them [and] consists of the social, political, and legal arrangements that structure interactions among companies and their public"*. The phenomenon is studied through a variety of lenses and perspectives such as economics, management theory and sociology (Boddewyn, 2016; Hillman, Keim, & Schuler, 2004; Seitanidi, 2010; Villa et al., 2015). From a management perspective, there are two strategic approaches available for a company to interact and influence the non-market environment; corporate political activity and strategic corporate social responsibility (Mellahi et al., 2015; Rajwani & Liedong, 2015).

While corporate political activity (CPA) focuses on firms, their ability and necessity to collaborate and influence political institutions as well as political actors, strategic corporate social responsibility (CSR) refers to strategic actions of a company to enhance the societal environment regardless of a company's primary motive (Hillman et al., 2004; McWilliams & Siegel, 2001; Mellahi et al., 2015). Until today the strategic approaches of businesses to interact with the non-market environment are conversely discussed, yet interestingly a recently conducted review by Mellahi et al. (2015) found out that almost two thirds of their 214 analysed papers show a significantly positive relationship between non-market strategies (including CPA and CSR) and the organisational performance of a company. This finding further illustrates the importance of the non-market environment for business research.

To fully understand the two evolving streams of research in more detail, the three-sector model, conceptualising the three important actors in the institutional environment will be described in the following Chapter. Afterwards, aspects of corporate political activity and strategic corporate social responsibility will be explained in further detail.

6.1. The Three-Sector Model

In the early days of international business research, most researchers focused, if at all, on the relationship between the government and the business sector (Boddewyn, 2016; Luo, 2001; Poynter, 1982). Yet with the rise of the globalisation, a growing number of MNCs, a rising number of complex and globally connected value chains and internationally operating NGOs, the societal sector became more and more important (Austin, 2000; Seitanidi & Crane, 2009; Selsky & Parker, 2005). Thus, the tri-sectoral model is currently the predominant societal model to conceptualise societies (Boddewyn, 2016; Seitanidi, 2010). It differentiates between the public sector which focuses on the welfare provision for the citizens, the profit sector that undertakes a profitable production, distribution and sale of goods and services, and the non-profit sector[56] which represents the interests of diverse societal groups and guarantees civil liberties (Seitanidi, 2010). **Figure 20** illustrates the three different sectors and highlights different types of partnerships[57] within the intersections of each sector. These cross-sector partnerships are either bi-lateral partnerships between two sectors, i.e. public-NPO partnerships, NPO-business partnerships or public-private partnerships or tri-partite partnerships between all three sectors making it more complex to manage (Crane & Seitanidi, 2014; Seitanidi, 2010). Especially with regard to developing countries, NPO - BUS partnerships become more and more relevant as the state often cannot fulfil its duties and NGOs and businesses have repeatedly started to fill that void created by the absence of the state (Doh et al., 2017; Lawton et al., 2013; Rajwani & Liedong, 2015).[58]

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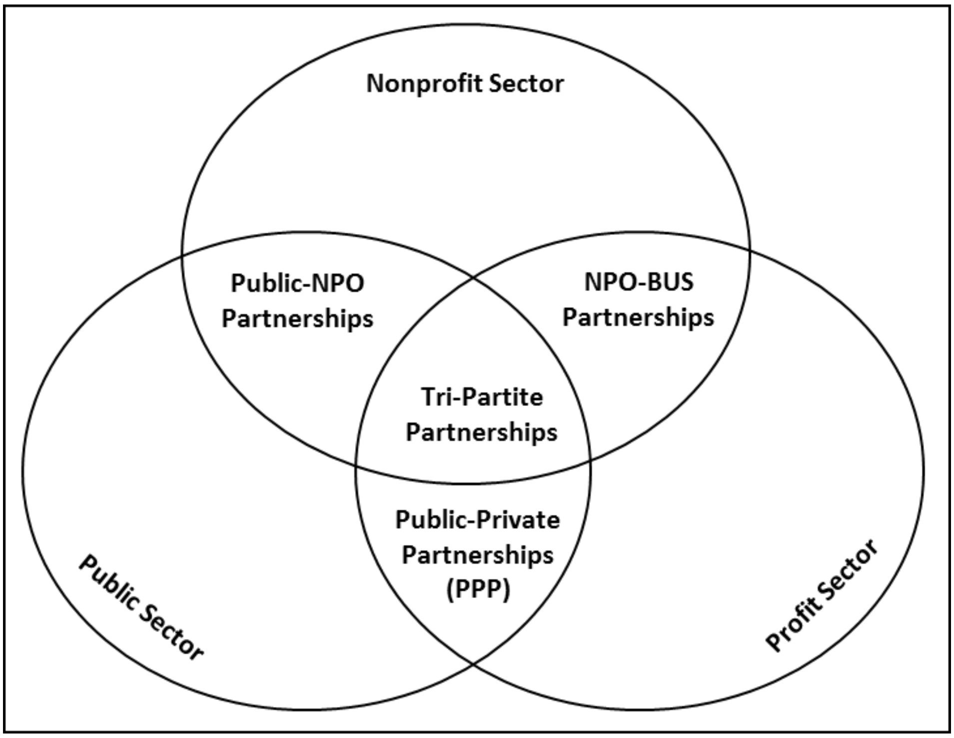
[56] In this treatise the non-profit sector is called non-governmental sector as done by multiple researchers (den Hond (2010); Jamali and Keshishian (2009); Lucea (2010)). Yet as the main source for this Chapter calls it the non-profit sector, I have stuck to this term for the explanation within this Chapter in order to correctly cite the main source of this Chapter (Seitanidi (2010); Seitanidi and Crane (2014)). Yet for further analysis, the term non-governmental sector will be used.

[57] The different partnerships will be described in more detail in chapter 7.

[58] The aspect of cross-sector partnerships on the level of NPO-BUS partnerships will be addressed in further detail in Chapter 7.

Figure 20: **The Sectors of Society and the Different Types of Partnerships**



(source: Seitanidi, 2010: 2)

Besides this simplified view, it needs to be noted that not every research field is adapting this tri-sectoral view for their research. As researchers from the area of international relations and development studies are continuously debating whether the public sector, mostly called civil sector within these fields, forms a third sector or rather a system with a variety of different stakeholders (Mitlin, Hickey, & Bebbington, 2007; Nerfin, 1987). Additionally they seem to see the relationship and its complexities between the three sectors as more complex and more difficult to conceptualise than via this simplified chart, shown in **Figure 20**. Nevertheless, for the purposes of this treatise, the simplified illustration is adequate as the tri-sectoral model is mostly used for illustrative purposes regarding the alignment of cross-sectoral partnerships that will be further explained in chapter 7. Furthermore it needs to be noted that within the field of international business as well as within critical management studies[59] the notion of the tri-sectoral model is frequently adapted (Babiak & Thibault, 2007; Boddewyn, 2016; Le Ber & Branzei, 2010; Salamon, 2010; Seitanidi, 2010; Selsky & Parker, 2005).

[59] Critical management studies (CMS) is a grouping of theoretically informed critiques of management, business and organisation (Alvesson and Willmott (1992, 2003)). It combines a great array of perspectives that is critical to existing theories of management.

6.2. Corporate Political Activity (CPA)

In the next Chapter I will briefly characterise the development of the research field on corporate political activity and its performance implications for organisations. Furthermore the pre-dominant perspectives of CPA will be explained, before different types of CPA are discussed in the final subchapter.

6.2.1. Development and Importance of CPA

As previously mentioned, CPA focuses on firms and their ability and necessity to collaborate and influence political institutions as well as political actors for an increased overall organisational performance (Hillman et al., 2004). Thus, the literature of CPA in international business focuses on the relationship between firms (oftentimes multinational companies) and governments (Hillman et al., 2004). This bi-lateral relationship has undergone some extensive transformations from confrontation, to accommodation and competition over the course of the past 70 years (Boddewyn, 2016; Griffin, Fleisher, Brenner, & Boddewyn, 2001; Kindleberger, 1969; Valente & Crane, 2010). In between 1945-1979, the relationship between MNCs and host governments was of a confrontational manner. Many sovereign states were just recently created and relationships with MNCs needed to be established yet. During that time, MNCs often faced political instability, new ownership laws reducing their ownership rights, complete expropriation and restraints on trade and payments. At that time, bi-lateral or multi-lateral trade agreements between governments still needed to be negotiated (Boddewyn, 2016). The next era from 1980-2000 became known as the accommodation era, or "*the golden age of IBGR* [international business-government relations] *research*" (Boddewyn, 2016: 14) as the field became acknowledged as a major field of study. Baron (1995) first introduced the term *nonmarket* when addressing issues between MNCs and governments as well as the aspect of civil society. Additionally governments were also seen as a factor of production through their expanding state-owned enterprises (SOE) and the need for MNCs to overtake governmental functions in developing countries in order to fill institutional voids was first addressed as well (Griffin et al., 2001; Khanna & Palepu, 1997; Rajwani & Liedong, 2015). Boddewyn (1988) goes as far as introducing a fourth generic strategy for multinational companies besides the three generic strategies (differentiation, cost advantage and niche) proposed by Porter (1980); political strategy. For him, the capability of a MNC to actively engage and influence the political environment and thus gain competitive advantage was as important as the three generic market strategies proposed by Porter (Boddewyn, 1988). The third era of IBGR research with CPA as the main focus from a MNC perspective is the era of competition. Over 100,000 MNCs worldwide controlling more than one million subsidiaries in a growing number of countries and ever increasing emerging market MNCs have supported the globalisation as well as global competition (Knight, 2014; Tian, Hafsi, & Wu, 2009). Additionally, many governments operate large state-owned enterprises which compete with other MNCs on a direct level, yet with a closer political relationship to host governments, making operations more difficult for privately owned MNCs (Boddewyn, 2016; Dieleman & Boddewyn, 2011) .

With regard to performance implications of CPA for MNCs, researchers show a positive relationship between CPA and company performance (Faccio, Masulis, & McConnell, 2006; Lu, 2011; Rajwani & Liedong, 2015; Witko, 2011). Nevertheless, a recently conducted review by Rajwani and Liedong (2015) also shows negative relationships (e.g. with regard to small donations for political actors) and highlight a fragmented literature until today (Rajwani & Liedong, 2015). The outcome of CPA has mostly been measured with outcome constructs such as access to finance (e.g. leverage and interest rates), trade expansion, operating performance (e.g. ROA, ROE, ROI or acquisition premium) or policy and quasi policy performance (e.g. government contracts, government bailout or anti-dumping proceeds) (Faccio et al., 2006; Lu, 2011; Rajwani & Liedong, 2015; Witko, 2011). Yet, firms also hope to reduce their environmental uncertainty, their overall transaction costs and thus increase their long-term sustainability (Hillman & Hitt, 1999). Interestingly, when focusing on a country context, Rajwani and Liedong (2015: 273) found in their recent literature review that "*CPA is more valuable in emerging countries and that relational CPA strategies are more common in emerging (versus developed) countries where social capital underlies political and economic exchange"*

6.2.2. Pre-Dominant Perspectives in CPA

The research on corporate political activity can mainly be clustered into three pre-dominant perspectives; resources and capabilities, institutions, and the political environment.

In the first perspective, resources and capabilities, the resource-based view (RBV) and organisational capability have been adapted and aligned to the aspect of CPA and serve as the main theoretical underlining for argumentation (Barney, 1991; Hillman et al., 2004; Teece, 2010). With regard to political resources and capabilities, Attarca (cited in Lawton et al. (2013)) differentiates as follows: While political capabilities are mainly of a technical-economic expertise in lobbying with the government, political resources are split in organisational resources (i.e. amount of full time equivalents (FTE) working on regulatory aspects), relational resources (i.e. formal relationships with political actors or information trade), the public image (i.e. perception of other stakeholders), reputational resources and financial resources (i.e. financing of political campaigns or events and conferences). Additionally, resources can vary in size and focus. Therefore, multiple research papers have furthermore differentiated in company size (small vs. big), corporate strategy (niche vs. international) or the institutional environment (close working relationship with state officials vs. far away). Especially the aspect of company size seems to be a significant factor to differentiate efforts of corporate political activity as larger firms employ multiple resources to individual lobbying, while smaller actors often have to rely on collective actions via unions and other associations (Hillman et al., 2004; Lawton et al., 2013). Furthermore, the literature highlights that two distinct non-market policy contexts are of primary importance to political capabilities and resources: endogenous (i.e. predictable) and exogenous (i.e. unpredictable) (Lawton et al., 2013). Firms can adapt their political resources and capabilities in an endogenous non-market policy context fairly easy, as they can expect to be confronted with certain policy decisions and actions within the non-market political system. Yet within an exogenous non-market policy context, particular changes can come as a shock and adaptation to the new non-market political systems might be very hard (Capron & Chatain, 2008; Frynas, Mellahi, & Pigman, 2006).

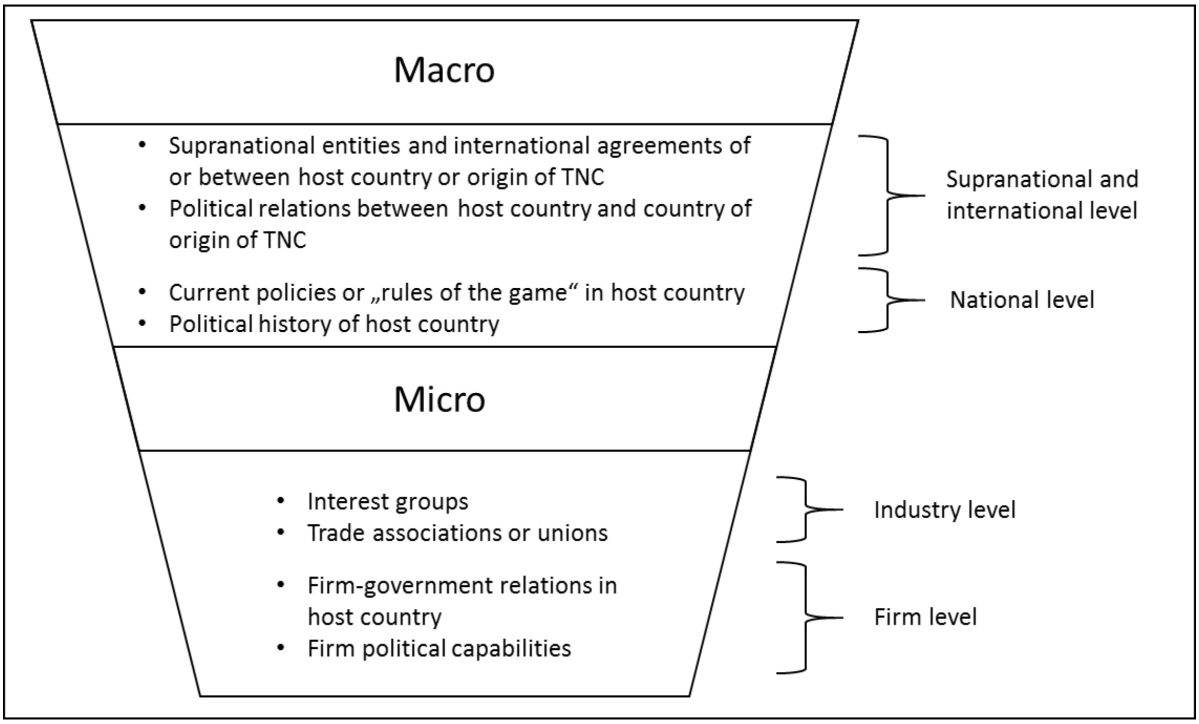
The second pre-dominant perspective on corporate political activity is the institutional focus. Institutional theory can contribute in two ways to the research field of CPA. On the one hand it can describe how varying political, economic and social arrangements can affect the firm-government relation (Lawton et al., 2013). On the other hand, paired with research on the RBV, it can give insights on how a firm needs to adapt its strategies and relationships in a changing non-market environment. For instance, with the absence of a strong institutional setting (often encountered in developing or emerging markets), firms tend to create an informal network and rely on close personal relationships to government officials (Dieleman & Sachs, 2008; Khatri, Tsang, & Begley, 2006; Peng, 2003).

The third and last pre-dominant perspective on corporate political activity is the perspective of the political environment, specifically regulation, political risk and the effect of the type of political system on the internationalising firm (Brink, 2004; Henisz, 2000; Lawton et al., 2013). Especially the aspect of political risk with regard to the institutional processes of a particular political system can impose a big risk on the operations of companies. Even though usually developing countries tend to be the high-risk countries, depending on the political system also developed countries can encounter some rapid institutional changes in the political environment (Lawton et al., 2013; Lawton & Rajwani, 2015). As Lawton et al. (2013: 95) put it: *"The greater the scope for one actor to implement policy – for example, through the creation of a majority government in parliamentary systems – the greater the risk to firms of dramatic and potentially adverse policy change."*. Thus, some drastic changes to the political landscape can also happen in emerging or developed countries as it can be seen in France[60] and Brazil[61] at the moment. When considering the political environment on a conceptual level, Villa et al. (2015) differentiate between the micro and macro view of the political environment. These two views are clustered further on an international, national (macro-view) as well as an industry and firm level (micro-view). While the international level mainly consists of interrelationships between governments and supranational entities (i.e. the WTO or the IMF), the national level

[60] The election of Mr. Macron and his new movement „En Marche“ as the new president and the ruling party of France came sudden and entailed many changes in the political and institutional framework for France making it more liberal.
[61] With regard to Brazil the aspect of sudden change is similar, yet changes by the new president, Mr. Bolsonaro, are substantially more right wing.

includes the political history of the host country as well as its current policies. In the micro view, firms have to deal with interest groups and unions on the industry level as well as firm-government relations on the firm level. Additionally, Villa et al. (2015) also included the firms political capabilities as an aspect of the micro-view of the political environment. **Figure 21** highlights the different levels of the political environment and gives a graphical overview. Besides the levels of the political environment, the conceptualisation by Villa et al. (2015) also highlights the difficulties of the three pre-dominant perspectives of CPA-research as the perspectives are greatly intertwined, especially with regard to the second (institutions) and third perspective (political environment).

Figure 21: **Multi-Levels of Analysis of the Political Environment**



(source: Villa, Rajwani, & Lawton, 2015: 426)

6.2.3. Types of CPA

Corporate political activities *"are corporate attempts to manage political institutions and/or influence political actors in ways favorable to the firm"* (Mellahi et al., 2015: 144). These "attempts" mentioned by Mellahi et al. (2015) are the different types and strategies of CPA by the firm. This literature has grown constantly in alignment with the overall literature on CPA (Boddewyn, 2016; Boddewyn & Brewer, 1994; Boisot, 1986; Frynas et al., 2006; Sun, Mellahi, & Wright, 2012). Yet the most important classification of different types of CPA remains the seminal work of Boddewyn and Brewer (1994). In their work, the researchers differentiate between bargaining and non-bargaining political behaviour. While bargaining political behaviour consists of two strategic alternatives (e.g. conflict and partnership), non-bargaining political behaviour subsumes three strategic approaches; comply, avoid or circumvent.

In the bargaining sub-dimension of political behaviour firms can choose between a conflictual approach and a partnership approach. In the conflictual context, firms bargain with governments trying to mitigate or prevent governmental gains at the expense of the firm (Boddewyn & Brewer, 1994; Sun et al., 2012). Yet in a partnership setting between firms and governments, the perspective is shifted from a transactional view to a long-term relationship building perspective. Through this type of *collaborative governance* as Boisot (1986) calls it, companies hope to shape the institutional environment of the host country to a more favourable setting for the firm. With regard to the non-bargaining political behaviour, firms may choose to comply with the proposed standards and rules of the government. Thus, passively acknowledging their situation and the rules they have to obey. Furthermore they can also choose to avoid pressures from the government and consequently decide to leave or not enter into the particular host country. Additionally, they may also try to circumvent certain operating procedures proposed by the host government. This strategy can be very risky and bears high legitimacy costs if the company gets caught in their wrong doing as a circumvention strategy oftentimes includes illegal activities (Stephens, Boddewyn, & Sproul, 1991).

Besides these core strategies, Rugman and Verbeke (1993) introduced the term of *shelter strategies* in which a company does not build any firm-specific advantages to reach economic performance, but rather focuses on non-efficiency-based measures such as political behaviour to create government-imposed barriers against rivals. Deng, Tian, and

Abrar (2010) support the overall distinction given by Boddewyn and Brewer (1994), but add a so-called *prolocutor strategy* and stress the importance of lobbying strategies in their research with China being their focused context.

As this research stream on corporate political activity has already evolved significantly over the past couple of years, and potentially illegal strategies such as the circumvention strategy are not in the focus of this treatise since corruption as an overall topic has been excluded from the analysis, I will not focus on the aspects of corporate political activity. Nevertheless, this subchapter serves an important purpose as it delineates the various levels of political actions and relationship building possibilities for MNCs as well. Yet, with regard to this treatise, when talking about the non-market environment, the focus is placed on the aspect of corporate social responsibility and non-governmental organisations and their influence potential on several organisations, such as governments and firms.

6.3. Corporate Social Responsibility

The following subchapter will highlight in short the evolution of the corporate social responsibility (CSR) construct. Therefore, it will address the development of the term CSR and its relevance to the scientific literature at first. Afterwards, the two most important conceptual models for understanding CSR as well as three different levels of analysis in which CSR aspects are studied until today are introduced. To finalize, different types of CSR-strategies will be explained.

6.3.1. Development and Relevance of CSR

Scholars have started to study social issues of firms for almost one century (Berle, 1931; Bowen, 1953; Davis, 1960; Dodd, 1932; Frederick, 1960). However, the aspect and terminology of corporate social responsibility was only introduced in the 1970s and it was only until recently that it became a widespread phenomenon in scientific research (Ackerman, 1973; Aguinis & Glavas, 2012; Carroll & Shabana, 2010; Frederick, 1978; Matten & Moon, 2008; Murray, 1976). As Carroll and Shabana (2010: 86) state: "*Over the decades, the concept of corporate social responsibility (CSR) has continued to grow in importance and significance. It has been the subject of considerable debate, commentary, theory building and research*". From a conceptual viewpoint, especially the 1970s were of great importance as scholars not only introduced the term corporate social responsibility, but also corporate social responsiveness[62] and corporate social performance[63] (Carroll, 2008; Carroll & Shabana, 2010). Since the inception of the term, CSR, a controversial discussion is taking place in the scientific community about its definition and multiple definitional aspects (Carroll & Shabana, 2010; Dahlsrud, 2008). Even Dahlsrud (2008: 1), who analysed 37 different definitional approaches, states that "*definitional confusion surrounding CSR might potentially be a significant problem.*" One possible notion within the multiple definitional approaches with a very broad perspective is introduced by Kolk (2016: 24) as she states that some "*perceive CSR to consist of activities to advance a social cause beyond compliance*" and others *"do not focus so much on the voluntary nature beyond the law but rather, more broadly, as managing a firm in such a way that it can be economically profitable, law abiding, ethical and socially supportive".* For this treatise, I will follow the definition given by Aguinis (2011: 855) in which CSR is a concept of *"context-specific organisational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance".* This definition has been adopted by multiple scholars and neatly addresses the importance of context, stakeholders and the triple bottom line as the most important aspects of CSR and management (Aguinis & Glavas, 2012; Rupp, 2011). While the last sentence of the quote by Kolk (2016) focuses on the CSR-pyramid provided by Carroll (1991), the given definition by Aguinis (2011) highlights the triple bottom line as a core conceptual model. Since both approaches, the CSR-pyramid as well as the triple bottom line, are of great importance to the field of CSR, they will be explained in more detail in the following subchapter.

Besides the problematic aspects of finding and agreeing on a unified definition for the overall concept of CSR, another aspect has made discussions on CSR a controversial issue: the inclusion of MNCs as a focal firm (Campbell, Eden, & Miller, 2012; Kolk & van Tulder, 2010; Rodriguez, Siegel, Hillman, & Eden, 2006). Because of the inclusion of MNCs

[62] Corporate social responsiveness "*refers to how business organisations and their agents actively interact with and manage their environments" (Swanson (2012)). It focuses on bridging processes by which the firm connects itself to stakeholders and information and it can be triggered by public expectations (Swanson (2012); Wood (2010).*

[63] Corporate Social Performance "*is a set of descriptive categorisations of business activity, focusing on the impacts and outcomes for society, stakeholders and the firm itself. Types of relevant outcomes are determined by the firm's linkages, both general and specific, as defined by the structural principles of corporate social responsibility" (Wood (2010: 50).*

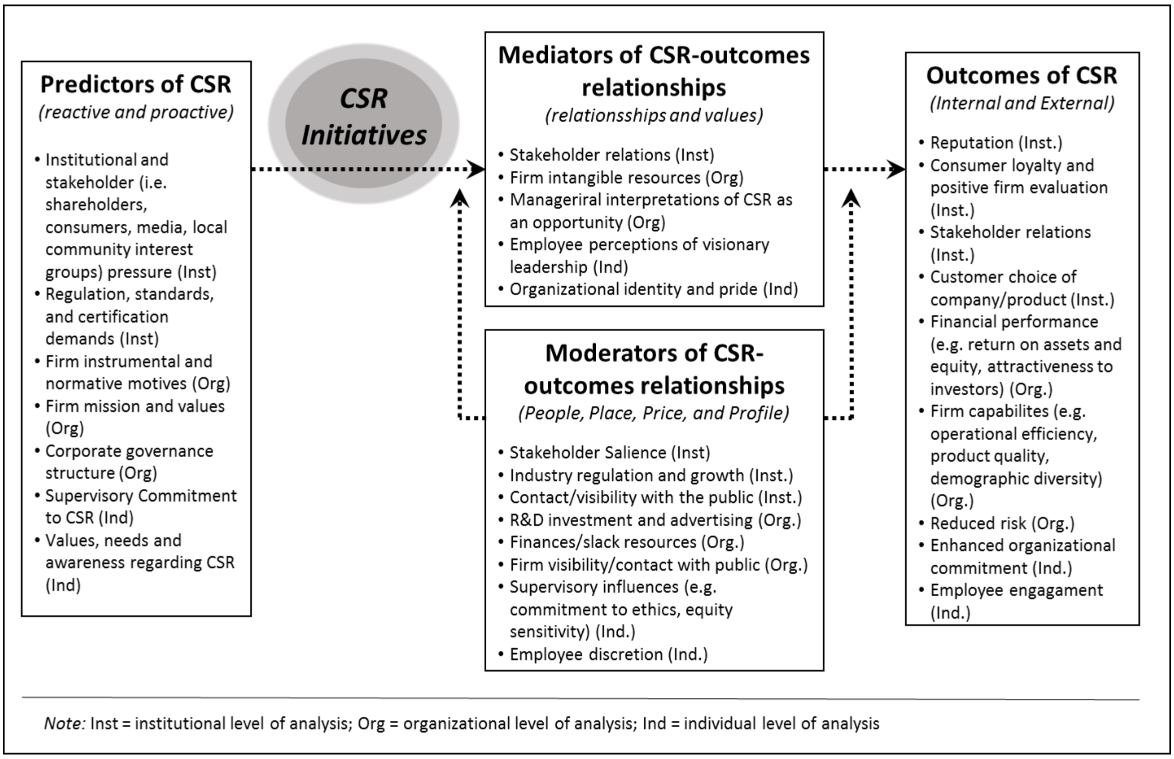
into the research field, CSR has advanced into a global phenomenon with MNCs operating in multiple and very different institutional setting and cultures. Therefore, understandings of what is socially correct and law abiding may vary greatly and makes a unified definition for CSR even harder (Dahlsrud, 2008; Hah & Freeman, 2014; Irlenbusch & Saxler, 2019; Rodriguez et al., 2006). Yet, both disciplines agree that the development of research on CSR and MNC is still at a very early stage, especially with regard to potential collaboration partners for MNC during their CSR activities as well as corporate social performance aspects of their activities (Doh et al., 2017; Hah & Freeman, 2014; Rodriguez et al., 2006). By now, it can already be noticed that MNCs are pursuing a more strategic approach to CSR activities, hence the term *strategic* corporate social responsibility is also used more often, as some activities affect the core business of the firm, its growth and profitability. For some, CSR might even become a source of competitive advantage in the long-term (Hart, 1995; Kolk & van Tulder, 2010; Mellahi et al., 2015; Porter & Kramer, 2006).

In a review, Aguinis and Glavas (2012) nicely illustrate the state-of-the art literature on research of CSR, focusing on predictors, mediators, moderators and the outcomes of CSR. Especially with regard to the outcomes, their paper highlights multiple aspects that are influenced by a companies' CSR activities. Grouped into the three perspectives of institutional, organisational and individual aspects[64], Aguinis and Glavas (2012) find out that on an institutional level, most of the outcomes can be seen in an increased reputation, better stakeholder relations and a higher consumer loyalty. On an organisational level, financial performance (e.g. return on assets and attractiveness to investors) as well as increased firm capabilities (e.g. operational efficiency and demographic diversity) are introduced as major outcomes of CSR activities, while on an individual level the organisational identification, the organisational citizenship behaviour and the attractiveness to potential employees is increased. **Figure 22** highlights Aguinis and Glavas (2012) research findings again in one framework. Discussing the outcomes of CSR activities has been an ongoing debate in the scientific literature for almost 30 years (Aguinis & Glavas, 2012; Carroll, 2008; Hart, 1995; Irlenbusch & Saxler, 2019; Margolis & Walsh, 2001; McWilliams & Siegel, 2000; Orlitzky, Schmidt, & Rynes, 2003; Russo & Fouts, 1997). Especially the relationship between CSR and corporate financial performance (CFP) has been in the focus and the results are often

[64] All three perspectives will be explained in more detail in Chapter 6.3.2.3.

ambiguous (Hillman & Keim, 2001; Margolis & Walsh, 2001; McWilliams & Siegel, 2000). While few scholars disagree on a fundamental level and highlight a negative relationship between CSR and CSP (Andriof & Waddock, 2002; López, Garcia, & Rodriguez, 2007), most researchers refer to a positive relationship (Grewatsch & Kleindienst, 2017; Hart, 1995; Orlitzky et al., 2003; Russo & Fouts, 1997). They highlight the fact that the success of a CSR activity undertaken by a company is often influenced by multiple context factors such as the type of CSR-strategy, the collaboration partner or the firm size (Grewatsch & Kleindienst, 2017). Within the recent years multiple publications of meta-studies have shown a significantly positive relationship between CSR and CFP, which underlines the overall positive effect for companies engaging in social activities (Aguinis & Glavas, 2012; Grewatsch & Kleindienst, 2017; Margolis & Walsh, 2001; Orlitzky et al., 2003; Wood, 2010).

Figure 22: **Multilevel and Multidisciplinary Model of Corporate Social Responsibility (CSR): Predictors, Outcomes, Mediators, and Moderators**



(source: Aguinis & Glavas, 2012: 952)

6.3.2. Conceptual Models and Levels of CSR

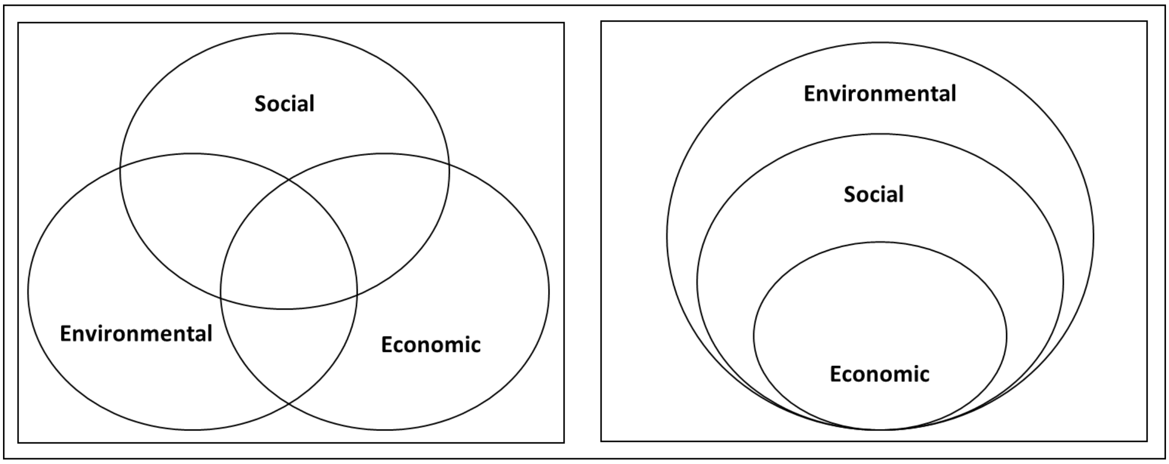
In the following, the basic constructs of CSR, the triple bottom line by Elkington (1997) as well as the CSR-pyramid by Carroll (1979, 1991) will be delineated as they serve as the basis for sustainable business and the explanation of sustainable activities undertaken by firms. Additionally, the three different levels of CSR on which CSR activities can be analysed will be explained.

6.3.2.1. The Triple Bottom Line

As it was already stated earlier in the definition of CSR by Aguinis (2011: 855) in which CSR is a concept of *"context-specific organisational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance",* the triple bottom line (TBL) can be viewed as the basis of many sustainability constructs (Elkington, 1997; Spreckley, 1981). Besides the important bottom line concept in practice, focusing on the financial aspect (i.e. profitability) of a company, the triple bottom line adds a social and an environmental dimension and alters the financial bottom line aspect to an economic bottom line. Thus, the bottom line for business is enlarged, forming a triple bottom line. The phenomenon was first mentioned by Spreckley (1981), yet the term *triple bottom line* was first coined by Elkington (1997). The three pillars are mainly based on a sustainable development definition given by the Brundtland Commission of the United Nations in 1987.

The first dimension of the triple bottom line, the economic dimension, highlights the importance of profitability for the long-term survival of a company, yet this dimension goes beyond the pure internal financial aspect of a focal company and aspires an overall positive economic development within the host society. Thus, the main goal of this bottom line is not the financial maximisation of the focal company, but the maximisation of the economic development of the focal company's environment (Elkington, 1997). With regard to the social dimension of the triple bottom line, the aspect of social equity and thus people is in the focus. As for Elkington (1997), a company following the TBL approach needs to give back to the local community and embed in the social fabric. Some aspects for a socially favourable approach are paying fair wages, maintaining a safe work environment, giving back to the local community via cultural or health care investments. The last dimension, the environmental dimension, refers to sustainable environmental practices stating that a firm should benefit the environment, or at the very least it should do no harm to it. Especially with regard to natural resources extracting companies this is a very difficult to measure and hard to obtain dimension. For them, a close relationship to governments and the social sector can be beneficial to estimate the true costs of their extractions. The left part of **figure 23** illustrates the approach of the triple bottom line, with the environmental, the social and the economic dimension forming three equally sized circles. At the intersection of all three circles, sustainability is reached. In the recent years, scholars started to criticise the equal sizes of all three bottom lines. In their regard, the economic circle should be the smallest circle as it is dependent on the social (medium sized circle) and ultimately on the environmental dimension (biggest circle). The right part of **figure 23** illustrates this connection.

Figure 23: **Frameworks of the Triple Bottom Line**



(source: adapted from Elkington, 1997)

6.3.2.2. The CSR-Pyramid

The pyramid of CSR, developed by Carroll (1979, 1991) suggests that there are four kinds of social responsibilities for managers and thus for corporations to embrace: the economic, the legal, the ethical and the philanthropic responsibility. For Carroll (1979, 1991), the economic as well as the legal responsibility have been existing for a longer period of time and are the foundation of a socially responsible company. Thus, he used the metaphor of a pyramid for his graphical representation to highlight the early importance of the economic and the legal responsibilities for managers. Yet within the recent decade, the ethical and philanthropic responsibilities have become more and more important.

The economic responsibility of businesses is to make profits. Even though historically, companies were created to provide goods and services for the society and only as a by-product make profits by offering these services and goods (Carroll, 1991, 2008). Yet the aspects of profit maximisation and shareholder value creation have grown substantially over the past three decades (Peters, 2012; Primeaux & Stieber, 1995; Rappaport & Klien, 1999). For Carroll (1991: 40) this equates to the following economic components of Corporate Social Responsibility:

"*It is important…*

... to perform in a manner consistent with maximizing earnings per share.

... to be committed to being as profitable as possible.

... to maintain a strong competitive position.

... to maintain a high level of operating efficiency.

... that a successful firm be defined as one that is consistently profitable."

While the last four components of the economic responsibility have mostly been adopted by the scientific community, the first component of maximising profits has been heavily discussed (Baron, 2001; Husted & Jesus Salazar, 2006; Kolstad, 2007). When discussing CSR, multiple scholars rather see an importance in profit generating efforts, yet these profits do not necessarily need to be maximised (Margolis & Walsh, 2001; Orlitzky et al., 2003).

The second responsibility of CSR, the legal responsibility, incorporates the abidance of the law on a federal, state and local governmental level. With five components Carroll (1991) draws an invisible barrier of what a firm is supposed to do and which legal boundaries it should not cross. The five components of the legal responsibilities of CSR are the following:

"It is important…

… to perform in a manner consistent with expectations of government and law.

... to comply with various federal, state, and local regulations.

... to be a law-abiding corporate citizen.

... that a successful firm be defined as one that fulfils its legal obligations.

... to provide goods and services that at least meet minimal legal requirements."

(Carroll, 1991: 40)

The ethical responsibility is closely aligned to the legal and economic responsibility as some ethical behaviours are already included in both responsibilities. Yet ethical responsibilities go further than those practices and activities that are codified by law. They embody norms and practices that are currently seen as fair and just by the public and society. Thus, this responsibility is highly dynamic as norms and practices by the society can change over time. Carroll (1991: 41) thus highlights the following five components to denote the ethical responsibility in more detail:

"It is important…

... to perform in a manner consistent with expectations of societal mores and ethical norms.

... to recognize and respect new or evolving ethical/moral norms adopted by society.

... to prevent ethical norms from being compromised in order to achieve corporate goals.

... that good corporate citizenship be defined as doing what is expected morally or ethically.

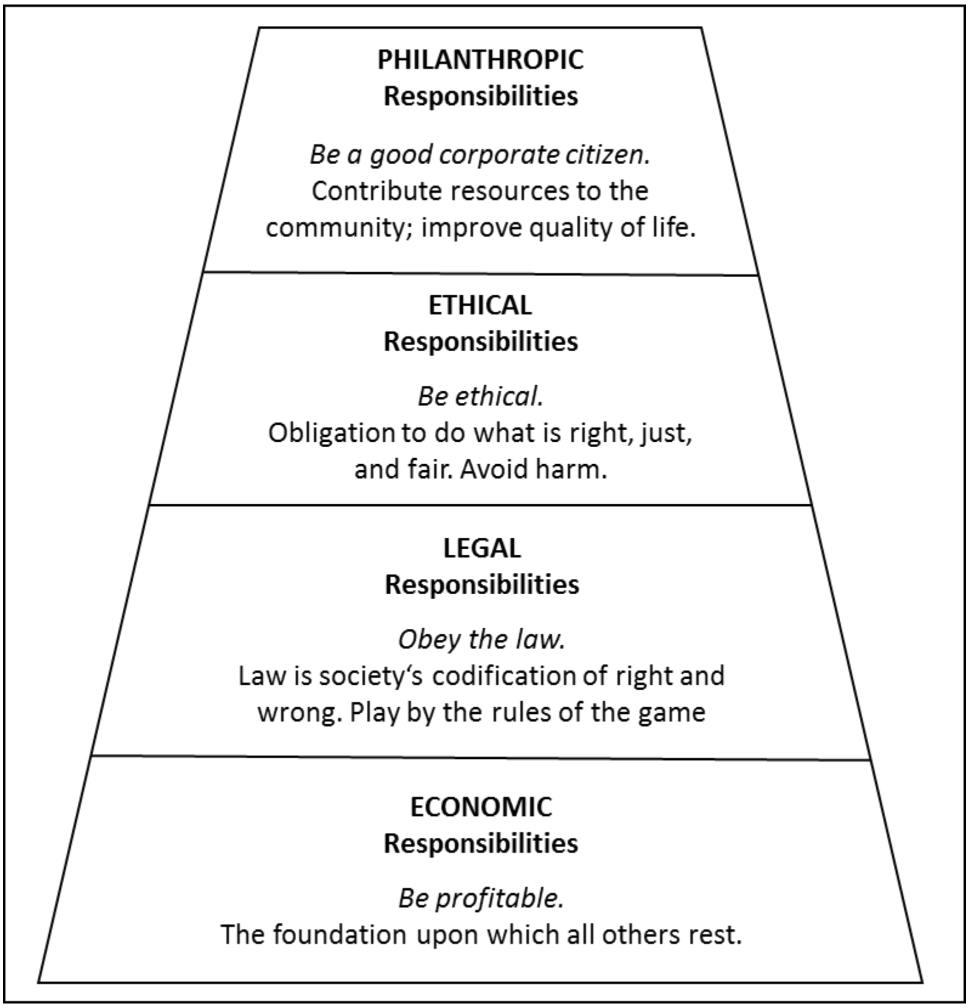
... to recognize that corporate integrity and ethical behaviour go beyond mere compliance with laws and regulations."

Carroll (1991) puts the last dimension of his concept of corporate social responsibility on top of the pyramid: the philanthropic responsibility. For him, this dimension is the "icing of a cake" and rather a voluntary act of the corporation than an absolute necessity. Even though society aspires companies to 'do good' and engage in philanthropic activities, it does not portray companies as unethical if they do not engage in such behaviour (Carroll, 1991, 2008). Thus, the philanthropic dimension of corporate social responsibility is, compared to the other three dimensions, a voluntary act by the business. Carroll (1991: 41) highlights this via the five following components:

> *"It is important…*
>
> *... to perform in a manner consistent with the philanthropic and charitable expectations of society.*
>
> *... to assist the fine and performing arts.*
>
> *... that managers and employees participate in voluntary and charitable activities within their local communities.*
>
> *... to provide assistance to private and public educational institutions.*
>
> *... to assist voluntarily those projects that enhance a community's 'quality of life'."*

Overall, **Figure 24** on the next page again summarises the four different levels of corporate social responsibility: economic, legal, ethical and philanthropic.

Figure 24: **The Pyramid of Corporate Social Responsibility**



(source: adapted from Carroll, 1991: 41)

6.3.2.3. Levels of CSR

As previously mentioned, Aguinis and Glavas (2012) introduce three different levels of analysis for CSR activities in their review article: the institutional, the organisational and the individual level. Aguinis and Glavas (2012) highlight that many preconditions and CSR-activities have an effect on multiple levels of analysis. In the following, the three levels of analysis will be introduced in further detail as they contribute to a better understanding of the vantage points of CSR activities with regard to a sustainable development.

With regard to the institutional level of analysis, Aguinis and Glavas (2012) found publications which highlight at least one of Scott's institutional pillars introduced in 1995:

regulative, normative or cultural-cognitive[65]. Thus, articles addressing the law and certain standards (regulative pillar) were grouped in the institutional level. Articles with a focus on the society as a whole or on external stakeholders, such as consumers or NGOs as well, even though in a different institutional pillar (normative or cultural-cognitive). Additionally they found out that CSR actions and policies are likely to improve a companies' reputation as well as customer loyalty and evaluations of products.

On the organisational level, Aguinis and Glavas (2012) focused on publications that give insights on a process and capabilities level as well as on different organisational team levels. Interestingly, they found out that firms primarily invest in CSR due to instrumental, but not due to normative reasons and thus hope to increase the embeddedness of the firm or the expected financial outcome. This is an interesting finding with regard to this treatise as the collaboration with a NGO during the internationalisation effort might as well be seen as rather instrumental from the perspective of the MNC.

Only a few studies have been published regarding CSR activities on the individual (i.e. employee) level. Most of these studies highlight the aspect that CSR activities increase the employee satisfaction significantly. Furthermore they can also have an impact on the employee retention rate as employees identify more with the values of their companies.

6.3.3. Types of CSR-Strategies

CSR activities of companies can take multiple forms and thus there are many different types of strategies regarding CSR as well. As soon as a company engages in a CSR activity in a structured way one can speak about a strategic CSR approach. As for this treatise the distinction between strategic CSR and non-strategic CSR is of high importance, it will be distinguished at first. Afterwards, the most important differentiators of varying types of CSR strategies are explained. Besides the strategies' business scope (strategic vs. non-strategic), they can be differentiated by their geographical scope (global vs. local) as well as their origin and intent (implicit vs. explicit)

[65] As described in more detail in Chapter 2.2.2.3.

6.3.3.1. Strategic Corporate Social Responsibility

Based on Mellahi et al. (2015: 144), strategic corporate social responsibility refers to "*corporate actions that appear to advance some social good that allows a firm to enhance organisational performance, regardless of the motive*". The word "some" within the definition points to a relatively loose and broad evaluation of activities that might be coined "strategic" by a company even though the activities might not be managed strategically at all. Furthermore, Mellahi et al. do not differentiate by the initial motive (normative or instrumental) of the company regarding its social engagement. Meyer and Waßmann (2011) therefore use a 2x2 matrix to differentiate forms of CSR. Their four types include two categories of CSR, non-strategic CSR and strategic CSR (in a broader sense). They differentiate CSR activities via two dimensions: the integration of CSR-activity into the business model (low vs. high) and behaviour of the company (pro-active vs. reactive). Thus, if the integration of CSR activities into the company's overall strategy or business model is low, Meyer and Waßmann (2011) talk about non-strategic CSR. This is further divided depending on a pro-active or re-active behaviour of the company. If the behaviour is reactive, the company is only carrying out ethical CSR activities such as expenses for product safety issues or mitigation of environmental pollution (Lantos, 2001). If it is a pro-active behaviour, the company is carrying out altruistic CSR, such as corporate philanthropy or good corporate citizenship[66] behaviour. If the integration into the business model is high, Meyer and Waßmann (2011) talk about strategic CSR in a broader sense. Here again, they differentiate between a pro-active and a re-active role of the company. When the company is only reacting to pressures of multiple stakeholders, their efforts can be called reactive or tactical CSR. Yet when the company is acting in a pro-active manner, then the company is pursuing strategic CSR in a narrow view based on Meyer and Waßmann's (2011) categorisation. **Figure 25** illustrates the described 2x2 matrix again.

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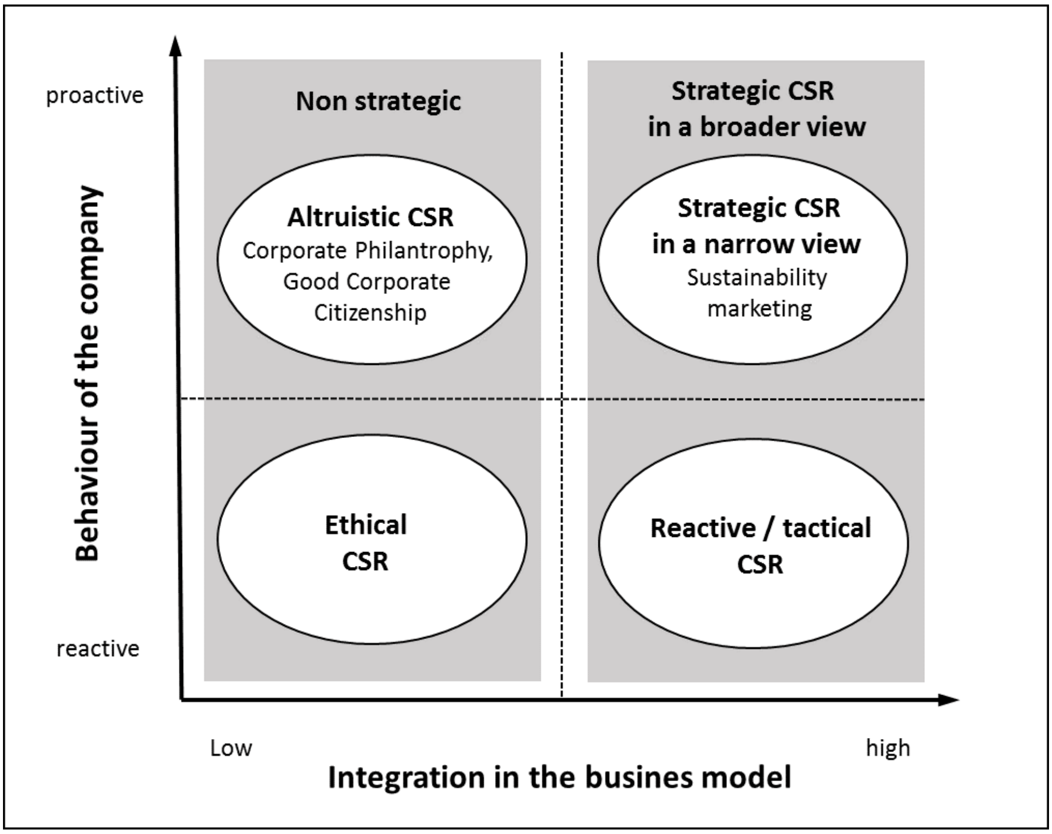
[66] The World Economic Forum defines corporate citizenship as: "*the contribution a company makes to society through its core business activities, its social investment and philanthropy programmes, and its engagement in public policy. The manner in which a company manages its economic, social and environmental relationships, as well as those with different stakeholders, in particular shareholders, employees, customers, business partners, governments and communities determines its impact"* (World Economic Forum (2003)). For further literature, see Bhanji and Oxley (2013); Gardberg and Fombrun (2006); Scherer and Palazzo (2008).

***Figure 25:* Forms of Corporate Social Responsibility**



(source: adapted from Meyer & Waßmann, 2011: 12)

Frynas (2015) has a similar understanding of strategic CSR as Meyer and Waßmann (2011) have with regard to their category of a narrow strategic CSR approach. Yet Frynas (2015: 246) goes even further with defining strategic CSR as *"an organisational strategy that addresses the organisation's* responsibility *for its impact on society and the natural environment"*. Thus, he does not only integrate strategic CSR into the firm's business model, but incorporates it into the organisational strategy. Furthermore he also adds a pro-active strategic element from Farjoun (2002) by stating that it needs to be a "*planned or actual coordination of the firm's major goals and actions, in time and space, that continuously co-align the firm with its environment*" (Frynas, 2015: 246). Furthermore, Porter and Kramer (2006) add that only "proaction" strategies are genuine and thus strategic in a sense that they can help the firm to gain competitive advantage. Proactive CSR strategies are generally considered to be best developed in consultation with salient stakeholders (e.g. NGOs or local activists) in 'local communities' (Mitchell, Agle, & Wood, 1997; Waddock & Boyle, 1995).

There are different forms of strategic CSR activities available to a company, such as strategic philanthropy, strategic reengineering of the value chain, sustainability marketing or cause-related marketing (Frynas, 2015; Meyer & Waßmann, 2011). All of these activities are typically not undertaken alone as Austin and Seitanidi (2012b: 730) note that "*cross-sector partnering can be seen as an inescapable and powerful vehicle for implementing strategic corporate social responsibility and for achieving social and economic missions".* This engagement in cross-sector partnerships can help to form relationships in the community that can enhance preferential access to otherwise scarce resources (Doh et al., 2017). Especially in developing markets which are oftentimes underdeveloped with regard to their institutional environment[67], Doh and Littell (2015: 106) highlight that "*the foundational objective of CSR in underdeveloped institutional settings is to fill 'institutional voids' resulting from the inability or unwillingness of the government to meet its responsibilities through the provision of basic public service*". Thus, an engagement of the internationalising firm with the social fabric of its operating environment becomes inevitable and strategic CSR efforts are the most promising measure to do so (Doh & Littell, 2015; Frynas, 2015; Werther & Chandler, 2014).

6.3.3.2. Global vs. Local CSR

When a multi-national enterprise considers to invest in corporate social responsibility it has two options to choose from with regard to the geographical scope: a globally centralised or a locally adapted CSR strategy approach (Muller, 2006). The discussion of global integration vs. local responsiveness is an old discussion in the international business and strategy literature with regard to organisational processes, structure and strategy (Bartlett & Ghoshal, 1989; Bartlett & Ghoshal, 2002; Prahalad & Doz, 1987). Yet it can also be transferred to the CSR context as companies can choose to either embed a subsidiaries CSR approach into a global corporate CSR strategy defined by the headquarter or it can specifically adapt their CSR responsiveness to the host-country context in which they are located (Muller, 2006), pursuing a locally adapted CSR strategy.

[67] See Chapter 3 for more information.

When a company pursues a global CSR strategy the alignment between the headquarters and its subsidiaries are a very important aspect of the strategy. The CSR strategy will be developed at the home-country and thus implicitly follows many desired traits from that particular institutional context. Furthermore the subsidiaries are in strict obedience to follow the instructions given by the headquarters (Muller, 2006). If the headquarter of a firm is able to transmit the wanted practices, an integration of worldwide CSR standards can be the overall result. Yet, oftentimes institutional contexts of countries differ significantly and CSR standards established in one country might not be transferable to another, making a global implementation of CSR standards very difficult (Muller, 2006; Tsai & Child, 1997).

Contrary, a local CSR strategy approach highlights the endogenous CSR development at the local level including responsiveness to local institutions and dialogue with local stakeholders (Muller, 2006). Through the engagement with the local community and local institutions, a company can specifically aim and adapt its activities to the local institutional context and thereby create greater value for the community and the company itself in the long-run (Doh et al., 2017; Muller, 2006). As Muller (2006: 190) states: *"Developing a mutually beneficial relationship with stakeholders at the local level seems to require local engagement, which means that CSR should be contextual and locally responsive."* Nevertheless, this approach also bears some risks. First of all, it greatly increases complexities for MNCs as it increases the need for coordination and control by the headquarters and thus requires more resources at the headquarters as well as the subsidiary level. Additionally it might also create tensions between the different subsidiaries as local CSR approaches might differ substantially on a country level due to different underlying CSR definitions[68] and institutional contexts.

6.3.3.3. Implicit vs. Explicit CSR

Besides differentiating CSR approaches based on the scope of the activities one can also differentiate based on their origin and intent. In 2008, Matten and Moon introduced their categorisation of implicit and explicit CSR based on a company's communication strategy

[68] The variety and complexity of defining CSR and its dynamic change in meaning due to institutional change has been shown extensively in Chapter 6.3.2.3.

and on the national business system[69] it operates in. With regard to explicit CSR they refer to *"corporate policies that assume and articulate responsibility for some societal interests. They normally consist of voluntary programs and strategies by corporations that combine social and business value and address issues perceived as being part of the social responsibility of the company"* (Matten & Moon, 2008: 409). These voluntary programs and strategies are explicitly communicated to relevant stakeholders and incorporated in the overall strategy of the company (Matten & Moon, 2008). On the other hand, implicit CSR refers to a "*corporations' role within the wider formal and informal institutions for society's interests and concerns. Implicit CSR normally consists of values, norms, and rules that result in (mandatory and customary) requirements for corporations to address stakeholder issues and that define proper obligations of corporate actors in collective rather than individual terms" (Matten & Moon, 2008: 409)*. Thus, implicit CSR is rather inherent to the company or the country culture and sometimes even manifested in norms, regulations and laws. Thereby it is not an explicitly followed strategy of CSR activities, compared to explicit CSR. **Table 5** on the next page highlights the quick comparison of both types of CSR. Concluding, one can say that for the purpose of this treatise the aspect of explicit CSR undertaken by companies is seen as more relevant than implicit CSR.

Table 5: **Explicit and Implicit CSR Compared**

Explicit CSR	Implicit CSR
Describes corporate activities that assume responsibility for the interests of society	Describes corporations' role within the wider formal and informal institutions for society's interests and concerns
Consists of voluntary corporate policies, programs, and strategies	Consists of values, norms, and rules that result in (often codified and mandatory) requirements for corporations
Incentives and opportunities are motivated by the perceived expectations of different stakeholders of the corporation	Motivated by the societal consensus on the legitimate expectations of the roles and contributions of all major groups in society, including corporations

(source: adapted from Matten & Moon, 2008; 410)

[69] The literature on national business systems is a large research stream in the institutional theory field. It mainly differentiates national business systems in four categories: the political system, the financial system, the education and labour system and the cultural system. For further information see Chapter 5.2.1.1. or Whitley (1992); Whitley (1999).

7. Cross-Sector Collaborations and Non-Governmental Organisations (NGOs) in the International Business Literature

After highlighting the theory of embeddedness as well as relevant aspects and the rising importance of non-market strategies in international business within the previous two Chapters, the focus will now shift to the organisational form with which MNCs can best pursue non-market strategies: cross-sectoral partnerships. Therefore, this Chapter will start with an introduction and definition of cross-sectoral partnerships before highlighting the different types of cross-sectoral partnerships. For the sake of completeness, a short description of all four types will be undertaken in Chapter 7.1, yet the focus is placed on the NGO-MNC partnership as it remains the main unit of analysis in this treatise. Thus, after introducing this special type of partnership in subchapter 7.1, the following subchapter (7.2) will additionally give a detailed overview on the special actor in focus within the cross-sectoral partnership, the NGO.

7.1. Cross-Sector Collaborations in the International Business Literature

This following subchapter will introduce the organisational form of cross-sectoral partnerships. Especially in the context of developing countries these types of partnerships are important as, "*MNEs*[70] *will need to search for non-traditional partners such as NGOs, community organisations, or government agencies*" (Rivera-Santos & Rufín, 2010b: 65) during their internationalisation efforts. Besides some risks of cross-sector collaborations, these types of collaborations offer great potential as Selsky and Parker (2005: 852) note: "*when actors from different sectors focus on the same issue, they are likely to think about it differently, to be motivated by different goals, and to use different approaches*". After the introduction to cross-sector collaborations the next subchapter focuses on the four different types of cross-sectoral partnerships (i.e. MNC-Government, MNC-NGO, Government-NGO and tripartite partnership), before the literature on collaboration intensity between MNCs and NGOs is elucidated in more detail (7.1.3).

[70] The quote by Rivera-Santos et al. (2012) refers to the MNE (multi-national enterprise) which is used synonymously with MNC in the international business literature.

7.1.1. Introduction to Cross-Sector Collaboration

Cross-sector collaborations are partnerships among businesses, governments and the civil society (often represented in form of NGOs) that mainly address social and economic causes and have experienced rapid growth over the recent years, especially in developing countries (Austin & Seitanidi, 2012b, 2012a; LaFrance & Lehmann, 2005; Selsky & Parker, 2005). These types of collaborations "*have received increasing academic and practitioner interest as innovative arrangements to deal with complex social problems that a single actor cannot solve" (Kolk & Lenfant, 2015a: 288)*. As the theoretical background of all partners is very diverse, there are multiple labels used to describe the same or similar phenomena. Besides cross-sector collaborations, other terminologies such as cross-sector partnerships, social alliances, inter-sectoral partnerships, cross-sector alliances, strategic partnerships, social partnerships, B2N-alliances[71] or firm-NGO alliances are being used (Crane & Seitanidi, 2014; Selsky & Parker, 2005; Yaziji & Doh, 2009). Yet this treatise uses the term cross-sector collaboration as it leaves enough room for varying governance structures and collaboration intensities (arm's length collaboration vs. integrative approaches) commonly used with this type of collaboration.

Broadly defined, cross-sector collaborations are the joining together of organisations from different sectors of society to tackle social and economic development problems (Crane & Seitanidi, 2014; Wassmer, Paquin, & Sharma, 2014). To make it more concrete, parts of the definition will be explained in more detail. First of all, with regard to the aspect of "joining together", an interaction and exchange between all (two or more) partners need to take place (Crane & Seitanidi, 2014; Selsky & Parker, 2005). To one extreme, this can be an arm's length relationship[72] or to the other extreme, an integrative or even a transformational partnership[73]. As already mentioned above regarding the different sectors, the three sectors in focus are the business sector, the governmental sectors and the civil society sector. The last important part of the definition of cross-sectoral collaborations is the goal of the collaboration (i.e. to tackle social and economic development problems). Typically, every cross-sectoral collaboration has a social or economic development goal as its prior goal of

[71] The abbreviation B2N-alliances is more commonly known in literature than the complete term: business-to-non-profit-alliances.
[72] In an arm's length cross-sector collaboration typically only financial resources are exchanged (Rondinelli and London (2003); Seitanidi (2010)).
[73] The intensity of partnerships will be further elaborated in Chapter 7.1.3.

the overall collaboration (Crane & Seitanidi, 2014; Doh et al., 2017; Kourula & Laasonen, 2010; Selsky & Parker, 2005). Yet it needs to be noted, that potentially for both partners these overall collaboration goals do not need to be the primary motivation for collaboration (Crane & Seitanidi, 2014). For instance, besides the overall goal of tripartite collaboration to reduce poverty within a focused region, a MNC might want to enhance its brand, the government might want to explore new ways connecting with the society and the NGO may be seeking to attract new members for support (Crane & Seitanidi, 2014; Kolk & Lenfant, 2015a; Koschmann, Kuhn, & Pfarrer, 2012). Thus, a differentiation of the levels of motivation between the partners is important. Huxham and Vangen (1996) propose a distinction of three motivational levels: meta goals or the common cause of the collaboration, individual goals of each partner organisation and goals of specific individuals involved in the collaboration (Huxham & Vangen, 1996; Selsky & Parker, 2005).

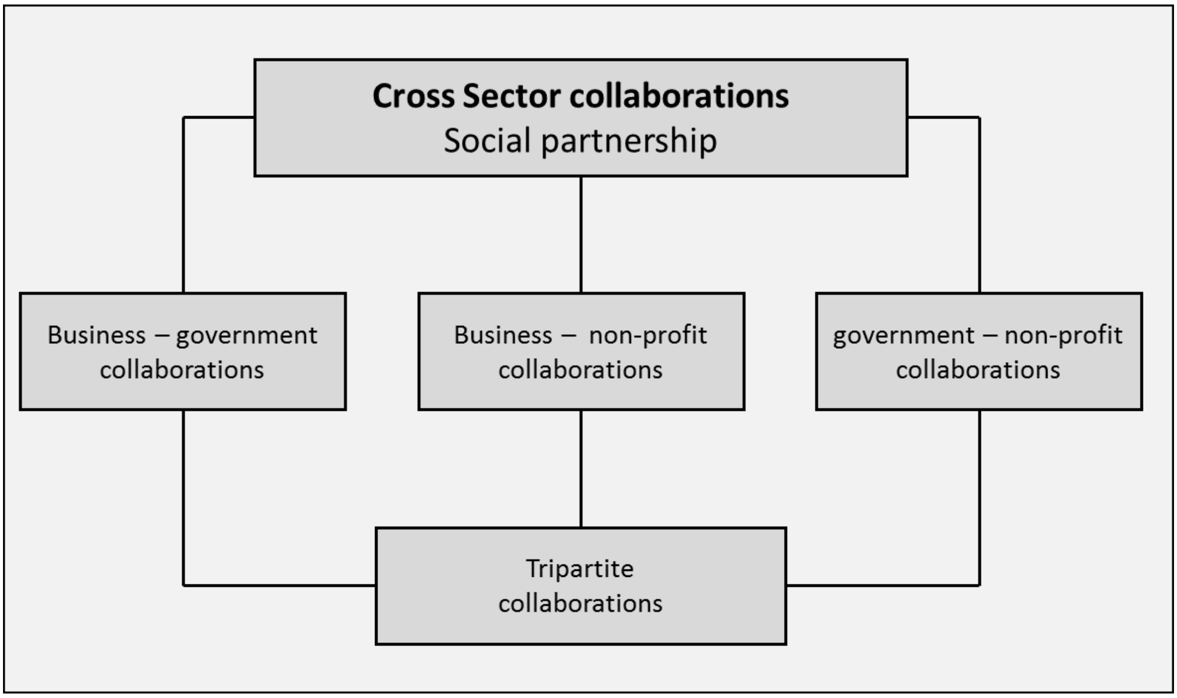
Contrary to intra-sectoral collaborations[74], cross-sectoral collaborations also pose significant risks for all involved actors as the partners come from different sectoral backgrounds, often have differing motivations, goals and foci with regard to their own organisation as well as to the cross-sectoral collaboration (Rivera-Santos & Rufín, 2010b; Rondinelli & London, 2003). For instance, Selsky and Parker (2005) found that trust in the business and the non-governmental sector can operate very differently, as "*In general terms, trust in business traditionally is based on constrained contractual exchanges, whereas trust in the nonprofit* [or synonymously used non-governmental] *sector is traditionally based on solidarity with the mission or on shared values"* (Selsky & Parker, 2005: 856). Thus, researchers found that oftentimes the first challenge for cross-sectoral collaborations is to get acquainted with the potential partner and learn about the other organisations way to communicate, their behaviours, views and norms (Oetzel & Doh, 2009; Parker & Selsky, 2004; Ritvala et al., 2014; Rivera-Santos & Rufín, 2010b). These challenges also exist in intra-sector collaborations, yet they are not as significant since the overall perception of the sector and its norms are at least similar (Kale & Singh, 2009; Selsky & Parker, 2005). One way to cope with these challenges is an increased communication especially at the beginning

[74] In the business sector, the phenomenon of intra-sector collaborations is more commonly known as strategic alliances. Especially in the business type of intra-sector collaborations there has been much research regarding different types, motivation, governance mechanisms over the recent decades. For a quick overview see (Gomes, Barnes, and Mahmood (2016); Kale and Singh (2009); Mamédio, Rocha, Szczepanik, and Kato (2019); Meier (2011)).

of a collaboration effort in order to align values and operating procedures to the new partner (Kourula & Laasonen, 2010; Oetzel & Doh, 2009).

The three different sectors focused by cross-sectoral collaborations lead to four different types of collaborations. Namely, business-government collaborations, business-NGO collaboration, government-NGO collaboration and tripartite collaborations (all the sectors combined in a collaboration). The different types of collaborations are illustrated in **figure 26** and will be explained in more detail in the following subchapter (7.1.2).

Figure 26: **Types of Social Collaborations**



(source: adapted from Crane & Seitanidi, 2014: 4)

7.1.2. Types of Cross-Sector Collaboration

The following subchapter will elaborate in more detail on the four types of cross-sector collaborations; business-government, business-NGO, government-NGO and tripartite collaborations. Since the attention of this treatise lays on the non-governmental organisation as a potential partner for MNCs during their internationalisation into developing countries, this collaboration type will be described in more detail. Yet for the sake of completeness, all four types will be explained shortly.

7.1.2.1. Business – Government Collaboration

Research on business – government collaborations ranges from confrontation to accommodation and competition and has a long tradition of more than 70 years in the international business community (Boddewyn, 1988, 2016; Grosse, 2010; Luo, 2004). Especially the aspect of competition between firms and governments with state-owned-enterprises has increased in the recent decades with a focus on emerging and developing countries (Boddewyn, 2016). Nonetheless, accommodation, synonymously understood as collaboration, has also received significant attention (Ajakaiye & Ncube, 2010; Bovaird, 2004; Selsky & Parker, 2005; Zhang, Chan, Feng, Duan, & Ke, 2016). For instance, since more than 40 years the collaboration efforts between businesses and governments are more commonly known as public-private partnerships (PPP) as these types of partnerships have been frequently used especially for infrastructural projects (Ajakaiye & Ncube, 2010; Banerjee et al., 2006; Samii, Wassenhove, & Bhattacharya, 2002). A PPP and thus a business-government collaboration is a set of "*working arrangements based on a mutual commitment (over and above that implied in any contract) between a public sector organisation with any organisation outside of the public sector*" (Bovaird, 2004: 199). Strictly spoken, this definition also entails government – NGO collaborations, yet as I will highlight this collaboration in an upcoming subchapter and as the main focus of PPPs lays on business-government relationships, these types of collaboration will be excluded from my definition.

Based on Luo (2004: 434), MNCs and governments cooperate along four levels: "*Country-level internationalisation, Industry-level competitiveness, Firm-level capability, and Individual-level productivity*". There are various types of motivations for governments and businesses to engage in a business – government collaboration. Many businesses hope to reduce regulatory pressures, learn new skills and use corporate political connections (often gained via PPPs) for a preferred treatment of the government and a better access to government officials or otherwise scarce resources (Wassmer et al., 2014; White, Guldiken, Hemphill, He, & Sharifi Khoobdeh, 2016). Contrary, motivations for governments to enter business – governmental collaborations are the development of better business process capabilities, the strengthening of regional interfirm networks as an outcome of several PPPs clustered in a network and the pressure of cost reduction that often led governments to collaborate with businesses in the first place (Hilvert & Swindell, 2013; Wassmer et al., 2014).

Despite the positive intentions of both partners, there is also some critique on this special type of collaboration as the projected outcomes of an initiated PPP often do not emerge and many projects fail or are simply not being terminated (Bovaird, 2004; Selsky & Parker, 2005). Furthermore, the esteemed reduction of costs for governments is visible in the short-term, yet in the long-term and with an inclusion of other externalities this effect diminishes (Rosenau, 1999).

7.1.2.2. Business – NGO Collaboration

Considered as naturally hostile to MNC cross-border expansions for a long time, the NGO-sector has increased its impact and changed the perception within the business sphere significantly over the recent years (Yaziji, 2004; Zentes, Kolb, & Fechter, 2012). Despite the fact that some NGOs as well as some businesses are not cooperating with the other sector until today[75], the overall amount of cross-sector collaborations has surged (Lambell, Ramia, Nyland, & Michelotti, 2008; Marano & Tashman, 2012). As previously mentioned, yet in a different wording, Doh and Lucea (2013: 187) state that: "*NGOs concerned with alleviating hunger or pervasive diseases in developing countries have been able to overcome or fill institutional voids […] in ways that MNEs*[76] *are only now starting to experiment with*". This experimentation is often undertaken in cross-sectoral collaborations with NGOs, as NGOs possess the knowledge and capabilities to operate in these difficult environments (Doh et al., 2017; Lambell et al., 2008; Yaziji & Doh, 2009).

Business – NGO collaborations are "*voluntary collaborative efforts in which the involved actors attempt to solve a problem of mutual concern that is representative of a public issue*" ((Marano & Tashman, 2012: 1124) based on (Waddock, 1991)). In more specific terms, these collaborations often tend to target environmental issues and economic development, yet they also address education, equity and health issues (Selsky & Parker, 2005). Thus, collaborations often form around activities such as standardisation efforts,

[75] See Chapter 7.2.2.2 for more information.
[76] The quote by Doh and Lucea (2013) refers to the MNE (multi-national enterprise) which is used synonymously with MNC in the international business literature.

certifications, cause-related marketing, sponsoring or product development (Seitanidi, 2010; Selsky & Parker, 2005; Zentes et al., 2012). For businesses, NGOs can become interesting collaboration partners as they have technical expertise as well as on-the-ground experience (Lambell et al., 2008; Oetzel & Doh, 2009). Additionally, NGOs can increase the reputation and social legitimacy of an internationalising company with regard to the host countries society (Graf & Rothlauf, 2012; Oetzel & Doh, 2009; Yaziji & Doh, 2009). Austin and Seitanidi (2012a) divide the potential gains and values that businesses can derive from a collaboration with a NGO (and vice versa) into four value creation categories[77]. For businesses, the associational value[78] highlights aspects such as credibility, brand reputation, legitimacy and increased sales (Austin & Seitanidi, 2012a). The transferred value[79] describes market intelligence aspects and second-generation customers (Austin & Seitanidi, 2012a; Seitanidi, 2010). The interaction value[80] shows benefits due to access to networks, speeding up approval for a license to operate, employee retention and learning (Oetzel & Doh, 2009; Ritvala et al., 2014). The last dimension of potential value creation and thus motivation for businesses to collaborate is the synergistic value[81] (Austin & Seitanidi, 2012a). The potential value creation in this dimension are product and process innovations and more political power within the sector and the society because of the heterogeneous partnership networks (Austin & Seitanidi, 2012a). Contrary to that, the NGO may hope to create the following value. The associational value can be higher visibility, increased public awareness of the social issue or greater support for the organisational mission (Austin & Seitanidi, 2012a; Zentes et al., 2012). The transferred value can be financial support given by the business, additional, non-financial support or increased volunteer capital. The interaction value for the NGO can be access to networks, especially business networks, market intelligence or the increase in managerial capabilities (Austin & Seitanidi, 2012a; Graf & Rothlauf, 2012). At

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[77] All four types of value (associational, transferred, interaction and synergistic value) will be explained in the upcoming footnotes. These types of values are established by Austin and Seitanidi (2012b) and can also be seen as motivations for businesses and NGOs to collaborate with each other.

[78] The Associational value, *"is a derived benefit accruing to another partner simply from having a collaborative relationship with the other organisation*" (Austin and Seitanidi (2012b: 730).

[79] The Transferred resource value, "*is the benefit derived by a partner from the receipt of a resource from the other partner*" (Austin and Seitanidi (2012b: 731)).

[80] The Interaction value, "*is the intangibles that derive from the processes of partners working together*" (Austin and Seitanidi (2012b: 731)).

[81] The Synergistic value, "*arises from the underlying premise of all collaborations that combining partners' resources enables them to accomplish more together than they could have separately" (Austin and Seitanidi (2012b: 731).*

last, the synergistic value for a NGO to collaborate with a MNC entails innovations, process-based improvements or positive organisational change (Austin & Seitanidi, 2012a).

Especially at the beginning of the establishment of a collaboration between a NGO and a MNC much communication is needed as trust is often rather low since both actors are coming from different and until recently highly conflicting sectors (Kolk, van Tulder, & Kostwinder, 2008; Yaziji, 2004). Thus, the first aspect when building a collaboration is to establish trust and align the differing mental frameworks as both organisations typically operate in very different organisational and professional cultures and workers often do not share the same educational background or have the same organisational mandates (Austin & Seitanidi, 2012a; Oetzel & Doh, 2009; Skippari & Pajunen, 2010). Furthermore, due to many intangible and rather long-term outcomes which business – NGO collaborations entail, the performance is difficult to measure and to convey which can become a problem over time (London et al., 2006; Selsky & Parker, 2005). These risks of heterogeneous backgrounds and operating procedures as well as oftentimes intangible outcome measurements can easily lead to conflict or dissolution of the collaboration (Seitanidi & Crane, 2014; Selsky & Parker, 2005). Outcomes have been measured on three different levels of the collaboration; the direct impact on the issue and its stakeholders, the impact on building knowledge and reputational capital that can attract new resources and the influence on social policy or system change (Selsky & Parker, 2005). Yet many of these outcomes are hard to quantify and thus also hard to communicate.

Nonetheless, the business – NGO collaboration as one specific form of a cross-sector collaboration remains an important, diverse and highly relevant type of collaboration, especially with regard to developing countries. Since it is the focal unit of analysis for this treatise, Chapter 7.2 later on will focus on the special properties of the focused actor, the non-governmental organisation.

7.1.2.3. NGO – Governmental Collaboration

The third type of cross-sector collaboration focuses on collaborations between the government and the civil society, mainly represented by NGOs. Similar to business – government collaborations (or PPPs), these types of collaborations contain "*working* *arrangements based on a mutual commitment*" (Bovaird, 2004: 199) and they can occur at the national, regional or local level of a particular country (Brinkerhoff, 2002; Gazley, 2010).

In their review in 1993, Farrington and Bebbington found out that the research on NGO – governmental collaboration was mainly divided into two categories either discussing the comparative advantage of governments or NGOs in fulfilling specific functions for the society (category 1) or the origins and history of NGOs and their conflictual relationship with the state as well as the business sector[82] (category 2) (Salamon & Toepler, 2015; Selsky & Parker, 2005; Young, 2000). Especially the second category was discussed controversially as during the early days of the establishment of NGOs many organisations were formed and funded by government initiatives which coined the term *manufactured civil society*. Thus, it was not until the early beginning of this millennial that researchers started to focus on the specific aspects of this type of collaboration which might explain the rather scarce literature base (Brinkerhoff, 2002; Selsky & Parker, 2005).

In 2002, Brinkerhoff divided the existing literature into three streams; the normative literature, the reactive literature and the pragmatic & analytical literature. The normative literature sees collaborations as the "*moral high ground*" (Brinkerhoff, 2002: 20) and positions collaborations between NGOs and governments as an end in itself. Therefore, this stream of literature argues that the collaboration itself is the most ethically appropriate approach to sustainable development and societal service delivery (Brinkerhoff, 2002). The reactive literature stream established as a counterpart to the normative literature stream on NGO – government collaborations. The underlying logic is that governments seek collaborations with NGOs in an attempt to counter the criticism and transgressions from the past (Brinkerhoff, 2002). At last, the pragmatic & analytical literature stream views collaborations as an instrumental tool for an effective and efficient way to reach the posed objectives (Brinkerhoff, 2002). Until today this typology of literature streams on NGO-government collaborations remains the most important and most cited typology (Selsky & Parker, 2005). Furthermore, it needs to be noted that the outcomes of these collaborations are discussed controversially (Brown, Khagram, Moore, & Frumkin, 2000). Some researchers see problems with regard to the measurement of tangible and especially

[82] The conflicting relationship between NGOs and the business sector has already been discussed in Chapter 7.1.2.2.

intangible outcomes, but nevertheless they do see a positive value creation resulting from this collaboration overall (Herman, 2001; Otiso, 2003; Westley & Vredenburg, 1991).

7.1.2.4. Tripartite Collaboration

The last type of cross-sectoral collaboration is the tripartite collaboration, often also called tri-sector collaboration. This type of collaboration consists of actors from all three sectors; the business sector, the governmental sector and the civil society (Selsky & Parker, 2005). Therefore, one distinguishing factor of the tripartite collaboration is the "*frequent presence of the 'bridging' organisations to convene or manage the cross-sector relationships*" (Selsky & Parker, 2005: 863) as the various, heterogeneous partners pose serious potential for conflict and tensions (Selsky & Parker, 2005; Waddock, 1991). Yet, if managed well, this type of collaboration can create significant tangible as well as intangible outcomes (Westley & Vredenburg, 1991). With regard to tangible outcomes which mostly become visible in the long-term, the creation of industry certification standards, or community building initiatives are two frequently discussed outcomes (Herman, 2001; Otiso, 2003). Additionally, community development via public facilities that would not have been established by the government alone are also an important outcome to mention (Warner, 2004). Intangible outcomes such as partners learning new ways of framing problems or directing attention to a relevant meta-problem can also occur (Selsky & Parker, 2005; Turcotte & Pasquero, 2001). Yet other researchers are more critical in their assessments as they argue that the goals of tripartite collaborations are often too complex, unrealistic and therefore mostly unachievable (Boguslaw, 2002; Turcotte & Pasquero, 2001).

7.1.3. The Collaboration Continuum of NGO-Business Collaborations

As previously mentioned, this treatise focuses around the cross-sectoral collaboration type of NGOs collaborating with businesses. This type of collaboration has been shortly articulated in Chapter 7.1.2.2, yet as there are multiple intensities of collaboration and thus various potentials and values for the collaboration to create, the following subchapter will focus on introducing the collaboration continuum by Austin (2000) which has been redefined by Austin and Seitanidi (2012b, 2012a).

There are multiple typologies of collaboration efforts between cross-sector actors available in the literature (Austin, 2000; Bowen, Newenham-Kahindi, & Herremans, 2010; Bryson, Crosby, & Stone, 2006; Rondinelli & London, 2003). For instance, Bryson et al. (2006) introduce a collaboration continuum where on the one end of the continuum organisations barely relate to each other and on the other end create a new entity for social problem solving. Rondinelli and London's (2003) typology moves collaboration from arm's length interactions (low-intensity), to interactive collaboration (medium-intensity) ending in management alliances (high-intensity). Their differentiation seems plausible and is similar to the collaboration continuum proposed by Austin (2000) to some extent, yet in its analysis it strictly focuses on environmental cross-sector alliances between businesses and NGOs. Furthermore, Bowen et al. (2010) offer an interesting collaboration continuum dividing collaborations into transactional, transitional and transformational forms. Based on an extensive literature review, their approach is elaborated, yet it lacks some definitional power especially with regard to the differentiations between the three proposed stages. Additionally it only focuses on specific types of business-NGO collaborations, namely collaborations involved in community engagement (Bowen et al., 2010). The collaboration continuum proposed by Austin (2000) and refined by Austin and Seitanidi (2012b, 2012a) is seen as the most elaborated and accurate depiction of collaboration stages between businesses and NGOs. Furthermore it is the most cited approach in the international business field and thus will be described in more detail below as it serves as a good basis to understand varying collaboration intensities of business – NGO collaborations.

Collaborations between businesses and NGOs vary greatly in size (arm's length vs. integrative), geographical scope (local vs. global), time-frames (short-term vs. long-term) and purpose (self- vs. social-interest) (Austin, 2000; Selsky & Parker, 2005). Therefore, the adapted collaboration continuum by Austin and Seitanidi (2012b, 2012a) gives a great overview and structure by introducing four collaboration stages for the collaboration between businesses and NGOs. Namely these stages are: the philanthropic, the transactional, the integrative and the transformational stage. Note that the earlier collaboration continuum proposed by Austin (2000) only introduced the first three stages. The transformative collaboration stage as the fourth stage in the collaboration continuum was introduced by Austin and Seitanidi (2012b, 2012a) later on. Before describing the four stages in more detail, it is important to note that besides the development of four theoretically discrete collaboration stages, Austin and Seitanidi (2012b) see the collaboration of businesses and NGOs as a very dynamic collaboration type that is difficult to categorise conceptually. Therefore, they acknowledge the fact that even though the four stages are conceptually discrete collaboration stages in theory, in practice there are multiple collaborations in between these stages and a clear distinction is difficult to follow through. Additionally, they highlight the fact that each collaboration can move up and down within the stages, based on their activities and goals of the collaboration.

The philanthropic stage describes relationships between NGOs and businesses as very distant. Normally businesses engage in a unilateral transfer of resources (mostly cash or cash equivalents) and the NGO acts as a recipient and decides freely on how to distribute the acquired resources. Thus, both parties function independently and there is no sign of co-creation of value visible (Austin & Seitanidi, 2012b, 2012a). It is rather comparable to a market transaction in which the NGO delivers a social service based on the donation received by the business. Trust between both actors is rather low as well as the strategic value of the relationship for both partners (Rondinelli & London, 2003). In the second stage, the transactional stage, the directionality of the resource flow changes from unilateral to bilateral. Joint activities such as highly developed employee volunteer programs, cause-related marketing initiatives, logo licensing or certification arrangements become the focus of the collaboration (Austin & Seitanidi, 2012b; Rondinelli & London, 2003; Zentes et al., 2012). Both partners start to link their interests and try to create value for both organisations. For instance, the initiation of a certification process combined with a sustainability label can lead to a more sustainable supply chain and an increase in sales for the business and higher awareness of sustainability issues as a whole (Hiscox & Smyth, 2008; Sénéchal, Georges, & Pernin, 2014). Because of the higher intensity of the collaboration compared to philanthropic exchanges it also becomes riskier for both actors due to potential misbehaviours of the other partner. The third stage in the collaboration continuum, the integrative stage, "*changes the relationship* [between the participating partners] *in fundamental ways*" (Austin & Seitanidi, 2012b: 742). As the collaborations become more strategic, they also become more complex and require higher managerial and leadership efforts by both partners. Thus, both partners become more intertwined and start sharing strategic resources, key assets and core competencies of their own with the collaborating partner (Sanzo, Álvarez, Rey, & García, 2013). In this stage, "*the directionality* *of the resource flow is conjoined*" (Austin & Seitanidi, 2012b: 742) and both partners are not merely interested in their individual organisational outcomes, but rather start taking societal value creation into account as well. The collaboration starts to have an effect on internal processes, structures and frameworks for both collaborating partners outside of the initial collaboration platform (Austin & Seitanidi, 2012b, 2012a; Sanzo et al., 2013). As a quote by Jeff Schwartz, former CEO of Timberland, regarding their collaboration with the NGO City Year[83] shows: "*Our organisation and their organisation, while not completely commingled, are much more linked. While we remain separate organisations, when we come together to do things we become one organisation.* […] *The importance of this intermingling is that it creates an entirely new constellation of productive resources.*" (Austin & Seitanidi, 2012b: 742). The last and most advanced stage in the collaboration continuum by Austin and Seitanidi (2012b, 2012a) is the transformational stage. This stage builds on the integrative stage of collaboration as co-creation of value and high levels of trust are prerequisites for this stage as well. Yet the primary focus of this collaboration stage is to "*co-create transformative change at the societal level*" (Austin & Seitanidi, 2012b: 736). This means that collaboration needs to aim for large-scale, transformational value creation at the societal level. Therefore, the engagement of both involved parties and their individuals within these organisation is high and the strategic value of this particular collaboration within both organisations is also very high (Austin & Seitanidi, 2012b, 2012a). **Figure 27** summarises the four different collaboration stages between businesses and NGOs. Based on several dimensions which were partially mentioned in this paragraph it highlights the continuum in which the four collaboration stages manoeuvre. Exemplary dimensions are the level of engagement (i.e. low vs. high), the type of resources (i.e. money vs. core competencies), interaction level (i.e. infrequent vs. intensive), trust (modest vs. deep) and strategic value (i.e. minor vs. major). With regard to this treatise, a collaboration between a NGO and a MNC can be regarded as strategic as soon as it passes the philanthropic stage and reaches a transactional, integrative or even transformational stage of collaboration.

[83] City Year is an US-based education NGO founded in 1988 that is dedicated to helping students and schools succeed. The organisation partners with public schools in high-need communities across the US and established international affiliates in the UK and South Africa. (www.cityyear.org)

Figure 27: **The Collaboration Continuum**

Nature of Relationship	Stage I Philanthropic	Stage 2 Transactional	Stage 3 Integrative	Stage 4 Transformational
Level of engagement	Low ←→			High
Importance to Mission	Peripheral ←→			Central
Magnitude of Resources	Small ←→			Big
Type of resources	Money ←→			Core Competencies
Scope of Activities	Narrow ←→			Broad
Interaction Level	Infrequent ←→			Intensive
Trust	Modest ←→			Deep
Internal change	Minimal ←→			Great
Managerial Complexity	Simple ←→			Complex
Strategic Value	Minor ←→			Major
Co-Creation of Value	Sole ←→			Conjoined
Synergistic Value	Occasional ←→			Predominant
Innovation	Seldom ←→			Frequent
External system changee	Rare ←→			Common

(Source: adapted from Austin, 2000: 73; Austin & Seitanidi, 2012a: 736)

7.2. NGOs in the International Business Literature

After the first part of this Chapter focused on elaborating varying types of cross-sector collaborations with a focus on the business – NGO collaboration, the treatise will now highlight the NGO as a special actor in more detail. Therefore the first subchapter will start with a development and definition section, before multiple characterisation approaches of NGOs are presented (7.2.2) and potential collaboration partner types of NGOs are derived. Subchapter 7.2.3 delineates important resources and capabilities that a NGO can possess.

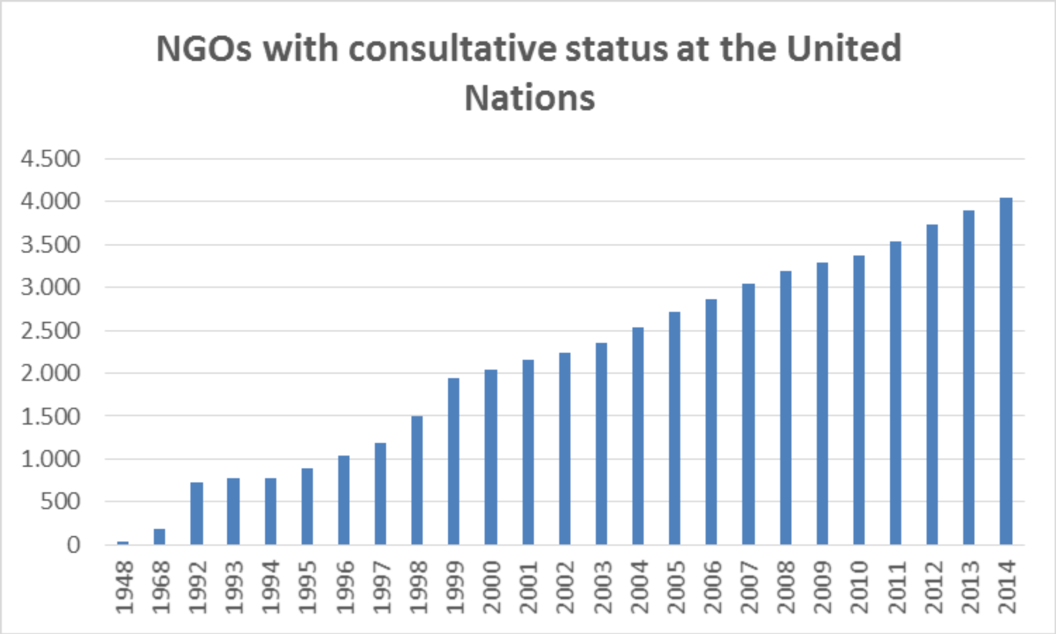
7.2.1. Development and Definition

Depending on the demarcation of the term, non-governmental organisations have already existed since centuries (Martens, 2002; Zentes et al., 2012). Few researchers even note that for some people within the society the Catholic Church is the first NGO that was ever created (Klein & Siegmund, 2010; Martens, 2002; Zentes et al., 2012). Even though this treatise refrains from that view as the Catholic Church was an especially powerful organisation in the medieval time, able to enforce taxes and even wars (Martens, 2002; Zentes et al., 2012), it gives an inside into the heterogeneous and sometimes ambiguous sphere of research on the civil society sector as a whole and the non-governmental organisation as an important part of it (Kourula & Laasonen, 2010; Laasonen, Fougère, & Kourula, 2012; Selsky & Parker, 2005). Many researchers agree that it was around the 19th century when NGOs started to appear around the world (Kourula & Laasonen, 2010; Martens, 2002; Zentes et al., 2012). With institutions such as anti-slavery international (established in 1839), the International Committee of the Red Cross (established in 1863) or the German Animal Welfare Federation (established in 1881), organisations started to focus on social an humanitarian aspects rather than monetary gains, but the term NGO was not yet used to categorise these organisations (Kourula & Laasonen, 2010; Zentes et al., 2012). It was not until the year 1945, when the United Nations first mentioned the organisational type of a non-governmental organisation in their Charter (United Nations, 1945).

As already mentioned earlier, the relevance as well as the number of NGOs increased quickly over the recent decades starting from the first mentioning of the term NGO by the United Nations in 1945 (Kourula & Laasonen, 2010). Until now the Economic and Social Council of the UN has accredited more than 4,000 organisations with a consultation status to the UN[84] and there are estimates that over 40,000 national and international NGOs exist today without counting the many local NGOs in various countries (Boddewyn, 2016; Union of International Association, 2018). **Figure 28** shows the steady rise of NGOs with a consultative status at the UN over the recent decades which exemplarily serves as an illustration for the overall growth of the sector. Another interesting figure with regard to the importance of NGOs in supporting development are the financial resources provided from the United States of America (USA) for developing countries. While in the 1970s approximately 70% of all financial resources from the USA that were targeted at developing countries came from official developmental offices, this number was significantly reduced to 15% with the other 85% coming from NGOs in 2003 (Oetzel & Doh, 2009).

[84] As per article 71, Chapter 10 of the UN Charter the consultation status to the UN is seen as follows: "*The Economic and Social Council may make suitable arrangements for consultation with non-governmental organisations which are concerned with matters within its competence. Such arrangements may be made with international organisations and, where appropriate, with national organisations after consultation with the Member of the United Nations concerned"* (United Nations (1945)).

Figure 28: **NGOs with Consultative Status at the United Nations**



(source: own representation based on data of 2014 from the United Nations)

Based on the rise of NGOs as important actors of the civil society and the heterogeneous field of activities they operate in, there are multiple terms existent in the literature to denote the same or at least very similar organisations (Kourula & Laasonen, 2010; Seitanidi, Kourula, Leigh, Clarke, Mankowski, & Bitzer, 2014; Selsky & Parker, 2005). In general, there are over 40 different terminologies and acronyms existent to describe the activities of a NGO, which can make comparability difficult and creates ambiguity over time (Kolb, 2015; Laasonen et al., 2012; Lewis, 2001; Najam, 1996). Among the most prominent ones are: non-governmental organisation, non-profit organisation, civil society organisation, activists, pressure group and third sector actor (Dahan et al., 2010b; Kourula & Laasonen, 2010; Selsky & Parker, 2005). Furthermore, there are also more fine-grained terminologies and abbreviations available such as DANGOs (Direct Action Oriented NGOs), PONGOs (Partnership Oriented NGOs) or WONGOs (Watchdog Oriented NGOs) (Kolb, 2015; Zentes et al., 2012). Besides these various terminological possibilities, the term “non-governmental organisation” clearly remains the most commonly used term, especially in international business research (Kourula & Laasonen, 2010; Laasonen et al., 2012). Therefore, this treatise also opts for this terminology. A full list of all available terminologies can be seen in **appendix 11**.

With regard to conceptual clarity, there is not only ambiguity in the terminological approaches of NGOs as already described above, but also with regard to the definition, since multiple aspects of the NGO are put in the foreground within the different definitional approaches (Kolb, 2015; Kourula & Laasonen, 2010; Lenssen, Kourula, & Halme, 2008; Vakil, 1997). For instance, in their definition, Spar and La Mure (2003: 79) highlight the adversarial and activist aspect of NGOs: "*Operating independently of any government, NGOs target both public and private entities, using whatever tools they can muster to secure their desired goal*". Contrary, Luxmore and Hull (2011: 20) rather focus on the goal and the goal accomplishment in their definition, stating that "*NGOs can be defined as a non-profit organisation with one or more goals that is/are desired by individual members, which cannot be achieved by lone individuals, and which are not fully compatible with the goals of corporations or governments.*" Furthermore, the Encyclopedia of Corporate Social Responsibility defines NGOs very broadly through its activity field as "*social, cultural, legal, and environmental advocacy groups that have non-commercial goals*" (Toker, 2013: 1759). Most commonly used and also applicable to this treatise is the definition given by the United Nations. Their definition is extensive, does not have a special focus, includes a humanitarian perspective and is accepted by many researchers in the international business literature:

"*Non-governmental organisations (NGOs) are any non-profit, voluntary citizens' group which is organized on a local, national or international level. Task-oriented and driven by people with a common interest, non-governmental organisations (NGOs) perform a variety of services and humanitarian functions, bring citizens' concerns to Governments, monitor policies, and encourage political participation at the community level. They provide analysis and expertise, serve as early warning mechanisms and help monitor and implement international agreements. Some are organized around specific issues, such as human rights, the environment or health"* (United Nations, n.d.).

Since the field of NGOs is very diverse and heterogeneous, a list of additional definition approaches can be viewed in **appendix 12**

When looking at the definitional approaches in detail, most of them have in common that NGOs see social and societal goals as their primary objectives (Kourula & Laasonen, 2010; Oetzel & Doh, 2009; Toker, 2013; United Nations, n.d.). Yet contrary to for-profit organisations, this creates a complex problem of outcome measurement as "*the relative simplicity of gauging a firm's profitability stands in sharp contrast to the complex, multidimensional social goals that, whether attained or not, often characterize non-profits*" (Weisbrod, 1998: 290). Thus, NGOs need to find other quantifiable measures to balance their input with their output, which can be very difficult due to the soft nature of a NGOs goals and the production of mostly public goods. Over time, this issue can become problematic for a NGOs if the perception of their goal attainment decreases within relevant stakeholder groups such as the public or a for-profit partner organisation (Rivera-Santos & Rufín, 2010b). This is one of the reasons why NGOs are very careful with regard to their reputation and legitimacy.

Within the international business literature, the non-governmental organisation was firstly mentioned by Buckley (2002), who highlights the increasing role of NGOs in the global context and was the first to suggest this type of organisation as an important unit of analysis for further research within the international business community (Lambell et al., 2008; Oetzel & Doh, 2009). Even though the relationship between businesses and NGOs started out to be highly conflictual and adversarial as multiple NGOs operating as activist groups tried to pressure MNCs into behavioural changes (Marano & Tashman, 2012; Webb et al., 2010), both actors have also started to realise the potential benefits of collaborating with each other. Thus, despite some concerns, many NGOs now view cross-sector collaborations as a necessary and benevolent tactic (Doh & Teegen, 2002; Selsky & Parker, 2005; Teegen et al., 2004). The upcoming subchapter will further elaborate on the different categorisation approaches of NGOs to give a more fine-grained overview on this actor.

7.2.2. Categorisations of Non-Governmental Organisations

After a short description of the development of the non-governmental organisation and a definition, the following subchapter will now categorise NGOs based on multiple dimensions. Since there are a variety of types of NGOs available, as seen in the previous subchapter, the existing categorisation approaches are also manifold. Four of these approaches (the categorisation by beneficiary, by the attitude towards businesses, by the primary activity and by the geographical scope) will be explained in further detail as they serve special purposes for this treatise.

Other categorisations of NGOs, such as a differentiation by organisational structure, by core competencies or by the degree of being non-governmental will be neglect due to the following reasons. The categorisation by organisational structures differs between centralised and de-centralised organisational forms of NGOs which is mostly relevant for international or global NGOs, but does not have a substantial impact on the choice of a NGO partner for internationalisation purposes, which is the overall research goal of this treatise (Schwenger, 2013; Zentes et al., 2012). The second categorisation differentiates by the core competency of the NGO (e.g. environmental protection, animal protection, human right or corruption). Even though this categorisation nicely illustrates the varying fields in which NGOs can technically operate in, it is not of additional value for this treatise as it is the general aspect of NGOs having technical and specialised expertise that is important, not the specific aspect of specialised knowledge. The last categorisation that will not be discussed in more detail is the differentiation of NGOs by the degree of the independence of governments and businesses as some NGOs are either established or fully financed by governments or businesses. For this treatise, all considered NGOs need to have at least some part of their finances to be coming from public donors in order to be counted as a NGO.

As already described above, the following subchapters will now highlight four categorisations of NGOs, starting with the categorisation of NGOs by beneficiary.

7.2.2.1. Categorising by the Beneficiary

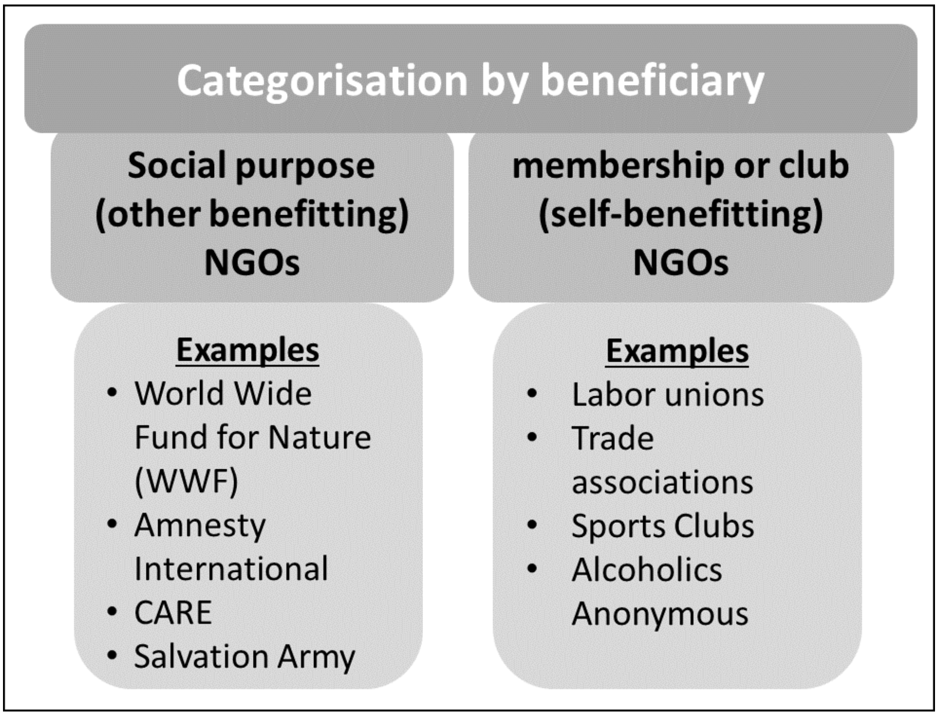
The first categorisation of detailed interest divides NGOs based on who the beneficiaries of the NGOs activities are. This creates two types of NGOs; NGOs that serve their own members of the organisation and NGOs that serve others. Teegen et al. (2004) name a NGO who strictly serves other stakeholders (e.g. a particular group within the society such as children, less educated people or poor people) than their own members a *social purpose* NGO. NGOs that serve their own members interests are called *membership* or *club* NGO.

These self-benefiting *membership* or *club* NGOs are defined as "*membership associations designed primarily to provide a benefit to their members, generally as a result of pooling interests*" (Yaziji & Doh, 2009: 6). Typically financial as well as labour contributors to the NGO also find themselves being intended beneficiaries of the NGOs activities. In general, membership or club NGOs are viewed as "*narrower, less bridging*[85], *and less focused on collective or public-regarding purpose*" (Putnam, 2002: 412). This might also be an explanation why the population in general has a higher accountability perception for other-benefiting, *social purpose,* NGOs, as they see these NGOs "*as selfless workers for the public good*" (Yaziji & Doh, 2009: 7). Organisations such as unions, church groups, sports clubs or business associations typically reside within the group of *membership* and *club* NGOs as these types of NGOs do not serve a social purpose primarily directed at other beneficiaries than their own members. Therefore, this type of NGO does not account as a NGO type of interest for this treatise and will be neglect for further analysis.

In contrast, other-benefiting NGOs or social purpose NGOs are "*organisations in which the capital and labour contributors are not themselves members of the primary intended beneficiary group*" (Yaziji & Doh, 2009: 6). As already defined in the previous Chapter 7.2.1., social purpose NGOs in particular are "*private, not-for-profit organisations that aim to serve particular societal interests by focusing advocacy and/or operational efforts on social, political and economic goals, including equity, education, health, environmental protection and human rights*." As the definition shows, social purpose NGOs[86], which are the focus of this treatise can be further classified into an operational or advocacy NGO based on their principal or primary activity. This important categorisation will be further explained in subchapter 7.2.2.3. **Figure 29** on the next page illustrates the two types of NGOs based on their beneficiary and gives examples for each category (i.e. social purpose NGO and member/club NGO).

[85] In this context, bridging is an activity by a NGO which describes the ability of the NGO to bridge complex issues between the various sectors (business, civil society and government) and other stakeholders.
[86] As this type of NGO is the focused type of NGO for this treatise and membership/club NGOs will be neglect in this analysis, the author always refers to social purpose NGOs whenever he refers to NGOs.

Figure 29: **NGO Categorisation by Beneficiary**



(source: based on Teegen, Doh, & Vachani, 2004: 465)

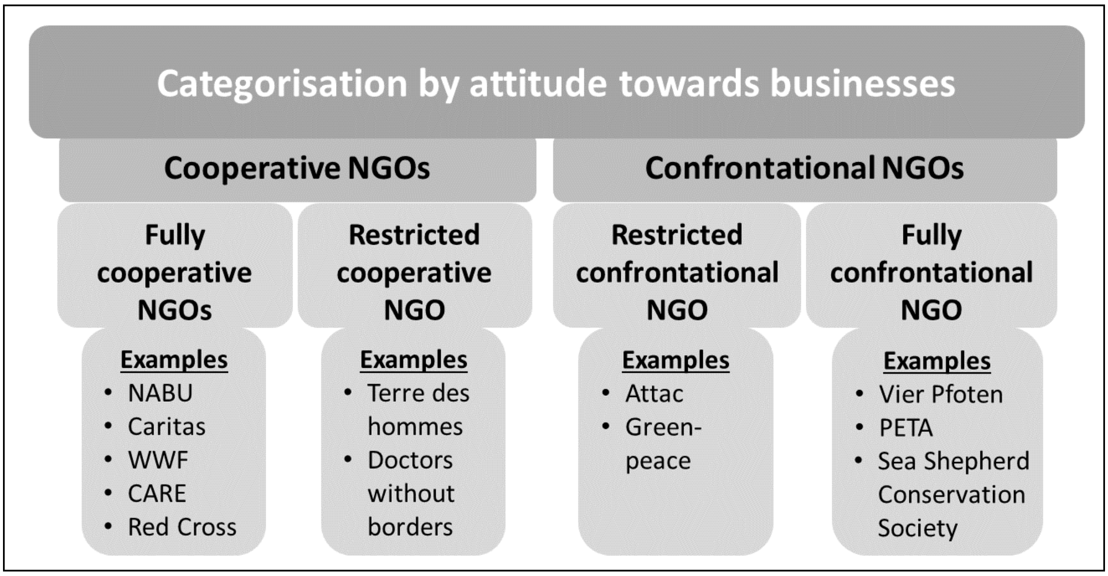
7.2.2.2. Categorising by the Attitude Towards Businesses

As already mentioned in previous Chapters, the focus of this treatise is the collaboration between NGOs and MNCs and over the recent decades, the development of the NGO itself and its attitude towards businesses has changed dramatically (Doh & Teegen, 2002; Dumont du Voitel, 2013; Kolb, 2015). From a highly adversarial attitude towards a rather cooperative attitude towards MNCs, the NGO has started to embrace businesses and in particular MNCs as fruitful collaboration partners (Doh & Teegen, 2002; Seitanidi & Ryan, 2007). Yet since not every NGO has taken this path and some show adversarial behaviours towards businesses until today, these varying attitudes need to be addressed in more detail (Lambell et al., 2008; Le Ber & Branzei, 2010).

In general, one can distinguish between two types of attitudes towards businesses from a NGO perspective: an adversarial or a cooperative (Kourula & Laasonen, 2010; Seitanidi & Crane, 2014). While adversarial NGOs see themselves as a clear counterpart towards businesses and neglect any type of collaboration with MNCs, cooperative NGOs seek collaborations with businesses in the hope to gain strong support for their social mission (Kolb, 2015). Via varying measures such as protests, demonstrations and highly controversial internet appearances, adversarial NGOs try to attract attention to misconduct and social grievances (Teegen et al., 2004). The overall goal of an adversarial NGO is to start a societal discourse on the pressuring issues, mostly via releasing shocking information. Normally, adversarial NGOs are not open for a constructive discussion with the private sector as they see this sector as the opposing force (Kolb, 2015). There are two types of adversarial NGOs existent. The hard-liner type which is generally not available for an open discussion with oppositions (e.g. PETA or vier Pfoten) and a limited adversarial NGO which does show some openness with regard to its strict rules on opposing businesses (e.g. Attac or Greenpeace) (Zentes et al., 2012). Either way, as both types of NGOs are in general acting towards businesses in an adversarial manner, both of these types of NGOs are excluded from further analysis within this treatise as they do not function as a suitable collaboration partner for MNCs.

Therefore, only NGOs with a cooperative mind-set, open to establish collaborations with the private sector are focused in this treatise. These types of NGOs try to collaborate on a short- or long-term basis with the goal of sustainably changing societal issues (Seitanidi, 2010; Teegen et al., 2004; Zentes et al., 2012). The can either be fully cooperative (e.g. NABU or WWF) or restricted cooperative (e.g. doctors without borders, terre des hommes). **Figure 30** highlights the above described categorisation and gives examples for each category.

Figure 30: **NGO Categorisation by Attitude Towards Businesses**



(source: own representation based on Zentes, Kolb, & Fechter, 2012: 11)

7.2.2.3. Categorising by the Primary Activity

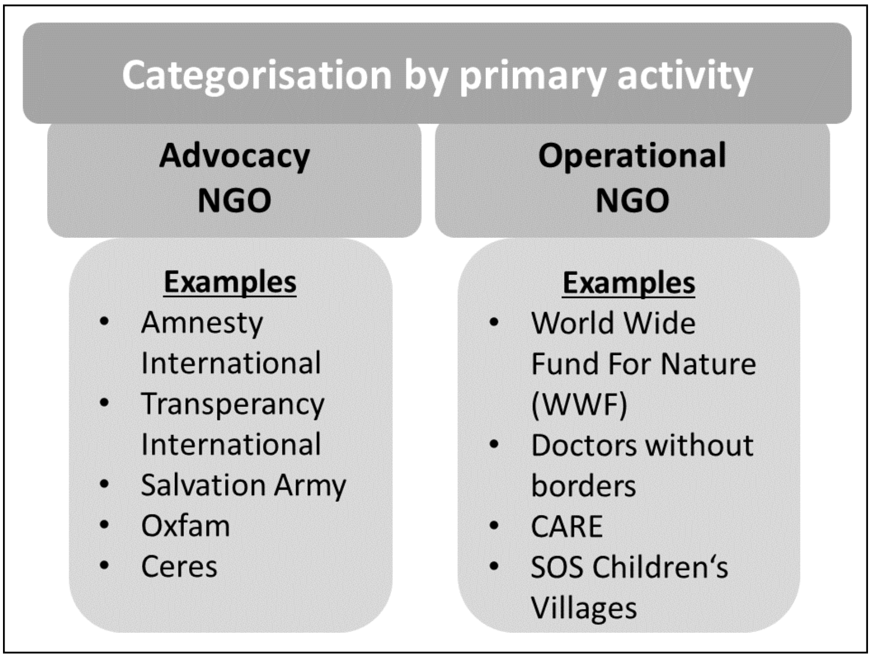
For this treatise, the most important categorisation of NGOs is the categorisation by the primary activity that is undertaken by the NGO. This can either be an advocacy activity or an operational activity leading to the two types of NGOs: advocacy NGOs and operational NGOs (Kolb, 2015; Lewis, 2001; Teegen et al., 2004).

Advocacy NGOs work to shape the social, economic or political system to promote a given set of interests or ideology by aiming to change public policy and private behaviour (Kolb, 2015; Rivera-Santos & Rufín, 2010b). They often promote broad ideals within human rights, social justice, poverty reduction and environmental movements. To promote their ideals adequately, advocacy NGOs engage in ample activities such as lobbying, conducting research, holding conferences, serving as representatives and advisory experts to decision makers, monitoring and exposing actions (and inactions) of others, disseminating information to key constituencies and developing and promoting codes of conduct (Teegen et al., 2004; Yaziji & Doh, 2009). Typically, advocacy NGOs work on behalf of others who lack the voice or access needed to promote their own interests (Kolb, 2015; Teegen et al., 2004). Furthermore, Teegen et al. (2004) differentiate between two types of advocacy NGOs, the watchdog NGO and the social movement NGO. In this comparison, the watchdog NGO is seen as the less ideologically radical NGO as within the communities it operates in, its role and vision is not to radically change the system. It is rather to ensure that the requirements of the system are being met and that firms, as well as regulatory bodies uphold their end of the bargain (Yaziji & Doh, 2009). Social movement NGOs on the other hand do not try to support the existing system, but rather want to change an undermine it (Yaziji & Doh, 2009). Thus, social movement NGOs can rather be seen as restricted or fully confrontational towards businesses and are therefore excluded from the analysis. Advocacy NGOs are often globally operating organisations such as Transparency International, Human Rights Watch or Oxfam International.

Even though many observers and also the public often focus on the advocacy efforts of NGOs, some of the most essential value created by NGOs stems from their operational activities (Barrow & Jennings, 2001; Malena, 1995). Operational, sometimes also called service-oriented, NGOs provide goods and services to clients with unmet needs (Yaziji & Doh, 2009). They focus on development related projects or operate in environments where "*politically challenged, indebted or corrupt states are unable or unwilling to provide for societal needs*" (Yaziji & Doh, 2009: 9). Thus, especially in developing countries, operational NGOs are acting as "*safety nets to fill voids when markets or governments fail*" (Teegen et al., 2004: 468). A good example for this type of NGO is the distribution of medical drugs by Doctors without Borders, a NGO that has gained technical expertise and experience in working in difficult environments or unserved populations over the recent decades (Parker, 2003). Other examples are the World Wide Fund for Nature (WWF) with several natural resource monitoring initiatives and the Red Cross providing relief efforts after natural disasters (Teegen et al., 2004; Zentes et al., 2012).

Although many NGOs focus exclusively on either advocacy or operational activities, there are also hybrid NGOs that are involved in both kinds of efforts making it difficult to categorise them (Parker, 2003). This distinction is neglected in this treatise to create higher conceptual clarity. Therefore, with regard to the distinction of NGOs based on their activities, the primary activity of the focal NGO is the important activity for its categorisation. **Figure 31** graphically represents the above mentioned aspects.

Figure 31: **NGO Categorisation by Primary Activity**



(source: own representation based on Zentes et al., 2012: 14)

7.2.2.4. Categorising by the Geographical Scope

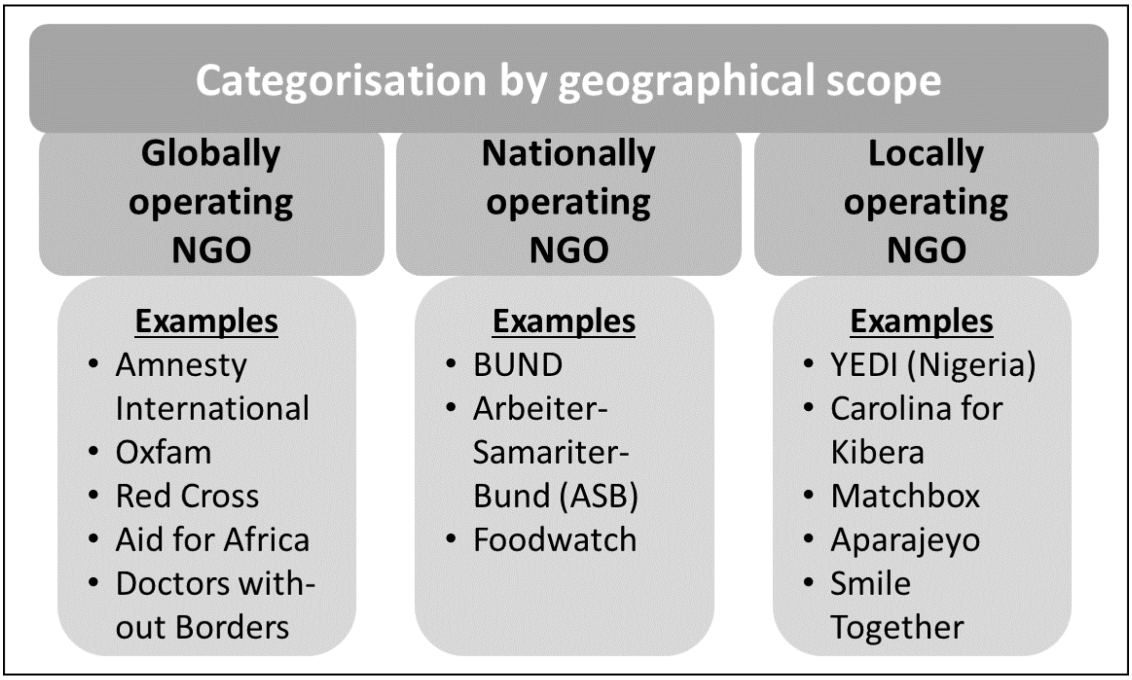
The last categorisation which is of importance for this treatise is the categorisation of the NGO based on their geographical scope. In general, NGOs are categorised via three different geographical scopes; the global scope, the national scope and the local scope (Crane & Seitanidi, 2014). Some researchers also identified the international scope and the regional scope as important categories, yet these categories are subsumed in the global scope (for the international view) and the local scope (for the regional view) (Kolb, 2015; Zentes et al., 2012).

According to Dahlberg (2017), global or international NGOs operate programs in at least three countries outside the region of their country of incorporation. Globally operating NGOs are typically well-known by the public and often exercise their global influence at international conferences (Zentes et al., 2012). In general, globally operating NGOs focus their attention around complex social problems such as poverty alleviation, climate change and food security (Crane & Seitanidi, 2014). They can "*easily reach behind other states borders*" (Mathews, 1997: 53) due to their global presence which makes it possible to force even the largest governments to respond to domestic claims. Exemplary NGOs of this type are Transparency International which operates in over 100 countries around the world or Amnesty International operating in more than 150 countries with over 7 million members (Amnesty International, 2017; Transparency International, 2017).

National NGOs only operate on a national level within one country. This clear focus makes it easier for the NGO to align resources, become an expert within a very specific field and thus create a specific reputation for particular areas of expertise. With regard to developed countries national NGOs have started to increase due to many neo-liberal reforms within the developed states. This has led governments to roll back its efforts as a public service provider and thus created a void filled by NGOs (Crane & Seitanidi, 2014). With regard to developing countries, national NGOs can serve as potential solutions to institutional voids through the provision of public goods (e.g. education, health or infrastructure) and the protection of human rights (Crane & Seitanidi, 2014). An example for a national NGO is the German Federation for the Environment and Nature Conservation (BUND) operating and focusing only on Germany (BUND, 2017).

The last category within the categorisation based on the geographical scope is the category of local and regionally operating NGOs. Typical activities for local NGOs are urban regeneration, economic development (especially in developing countries), municipal service provision and community engagement (Zentes et al., 2012). Thus, the focus of local and regional NGOs lays on generating efficiencies in service delivery (mainly operational NGOs) and enabling meaningful participation among local communities (mainly advocacy NGOs). An example for locally operating NGOs could be Carolina for Kibera or Matchbox. **Figure 32** on the next page graphically illustrates the above mentioned aspects again.

Figure 32: **NGO Categorisation by Geographical Scope**



(source: own representation based on Zentes et al., 2012: 15)

7.2.3. Resources and Capabilities of NGOs

After having highlighted the varying categorisation approaches of NGOs, the following subchapter will now turn to the specific resources and capabilities that NGOs can possess and that can become useful to the internationalising MNCs. As the literature on resources and capabilities of NGOs is highly scattered, multi-faceted and embedded in various research arenas, only the most relevant resources and capabilities of NGOs with regard to the potential usefulness for MNCs will be discussed within this Chapter.

Before starting with the depiction of the resources and capabilities possessed by NGOs it is important to shortly address the difference between the two terms; resources and capabilities. Resources are the productive assets owned by an organisation (Grant, 2010). Resources can be clustered into four types of resources: financial, intangible (e.g. licences, knowledge or reputation), physical and organisational (i.e. organisational structure or culture) (Grant, 2010). If a resource is of value, rare and furthermore non-imitable and non-substitutable it has the potential to create a competitive advantage either for a firm within its market competition or for a NGO within the competition for donors or collaboration partners (Amit & Schoemaker, 1993; Barney, 1991). Capabilities on the other hand are the organisation's ordinary abilities to perform a set of activities, generally embedded in organisational routines (Teece, 2010, 2018). It is a sequence of actions (routines) through which a specific task is performed. Put in simpler terms, as Grant (2010: 131) states: "*Capabilities are what the firm can do with the resources*". Thus, it is not only about the possession of resources, but also about the capability of deploying those resources in order to create economic or social value for the organisation.

7.2.3.1. Resources of NGOs

There are multiple resources which a NGO can possess or accumulate over time, yet the two most important resources for a NGO are reputation and legitimacy (Austin, 2000; Kolb, 2015; Marano & Tashman, 2012). Additionally a NGO can possess good access to idiosyncratic networks and can have highly specialised knowledge at its disposal (Graf & Rothlauf, 2012; Oetzel & Doh, 2009). Furthermore, a NGO can have a high publicity and awareness of its brand within the society (Kolb, 2015). All of these resources are described in more detail in the following subchapter. Interestingly, all major resources possessed by NGOs are of intangible nature.

Reputation is probably the most important asset that a NGO can possess, or as Austin (2000: 77) puts it: "*For the non-profit*[87]*, reputation is close to being everything*". Being relatively free from narrow, short-term political interests as well as from the profit motives which drive the corporate world, NGOs are enabled to approach social concerns and global

[87] Regarding the terminology, Austin (2000) sees the terms non-profit organisation and non-governmental organisation interchangeably.

societal issues from their own perspective, with an independent voice, trying to seek the greatest social good (Dubash & Oppenheimer, 1992). In general, reputation results from the past actions undertaken by an organisation (Wang, Lo, & Hui, 2003). For NGOs, it is further manifested through the publics opinion and perception of how a NGO satisfies their relevant stakeholders (Kolb, 2015). Because of their work in the third sector, putting its own interests behind the interests of others[88], society often sees NGOs as honest and admirable. Through the possession of a high reputation, normally created via a NGOs history of reliability, independence and impartiality, a NGO can acquire authoritative power to drive institutional and social change within local, national and especially global political and public affairs (Clark, 2001). Reputation can become an important resource for the MNC as it might help better to transfer the CSR strategy of the MNC to the public. In that regard the reputation of the NGO might pass over to the MNC.

Next to reputation, legitimacy is another very important resource base of the NGO and probably "*the most critical indicator of NGO influence*" (Lambell et al., 2008: 80) as legitimacy is an often lacked resource in the private sector and with regard to developing countries also in the public (governmental) sector (Lambell et al., 2008; Lucea, 2010; Seitanidi, 2010; Selsky & Parker, 2005). Suchman (1995: 574) defines legitimacy as "*a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions*". This definition is often used in the literature and widely accepted as it addresses the most relevant aspects of legitimacy (Dacin et al., 2007; Graf & Rothlauf, 2012; Kolb, 2015). Nonetheless, Lucea (2010) furthermore adds the fact that legitimacy is not an absolute characteristic, but a perceived characteristic by a certain group or individual. Thus, it is subject to change over time. In general, one can say that NGOs possess a very high amount of legitimacy (especially in comparison to private companies and the government), yet there is an ongoing critical discussion about this resource of NGOs. For instance, some researchers point to the fact that NGOs are not democratically legitimated via the public (Baur, 2011; Beisheim, 2005; Curbach, 2008). Additionally, since a clear depiction of a NGOs definition, form and type is very difficult[89], it leaves a lot of wiggle room for organisations to abuse tax

[88] This is also the main reason why social purpose NGOs (other-benefiting NGOs) have a much higher reputation than membership or club NGOs (self-benefiting NGOs) (Teegen, Doh, and Vachani (2004); Yaziji and Doh (2009)).
[89] See Chapter 7.2.1 for further details.

exemption benefits and the public perception of high legitimacy for NGOs (Baur & Palazzo, 2011). Yet as this treatise focuses on very specific types of NGOs, with self-benefitting NGOs being excluded from the analysis, the aspect of high legitimacy can be assumed for many portrayed organisations (Dumont du Voitel, 2013; Kolb, 2015; Yaziji & Doh, 2009). For an internationalising MNC, this resource can become important with regard to institutional change. As legitimacy can help NGOs to carry out instutitonal force, this can also help the MNC in its advancement of altering institutions.

Based on the above provided definition of a social purpose NGO, the goal of societal value creation through social and public good provisioning is at the heart of what a NGO does (Teegen et al., 2004; Vachani et al., 2009). Therefore, a NGO needs to possess a specific knowledge and expertise base to deliver on that promise. The areas of expertise can vary significantly as the operating fields of NGOs vary significantly. Some important areas of operations are: culture & arts, education & research, health, social services, environment or development & housing (Kolb, 2015; Schwenger, 2013; Wassmer et al., 2014). Within these areas, NGOs can possess specialised technical, societal, environmental and institutional expertise (Dahlsrud, 2008; Wassmer et al., 2014). Especially when the NGO is of an advocate nature, expertise and knowledge become critical to their operations in order to postulate and advocate systemic changes within their field of expertise (Wassmer et al., 2014). Additionally, a strong knowledge base can help increase reputation and legitimacy of the NGO even further. Even though the knowledge and expertise of NGOs can be manifold, it can become a very important resource for a MNC that a collaborating NGO can possess. Especially within the sectors of education & research, health, social services and development the knowledge of a NGO can help a MNC significantly. Depending on the exact internationalising challenge of an MNC, all types of expertise (technical, societal, environmental or institutional) can become relevant.

NGOs are engaged in various, highly diverse networks with market and non-market actors in order to promote and engineer their overall social causes (Oetzel & Doh, 2009; Schwenger, 2013). Due to their operations in the third sector and their high legitimacy, often combined with a high reputation, they get access to heterogeneous and idiosyncratic networks (Graf & Rothlauf, 2012; Oetzel & Doh, 2009). Oftentimes these networks offer the potential to actively engage in changing the institutional environments at a local, national or even global level. NGOs invest much of their time in networking horizontally (i.e.

discussing and collaborating with other NGOs and third sector organisations) and vertically (i.e. with businesses and governments) as they hope to further their social causes via pressing their agendas in relevant networks (Kolb, 2015). While global NGOs mostly operate in global networks trying to accomplish their missions via agenda setting[90] at various conferences, local NGOs rather invest their time in smaller, more locally dispersed networks (i.e. collaborating with the local public or governments) at the base of their tackled problems (Kolb, 2015; Zentes et al., 2012). Nonetheless, for both types of NGOs the access to specific and distinct networks is only a potential resource that is given to the NGO based on its high legitimacy. The actual value from the access to distinct networks comes from the capability of networking within these distinct networks and thus driving the admired social change. This aspect is discussed in the upcoming subchapter 7.2.3.2. The access to relevant and idiosyncratic networks can be of great importance to an internationalising MNC as it can help the MNC to acquire contacts which it would normally not be able to reach and acquire.

The last important resource which NGOs can possess and that needs to be mentioned in this subchapter is the aspect of publicity and awareness. While local NGOs are typically not known outside their region and even national NGOs are (if at all) only known within their operating country, many globally operating NGOs seem to enjoy a very high publicity and awareness (Kolb, 2015; Zentes et al., 2012). In general, this can lead to a great advantage for these global NGOs as it typically leads to a higher financial endowment since more donors are donating for the specific NGO (Kolb, 2015). More importantly, it also leads to a higher support and overall awareness of the societal aspects discussed by the specific NGO, which in turn leads to a higher potential of changing global guidelines within specific areas of expertise (Schwarz & Fritsch, 2018). Thus, also publicity and awareness of a NGO can be an important resource, but it is rather found in global or sometimes national NGOs. Nevertheless this resource can be of high importance for an internationalising MNC, especially if the MNC needs to change the perception of its customers or end consumers. Through a collaboration with a publicly highly profiled NGO this endeavour might be supported adequately.

[90] Agenda setting describes the ability to influence topics that are put on the public agenda (McCombs and Reynolds (2002)).

7.2.3.2. Capabilities of NGOs

After having reviewed the most important resources that a NGO can possess, the focus will now turn to the capabilities of a NGO in order to make use of their resource endowment. At first it needs to be mentioned that NGOs can become and execute a strong institutional force. Other capabilities are the NGOs ability to network and engage in contextual bridging. Furthermore the rather entrepreneurial phenomenon of organisational bricolage will be discussed, before the capability to create operationally excellent processes and service networks will end this subchapter.

NGOs can possess the ability to execute strong pressure for institutional change trying to alter the institutional framework in which they and other actors operate (McKague et al., 2015; Schleimer & Pedersen, 2014; Yaziji & Doh, 2009). Via these activities, NGOs themselves can become a relevant institutional force as well (Lewis, 2001; Millar, Choi, & Chen, 2004). They often have created long-lasting relationships with multiple stakeholders in institutionally difficult settings and thereby have embedded fully into the institutional and social environment within their area of activity (Millar et al., 2004). This embeddedness can create "*a platform for the unfolding of entrepreneurial activities' by knowledgeable agents* [i.e. NGOs]*"* (Garud et al., 2007: 961) and thus activate institutional change (Doh & Teegen, 2002; Garud et al., 2007). Additionally, NGOs become highly aware of the social and institutional changes occurring around them due to their embeddedness in the long-term relationships (Halaszovich & Lundan, 2016; Leite & Latifi, 2016). A capability of high value for MNCs as they typically do not possess these capabilities, especially not during an internationalisation. With regard to companies and their ability to change and alter institutions, this phenomenon is often discussed under the aspect of institutional entrepreneurship (DiMaggio, 1988; McKague, 2011).

As previously described in the subchapter on resources of a NGO, the access to distinct networks can be a critical resource for a NGO. Yet if the NGO does not possess the capability of organising, managing and administering these distinct networks and relationships, their potential gains through the access to these distinct networks diminishes significantly (Graf & Rothlauf, 2012; Kolb, 2015). Research on dynamic capabilities has shown, that these capabilities can either be inherent in individuals or based in organisational routines that need to be established by the NGO (Ambrosini & Bowman, 2009; Teece, Pisano, & Shijen, 1997). Furthermore, a NGO can possess the ability to establish new networks to bring together various stakeholders (i.e. brokering relationships) and discuss approaches to institutional and social change (Kolb, 2015; McKague et al., 2015). Since the networks in which NGOs operate are highly diverse (i.e. government representatives, community agents, local society, business, etc.), NGOs, or more specifically their employees, need to have the capability of quickly adapting to multiple contexts. This aspect of the networking capability of NGOs is also closely aligned to the next capability of NGOs: contextual bridging.

Contextual bridging is the phenomenon of "*transferring new meanings, practices and structures into a given context in a way that is sensitive to the norms, practices, knowledge and relationships that exist in this context*" (McKague et al., 2015: 1083). Especially NGOs seem to possess this capability. Because of the multiple and distinct networks and environments in which they typically operate, they become prone to various influences and susceptive to new and innovative approaches. These approaches can be learned, adapted and then adopted to other contexts, thereby contextually bridging the accumulated knowledge (Doh et al., 2017; McKague, 2011; McKague et al., 2015; Pinkham & Peng, 2017). There are familiar concepts to contextual bridging available in the literature such as institutional entrepreneurship (focusing more on the change aspect of institutions) and institutional borrowing (rather focusing on the established institution that is borrowed from, but not transferred to the specific context) (McKague, 2011; Pinkham & Peng, 2017). Contextual bridging is especially carried out well by global and local NGOs as they each operate in very distinctive networks at the same time. For an internationalising MNC, this capability can be of high importance as it typically does not know how to transfer knowledge and meaning from one context to another. Especially not, whenever the operating context is highly different to their own.

"*Where there is a shortfall in formal institutions, the capability to mobilize informal resources becomes even more important for organisational effectiveness and survival*" (George et al., 2016: 382). This capability can partially be coined organisational bricolage (Duymedjian & Rüling, 2010; Linstead & Grafton-Small, 1990; Ritvala et al., 2014). Organisational bricolage is a capability that originates from entrepreneurial studies and especially smaller and more locally oriented organisations and NGOs seem to possess it (Baker, Miner, & Eesley, 2003; Duymedjian & Rüling, 2010; Ritvala et al., 2014). It is a "*way to proceed organisational analysis […] against a background of material and social constraints*" (Linstead & Grafton-Small, 1990: 291). Duymedjian and Rüling (2010: 135) describe it as "*a process of continuous creation and utilization of practical knowledge, and as an exploitation of varied types of resources*". They additionally highlight that "*bricolage depends on the existence of organisational memory. This memory allows an organisation to maintain an inductively generated knowledge base founded on experiences*" (Duymedjian & Rüling, 2010: 135). The combination of experience knowledge and resource constraints which are especially salient in developing countries can make a NGO a strong innovator at the base of the pyramid and other institutionally challenging settings. Ritvala et al. (2014) found out that developmental NGOs serving in developing countries are used to work around institutional problems and find solutions with a very limited resource base. This possession of organisational bricolage capabilities can be of high value especially for large MNCs as typically these organisations are understood to have problems with creating organisational bricolage capabilities (Duymedjian & Rüling, 2010; George et al., 2016; Halaszovich & Lundan, 2016; Ritvala et al., 2014).

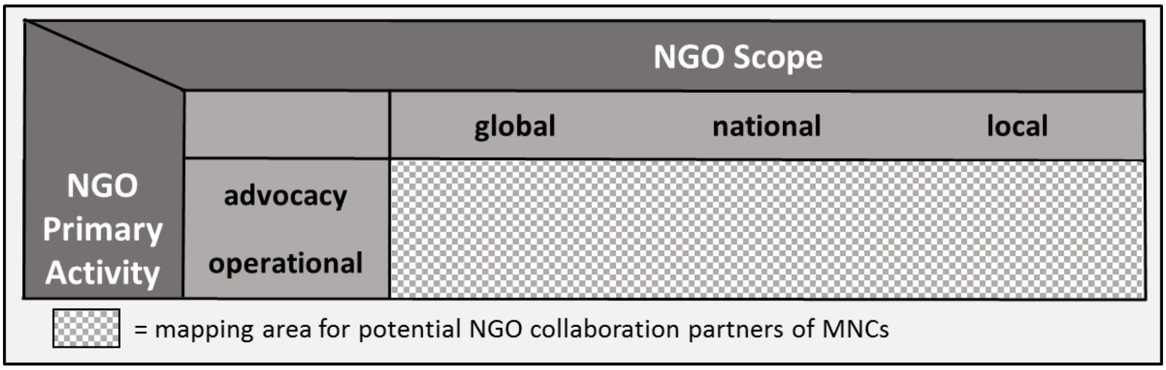
While advocacy NGOs often have a solid knowledge base and expertise in their particular field of activity, operationally-driven NGOs often focus their activities on the distribution of products (e.g. aid products or sanitary products) or the set-up of service delivery (e.g. educational workshops). Thus, operational NGOs have become pioneers in setting up operations, processes and networks within certain geographical spheres in oftentimes difficult institutional settings (i.e. settings that highly rely on informal institutions or settings with multiple institutional voids) (Doh et al., 2017; Teegen et al., 2004). This operational excellence has created long-term local connections, through which NGOs can accumulate first-hand knowledge about cultural and institutional aspects (e.g. knowing how to circumvent or mitigate institutional voids) of the particular environment (Doh & Teegen, 2002; Millar et al., 2004; Schuster & Holtbrügge, 2014a). For a for-profit firm these institutional aspects are difficult to decipher and the experience knowledge build up by the NGO can easily help in this regard (Cantwell et al., 2010; Halaszovich & Lundan, 2016). Again this offers an interesting opportunity for MNCs to gain experience knowledge which is critical for a successful market entry, but hard to obtain as the Uppsala model of internationalisation (Chapter 2.3.1) has taught us.

7.2.4. Mapping Potential NGO Collaboration Partner Profiles for MNCs

Summarising the described categorisations from the previous subchapter 7.2.2. and the articulation on resources and capabilities of NGOs in subchapter 7.2.3., the following subchapter will establish a map in which all potentially relevant NGO collaboration partners for MNCs can be mapped based on two dimensions: the NGOs primary activity and its geographical scope. Furthermore a slight alignment of the resources and capabilities of NGOs with regard to both dimensions will also be undertaken to show the ambiguity and fluidity of the practical nature of the field.

There are multiple aspects concerning the categorisation of NGOs, which need to be highlighted with regard to the upcoming analysis. First of all, this treatise only includes social purpose NGOs which are not benefiting their own organisations members & donors. Thus, *membership* and *club* NGOs are excluded from the analysis as they do not serve a social purpose and mostly focus on benefiting their own members. Additionally, since this treatise tries to answer a question regarding the collaboration between non-governmental organisations and multi-national corporations, all NGOs with an adversarial attitude towards businesses are also excluded from the analysis. This measure is taken as NGOs and MNCs highly differ in terms of organisational goals, cultures and processes, thus a collaboration between both actors can become very risky for both organisations (Argenti, 2004; Berger, Cunningham, & Drumwright, 2004; Dumont du Voitel, 2013). As it would be even harder for MNCs to establish collaborations and create trust with conflicting NGOs that are not really open for potential collaborations, it is highly unlikely that MNCs as well as NGOs are willing to cooperate. Therefore, this analysis only focuses on collaboration-affine NGOs as potential partners for a collaboration with MNCs. As mentioned earlier and most relevant for the mapping of potential NGO partner types, NGOs that are open for collaboration with MNCs can be further differentiated by their primary activity (advocacy or operational) and their geographical scope (global, national and local) as described in subchapter 7.2.2.3 and 7.2.2.4. This distinction based on the two categories leaves a continuous map in which potential NGO collaboration partners can be placed. In this regard, it is very important to notice that a clear distinction between various types of NGOs based on these two categories is extremely difficult to undertake in practice, as many NGOs can operate as hybrid forms (Doh & Teegen, 2002; Kolb, 2015; Kolk et al., 2008). Therefore, the approach of creating a continuous map based on two dimensions and their particular categories that can be seen as a continuum was chosen, rather than creating a categorisation with distinct types and categories. Thus, **Figure 33** graphically illustrates the overall area (map) in which a potential NGO collaboration partner can be placed. With regard to the NGOs scope, the established map spans from global to local and with regard to the NGOs primary activity it spans from advocacy to operational. Furthermore, it can already be noticed that this aspect is also the reason why this treatise derives clear interdependency effects of internationalisation challenges, embeddedness dimensions and favourable resources and capabilities of NGOs, but not with regard to distinct favourable types of NGOs, as these distinct types are seldom found in practice.

Figure 33: **Mapping potential NGO collaboration partners**



(source: own representation)

Another goal of this subchapter is to give a slight alignment and overview on the link between the varying resources and capabilities of NGOs and their increased emersion towards certain forms of both categories in the above established map. Starting with the resource reputation, it can generally emerge in every form of both established dimensions (Austin, 2000). Yet, typically global and national NGOs show higher reputation figures than local NGOs as they are better controlled and more renown which can also lead to higher reputation (Kolb, 2015; Wang et al., 2003). The resource specialised knowledge is highly dependent on the specific knowledge (e.g. technical, societal, environmental or institutional) and its area of usage. Thus, it is very difficult to cluster. Yet overall, one can say that specialised knowledge is more important to advocacy NGOs than operational NGOs, as expertise within one particular field is highly relevant for advocative NGOs to remain present and a viable organisation in the institutional environment (Wassmer et al., 2014).

Distinct network access as another important resource of NGOs is also very difficult to cluster as the networks of NGOs differ significantly. Yet, as a slight alignment it can be stated that global NGOs typically operate more within global networks at global conferences (Kolb, 2015), while local NGOs are primarily embedded in highly local networks oftentimes with other local NGOs or the community (Zentes et al., 2012). Publicity, as the last important resource of NGOs that can be of relevance for an internationalising MNC, is a resource that can mostly be seen in globally operating NGOs and occasionally in nationally operating NGOs (Kolb, 2015; Schwarz & Fritsch, 2018). Local NGOs rarely show high publicity and awareness figures (Zentes et al., 2012).

Additionally NGOs can possess up to five resources that can be of importance for an internationalising NGO. At first, the capability of institutional force, can be possessed by every potential NGO collaboration partner. Nevertheless, it is more typical that a globally operating NGO possesses this type of capability as it is constantly working on changing institutions (Doh & Teegen, 2002). Contextual bridging as another capability of NGOs refers to "*the transfer of new meanings, (...) into a given context (...)*" (McKague et al., 2015: 1083). This capability is often visible in either globally operating or locally operating NGOs. Both types of NGOs operate in highly diverse settings and are therefore able to contextually bridge between these settings (McKague et al., 2015; Pinkham & Peng, 2017). Organisational bricolage, "*the capability to mobilize informal resources" (George et al., 2016: 382)*, can also be possessed by all types of NGOs, as NGOs oftentimes experience a strong resource constraint and need to become creative to overcome this shortage (Duymedjian & Rüling, 2010; Ritvala et al., 2014). Nevertheless, especially locally operating NGOs seem to possess this capability as they oftentimes experience the most extreme resource shortages and therefore have create extensive organisational bricolage capabilities (Ritvala et al., 2014). The last capability, operational excellence, is dominantly possessed by operational NGOs as they have become pioneers in setting up operations and processes in difficult to navigate settings (Doh et al., 2017).

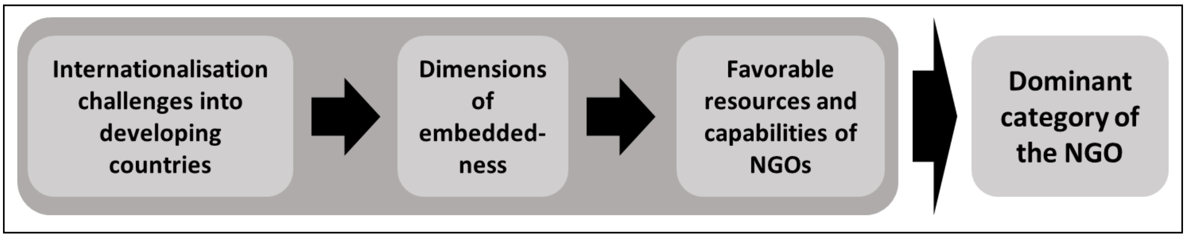
8. Interim Conclusion

The overall goal of this treatise is to establish an assistance for MNCs to help identify suitable NGO collaboration partners in order to mitigate the MNCs internationalisation challenges into developing countries via a better embeddedness into the cultural and institutional framework of the developing country. This approach is undertaken via tendency statements (interdependency factor analysis) arguing for favourable resources and capabilities that a potential partner NGO of a MNC should possess. Absolute statements (e.g. via propositions) regarding specific NGO partner types are impossible to make due to the broad and complex topic of the study and the varying characteristics of NGOs in practice. Yet, after the interdependency analysis a conclusion will be drawn, highlighting the most dominant category which a NGO should possess besides its various resources and capabilities. This will give decision-makers an initial area on which to focus on early in the partner selection.

As a preparation of the upcoming analysis, the second and third Chapter have identified key internationalisation challenges on a generic level as well as specific to developing countries to provide a broad and solid foundation of potential internationalisation challenges that can occur to an internationalising MNC. This has already been summarised in the first interim conclusion in chapter 4. Furthermore, the previous three Chapters (Chapters 5, 6 and 7) have been devoted to aspects of embeddedness, the non-market environment of international business and cross-sector collaborations with a special focus on NGOs as one of the major actors in civil society. With regard to embeddedness in international business, the literature has been discussed extensively and multiple dimensions of embeddedness have been structured accordingly. Thereby, six dimensions of embeddedness have been identified as the foundation for further analysis in the upcoming chapter regarding the aspect of embeddedness in the overall analysis. The key characteristic which these six dimensions all have in common is the aspect that they can be actively addressed by the MNC. Furthermore, the non-market environment and its importance in developing countries was focused in Chapter 6. This Chapter discussed the two available and very broad strategies for MNCs to engage with the non-market environment: corporate-political activity and corporate social responsibility. While the former highlights the importance of building a relationship with the governmental sector (e.g. carrying out bargaining and non-bargaining strategies), the latter focuses on building relationships with the civil society sector which is mostly represented by NGOs as they are the dominant actor within this sector. Chapter 7 finally introduced cross-sector collaborations as the specific form for MNCs to engage with the non-market environment. Since the focus of the treatise is put on the mitigating effects of business-NGO collaborations regarding the internationalisation challenges of MNCs, the Chapter also focused its description on this type of collaboration. Nevertheless, all four types were addressed shortly. Furthermore, the NGO as the focused collaboration partner for the MNC is characterised in more detail with regard to the development of this organisational form as well as varying categorisation efforts undertaken by the research community. Afterwards, the important distinction and elaboration of multiple resources (e.g. reputation or specialised knowledge) and capabilities (e.g. networking or organisational bricolage) of NGOs, the final foundation for the overall interdependency analysis is being developed for this treatise. The Chapter finishes with a mapping approach, creating an area (map) based on two major categories (the NGOs *primary activity* and the NGOs *geographical scope*) in which potential NGOs as collaboration partners can be placed.

Thus, the Chapter following this interim conclusion, Chapter 9, will now combine the aforementioned aspects and foundations to establish a link between the internationalisation challenges into developing countries faced by MNCs, the dimensions of embeddedness in which a MNC can actively engage in and the favourable resources and capabilities which a potential NGO collaboration partner should entail. As already argued in previous chapters (mostly in chapter 3, 4 and 5), the embeddedness of the MNC into the institutional and cultural framework of the developing country is of very high importance during the internationalisation and a collaboration between the MNC and a NGO can help achieve exactly that (Bhanji & Oxley, 2013; Boddewyn & Doh, 2011; Cantwell et al., 2010; Doh et al., 2015; Doh et al., 2017; Meyer et al., 2011; Rivera-Santos et al., 2012). Due to the very complex, broad and occasionally ambiguous nature of the different fields of research portrayed in the previous chapters, a clear and seamless delineation of potential, distinct NGO collaboration partner types for a MNC is very difficult to establish. Yet an analysis based on influencing and interdependency factors with the goal of highlighting favourable resources and capabilities of a potential NGO collaboration partner remains feasible and will be carried out in the upcoming chapter. Furthermore, after deriving the interdependency statements, a conclusion will be drawn regarding the dominant category (forms of the category *primary activity* or *geographical scope*) of the potential NGO that should be focused on. That way, an initial focus on a specific form of a specific category of a NGO can substantially help in the search of a suitable collaboration partner. In other words, with the overall analysis one can presume which resources and capabilities of NGOs are favourable with regard to specific internationalisation challenges and therefore, which category of a NGO is of very high importance for the upcoming partner selection. **Figure 34** conceptually highlights the overall line of argumentation, which will become more fine-grained in the upcoming Chapter. In the figure one can see the primary interdependency analysis (first three steps) of the argumentation and the following conclusion (dominant category of the NGO).

***Figure 34:* Line of Argumentation**



(source: own representation)

9. Towards a Conceptual Framework for Collaborative Arrangements Between MNCs and NGOs

As already mentioned in the interim conclusion in Chapter 8, the following Chapter will combine the knowledge from all previous Chapters to establish the overall interdependency analysis, the primary goal of this treatise. Therefore the subchapter 9.1 will shortly introduce the inherent and prevalent methodological approach, before subchapter 9.2 sets up the interdependency framework in more detail. Based on the proposed framework, twelve interdependency effects will be outlined and argued in subchapter 9.3 including a final conclusion considering the dominant category of the partner NGO. Afterwards, subchapter 9.4 exemplifies three illustrative case studies in which three companies have entered developing countries via the assistance of NGOs. The illustrative case studies shall help to make the rather abstract interdependency analysis more concrete and aligned to practice.

9.1. Methodological Approach

Writing conceptual work is difficult as there are no straightforward formulas or templates (Cornelissen, 2017; Ragins, 2012). Yet the need for conceptual framework development in management and international business remains high as it gives structure and orientation to highly complex and oftentimes ambiguous research fields (Hambrick, 2007; Hillman, 2011). As already stated in the introduction of this treatise, the research question of this treatise is of a broad, holistic and integrative nature in which multiple streams of research are brought together (Oesterle & Wolf, 2011). If this perspective is combined with a conceptual approach then "*its major prerequisites are a broad knowledge of the field and of neighbouring disciplines, and a 'feeling for real business*'", as Oesterle and Wolf (2011: 741) advice. Therefore, this treatise has delineated in depth the relevant concepts of various research areas (e.g. embeddedness research, internationalisation theories, cross-sector collaboration research) to give an extensive overview on all environments that are related to the overarching research question of this treatise and to create a rationalist, deductive approach to this conceptual framework development. Furthermore, the delineation of varying research fields covered within the treatise, highlighted the complexity and ambiguity of the researched topic and thus allows for a tendency and interdependency analysis.

Even though the goal of this treatise is not to derive a new theory itself, its conceptual approach tries to align first tendencies regarding a NGO partner selection of MNCs in developing countries based on individual internationalisation challenges and various embeddedness dimensions. This approach is undertaken from a rationalist view by the researcher in which deduction is preferred over induction. Thereby, the "*interpretation of past masters, through parsing canonical texts (i.e., literature reviews)"* is focused, rather than *"empirical observation"* (Suddaby, 2014: 408). Even though this treatise is not aiming at a new theory development, its set-up is similar as it tries to derive and create knowledge through thorough deduction and analysis of past research, as visible in all the previous chapters throughout this treatise.

Even though there are no straightforward formulas or templates for conceptual development, Cornelissen (2017) offers an overview of three styles of theoretical or conceptual contributions that are often visible in submissions to the Academy of Management Review-Journal. These styles are the proposition-based style, the narrative-based style and the typology-based style of theory contribution (Cornelissen, 2017). The typology-based style in which a newly created typology interrelates different dimensions to carve out new constructs and interactions is neglected for this treatise. Furthermore, the proposition-based style in which the "*statement of theoretical propositions (...) introduces new constructs and cause-effect relationships*" (Cornelissen, 2017: 3) will be neglected as it formalises contingencies in a strict and straight forward manner. An application that is difficult to undergo in this broad, complex and partially ambiguous setting of this treatise. Therefore, the narrative-style based theory development, the "*specification of a process model that lays out a set of mechanisms explaining events and outcomes*" (Cornelissen, 2017: 3), seems to be most suitable regarding an underlying methodology. It is carried out throughout the whole treatise with a focus on Chapter 9.2 in which all parts of the proposed interdependency framework are conceptually combined together. In the upcoming subchapter the varying concepts that have been introduced and partially delineated in the Chapters 2 to 8 are combined together to form a coherent framework for analysis. Some additional work, highlighting further boundary assumptions will also be carried out in the upcoming Chapter.

9.2. Setting up the Conceptual Framework

The following subchapter will develop the more detailed overall concept for NGO partner type selection by a MNC in order to mitigate its internationalisation challenges (subchapter 9.2.5). Therefore, the subchapters 9.2.1 to 9.2.3 will individually delineate parts of the overall framework regarding the interdependency analysis (i.e. internationalisation challenges into developing countries, dimensions of embeddedness and favourable resources and capabilities of NGOs). Within each subchapter the most relevant findings from previous Chapters are subsumed and necessary boundary assumptions for the process model are made explicit as it is important for the overall conceptual analysis. (Bacharach, 1989; Smithey Fulmer, 2012; Suddaby, 2014). After the interdependency analysis, a conclusion will be drawn with regard to the selection of the dominant category that a NGO needs to possess and that the MNC should primarily focus on during their initial collaboration partner search. This process will be described in in more detail in subchapter 9.2.4. Overall, the arguments and proposed constructs are based on the simple framework already proposed in the interim conclusion in Chapter 8 (**Figure 34**), yet subchapter 9.2.5 will finish this chapter with the more fine-grained overall framework.

9.2.1. Overview on Challenges of Internationalising into Developing Countries

Research on internationalisation challenges has started with the identification of challenges when internationalising into developed countries. Therefore, these types of challenges have been articulated in Chapter 2 in order to get a complete overview on the potential challenges that a company can face during its internationalisation. Nevertheless, the focus of this treatise lies upon the internationalisation into developing countries and thus the challenges of the internationalisation into developing countries need to be in the focus as well. Yet, since multiple generic challenges, identified via research on internationalisation challenges into developed countries, are also relevant for the market entry into developing countries, the description of these types of challenges has been twofold for a better understanding of the existing concepts. Nevertheless, in order to create a single basis for further analysis, all approaches should be combined in a single chart to simplify analysis and give a more structured overview.

Therefore, **figure 35** shows the four different categories that are relevant for the future analysis with regard to the internationalisation challenges. They divide into internal & external challenges for internationalising companies, the concepts of distance creating challenges during internationalisation, the liability of foreignness and as challenges occurring specifically only within emerging and especially developing countries; the challenges created by institutional voids and the liability of privateness[91]. As a boundary assumption of the overall analysis derived in subchapter 9.2.4, this overview does not include the internal challenges at the individual level, the external challenges with a home-based focus and other distances in the distance challenges dimension. The first two categories are not the focus of this treatise as the research question is answered on an organisational level rather than an individual level of analysis. Additionally, the home-based characteristics which are characterising home-government and home-competition aspects are also not of relevance for the decision of a MNC regarding the NGO collaboration partner type in another host country. Furthermore, the *other distances* category is excluded as its categories are not well enough understood and researched as for now. It needs to be noticed that the provided categories in **figure 35** are not mutually exclusive categories, since they stem from varying perspectives and oftentimes partially focus on similar aspects. For instance, the aspect of institutional distance in the *distance challenges* category highlights the challenges that emerge due to different formal and informal institutions between home and host countries, while institutional voids (formal and informal) focus on the challenges created by the absence of institutions within developing countries. Yet, taken together, all categories are collectively exhaustive. Therefore, a last boundary assumption within the first category is the aspect of primary internationalisation challenge. This means that with regard to the framework and its prediction of a suitable NGO collaboration partner type for a MNC, a MNC can always only focus on one major challenge which it incurs during its internationalisation process.

[91] Please note that these challenges might also occur in developed markets. Yet, they have first been found in and characterized to be specific to emerging and developing markets.

Figure 35: **Challenges of Internationalisation into Developing Countries**

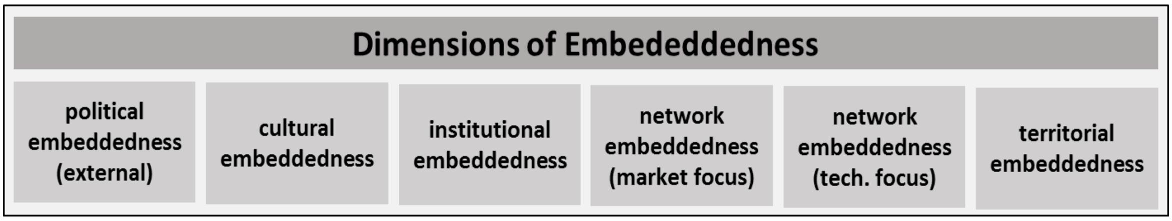
Challenges of internationalisation into developing countries			
Internal & External challenges	**Distance challenges**	**Liability of Foreignness**	**Institutional voids & liability of privateness**
Firm-level • Marketing resource scarcity • Financial resource scarcity • Lack of managerial and organizational capability • Challenges in human resources **Host-based** • Economic challenges • Political & legal challenges	**Cultural distance** • Hofestede studies • KS-index of measurement • GLOBE study **Institutional distance** • Regulatory • Normative • Cognitive	**Unfamiliarity hazards** • Incorrect market assessment • Inadequate knowledge of host countries norms, values and business practices **Relational hazards** • Complex and unforeseeable relationship building efforts • Intra- vs. Inter-relational hazards **Discriminatory hazards** • Unfavorable treatment by local stakeholders • Unfav. treatment by the govern. • Foreign firm taxes	**Formal voids** • Infrastructural voids • Capital market voids • Labour market voids • Lack of property rights • Information voids **Informal voids** • Wrong type of informal institution • Problems of decoding informal institutional voids **Liability of privateness** • Disadvantages due to the private nature of the internationalization activity

(source: own representation)

9.2.2. Dimensions of Embeddedness

The second aspect of the overall framework are the dimensions of embeddedness in which a MNC can actively embed. Chapter 5 has introduced multiple perspectives and angles on embeddedness from various research areas such as organisational theory, sociology or international business (Granovetter, 1985; Heidenreich, 2012a; Hess, 2004; Welch & Wilkinson, 2004). Furthermore, Chapter 5.3 already delineated in-depth which dimensions of embeddedness are indeed relevant for this treatise. The six dimensions of interest are: external political embeddedness, cultural embeddedness, institutional embeddedness, network embeddedness with a market focus, network embeddedness with a technology focus and territorial embeddedness. These six dimensions of embeddedness are also shown in **Figure 36** again and were already defined in detail in Chapter 5.

Figure 36: **Dimensions of Embeddedness**



(source: own representation)

These six dimensions have been selected as a part of the overall analysis as, compared to other dimensions of embeddedness, they all possess two important boundary assumptions: they do not focus on the individual level of analysis and they can be actively targeted by a MNC (i.e. embeddedness agency). Especially the second assumption is of high importance as the distinction between actively choosing the areas of embeddedness ("embedding in") compared to the other dominant view in embeddedness research of a passive embeddedness ("embedded in") remains a crucial distinction for the literature (Dacin et al., 1999; Granovetter, 1985; Halaszovich & Lundan, 2016; Heidenreich, 2012c; Ratajczak-Mrozek, 2017). Even though more research has been carried out on the passive views of embeddedness, this treatise focuses on the active part (embeddedness agency), as it gives the MNC the capability of actively choosing important areas of embeddedness. Additionally, it needs to be added that especially for both dimensions of network embeddedness (market focus and technology focus) a MNC can primarily collaborate with other for-profit organisations, but with-in institutionally fragile environments they may also tend to collaborate with actors from the non-market environment, especially non-governmental organisations.

9.2.3. Favourable Resources and Capabilities of NGOs for MNCs

The third dimension of the overall framework is considering the favourable resources and capabilities of NGOs for MNCs. This dimension focuses on the five resources and five capabilities of NGOs that were previously described in chapter 7.2.3. The five resources are reputation, legitimacy, specialised knowledge, distinct network access and publicity, while the five capabilities are institutional force, networking, contextual bridging, organisational bricolage and operational excellence. **Figure 37** again graphically highlights all five resources and five capabilities of NGOs that are relevant for the upcoming analysis.

Figure 37: **Favorable Resources and Capabilities of NGOs**

Favorable resources and capabilities of NGOs

Resources	**Capabilities**
• Reputation • Legitimacy • Specialised knowledge • Distinct network access • Publicity	• Institutional force • Networking • Contextual bridging • Organisational bricolage • Operational excellence

(source: own representation)

With regard to the dimension of favourable resources and capabilities of NGOs there is only one important boundary assumption to mention. As the research field of resources and capabilities of NGOs is highly scattered, the selected resources and capabilities that NGOs can possess only represent resources and capabilities that can also become useful for MNCs during their internationalisation efforts. Furthermore, as it has been delineated in chapter 7.2.3 as well as 7.2.4 (mapping of NGOs), all potential resources and capabilities can be found in varying combinations in advocacy or operational NGOs (primary activity). Additionally, these combinations can also be differentiated via the geographical scope of an NGO (global, national or local). Again, also with regard to this category, multiple variations of resources and capabilities possessed by NGOs can accrue within one form of a category (e.g. global, national or local in the category *geographical scope*, or advocacy or operational in the category of *primary activity*). Nevertheless, the distinction via resources and capabilities of NGOs serves as a great way to end the interdependency analysis as it stays away from establishing distinct favourable types of NGOs as collaboration partners, yet gives a first indication for MNCs as to which resources and capabilities a NGO should possess in a specific internationalisation challenge.

9.2.4. Dominant characteristic of the NGO Partner

As a strict and clear delineation of NGO collaboration partner types and their specific resources and capabilities remains very difficult in practice and thus hinders a clear analysis, the interdependency analysis focuses on the favourable resources and capabilities that a NGO should possess with regard to the experienced challenges during the internationalisation of MNCs. Furthermore, the interdependency analysis with regard to favourable resources and capabilities of NGOs allows for an additional argumentative step afterwards. In this step, one can argue for a dominant category that a NGO needs to possess with regard to mitigating a particular internationalisation challenge of a MNC. This category is based on the two dimensions primary activity of the NGO and geographical scope.

Therefore, the following paragraph will shortly highlight some boundary assumptions with regard to the potential NGO partner types and their dominant category. This is especially relevant as only through these boundary assumptions, a clear distinction between potentially interesting NGO partner types (i.e. their main characteristic) for the MNC and non-interesting (neglectable) partner types (i.e. their main characteristic) becomes possible. At first, in order to be considered as a valid type of NGO collaboration partner, the NGO needs to be an “other-benefitting”-NGO, meaning that the purpose of the NGO is to help others and not merely its own members. More information regarding this aspect was already given in Chapter 7.2.2.1. Furthermore, the NGO needs to be open for collaboration with companies without an adversarial mind-set towards business practices. This does not mean that a NGO should not controversially discuss and highlight opinions and viewpoints, yet a basis for collaboration needs to be given and it is not given when the NGO possesses an adversarial mind-set towards businesses overall. Chapter 7.2.2.2 elaborates more on this aspect. The last important boundary assumption regarding NGO collaboration partner types is the scope of the NGO. In the framework proposed in Chapter 7.2.4, there are three categories (global, national and local) differentiating the scope of a NGO. Yet, as mentioned in Chapter 7.2.2.4 there are also hints for regionally operating NGOs. Since the distinction of the boundaries of a region is controversially discussed[92], this treatise combines the regional (here a specific territory within a country) and local scope into one category.

[92] As mentioned in Chapter 7.2.2.4, some researchers see a region as a territory within a country, while others rather see it as a combination of multiple countries often within, but sometimes even spanning over multiple continents (Halaszovich and Lundan (2016); Heidenreich and Mattes (2012); Mattes (2013)).

Nevertheless, as already stated in chapter 7.2.4, all categories can rather be seen as a fluid continuum in which clear borders for categories are non-existent, but rather fluid and continuous.

Thus, with regard to the above mentioned boundary assumptions and the reasoning for the establishment of a dominant category of the NGO collaboration partner, a dominant category will be argued. This way, an internationalising MNC will not only gain information regarding the favourable resources and capabilities that a potential NGO collaboration partner should possess during the internationalisation of the MNC, but also on which dominant category of a NGO the MNC should put its focus on at the beginning of its search. **Figure 38** again highlights the five potential categories which are based on two NGO dimensions derived in chapter 7.2.2 & 7.2.4.

Figure 38: **Dominant category of the NGO**

Dominant category of the NGO

- Local (geographical scope)
- National (geographical scope)
- Global (geographical scope)
- Advocacy (primary activity)
- Operational (primary activity)

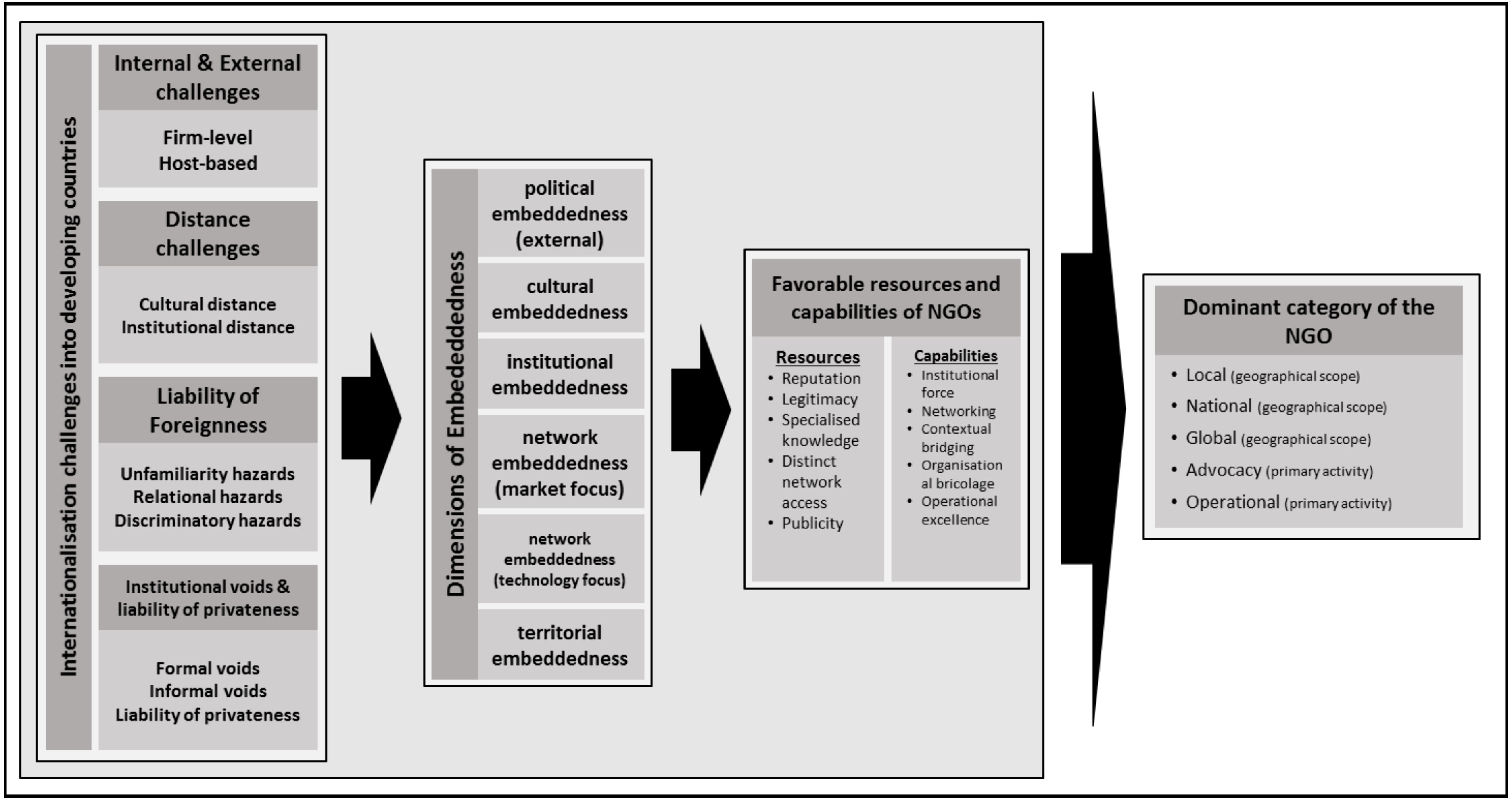
(source: own representation)

9.2.5. A framework for Collaborative Arrangement Decisions by MNCs

The past three subchapters (9.2.1 – 9.2.3) have shortly summarised all relevant dimensions for the overall interdependency analysis based on their various categories as well as their boundary assumptions. Furthermore, subchapter 9.2.4 has established a line of argumentation following the interdependency analysis and arguing for one dominant category that a NGO collaboration partner should entail, based on the individual internationalisation challenges. Therefore in the following, these dimensions will be combined to create a framework for the overall interdependency effect analysis for collaborative arrangements between MNCs and NGOs with regard to a companies' internationalisation challenges into developing countries and its need for embeddedness. **Figure 39** on the next page shows the overall framework graphically, including the interdependency effect analysis as well as the additional argumentative step regarding the dominant category of an NGO.

Within one figure, the framework for the interdependency effect analysis shows the various internationalisation challenges that a company can face with regard to its internationalisation into developing countries. Taken individually, these challenges can be mitigated by actively becoming embedded in various dimensions of embeddedness. The embeddedness within the possible dimensions of embeddedness can be actively targeted by a MNC via the collaboration of the MNC with a NGO. Again, as already portrayed in detail in chapter 7.2.3, 9.2.3 and 9.2.4 the field of research regarding potential collaboration types of NGOs is very broad an ambiguous at times. This can make a clear distinction between the various types of NGOs and therefore the answer regarding the most suitable NGO partner type for an MNC's internationalisation approach difficult. Yet, based on the creation of specific interdependency effects, it is possible to delineate favourable resources and capabilities which a NGO should possess within each individual internationalisation challenges faced by a MNC. Based on this NGO profile, one can establish a conclusion as to which extent which category (based on the two provided core dimensions: primary activity and geographical scope) of the NGO should be the dominant NGO category for an internationalising MNC. This approach will be undertaken in the upcoming subchapter.

Figure 39: **A Framework for Collaborative Arrangement Decisions by MNCs**



(source: own representation)

9.3. Development and emphasis of interdependency effects

Based on the proposed framework from the previous subchapter, there are various specific relationships and interdependencies that are to be further explained in detail in this subchapter. In the first part (9.3.1), each of the proposed challenges for a MNC internationalising into a developing country will be interlinked with dimensions of embeddedness in order to argue for a favourable resources and capabilities profile that a potential partner NGO should possess. Based on this analysis, a conclusion will be drawn as to which category of NGO is the dominant category. This approach gives the internationalising MNC additional information as to where it should put its primary search focus. Overall, twelve main interdependency effects, based on a specific internationalisation challenge encountered by a MNC, will be articulated and argued. Afterwards, subchapter 9.3.2 summarises all twelve established interdependencies and puts an argumentative emphasis on the most relevant challenges that most commonly affect the internationalisation of MNCs into developing countries.

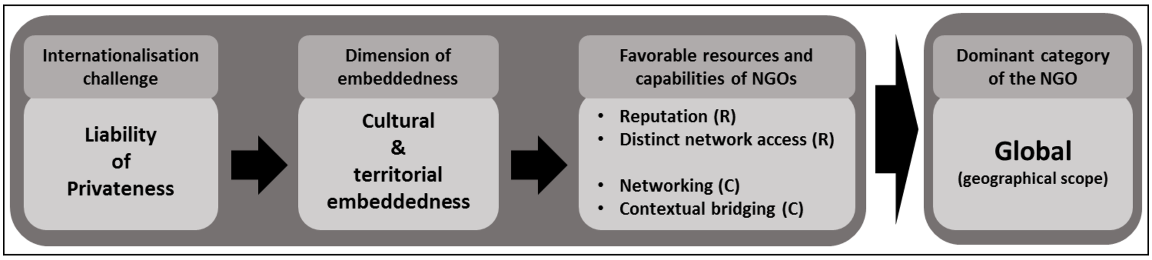
9.3.1. Development of interdependency effects

The first derived interdependency effect focuses on the liability of privateness as the main challenge for a MNC internationalising into a developing country. In this case, the main challenge for the internationalising company is its characteristic of being a for-profit organisation. Especially in informal environments (e.g. the informal sector of developing countries) these types of formal, for-profit organisations can be viewed sceptic which can make a market entry very difficult (Bhanji & Oxley, 2013; Newenham-Kahindi & Stevens, 2017). Therefore, the internationalising company should actively try to become culturally and territorially embedded to mitigate the liability of privateness. The need for cultural embeddedness stems from the necessity to become embedded in the cultural framework of the developing country in order to understand different cultural habits compared to the host-country culture. Thereby, especially an integration into the informal sector of the developing country is of high relevance as to become portrayed and perceived as a trustworthy entity and this integration is best undertaken via cultural embeddedness approaches. Additionally, an integration into the cultural framework and the values and norms of a country shows an openness towards new cultural environments and cultural adaptation capabilities of the internationalising firm. Territorial embeddedness is important within this particular internationalising challenge as it is of high relevance for the internationalising firm to become ‘anchored’ within the civil society and show the environment that the firms’ intentions are genuine and of a long-lasting[93] nature. With regard to these dimensions of embeddedness and the particular internationalisation challenge of the MNC, a potential NGO partner should possess two favourable resources, reputation and distinct network access. The reputation of the NGO is of high value for the MNC as the MNC needs to become portrayed as a trustworthy partner within the host countries’ society and a good reputation of a NGO can do exactly that. The access to distinct networks is a second key resource that the MNC needs from a NGO as the MNC needs access to the informal sector as well as to other important societal networks. These networks should expand nationally as the goal of the internationalising company should be to change its perception nationwide. Furthermore, the NGO should possess the two capabilities of networking and contextual bridging. The networking capability is of high importance as the NGO does not only need to have access to idiosyncratic networks, it also needs to convey the process of creating new network links in the social environment to the MNC in order to establish additional links and become fully embedded. Especially globally operating NGOs typically do have these routines implemented very well in their organisational structures. With multiple contexts in which the MNC needs to become embedded, the NGO can support the MNC with its contextual bridging capabilities, bridging between the varying contexts in which the internationalising firm will operate. Especially in African countries, were local chiefs and specific rules of tribes play a crucial governance role, this approach can be of high value (Zoogah et al., 2015). Suitable NGOs need to have the ability to contextually bridge between the formal and informal environments which are both very important for the market entry of internationalising firms into developing countries, especially if the MNC suffers from the liability of privateness (Bhanji & Oxley, 2013).

[93] Especially for developing countries which have suffered a lot from foreign firms resource excavating activities in the past decades, this aspect can be very important (Kim, Mahoney, and Tan (2015a)). An issue which just recently became visible again with regard to a German-Bolivian joint-venture in which the local community felt left behind, which caused the Bolivian government to cancel the treaty in 2019, only shortly after signing it a couple of months earlier (Marusczyk (2019)).

Thus, the higher the challenge of the liability of privateness for the internationalising MNC, the more important it is to become culturally and territorially embedded. Therefore, a MNC needs to look for a NGO with a high reputation and distinct network access as key resources as well as extended networking capabilities and contextual bridging as key capabilities. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen in global NGOs. Especially the aspect of high reputation is often given in globally operating NGOs, regardless of their primary activity. Furthermore, globally operating NGOs tend to have implemented organisational routines with regard to networking. Additionally their capability of contextual bridging is often high, as they typically operate in highly diverse settings, which can ease the understanding and adaption with regard to cooperation efforts. Graphically represented, the above mentioned reasoning leads to the following interdependency effect and conclusion (**Figure 40**):

Figure 40: **Interdependency Effect 1**

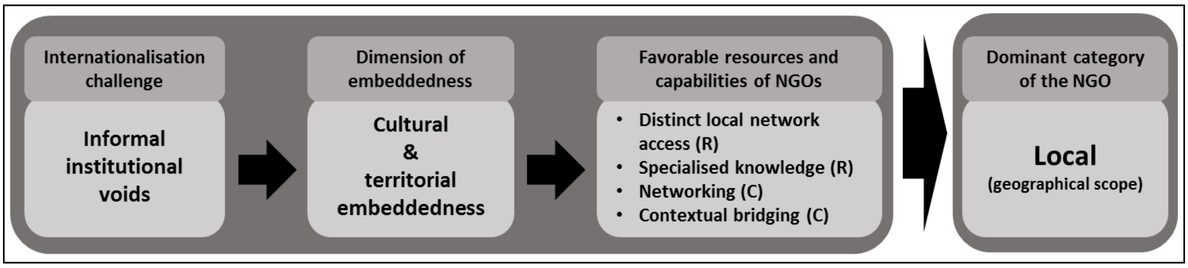


(source: own representation)

The second interdependency effect of this treatise highlights the challenge of informal institutional voids that can be faced by internationalising companies. While it is possible that types of informal institutions can cause informal institutional voids (e.g. informal institutions leading to a suppression of minorities), the focus of this challenge for internationalising companies into developing countries lies in the aspect of having problems with decoding informal institutions and thereof arising informal institutional voids. Similar to the first interdependency effect, this challenge can best be mitigated via cultural and territorial embeddedness. As this type of challenge can be mostly encountered within the informal economy (i.e. the informal sector) and rural areas of developing countries, cultural embeddedness is of high importance in order to understand the informal mechanisms and routines of these specific environments (Darbi et al., 2016; Gerxhani, 2004). As mentioned earlier, the informal sector can employ up to 80% of a developing countries workforce on a daily basis (International Labour Office, 2004). This is where people meet and where culture is lived. Therefore, it becomes crucial for an internationalising company to get acquainted with this specific environment (which can differ significantly by country and region) as it is furthermore very unknown and unfamiliar in developed countries and thus the workforce of a company from a developed country is often not used to this kind of working environment. In this case, a NGO can help a MNC to understand and decipher the local customs and position the MNC as a supporter for a greater cause (Kolk, 2014; Kolk, 2016; Ritvala et al., 2014). Furthermore, territorial embeddedness is also important as the internationalising firm needs to be anchored within its operating environment to create awareness for their activities and establish a positive image. Thus, a favourable NGO for an MNC should have a distinct local network access as well as specialised knowledge about local procedures and routines. Through great networking capabilities within their own networks but also with regard to establishing new networks together with the MNC, the NGO can support the MNC with its quest to become embedded in the local environment. Furthermore, the NGO needs to be able to contextually bridge between the varying and complex contexts in which the MNC will operate.

Thus, the higher the challenge of informal institutional voids for the internationalising MNC, the more important it is to become culturally and territorially embedded. Therefore, a MNC needs to look for a NGO with a distinct local network access and specialised knowledge about local rules and procedures as key resources, as well as networking capabilities and contextual bridging as key capabilities. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen in local NGOs. Especially the aspect having reliable and distinct local network access and specialised knowledge about local procedures can be of high importance to the MNC, regardless of the primary activity of the NGO. Furthermore, the local NGO should possess the capability of contextual bridging as it needs to be able to contextually bridge between the local environment within the developing country and the multi-national environment within the MNC. In a graph, this leads to the following interdependency effect and conclusion (**Figure 41**):

***Figure 41:* Interdependency Effect 2**



(source: own representation)

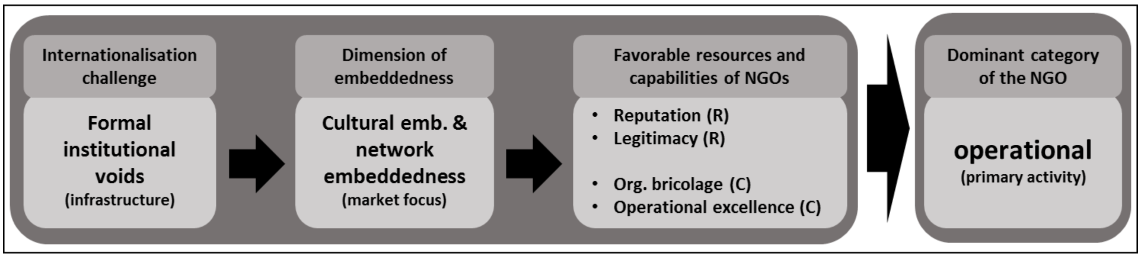
Formal institutional voids are the third potential challenge that an internationalising company can face when entering a developing country. As this category is a very broad category ranging from infrastructural voids to capital market voids and a lack of property rights, this treatise will focus on two specific challenges of institutional voids: infrastructural voids (interdependency effect 3.1) and labour market voids (interdependency effect 3.2). Other formal institutional voids such as the lack of property rights and capital market voids are neglected, as they are difficult to mitigate via non-market strategies in the social environment and rather need to be changed by governmental activities over a longer period of time.

Formal institutional voids with regard to infrastructural voids are challenges that a company faces due to very poorly developed infrastructural systems. Especially paved roads, electricity, running water and sanitation facilities are infrastructural aspects that are oftentimes only rarely available in developing countries, especially in their rural areas (Ajakaiye & Ncube, 2010; Punnett, 2018). Nevertheless, companies do want to or occasionally even need to reach these environments (McKague & Tinsley, 2012; Symeou, Zyglidopoulos, & Williamson, 2018). Therefore the MNC should try to become embedded in the external political environment via advocacy NGOs in order to gain subtle access to political decision makers and press for additional infrastructural investments into rural areas. Yet this approach is oftentimes very time consuming with a long-term perspective, since decisions regarding infrastructural projects typically do not happen in short periods of time (Symeou et al., 2018). Furthermore, close engagements of developed country MNCs with national governments of developing countries are oftentimes seen very critical in the home country markets of the internationalising MNC (George et al., 2016; Punnett, 2018).

Thus, it can be more effective for MNCs to try to circumvent the institutional void or at least look for alternative strategies how to potentially circumvent infrastructural voids (McKague & Tinsley, 2012). As these circumvention strategies are best developed within the society and in collaboration with the population living in rural areas (Dahan et al., 2010b; Oetzel & Doh, 2009), cultural embeddedness becomes very important for this effort. Typically, the civil society knows the rules of the environment and understands the mechanisms under which the daily life needs to operate. Sometimes, individuals or societal groups have already created viable circumvention strategies for infrastructural voids (Boddewyn, 2016). With the help of a MNC and its financial funds, an institutionalisation could take place which might develop assistance in a shorter period of time, where it is actually needed. Furthermore, network embeddedness (with a market focus) is important for the MNC so that the company does not lose track of their core customers and their specific needs. The network embeddedness with a market focus is best equipped to do exactly that, as it is focused on the products or services that are being offered or created and also highlights the importance of the clientele. Thus, besides the cultural embeddedness that needs to be searched and pressed for by the MNC, also network embeddedness (with a market focus) is highly relevant. Therefore, a suitable NGO should possess a high reputation within the local and regional environment in which the infrastructural voids occur in order to gain credibility as well as access to the local society. In that regard also legitimacy (i.e. a license to operate) becomes an important resource of a suitable NGO, which especially needs to be present in this particular area of interest for the MNC. Furthermore, the NGO should possess great capabilities regarding its own operations within a difficult environment. Thus, operational excellence as well as organisational bricolage are two favourable capabilities that a NGO should possess. Due to the NGOs operations on the ground with various individuals of the civil society and other local stakeholders, they are deeply embedded and understand the most pressing infrastructural needs (and its circumvention strategies) which might as well be of relevance for the internationalising MNC. Overall, this leads to a better understanding of the circumstances and a higher appreciation of the MNC by the civil society in the medium- to long-term. Organisational bricolage can be seen as a favourable capability as especially with regard to rural areas with high constraints on resources and materials, it becomes important to manage own, often scarce, resources well and adequate.

Thus, the higher the challenge of formal institutional voids with an infrastructural focus for the internationalising MNC, the more important it is to become culturally embedded as well as embedded into networks with a market focus. Therefore, a MNC needs to look for a NGO with a high reputation in the particular local or regional environment and with high legitimacy as key resources as well as organisational bricolage capabilities and operational excellence as key capabilities. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen in operational NGOs, regardless of their geographical scope. Especially the aspect of operational excellence seems to be of high importance in difficult to reach environments and with this regard operational NGOs are well equipped as they tend to have established exactly these operational connections. Graphically represented, the above mentioned reasoning leads to the following interdependency effect and conclusion (**Figure 42**):

Figure 42: **Interdependency Effect 3.1**



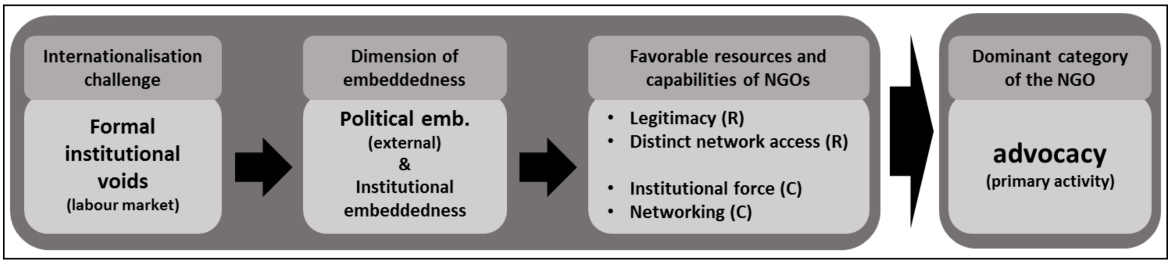
(source: own representation)

The second interdependency effect with regard to formal institutional voids (interdependency effect 3.2) highlights the aspect of labour market voids. This challenge characterises the difficulty for firms to find well educated personnel due to missing labour market institutions such as for-profit services supporting the search of this type of personnel (e.g. agencies, head-hunters etc.) or missing labour market laws and institutions by the national and local governments (Doh et al., 2017; Webb et al., 2010). As the interdependency effect 10 also focuses on the aspect of labour markets, more specifically, on human resource (HR) scarcity, the two distinct types of challenges surrounding this aspect can be distinguished as follows. While this internationalisation challenge (3.2) evolves around the aspect of institutional voids on labour markets and focuses on the building of institutions that can strengthen labour markets and how MNCs can support this establishment. The interdependency effect 10 focuses on the aspect of HR scarcity or HR shortage within developing countries and therefore needs to be handled differently. The specifics of this internationalisation challenge and hence the interdependency effect 10 will be carried out later on in this chapter.

In order to mitigate the particular internationalisation challenge of labour market institutional voids (interdependency effect 3.2), external political embeddedness as well as institutional embeddedness should be focused by the MNC. The dimension of external political embeddedness is directed at a more long-term view, to influence political decision makers with regard to labour laws and facilitation services of finding labour. This way, the MNC can try to influence political decision makers regarding their investment in educational infrastructure as well as labour market infrastructure. Furthermore, a MNC can also propose to invest into educational facilities themselves (e.g. building Kindergartens or primary schools) with the help of NGOs and the goal to deeply embed into the societal framework. The other dimension of embeddedness that the MNC should be focused on is institutional embeddedness. Through the understanding of particular macro-institutional settings, the MNCs might be able to acquire an understanding of standard procedures and characteristics with regard to labour markets. With regard to the specific resources needed, a potential collaboration partner NGO should possess legitimacy and distinct network access. Legitimacy is an important resource of the particular NGO, as the claims by the NGO as well as the potential claims postulated by the MNC need to be perceived as legitimate by the government and the general public. Additionally, the NGO needs to possess distinct national network access to political and legislative networks, in which the MNC might as well need to become newly embed in order to be able to change and amplify labour market institutions on a national level. Furthermore, a strong NGO can try to put institutional force on multiple stakeholders (political or institutional) to advance beneficial legislation changes as well as labour market initiatives. Another favourable capability that the NGO should possess is networking. This is particularily relevant as for this specific internationalisation challenge it is not only relevant to gain access to existing networks of the NGO, but also to be able to build new networks and establish new network relationships, since new institutions might need to be created.

Thus, the higher the challenge of formal institutional voids (with regard to labour markets) for the internationalising MNC, the more important it is to become embedded into the external political environment and the institutional environment. Therefore, a MNC needs to look for a NGO with high legitimacy and distinct national network access as key resources, as well as networking capabilities and institutional force as key capabilities. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen towards advocacy NGOs. Especially the aspect of having a NGO with institutional force as one of its core capabilities is an aspect which is typically entailed in advocacy NGOs. Furthermore the access to distinct networks as well as the capability of networking can also often be found in advocacy NGOs. Graphically, this leads to the following interdependency effect and conclusion (**Figure 43**):

Figure 43: **Interdependency Effect 3.2**

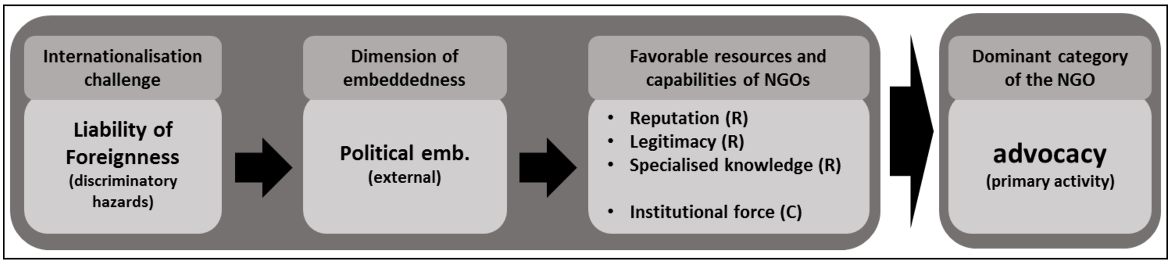


(source: own representation)

The fourth interdependency effect focuses around the discriminatory hazards of the liability of foreignness as a specific challenge of the internationalisation into developing countries. Discriminatory hazards can be an unfavourable treatment by local stakeholders or the government. Since the first interdependency effect of this treatise has already highlighted the discriminatory aspect of privateness (i.e. being discriminated by civil-society for being a for-profit company), the focus of this interdependency effect will be put on the unfavourable treatment of the internationalising firm by the government. To mitigate the potential of an unfavourable treatment by the government, an internationalising company should become embedded in the external political environment. Thus, connections with state actors and local politics need to be focused by the MNC. As these connections are difficult to be undertaken in a direct manner for developed country MNCs due to potential repercussions in their respected home countries (George et al., 2016), a collaboration with a NGO can serve as a great bridging agent. Therefore, as favourable resources the NGO should possess a high reputation and legitimacy within the host country and its government. Both resources help the NGO as well as the MNC to make validated claims regarding the establishment of new institutions and become respected partners. Besides reputation and legitimacy another favourable resource is that of specialised knowledge. Especially with regard to this particular challenge, it is very important that the NGO possesses knowledge in institution building processes and overall regulations. Furthermore, the NGO can use its reputation and legitimacy to carry out institutional force and aspire changes of legislation and regulation to enhance the MNCs chances of survival in the developing country. This approach of course, can only be undertaken after the partnership has proven to be valuable for both parts of the collaboration. Thus, the higher the challenge around the discriminatory hazards of the liability of foreignness for the internationalising MNC, the more important it is to become embedded into the external political environment of the developing country.

Therefore, a MNC needs to look for a NGO with a high reputation and high legitimacy as key resources, as well as institutional force and specialised knowledge as key capabilities. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen towards advocacy NGOs. Especially the aspect of having a NGO with institutional force as one of its core capabilities is an aspect which is typically entailed in advocacy NGOs. Furthermore the necessity of high legitimacy also favours advocacy NGOs. Even though operational NGOs are also endowed with legitimacy and reputation at times, in this particular challenge it is of very high value and it is more important that the transferred reputation of the partner NGO is coming from an advocacy NGO, as these NGOs are perceived to have high knowledge on institution building and overall regulations. Graphically, this leads to the following interdependency effect and conclusion (**Figure 44**):

Figure 44: **Interdependency Effect 4**

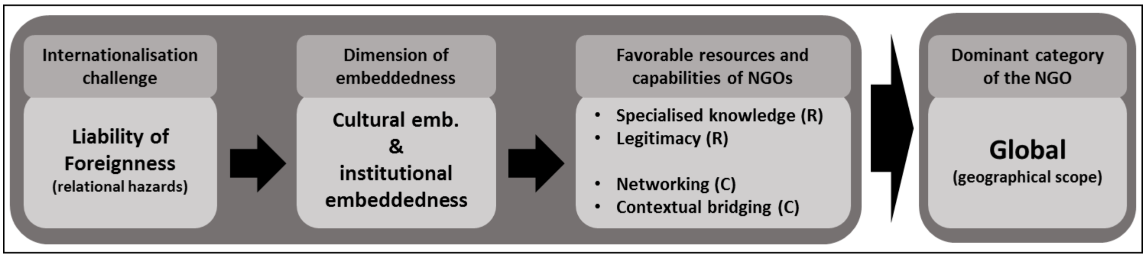


(source: own representation)

The fifth interdependency effect focuses around the aspect of relational hazards as a part of the liability of foreignness during the internationalisation into developing countries. Many companies struggle with often complex and unforeseeable relationship building efforts that can result in much higher costs of internationalisation (Denk et al., 2012; Sethi & Judge, 2009). Therefore, cultural and institutional embeddedness are very important dimensions of embeddedness in order to mitigate this challenge. Through cultural embeddedness the internationalising firm has the opportunity to learn quickly about national customs and cultural habits which can make an adaptation process easier and faster. Especially in culturally distant countries, this approach is of high importance as cultures of developing countries oftentimes vary significantly, compared to the home country. Furthermore, regional cultural specificities can make an adaptation even more complex, which is why embeddedness into the cultural environment and the collaboration with knowledgeable actors becomes very important. Furthermore the embeddedness into the institutional environment (i.e. understanding of production systems and workflows) is also critical as an understanding of the existing institutional framework can help substantially in understanding conflicting viewpoints and perspectives. Different institutional knowledge might lead to different opinions and thus to conflicting and therefore difficult and lengthy relationship building efforts. Through the embeddedness into both proposed dimensions, these challenges can be mitigated as specific and idiosyncratic knowledge can be taught and gained by the collaboration partner. To become a support for the internationalisation of a MNC with regard to this particular challenge, a NGO needs to possess legitimacy as well as specialised knowledge as its key resources. While legitimacy in this regard is mainly only important during the selection process of the potential collaboration partner, specialised knowledge remains important throughout the partnership. The NGO needs to know the cultural peculiarities of the developing country derived from norms, values and varying institutions of which the NGO needs to have special knowledge. Yet, more importantly, it also needs to have capabilities with regard to networking and contextual bridging. The capability of networking is important as the NGO needs to be able to open up new networks for the MNC which can create additional understanding for the cultural and institutional contexts in which the MNC operates. The access to distinct networks itself is not of such a high importance, but the NGO does need to know how to network in particular settings. Nevertheless, the most important capability is contextual bridging as the NGO needs to be able to bridge between multiple, complex contexts for the MNC. Therefore, the NGO needs to be acquainted and familiar with various idiosyncratic contexts and their peculiarities.

Thus, the higher the challenge around the relational hazards of the liability of foreignness for the internationalising MNC, the more important it is to become embedded into the cultural and institutional environment of the developing country. Therefore, a MNC needs to look for a NGO with high legitimacy and specialised knowledge as key resources, as well as networking capabilities and contextual bridging as key capabilities. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen towards global NGOs. Especially the aspect of being able to contextually bridge between various, idiosyncratic contexts is highly important for this internationalisation challenge and typically globally operating NGOs are endowed with it. Thus, the fifth interdependency effect and conclusion of this treatise can be graphically displayed as follows (**Figure 45**):

***Figure 45:* Interdependency Effect 5**

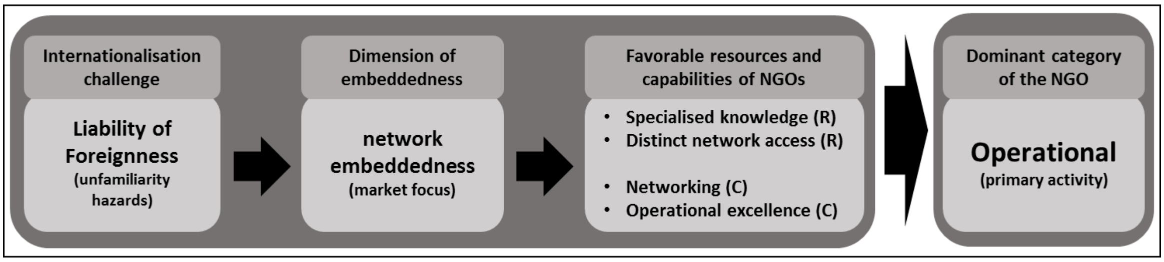


(source: own representation)

The sixth interdependency effect focuses around the unfamiliarity hazards of the liability of foreignness when internationalising into developing countries. In this category the incorrect market assessment due to the unfamiliarity with the market and the general difficulty of gathering and receiving correct information, data and knowledge on business practices can be seen as the most critical challenge. Therefore, the internationalising company should try to focus on its network embeddedness (with a market focus). This dimension of embeddedness is important as it focuses on multiple market issues such as the companies' clientele and the products and services it offers. Due to the unfamiliarity of the market, these aspects can vary greatly from home-country analysis and a reassurance and assistance by other organisations is very important. The most promising collaboration partners with regard to this challenge are partners of a for-profit nature (if existent), as they typically know the market better than any other type of organisation. Yet also NGOs with a distinct network access and specialised knowledge as well as networking capabilities and operational excellence can be an important collaboration partner for an internationalising MNC. The NGO needs to be deeply embedded in the institutional environment of the host country in order to establish great access to important networks for the MNC (Cantwell et al., 2010; Teegen et al., 2004; Yaziji & Doh, 2009). Through networking capabilities, the NGO is capable of understanding and managing complex networks with various partners as well as creating new ones. This way, the NGO is in constant contact with the civil society and can acquire a deep understanding of the needs of the public as well as an early feeling of changing attitudes and behaviours. This aspect can be especially valuable for companies offering products in the business-to-consumer segment, since tastes and behaviours of consumers tend to change especially fast in developing countries (Dahan et al., 2010b). Operational excellence is another important capability that the NGO should possess with regard to this specific internationalisation challenge as it further helps the NGO to embed deeply into the institutional environment of the host country, especially in rural areas of the country.

Thus, the higher the challenge around the unfamiliarity hazards of the liability of foreignness for the internationalising MNC, the more important it is to become embedded into networks with a market focus. Therefore, a MNC needs to look for a NGO with specialised knowledge and distinct network access as key resources, as well as networking capabilities and operational excellence as key capabilities. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen towards operational NGOs. Especially the aspect of being deeply embedded in various networks is typically something to find with operational NGOs as the need to have relations to various stakeholders due to their operational approach on the ground. Thus, operational excellence is also a capability that is typically possessed by operational NGOs. Therefore, the sixth interdependency effect and conclusion of this treatise can be graphically displayed as follows (**Figure 46**):

Figure 46: **Interdependency Effect 6**



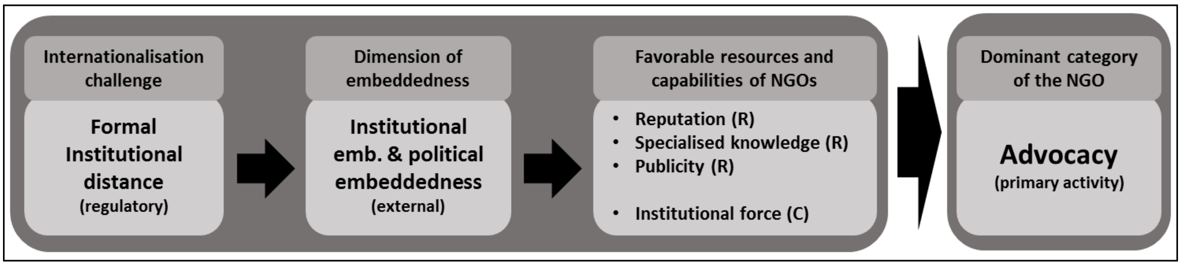
(source: own representation)

The seventh interdependency effect of this treatise highlights the challenge of institutional distance with regard to the internationalisation into developing countries. Since the issue of institutions is a very broad, but important topic, this interdependency effect will also be divided into two parts (7.1 & 7.2) as formal (regulatory institutions) and informal (normative and cognitive institutions) differ significantly. Note that the challenges of institutional distance differ from challenges of institutional voids (interdependency effects 2, 3.1 & 3.2) as the focus within the challenge of institutional distance lies in the differences between institutions rather than in the absence of an institution. The severity of the institutional distance between the home- and the host-country environment can be approximated via the different indices (e.g. the ease of doing business index or the global competitiveness index) that have been introduced in Chapter 3.1.2. For instance, a company interested in internationalising from the Netherlands to Nigeria could take the Global Competitiveness Index with regard to its institution pillar (1^{st} pillar of 12) and compare both countries on that particular scale. The most important difference is already visible at the overall institutional level in which the Netherlands are ranked as the fourth country of 140 with 78 points, while Nigeria is ranked 127^{th} with only 42 points. In particular two details regarding the institutional differences become quickly visible. While the Netherlands are ranked 5^{th} in the *intellectual property protection* as well as *the strength of auditing and reporting standards*, Nigeria only ranks 129^{th} and 77^{th} within these two categories. This difference already suggests highly varying institutional contexts and institutional distance between both countries.

Institutional distance with a focus on formal, regulatory aspects (i.e. laws, regulations or rules) can be a significant challenge for firms entering developing countries. The laws and regulations of the host-country might differ significantly from home-country regulations and need to be understood and followed. Institutional embeddedness and external political embeddedness can actively mitigate this challenge. Especially institutional embeddedness facilitates the alignment with the macro-institutional settings of the host-country and creates a better understanding of working procedures and regulations. Furthermore, institutions within developing countries are typically not as rigid and strong as they are in developed countries and can occasionally tried to be changed actively (Dahan et al., 2010b; Schuster & Holtbrügge, 2014a). Thus in the long-term and rather on a local level, an incremental change of the macro-institutional environment to a more favourable situation for the MNC can also become possible through deep and intense collaborations with the non-market environment, as especially these types of organisation understand the working standards and regulations surrounding it very well. The external political embeddedness as a second important dimension of embeddedness for this particular internationalisation challenge can furthermore help with understanding the development of certain institutions and might as well pose opportunities of actively changing existent institutions in the long-term through the collaboration with NGOs and political actors in the second step. In this regard, the NGO serves as a facilitator to ease the communication between the government and the foreign company as the company typically does not want to interrelate directly with the government. This approach consequently drives change within a country, yet it is very complex as it needs to fulfil the agenda of three actors (the NGO, the internationalising company and the government). Therefore, the potential partner NGO needs to be crucially selected and should possess a high reputation, specialised knowledge as well as high publicity (Manning & Roessler, 2014; Schwarz & Fritsch, 2018). These resources are key resources for the proposed challenge as the NGO needs have specific knowledge of the host countries institutions and its institution setting standards. Furthermore it is important to have a great reputation and a link to the public in order to create pressure (institutional force) on new legislations. And at last, the NGO needs to be known in public, so that institutional force can easily be communicated to society.

Thus, the higher the challenge of formal institutional distances for the internationalising MNC, the more important it is to become embedded into the institutional and external political environment of the developing country. Therefore, a MNC needs to look for a NGO with high reputation, specialised knowledge and a high publicity as key resources, as well as institutional force as a key capability. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen towards advocacy NGOs. Especially the aspect of institutional force is often visible in advocacy NGOs of any size. With regard to the resource of high publicity, this is mainly visible in globally operating NGOs in which advocacy NGOs also tend to be more visible and publicly known than operational NGOs. Graphically, this translates into the interdependency effect 7.1 and its conclusion (**Figure 47**):

Figure 47: **Interdependency Effect 7.1**

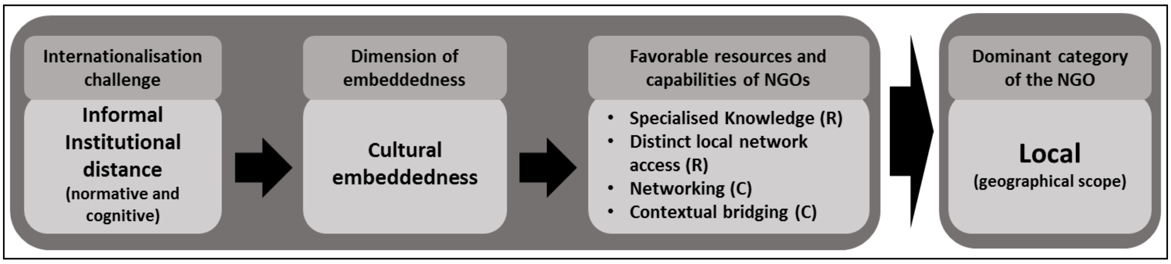


(source: own representation)

The second interdependency effect in the institutional distance category (interdependency effect 7.2) focuses on informal institutions, more precisely on normative and cognitive aspects of institutions such as norms, cultures and ethics. Norms and cultures from the developing country can differ significantly from the norms and cultures of the home country of the internationalising company as portrayed in Chapter 3.1.2 with the illustration of multiple development indices and the varying country positions of developed countries and developing countries. This makes it difficult to understand and decipher varying behaviours of individuals and organisations within these specific, often unknown environments. This challenge for the internationalising firm can be actively mitigated via a cultural embeddedness of the firm in order to understand the differences in norms and values and establish an appreciation for them. Through cultural embeddedness, the internationalising company will become more accepted and gain an overall understanding, why informal institutional distances exist, persist and how to diminish them. Therefore, the potential partner NGO should possess distinct local network access and highly specialised knowledge with regard to local and regional peculiarities. Through extended work on the ground, the local network enhances and the NGO develops a fine-grained view of institutional and cultural peculiarities. Paired with the capability of being able to contextually bridge between various contexts of the MNC and the NGO, a NGO can become a great partner for an internationalising MNC.

Thus, the higher the challenge of informal institutional distances for the internationalising MNC, the more important it is to become culturally embedded into the developing country. Therefore, a MNC needs to look for a NGO with specialised knowledge and distinct local network access as key resources, as well as networking capabilities and contextual bridging as key capabilities. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen towards local NGOs. Especially the aspect of specialised knowledge regarding local norms and routines is a resource that is generally possessed by locally operating NGOs. Furthermore, locally operating NGOs tend to have established distinct local networks, which can additional help the internationalising MNC to better embed into the local environment. Graphically, this translates into the interdependency effect 7.2 and its conclusion (**Figure 48**):

Figure 48: **Interdependency Effect 7.2**

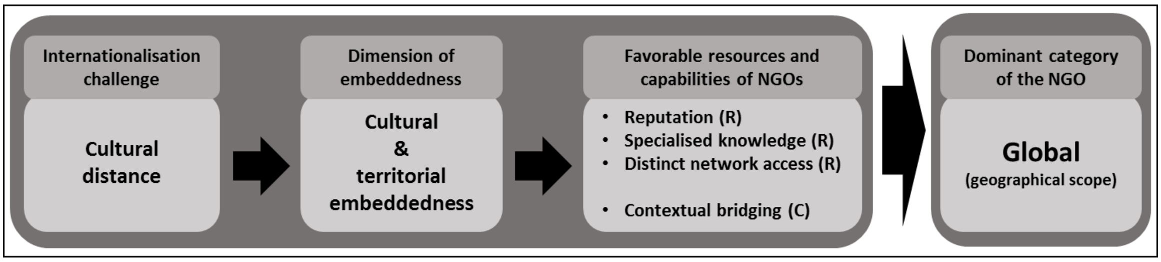


(source: own representation)

The eighth interdependency effect highlights the challenge of cultural distance. As shown in Chapter 2.4.3.1, differences in culture can be measured in multiple ways (e.g. Hofstede's cultural dimensions, the Kogut and Singh index or the GLOBE study). Regardless of the operationalisation, the differences in culture between the internationalising firm from a developed country and the culture within the developing country can become a severe challenge. Therefore, cultural embeddedness as well as territorial embeddedness are two important dimensions of embeddedness to mitigate the challenges arising from cultural distance. Cultural embeddedness is important as to understand and decipher the relevant cultural differences between the host-country culture and the home-country culture of the internationalising MNC. The cultural differences need to be made salient and can subsequently be evaluated and trained or adapted to by the internationalising MNC. This approach can be supported by NGOs that are knowledgeable for their contextual bridging capabilities, as these NGOs need to possess capabilities in transferring knowledge and educating individuals (McKague et al., 2015; Vachani et al., 2009). Yet if the internationalising company deals with severe cultural distances as the major challenge of their internationalisation, also territorial embeddedness should be a focus as the company needs to become anchored in the local institutional environment in order to become accepted by its potential customers and the local society. Therefore, the MNC should aim for NGOs as collaboration partners that also have a distinct network access, a high reputation and specialised knowledge. Especially the aspect of distinct network access can be of high importance as it can support the MNC in building strong, new and idiosyncratic relationships during its market entry.

Thus, the higher the challenge of cultural distance for the internationalising MNC, the more important it is to become culturally and territorially embedded into the developing country. Therefore, a MNC needs to look for a NGO with specialised knowledge, distinct network access and high reputation as key resources, as well as contextual bridging as key capability. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen towards global NGOs. Especially the capability of contextual bridging as well as high reputation are aspects which can often be found in globally operating NGOs. Even though the specialised knowledge of the NGO should be regarding local and/or national customs, norms and values, the focus should still be put on globally operating NGOs as they can also be equipped with local knowledge. Graphically, this lead to the following interdependency effect and its conclusion (**Figure 49**):

Figure 49: **Interdependency Effect 8**

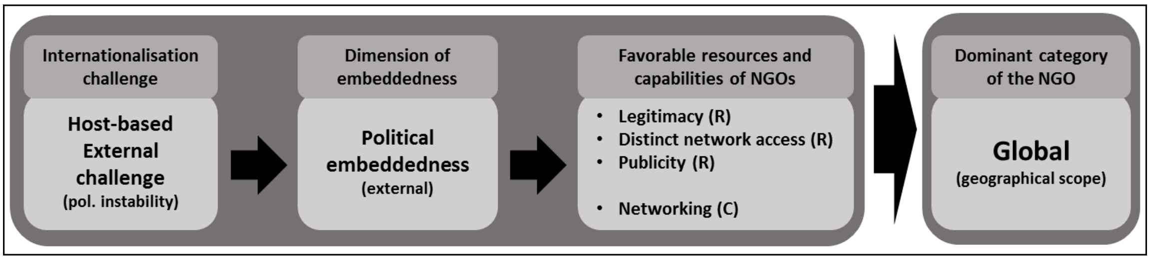


(source: own representation)

The ninth interdependency effect focuses around the aspect of external challenges with regard to the host country. Whilst the differentiation between the challenges in Chapter 2.4.1 was made between economic challenges (i.e. risks of volatile market and currency fluctuations) and political & legal challenges (i.e. rules & regulation and political instability), the focus of this interdependency effect is put on a political & legal challenge. More specifically it is put on political instability since aspects of rules & regulations have already been covered in previous interdependency effects. Furthermore the proposed economic challenges are difficult to mitigate via dimensions of embeddedness and collaborations with a certain type of NGO, which is why they are neglected in this analysis. Political instability can be a severe challenge for internationalising companies as sudden changes within the political landscape can turn into drastic changes in regulation and licences to operate (Bhanji & Oxley, 2013; Nay, 2012). Thus, political ties too close to the leading political party can suddenly become a threat to an internationalising company when the political landscape drastically changes. Nevertheless, it is important to gain early information on political developments, without being too much aligned with political parties. Therefore, the dimension of external political embeddedness is highly important for internationalising firms, yet it should not be achieved via direct collaboration with political parties or political actors as this approach can abrupt and suddenly become very harmful for the MNC when political powers shift (Bhanji & Oxley, 2013). Rather a collaboration with a NGO that possesses a high publicity and high legitimacy in the society should be sought after. Both resources enable the NGO to stay strong and independent during politically uncertain times and both aspects can also benefit the collaborating MNC in the meantime. Furthermore the NGO needs to possess great access to important political actors and parties as well as other well-known corporations and NGOs operating in the country. This resource needs to be paired with the capability of networking as it is one of the core activities that the NGO undertakes and therefore it needs to be carried out well and carefully. Additionally, the NGO need to be able to teach the MNC how to network and mingle in these new conditions.

Thus, the higher the challenge of political instability for the internationalising MNC, the more important it is to become embedded into the external political environment of the developing country. Therefore, a MNC needs to look for a NGO with high legitimacy, distinct network access and high publicity as key resources, as well as networking as key capability. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen towards global NGOs. Especially the resources of high legitimacy and high publicity are important for the internationalising MNC in order to portray that the MNC can also be seen as an independent entity without direct political connections to state representatives. Yet, this portrait is only trustworthy and communicable, if the NGOs is endowed with high legitimacy and high publicity. Graphically, this lead to the following interdependency effect 9 and its conclusion (**Figure 50**):

***Figure 50:* Interdependency Effect 9**

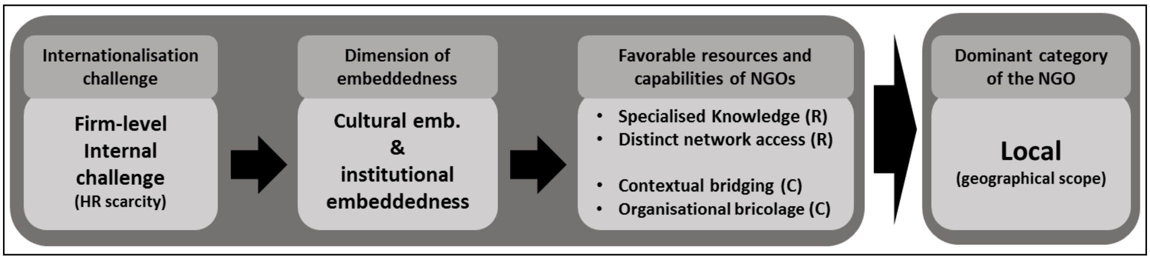


(source: own representation)

The last interdependency effect highlights internal firm-level internationalisation challenges. Challenges such as marketing resource scarcity, financial resource scarcity or the lack of managerial and organisational capabilities are all internal firm-level challenges that are difficult to mitigate via dimensions of embeddedness and collaborations with NGOs will probably not help in mitigating these challenges. Thus, with regard to these challenges it is probably more favourable to cooperate with other for-profit firms. Yet challenges regarding human resource scarcity as one particular internal firm-level internationalisation challenge might indeed be mitigated via embeddedness of the MNC. The scarcity of human resources (i.e. availability and educational level of candidates as well as their training opportunities) can be mitigated by cultural and institutional embeddedness in the long-term. Therefore cultural embeddedness is important for the MNC as to become closely aligned and intertwined with the cultural environment of the local area in which the MNC operates. That way the MNC might get opportunities to establish educational facilities and train educated personnel for the community as well as themselves. Institutional embeddedness is important for the internationalising firm as to get acquainted with typical recruiting processes and to create an understanding for typical careers within the local spheres of the MNC's activities and its operating industry. Thereby the MNC needs to gain an understanding of existing job seeking institutions as well as the functioning of educational and training facilities which can best be done via an institutional embeddedness. Therefore, favourable resources of the NGO are distinct local network access as well as specific knowledge about local procedures and institutions. On the one hand, through distinct local network access via and with the cooperating NGO, the MNC can strengthen its footprint within the local environment. On the other hand it can learn much about local procedures and institutions regarding labour market institutions due to the specialised knowledge of the NGO. Additionally, the NGO should possess two favourable capabilities; contextual bridging and organisational bricolage. While contextual bridging is an important capability due to the idiosyncratic operating environments of the NGO and the MNC, organisational bricolage is important as it focuses on skills that the MNC typically does not possess, but which are highly valuable within this setting as scarce resources need to be deployed efficiently.

Thus, the higher the challenge of the internal firm-level HR scarcity for the internationalising MNC, the more important it is to become embedded in the cultural and institutional environment. Therefore, a MNC needs to look for a NGO with a distinct local network access and specific knowledge about local procedures as key resources, as well as contextual bridging and organisational bricolage as key capabilities. As a conclusion and based on the interdependency analysis provided above, a tendency towards the resource and capability profile of a NGO can be seen towards local NGOs. Especially the necessity to gain access to local networks and learn about local institutions makes local NGOs the prime collaboration partner. Additionally, local NGOs, regardless of their primary activity are typically very good in organisational bricolage (i.e. the deployment of scarce resources). Graphically, this leads to the following interdependency effect and conclusion (**Figure 51**):

Figure 51: **Interdependency Effect 10**



(source: own representation)

9.3.2. Emphasis on specific interdependency effects

All twelve interdependency effects are individually based on one particular category of challenge which a developed market MNC can face during its internationalisation into a developing country. Again, it is important to notice that the internationalising company needs to decide which challenge is the most pressing one regarding their internationalisation. Based on this challenge, this treatise proposes directions regarding a potentially suitable NGO as a collaboration partner for the internationalisation of the MNC. Thus, in general the severity of a specific challenge faced by the internationalising companies is mainly based on the individual perception and prior analysis of the internationalising company and its decision makers.

This paragraph briefly emphasises particular internationalisation challenges as generally speaking, some articulated challenges are to be experienced more often than others and thus might be of higher importance to a MNC. For instance, interdependency effects 2, 3.1 & 3.2 are focusing on formal and informal institutional voids which are prevalent in developing countries (Doh et al., 2017; Khanna & Palepu, 1997; Khanna, Palepu, & Sinha, 2005). Even though their severity and impact on an internationalising company might differ from country to country, their general impact can be regarded as high (Chacar et al., 2010; Pinkham & Peng, 2017). The same reasoning applies for the interdependency effects 7.1, 7.2 & 8. The challenges of distance (e.g. formal institutional distance, informal institutional distance and cultural distance) can have a very high impact on the internationalising MNC as developing countries can differ significantly to developed countries within regard to their culture or institutions (Denk et al., 2012; Eden & Miller, 2004; World Economic Forum, 2017, 2018). The quickest and easiest way to analyse potential differences for MNCs is by studying the proposed indices from chapter 3.1.2 which illustrates potential differences of varying countries on multiple dimensions. Interdependency effect 1, regarding the liability of privateness, and interdependency effect 4 (discriminatory hazards of the liability of foreignness) are challenges of a rather medium severity. Even though the liability of privateness can become a significant challenge in specific developing countries (e.g. especially Northern African countries (Bhanji & Oxley, 2013)), it is not among the most pressing challenges when a company internationalises into a developing country. This is also true for the discriminatory hazard mentioned in interdependency effect 4. They do occur eventually, yet they are typically not the most pressing challenge for an internationalising company. Nevertheless, discriminatory hazards are difficult to actively mitigate which is why this interdependency effect has a medium emphasis. At last, the emphasis on interdependency effects 5, 6, 9 & 10 is rather low compared to the other challenges. Relational hazards and unfamiliarity hazards (interdependency effect 5 & 6) do take place in foreign countries, yet its severity is typically not as great as the challenge of facing institutional voids or different institutions overall. Furthermore the unfamiliarity hazards can already be slightly mitigated via a thorough preparation and mindful data collection by the MNC prior to the internationalisation. This argument can also be used for interdependency effect 10 regarding internal firm-level challenges (e.g. human resource scarcity) that can occur during the internationalisation.

9.4. Illustrative Case Studies

9.4.1. Overview

Since this conceptual treatise is arguing the interdependency effects from a highly theoretical standpoint at an abstract level, the following Chapter will show three short illustrative case studies to make three of the aforementioned theoretically derived interdependency effects more specific and concrete with practical examples. This approach will allow for a better, more concrete and applicable understanding of the proposed effects. The three illustrative case studies have been selected after the theoretical derivation of the proposed interdependency effects had been finalised. That way the author tried to limit practical influence on the theoretical reasoning undertaken in the previous Chapter 9.3.

In the following, each subchapter will follow a similar structure. All three illustrative case studies will be shortly introduced and the most important challenge which the company faced will be delineated. Afterwards both partners of the collaboration (MNC & NGO) will be shortly introduced before the collaboration itself, its development and its achievements (as far as possible) will be explained. Each subchapter closes with juxtaposing and discussing the theoretically established interdependency effects with the actual behaviour of the MNC.

9.4.2. Illustrative Case A: SAP and PlaNet Finance in Ghana

The first illustrative case study that will be discussed in this treatise is the collaboration between the multi-national company SAP and the non-governmental organisation PlaNet Finance. In a collaboration project in Ghana both organisations collaborated in order to set up a digital market place including an instant pricing information service for local farmers and shea nut[94] collectors. Being specifically focused on the shea nut helped local farmers and shea nut collectors to gain better knowledge on fair market prices of their produce which led to a significant increase in revenue and a better organisation of the overall industry at the very beginning of the value chain. Additionally, SAP was able to gain knowledge and experience in how to work in an informal and unfamiliar environment, while PlaNet Finance made another step forward with regard to its core mission to reduce poverty.

SAP is a leading provider of corporate software from Walldorf (Germany) and was established in 1972. Through a focus on innovation and growth, the company has grown to serve more than 232.000 customers around the world in 2013. The overall goal of SAP is to work closely aligned with its partners (who implement the SAP software or integrate additional products) and its customers to support the customers businesses with corporate software from a business process perspective. A joint value creation with its partners is thus part of the DNA of SAP (Kantimm, 2014). PlaNet Finance is a global, operational NGO mainly conducting activities in developing countries and fragile environments with the focus on microfinance activities and the overall goal to reduce poverty in more than 60 countries

[94] The shea nut is the seed of the tropical African shea tree that grows wild in multiple countries in West Africa (Rammohan (2010)).

worldwide. Because of their operations in over 60 countries and its history of over 20 years the organisation has great access to microfinance institutions and through its local country offices it possesses deep knowledge on local specificities and idiosyncrasies in various developing countries.

For SAP, social development combined with a business perspective and opportunity[95] has been at a centre of the value statement since a long time[96] and after an intensive first analysis, SAP wanted to gather first experiences in an unfamiliar market, with unfamiliar users. During their first analysis, they identified the industry and environment around the shea nut and the circumstances around which the nuts are picked, processed and sold to become a value creating project for all stakeholders. As a first target country, SAP wanted to start in Ghana as it has many shea trees and thus shea nut collectors. The shea nut is the seed of the tropical African shea tree that grows wild in multiple countries in West Africa[97]. It is considered the "*poverty-coping tree*" (Rammohan, 2010: 2) as anyone can harvest the fruits and sell it for a small profit since it is a wild growing tree (Rammohan, 2010). This is why most of the collectors are female or small scale farmers that also engage in the collecting process. About one third of the produce is exported while the rest remains within the country, mostly to produce shea butter. Exported nuts are mainly used for chocolate manufacturing purposes (90%) and cosmetics (10%). Overall the biggest problem for the shea collectors was the non-transparent pricing information (rural shea nut collectors needed to walk multiple kilometres to the next market and became price takers as to reduce the necessity to carry home any of their produce) and the lack of knowledge when it was best to sell the produce (a fully ripe shea nut in autumn sold at much higher prices than freshly collected nuts).

To mitigate these difficulties for the shea nut collectors, SAP collaborated with PlaNet Finance which knew the environment as well as the supply and value chain better than SAP. Additionally, they were able to organise further contacts to microfinance services and the overall research approach which entailed many workshops to understand how the

[95] Kramer and Porter coined this behaviour the shared value approach (Porter and Kramer (2006); Porter and Kramer (2011))
[96] This statement is corroborated via the Dow Jones Sustainability Index which ranked SAP as the best company in the software sector with regard to sustainability efforts (Rammohan (2010)).
[97] All countries in which the shea tree grows are: Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Ethiopia, Ghana, Guinea Bissau, Ivory Coast, Mali, Niger, Nigeria, Senegal, Sierra Leone, South Sudan, Sudan, Togo, Uganda, Democratic Republic of the Congo, and Guinea.

value chain worked and what the pressing points of the collectors were. Thus, SAP and PlaNet Finance as two complementary partners created a joint project, the Starshea alliance in Ghana to support local women at the base of the pyramid to increase their income through a more sophisticated shea nut collection and sales process. In collaboration, PlaNet Finance and SAP developed an education plan for the shea nut collectors with specific training to produce a higher quality product as well as a software tool (the Rural Market Collection "RMC") which was a specialised order fulfilment and management package. Through the software the shea nut collectors were able to get real-time market prices and logistical information via SMS. In the end all measures led to an overall revenue increase of 50-60% during the project. A social business was created to make it sustainable to run in the long-term and SAP created a lot of knowledge with regard to product creations in highly unfamiliar environments.

From a theoretical standpoint and with regard to the aforementioned interdependency effect, the greatest challenge for SAP during its internationalisation into distant developing country markets (Ghana in this specific case) can be clustered as an unfamiliarity hazard. An inadequate knowledge of norms and especially business practices as well as inadequate market assessments can be regarded as such a challenge. Since one of SAPs goals for the project was to learn what it means to develop software in a highly unknown and unfamiliar environment and for a target group without much prior knowledge of using IT devices, this can be considered an unfamiliarity challenge (Kantimm, 2014). Based on the interdependency effect of the liability of foreignness (unfamiliarity hazard) from Chapter 9.3 (interdependency effect 6), this challenge can best be mitigated via pursuing network embeddedness with a market focus. Thus, the need to embed in the specific market with regard to the services offered, or the clientele served (in this regard the local farmers and shea nut collectors) becomes highly important. With regard to the above mentioned interdependency effect, the network embeddedness with a market focus can be best achieved with a NGO possessing specialised knowledge and distinct network access as key resources as well as networking and operational excellence as key capabilities. Based on the conclusion derived from the interdependency effect, these resources and capabilities can typically be found in operational NGOs as they tend to understand the complexity of the informal environment in rural markets much better than other NGOs.

As already described above, SAP partnered with a globally operating NGO (PlaNet Finance) that operates multiple independent local offices around the world and thus also has many offices with high knowledge regarding the local environment. Therefore, from a geographical scope perspective the tendencies are rather ambiguous leaning towards local and global aspects of a NGO. Yet the overall conclusion based on the interdependency effect (6) also proposed that it is more important to focus on the NGOs primary activity, which should be an operational focus for this specific internationalisation challenge. As PlaNet Finance is heavily invested in the alleviation of poverty through various micro-financing instruments, one can argue that PlaNet Finance can be categorised as an operational NGO rather than an advocacy NGO. Furthermore, the favourable resources and capabilities proposed by the interdependency effect are also possessed by PlaNet Finance. The NGO does possess valuable, specialised knowledge regarding the supply and value chain of shea nuts as well as potential financing options. Furthermore, due to previous operations it knows how to establish new relationships and networks within the particular environment and possesses distinct network access. Thus, one can say that SAP did what the interdependency effect and the major conclusion thereof (i.e. estimation of the dominant category of the NGO) assumed. SAP cooperated with an operational NGO in which the geographical scope is difficult to determine as it shows local as well as global tendencies, but which possesses all favourable resources and capabilities.

9.4.3. Illustrative Case B: Bata Brands SA and CARE Bangladesh in Bangladesh

The second illustrative case study discussed in this treatise highlights the collaboration between the multi-national company Bata Brands SA[98] and the non-governmental organisation CARE Bangladesh. In a joint collaboration project in Bangladesh both organisations created the “*Bangladesh Rural Sales Program*” which gave many rural participants the opportunity to become entrepreneurial workers and sell products (i.e. shoes from Bata) in their living environments. The joint effort by the MNC and the NGO created new ways of distributing products to difficult to reach regions and helped Bata

[98] As of now the name Bata Brands SA will be abbreviated and only used as Bata.

to create a strong brand in rural areas, embed deeply in the societal environment and circumvent institutional voids.

Bata, a shoe making company with a long tradition, was established by Thomas Bata in 1894 in the former Czechoslovakia. Today, the company operates over 25 decentralised manufacturing facilities in almost 20 countries, sells its shoes in more than 70 countries in over 5,500 stores and employs over 55,000 people. The company's headquarters are in Lausanne (Switzerland) and its vision is to make shoes available to everyone. Therefore the company is highly engaging in community building efforts and also builds schools and housing facilities close to their production facilities. Since 1962 Bata is invested in Bangladesh where it mostly serves densely populated cities with two production facilities in Tongi and Dhamrai (McKague & Tinsley, 2012). Bata produces more than 110,000 shoes daily in its Bangladeshi production facilities and sells over 30 million pairs of shoes in Bangladesh annually which equates to a market share of over 75 percent in the formal economy. Yet this does not hold for the informal economy within the rural areas of Bangladesh, in which more than 60% of the densely populated nation (over 165 million people live in only 150.000 km^2) live. This market has not yet been entered by Bata even though the company would like to, but was not able to find a suitable market entry strategy. CARE Bangladesh was established in 1955 as an independent member of the global federation of CARE organisations. Today, CARE International operates in over 70 countries with CARE Bangladesh being one of the independent, national members of the network. The NGO mainly operates as a food security and poverty alleviation organisation. Most of its activities are focused around the economic empowerment of the rural population. With a staff of over 2,500 employees, most of whom are from local communities, CARE Bangladesh is one of the largest development organisations in the country (CARE Bangladesh).

The foundation for the start of the collaboration between Bata and CARE Bangladesh in 2004 was actually laid out in 1983 with the start of the rural maintenance program (RMP). The RMP was a large development project between CARE Bangladesh and CARE Canada to empower women in rural areas through vocational training and employment. The activities mostly considered training in repair and maintenance of earthen roads within the women's rural communities. Yet in 2004, the organisations changed their overall approach to a more market-based approach to poverty alleviation with the aim to foster the spirit of entrepreneurship and small business development within rural communities. Thus, CARE Bangladesh started to train the rural women in sales, entrepreneurship and self-reliance, yet without having anything to sell at the beginning, the program was doomed to fail. Since Bata was exactly having the problem of not knowing how to sell to rural environments, a collaboration seemed as the perfect fit for all sides. Thus, at the end of 2004, Bata and CARE Bangladesh formed a new program, the rural sales program, with similar goals as the previous program by CARE Bangladesh. Only now the rural women were also trained by sales employees from Bata and before the project started both organisations held workshops with the women regarding the necessary design and characteristics of the shoes sold by the women within the rural communities. After a short pilot study of six months, the program was prolonged and slightly redefined. During the reassessment, the researchers found out that the women needed to offer a bigger basket of goods (i.e. offer additional daily produce besides shoes) in order afford a living from their sales. Thus, CARE Bangladesh and Bata reached out to additional companies in order to increase the variety of products that were being sold by the rural women. With these new introductions, the overall program became a great success for the rural women, for CARE Bangladesh and for Bata. Whilst the rural women were able to increase their income year after year with the varying arrangements of goods they sold, CARE Bangladesh created a well-known platform for education and knowledge exchange within rural communities. For Bata the investment has also been very beneficial. Even though the revenue from the project is still slim (less than 1% of the company's overall revenue in Bangladesh), the geographical spread of the brand increased exceptionally and due to the social engagement the political environment also started to view Bata as a socially responsible company as a quote by Bata reaffirms: "*It opens up a lot of doors because I think they see us in a different light than a lot of other companies. They see that these people are not here just to make money, they are responsible citizens and they are doing a lot to help particularly people who are poor*" (McKague & Tinsley, 2012: 25). For 2020, the project aims to be active in over 40 districts in rural Bangladesh and hopes to include more than 5,000 women as self-employed entrepreneurs. By then, Bata hopes to reach over 10 million new customers with their affordable and accessible shoe products.

From a theoretical standpoint and with regard to the aforementioned interdependency effects, the greatest challenge for Bata with regard to the market entry into rural parts of Bangladesh can be seen as a formal institutional void challenge of an infrastructural nature.

With 60% of Bangladesh's population living in rural and more difficult to reach areas, Bata was looking for opportunities to serve this customer base for a long time, but could not come up with an adequate solution until the company heard about the sales project of CARE Bangladesh. Based on the aforementioned interdependency effects of a formal institutional void (with an infrastructural focus) in Chapter 9.3 (interdependency effect 3.1), this challenge can best be mitigated via cultural embeddedness and network embeddedness (with a market focus). Both dimensions help the MNC to embed in the cultural and institutional environment of the targeted rural areas and could create circumvention strategies for the institutional void challenge that the company faces. With regard to the above mentioned interdependency effect, the dimensions of embeddedness can be best achieved with a NGO possessing a high reputation and legitimacy within the focused region as key resources as well as organisational bricolage and operational excellence capabilities as key capabilities. Based on the conclusion derived from the interdependency effect, these resources and capabilities can typically be found in operational NGOs, as they tend to understand rural context better due to their operational activities within these contexts.

As already described above, Bata partnered with CARE Bangladesh as a non-business partner for their endeavour. Even though CARE International is a global network organisation that is recognised worldwide, the national offices (i.e. CARE Bangladesh) are supposed to operate highly independent, which is why CARE Bangladesh could be classified as a nationally or globally operating NGO with local foci. Thus, the geographical scope of this particular NGO is hard to categorise as it seems to possess multiple characteristics of the varying geographical scope categories. Yet the overall conclusion based on the interdependency effect (3.1) also proposed that it is more important to focus on the NGOs primary activity, which should be an operational focus for this specific internationalisation challenge. As CARE is heavily invested in the reduction and alleviation of poverty worldwide which the organisation tries to undermine through various activities and operations at the base of the problem with structurally disadvantaged and poor people, one can argue that CARE Bangladesh can be categorised as an operational NGO rather than an advocacy NGO. Furthermore, the favourable resources and capabilities proposed by the interdependency effect are all possessed by CARE Bangladesh. The global organisation (CARE International), as well as the national organisation (CARE Bangladesh) both possess a very high reputation and legitimacy among the society and governmental actors.

Additionally, with the rural maintenance program CARE Bangladesh has created a strong, operationally excellent program that gave the organisation a deep reach into far away rural areas. Thus, one can say that Bata did what the interdependency effect and the major conclusion thereof (i.e. estimation of the dominant category of the NGO) assumed. Bata cooperated with an operational NGO in which the geographical scope can be classified as ambiguous. Furthermore it needs to be noted that BATA's approach to rural areas in Bangladesh is not an internationalisation effort per definition, but rather a market enlargement effort, as the company has already been operating in Bangladesh before. Nevertheless, it shows the extreme difficulties for MNCs to operate in environments that are difficult to reach from an infrastructural perspective which is why it does serve as a great illustrative case study.

9.4.4. Illustrative Case C: SC Johnson Company & Son and Carolina for Kibera in Kenya

The third and last illustrative case study discussed in this treatise highlights the collaboration between the multi-national company SC Johnson Company & Son[99] and the non-governmental organisation Carolina for Kibera (CfK). In a joint collaboration project in Kibera (the biggest township in Nairobi, Kenia) both organisations created the "*Community Cleaning Services*" which gave many young, unemployed males the opportunity to become entrepreneurial workers through offering cleaning services and environmental control services.

SC Johnson was established in 1886 by Samuel Curtis Johnson in Wisconsin (USA). In its early days the company operated as a parquet flooring company, while today the MNC is the world's leading manufacturer of products for home cleaning, home storage, air care and pest control. The company is family-owned in the fifth generation and sells its products in more than 110 countries, generating over $ 11 billion in sales in 2013. "*One key to our success, we believe, is that we place the responsibility for growing a responsible, sustainable business with our business units, rather than with a large corporate staff*" (Johnson, 2007: 7). This focus on responsible, slow growth within each independent business unit is

[99] As of now the name SC Johnson Company & Son will be abbreviated and only used as SC Johnson.

something the company also tries to pursue with its first activities in the Kenyan market in which they collaborated with a NGO in order to understand parts of the informal economy of the market at first, before entering the market with a heavier investment. Carolina for Kibera is a small, local non-governmental organisation in the centre of the biggest township in Kenya, Kibera. The organisation aims to promote youth leadership through sports, young women's empowerment as well as community development. It is run by Kenyans and assisted by American volunteers who give operational advice (Thieme & DeKoszmovszky, 2012).

With the aim to help grow a sustainable social business and learn much about the informal economy and institutional differences, SC Johnson partnered with Carolina for Kibera to set up the new "*Community Cleaning Services*" initiative in Kibera. After conducting multiple workshops with participants who have previously been in contact with CfK via their various sport activities or their waste management program (a community development initiative), the partnership managed to develop a new business model which does not simply focus on selling a bundle of SC Johnson's products. Instead the partnership set out to use SC Johnson's quality products in the entrepreneur's direct-to-home services which enables customers to receive the combined benefits of SC Johnson's products (air care, pest control, cleaning) without having the necessity to purchase a whole unit or applying it themselves. That way, the young entrepreneurs collected money via offering their services and SC Johnson was able to ship products in bulk from its nearest manufacturing site in Egypt. Furthermore, SC Johnson learned that many people at the bottom of the pyramid are not able to afford their products in units. But separated into a pay-per-use model combined with a service it became a demanded and well acknowledged service (Johnson, 2007).

From a theoretical standpoint and with regard to the aforementioned interdependency effects, the greatest challenge for SC Johnson with regard to the market entry into Kenya is the informal institutional distance as informal institutions and unfamiliar, unknown behaviour of the population was difficult to decipher for SC Johnson and little to no knowledge about the Kenyan market was available. Based on aforementioned interdependency effect on informal institutional voids in Chapter 9.3 (interdependency effect 7.2), this challenge can be actively mitigated via cultural embeddedness as to better understand the different contexts in which the company wants to operate. With regard to the above mentioned interdependency effect (7.2), cultural embeddedness can be best achieved with a NGO possessing specialised knowledge and distinct local network access as key resources as well as networking and contextual bridging as key capabilities. Based on the conclusion derived from the interdependency effect, these resources and capabilities can typically be found in local NGOs, as they tend to understand the local peculiarities and regulations better than other NGOs, regardless of their primary activities. Furthermore, they often show decisive skills in networking and creating new relationships at the local level.

As already described above, SC Johnson partnered with Carolina for Kibera as a non-governmental partner for their endeavour. The NGO is operating locally in a township (Kibera) in Nairobi, Kenya. As its core activities surround the alleviation of poverty via creating sport possibilities and entrepreneurial activities for young, unemployed people in one particular township, the NGO can be seen as a locally operating NGO. The NGO is very capable of establishing new relationships with individuals (new members and participants), showing that it possesses the capability of networking. Furthermore it has created very thorough and specialised local knowledge about the peculiarities of one of the biggest townships in Kenya. Additionally, the local NGO has American volunteers working for its organisation, which makes the aspect of contextual bridging much easier, as these volunteers can serve as a bridging agent between the different contexts. Thus, one can say that SC Johnson did what the interdependency effect assumed, looking for an NGO as a collaboration partner that possesses distinct local network access and networking capabilities as well as specialised local knowledge and contextual bridging. Furthermore, the overall conclusion after the interdependency effect (i.e. estimation of the dominant category of the NGO) proposed a collaboration with a locally operating NGO to the internationalising MNC, exactly what SC Johnson ended up doing.

10. Discussion

Based on the content provided in the previous Chapters, the following Chapter will discuss the contribution and findings of this treatise and shortly elaborate on how firms can make use of the developed interdependency effects and conclusions on an operative-level. Thereby the focus of the first subchapter is placed on the academic contribution of this treatise, before the second subchapter discusses managerial implications for managers and company owners interested in internationalising into developing countries.

10.1. Academic Contribution

As this treatise followed a conceptual approach, the building blocks of this treatise and therefore naturally its contributions are manifold, yet abstract. Thus, this subchapter is structured into the following building blocks to highlight and discuss the various contributions of this research endeavour: the contribution to international business research, the contribution to research regarding the theory of embeddedness, the contribution to research in the cross-sectoral collaboration area and an additional contribution derived from the three illustrative case studies.

With regard to the broad and heterogeneous literature on international business activities (Hutzschenreuter et al., 2016; Kolk et al., 2014; Oesterle & Wolf, 2011; Werner, 2002), this treatise has contributed in multiple ways. First of all, it structured the varying approaches to generic challenges of internationalisation (Cahen et al., 2016; Denk et al., 2012; Eden & Miller, 2004; Zaheer, 1995) and aligned them with specific challenges of the internationalisation into developing countries (Bhanji & Oxley, 2013; Doh et al., 2017; Khanna & Palepu, 1997). Thereby, a comprehensive overview of specific challenges on the internationalisation into developing countries was created. Even though the varying categories might not be at all means mutually exclusive, they serve as a great overview in a more detailed manner than it was provided before. Furthermore, this treatise contributed to the research of non-market strategies and in particular to its relevance in the international business sphere. While relationships between political actors and business actors have been intensively studied in previous decades under the phenomenon of international business government relations (Boddewyn, 1988, 2016), non-market strategies (i.e. corporate political activity and corporate social responsibility) bring in different and new perspectives.

More specifically, this treatise advances the aspect of corporate social responsibility with regard to non-market strategies and its relevance for internationalisation in developing countries. It positions NGOs more clearly as a potential collaboration partner to MNCs, a perspective that has only started to be incorporated into international business research within the past decade and that has not yet been adopted widely (Doh & Teegen, 2002; Teegen et al., 2004; Vachani et al., 2009). Even though previous researchers have started to incorporate NGOs into the internationalisation process, their argumentation has predominantly stopped after addressing potential benefits of collaborations between NGOs and MNCs (Dahan et al., 2010a; Kourula & Laasonen, 2010; Vachani et al., 2009). This treatise goes further and identifies specific types of NGOs and tries to align them with specific challenges of MNCs during their internationalisation into developing countries. Yet, this treatise also highlights the fact that in practice it remains difficult to clearly differentiate between the varying types of NGOs. Hence this treatise has refrained from establishing clear propositions as it would have constrained the analysis significantly. Therefore, it rather follows the approach of establishing interdependency effects, which make it possible to allow for a more complex argumentation with a certain amount of wiggle room. Furthermore one finding of this treatise with regard to the process theories of internationalisation, specifically the network view of internationalisation, is that firms do not and should not merely focus on inter-firm or business networks and relations during their internationalisation. They should additionally keep in mind the non-market environment and thus non-market strategies.

A second area to which this treatise has contributed is research regarding embeddedness. Used as an underlying theory for this treatise, the general discussion of embeddedness has been amplified. First of all, the treatise created a greater alignment between the separate literature fields of embeddedness research in the sociological, the socio-economical and the international business literature. Through the delineation of multiple dimensions of embeddedness that were being used for the argumentation and formulation of the interdependency effects, a structured analysis of potentially available dimensions of embeddedness from the existing literature needed to be carried out. This process combined multiple perspectives (Dacin et al., 1999; Granovetter, 1985; Heidenreich, 2012a; Hess, 2004; Polanyi, 1944), highlighted certain problems of comparability and finally identified six relevant dimensions of embeddedness for the use within this treatise and thus also contributed with a structured overview of available dimensions of embeddedness in the overall scientific literature.

A third area of contribution is the research area on cross-sector collaborations, which remains, despite its high intersections with non-market strategy research, a separate stream of literature. First of all, this treatise has contributed to the ongoing anchoring process of cross sector collaboration research in the discipline of international business (Doh & Teegen, 2002; Doherty, Haugh, & Lyon, 2014; Laasonen et al., 2012). More specifically, the relevance of NGOs as a serious actor within the international business sphere has been established only within the recent decade and this treatise contributes further to this establishment as it positions certain types of NGOs as suitable collaboration partners for MNCs during their internationalisation. While NGOs have been regarded as adversarial for a long time with regard to their actions confronting businesses and their malpractice (den Hond, Bakker, & Doh, 2015; Harangozó & Zilahy, 2015; Schwarz & Fritsch, 2018), this perception has changed and some NGOs as well as businesses have opened up for collaboration efforts (Kourula, 2010; Lambell et al., 2008). A phenomenon that this treatise underlines in multiple aspects from a theoretical and practical perspective. For instance, from an institutional viewpoint NGOs can serve as potential collaboration partners mitigating institutional voids or circumventing unfavourable institutions (Doh et al., 2017). Also, from a capability viewpoint, NGOs can share operational and community engagement resources with MNCs, making it easier or in certain settings at all possible to contact potential customer groups (Kubzansky, Cooper, & Barbary, 2011; McKague & Tinsley, 2012; Schuster & Holtbrügge, 2014a). Furthermore, even though there have been multiple research papers highlighting the importance of NGOs in the international business arena (Argenti, 2004; Doh & Teegen, 2002; Teegen et al., 2004), and the benefits of collaborating with them (Dahan et al., 2010b; Kourula & Laasonen, 2010; Lambell et al., 2008), there have only been very few studies highlighting institutional aspects regarding this relationship. Only recently, a special issue in the Journal of International Business Studies started to highlight institutional aspects (Doh et al., 2017), specifically regulatory institutions and informal institutions (Marano et al., 2017; Pinkham & Peng, 2017). As it was highlighted in multiple interdependency effects and in the description of the characteristics of developing countries, this treatise also sees institutions and the lack thereof as the major aspect and challenge of internationalisation into developing countries and specific types of NGOs can play a crucial role supporting in building relevant institutions for or together with MNCs. Furthermore, it has been shown how institutions can be improved and how institutional voids can be mitigated via the collaboration with NGOs.

From a practical perspective, through the analysis of three interdependency effects based on three illustrative case studies and after the initial development of the interdependency effects, some limitations of the overall analysis have already become visible. This in itself also serves as a theoretical contribution of this treatise with regard to further framework development and adjustment. First of all, through the analysis of the cases it became visible that NGOs in developing countries can perform multiple activities at various levels (local, national or global) simultaneously making the categorisation effort of NGO types even more difficult. Secondly, the search and selection process for the three illustrative case studies discovered that cases regarding collaborations between MNCs and advocacy NGOs in the light of an internationalisation endeavour into developing countries are much harder to find than cases with operational NGOs. One explanation might be that institutional voids in developing countries are very pressing and severe challenges and that mainly operational NGOs, carrying out organisational and operational activities on the ground are the first aid that is needed within these particular settings. Thus, a collaboration with an advocacy NGO might rather be a form of collaboration for a more long-term view in which MNCs rather aim to change cultural institutions or deeply manifested behaviours.

10.2. Managerial Implications

Besides an academic contribution, there are also managerial implications that managers of MNCs interested in internationalising into developing countries can draw from this treatise. These implications mainly circle around three building blocks: the focus on developing countries and its challenges, the introduction of non-market strategies as a viable opportunity for businesses during and after the internationalisation and the creation of decision-making aid for collaboration efforts with NGOs at the management level.

Even though much has been written about the opportunities and challenges of emerging and developing countries in scientific outlets as well as more practical outlets (Annushkina et al., 2016; Doh & Teegen, 2002; Drucker, 1989; Khanna et al., 2005; Khanna & Palepu, 1999; The Economist, 2010), comprehensive overviews on characteristics, opportunities and specific challenges of developing countries in particular have remained scarce. Therefore, this treatise serves as a great overview of these aspects for managerial decision makers. On the one hand, it highlights the potential of developing countries and their growth opportunities for MNCs. On the other hand, it thoroughly addresses the specific challenges developing countries can possess, based on their characteristics. Furthermore, the treatise shows the heterogeneity of developing countries when grouped as a single category. Thus, the side note on the depiction of characteristics of developing countries becomes important as it says that developing countries do not need to possess all of the described characteristics, but only most of them in order to be clustered into the category of a developing country. This again shows the high heterogeneity within this group of countries and the difficulty of finding a blueprint for internationalisation into developing countries. This aspect could be added as an additional reasoning for Dunning's (1988) critique on the Uppsala model of internationalisation by Johanson and Vahlne (1977), as especially the internationalisation into developing countries by MNCs shows multiple entry modes being used simultaneously as well as various experiments regarding additional innovative internationalisation approaches (e.g. a collaboration with NGOs or the government).

With regard to the clustering of developing countries, the use of various indices (e.g. HDI, ease of doing business, Global Competitiveness Index, etc.) can help a MNC manager to quickly identify major difference between the MNCs home country and the MNCs target country, which will give a first indication of the most pressing differences and potentially the most important challenge that the MNC will face. Additionally, if the MNC is still at an early stage regarding its internationalisation efforts, the various indices can also help with a more specific differentiation between multiple developing countries and their individual strengths and weaknesses. For instance, when looking at the two geographically neighbouring countries, Mozambique and Tanzania, using the Global Competitiveness Index, the countries are not very far apart regarding their overall ranking (133rd for Mozambique vs. 116th for Tanzania). Yet, with a little deeper analysis regarding the twelve pillars of the index, a MNC manager can already absorb interesting differences between the countries. For instance, the macro-economic stability scores much higher in Tanzania (73 points) than in Mozambique (44 points) which might partially be due to various institutions in which Tanzania (50 points) also scores higher than Mozambique (44). Yet, with regard to the ICT-adoption pillar (e.g. broadband and cellular usage, etc.) Tanzania only scores 18 points, while Mozambique has 26. Furthermore the innovation ecosystem composed of the two pillars business dynamism and innovation capability is exactly the same. Both countries score 53 points in business dynamism and 27 points in innovation capability.

Besides the characteristics and differences within the category of developing countries, this treatise also thoroughly identified and described specific challenges of developing countries with regard to the market entry of MNCs. For instance, formal and informal institutional voids, the liability of privateness or severe institutional and cultural distances can pose significant challenges for companies that are interested in internationalising into developing markets. An exhaustive, comprehensive and structured overview of these potential challenges can be a valuable advancement for the planning and structuring of an internationalisation effort by a MNC into a developing country.

Furthermore, this treatise highlighted the relevance of non-market strategies for the internationalisation into developing countries. Even though the focus of this treatise was laid on collaborative activities with NGOs and thus focusing mainly on corporate social responsibility aspects of non-market strategies, both streams of non-market strategies (i.e. governmental-focused and social responsibility-focused strategies) are important for MNCs during and after their internationalisation into developing countries (Kolk & van Tulder, 2010; Lawton & Rajwani, 2015; Mellahi et al., 2015). Thus, managerial decision makers need to become aware of the importance of other networks and environments besides relevant business networks and the market environment. Even though these environments remain very important to the internationalisation efforts of a company, when internationalising into developing countries, the non-market environment should not be neglected.

Additionally, managers can get specific decision making aid for their collaborative internationalisation efforts with regard to NGO collaboration partner categories. The provided interdependency effects in this treatise highlight specific interrelations between certain internationalisation challenges, their embeddedness necessity and the favourable resources and capabilities of NGOs. Based on this analysis, as NGO profile as well as the dominant category of a potential NGO collaboration partner for internationalising MNCs was created. Through this work, managers can presume in a more concrete manner what their next steps regarding and internationalisation with the support of a NGO could be. Yet, this approach requires that the company is open to collaborations with NGOs and has analysed their most pressing internationalisation challenge adequately as each interdependency effect is argued and reasoned individually based on a single internationalisation challenge.

In order to adopt the proposed interdependency effects and the overall framework of this treatise successfully into the practical context of a MNC, the responsible manager should be aware of certain requirements and impediments. At first, the responsible manager himself needs to be willing to analyse heterogeneous contexts and data points describing these contexts (e.g. indices, etc.). He needs to have the time to be able to carry out the work thoroughly and, if possible, should be assisted by a small team. The MNC itself should have an open culture regarding experimenting with new forms of collaboration as collaborations with NGOs are typically fairly new to MNCs, especially with regard to a more market-driven approach. Therefore, the MNC also needs to have a manifested discussion culture and an openness towards new and unconventional problem solving methodologies as cultures of MNCs and NGOs often vary and both organisations typically need time to adapt to each other.

11. Conclusion

Concluding this treatise, the first subchapter (11.1) will focus on a short summary of the overall treatise, highlighting the most relevant aspects that have been discussed throughout the treatise. Afterwards, subchapter 11.2 will finalise with a critical appraisal and an outlook for future research endeavours.

11.1. Summary

The overall goal of this treatise was to establish a connection between a MNCs challenges of internationalising into developing countries, the necessity of embeddedness in the host countries environment and a potential link to varying types of non-governmental organisations as a collaboration partner for MNCs. Based on a framework relating internationalisation challenges, dimensions of embeddedness and resources & capabilities of NGOs, the treatise established interdependency effects to presume collaboration partner selection for MNCs with regard to the non-market environment. Since the areas of research covered in the treatise are of a heterogeneous, complex and broad nature, a derivation of specific and stiff propositions seemed inadequate to carry out. Furthermore, as previously mentioned, especially the derivation of certain types of NGOs as potential collaboration partners remains difficult in practice, which again makes a clear set-up of propositions difficult. Therefore, this treatise opted for the creation of interdependency effects to interlink the various aspects covered in the treatise (i.e. challenges of internationalisation, embeddedness and resources & capabilities of NGOs). Only afterwards, this treatise established plausibilities as to which extent a potential profile of NGO could be a favourable collaboration partner for an internationalising MNC. The goal of the creation of a conceptual framework and the derivation of multiple interdependency effects has been thoroughly followed throughout the treatise and was finalised in Chapter 9. In this chapter the most important interdependency effects were derived based on individual internationalisation challenges faced by MNCs.

In order to construct a conceptual alignment of multiple theoretical areas, these areas and streams of literature needed to be introduced and discussed at first. Therefore, the second Chapter has started to elaborate on general aspects of internationalisation (i.e. definition, reference frameworks, theoretical foundations and internationalisation processes) to give an overall introduction to the topic and a reference point for the argumentation. Furthermore, the Chapter introduced generic challenges and concepts of challenges of internationalisation, which are typically encountered during market entries into other developed countries. This approach was relevant as many challenges that MNCs encounter during their market entry into developing countries are similar challenges to the ones they encounter during market entries into other developed countries. Only the severity of a particular challenge is oftentimes different. Nevertheless, there are some differences between developed countries and developing countries of course. Thus, Chapter 3 highlighted in detail the characteristics of developing countries. At first, an overall country classification was described and important indices that measure country development differences were introduced. This was important as to show the heterogeneous approaches to developing country classification and to clearly differentiate between the various developmental stages of countries. Afterwards, specific characteristics that describe developing countries were explained, before additional internationalisation challenges, specific to developing countries, were shown. Even though many challenges can be derived from generic internationalisation challenges, the aspect of institutional voids and the liability of privateness are challenges that are generally only encountered in developing countries and can severely impact the internationalisation efforts of MNCs.

After a short interim conclusion, which summarised the first Chapters and introduced the relevance of embeddedness for the internationalisation into developing countries, Chapter 5 focused completely on the overarching theory of embeddedness. Thereby the development of the theory of embeddedness was focused and its relevant research streams were described. The Chapter finished with a comprehensive overview of multiple dimensions of embeddedness which was necessary for the development of the overall framework, proposed in Chapter 9. The sixth Chapter introduced non-market strategies as an important strategic tool for MNCs. Thereby, the focus was put on the three-sector model at first to explain the relevance of non-market strategies from a societal viewpoint. Afterwards, the Chapter highlighted the aspects of corporate political activity and corporate social responsibility. While the former phenomenon (corporate political activity) was generally explained for the reasons of comprehensiveness, the latter (corporate social responsibility) was introduced as a major vantage point for NGOs and an important reason for MNCs to collaborate with NGOs. Chapter 7 focused its depiction on cross-sector collaborations in the international business literature and the organisational form of non-governmental organisations in international business. While the first part of the Chapter introduced various types of cross-sectoral collaboration research with a specific focus on collaboration between businesses and non-governmental organisations, the second part highlighted NGOs, existing categorisations of NGOs and their most important capabilities and resources.

The eighth Chapter, an interim conclusion, again summarised important aspects of the previous Chapters and proposed a simple framework for the further establishment of the overall conceptual framework and its underlying interdependency effects. The comprehensive framework was proposed at the end of Chapter 9.2 (9.2.5) after a short reminder of the relevant categories which have been established throughout the treatise within the various Chapters (9.2.1 – 9.2.4). After the establishment of the conceptual framework, the varying interdependency effects based on the priorily identified internationalisation challenges were argued and finalised with a conclusion identifying one dominant category of a NGO. In total this treatise established twelve interdependency effects, three of which were applied in small illustrative case studies afterwards. Chapter 10 finally discussed the relevant academic contributions and managerial implications of this treatise. Especially with regard to the establishment of the theory of embeddedness within the literature of international business, this treatise has contribute much to the current knowledge. Furthermore, the theoretical rigor on research regarding NGOs in the international business area has been elevated.

11.2. Critical Appraisal and Outlook

As already mentioned shortly in Chapter 10, this treatise has some limitations that need to be addressed and which can pose options for potential future research endeavours. These limitations especially surround the methodology, the proposed framework itself and the overall research phenomenon of this treatise. The limitations as well as a short research outlook will be addressed in the following.

Since this treatise followed a conceptual approach and derived a framework including the establishment of multiple interdependency effects, there are naturally some limitations to the methodology. First of all, it needs to be mentioned that the constructs used for the framework development have been derived via a narrative literature review. This knowledge has thus been critically established and condensed during the review process, but it has not been systematically searched for. Due to the scattered fields of research highlighted in this treatise, this approach is reasonable, yet it poses the aforementioned limitations. Furthermore, the depiction of three illustrative case studies has shown the applicability of at least three interdependency effects to practice and made the abstract effect much more concrete. Yet, these cases have also shown that the proposed interdependency effects cannot perfectly explain the behaviour of the MNC, often also due to the difficult categorisation approaches regarding NGOs.

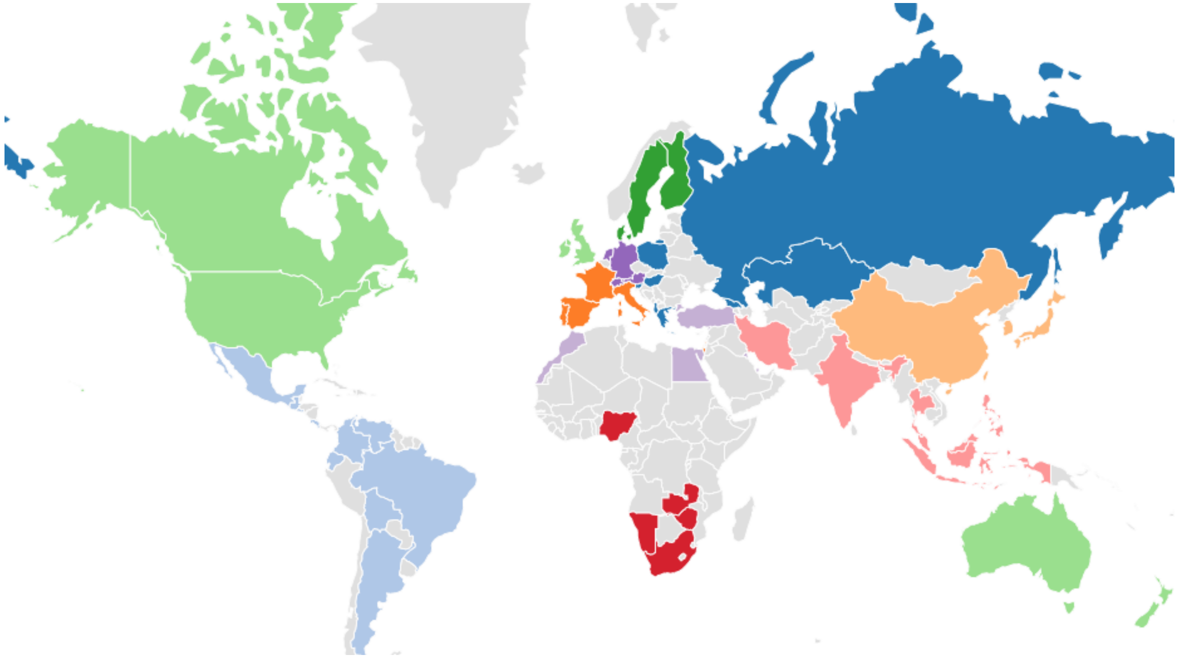
Furthermore the proposed framework, the integration of all previously discussed aspects of this treatise, also shows some limitations. Firstly, the identified internationalisation challenges of MNCs into developing countries are explicated at a highly condensed level (in total there have only been 10 categories of internationalisation challenges identified) to make an analysis feasible. Furthermore, these internationalisation challenges have been introduced in various research areas and with differing perspectives, which made the integration of all challenges into one coherent overview very difficult. Especially with regard to potential overlaps within individual challenges. Secondly, even though the dimensions of embeddedness have been carefully crafted from the existing literature, this field of research is highly scattered (the literature streams that include embeddedness research are manifold and oftentimes without any overlap) and chaotic. This might lead to existing dimensions that have not been recognised within in this treatise, even though the risk of it remains slim. Thirdly, the proposed map on which potential NGO collaboration partners can be mapped is much closer to reality than strict categorisations and types of NGOs. Nevertheless it still leaves much wiggle room and also leaves out various NGOs that are existent in practice. Furthermore, many NGOs in practice do show that they can carry out both activities (i.e. operational and advocacy), even though one activity remains their core activity (Seitanidi & Lindgreen, 2010; Yaziji & Doh, 2009). Additionally, the clear distinction between local, national and global NGOs also poses significant challenges in practice as multiple NGOs (as for instance visible in the illustrative case studies) do show activities and characteristics of multiple geographical scopes. Furthermore, as already explained in the derivation of the typology, only some types of NGOs have been selected for the typology, while others have been neglected. NGOs that are in general more critical with regard to collaborations with businesses have not been considered at all as a potential collaboration partner. A last limitation that needs to be mentioned with regard to the proposed framework and the interdependency effects is the focus on only one internationalisation challenge for every interdependency effect analysed. This approach neglects the possibility of a multi-factor analysis to internationalisation challenge mitigation for MNCs as the managers have to conclude on one major internationalisation challenge at first, before they can to follow the proposed framework.

Another category of limitations can be grouped around the overall topic of the researched phenomenon. Since the selected topic is of a very broad and interdisciplinary nature, the overall framework and its categories needed to be highly condensed to make them apprehensible and yet applicable for analysis. By nature, this approach does leave out certain details at lower levels of analysis. Another critic that needs to be addressed is the company focus on MNCs from so-called *western*, developed countries. This focus completely neglects the internationalisation efforts of multi-nationals from other emerging or developing countries. A research stream that has received significant attention in the recent decade (Hilb, 2015; Luo, 2002b; Wei & Nguyen, 2017). Additionally, this treatise does not differentiate between varying types of MNCs with regard to the internationalisation, even though research has shown that multiple types exist (Bartlett & Ghoshal, 1989; Luo, 2002b). It rather groups all existing MNCs into one category which poses a limitation to the overall analysis. Yet, due to apprehensibility reasons and a reduction in complexity this approach was chosen. Furthermore, the aspect of corruption has been addressed in the characterisation of developing countries (chapter 3.2.7), yet with regard to the creation of the framework it has been excluded from the analysis which again poses an overall limitation of the analysis.

Partially based on previously mentioned limitations of this treatise, there are multiple options for future research to conduct. At first and most importantly, researchers could try to refine the explicated interdependency effects based on in-depth qualitative research. A multiple case study design with a deeper focus on practical cases could be carried out as a first approach to gain more data and refine interdependency effects. Another area of future research could be the embeddedness literature. Even though embeddedness has become an important theoretical framework in international business and partnership research, many of its mechanisms and outcomes are still unknown today. This treatise has started to incorporate embeddedness theory even more into the international business literature and furthermore broadened the scope with regard to developing countries. Nevertheless, there are still many unknown areas and mechanisms to the analysed. Other research endeavours could furthermore focus on a particular type of NGO to create a more detailed reasoning and understanding of the underlying mechanisms how a collaboration in an unknown and oftentimes fragile institutional setting can work. After introducing the three illustrative case studies in which all three NGOs were operational NGOs based on their primary activity, a deeper investigation into this type of NGO could add additional value as well. At last, interested researchers could also focus their analysis on a different type of company (e.g. emerging market or developing market multi-national companies (EMNC), or a typology of MNCs), which typically already have a high knowledge on how to operate in institutionally fragile settings. Nevertheless, EMNC also seem to have problems when internationalising into other developing countries and a collaboration with NGOs might be beneficial for them as well (Cuervo-Cazurra, Maloney, & Manrakhan, 2007; Deng, Liu, Gallagher, & Wu, 2018). Overall, the research area of international business and in particular with regard to developing and emerging countries remains a vibrant and constantly changing environment for innovative research ideas and this treatise has just been the beginning.

Appendix

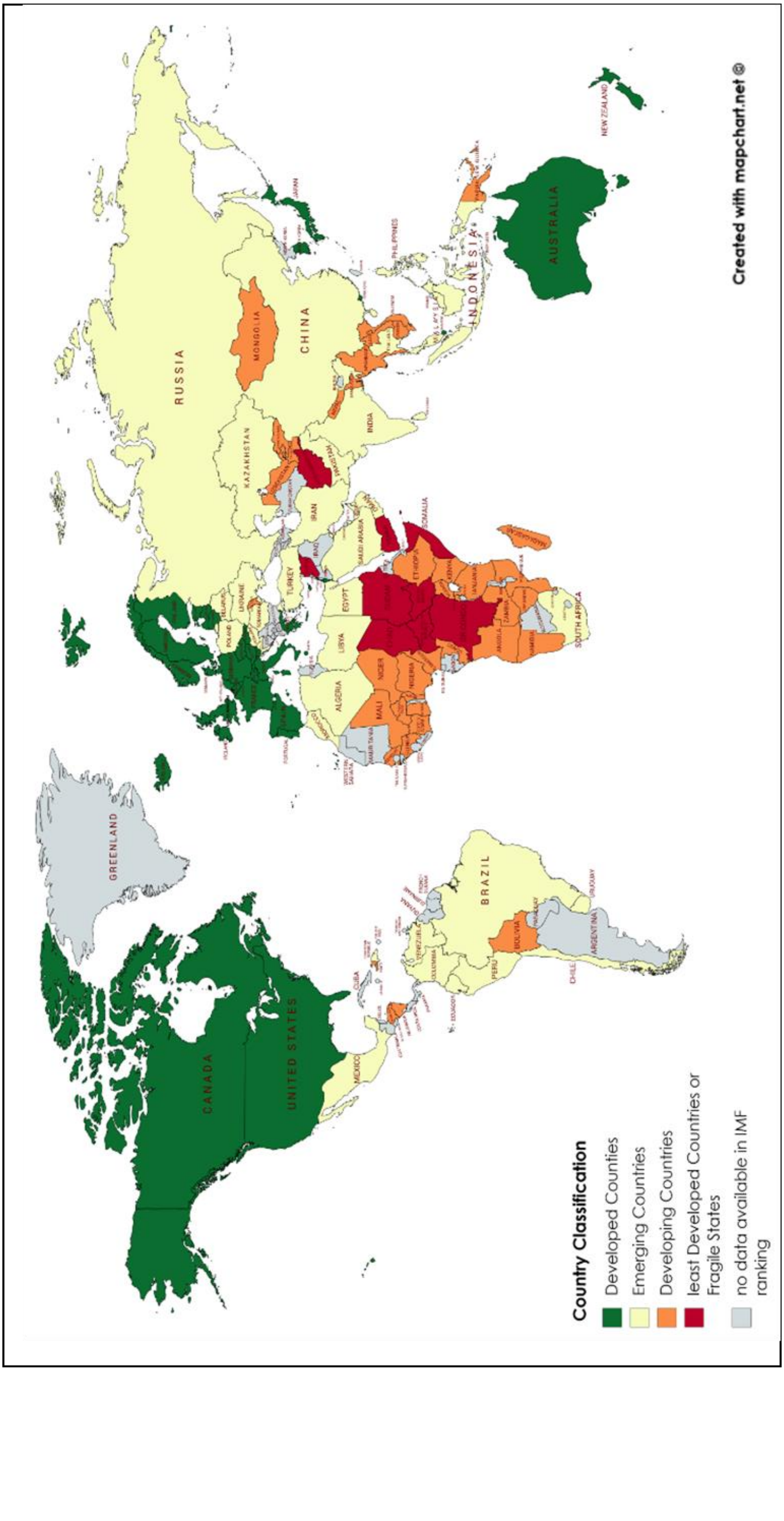
Appendix 1: GLOBE study country map



Cluster	Countries															
Anglo Cultures	England	Australia	South Africa (white sample)	Canada	New Zealand	Ireland	United States									
Arab Cultures	Algeria	Qatar	Morocco	Egypt	Kuwait	Libya	Tunisia	Lebanon	Syria	Yemen	Jordan	Iraq	UAE	Bahrain	Saudi Arabia	Oman
Confucian Asia	Taiwan	Singapore	Hong Kong	South Korea	China	Japan	Vietnam									
Eastern Europe	Hungary	Bulgaria	Romania	Czech Republic	Slovakia	Poland	Lithuania	Latvia	Estonia	Serbia	Greece	Slovenia	Albania	Russia		
Germanic Europe	Dutch-speaking (Netherlands, Belgium and Dutch-speaking France)	German-speaking (Austria, German-speaking Switzerland, Germany, South Tyrol, Liechtenstein)														
Latin America	Costa Rica	Venezuela	Ecuador	Mexico	El Salvador	Colombia	Guatemala	Bolivia	Brazil	Argentina						
Latin Europe	Italy	Portugal	Spain	France	Switzerland (French and Italian speaking)											
Nordic Europe	Finland	Sweden	Denmark													
Southern Asia	Pakistan	India	Bangladesh	Indonesia	Malaysia	Thailand	Iran	Philippines	Turkey							
Sub-Sahara Africa	Namibia	Zambia	Zimbabwe	South Africa (Black Sample)	Nigeria											

(source: own representation based on the GLOBE study 2019)

Appendix 2: Country classification into four country development categorisations



(source: own representation based on: the IMF country data, 2018; FundforPeace, 2018)

Appendix 3: Ranking of the Index of Economic Freedom

RANKING THE WORLD BY ECONOMIC FREEDOM

Rank	Country	Overall Score
1	Hong Kong	90.2
2	Singapore	89.4
3	New Zealand	84.4
4	Switzerland	81.9
5	Australia	80.9
6	Ireland	80.5
7	United Kingdom	78.9
8	Canada	77.7
9	United Arab Emirates	77.6
10	Taiwan	77.3
11	Iceland	77.1
12	United States	76.8
13	Netherlands	76.8
14	Denmark	76.7
15	Estonia	76.6
16	Georgia	75.9
17	Luxembourg	75.9
18	Chile	75.4
19	Sweden	75.2
20	Finland	74.9
21	Lithuania	74.2
22	Malaysia	74.0
23	Czech Republic	73.7
24	Germany	73.5
25	Mauritius	73.0
26	Norway	73.0
27	Israel	72.8
28	Qatar	72.6
29	South Korea	72.3
30	Japan	72.1
31	Austria	72.0
32	Rwanda	71.1
33	Macedonia	71.1
34	Macau	71.0
35	Latvia	70.4
36	Botswana	69.5
37	Bulgaria	69.0
38	Saint Lucia	68.7
39	Jamaica	68.6
40	Uruguay	68.6
41	Malta	68.6
42	Romania	68.6
43	Thailand	68.3
44	Cyprus	68.1
45	Peru	67.8
46	Poland	67.8
47	Armenia	67.7
48	Belgium	67.3
49	Colombia	67.3
50	Panama	67.2
51	Kosovo	67.0
52	Albania	66.5
53	Jordan	66.5
54	Bahrain	66.4
55	St. Vincent & Grenadines	65.8
56	Indonesia	65.8
57	Spain	65.7
58	Slovenia	65.5
59	Kazakhstan	65.4
60	Azerbaijan	65.4
61	Costa Rica	65.3
62	Portugal	65.3
63	Brunei	65.1
64	Hungary	65.0
65	Slovakia	65.0
66	Mexico	64.7
67	Barbados	64.7
68	Turkey	64.6
69	Serbia	63.9
70	Philippines	63.8
71	France	63.8
72	Dominica	63.6
73	Cabo Verde	63.1
74	Bhutan	62.9
75	Morocco	62.9
76	The Bahamas	62.9
77	Guatemala	62.6
78	Côte d'Ivoire	62.4
79	Kyrgyz Republic	62.3
80	Italy	62.2
81	Fiji	62.2
82	Samoa	62.2
83	Bosnia and Herzegovina	61.9
84	El Salvador	61.8
85	Paraguay	61.8
86	Croatia	61.4
87	Seychelles	61.4
88	Oman	61.0
89	Dominican Republic	61.0
90	Kuwait	60.8
91	Saudi Arabia	60.7
92	Montenegro	60.5
93	Honduras	60.2
94	Tanzania	60.2
95	Uganda	59.7
96	Burkina Faso	59.4
97	Moldova	59.1
98	Russia	58.9
99	Namibia	58.7
100	China	58.4
101	Papua New Guinea	58.4
102	South Africa	58.3
103	Mali	58.1
104	Belarus	57.9
105	Cambodia	57.8
106	Greece	57.7
107	Nicaragua	57.7
108	Tonga	57.7
109	Ghana	57.5
110	Laos	57.4
111	Nigeria	57.3
112	Trinidad and Tobago	57.0
113	Guyana	56.8
114	Madagascar	56.6
115	Sri Lanka	56.4
116	Vanuatu	56.4
117	Senegal	56.3
118	Gabon	56.3
119	Mauritania	55.7
120	Guinea	55.7
121	Bangladesh	55.6
122	Tajikistan	55.6
123	Belize	55.4
124	Comoros	55.4
125	Tunisia	55.4
126	Mongolia	55.4
127	Benin	55.3
128	Vietnam	55.3
129	India	55.2
130	Kenya	55.1
131	Pakistan	55.0
132	Eswatini	54.7
133	Solomon Islands	54.6
134	São Tomé and Príncipe	54.0
135	Guinea-Bissau	54.0
136	Nepal	53.8
137	Ethiopia	53.6
138	Zambia	53.6
139	Burma	53.6
140	Uzbekistan	53.3
141	Maldives	53.2
142	Lesotho	53.1
143	Haiti	52.7
144	Egypt	52.5
145	Cameroon	52.4
146	The Gambia	52.4
147	Ukraine	52.3
148	Argentina	52.2
149	Micronesia	51.9
150	Brazil	51.9
151	Niger	51.6
152	Afghanistan	51.5
153	Malawi	51.4
154	Lebanon	51.1
155	Iran	51.1
156	Angola	50.6
157	Dem. Rep. Congo	50.3
158	Togo	50.3
159	Chad	49.9
160	Liberia	49.7
161	Central African Republic	49.1
162	Burundi	48.9
163	Mozambique	48.6
164	Turkmenistan	48.4
165	Suriname	48.1
166	Sudan	47.7
167	Sierra Leone	47.5
168	Kiribati	47.3
169	Djibouti	47.1
170	Ecuador	46.9
171	Algeria	46.2
172	Timor-Leste	44.2
173	Bolivia	42.3
174	Equatorial Guinea	41.0
175	Zimbabwe	40.4
176	Republic of Congo	39.7
177	Eritrea	38.9
178	Cuba	27.8
179	Venezuela	25.9
180	North Korea	5.9

Economic Freedom Scores

- 80–100 Free
- 70–79.9 Mostly Free
- 60–69.9 Moderately Free
- 50–59.9 Mostly Unfree
- 0–49.9 Repressed

(source: The Heritage Foundation, 2019)

Appendix 4: Ranking of the Human Development index 2017

Ranking of the Human Development Index 2017

Rank	country	HDI-score	Rank	country	HDI-score
VERY HIGH HUMAN DEVELOPMENT			35	Andorra	0.858
1	Norway	0.953	35	Lithuania	0.858
2	Switzerland	0.944	37	Qatar	0.856
3	Australia	0.939	38	Slovakia	0.855
4	Ireland	0.938	39	Brunei Darussalam	0.853
5	Germany	0.936	39	Saudi Arabia	0.853
6	Iceland	0.935	41	Latvia	0.847
7	Hong Kong, China (SAR)	0.933	41	Portugal	0.847
7	Sweden	0.933	43	Bahrain	0.846
9	Singapore	0.932	44	Chile	0.843
10	Netherlands	0.931	45	Hungary	0.838
11	Denmark	0.929	46	Croatia	0.831
12	Canada	0.926	47	Argentina	0.825
13	United States	0.924	48	Oman	0.821
14	United Kingdom	0.922	49	Russian Federation	0.816
15	Finland	0.920	50	Montenegro	0.814
16	New Zealand	0.917	51	Bulgaria	0.813
17	Belgium	0.916	52	Romania	0.811
17	Liechtenstein	0.916	53	Belarus	0.808
19	Japan	0.909	54	Bahamas	0.807
20	Austria	0.908	55	Uruguay	0.804
21	Luxembourg	0.904	56	Kuwait	0.803
22	Israel	0.903	57	Malaysia	0.802
22	Korea (Republic of)	0.903	58	Barbados	0.800
24	France	0.901	58	Kazakhstan	0.800
25	Slovenia	0.896	**HIGH HUMAN DEVELOPMENT**		
26	Spain	0.891	60	Iran	0.798
27	Czechia	0.888	60	Palau	0.798
28	Italy	0.880	62	Seychelles	0.797
29	Malta	0.878	63	Costa Rica	0.794
30	Estonia	0.871	64	Turkey	0.791
31	Greece	0.870	65	Mauritius	0.790
32	Cyprus	0.869	66	Panama	0.789
33	Poland	0.865	67	Serbia	0.787
34	United Arab Emirates	0.863	68	Albania	0.785
35	Andorra	0.858	69	Trinidad and Tobago	0.784
35	Lithuania	0.858	76	Sri Lanka	0.770

Rank	country	HDI-score	Rank	country	HDI-score
77	Bosnia and Herzegovina	0.768		**MEDIUM HUMAN DEVELOPMENT**	
78	Venezuela (Bolivarian Republic of)	0.761	108	Libya	0.706
79	Brazil	0.759	108	Turkmenistan	0.706
80	Azerbaijan	0.757	110	Gabon	0.702
80	Lebanon	0.757	110	Paraguay	0.702
80	The former Yugoslav Republic of Macedonia	0.757	112	Moldova (Republic of	0.700
83	Armenia	0.755	113	Philippines	0.699
83	Thailand	0.755	113	South Africa	0.699
85	Algeria	0.754	115	Egypt	0.696
86	China	0.752	116	Indonesia	0.694
86	Ecuador	0.752	116	Viet Nam	0.694
88	Ukraine	0.751	118	Bolivia (Plurinational State of)	0.693
89	Peru	0.750	119	Palestine, State of	0.686
90	Colombia	0.747	120	Iraq	0.685
90	Saint Lucia	0.747	121	El Salvador	0.674
92	Fiji	0.741	122	Kyrgyzstan	0.672
92	Mongolia	0.741	123	Morocco	0.667
94	Dominican Republic	0.736	124	Nicaragua	0.658
95	Jordan	0.735	125	Cabo Verde	0.654
95	Tunisia	0.735	125	Guyana	0.654
97	Jamaica	0.732	127	Guatemala	0.650
98	Tonga	0.726	127	Tajikistan	0.650
99	Saint Vincent and the Grenadines	0.723	129	Namibia	0.647
100	Suriname	0.720	130	India	0.640
101	Botswana	0.717	131	Micronesia (Federated States of)	0.627
101	Maldives	0.717	132	Timor-Leste	0.625
103	Dominica	0.715	133	Honduras	0.617
104	Samoa	0.713	134	Bhutan	0.612
105	Uzbekistan	0.710	134	Kiribati	0.612
106	Belize	0.708	136	Bangladesh	0.608
106	Marshall Islands	0.708	137	Congo	0.606

Rank	country	HDI-score
138	Vanuatu	0.603
139	Lao People's Democrativ Republic	0.601
140	Ghana	0.592
141	Equatorial Guinea	0.591
142	Kenya	0.590
143	Sao Tome and Principe	0.589
144	Eswatini (Kingdom of)	0.588
144	Zambia	0.588
146	Cambodia	0.582
147	Angola	0.581
148	Myanmar	0.578
149	Nepal	0.574
150	Pakistan	0.562
151	Cameroon	0.556
LOW HUMAN DEVELOPMENT		
152	Solomon Islands	0.546
153	Papua New Guinea	0.544
154	Tanzania (United Republic of)	0.538
155	Syrian Arab Republic	0.536
156	Zimbabwe	0.535
157	Nigeria	0.532
158	Rwanda	0.524
159	Lesotho	0.520
159	Mauritania	0.520
161	Madagascar	0.519
162	Uganda	0.516
163	Benin	0.515
164	Senegal	0.505
165	Comoros	0.503
165	Togo	0.503
167	Sudan	0.502
168	Afghanistan	0.498
168	Haiti	0.498
170	Côte d'Ivoire	0.492
171	Malawi	0.477
172	Djibouti	0.476
173	Ethiopia	0.463
174	Gambia	0.460
175	Guinea	0.459
176	Congo (Democratic Republic of the)	0.457
177	Guinea-Bissau	0.455
178	Yemen	0.452
179	Eritrea	0.440
180	Mozambique	0.437
181	Liberia	0.435
182	Mali	0.427
183	Burkina	Faso
184	Sierra Leone	0.419
185	Burundi	0.417
186	Chad	0.404
187	South Sudan	0.388
188	Central African Republic	0.367
189	Niger	0.354
OTHER COUNTRIES OR TERRITORIES		
..	Korea (Democratic People's Rep. of)	
..	Monaco	
..	Nauru	
..	San Marino	
..	Somalia	
..	Tuvalu	

(source: own representation based on the United Nations Development Programme, 2018)

Appendix 5: Ranking of the Ease of Doing Business Index

Economy	global Rank	Start	Deal	Elect-ricity	regi-ster	credit	inves-tors	pay taxes	tra-ding	con-tracts	insol-vency
New Zealand	1	1	6	45	1	1	2	10	60	21	31
Singapore	2	3	8	16	21	32	7	8	45	1	27
Denmark	3	42	4	21	11	44	38	9	1	14	6
Hong Kong SAR, China	4	5	1	3	53	32	11	1	27	30	44
Korea, Rep.	5	11	10	2	40	60	23	24	33	2	11
Georgia	6	2	27	39	4	12	2	16	43	8	60
Norway	7	22	22	19	13	85	15	30	22	3	5
United States	8	53	26	54	38	3	50	37	36	16	3
United Kingdom	9	19	17	7	42	32	15	23	30	32	14
North Macedonia	10	47	13	57	46	12	7	31	29	37	30
United Arab Emirates	11	25	5	1	7	44	15	2	98	9	75
Sweden	12	18	25	9	10	85	33	27	18	38	17
Taiwan, China	13	20	2	8	19	99	15	29	58	11	23
Lithuania	14	31	7	26	3	44	38	18	19	7	85
Malaysia	15	122	3	4	29	32	2	72	48	33	41
Estonia	16	15	14	46	6	44	83	14	17	13	47
Finland	17	43	34	25	28	60	72	11	34	46	2
Australia	18	7	9	52	50	8	64	26	103	5	20
Latvia	19	24	56	53	25	12	51	13	26	20	54
Mauritius	20	21	15	34	35	60	15	6	69	27	35
Iceland	21	59	71	13	15	73	30	33	53	31	12
Canada	22	3	63	121	34	12	11	19	50	96	13
Ireland	23	10	28	43	64	44	15	4	52	102	18
Germany	24	114	24	5	78	44	72	43	40	26	4
Azerbaijan	25	9	61	74	17	22	2	28	84	40	45
Austria	26	118	42	28	32	85	33	40	1	10	21
Thailand	27	39	67	6	66	44	15	59	59	35	24
Kazakhstan	28	36	35	76	18	60	1	56	102	4	37
Rwanda	29	51	106	68	2	3	14	35	88	78	58
Spain	30	86	78	48	58	73	30	34	1	23	19
Russian Federation	31	32	48	12	12	22	57	53	99	18	55
France	32	30	19	14	96	99	38	55	1	12	28
Poland	33	121	40	58	41	32	57	69	1	53	25
Portugal	34	57	60	32	36	112	64	39	1	35	16
Czech Republic	35	115	156	10	33	44	72	45	1	99	15
Netherlands	36	22	84	56	31	112	72	21	1	74	7
Belarus	37	29	46	20	5	85	51	99	25	29	72
Switzerland	38	77	69	11	16	73	110	20	39	55	46
Japan	39	93	44	22	48	85	64	97	56	52	1
Slovenia	40	38	120	23	56	112	30	41	1	110	9
Armenia	41	8	98	17	14	44	51	82	46	24	95
Slovak Republic	42	127	143	47	9	44	95	48	1	47	42
Turkey	43	78	59	60	39	32	26	80	42	19	109
Kosovo	44	13	100	113	37	12	95	44	51	50	50
Belgium	45	33	38	112	143	60	57	60	1	54	8
China	46	28	121	14	27	73	64	114	65	6	61
Moldova	47	14	172	81	22	44	33	35	35	69	68
Serbia	48	40	11	104	55	60	83	79	23	65	49

Economy	global Rank	Start	Deal	Elect-ricity	regi-ster	credit	inves-tors	pay taxes	tra-ding	con-tracts	insol-vency
Israel	49	45	41	78	89	60	23	90	64	90	29
Montenegro	50	90	75	134	76	12	57	68	47	44	43
Italy	51	67	104	37	23	112	72	118	1	111	22
Romania	52	111	146	154	44	22	64	49	1	17	52
Hungary	53	82	110	122	30	32	110	86	1	22	65
Mexico	54	94	93	99	103	8	72	116	66	43	32
Brunei Darussalam	55	16	55	31	142	1	48	84	149	67	64
Chile	56	72	33	36	61	85	64	76	71	49	51
Cyprus	57	52	126	70	94	73	38	47	49	138	26
Croatia	58	123	159	61	51	85	38	89	1	25	59
Bulgaria	59	99	37	147	67	60	33	92	21	42	56
Morocco	60	34	18	59	68	112	64	25	62	68	71
Kenya	61	126	128	75	122	8	11	91	112	88	57
Bahrain	62	66	57	82	26	112	38	5	77	128	93
Albania	63	50	151	140	98	44	26	122	24	98	39
Puerto Rico (U.S.)	64	53	141	88	159	3	110	162	67	63	10
Colombia	65	100	89	80	59	3	15	146	133	177	40
Luxembourg	66	73	12	41	92	175	122	22	1	15	90
Costa Rica	67	142	74	38	47	12	122	57	73	121	134
Peru	68	125	54	67	45	32	51	120	110	70	88
Vietnam	69	104	21	27	60	32	89	131	100	62	133
Kyrgyz Republic	70	35	29	164	8	32	38	150	70	131	82
Ukraine	71	56	30	135	63	32	72	54	78	57	145
Greece	72	44	39	79	153	99	51	65	31	132	62
Indonesia	73	134	112	33	100	44	51	112	116	146	36
Mongolia	74	87	23	148	49	22	33	61	117	66	152
Jamaica	75	6	76	115	131	12	89	123	134	127	33
Uzbekistan	76	12	134	35	71	60	64	64	165	41	91
India	77	137	52	24	166	22	7	121	80	163	108
Oman	78	37	66	66	52	134	125	12	72	73	100
Panama	79	48	108	30	81	22	99	174	57	147	113
Tunisia	80	63	77	51	87	99	83	133	101	80	67
Bhutan	81	91	88	73	54	85	125	15	28	28	168
South Africa	82	134	96	109	106	73	23	46	143	115	66
Qatar	83	84	20	69	20	124	178	2	97	122	120
Malta	84	103	45	77	151	134	57	71	41	39	121
El Salvador	85	147	173	97	73	22	161	62	44	109	89
Botswana	86	157	31	133	80	85	83	51	55	134	81
Zambia	87	102	70	128	150	3	110	17	153	130	99
San Marino	88	113	72	18	101	144	177	42	20	82	105
Bosnia and Herzegovina	89	183	167	130	99	60	72	139	37	75	37
Samoa	90	41	90	65	65	112	83	74	151	86	140
Tonga	91	58	16	90	163	44	140	100	94	94	137
Saudi Arabia	92	141	36	64	24	112	7	78	158	59	168
St. Lucia	93	70	32	49	104	161	99	73	90	75	130
Vanuatu	94	132	147	107	79	32	110	58	147	136	98
Uruguay	95	65	155	55	115	73	132	101	152	100	70
Seychelles	96	145	118	118	62	134	110	31	95	129	73
Kuwait	97	133	131	95	69	134	72	7	159	77	115
Guatemala	98	89	122	44	86	22	174	102	83	176	156

Economy	global Rank	Start	Deal	Elect-ricity	regi-ster	credit	inves-tors	pay taxes	tra-ding	con-tracts	insol-vency
Djibouti	99	96	101	119	110	161	2	108	145	140	48
Sri Lanka	100	83	65	84	140	124	38	141	93	164	92
Fiji	101	161	102	93	57	161	99	98	79	97	96
Dominican Republic	102	117	80	116	77	112	83	148	63	149	124
Dominica	103	69	82	50	168	144	99	75	89	83	134
Jordan	104	106	139	62	72	134	125	95	74	108	150
Trinidad and Tobago	105	76	125	41	158	60	57	166	130	174	77
Lesotho	106	119	171	157	108	85	110	108	38	95	126
Namibia	107	172	83	71	174	73	99	81	136	58	125
Papua New Guinea	108	143	124	72	121	44	89	111	140	173	142
Brazil	109	140	175	40	137	99	48	184	106	48	77
Nepal	110	107	148	137	88	99	72	158	82	154	83
Malawi	111	153	136	169	83	8	110	134	126	145	141
Antigua and Barbuda	112	131	97	63	120	161	99	144	108	34	132
Paraguay	113	151	79	101	74	124	140	127	127	91	103
Ghana	114	108	115	86	123	73	99	115	156	116	160
Solomon Islands	115	98	53	92	154	99	110	38	160	156	144
West Bank and Gaza	116	171	157	85	84	22	161	107	54	123	168
Eswatini	117	159	107	163	107	85	140	63	32	172	119
Bahamas, The	118	105	91	87	169	144	132	50	161	84	69
Argentina	119	128	174	103	119	85	57	169	125	107	104
Egypt, Arab Rep.	120	109	68	96	125	60	72	159	171	160	101
Honduras	121	154	116	153	95	12	140	164	123	152	143
Côte d'Ivoire	122	26	142	143	112	44	149	175	162	106	80
Ecuador	123	168	113	94	75	112	125	143	109	79	158
Philippines	124	166	94	29	116	184	132	94	104	151	63
Belize	125	162	119	91	135	172	132	52	111	133	87
Tajikistan	126	60	135	173	91	124	38	136	148	61	146
Uganda	127	164	145	175	126	73	110	87	119	71	112
Iran, Islamic Rep.	128	173	86	108	90	99	173	149	121	89	131
Barbados	129	101	154	114	129	144	168	93	132	170	34
St. Vincent and the Grenac	130	88	49	98	171	161	99	103	81	56	168
Cabo Verde	131	116	43	155	70	134	165	77	114	45	168
Nicaragua	132	144	177	110	155	99	168	160	85	87	106
Palau	133	129	95	149	43	99	180	106	137	126	166
Guyana	134	97	164	165	117	85	99	119	146	93	162
Mozambique	135	174	64	100	133	161	140	125	91	167	84
Pakistan	136	130	166	167	161	112	26	173	142	156	53
Togo	137	74	133	105	127	144	149	172	129	137	86
Cambodia	138	185	179	141	124	22	110	137	115	182	79
Maldives	139	71	62	145	175	134	132	117	155	125	139
St. Kitts and Nevis	140	95	47	102	185	161	122	124	68	51	168
Senegal	141	64	140	127	118	144	140	171	139	142	94
Lebanon	142	146	170	124	105	124	140	113	150	135	151
Niger	143	27	158	162	111	144	149	161	124	119	114
Tanzania	144	163	150	83	146	60	131	167	183	64	117
Mali	145	110	109	159	141	144	149	165	92	159	97
Nigeria	146	120	149	171	184	12	38	157	182	92	149
Grenada	147	85	130	89	146	144	132	142	135	80	168
Mauritania	148	46	92	151	102	144	110	178	141	72	168

Economy	global Rank	Start	Deal	Elect-ricity	regi-ster	credit	inves-tors	pay taxes	tra-ding	con-tracts	insol-vency
Gambia, The	149	169	123	160	132	134	165	169	113	117	128
Marshall Islands	150	75	73	132	187	99	180	70	75	103	167
Burkina Faso	151	79	58	181	145	144	149	153	120	165	107
Guinea	152	111	50	146	138	144	149	181	167	118	116
Benin	153	61	51	176	130	144	149	176	107	171	110
Lao PDR	154	180	99	156	85	73	174	155	76	162	168
Zimbabwe	155	176	176	166	109	85	95	145	157	168	159
Bolivia	156	178	160	111	148	134	149	186	96	113	102
Algeria	157	150	129	106	165	178	168	156	173	112	76
Kiribati	158	149	117	170	149	172	125	96	131	120	168
Ethiopia	159	167	168	131	144	175	178	130	154	60	148
Micronesia, Fed. Sts.	160	170	137	117	187	99	185	110	61	184	123
Madagascar	161	81	183	185	162	124	99	132	138	150	136
Sudan	162	156	105	120	93	161	168	163	185	144	118
Sierra Leone	163	55	182	178	167	161	89	88	166	105	161
Comoros	164	164	85	139	114	124	149	168	118	179	168
Suriname	165	182	114	138	160	178	168	105	87	187	138
Cameroon	166	92	132	129	176	73	140	182	186	166	127
Afghanistan	167	49	184	168	186	99	26	177	177	181	74
Burundi	168	17	162	183	97	178	132	138	169	158	147
Gabon	169	124	144	161	178	124	161	183	170	180	129
São Tomé and Principe	170	148	111	125	173	161	188	135	122	185	168
Iraq	171	155	103	126	113	186	125	129	181	143	168
Myanmar	171	152	81	144	136	178	185	126	168	188	164
Angola	173	139	87	152	170	184	89	104	174	186	168
Liberia	174	80	185	172	182	112	180	67	179	175	111
Guinea-Bissau	175	158	178	180	128	144	140	154	144	169	168
Bangladesh	176	138	138	179	183	161	89	151	176	189	153
Equatorial Guinea	177	184	163	150	164	124	149	179	175	101	168
Timor-Leste	178	68	161	123	187	172	99	140	104	190	168
Syrian Arab Republic	179	136	186	158	157	175	95	85	178	161	163
Congo, Rep.	180	179	127	182	177	134	149	185	184	155	122
Chad	181	186	153	177	134	144	161	188	172	153	154
Haiti	182	189	180	142	181	178	188	147	86	124	168
Central African Republic	183	181	181	184	172	144	149	187	163	183	154
Congo, Dem. Rep.	184	62	165	174	156	144	165	180	188	178	168
South Sudan	185	177	169	187	179	178	180	66	180	85	168
Libya	186	160	186	136	187	186	185	128	128	141	168
Yemen, Rep.	187	175	186	187	81	186	132	83	189	139	157
Venezuela, RB	188	190	152	186	138	124	180	189	187	148	165
Eritrea	189	187	186	187	180	186	174	152	189	103	168
Somalia	190	188	186	187	152	186	190	190	164	114	168

Due to limited space, abbreviations were used in the table above. They are explained in the following	
Start: Starting a business	**investors:** Protecting minority investors
Deal: Dealing with construction permits	**pay taxes:** Paying taxes
Electricity: getting electricity	**trading:** Trading across borders
register: registering property	**contracts:** Enforcing contracts
credit: getting credit	**insolvency:** Resolving insolvency

(source: own representation based on data from The World Bank Group, 2018)

Appendix 6: 2018 ranking of the Global Competitiveness Index

The Global Competitiveness Index 4.0 2018 Rankings

Covering 140 economies, the Global Competitiveness Index 4.0 measures national competitiveness—defined as the set of institutions, policies and factors that determine the level of productivity.

Rank	Economy	Score[1]	Diff. from 2017[2] Rank	Diff. from 2017[2] Score
1	United States	85.6	—	+0.8
2	Singapore	83.5	—	+0.5
3	Germany	82.8	—	+0.2
4	Switzerland	82.6	—	+0.2
5	Japan	82.5	+3	+0.9
6	Netherlands	82.4	−1	+0.2
7	Hong Kong SAR	82.3	—	+0.3
8	United Kingdom	82.0	−2	−0.1
9	Sweden	81.7	—	+0.1
10	Denmark	80.6	+1	+0.7
11	Finland	80.3	+1	+0.5
12	Canada	79.9	−2	−0.1
13	Taiwan, China	79.3	—	+0.1
14	Australia	78.9	+1	+0.7
15	Korea, Rep.	78.8	+2	+0.8
16	Norway	78.2	−2	−0.8
17	France	78.0	+1	+0.6
18	New Zealand	77.5	−2	−0.6
19	Luxembourg	76.6	+3	+0.6
20	Israel	76.6	—	+0.4
21	Belgium	76.6	−2	—
22	Austria	76.3	−1	+0.2
23	Ireland	75.7	—	−0.3
24	Iceland	74.5	—	−0.1
25	Malaysia	74.4	+1	+1.1
26	Spain	74.2	−1	+0.4
27	United Arab Emirates	73.4	—	+1.1
28	China	72.6	—	+0.9
29	Czech Republic	71.2	—	+0.3
30	Qatar	71.0	+2	+0.6
31	Italy	70.8	—	+0.3
32	Estonia	70.8	−2	—
33	Chile	70.3	+1	+0.9
34	Portugal	70.2	−1	+0.5
35	Slovenia	69.6	—	+1.1
36	Malta	68.8	—	+0.3
37	Poland	68.2	—	+0.2
38	Thailand	67.5	+2	+1.3
39	Saudi Arabia	67.5	+2	+1.6
40	Lithuania	67.1	−2	+0.7
41	Slovak Republic	66.8	−2	+0.6
42	Latvia	66.2	—	+1.4
43	Russian Federation	65.6	+2	+1.7
44	Cyprus	65.6	−1	+0.9
45	Indonesia	64.9	+2	+1.4
46	Mexico	64.6	−2	+0.5
47	Oman	64.4	+14	+3.4
48	Hungary	64.3	—	+0.9
49	Mauritius	63.7	—	+0.8
50	Bahrain	63.6	−4	−0.2
51	Bulgaria	63.6	—	+1.2
52	Romania	63.5	—	+1.3
53	Uruguay	62.7	−3	—
54	Kuwait	62.1	+2	+0.5
55	Costa Rica	62.1	−1	+0.4
56	Philippines	62.1	+12	+2.3
57	Greece	62.1	−4	+0.3
58	India	62.0	+5	+1.2
59	Kazakhstan	61.8	—	+0.7
60	Colombia	61.6	−3	+0.1
61	Turkey	61.6	−3	+0.2
62	Brunei Darussalam	61.4	+2	+1
63	Peru	61.3	−3	+0.2
64	Panama	61.0	−9	−0.6
65	Serbia	60.9	+5	+1.7
66	Georgia	60.9	+1	+1.0
67	South Africa	60.8	−5	−0.1
68	Croatia	60.1	−2	—
69	Azerbaijan	60.0	−4	−0.2
70	Armenia	59.9	+2	+1.0
71	Montenegro	59.6	+2	+1.4
72	Brazil	59.5	−3	−0.2
73	Jordan	59.3	−2	+0.1
74	Seychelles	58.5	+10	+3.3
75	Morocco	58.5	+2	+0.8
76	Albania	58.1	+4	+0.8
77	Viet Nam	58.1	−3	+0.1
78	Trinidad and Tobago	57.9	−2	+0.1
79	Jamaica	57.9	−1	+0.5
80	Lebanon	57.7	−5	−0.1
81	Argentina	57.5	−2	+0.1
82	Dominican Republic	57.4	—	+1.8
83	Ukraine	57.0	+6	+3.1
84	Macedonia, FYR	56.6	n/a	n/a
85	Sri Lanka	56.0	−4	−0.4
86	Ecuador	55.8	−3	+0.4
87	Tunisia	55.6	−1	+1
88	Moldova	55.5	−1	+0.9
89	Iran, Islamic Rep.	54.9	−1	+0.4
90	Botswana	54.5	−5	−0.5
91	Bosnia and Herzegovina	54.2	−1	+0.3
92	Algeria	53.8	—	+0.3
93	Kenya	53.7	—	+0.4
94	Egypt	53.6	—	+0.4
95	Paraguay	53.4	+1	+0.5
96	Guatemala	53.4	−5	−0.1
97	Kyrgyz Republic	53.0	+3	+1.1
98	El Salvador	52.8	—	+0.4
99	Mongolia	52.7	−4	−0.2
100	Namibia	52.7	−1	+0.3
101	Honduras	52.5	+2	+1.2
102	Tajikistan	52.2	−5	−0.6
103	Bangladesh	52.1	−1	+0.7
104	Nicaragua	51.5	−3	—
105	Bolivia	51.4	n/a	n/a
106	Ghana	51.3	−2	+1.4
107	Pakistan	51.1	−1	+1.3
108	Rwanda	50.9	−1	+1.3
109	Nepal	50.8	−1	+1.3
110	Cambodia	50.2	−1	+0.8
111	Cape Verde	50.2	−6	+0.4
112	Lao PDR	49.3	−2	+0.7
113	Senegal	49.0	−2	+0.6
114	Côte d'Ivoire	47.6	n/a	n/a
115	Nigeria	47.5	−3	−0.5
116	Tanzania	47.2	−2	+0.8
117	Uganda	46.8	−4	−0.2
118	Zambia	46.1	−3	+0.6
119	Gambia, The	45.5	—	+0.8
120	Eswatini	45.3	−4	+0.2
121	Cameroon	45.1	−3	+0.2
122	Ethiopia	44.5	−2	+0.6
123	Benin	44.4	−1	+0.8
124	Burkina Faso	43.9	n/a	n/a
125	Mali	43.6	−4	−0.1
126	Guinea	43.2	−3	+0.3
127	Venezuela	43.2	−10	−1.9
128	Zimbabwe	42.6	−4	+0.6
129	Malawi	42.4	—	+1.8
130	Lesotho	42.3	−4	+0.9
131	Mauritania	40.8	−3	+0.1
132	Liberia	40.5	−2	+0.6
133	Mozambique	39.8	−8	−2.1
134	Sierra Leone	38.8	−3	+0.1
135	Congo, Democratic Rep.	38.2	−8	−2.6
136	Burundi	37.5	−4	−1.0
137	Angola	37.1	n/a	n/a
138	Haiti	36.5	−5	+0.7
139	Yemen	36.4	−4	+0.9
140	Chad	35.5	−6	—

East Asia and the Pacific · Eurasia · Europe and North America · Latin America and the Caribbean · Middle East and North Africa · South Asia · Sub-Saharan Africa

Note: The Global Competitiveness Index 4.0 captures the determinants of long-term growth. Recent developments are reflected only insofar as they have an impact on data measuring these determinants. Results should be interpreted in this context.

1 Scale ranges from 0 to 100.

2 Rank and score differences with 2017 index, calculated using the GCI 4.0 methodology. See Appendix C for details.

(source: World Economic Forum, 2018: xi)

Appendix 7: 2018 pillar ranking of the Global Competitiveness Index

	ENABLING ENVIRONMENT							
	1. Institutions		2. Infrastructure		3. ICT adoption		4. Macroeconomic stability	
Economy	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Albania	68	53.9	100	57.3	74	52.3	97	70.0
Algeria	120	44.4	88	61.2	83	47.2	111	68.5
Angola	134	37.2	127	40.7	119	27.4	139	31.1
Argentina	77	51.5	68	67.6	65	56.2	136	44.9
Armenia	67	54.0	74	66.3	56	59.2	89	72.4
Australia	15	73.6	31	77.9	22	73.5	1	100.0
Austria	18	72.7	12	88.3	46	64.7	1	100.0
Azerbaijan	58	55.8	46	73.6	69	54.0	126	59.8
Bahrain	42	60.9	30	78.0	38	66.7	119	65.3
Bangladesh	108	46.5	109	53.4	102	39.8	88	72.6
Belgium	21	69.8	13	86.5	40	66.1	1	100.0
Benin	114	45.1	126	41.0	133	20.0	94	71.6
Bolivia	129	41.2	102	56.2	87	45.7	84	73.1
Bosnia and Herzegovina	111	45.6	89	60.7	86	45.8	73	74.4
Botswana	62	54.7	108	53.9	98	42.0	1	100.0
Brazil	93	49.7	81	64.3	66	55.6	122	64.6
Brunei Darussalam	45	58.3	54	71.3	17	76.2	81	73.7
Bulgaria	70	53.6	58	69.9	30	69.6	52	89.2
Burkina Faso	86	50.6	128	37.9	124	26.2	80	73.8
Burundi	135	36.3	132	36.6	134	18.4	129	56.5
Cambodia	126	41.9	112	51.7	92	44.4	74	74.4
Cameroon	125	43.0	125	42.1	131	22.0	76	74.3
Canada	11	75.5	25	80.6	34	68.6	1	100.0
Cape Verde	79	51.5	106	54.7	79	48.1	107	68.9
Chad	137	34.6	137	34.1	140	12.8	91	72.3
Chile	32	63.6	41	75.2	49	61.3	1	100.0
China	65	54.6	29	78.1	26	71.5	39	98.3
Colombia	89	50.3	83	63.0	84	46.7	56	87.3
Congo, Democratic Rep.	136	36.0	139	33.1	137	17.1	138	39.1
Costa Rica	44	59.1	78	65.1	55	59.6	85	73.0
Côte d'Ivoire	118	44.5	113	51.2	104	38.9	68	75.0
Croatia	74	52.0	36	76.8	53	60.2	106	69.3
Cyprus	37	63.0	43	74.9	33	68.8	63	78.9
Czech Republic	43	60.5	18	83.5	42	65.7	1	100.0
Denmark	10	75.9	14	86.3	8	82.3	1	100.0
Dominican Republic	99	48.5	77	65.3	82	47.4	77	74.2
Ecuador	100	48.4	59	69.7	89	45.7	87	73.0
Egypt	102	48.1	56	70.5	100	40.6	135	51.0
El Salvador	131	40.7	90	59.7	103	39.5	69	74.9
Estonia	22	69.5	42	75.2	14	77.4	1	100.0
Eswatini	97	48.8	94	58.8	125	24.9	115	67.8
Ethiopia	116	44.9	120	45.5	138	16.0	113	68.0
Finland	2	81.0	23	82.3	16	77.0	1	100.0
France	23	69.5	8	90.1	29	71.1	33	99.9
Gambia, The	95	49.3	110	52.1	114	28.3	123	63.6
Georgia	40	61.0	72	66.7	45	64.8	72	74.5
Germany	16	73.5	7	90.2	31	69.3	1	100.0
Ghana	59	55.7	116	50.3	88	45.7	132	54.8
Greece	87	50.5	38	76.2	57	58.9	83	73.6
Guatemala	123	43.5	96	58.3	112	31.1	75	74.4
Guinea	128	41.6	131	37.2	132	21.0	108	68.7
Haiti	138	32.9	140	28.6	129	22.6	125	61.0
Honduras	117	44.7	98	58.0	115	28.1	78	74.2
Hong Kong SAR	6	76.9	2	94.0	2	87.9	1	100.0
Hungary	66	54.2	28	78.4	51	61.0	43	90.0
Iceland	14	74.3	37	76.4	7	82.7	1	100.0
India	47	57.9	63	68.7	117	28.0	49	89.8
Indonesia	48	57.9	71	66.8	50	61.1	51	89.7
Iran, Islamic Rep.	121	44.3	76	65.4	80	47.6	117	66.9
Ireland	17	73.1	34	77.0	41	66.0	37	99.4
Israel	26	66.3	20	83.3	39	66.7	38	99.1
Italy	56	56.4	21	83.1	52	60.3	58	85.0
Jamaica	82	50.9	82	63.5	91	44.4	97	70.0
Japan	20	71.1	5	91.5	3	87.4	41	93.9
Jordan	50	57.7	73	66.6	75	52.3	101	69.9
Kazakhstan	61	54.9	69	67.3	44	64.9	62	80.3
Kenya	64	54.6	105	54.8	113	30.2	104	69.5
Korea, Rep.	27	65.4	6	91.3	1	91.3	1	100.0
Kuwait	57	56.0	61	68.3	62	56.8	1	100.0
Kyrgyz Republic	88	50.4	107	54.3	73	52.8	64	75.0

(Cont'd.)

	ENABLING ENVIRONMENT							
	1. Institutions		2. Infrastructure		3. ICT adoption		4. Macroeconomic stability	
Economy	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Lao PDR	119	44.5	99	57.5	96	42.7	110	68.5
Latvia	49	57.9	47	73.1	11	80.4	1	100.0
Lebanon	113	45.2	96	58.5	59	57.0	114	67.9
Lesotho	107	46.5	134	35.6	107	33.5	90	72.4
Liberia	115	45.1	136	34.8	139	14.9	124	63.4
Lithuania	41	60.9	44	74.7	18	75.8	1	100.0
Luxembourg	12	75.2	16	84.7	20	74.8	1	100.0
Macedonia, FYR	85	50.6	80	64.5	70	54.0	70	74.6
Malawi	103	48.0	129	37.8	128	23.0	128	57.5
Malaysia	24	68.7	32	77.9	32	69.1	1	100.0
Mali	132	40.3	123	42.7	121	26.7	82	73.7
Malta	33	63.5	52	71.7	24	72.4	1	100.0
Mauritania	133	38.4	135	35.4	118	27.7	97	70.0
Mauritius	38	62.8	67	68.0	47	62.1	43	90.0
Mexico	105	47.7	49	72.9	76	51.3	35	99.4
Moldova	84	50.8	79	65.0	48	61.7	95	71.6
Mongolia	80	51.1	103	56.2	78	48.7	121	65.0
Montenegro	63	54.7	86	62.2	58	57.1	102	69.7
Morocco	54	56.6	53	71.5	93	44.2	47	90.0
Mozambique	130	41.2	130	37.3	122	26.3	137	44.5
Namibia	51	57.2	91	59.7	105	37.3	100	69.9
Nepal	98	48.5	117	48.5	101	40.5	96	70.3
Netherlands	4	77.9	4	92.4	19	75.1	1	100.0
New Zealand	1	81.6	39	76.1	23	73.4	1	100.0
Nicaragua	122	43.9	104	55.2	111	32.0	79	74.0
Nigeria	127	41.7	124	42.3	123	26.2	130	56.4
Norway	8	76.7	45	74.7	10	81.6	1	100.0
Oman	36	63.1	24	81.8	61	56.9	58	85.0
Pakistan	109	46.3	93	59.0	127	23.6	103	69.6
Panama	83	50.9	66	68.3	81	47.5	50	89.8
Paraguay	112	45.3	101	56.3	99	41.5	71	74.6
Peru	90	50.2	85	62.4	94	43.9	1	100.0
Philippines	101	48.3	92	59.4	67	54.8	43	90.0
Poland	53	57.1	27	79.3	68	54.4	1	100.0
Portugal	30	63.9	19	83.3	37	67.1	58	85.0
Qatar	31	63.8	26	80.0	9	81.9	40	96.5
Romania	46	58.1	55	71.2	36	67.1	53	89.2
Russian Federation	72	52.7	51	72.2	25	72.1	55	87.5
Rwanda	29	64.4	115	50.8	120	27.1	92	71.8
Saudi Arabia	39	62.2	40	75.5	54	59.9	1	100.0
Senegal	73	52.5	111	51.8	116	28.0	105	69.4
Serbia	76	51.6	48	73.0	60	56.9	64	75.0
Seychelles	52	57.1	70	67.0	63	56.6	64	75.0
Sierra Leone	106	46.9	133	38.3	130	22.4	134	52.3
Singapore	3	80.7	1	95.7	4	85.2	42	92.6
Slovak Republic	55	56.4	33	77.6	35	67.8	32	99.9
Slovenia	35	63.1	35	76.9	43	65.6	1	100.0
South Africa	69	53.8	64	68.6	85	46.1	57	86.7
Spain	28	64.5	10	89.1	21	73.8	43	90.0
Sri Lanka	78	51.5	65	68.6	109	32.9	112	68.2
Sweden	9	76.0	17	84.4	5	85.2	1	100.0
Switzerland	5	77.1	3	93.3	15	77.0	36	99.4
Taiwan, China	25	68.5	22	82.6	13	77.9	1	100.0
Tajikistan	81	50.9	87	61.5	108	33.0	109	68.6
Tanzania	91	50.0	119	46.0	135	18.3	86	73.0
Thailand	60	55.1	60	69.7	64	56.6	48	89.9
Trinidad and Tobago	92	49.7	97	58.0	72	53.3	54	87.8
Tunisia	75	52.0	84	62.5	90	45.1	118	65.7
Turkey	71	52.9	50	72.6	71	53.5	116	67.4
Uganda	104	47.9	121	43.2	126	24.5	93	71.6
Ukraine	110	46.3	57	70.1	77	51.0	131	55.9
United Arab Emirates	19	71.8	15	86.2	6	83.7	1	100.0
United Kingdom	7	76.8	11	89.0	28	71.1	1	100.0
United States	13	74.6	9	89.5	27	71.2	34	99.6
Uruguay	34	63.2	62	68.8	12	78.1	61	83.8
Venezuela	140	27.3	118	47.5	97	42.6	140	0.0
Viet Nam	94	49.5	75	65.4	95	43.3	64	75.0
Yemen	139	29.5	138	33.5	136	17.6	133	53.7
Zambia	96	48.8	114	51.0	106	33.7	127	58.0
Zimbabwe	124	43.0	122	42.9	110	32.6	120	65.1

Note: Ranks out of 140 economies and scores measured on a 0-to-100 scale.

	HUMAN CAPITAL				MARKETS			
	5. Health		6. Skills		7. Product market		8. Labour market	
Economy	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Albania	45	86.8	47	68.7	58	57.0	34	64.8
Algeria	68	81.5	88	57.4	128	45.4	134	44.0
Angola	118	50.9	138	31.1	140	37.5	135	43.5
Argentina	53	85.1	51	68.4	120	48.3	116	50.7
Armenia	61	82.7	55	67.6	39	61.2	33	65.0
Australia	8	98.5	12	81.0	8	70.2	22	68.5
Austria	15	96.7	17	78.4	17	66.5	26	67.3
Azerbaijan	91	73.1	54	67.8	37	61.4	40	63.6
Bahrain	74	79.2	28	73.6	28	63.0	46	63.0
Bangladesh	96	71.2	116	44.0	123	47.8	115	50.9
Belgium	28	94.1	16	79.5	22	64.3	37	64.4
Benin	121	49.8	119	42.5	86	54.0	118	50.6
Bolivia	87	75.0	93	56.6	119	48.5	126	47.5
Bosnia and Herzegovina	52	85.3	87	57.5	106	51.6	112	51.2
Botswana	115	51.9	92	56.7	95	53.1	57	60.5
Brazil	73	79.6	94	56.0	117	48.9	114	51.0
Brunei Darussalam	50	85.9	58	68.0	44	60.9	38	64.2
Bulgaria	70	80.0	60	64.7	62	56.7	50	62.0
Burkina Faso	129	40.4	137	31.7	101	52.3	109	51.6
Burundi	127	42.2	134	32.9	127	45.6	133	44.5
Cambodia	104	62.9	121	41.0	114	50.0	65	59.7
Cameroon	132	39.0	111	47.4	109	51.1	106	51.9
Canada	12	97.5	11	81.0	20	64.9	6	77.0
Cape Verde	86	75.6	98	53.3	96	52.8	84	57.6
Chad	136	36.6	139	29.9	138	38.4	139	42.0
Chile	30	93.4	42	69.6	13	68.2	45	63.2
China	44	87.0	63	64.1	55	57.4	69	59.3
Colombia	35	90.9	80	59.9	85	54.0	80	57.9
Congo, Democratic Rep.	128	41.0	117	42.7	126	46.3	81	57.8
Costa Rica	13	97.4	44	69.1	46	60.4	64	59.7
Côte d'Ivoire	133	38.0	130	37.3	90	53.5	105	52.1
Croatia	51	85.7	65	63.4	71	55.7	96	54.8
Cyprus	26	94.4	33	72.8	26	63.3	28	66.9
Czech Republic	41	87.8	25	73.7	47	60.4	47	63.0
Denmark	31	93.4	5	84.9	15	66.9	5	78.0
Dominican Republic	63	82.5	90	57.0	84	54.1	51	61.6
Ecuador	39	88.1	75	61.0	125	47.1	113	51.2
Egypt	99	68.9	99	52.8	121	48.2	130	46.4
El Salvador	60	82.7	107	48.3	87	54.0	104	52.2
Estonia	54	84.9	18	78.0	21	64.8	21	69.3
Eswatini	139	30.1	102	52.3	104	51.6	86	57.5
Ethiopia	113	56.0	135	32.6	135	41.0	98	54.6
Finland	22	95.4	1	87.9	14	66.9	19	70.9
France	7	99.1	34	72.6	31	62.5	53	61.5
Gambia, The	111	57.1	115	44.0	97	52.6	99	54.5
Georgia	80	78.2	45	68.9	42	61.0	31	65.6
Germany	25	94.5	4	85.4	7	72.0	12	74.1
Ghana	112	56.0	104	51.3	61	56.8	89	55.9
Greece	21	95.7	39	70.4	63	56.7	107	51.8
Guatemala	89	74.6	101	52.6	40	61.1	110	51.3
Guinea	130	40.4	136	32.5	94	53.1	128	46.5
Haiti	122	49.7	126	39.0	133	42.8	123	49.4
Honduras	85	75.8	108	48.2	69	56.9	88	56.4
Hong Kong SAR	1	100.0	19	77.4	2	79.0	11	74.2
Hungary	69	80.7	49	68.5	82	54.4	83	57.8
Iceland	10	98.4	9	83.3	43	60.9	9	75.0
India	108	59.0	96	54.5	110	50.9	75	58.3
Indonesia	95	71.7	62	64.1	51	58.5	82	57.8
Iran, Islamic Rep.	84	77.5	91	57.0	134	42.0	136	43.1
Ireland	24	95.1	15	79.9	23	64.2	7	76.8
Israel	11	98.2	14	80.0	41	61.1	16	71.9
Italy	6	99.2	40	70.1	30	62.6	79	58.1
Jamaica	75	79.2	76	60.9	72	55.7	27	67.2
Japan	1	100.0	26	73.7	5	72.9	18	71.1
Jordan	78	78.4	61	64.4	88	53.8	91	55.6
Kazakhstan	97	70.8	57	67.0	57	57.3	30	65.8
Kenya	110	58.1	95	55.4	79	54.8	60	59.9
Korea, Rep.	19	96.1	27	73.6	67	56.2	48	62.4
Kuwait	38	88.2	79	60.1	69	55.9	120	50.0
Kyrgyz Republic	98	70.2	82	58.8	105	51.6	85	57.5

(Cont'd.)

	HUMAN CAPITAL				MARKETS			
	5. Health		6. Skills		7. Product market		8. Labour market	
Economy	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Lao PDR	107	59.6	105	49.5	91	53.5	94	55.4
Latvia	78	78.8	23	74.5	49	59.8	29	66.8
Lebanon	37	88.4	64	63.6	108	51.2	101	54.2
Lesotho	140	11.9	110	47.8	93	53.2	61	59.9
Liberia	123	47.7	129	37.8	124	47.2	108	51.8
Lithuania	77	78.8	31	73.3	53	57.7	32	65.2
Luxembourg	14	96.8	22	74.7	9	69.3	13	73.7
Macedonia, FYR	71	80.0	81	59.0	107	51.5	78	58.1
Malawi	131	39.7	127	38.1	116	49.2	76	58.2
Malaysia	62	82.6	24	74.2	24	63.6	20	70.2
Mali	126	42.8	133	34.1	113	50.4	127	46.6
Malta	16	96.6	35	72.4	36	61.5	24	67.8
Mauritania	103	65.6	131	34.6	136	39.4	137	42.8
Mauritius	83	77.7	74	61.0	19	65.6	74	58.3
Mexico	56	84.6	86	57.9	54	57.5	100	54.4
Moldova	92	72.7	73	61.2	70	55.7	71	59.1
Mongolia	105	62.2	89	57.4	100	52.3	41	63.5
Montenegro	55	84.8	52	68.1	45	60.9	25	67.5
Morocco	88	74.9	114	45.2	75	55.2	119	50.0
Mozambique	135	37.7	140	28.2	115	49.6	138	42.5
Namibia	117	51.5	100	52.7	80	54.4	39	63.7
Nepal	102	66.8	106	48.4	130	44.8	125	49.1
Netherlands	20	96.0	6	84.5	6	72.3	10	74.9
New Zealand	18	96.2	10	83.2	4	73.5	4	78.4
Nicaragua	36	90.4	113	45.5	89	53.8	103	52.8
Nigeria	119	50.9	124	40.2	99	52.4	73	58.5
Norway	9	98.4	8	83.9	29	62.8	14	73.5
Oman	65	81.9	36	71.6	33	62.5	93	55.6
Pakistan	109	58.2	125	39.9	122	47.9	121	49.7
Panama	33	91.8	85	58.2	52	58.0	87	56.5
Paraguay	81	78.0	103	51.8	68	56.1	97	54.6
Peru	32	93.3	83	58.6	50	59.5	72	58.8
Philippines	101	67.6	67	62.9	60	56.9	36	64.5
Poland	49	86.2	32	72.9	38	61.2	62	59.8
Portugal	23	95.3	41	69.9	35	61.9	35	64.7
Qatar	40	88.0	38	70.7	25	63.6	54	61.3
Romania	72	79.8	69	61.8	56	57.3	56	60.7
Russian Federation	100	68.5	50	68.5	83	54.2	67	59.5
Rwanda	106	60.9	123	40.9	65	56.6	49	62.1
Saudi Arabia	64	82.4	30	73.4	32	62.5	102	53.4
Senegal	114	55.9	118	42.5	81	54.4	92	55.6
Serbia	67	81.5	56	67.5	66	56.5	52	61.5
Seychelles	82	78.0	43	69.3	48	60.1	23	67.8
Sierra Leone	137	36.3	128	38.1	132	44.1	132	44.7
Singapore	1	100.0	20	76.0	1	81.2	3	80.2
Slovak Republic	57	84.0	48	68.6	78	55.0	58	60.2
Slovenia	34	91.6	29	73.5	27	63.1	43	63.4
South Africa	125	43.2	84	58.4	74	55.2	55	61.0
Spain	1	100.0	37	70.7	34	62.0	68	59.5
Sri Lanka	46	86.7	70	61.7	129	44.9	117	50.6
Sweden	17	96.5	7	84.2	10	68.8	17	71.1
Switzerland	5	99.8	2	87.3	16	66.8	2	80.4
Taiwan, China	27	94.2	21	75.6	18	65.7	16	71.4
Tajikistan	93	72.2	72	61.4	64	56.6	70	59.2
Tanzania	116	51.7	120	41.5	112	50.6	95	54.8
Thailand	42	87.3	66	63.0	92	53.4	44	63.3
Trinidad and Tobago	90	73.5	68	62.6	98	52.4	59	60.2
Tunisia	58	83.2	71	61.4	103	51.7	129	46.4
Turkey	48	86.2	77	60.5	76	55.2	111	51.2
Uganda	124	44.8	122	40.9	118	48.7	63	59.8
Ukraine	94	72.0	46	68.9	73	56.3	66	59.5
United Arab Emirates	79	78.4	53	68.1	11	68.8	42	63.4
United Kingdom	29	93.9	13	80.2	12	68.7	8	76.5
United States	47	86.5	3	86.3	3	73.8	1	81.9
Uruguay	43	87.3	59	65.3	77	55.2	77	58.1
Venezuela	59	83.0	78	60.2	137	38.2	131	46.1
Viet Nam	68	81.0	97	54.3	102	52.1	90	55.6
Yemen	120	50.0	132	34.4	131	44.2	140	37.6
Zambia	138	35.8	112	47.1	111	50.7	124	49.1
Zimbabwe	134	37.7	109	48.1	139	38.2	122	49.7

Note: Ranks out of 140 economies and scores measured on a 0-to-100 scale.

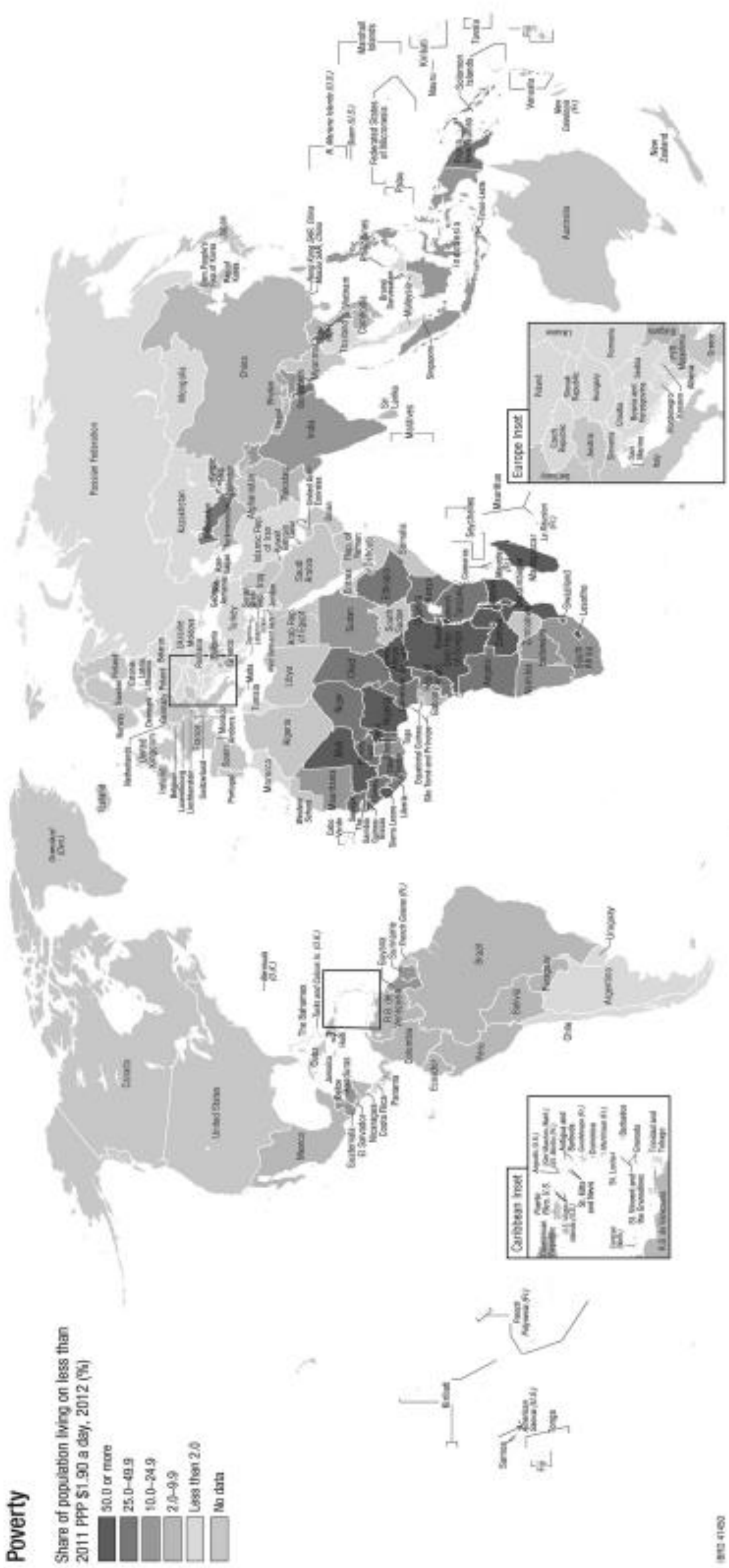
	MARKETS				INNOVATION ECOSYSTEM			
	9. Financial system		10. Market size		11. Business dynamism		12. Innovation capability	
Economy	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Albania	105	51.3	105	39.2	48	64.1	91	31.7
Algeria	122	47.8	38	66.4	113	51.3	106	29.9
Angola	137	40.1	66	53.9	137	34.5	140	16.8
Argentina	97	52.5	34	68.6	84	55.4	54	40.5
Armenia	87	54.2	118	36.7	62	60.2	60	38.8
Australia	13	85.6	25	72.3	15	75.2	18	69.8
Austria	28	72.9	43	64.3	26	69.9	15	74.3
Azerbaijan	96	52.6	65	54.0	31	68.8	71	36.0
Bahrain	33	70.3	90	45.8	54	61.9	72	35.9
Bangladesh	103	51.8	36	66.5	120	50.0	102	30.6
Belgium	24	78.4	33	68.9	18	73.8	17	73.4
Benin	132	43.8	125	34.9	105	52.7	126	26.7
Bolivia	85	54.8	87	46.2	130	45.0	122	26.9
Bosnia and Herzegovina	83	55.1	99	41.8	106	52.7	114	28.2
Botswana	69	59.5	111	38.6	103	53.0	101	30.6
Brazil	57	63.2	10	80.9	108	52.4	40	47.8
Brunei Darussalam	107	51.2	115	37.0	68	58.5	79	33.9
Bulgaria	71	58.2	64	54.6	61	60.3	48	43.9
Burkina Faso	124	47.6	112	38.3	112	51.6	130	24.9
Burundi	135	42.2	136	22.6	123	48.8	131	23.8
Cambodia	92	53.6	88	46.2	128	45.3	96	31.2
Cameroon	130	45.0	89	46.0	117	50.3	109	29.1
Canada	11	86.1	15	76.7	13	76.0	13	75.0
Cape Verde	75	57.3	138	17.1	131	44.0	137	21.4
Chad	139	38.7	120	36.7	138	28.6	136	21.6
Chile	20	80.3	46	62.7	46	64.3	53	41.3
China	30	71.9	1	100.0	43	64.6	24	64.4
Colombia	53	63.8	37	66.5	49	63.6	73	35.5
Congo, Democratic Rep.	133	43.6	96	42.8	133	40.5	139	18.8
Costa Rica	68	59.8	86	46.2	80	55.9	55	40.4
Côte d'Ivoire	115	49.0	83	47.8	88	55.3	113	28.3
Croatia	62	60.6	78	49.5	81	55.7	63	37.7
Cyprus	95	53.3	110	39.1	34	66.9	45	44.7
Czech Republic	40	67.5	42	64.6	25	70.2	29	57.3
Denmark	12	85.8	55	59.6	6	79.1	12	75.4
Dominican Republic	70	58.8	69	53.1	90	54.8	94	31.4
Ecuador	82	55.1	68	53.7	129	45.2	88	32.0
Egypt	99	52.3	24	72.8	97	54.1	64	37.7
El Salvador	64	60.1	95	43.2	111	51.6	123	26.9
Estonia	46	65.9	97	42.3	29	69.3	33	52.5
Eswatini	102	51.9	133	27.0	116	50.7	134	22.7
Ethiopia	126	46.0	63	54.6	125	47.9	127	26.5
Finland	3	89.7	61	57.4	8	78.3	10	76.3
France	17	82.9	9	81.5	28	69.4	11	76.1
Gambia, The	110	49.6	140	16.0	126	47.9	104	30.4
Georgia	88	54.1	102	40.9	53	62.1	85	32.7
Germany	21	80.2	5	85.8	2	81.6	1	87.5
Ghana	112	49.6	73	51.8	87	55.3	83	32.7
Greece	114	49.4	58	59.0	72	58.0	44	45.0
Guatemala	74	57.4	74	50.8	91	54.6	100	30.7
Guinea	111	49.6	116	37.0	65	59.4	90	31.8
Haiti	134	42.9	129	33.3	140	14.9	138	20.3
Honduras	67	59.8	98	41.9	100	53.9	92	31.5
Hong Kong SAR	2	90.1	26	71.1	17	74.5	26	61.9
Hungary	66	59.8	48	61.7	75	57.2	39	48.0
Iceland	36	69.3	131	31.5	11	76.6	23	65.7
India	35	69.5	3	92.7	58	61.2	31	53.8
Indonesia	52	63.9	8	81.6	30	69.0	68	37.1
Iran, Islamic Rep.	98	52.5	19	74.5	119	50.0	65	37.6
Ireland	37	68.5	44	64.0	10	76.9	21	67.0
Israel	22	80.1	57	59.2	5	79.6	16	74.0
Italy	49	64.3	12	79.1	42	65.4	22	65.8
Jamaica	50	64.0	123	36.1	32	68.5	76	34.3
Japan	10	86.4	4	86.7	14	75.7	6	79.3
Jordan	32	70.7	81	48.7	94	54.4	59	38.9
Kazakhstan	100	52.2	45	63.0	37	66.0	87	32.1
Kenya	73	57.8	71	52.2	63	60.2	69	36.5
Korea, Rep.	19	81.4	14	78.5	22	71.6	8	78.2
Kuwait	48	64.8	54	59.9	96	54.2	103	30.5
Kyrgyz Republic	118	48.5	124	36.0	93	54.5	125	26.7

(Cont'd.)

	MARKETS				INNOVATION ECOSYSTEM			
	9. Financial system		10. Market size		11. Business dynamism		12. Innovation capability	
Economy	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Lao PDR	106	51.3	100	41.1	134	40.1	117	27.4
Latvia	94	53.5	94	44.0	47	64.3	52	42.0
Lebanon	43	66.7	80	48.9	109	52.4	61	38.6
Lesotho	120	48.5	136	24.8	118	50.0	132	23.7
Liberia	127	45.8	137	20.8	85	56.3	136	22.0
Lithuania	76	56.9	76	50.1	44	64.5	42	47.4
Luxembourg	9	86.5	77	50.0	38	65.8	19	68.2
Macedonia, FYR	80	55.6	109	39.2	57	61.2	98	31.1
Malawi	123	47.7	127	34.2	127	47.4	112	28.6
Malaysia	15	84.1	23	73.0	19	73.8	30	55.5
Mali	129	45.6	106	39.8	110	51.6	108	29.3
Malta	29	72.2	118	36.7	66	59.2	34	51.0
Mauritania	138	38.9	130	32.2	135	38.7	129	25.5
Mauritius	25	77.7	117	36.9	35	66.5	62	38.3
Mexico	61	60.8	11	80.6	41	65.5	50	42.7
Moldova	128	45.6	126	34.4	69	58.3	105	30.2
Mongolia	109	50.2	103	40.5	89	55.0	99	31.0
Montenegro	51	63.9	132	28.2	50	63.4	74	34.9
Morocco	44	66.3	53	60.0	99	53.9	78	34.0
Mozambique	113	49.5	104	40.3	104	52.8	120	27.1
Namibia	47	65.7	121	36.2	121	49.7	77	34.1
Nepal	58	62.9	84	46.7	98	54.0	110	29.0
Netherlands	16	83.7	21	73.9	3	80.3	9	77.5
New Zealand	26	76.1	67	53.6	12	76.4	27	61.4
Nicaragua	90	54.0	107	39.7	122	49.6	121	27.0
Nigeria	131	44.1	30	70.8	83	55.4	93	31.4
Norway	23	80.1	50	61.3	9	77.0	20	67.8
Oman	56	63.4	62	55.6	52	62.7	86	32.6
Pakistan	89	54.1	31	70.7	67	59.1	75	34.9
Panama	41	66.9	79	48.9	71	58.3	66	37.5
Paraguay	72	57.9	91	45.0	115	50.7	111	28.9
Peru	63	60.5	49	61.6	92	54.5	89	31.9
Philippines	39	67.9	32	70.2	39	65.8	67	37.2
Poland	55	63.4	22	73.4	55	61.5	38	48.7
Portugal	38	68.4	52	60.1	27	69.7	32	53.1
Qatar	34	70.1	51	60.4	40	65.7	37	50.3
Romania	101	51.9	41	64.7	64	60.1	57	39.6
Russian Federation	86	54.8	6	84.0	51	62.9	36	50.7
Rwanda	84	54.9	128	33.8	60	60.6	118	27.3
Saudi Arabia	45	65.9	17	76.3	114	51.2	41	47.4
Senegal	104	51.7	101	41.1	95	54.3	97	31.2
Serbia	79	55.9	75	50.7	59	60.9	56	39.7
Seychelles	93	53.6	139	16.4	74	57.6	49	43.5
Sierra Leone	136	42.0	134	26.9	124	48.7	124	26.8
Singapore	5	89.3	27	71.1	16	74.7	14	75.0
Slovak Republic	54	63.7	60	57.7	45	64.5	43	46.6
Slovenia	60	62.3	82	47.8	24	70.3	28	57.9
South Africa	18	82.1	35	68.4	56	61.4	46	44.3
Spain	27	75.1	16	76.7	36	66.3	25	62.9
Sri Lanka	77	56.8	58	57.9	70	58.3	80	33.7
Sweden	6	89.0	40	65.1	4	79.8	5	79.6
Switzerland	4	89.4	39	65.9	20	72.6	3	82.1
Taiwan, China	7	87.9	20	74.2	21	72.4	4	80.8
Tajikistan	125	46.0	122	36.2	102	53.1	116	27.4
Tanzania	116	48.9	72	52.0	107	52.7	119	27.2
Thailand	14	84.2	18	74.9	23	71.0	51	42.1
Trinidad and Tobago	42	66.8	105	40.0	78	56.8	81	33.5
Tunisia	78	56.1	70	52.7	73	57.8	84	32.7
Turkey	65	59.9	13	78.5	76	57.2	47	44.0
Uganda	119	48.5	85	46.4	82	55.5	107	29.8
Ukraine	117	48.7	47	62.7	86	56.3	58	39.0
United Arab Emirates	31	70.8	28	71.0	33	67.4	35	51.0
United Kingdom	8	87.8	7	81.7	7	79.0	7	79.2
United States	1	92.1	2	99.2	1	86.5	2	86.5
Uruguay	81	56.3	93	44.5	79	56.3	70	36.4
Venezuela	91	54.0	56	59.3	139	27.7	95	31.2
Viet Nam	59	62.3	29	70.9	101	53.7	82	33.4
Yemen	140	37.2	113	37.8	136	38.5	133	22.8
Zambia	121	48.3	92	44.8	77	57.0	115	28.1
Zimbabwe	108	50.4	114	37.1	132	41.0	128	25.5

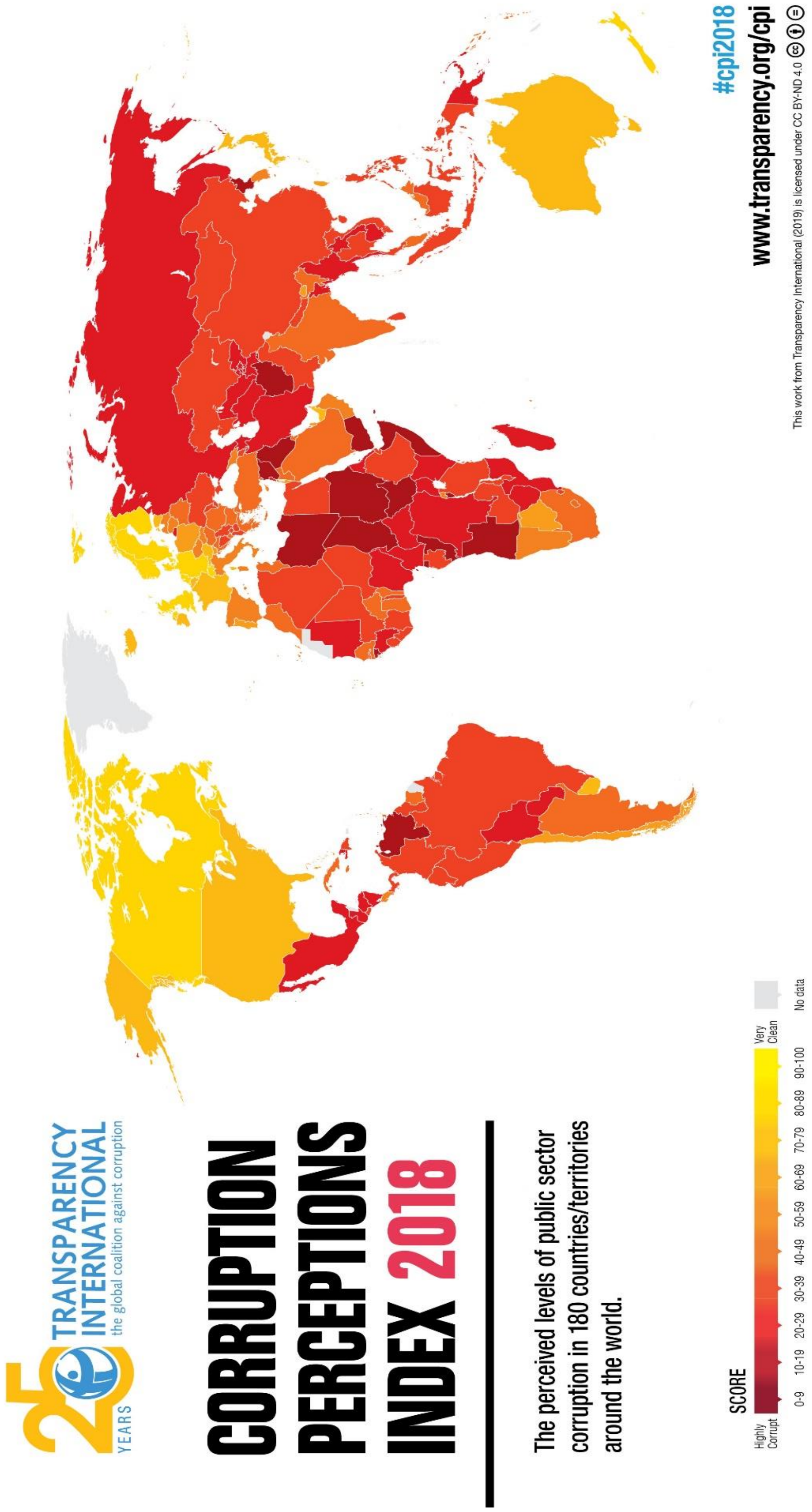
Note: Ranks out of 140 economies and scores measured on a 0-to-100 scale.

Appendix 8: Share of the population living on less than 2011 PPP $ 1,90 a day



(source: Punnett, 2018: 3)

Appendix 9: Corruption Perception Index 2018



Appendix 10: Comprehensive overview of dimensions of embeddedness (Part I)

Dimension of embeddedness	Description of embeddedness dimension	Sources
social embeddedness (structural focus)	highlights the importance of social structures in which the economic environment is embedded with a focus on society and the economy as a whole	Polanyi, 1944; Zukin & DiMaggio, 1990
social embeddedness (relational focus)	Economic action is embedded in structures of social relations and the behaviour of individuals and institutions are constrained by ongoing social relations	Granovetter, 1985; Heidenreich, 2012c
social embeddedness (Structural & relational focus)	economic action and outcomes, like all social action and outcomes, are affected by actors' dyadic relations and by the structure of the overall network of relations	Granovetter, 1992; Zukin & DiMaggio, 1990
embeddedness (broad view)	the concept of embeddedness is used simply as indicating the state of dependence on the context	Powell, 1996; Ratajczak-Mrozek, 2017
embeddedness	Embeddedness refers to the social, cultural, political, and cognitive structuration of decisions in economic contexts. It points to the indissoluble connection of the actor with his or her social surrounding	Beckert, 2003; Zukin & DiMaggio, 1990
embeddedness (geographical view)	Focusing on relational and structural characteristics of embeddedness in local and regional production systems.	Glückler, 2001
local embeddedness	the embeddedness of a firm in a given market as the degree of localization of its inputs, production and sales.	Halaszovich and Lundan, 2016
social embeddedness (societal focus)	an individual actor considering the societal background of social structures, relationships, values and beliefs	Hess, 2004
political embeddedness	Socio-political context and ongoing political processes taking place in this context and affecting network evolution with a differentiation of political processes internal and external to the firm. It emphasizes the struggle and tension for power and influence that economic actors and non-market institutions are surrounded by.	Heidenreich, 2012c; Hess, 2004; Zukin & DiMaggio, 1990
political embeddedness (external)	highlights the institutional framework of economic action. Economic activities are shaped by regulative institutions (e.g. state actors, local politics, the legal system or the tax code) and ties to political authorities can create opportunities and outcomes for firms.	Fligstein, 1996; Jacobson, Lenway, & Ring, 1993; Welch & Wilkinson, 2004
political embeddedness (internal)	Focuses on relationships and networks within an organization. For example, an internal fight by managers for power, prestige and status can constrain the organizations efforts to act rationally.	Heidenreich, 2012c; Pfeffer, 1981, 1997
cultural embeddedness	Focuses on the effects of values, beliefs and norms of a society, an organization or even a team on behaviour.	Meyer, Boli, & Thomas, 1987; Wu & Pullman, 2015; Whittington, 1992; Zukin & DiMaggio, 1990
cognitive embeddedness	At the individual level, structured regularities of mental processes limit the exercise of economic reasoning which make it difficult to behave in a ratonal manner.	Zukin & DiMaggio, 1990

Appendix 10: Comprehensive overview of dimensions of embeddedness (Part II)

Dimension of embeddedness	Description of embeddedness dimension	Sources
institutional embeddedness	macro-institutional settings (e.g. SPP, VoC or NBS) influencing organizational behavior	Hall & Soskice, 2001; Heidenreich, 2012b; Whitley, 1999
social embeddedness (organizational focus)	the fact that people, companies, and other organizations are embedded in social structures and relationships, which then affect those people, companies and organizations	Andersson et al., 2001; Figueiredo, 2011; Hagedoorn, 2006; Welch & Wilkinson, 2004
network embeddedness (social focus)	business networks that are necessarily embedded in various social structures, through individuals working in business. Interaction between individual employees and groups of employees form the channel for business dealings	Halinen & Toernroos, 1998; Hess, 2004
network embeddedness (political focus)	socio-political context and ongoing political processes taking place in this context and affecting network evolution	Halinen & Toernroos, 1998; Welch and Wilkinson, 2004; Zukin and DiMaggio, 1990
network embeddedness (spatial focus)	Embeddedness on a geographical level being locally, regionally, nationally or internationally embedded	Halinen & Toernroos, 1998; Ratajczak-Mrozek, 2017
network embeddedness (temporal focus)	Embeddedness in time. A companies history and historic relations can shape current expectations and organizational behaviour.	Halinen & Toernroos, 1995; Halinen & Toernroos, 1998
network embeddedness (market focus)	embedded in a specific market defined in terms of the products and services offered, the clientele served, the functions performed and the time and territory encompassed by the company's operations	Halinen & Toernroos, 1998; Nell, Ambos, & Schlegelmilch, 2011; Wei, 2013
network embeddedness (technology focus)	the embeddedness of organizations into technological systems and the development of these systems	Halinen & Toernroos, 1998; Rondinelli & London, 2003
territorial embeddedness	the extent to which an actor is 'anchored' in particular territories or places	Hess, 2004; Jørgensen, 2014; Mattes, 2013;
Dual embeddedness	internal (with the headquarters) and external (with other stakeholders) embeddedness of a MNC that needs to be managed.	Ciabuschi, Holm, Martín Martín, 2014; Figueiredo, 2011
multiple embeddedness	Viewed from a MNC vantage point, it combines the embeddedness in various networks of all subsidiaries of an MNC.	Ferraris, 2014; Meyer, Mudambi & Narula, 2011; Tallman & Chacar, 2011
embeddedness agency	Embeddedness agency is describing the explicit and strategic choice of a company to actively engage in its institutional environment and embed in multiple networks with multiple actors	Cantwell, Dunning & Lundan, 2010; Kostova, Roth & Dacin, 2008

(source: own representation)

Appendix 11: NGO acronyms and labels (Part I)

acronym	name
AGNs	advocacy groups and networks
BINGOs	big international NGOs
BONGOs	business-organized NGOs
BRONGOs	Broker oriented NGOs
CBMS	community-based management systems
CBOs	community-based organizations
COME'n'Gos	the idea of temporary NGOs following funds!
DANGOs	Direct action NGOs
DOs	Development organizations
DONGOs	donor-oriented/organized NGOs
Dotcause	civil society networks mobilizing support through the internet
ENGOs	environmental NGOs
GDOs	grassroots development organizations
GONGOs	government-organized NGOs
GRINGOs	government-run international NGOs
GROs	grassroots organizations
GRSOs	grassroots support organizations
GSCOs	global social change organizations
GSOs	grassroots support organizations
IAs	interest associations
IDCIs	international development cooperation institutions
INGOs	International NGOs
IOs	intermediate organizations
IPOs	international people's organizations
LDAs	local development associations
LINGOs	little international NGOs
LOs	local organizations
MOs	membership organizations
MSOs	membership support organizations
NGDOs	non-governmental development organizations
NGIs	non-governmental individuals
NGIS	non-governmental interests
NGO	next government official

Appendix 11: NGO acronyms and labels (Part II)

acronym	name
NNGOs	Northern NGOs
NPOs	non-profit organizations
PDAs	popular development associations
POs	people's organization
PONGOs	Partnership oriented NGOs
PSCs	public service contractors
PSNPOs	paid staff NPOs
PVDOs	private voluntary development organizations
PVOs	private voluntary organizations
QUANGOs	quasi-governmental organizations
RWAs	relief and welfare associations
SCOs	social change organizations
SHOs	self-help organizations
SNGOs	Support NGOs
SUNGOs	supervisory NGOs
TIOs	technical organization innovation
TNGOs	transnational NGOs
VDAs	village development associations
VIs	village institutions
VNPOs	volunteer organizations
VOs	village organizations
WONGOs	Watdchdog oriented NGOs

(source: own representation based on: Kolb, 2015; Lewis, 2001; Najam, 1996)

Appendix 12: NGO definitional approaches

Source	Definition
Bendell 2000, p. 16	"(…) groups whose stated purpose is the promotion of environmental and/or social goals rather than the achievement or protection of economic power in the marketplace or political power through the electoral process."
Fombrun 1996 (ECOSOC-Resolution E/1996/31, art. 12)	"Any such organization that is not established by a governmental entity or intergovern-mental agreement shall be considered a non-governmental organization for the purpose of these arrangements, including organizations that accept members designated by gov-ermental authorities, provided that such membership does not interfere with the free expression of views of the organization."
Fowler 2000, p. 11	"(…) third-party serving, non-profit based, legally constituted non-state organisations, directly or indirectly reliant on the system of international aid. In most cases, they func-tion as intermediaries to promote poverty eradication, sustainable development, social justice and enduring improvement in the circumstances of poor and excluded groups. In fewer cases, they concentrate on advocacy work for policy reform."
Wadham 2009, p. 58, in the style of Keck/Sikkink 1998	"NGOs are non-government, non-profit organisations that tend to coalesce around ideas or a collective commitment to some shared belief or principle."
Kourula/Laasonen 2010, p. 35f.	"(…) NGOs can be defined as social, cultural, legal and environmental advocacy and/or operational groups that have goals that are primarily noncommercial."
Lambell among others 2008, p. 75	"Non-government organizations (NGOs) are organizational actors that do not belong to either the governement sector or the for-profit/market sector. They represent communi-ties, social and political movements and special interests of all ideological persuasions and at all geographical levels from the local to the global."
Luxmore/Hull 2011, p. 18	"(…) NGO can be defined as a non-profit organization with one or more goals that is/are desired by individual members, which cannot be achieved by lone individuals, and which are not fully compatible with the goals of corporations or governments."
Martens 2002b, p. 280	"NGOs are formal (professionalized) independent societal organizations whose primary aim is to promote common goals at the national or the international level."
Mawlawi 1993, p. 392	"(…) private, voluntary, non-profit organizations (NPOs) whose members combine their skills, means and energies in the service of shared ideals and objectives"
Schepers 2006, p.283	"Direct aid NGOs form to provide assistance to those in need. Empowerment NGOs form to assist local communities in efforts to increase the level of government services, or form cooperatives, access markets, and so forth. Advocacy NGOs form to influence either government or business policy formation or conduct. In addition to these discrete forms, however, there are NGOs that function as both provider and advocate."
Spar/La Mure 2003, p. 4	"Operating independently of any government, NGOs targt both public and private enti-ties, using whatever tools they can muster to secure their desired goal."
Teegen/Doh/Vachani 2004, p. 466	NGOs are private, not-for-profit organizations that aim to serve particular societal interests by focusing advocacy and/or operational efforts on social, political and economic goals, including equity, education, health, environmental protection and human rights.
Unerman/O'Dwyer 2006, p. 307	"At a broad and basic level, the definition of an NGO is fairly straightforward. NGOs are organisations which are neither governmental (public sector) organisations (such as cen-tral or local government services or public hospitals, schools or universities), nor private (for-profit) commercial organisations, such as local and transnational corporations."

(source: own representation based on: (Kolb, 2015; Teegen, Doh, & Vachani, 2004))

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