



# **The Impact of Political Radicalization on Firms’ Ownership Strategies Abroad**

International Business Master

Diana Neto Oliveira

Leiria, March of 2025



# **The Impact of Political Radicalization on Firms’ Ownership Strategies Abroad**

International Business Master

Diana Neto Oliveira

Dissertation under the supervision of Professor Nuno Manuel Rosa Reis and Professor  
João Neves de Carvalho Santos

Leiria, March of 2025

# Originality and Copyright

This dissertation is original, made only for this purpose, and all authors whose studies and publications were used to complete it are duly acknowledged.

Partial reproduction of this document is authorized, provided that the Author is explicitly mentioned, as well as the study cycle, i.e., Master's degree in International Business, 2024/2025 academic year, of the School of Technology and Management of the Polytechnic Institute of Leiria, and the date of the public presentation of this work.

# Dedication

To my sister Rafaela,

There are no words grand enough to express how much you mean to me. You have been my unwavering support, my constant source of strength, and my greatest inspiration. In every challenge, you have been my guiding light, reminding me that I am capable, that I am not alone, and that love and kindness make all the difference.

This thesis is, in many ways, a reflection of the support and encouragement you have given me throughout my life. Without you, this journey would have been infinitely harder, and for that, I am forever grateful.

This is for you.

# Acknowledgments

I would like to express my deepest gratitude to my professors, Nuno Reis and João Santos, for their trust, guidance, and unwavering support throughout this journey – thank you for always being there. A special and sincere thank you to Alexandre Oliveira, whose invaluable help was essential in turning this thesis into a reality. Without his support, this moment would not have been possible.

To my family, I owe everything. To my parents, my greatest source of strength and motivation, thank you for being my rock in every moment. To my sister, thank you for being my undisputed support, my reassurance and my greatest inspiration. Rafa, thank you for being the greatest human being in the world and for making this thesis possible. I don't know what I would do without you.

To my friends, who, often without even realizing it, made this process lighter and less daunting – thank you for listening to my worries and for helping to ease my anxieties.

Without all these people, the journey would certainly have been much more challenging. A deep thank you.

# Abstract

This study investigates the relationship between political radicalization and ownership strategy within the European Union, while also examining the moderating effect of firm size. Using a sample of 2270 headquarters and 83207 subsidiaries from European Union based firms, we apply an Ordinary Least Squares (OLS) regression analysis to test our hypotheses. Our findings indicate that higher levels of political radicalization strengthen firms' ownership strategies. Additionally, in politically radicalized environments, larger companies have better ownership strategies than SMEs, since they can more easily mitigate the negative effects of such extremism. These insights contribute to the International Business literature by highlighting the implications of rising radicalism in Europe. As political extremism gains momentum, firms must understand how these dynamics influence their international operations and adjust their strategies accordingly.

**Keywords:** Political Radicalization, Ownership Strategy, Firm Size, Internationalization

# Contents

<b>Originality and Copyright .....</b>	<b>iii</b>
<b>Dedication.....</b>	<b>iv</b>
<b>Acknowledgments.....</b>	<b>v</b>
<b>Abstract .....</b>	<b>vi</b>
<b>List of Figures .....</b>	<b>ix</b>
<b>List of Tables.....</b>	<b>x</b>
<b>List of Abbreviations and Acronyms .....</b>	<b>xi</b>
<b>1. Introduction .....</b>	<b>1</b>
<b>2. Literature Review .....</b>	<b>3</b>
<b>2.1. Political Radicalization .....</b>	<b>3</b>
<b>2.2. Ownership Strategy.....</b>	<b>6</b>
<b>2.3. Firm Size.....</b>	<b>10</b>
<b>2.4. The correlation between firm size, ownership strategy and political radicalization.....</b>	<b>12</b>
<b>3. Conceptual Model.....</b>	<b>15</b>
<b>4. Method.....</b>	<b>18</b>
<b>4.1. Sample and data .....</b>	<b>18</b>
<b>4.2. Variables.....</b>	<b>18</b>
<b>5. Results.....</b>	<b>25</b>
<b>5.1. Descriptive statistics and correlations .....</b>	<b>25</b>
<b>5.2. Lineal Regression models.....</b>	<b>28</b>
<b>5.3. Robustness tests .....</b>	<b>31</b>

<b>6. Discussion.....</b>	<b>34</b>
<b>7. Conclusion.....</b>	<b>36</b>
<b>7.1. Theoretical contributions .....</b>	<b>36</b>
<b>7.2. Managerial implications .....</b>	<b>36</b>
<b>7.3. Limitations and future research .....</b>	<b>37</b>
<b>Bibliographical references .....</b>	<b>38</b>

# List of Figures

<b>Figure 1.</b> Conceptual Model .....	17
---	----

# List of Tables

<b>Table 1.</b> Number of foreign subsidiaries by European country.....	19
<b>Table 2.</b> Description of political radicalization by European country.....	20
<b>Table 3.</b> Descriptive statistics and correlations .....	26
<b>Table 4.</b> OLS Regression.....	29
<b>Table 5.</b> Tobit Regression.....	32
<b>Table 6.</b> OLS Regression with Firm Equity .....	33

# List of Abbreviations and Acronyms

Est.	Estimate
ESTG	School of Technology and Management
EUR	Euro
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IB	International Business
MNE	Multinational Enterprise
NACE	Nomenclature of Economic Activities in the European Union
OLS	Ordinary Least Squares
ROA	Return on Assets
ROE	Return on Equity
SME	Small and Medium-sized Enterprise
USD	United States Dollar
VIF	Variance Inflation Factor



# 1. Introduction

The phenomenon of increased political radicalization has intensified over the last few years in Europe (Herschinger et al., 2020). Something that historically hasn't happened in a generalised way since the Second World War has been escalating in all countries, easily leading to a shift in the political and social landscape we've known up until now. The world of globalization and openness is now threatened by the drastic turn towards extremism. The rise of extremist ideologies challenges the foundations of globalization and openness, creating an environment where the fundamental principles of freedom and free movement within Europe are increasingly under threat. Given the circumstances that are being established, it is necessary to understand what effect political radicalization could actually bring to the business community in the European Union.

As the literature has already demonstrated, internationalization is an expensive process that depends on careful consideration. When a company decides to internationalize through equity modes, there are several issues to take into account, including the level of ownership one intend to obtain (Anderson & Gatignon, 1986). The level of ownership established could be the reason for the success or failure of an internationalization process. In the case of equity modes, the risk increases and therefore a detailed study of the host country is essential. The higher the economic or political risk in a country, the greater the risks associated with internationalization, making the selection of an ownership strategy even more critical (Chaonan Feng et al., 2022).

In search of an explanation for this relationship, this dissertation aims to address the following research question: *How does Political Radicalization influence firms' Ownership Strategies' abroad?*

Furthermore, the business landscape of the European Union is predominantly composed of small and medium-sized enterprises, which represented 99.80% of all businesses in 2018 (European Court of Auditors, 2022). Given this overwhelming prevalence, it is crucial to examine the role of Firm Size as a moderating variable in the relationship between political radicalization and ownership strategies. Larger corporations often have greater financial and structural capacity to navigate unstable environments, while SMEs may face additional

barriers, such as limited resources and reduced bargaining power (Murphy & Ledwith, 2007). By incorporating this moderation effect, we intend to achieve more reliable results on the impact of political radicalization on the choice of ownership in the European Union, in order to make this study useful to decision-makers in this region.

The sample studied consists of 2270 companies belonging to the European Union, of which we analysed 83207 foreign subsidiaries. The sample was analysed using the Ordinary Least Squares linear regression analysis.

The study concludes that, in the context of the European Union, the greater the political radicalization, the stronger the ownership strategies chosen by firms when internationalizing. Considering the moderation, the study confirms that, in a context of political radicalization, larger companies have better ownership strategies than SMEs, since they can more easily mitigate the negative effects of such extremism.

The research begins with a literature review of the variables *Political Radicalization*, *Ownership Strategy*, *Firm Size* and the correlation between them. The conceptual model is then introduced, including 2 hypotheses for analysis. The methodology is then outlined, describing the sample empirically tested and the statistical procedure used to analyse it. The results are subsequently presented, followed by a discussion of the findings. The study concludes with theoretical contributions, limitations and the possibility of future research.

## 2. Literature Review

### 2.1. Political Radicalization

The definition of political radicalization, according to Backes (2009), consists of political parties whose discourse and position strongly deviates from the country's political and economic *status quo*. The radical parties are more conservative in nature and not as liberal or open to the outside world, especially the democratic world – “The radicalizing effect primarily arises from the fact that calcified views do more than just turn their backs on the pre-dominant norms, they also effect a shift towards less openness, diversity and plurality within society.” (Herschinger et al., 2020, p. 12).

When in power, they may adopt certain protectionist measures, which in turn could hinder the entry of new companies into these nations, once they tend to be more violent – as stated by Herschinger et al. (2020),

“When (ever) more people begin casting doubt on the legitimacy of the dominant order, increasingly turn their backs on prevailing norms, and/or when members of society use anti-democratic means, especially violence, to advance their objectives, democratic and open societies will find themselves under threat” (Herschinger et al., 2020, p. 2).

According to Annie Tubadji and Peter Nijkamp (2019) the radicalization process is not always violent, since this feature depends on the culture of the country where the political extremism develops. The same authors further believe that, although culture has a strong impact on the matter, major impacts, such as an economic crisis, naturally generate more uncertainty and, anthropologically, the human response is to take refuge in one's peers in order to stay secure. Therefore, they believe that such a massive shock creates profound alterations even in the host culture, leading countries that are not normally prone to radicalism to embark on this path – “This means that an exogenous shock can significantly alter local culture and create a new cultural persistence path. Thus, such systemic shocks

might be more powerful determinants of development than cultural persistence per se.” (Tubadji and Nijkamp, 2019, p. 532).

Concerning the influence of politics in the business realm, we have different perspectives. Johanson and Vahlne believe that the success of internationalization has little to do with ownership, but rather with the company's ability to learn from the process of going abroad and understand what is truly important to do it properly. However, these authors overlook political issues, as they believe that what makes internationalization feasible is the learning that takes place during these processes.

Conversely, there are authors such as Henisz, Williamson and Zelner, with so-called institutional approaches, who argue that companies should get involved in political life, for example through lobbying. In their view, one of the reasons for considering political elements is related to the importance of governments and the regime itself in maintaining or changing the nation's status quo (Figueira de Lemos, 2013). In line with this view, Francisco de Lemos (2013) states that “However, internationalization is not only made of adaptation, learning, and control; the political setting of the environment has a latent uncertainty that managers perceive as difficult to solve by learning or controlling.” (p. 89).

When it comes to internationalization, the political environment is an aspect that needs to be studied in detail, so that companies understand how the host country operates and bear in mind all the constraints associated with this process. When it comes to politically extreme states, the analysis needs to be even more thorough, given all the inherent risks. As stated by Jean Boddewyn and Thomas Brewer in 1994, “... the existence, volume, and forms of international business depend primarily on the permeabilities of states that decide to accept, reject, or modify IB activities by fiat.” (p. 125).

In fact, the political situation is just as important, if not more so, when it comes to business internationalization as the economic status of the host country (Boddewyn and Brewer, 1994). The stability or political risks associated with it must be taken into account, as any change in the government can strongly influence the internationalization process (Le and Zak, 2006). As stated by Quan Vu Le and Paul J. Zak (2006), “The correspondence between political decisions and the economic environment leads us to examine politics as determinants of investment risk.” (p. 309).

The more radical and drastic the change in the regime, the greater the political risk associated with a given country. According to research carried out by Chaonan Feng et al. (2022), countries with a higher political risk are not the ones preferred by investors to direct their funds to – “Different from the overall contraction in capital flows, direct investment flows show a flight-to-safety phenomenon when geopolitical risk rises.” (p. 14). In their paper, Nauro Campos and Yuko Kinoshita (2003) also emphasise the importance of low levels of corruption, as well as minimal bureaucracy and efficient political and judicial powers in attracting FDI. Alberto and Farhad (2001) also perceived that the existence of high values of political violence and terrorism lead to the decrease of FDI. The aforementioned institutionalists also argue that, normally, MNEs do not expand to places where the regime has so much power that it might jeopardise the success of the operation.

Meanwhile, there are other authors, such as Holburn (2001) and Jiménez (2010), whose studies have shown several cases of companies directing their investment precisely towards countries where the political risk was high (Jiménez et al., 2014). This situation was motivated by the possibility of firms obtaining a competitive advantage in this context – “These capabilities guarantee success against potential competitors through better assessment of political risk, enhanced negotiation, litigation and lobbying skills, campaign contributions, coalition and networks formation or even by taking advantage of a corrupt system.” (Jiménez et al, 2014, p. 302-303).

Thus, we realise that a country's politics strongly affect business action: companies tend not to target countries that are not as liberal, given that poorly democratic governments are generally correlated with failures regarding business prospects and available information, liberty of expression and overall societal stability (Cuervo- Cazurra et al., 2023).

Nevertheless, I believe that there is a gap in the IB literature that must be addressed, which is the study of nations whose governments are considered radical, without extreme situations of war and violence being at stake. After researching the subject, we realise that the studies are mostly carried out in countries in situations of disruption, such as an economic crisis, a bankruptcy or even war. Even so, I believe that radicalism, even if it is far removed from these more drastic situations, is also a constraining factor in the internationalization of companies and should therefore be studied even in so-called ordinary circumstances.

IB literature is also very focused on analysing developing countries, which are usually associated with higher political risks, more corruption and also greater political

extremism. Even so, in recent years we have seen the growth of political parties considered to be extremist in almost all of Europe's parliaments - currently, countries like Sweden, Italy, Finland, Greece and Germany already have a far-right presence in their governments (Herschinger et al., 2020). In some other countries, such as Spain and Portugal, the extreme right-wing has gained a strong voice in the political sphere. It is therefore important to bridge this gap in the literature by studying the European countries that have radical parties in their governments and how their actions affect the entry of FDI into these states.

## **2.2. Ownership Strategy**

According to the literature referenced throughout this study, it is easy to discern that the whole process of business internationalization, due to the risks inherent in it, demands proper study and planning. Depending on the country, "A firm's decision to go abroad is concerned not only about what markets to enter but also about how to enter them" (Nisar et al., 2012, p. 717). The significance here lies not only in the method of entry into another market, but also in the level of control that companies choose to take in other markets.

When firms decide to go abroad through equity modes, the ones that are relevant for this study, it becomes of great importance to have a structured ownership strategy. Building this strategy involves taking into account the inherent power of control and everything associated with it. In fact, companies should not control their subsidiaries unreasonably, as this means taking on many more risks and liabilities. As Vernon says, "Control is a way to obtain a higher return. Yet control, while obviously desirable, carries a high price" (1983) (Anderson & Gatignon, 1986, p.3). Although it can be tempting to enter with great levels of control, this can be a poor strategy not only for the success of the internationalization, but also for the reputation of the company itself. We must always bear in mind that increased risk, while bringing more promising financial results, also brings increased responsibility when something doesn't go according to plan, as well as greater financial charges and resource allocation (Anderson & Gatignon, 1986). According to Contractor et al,

"A correctly planned ownership level can result in significant economic benefits through post-acquisition integration and asset synergy. An incorrect ownership level may lead to a mismatch between resource commitment and risk, inefficient

integration of the target firm, and less-than-desired rent appropriation.” (Contractor et al., 2014, p. 931).

Bearing this in mind, we must correctly consider the different levels of control we have when talking about equity entry modes. Ownership levels can be categorized into 3 groups: 100% ownership, known as fully owned; and partial ownership, which is divided into small minority of shareholding and nearly full ownership (Contractor et al., 2014).

When we refer to full ownership, we presuppose a large initial investment in the subsidiary, which allows total control over everything that is carried out in it and its financial profits. Nonetheless, we must always take into account that, in these cases, the risk is only supported by the mother company, and there is no room for sharing responsibilities and expenses (Chari & Chang, 2009). In countries where the liability of foreignness is higher, this approach can become dangerous. This total control does not allow for the existence of locals in the company who can help with its integration into the market in question, which can become a downside (Contractor et al., 2014).

Partial ownership, meanwhile, implies less investment from the start, but consequently reduced access to financial gains, as well as control over the subsidiary. Furthermore, the negative side mentioned above is also shared, and this may be essential in countries where the liability of foreignness is more expressive (Chari & Chang, 2009). In partial controls, companies can benefit from the help of local people in their internationalization, who can help the firm become better acquainted with the culture and the market itself (Contractor et al., 2014).

As studied by IB literature, there are many aspects that affect businesses' decisions regarding the level of control they intend carrying in the countries to which they are going to expand. One of the most impactful issues has to do with institutional distance which, according to Contractor et al., “refers to the extent of the difference in the broad institutional environment between the multinational firm home country and its host nation” (Contractor et al., 2014, p. 933). The authors believe that this difference elevates severely the risk, leading to the failure of the operation if there is no prior preparation and recognition of the market by the parent company. It is therefore crucial to have a perfect insight into the functioning of the country and its institutions, both formal and informal - the political, legal, economic system and social customs must be investigated in order for the company to carry

out a conscious internationalization (Contractor et al., 2014). The authors Xu, Pan and Beamish (2004) study reveals that the greater the institutional distance between countries, the lower the level of control chosen by companies. However, Contractor et al. believe that “when potential acquirers perceive a high institutional distance between their home base and the target in an emerging market, they are likely to opt for higher ownership to allow for greater control of the target’s assets and operations” (2014, p. 934).

The institutional dimension also leads us to mention another important factor: country risk is also closely associated with issues of corruption and instability, for example, both of which can be very damaging to any internationalization. This risk, of any sort (economic, political or financial), is usually associated with lower levels of control (Contractor et al., 2014), since companies tend not to have as much confidence in a project being successful in unstable countries. The same results were obtained by Chari and Chang – “Our finding that greater exogenous country risk is associated with a lower share of equity sought.” (Chari & Chang, 2009, p. 1293).

Culture is also a factor to consider when choosing control, given its influence on the outcome of internationalization. In fact, cultural differences between the country of origin and the host-country increase mistrust and thus the possibility of a smooth internationalization. The cultural distance has been widely studied in the IB literature, being the most famous e used theory the Hofstede’s cultural dimension theory. Concerning the ownership choice, it is relevant to acknowledge the role of uncertainty avoidance in the FDI usage (Contractor et al., 2014). According to Hofstede, this dimension “has to do with anxiety and distrust in the face of the unknown, and conversely, with a wish to have fixed habits and rituals, and to know the truth.” (Hofstede, n.d.).

As previously demonstrated, risk is invariably present in the process of internationalization, more so when we consider the entry modes of equity. Culturally, the level of uncertainty avoidance will influence a more or less ambitious action in this internationalization and, in this way, the cultural distance between the country of the parent company and the host-country is of great value (Contractor et al., 2014). In fact, we have to take into account the existence of countries that are generally more risk-averse and which, when faced with different cultures, may withdraw in the face of risk and prefer safer equity modes. On the other hand, we also have nations that are comfortable taking risks, which do not take the same approach to ownership strategy.

In this matter, Morosini et al. study from 1998 shows us that “the home country uncertainty avoidance level positively influences cross-border acquisition performance” (Contractor et al., 2014, p. 934). However, the authors Contractor et al. believe that high uncertainty can become negative for the home company, given the responsibility they have to assume and, therefore, “In the face of high uncertainty avoidance distance in emerging markets, a foreign acquirer will be more likely to choose minority acquisition over full or majority acquisition” (Contractor et al., 2014, p. 934). This view is also shared by Chari and Chang, according to whom “Problems with integrating local firm managers in culturally distant countries motivate firms to acquire a partial equity interest in the target firm rather than acquire the target firm completely” (Chari & Chang, 2009, p. 1293).

All the issues discussed so far relate to the impact of the country itself on the home country's perception of the internationalization process. However, it is also necessary to address the issues related to the firms themselves, which are an integral part of internationalization.

One of the matters to consider has to do with sectoral distance, that is, when the parent company projects its FDI to a firm in another sector of activity. The difference in industry easily creates discrepancies regarding the modus operandi of the companies in question, as well as the know-how needed to be successful in foreign markets. In fact, companies that have no experience in the industry to which they are going to internationalize may incur greater risks, more allocation of resources and transfer of knowledge (Contractor et al., 2014). The authors Chari and Chang advocate that, in these cases, firms tend to opt for lower levels of ownership (Chari & Chang, 2009).

Not being able to benefit from their sectoral experience, nor being as familiar with the processes and targets of the new industry, Contractor et al. argues that parent companies should not internationalize with very high levels of control. Thus, “Managers executing acquisitions in related industrial contexts may avoid minority ownerships and choose complete ownership through full acquisition” (Contractor et al., 2014, p. 940).

Chari and Chang also examine other topics, such as the impact of firm size and the employment regime. With regard to company size, the authors argue that when local companies are larger, ownership levels tend to be lower. As far as the issue of employment is concerned, it has not been shown to have any influence on the decision of firms in their ownership strategy.

There are many aspects that influence a company's ownership strategy when planning an internationalization process. For this reason, it is vital to have various studies in the IB literature that can keep managers better informed. Although many of these points, as can be seen, have already been strongly analysed, there are still many other issues to study. In my opinion, country risk becomes too general a measure when we want to understand the political issue and its impact. This study therefore serves to fill this gap in the existing literature and helps managers understand how to deal with the political radicalism that has been increasing in Europe and, with this in mind, what they should do in order to achieve successful internationalizations.

### **2.3. Firm Size**

The size of companies has always been important for business research, as it allows for an analysis of how different resources and characteristics impact on certain decisions, strategy and business growth – “Firm growth is one of the most important issues in business management because growth usually reflects market acceptance and firm success.” (Park & Jang, p. 368, 2010). With regard to international operations, this variable becomes even more crucial to examine, since the available resources differ between the various sizes and are vital for a successful internationalization. Funds are essential for a company to take chances internationally, thereby also increasing its value and growth. As stated by Li et al., “Larger, older, and state-owned firms have better access to resources in their home countries than smaller, younger, and non-state-owned firms, and thus are less concerned about the high operating costs associated with larger geographic distances.” (p. 921, 2019).

According to earlier studies, internationalization was carried out in stages, which became more and more compromising as the company gained more experience and recognition abroad. However, the current scenario does not corroborate this view. In fact, increasingly more firms are venturing out into the world without any international experience or even at a very small size. There are even the so-called "born-global" companies which are born internationally. From this perspective, the size of enterprises doesn't seem to have that much of an impact on internationalization – “Many firms, however, start international operations when they are still comparatively small and gradually develop their operations abroad.” (Chelliah et al., p.3096, 2010).

The availability of transportation and communications has changed international business, and nowadays, small and medium-sized companies are also important players in this environment, and deserve our analysis. In this regard, we should start by understanding the different type of enterprises, as well as how to measure them. The European Union defines the SMEs as "... enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million." (Commission Recommendation, 2003, Art. 2). Considering the measurement of this variable, it is not performed using the same components across all IB literature. As a consequence, the results of this measurement end up being differentiated and dependent on the variables under study. On this basis, authors tend to have different opinions - according to Casson (1999), the size of firms doesn't have much impact on their performance. However, the authors Ruzzier & Ruzzier state that the majority of the literature on internationalization argues that there are considerable differences to be taken into account between the various company sizes. The latter believe that the divergence of ideas about the importance of firm size for companies' international strategies is due to the use of different methods of analysis. In their study, internationalized companies tend to be larger than non-internationalized ones, when considering sales and their available resources. This controversy due to the method used was also noted in Cavusgil's 1984 research. According to this author, "when firm size is measured by number of employees, no relationship is found with export behaviour, but a significant relationship exists when size is measured by annual sales." (Chelliah et al., p.3098, 2010). The authors Ruzzier and Ruzzier argue that the most appropriate way to measure this indicator is analysing "number of employees, followed by sales volume." (p. 55, 2014).

Although the so-called SMEs have fewer resources and therefore greater difficulties in expanding overseas, it is possible to find many qualities that favour their internationalization, such as the fact that they are usually more flexible to new structures and much less bureaucratic than larger companies. They also tend to be more receptive and adapt more easily to new environments. Thus, the authors Ruzzier and Ruzzier confirm that there is potential for them to embark on international ventures. As stated by Li et al.,

"As organizational inertia is high in larger, older, and state-owned firms, they can be less adaptable to the new environments of culturally distant host countries. Accordingly,

cultural distance would be a more salient concern for these firms than for smaller, younger, and non-state-owned firms when making their FDI location decisions.” (p. 923, 2019).

According to Murphy and Ledwith firm size has an impact on various aspects that subsequently make corporate actions distinctive, such as structure, procedures, processes and people (Murphy & Ledwith, 2007). The authors claim that large companies have greater access to capital and financial resources, which gives them greater security in their sector. They also have more experience and access to better market positioning. However, they usually have a much stricter structure and are highly bureaucratic. Meanwhile, SMEs, which don't have as many financial resources or know-how, benefit from a more flexible structure and, as they don't have as many decision-making levels and obstacles, they speed up processes. In addition, they are better at adapting to unfamiliar environments, which can give them a competitive edge, as presented by the authors Edwards, Delbridge et al. in 2001 (Murphy & Ledwith, 2007).

In Europe, SMEs constitute a large part of the business network. For this reason, I consider it of great importance to investigate their impact on the international business environment, what influences them and how they behave in certain contexts.

#### **2.4. The correlation between firm size, ownership strategy and political radicalization**

As described in the previous chapter, firm-size is often undervalued by academics. However, now that we are aware of its relevance to IB literature, we must understand how this variable influences entrepreneurial international action. The variables firm size, political radicalization and ownership strategy together affect the internationalization process and, for this reason, it is essential to understand how they affect one another.

It is well known that companies, depending on their different characteristics, move in different ways in the business environment, an example of which is the distinction between the actions of SMEs and large companies. Given their different sizes and features, they will also have distinctive action processes.

The company's external and internal environment must be taken into account when considering its performance and action. There are authors who believe that this performance is strongly dependent on external factors, such as market conditions and the industry in

which the firm operates. Alternatively, there are authors who believe that business performance is essentially related to factors that are considered integral parts of the company, such as its resources. In addition to these perspectives, there are those who add the impact of location to the equation. Fitza et al. (2009) concluded that business performance and strategy depend not only on its resources, but also on the surrounding environment and the ownership strategy used by each company.

As discussed in the last section, SMEs don't have as many resources, as much international experience or as wide recognition. This can make their adventures abroad even more challenging. These issues, mostly related to internal factors, make the liability of foreignness worth considering. According to Zaheer, liability of foreignness has to do with "all additional costs a firm operating in a market overseas incurs that a local firm would not incur" (Zaheer, 1995, p. 343). With reduced resources, these costs can be mitigated by opting for entries into foreign markets that do not compromise the parent company as much, so that it does not have to bear as many costs or risks. One of the options for mitigating the costs of internationalization involves choosing the right ownership strategy. Companies with fewer chances to take risks will not be as adventurous in their ownership choices.

The external factors surrounding companies also have an impact on them and must therefore be considered and examined. As seen above, the political environment can strongly affect the business environment of each country, ultimately influencing not only national companies, but also the attraction of FDI to the country. Even so, politics doesn't just affect companies externally. Political connections exist and can be very evident in the entrepreneurial actions of some firms, since they often correspond to better access to financing, as well as lower taxes (Ullah & Kamal, 2017). Nevertheless, these influences can be quite damaging for enterprises - as Chaney, Faccio, and Parsley (2011) point out, "political connections aggravate agency problem and reduce quality of corporate governance." (Ullah & Kamal, 2017).

As we can appreciate, there are many factors which, considering firm size, have an effect on its internationalization strategy and processes. Even so, the impact on internationalization is mainly studied at the export level. I believe it is essential to fill this gap in the literature and explore more deeply the impact of company size on riskier internationalizations - when considering an equity entry mode in a high-risk market, do

SMEs end up choosing stronger ownership strategies than large companies? Or, despite adapting better to their surroundings, are they unable to take on this risk?

### 3. Conceptual Model

Political radicalism, as mentioned previously, strongly influences the perception that other countries have of the nation in question, since it influences the national *modus operandi* (Figueira de Lemos, 2013). Radical governments are usually associated with greater potential risks, insecurity and instability. Not only is there a riskier social context, but the economic and business environment can also be challenging. This instability can adversely impact the attraction of FDI to the country (Chaonan Feng et al., 2022).

As discussed above, the whole process of internationalization is not only complex, but also extremely expensive. For this reason, all processes must be carefully studied and monitored before any decision is made. Given all this, and taking into account the finite resources of companies, they tend to prefer countries whose security will, in theory, provide them with a smoother and more successful internationalization. When we consider the impact of political radicalization on business internationalization, we must always take into consideration even the most impactful scenarios, such as the worsening of popular revolt, leading to riots or even civil war; or even the country closing in on oneself, given the aversion to everything foreign and different (Herschinger et al., 2020).

In fact, the political environment greatly influences internationalization and likewise the ownership strategy chosen for this process. When it comes to equity entry modes, the strategy plays an even stronger role and must be very well selected. More hostile environments do not provide as much stability and, consequently, with a greater probability of failure in the internationalization process, we believe that the ownership strategy tends to be firmer. In contrast to full ownership, partial ownership means that the company doesn't necessarily have to cover all the expenses involved in internationalization, nor does it have to put in as much capital from the start. Although having fewer costs and risks in countries that are considered more unstable seems attractive, I believe that the idea of having total control over all the decisions made regarding the subsidiary, which in every way have an effect on the headquarters, also comes into play in this respect. Therefore, in countries where the uncertainty and liability of foreignness is so high, stronger levels of ownership seem to represent the best ownership strategy (Contractor et al., 2014).

We therefore propose to investigate the following hypothesis:

Hypothesis 1: *The greater the political radicalization, the greater the ownership share of foreign subsidiaries.*

The concept of firm size has been studied extensively in the field of international business on several topics. In fact, it is associated with various entrepreneurial issues, being commonly used to measure the progress and success of companies in relation to the challenges they set out to achieve. According to the literature mentioned above, this concept has a strong impact on business decisions (Park & Jang, 2010). This effect is particularly evident when discussing internationalization processes, since, as one might expect, these are very expensive and, if considering more profitable entry modes, they are also riskier. Given these characteristics, internationalizations must be approached cautiously, especially when they are considered by smaller companies.

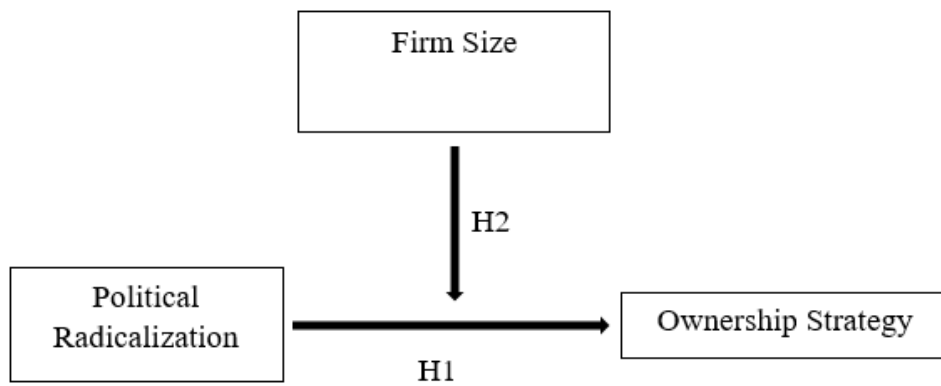
The size of firms is important and influences the actions of the various types of business. Normally, larger companies tend to have greater resources allocated to investing in internationalization processes and also more experience in the matter, thus having some know-how advantage. One must also mention recognition, which favours them in this type of process. When it comes to small and medium-sized companies, the scenario differs somewhat. SMEs have much more limited resources than large businesses, and they don't usually have a vast amount of experience (Ruzzier & Ruzzier, 2014). Therefore, one can say that large companies have better conditions for a smooth and simplified entry abroad.

In more complicated political scenarios, such as those in countries where political radicalization has increased over the last few years, the risks of internationalization also tend to increase naturally. In this way, a process that is complicated and expensive in itself becomes even riskier and requires a great deal of research into the country and the internationalization process (Fitza et al., 2009). For small and medium-sized companies, this study, as mentioned above, should be detailed given the scarcity of resources and should contain the type of ownership the company intends to hold abroad.

As is widely known, the type of ownership chosen can be enough to dictate the success or failure of an internationalization and, contrary to what was previously assumed, this process is no longer done through progressive and increasingly complex entries, but often through riskier ones (Chelliah et al., 2010). Considering this context of political radicalization, the recognition and resources of large companies will make it much easier for them to perform well in their internationalizations than for SMEs and, as such, they will be

able to take greater chances and enter with more powerful ownership strategies. SMEs, considering the investment involved, I believe will not choose ownership strategies that compromise them as much. Therefore, I propose studying the following hypothesis:

Hypothesis 2: *The firm size moderates the effect of political radicalization on the ownership share of foreign subsidiaries, such that larger firms tend to have greater ownership share.*



**Figure 1.** Conceptual Model

## 4. Method

### 4.1. Sample and data

We examined the hypotheses using cross-sectional data on the ownership strategy of foreign subsidiaries from European Union firms. To account for the FDI of the parent firm, we considered a foreign direct investment when the equity in a foreign firm, in terms of ownership percentage is greater or equal to 10% (Benito and Gripsrud, p.469, 1992). In this respect, we only considered foreign subsidiaries with at least 10% ownership, to fully assess the impact of political radicalization present in the host-country. Therefore, the sample used includes parent firms from countries belonging to the European Union, namely Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom.

We identified a total of 26,146 active publicly traded firms that were listed on the stock exchange in European Union countries. To isolate the financial accounts of the parent firms from their subsidiaries, we selected firms with available unconsolidated accounts. Also, we did not consider financial type firms, since this sector differs from the others in terms of its relationship with political power, the instability of countries and the intense regulation to which it is submitted (Seyed Alireza Athari et al., 2023). Thereafter, we removed parent firms with blank information, meaning missing values for the main variables of interest. After these screenings, final sample included 2,270 parent firm, with a total of 83,207 foreign subsidiaries. The data on the ownership strategy of foreign subsidiaries from European Union parent firms was retrieved from Bureau van Dijk's Orbis Europe database, accessed in 2<sup>nd</sup> of March of 2023.

### 4.2. Variables

#### *Dependent Variable*

The dependent variable *Ownership Strategy* is defined as the level of control firms opt to take when investing in a subsidiary (Contractor et al., 2014). To measure the ownership strategy, we used the values given by the ownership total percentage, which provides information on every subsidiary controlled by the headquarters, being this control

direct or not (European Commission: Joint Research Centre et al., 2020). Although we acknowledge the differences between ownership total and partial percentages, we argue that ownership total percentage, in addition to being more complete, gives us a clearer picture of each firm's total control over the subsidiaries, making it easier to assess the firms' choices in terms of ownership. Therefore, we selected foreign subsidiaries with at least 10% or more from a foreign country to reflect the effect of the host-country on the ownership strategy of foreign subsidiaries. The data were retrieved from the Bureau van Dijk's Orbis Europe database.

**Table 1.** Number of foreign subsidiaries by European country

Country	Number of foreign subsidiaries
Austria	2 191
Belgium	3 008
Bulgaria	80
Croatia	136
Cyprus	234
Czech Republic	70
Denmark	3 893
Estonia	199
Finland	2 904
France	21 081
Germany	21 456
Greece	918
Hungary	138
Ireland	4 110
Italy	5 907
Latvia	6
Lithuania	80
Luxembourg	1 259
Malta	39
Netherlands	32
Poland	637
Portugal	1 313
Romania	36
Slovakia	18
Slovenia	63
Spain	4 778
Sweden	7 518
United Kingdom	1 103
Total	83 207

### ***Independent Variable***

The independent variable *Political Radicalization* is defined as political parties that evidently distance themselves from the mainstream, believing in an alternative political and economic situation (Backes, 2009). To measure the political radicalization, we followed Tubadji & Nijkamp (2019) by accounting for the results of the European election of 2019, which provides information on the study of political radicalism.

To define which national parties, at the time of the 2019 elections, were considered radical, we followed the list proposed by Rooduijn et al. (2024), by extracting the data from the following website: <https://popu-list.org/>. Therefore, Table 1 provides the country level information on the political radicalization of each member state, where the values represent the number of national parties that were defined as the far left, far right, and total radical parties. We define far left national parties the parties that promote alternative economic and power structures, since they advocate for economic inequality and the redistribution of resources (Rooduijn et al., 2024). Whilst, we define far right national parties the parties that are characterized by nativist ideologies and authoritarianism (Rooduijn et al., 2024). The data were retrieved from the official website of the European Parliament.

**Table 2.** Description of political radicalization by European country

<b>Country</b>	<b>Far Left</b>	<b>Far Right</b>	<b>Total</b>
Austria	0	1	1
Belgium	1	3	4
Bulgaria	0	5	5
Croatia	1	4	5
Cyprus	2	1	3
Czech Republic	1	1	1
Denmark	2	1	3
Estonia	0	1	1
Finland	1	1	2
France	2	2	4

The Impact of Political Radicalization on Firms' Ownership Strategies Abroad

---

Germany	1	1	2
Greece	5	3	8
Hungary	0	3	3
Ireland	0	0	0
Italy	0	2	2
Latvia	1	1	2
Lithuania	0	1	1
Luxembourg	2	1	3
Malta	0	0	0
Netherlands	1	2	3
Poland	1	2	3
Portugal	2	0	2
Romania	0	0	0
Slovakia	0	3	3
Slovenia	1	3	4
Spain	2	1	3
Sweden	1	1	2
United Kingdom	0	2	2
Total	27	46	72

---

Note: The values refer to the number of radical parties by country

### ***Moderating Variable***

The moderating variable *Firm Size* is defined as the total assets of a company. We measured firm size using the natural logarithm of the total assets of the firm (e.g., Kim, Moon & Yin, 2015). The assets of a firm as the proxy to measure the firm, enables us to understand and calculate the experience of each company and thereby analyse its decisions internationally (Murphy & Ledwith, 2007). Such as, we expect gaining insight into its impact on the decisions companies make regarding their subsidiaries, concerning their political context. The data were retrieved from the Bureau van Dijk's Orbis Europe database.

### ***Control Variables***

We included an extensive set of control variables, which have been identified as determinants of firms' ownership strategies. These control variables include both country-level and firm-level variables. First, firm-level control variables include the *Firm Age*, *Firm Profitability*, and *Firm Liquidity*. We define firm age as the number of years since a company was founded. We measured firm age as the natural logarithm of the number of years since establishment plus 1. Firm age may affect firms' ownership strategy because older firms can have a greater access to financial resources due to being more established in the domestic market, as well as having an increased reputation and experience with previous internationalizations (Li et al., 2019). Moreover, we define firm profitability as the company's ability to generate financial returns from its operations. We measured firm profitability using the company's return on assets values. Firm profitability may affect firms' ownership strategy because more profitable firms can have greater resources that could lead to less conservative international ventures by the firm. Also, we define firm liquidity as the firm's financial flexibility and its ability to meet short-term financial obligations. We measured firm liquidity using the company's liquidity values. Firm Liquidity may affect firms' ownership strategy because firms with less liquidity have higher short-term financial obstacles, which may affect firms' internationalization strategies.

Second, country-level control variables include the *Country Growth*, *Country Size*, *Country Exports*, and *Country FDI*. We define the country growth and size as the overall economic expansion and market scale of a country (Meyer et al., 2009). We measured the country growth and size using both the rate of progression of country's GDP and the value of the GDP in constant USD respectively. The growth and size of a country may influence the firms' ownership strategy because countries with a larger market may offer greater

investment opportunities encouraging firms to adopt better ownership structures. We define the country exports as the value of goods and services a nation sells to foreign markets and it was measured using country's exports value as percentage of GDP. This measure was important to acknowledge, since it is related to the country's greater or lesser openness to foreigners, as well as its international competitiveness. Referring to FDI, it can be described as the investments that are made from one country to another one. We measured FDI using the country's FDI inflow as percentage of GDP. This control variable is important for understanding the openness of each country to FDI, thus determining whether it is more or less attractive to investors.

Finally, we included industry dummies using the NACE rev. 2 main categories for the firms' industry (category A to U). A total of 21 industry dummies were included. The data for the firm-level control variables were obtained from the Orbis Europe database, and the data for the country-level control variables were obtained from the World Bank.

### ***Statistical Approach***

We conducted the analyses using the Ordinary Least Squares (OLS) linear regression analysis. The linear regression approach is suited for this study due to the expected linear relationship between Political Radicalization and Ownership Strategy. To perform an OLS regression test, it is essential to meet certain assumptions, including linearity, independence of errors, homoscedasticity, and normality of residuals. Additionally, the model should not exhibit multicollinearity among independent variables. In light of the various requirements of the OLS test, the model should verify that there is linearity between the independent and the dependent variable, which can be verified by the F-Value (Fox, 2015). Throughout the models presented in Table 2, we can see the F-value also increasing, which is quite favourable since it means that the addition of the variables considerably improves the overall fit of the model. The information criteria - Akaike Information Criterion, Bayesian Information Criterion and Hannan-Quinn Information Criterion - presented are also used to assess the fit of the model and, in this case, the lower the value of these criteria, the better the model. A constant decrease in the values of each criterion is noticeable across the different models, with the model 3 having the lowest values. Hence, these criteria show that the interaction between Political Radicalization and Firm Size provides a more complete model.

We must also take into account the independence of the data collected, as well as the normality of the sample, i.e. the normality of the error distribution. The constant error variance has to be ensured as well, through the p-value (Fox, 2015). The p-value, based on table 2, is mainly always below 0.05, meaning that we can conclude that almost all the variables are statistically significant.

Another requirement was to run collinearity tests, so the Variance Inflation Factor (VIF) was applied to the model created (Fox, 2015). The results of the VIF test, as can be observed in the following table, were all under 5 (Marôco, 2021), thus signifying the absence of collinearity.

The statistical analysis was carried out using Gretl software and we conclude that all the requirements were validated.

## 5. Results

### 5.1. Descriptive statistics and correlations

Table 2 presents the descriptive statistics and the correlation matrix. Table 3 displays the values for the mean, standard deviation, VIFs test, and the correlations between all the different indicators. As illustrated by the descriptive statistics, we note that the ownership strategy has a mean value of 78,039 and a standard deviation of 25,765. Although the values for the firm age are from its logarithm, we note that firms are on average 62,400 years old, with a standard deviation of 45,577 years. Also, in terms of political radicalization, we note that countries have on average 2,639 total radical national parties, with a higher chance of those radical national parties being from the far-right spectrum.

To assess the multicollinearity and correlation problems, we obtained the Variance Inflation Factor (VIF) values. Based on the results of the VIF test, the values range from 1,079 to 2,478, indicating that there is no issue of multicollinearity in this model (Marôco, 2021). Also, considering the correlation matrix, Firm Size has a negative correlation with both Ownership Strategy (-0,124) and Political Radicalization (-0,155), which can indicate not only that larger companies might prefer poorer Ownership Strategies, but also that in a context of Political Radicalization firms tend to be smaller. The Country Growth variable also has a significant correlation with the dependent variable (0,200), which could imply that firms in countries with higher growth rates may invest more in stronger ownership strategies. We should also mention the correlation between Firm Age and Firm Size (0,220), which is quite high, meaning that older companies tend to be larger. The correlation between Country Exports and Country FDI is also high (0,190), showing that countries with higher export values tend to attract more FDI. As for Political Radicalization and Country Exports (-0,422), the greater the radicalization, the lower the volume of exports. This negative relationship also occurs when Political Radicalization correlates with Country FDI (-0,340). Although it may seem obvious, we must also note the correlation between Country Exports and Country Growth (0,435), which indicates that exporting countries tend to grow more economically.

**Table 3.** Descriptive statistics and correlations

Variable	Mean	SD	VIF	1	2	3	4	5	6	7	8	9	10
1. Ownership Strategy	78,039	25,765		1,000									
2. Political Radicalization	2,639	1,204	1,940	0,025*	1,000								
3. Firm Size	16,074	2,372	1,384	-0,124*	-0,155*	1,000							
4. Firm Age	3,823	0,860	1,564	0,013*	0,219*	0,220*	1,000						
5. Firm Profitability	4,570	8,397	1,079	-0,075*	0,029*	0,072*	0,083*	1,000					
6. Firm Liquidity	2,183	5,450	1,090	-0,013*	0,051*	-0,144*	-0,104*	0,145*	1,000				
7. Country Growth	5,566	2,474	2,478	-0,200*	0,030*	-0,052*	-0,405*	0,021*	-0,019*	1,000			
8. Country Size	28,055	1,058	1,724	-0,007*	0,151*	-0,082*	0,269*	-0,051*	0,014*	-0,297*	1,000		
9. Country Exports	49,924	31,239	2,455	-0,066*	-0,422*	0,051*	-0,364*	-0,015*	-0,033*	0,435*	-0,534*	1,000	
10. Country FDI	3,489	7,013	1,787	-0,103*	-0,340*	0,197*	-0,247*	0,044*	-0,046*	0,441*	-0,270*	0,190*	1,000

*Note:* Correlations are significant at 5% confidence level for values greater than 0.006. The independent variable *political radicalization* was centered (Mean=0 and SD=1) in the future analyses.



## 5.2. Lineal Regression models

The OLS regression models are present in Table 4. In table 4, we provide 3 models. Model 1 includes only the control variables, namely *Firm Age*, *Firm Profitability*, *Firm Liquidity*, *Country Growth*, *Country Size*, *Country Exports*, *Country FDI* and *Industry Dummies*. Model 2 combines the control variables with the independent variable *Political Radicalization*. Model 3 presents the full model, by including the moderating variable *Firm Size* to the previous model and, consequently, the interaction between the moderating and the independent variable.

For all the models, the estimated coefficients and respective standard error of each variable were displayed, as well as the *p-value*.

In model 2 of Table 4, we test hypothesis 1. Hypothesis 1 predicts that there is a positive relation between Political Radicalization and the Ownership Strategy. According to model 2, the variable Political Radicalization has a positive and statistically significant coefficient ( $\beta = 1,445$ ,  $p = 0,000$ ), confirming that political radicalization enhances ownership strategy, thus providing support for hypothesis 1. A coefficient of 1,445 represents that, if everything else remains constant, an increase of 1 unit in the value of the political radicalization, represents an additional 1,445 units in the ownership percentage of foreign subsidiaries.

In model 3 of Table 4, we test hypothesis 2. Hypothesis 2 predicts that, in a context of Political Radicalization, larger firms will have greater ownership strategies. According to model 3, the interaction term between Political Radicalization and Firm Size shows a positive and statistically significant coefficient ( $\beta = 0,205$ ,  $p = 0,000$ ), meaning that Firm Size does impact the effect of Political Radicalization over Ownership Strategy. Therefore, it supports hypothesis 2.

Table 4. OLS Regression

Variables	Model 1		Model 2		Model 3	
	Est.	<i>p</i>	Est.	<i>p</i>	Est.	<i>p</i>
Const.	177,705 ( 3,088)	0,000	173,284 (3,093)	0,000	197,471 (3,722)	0,000
Firm Age	-1,992 (0,124)	0,000	-2,265 (0,126)	0,000	-1,264 (0,134)	0,000
Firm Profitability	-0,204 (0,011)	0,000	-0,204 (0,011)	0,000	-0,187 (0,011)	0,000
Firm Liquidity	-0,031 (0,017)	0,065	-0,039 (0,017)	0,022	-0,100 (0,018)	0,000
Country Growth	-1,523 (0,047)	0,000	-1,753 (0,050)	0,000	-2,142 (0,059)	0,000
Country Size	-2,422 (0,104)	0,000	-2,297 (0,104)	0,000	-2,298 (0,114)	0,000
Country Exports	-0,041 (0,004)	0,000	-0,014 (0,004)	0,001	0,010 (0,005)	0,036
Country FDI	-0,068 (0,011)	0,000	-0,011 (0,011)	0,304	0,184 (0,029)	0,000
Industry			Included			
Political Radicalization			1,445 (0,093)	0,000	-1,461 (0,538)	0,007
Firm Size					-1,884 (0,104)	0,000
Political Radicalization x Firm Size					0,205 (0,036)	0,000
F-Value	537,083	0,000	540,534	0,000	568,647	0,000
R2	0,080		0,083		0,100	
Adjusted R2	0,080		0,083		0,100	
Critério de Akaike	738430,2		738190,3		696379,3	
Critério de Schwarz	738671,7		738441,1		696647,0	
Critério Hannan-Quinn	738504,2		738267,2		696461,6	
Observations	79813		79813		75435	



### 5.3. Robustness tests

To provide additional robustness to our models and hypothesis, we conducted several additional robustness tests. The robustness tests included using a different statistical approach and using an alternative variable as the moderating variable. First, we conducted the alternative analyses using a Tobit regression model. The Tobit statistical approach may be suited for this study because the dependent variable data is positively limited – the Ownership Strategy values range from 10% to 100%.

According to model 2 of the Table 5, the Political Radicalization coefficient is positive and statistically significant ( $\beta = 2,420$ ,  $p = 0,000$ ), while the interaction term between the Political Radicalization and the Firm Size shows a positive and statistically significant coefficient ( $\beta = 0,479$ ,  $p = 0,000$ ). In light of these findings, the robustness test confirm that political radicalization enhances ownership strategy while the firm size positively moderates the relationship, thus providing additional support for hypothesis 1 and hypothesis 2.

Second, we conducted robustness analyses by substituting the control variable Firm Profitability by Firm Equity. In this sense, we measured the return on equity (ROE). Firm Equity measures profitability from the shareholders' perspective, considering the firm's capital structure, which is useful for assessing the impact of leverage. The results of the alternative model presented in the Table 5 were compared with those of the Table 3 and, as can be observed, the coefficients of the key variables remained stable. Moreover, the values of the  $R^2$  and information criteria remained similar across both models, further reinforcing the robustness of the findings.

**Table 5.** Tobit Regression

Variables	Model 1		Model 2		Model 3	
	Est.	<i>p</i>	Est.	<i>p</i>	Est.	<i>p</i>
Const.	294,615 (7,638)	0,000	287,212 (7,631)	0,000	332,029 (9,219)	0,000
Firm Age	-4,378 (0,272)	0,000	-4,852 (0,276)	0,000	-2,895 (0,296)	0,000
Firm Profitability	-0,328 (0,022)	0,000	-0,328 (0,021)	0,000	-0,299 (0,022)	0,000
Firm Liquidity	-0,051 (0,037)	0,161	-0,066 (0,037)	0,073	-0,182 (0,037)	0,000
Country Growth	-3,127 (0,099)	0,000	-3,491 (0,101)	0,000	-4,396 (0,128)	0,000
Country Size	-4,449 (0,238)	0,000	-4,248 (0,238)	0,000	-4,092 (0,266)	0,000
Country Exports	-0,077 (0,008)	0,000	-0,032 (0,009)	0,000	0,025 (0,010)	0,013
Country FDI	-0,086 (0,031)	0,006	0,035 (0,030)	0,242	0,608 (0,073)	0,000
Industry				Included		
Political Radicalization			2,420 (0,193)	0,000	-4,213 (1,209)	0,001
Firm Size					-3,880 (0,237)	0,000
Political Radicalization x Firm Size					0,479 (0,080)	0,000
F-Value						
R2						
Adjusted R2						
Critério de Akaike	452598,7		452444,1		426497,4	
Critério de Schwarz	452849,4		452704,2		426774,3	
Critério Hannan-Quinn	452675,6		452523,8		426582,5	
Observations	79813		79813		75435	

**Table 6.** OLS Regression with Firm Equity

Variables	Model 1		Model 2		Model 3	
	Est.	<i>p</i>	Est.	<i>p</i>	Est.	<i>p</i>
Const.	173,887 (3,065)	0,000	169,942 (3,067)	0,000	193,111 (3,705)	0,000
Firm Age	-2,131 (0,124)	0,000	-2,386 (0,126)	0,000	-1,357 (0,134)	0,000
Firm Equity	-0,029 (0,004)	0,000	-0,030 (0,004)	0,000	-0,023 (0,004)	0,000
Firm Liquidity	-0,077 (0,017)	0,000	-0,085 (0,017)	0,000	-0,144 (0,018)	0,000
Country Growth	-1,570 (0,048)	0,000	-1,796 (0,050)	0,000	-2,196 (0,058)	0,000
Country Size	-2,363 (0,104)	0,000	-2,253 (0,104)	0,000	-2,259 (0,113)	0,000
Country Exports	0,034 (0,004)	0,000	-0,009 (0,004)	0,054	0,015 (0,005)	0,002
Country FDI	-0,071 (0,011)	0,000	0,017 (0,011)	0,117	0,179 (0,028)	0,000
Industry Political Radicalization			Included 1,395 (0,093)	0,000	-0,749 (0,540)	0,165
Firm Size					-1,796 (0,105)	0,000
Political Radicalization x Firm Size					0,153 (0,036)	0,000
F-Value	517,096	0,000	520,274	0,000	554,346	0,000
R2	0,077		0,080		0,097	
Adjusted R2	0,077		0,079		0,097	
Cr�terio de Akaike	739272,4		739051,4		697197,4	
Cr�terio de Schwarz	739513,9		739302,2		697465,1	
Cr�terio Hannan-Quinn	739346,4		739128,3		697279,7	
Observations	79869		79869		75491	

## 6. Discussion

The purpose of this study is to explore the relationship between political radicalization and firms' ownership strategy. This relationship, although it may seem simple, is quite complex and vital to the management of a company that wants to expand. Accustomed to an interconnected European Union, with good relations and free circulation, it becomes odd and even a little difficult to perceive this region in any other way. However, with political radicalization on the rise in all European countries, the European Union we have known up to now could be in question. It is therefore essential to consider what kind of political and economic context we should expect in a region where political radicalization is increasingly taking place, in order for managers and firms to be better prepared.

One notable gap in the IB literature concerns the study of political radicalization. As a rule, this concept is always analysed in more catastrophic crisis scenarios. In order to fill this gap, it will now be analysed in a scenario of votes that demonstrate a turn towards extremism, leading to a change in the current European *status quo*. This shift is not connected to any dramatic event, but is directly linked to a change in the European Union's core values, namely the aforementioned values of free circulation and freedom.

We also intend to develop knowledge on the issue of firm size, which until now has been analysed more in controlled environments, not subject to fundamental change. By linking this concept with political radicalization, we can fill this gap and understand how this moderating variable behaves in more extreme political environments.

The study illustrates the connection between political radicalization and ownership strategy, considering that in more politically radical countries, companies tend to choose stronger ownership strategies. This idea stems from the fact that, as a rule, radical countries are associated with heightened investment, financial, economic, and social risks. Reality demonstrates that these countries tend to be more averse to everything that is different and foreign (Herschinger et al., 2020), so they become more complex places. This complication generates not only less attractiveness for FDI, according to Chaonan Feng et al. (2022), but also more cautious corporate actions. In other words, companies end up not putting as much at risk and prefer ownership levels that protect them more.

The results of this research show that political radicalization enhances ownership strategy, which means that the greater the political radicalization, the greater the ownership strategy. Institutional distance is one of the differences that most affects companies' perception of the host-country and the ownership level to be obtained. As advocated by Contractor et al. in 2014, institutional differences between countries increase risk, which will enforce the need to study all the host-country's formal and informal institutions in detail. Moreover, it becomes important for firms to have greater control over their subsidiaries, so they tend to opt for firmer ownership strategies (Contractor et al., 2014).

The study also explores the interaction between political radicalization, ownership strategy and firm size. Considering this interconnection, it is considered that in a context of political radicalization, larger companies tend to have better ownership strategies than smaller companies. This idea is based on the difference between large and SMEs. As one knows, large firms not only have more resources, but also more experience and recognition, which enables them to have an advantage that SMEs lack (Ruzzier & Ruzzier, 2014). Without access to so many benefits, the internationalization process for SMEs becomes even more challenging. When we're referring to scenarios of political radicalization, the risk gets even greater, leading SMEs to need relentless preparation and knowledge of the host-country (Fitza et al., 2009).

The results of this research show that Firm Size does impact the effect of Political Radicalization over Ownership Strategy, which means that, in a context of Political Radicalization, larger firms tend to have greater ownership strategies than smaller firms. Both the aforementioned institutional distance and the liability of foreignness represent high costs for firms when they expand internationally. As Li et al. stated in 2019, larger companies have more access to resources and therefore consider the costs associated with their expansion to be less significant. SMEs, on the other hand, don't have as many resources or experience in internationalization processes. For this reason, they are more likely to be affected by the negative impacts of political radicalization in the host country. Although some authors believe that these companies tend to be less bureaucratic and more adaptable to the environment (Murphy & Ledwith, 2007), the results show that these characteristics are not enough to overcome the more difficult issues that come with internationalization to a politically radical country. Larger companies, being able to overcome these political issues more easily due to their experience, will have greater Ownership Strategies abroad, having therefore more effective ownership levels than SMEs.

## 7. Conclusion

### 7.1. Theoretical contributions

This study analyses the political context of the European Union. It will contribute to increasing the IB literature on political radicalization in this region. In fact, studies on political radicalization are usually non-European, or focused on countries whose political radicalization is already associated with more catastrophic events, such as civil wars and severe economic crises (Tubadji and Nijkamp, 2019). In this particular case, we're referring to the increase in radicalization through voting, which, although it doesn't represent such drastic scenarios, has profound implications for the business environment, influencing investor confidence, regulatory frameworks, and overall market stability (Herschinger et al., 2020).

The research in question also improves on the insights that have so far been studied into the relationship between Ownership Strategy and Firm Size. Previous studies have primarily explored this relationship in stable environments, assuming relatively predictable institutional frameworks. When the aspect of Political Radicalization is added to this relationship, the context becomes riskier and problematic. By introducing Political Radicalization as a contextual factor, this study reveals how firms of different sizes respond to heightened risks. The findings underscore that larger firms, due to their superior financial resources, strategic flexibility, and experience in risk management, are better equipped to navigate politically unstable markets (Murphy & Ledwith, 2007). Conversely, SMEs, which often lack such buffers, face greater challenges in mitigating the adverse effects of political extremism. These distinctions are fundamental and must be considered in all business actions.

### 7.2. Managerial implications

From a managerial perspective, the study is important because it expands the literature on political risk and foreign entry strategies, alerting decision-makers to their importance (Figueira de Lemos, 2013). The conclusions of this study increase knowledge in the sense of considering the influence of political issues as something serious that effectively influences internationalization processes. This factor is often overlooked and others are given greater importance, such as the economic aspects of each location (Boddewyn and

Brewer, 1994). The increasing radicalization of political landscapes can alter regulatory conditions, trade policies, and market accessibility, all of which directly impact the success of international ventures. Decision-makers must therefore adopt a more comprehensive risk analysis framework that includes political considerations alongside economic and financial factors.

For the decision-makers themselves, the research helps them to assess the political risks of internationalization. The questions addressed above help companies to better analyse the risk of entering new markets, always bearing in mind the political and, consequently, economic aspects which, as already mentioned, are sometimes disregarded by companies, yet are fundamental to successful cross-border expansion (Boddeyn and Brewer, 1994). This is particularly critical for SMEs, which, as evidenced by the findings, struggle more than larger firms in counteracting the negative consequences of political extremism. Given their limited financial and operational capacity, SMEs must adopt a proactive approach to ensure sustainable growth in international expansion (Murphy & Ledwith, 2007).

### **7.3. Limitations and future research**

Despite its contributions, this study has certain methodological limitations that should be acknowledged. It becomes worth mentioning the lack of data from all European Union countries on cultural issues. This issue has a significant impact on the choice of ownership level and it would therefore be interesting and even worthwhile to examine it as a control variable (Contractor et al., 2014). Due to the lack of data for all the countries under analysis, it was not possible to include it as a variable in the study. This would be a situation to improve in the future, in order to have a more complete study.

Future studies should address this gap by incorporating culture as a moderating variable, analysing how different cultural dimensions - such as uncertainty avoidance, power distance, or individualism - affect firms' responses to Political Radicalization. Given the cultural diversity within the European Union, this would provide valuable insights into how firms from different backgrounds navigate politically unstable environments. Additionally, future research could adopt a longitudinal approach to examine how firms adjust their Ownership Strategies over time in response to political shifts, thereby capturing the dynamic nature of International Business decision-making in an era of rising political extremism.

## Bibliographical references

- Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of International Business Studies*, 17(3), 1–26. <https://doi.org/10.1057/palgrave.jibs.8490432>
- Benito, G. R. G., & Gripsrud, G. (1992). The expansion of foreign direct investments: Discrete rational location choices or a cultural learning process? *Journal of International Business Studies*, 23(3), 461–476. <https://doi.org/10.1057/palgrave.jibs.8490275>
- Boddeyn, J. J., & Brewer, T. L. (1994). International-business political behavior: New theoretical directions. *Academy of Management Review*, 19(1), 119–143. <https://doi.org/10.5465/amr.1994.9410122010>
- Chari, M. D. R., & Chang, K. (2009). Determinants of the share of equity sought in cross-border acquisitions. *Journal of International Business Studies*, 40(8), 1277–1297. <https://doi.org/10.1057/jibs.2008.103>
- Chelliah, S., Pandian, S., Sulaiman, M., & Munusamy, J. (2010). The moderating effect of firm size: Internationalization of small and medium enterprises (SMEs) in the manufacturing sector. *African Journal of Business Management*, 4(14), 3096–3109.
- Contractor, F. J., Lahiri, S., Elango, B., & Kundu, S. K. (2014). Institutional, cultural and industry-related determinants of ownership choices in emerging market FDI acquisitions. *International Business Review*, 23(5), 931–941. <https://doi.org/10.1016/j.ibusrev.2014.02.005>
- Corsi, C., & Prencipe, A. (2017). Foreign ownership and innovation in independent SMEs: A cross-European analysis. *Journal of Small Business & Entrepreneurship*, 30(5), 397–430. <https://doi.org/10.1080/08276331.2017.1413751>
- Cuervo-Cazurra, A., Duran, P., Arregle, J., & van Essen, M. (2022). Host country politics and internationalization: A meta-analytic review. *Journal of Management Studies*, 60(1), 204–241. <https://doi.org/10.1111/joms.12853>

- Divrik, B. (2023). International market entry strategies. In *Origin and branding in international market entry processes* (pp. 1–10). IGI Global. <https://doi.org/10.4018/978-1-6684-6613-1.ch001>
- European Commission. (2003). *Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (C(2003) 1422)*. *Official Journal of the European Union*, L124, 36-41. <http://data.europa.eu/eli/reco/2003/361/oj>
- European Commission: Joint Research Centre, Rosati, N., Bompreszi, P., Ferraresi, M., Frigo, A., & Nardo, M. (2020). *Common shareholding in Europe*. Publications Office of the European Union. <https://data.europa.eu/doi/10.2760/734264>
- European Court of Auditors. (2022). *Competitiveness of SMEs in the EU: Aspects to improve for a successful transition to industry 4.0 (Special Report No. 08)*. Publications Office of the European Union. <https://op.europa.eu/webpub/eca/special-reports/competitiveness-08-2022/en/>
- Eurostat. (2008). *Statistical classification of economic activities in the European Community NACE Rev. 2*. <https://ec.europa.eu/eurostat/documents/3859598/5902521/KS-RA-07-015-EN.PDF>
- Figueira de Lemos, F. (2013). *A political view on the internationalization process* [Master's dissertation, Uppsala University]. Digitala Vetenskapliga Arkivet. <https://www.diva-portal.org/smash/get/diva2:610193/FULLTEXT02.pdf>.
- Fox, J. (2015). *Applied regression analysis and generalized linear models* (3rd ed.). Sage Publications.
- Herschinger, E., Bozay, K., Drachenfels, M., Decker, O., & Joppke, C. (2021). A threat to open societies? Conceptualizing the radicalization of society. *International Journal of Conflict and Violence*, 14(2), 1–16. <https://doi.org/10.4119/ijcv-3807>
- Hofstede, G. (n.d.). *The 6 dimensions model of national culture*. Geert Hofstede. <https://geerthofstede.com/culture-geert-hofstede-gert-jan-hofstede/6d-model-of-national-culture/>

- Jiménez, A., Luis-Rico, I., & Benito-Osorio, D. (2014). The influence of political risk on the scope of internationalization of regulated companies: Insights from a Spanish sample. *Journal of World Business, 49*(3), 301–311. <https://doi.org/10.1016/j.jwb.2013.06.001>
- Kim, N., Moon, J. J., & Yin, H. (2015). Environmental pressure and the performance of foreign firms in an emerging economy. *Journal of Business Ethics, 137*(3), 475–490. <https://doi.org/10.1007/s10551-015-2568-6>
- Le, Q. V., & Zak, P. J. (2006). Political risk and capital flight. *Journal of International Money and Finance, 25*(2), 308–329. <https://doi.org/10.1016/j.jimonfin.2005.11.001>
- Li, Y., Zhang, Y. A., & Shi, W. (2019). Navigating geographic and cultural distances in international expansion: The paradoxical roles of firm size, age, and ownership. *Strategic Management Journal, 41*(5), 921–949. <https://doi.org/10.1002/smj.3098>
- Marôco, J. (2021). *Análise estatística com o SPSS Statistics* (8th ed.). ReportNumber.
- Meyer, K. E., Estrin, S., Bhaumik, S. K., & Peng, M. W. (2009). Institutions, resources, and entry strategies in emerging economies. *Strategic Management Journal, 30*(1), 61–80.
- Murphy, A., & Ledwith, A. (2007). Project management tools and techniques in high-technology SMEs. *Management Research News, 30*(2), 153–166. <https://doi.org/10.1108/01409170710722973>
- Park, K., & Jang, S. (2010). Firm growth patterns: Examining the associations with firm size and internationalization. *International Journal of Hospitality Management, 29*(3), 368–377. <https://doi.org/10.1016/j.ijhm.2009.10.026>
- Ruzzier, M., & Ruzzier, M. K. (2014). On the relationship between firm size, resources, age at entry and internationalization: The case of Slovenian SMEs. *Journal of Business Economics and Management, 16*(1), 52–73. <https://doi.org/10.3846/16111699.2012.745812>
- Seyed Alireza Athari, Irani, F., & Abobaker AlAl Hadood. (2023). Country risk factors and banking sector stability: Do countries' income and risk-level matter? Evidence from global study. *Heliyon, 9*(10), e20398–e20398. <https://doi.org/10.1016/j.heliyon.2023.e20398>

- Tubadji, A., & Nijkamp, P. (2019). Cultural attitudes, economic shocks and political radicalization. *The Annals of Regional Science*, 62(3), 529–562. <https://doi.org/10.1007/s00168-019-00906-1>
- Ullah, S., & Kamal, Y. (2017). Board characteristics, political connections, and corporate cash holdings: The role of firm size and political regime. *Business & Economic Review*, 9(1), 157–179. <https://doi.org/10.22547/ber/9.1.9>
- Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal*, 38(2), 341–363.