



The Influence of Generalized Institutional Inefficiencies on Firms' Ownership Strategy in the MENA Region

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

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Abstract

This study investigates the influence of generalized institutional inefficiencies on ownership strategy in the Middle East and North Africa (MENA). It also tests the moderating effects of informal institutional distance and experience on this relationship. Drawing on institutional theory, the study explores challenges faced by foreign firms that are unfamiliar with the institutional environment of the MENA region and examines their need to share ownership with a partner to access local knowledge and gain legitimacy. It also highlights the idiosyncrasies of the MENA region, and the interplay of formal and informal institutions. The empirical analysis is based on a sample of 1050 foreign firms with subsidiaries in 12 countries of the League of Arab State. It shows that firms facing high levels of generalized institutional inefficiencies are likely to choose more ownership in their subsidiaries, informal institutional distance and experience having no significant impact. Results shed light on potential underlying motives that shape firms' ownership strategy in an effort to cope with generalized institutional inefficiencies.

Keywords: MENA, institutions, institutional inefficiencies, informal institutions, ownership, knowledge

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List of Abbreviations and Acronyms

Est.	Estimate
ESTG	School of Technology and Management
FDI	Foreign direct investment
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GLOBE	Global Leadership and Organizational Behavior Effectiveness
KMO	Kaiser-Meyer-Olkin
MENA	Middle East and North Africa
OLS	Ordinary least squares
OPEC	Organization of the Petroleum Exporting Countries
Sig.	Significance
Std. deviation	Standard deviation
USD	United States dollar
VIF	Variance inflation factor

1. Introduction

Institutions significantly shape the context in which firms operate, affecting their behavior and strategy (North, 1990; Peng et al., 2008). When institutions are not sufficiently developed, inefficiencies can arise and make it more challenging for firms to operate (Doh et al., 2017; Khanna & Palepu, 1997). Firms thus craft their strategy in terms of entry mode and ownership in an attempt to mitigate the effects of institutional inefficiencies in the target country (Chan & Makino, 2007; Dikova & Witteloostuijn, 2007; Meyer et al., 2009; Uhlenbruck et al., 2006). Institutional inefficiencies particularly affect formal institutions and can take the shape of absent, weak, or deficient capacities in the administrative, judicial, political, legal, and economic aspects of a country (Chan et al., 2008; Chan & Du, 2022; Doh et al., 2017). As a result, foreign firms struggle to access public services, institutional knowledge, and business opportunities (Delios & Beamish, 1999). They also face uncertainty, risks, and increasing costs associated with doing business abroad (Eden & Miller, 2004; Kostova & Zaheer, 1999; Meyer et al., 2009). Previous studies have attempted to examine the relationship between voids or deficiencies in the host country's institutional environment and the entry mode degree of control. While some find that deficiencies are related to entry modes with a high degree of control (Chang et al., 2012; Luo, 2001), others find that they are associated with entry modes with a lower degree of control (Chan & Du, 2022; Falaster et al., 2021; Meyer et al., 2009; Yiu & Makino, 2002).

However, such differences may highly depend on the nature of the institutional environment in which firms operate. In other words, the ownership strategy adopted by a firm is contingent on the formal and informal institutional specificities of the target market (Peng, 2003). To contribute to the conversation on institutional inefficiencies, this study focuses on an underrepresented empirical context in international business studies: the Middle East and North Africa (MENA). Not only is the MENA region considered fertile ground for the application of institutional theory, but it also constitutes a unique empirical context for testing institutional inefficiencies and examining formal and informal institutions (Ali, 1999; Zahra, 2011). First, the MENA region presents a set of unique characteristics related to the political, geopolitical, legal, economic, social, and cultural landscape, which play a role in shaping foreign firms' decisions (Dimitrova et al., 2020). Second, the region's institutional environment is characterized by the interplay between formal and informal institutions, the

informal nature of politics, and the interference of informal institutions in formal institutions (Demmelhuber et al., 2020; Schwarz, 2008). Such interactions can be understood through the lens of neopatrimonialism networks and the concept of *wasta*, a socially implied system of exchange among in-group members in Arab societies (Berger et al., 2019). Foreign firms that are not familiar with the MENA region thus struggle to navigate its institutional environment (Karam & Zaki, 2019; Nabli, 2007). They encounter multiple challenges such as accessing local institutional knowledge and gaining legitimacy to circumvent or overcome institutional inefficiencies (Alcantara et al., 2006; Arino et al., 1997). As a result, they may face the need to share ownership with a local partner in an effort to mitigate risks associated with their foreignness (Falaster et al., 2021; Zaheer, 1995).

The purpose of this study is to investigate generalized institutional inefficiencies in the MENA region and their potential effects on ownership strategy. Drawing on institutional theory, it attempts to answer the following question: How do generalized institutional inefficiencies influence ownership strategy in the MENA region? Contrary to arbitrary institutional inefficiencies, generalized institutional inefficiencies are explicit problems and obstacles that almost all firms experience in an equal manner because they are pervasive within the institutional context (Falaster et al., 2021). The study also tests the moderating role of informal institutional distance and experience in this relationship. It empirically analyzes the effect of generalized institutional inefficiencies on the ownership stake taken by 1050 foreign firms with subsidiaries in 12 countries members of the League of Arab States in 2022 using a linear regression model. The study concludes that firms that enter a country in the MENA region with high levels of generalized institutional inefficiencies choose more ownership in their venture. It also finds that informal institutional distance and experience do not play a role in this relationship. Such results are critical because they shed light on the underlying reasons in the institutional environment of MENA countries that shape the way foreign firms craft their ownership strategy in the region. They eventually question the need to share ownership with a local partner as a way to mitigate liability of foreignness (Zaheer, 1995) and access institutional knowledge (Meyer et al., 2009). The study thus contributes empirically to literature on institutional inefficiencies, FDI, entry mode, and ownership in the MENA region. It also enriches literature on institutions in the MENA region by exploring the idiosyncrasies, and formal and informal institutional specificities of Arab societies.

The rest of the study is organized as follows: I first review the literature on institutions, institutional inefficiencies, ownership, and their implications in the MENA region. I then present the conceptual model, including three hypotheses. Afterwards, I describe the methodology adopted including the data, the sample, variables included, and the procedure. After introducing the results, I discuss them and conclude with theoretical contributions, managerial implications, limitations, and future research.

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2. Literature Review

2.1. Institutions

Institutions, commonly defined as “the rules of the game” in a society (North, 1990, p. 3), play a significant role in the context in which firms operate (Peng et al., 2008). Institutions are “the humanly devised constraints that shape human interaction” (North, 1990, p. 3). They include formal institutions (laws, rules, and regulations) and informal institutions (norms, codes of conduct, customs, traditions, and culture), which both govern the political, economic, and social relationships and activities in a country or society (North, 1991; Scott, 1995). Institutions thus aim at reducing uncertainty by “establishing a stable (but not necessarily efficient) structure to human interaction” (North, 1990, p. 6). By affecting the costs of transaction and production, they directly determine the performance and the attraction of a country's economy (North, 1991), and ultimately aim at facilitating the functioning of markets (Khanna & Palepu, 1997).

Formal institutions have received much scholarly attention since they refer to structures of codified and explicit rules and standards (Scott, 1995). They are the product of human agency and exert authority over behavioral guidelines and expectations (DiMaggio, 1988). Informal institutions, however, are more complex and more difficult to conceptualize, recognize, and measure empirically (Dau et al., 2022a). They refer to “socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels” (Helmke & Levitsky, 2004, p. 726). Informal institutions are embedded in a society and play a crucial role in the way social structures function. Some examples of norms include reciprocity, honor, trust, neopatrimonialism, clientelism, and corruption (Dau et al., 2022b).

According to recent literature, formal institutions provide only a partial view of institutions where informal institutions play a growing role in shaping societies and facilitating business transactions, particularly in developing and emerging economies (Dau et al., 2022a; Khanna & Palepu, 1997). Formal institutions are typically codified and require clear adjustment whereas informal institutions are implied, and adapting to them may require experiential learning (Estrin et al., 2007). Moreover, formal institutions such as rules and regulations are subject to sudden changes caused by political or judicial decisions, whereas informal institutions are relatively stable and change slowly and incrementally (Rohner, 1984).

Formal and informal institutions are interconnected and interdependent. Informal institutions typically shape formal institutions, governing individual behaviors and business transactions (Peng, 2003). When formal institutions are underdeveloped, informal institutions take over, substituting formal institutions to compensate for inefficient market-supporting mechanisms (Meyer et al., 2009).

The institutional theory posits that firms, particularly foreign firms, are not “immune” to the institutional environment in which they are embedded (Peng, 2002, p. 251). They need to take into account the host institutional context to minimize risks and maximize returns (Chan et al., 2008). The institution-based view of the firm considers that firm strategic choices and competitive advantage stem from the “dynamic interaction” between institutions and organizations (Peng, 2002, p. 253). Organizations are the actors or players in a society and refer to political, economic, social, and educational bodies (North, 1990). Firm strategies and behaviors are affected by both formal and informal institutions (Jackson & Deeg, 2008). In some cases, formal and informal institutions may have opposite effects on business strategies (Estrin et al., 2007). Previous research highlights the relationship between the institutional environment and firms, particularly its impact on foreign direct investment decisions, entry mode, timing, strategy, risk, survival, and performance (Chan et al., 2008; Delios & Henisz, 2000; Meyer & Peng, 2016).

2.2. Institutional inefficiencies

Institutional inefficiencies refer to the “problems in an institutional environment that make it ‘weaker’” (Falaster et al., 2021, p. 1725). Literature on institutions uses other terms to describe deficiencies within the institutional environment of a country. It more commonly uses institutional voids (Doh et al., 2017; Khanna & Palepu, 1997), defined as the absence or failure of institutional mechanisms to support market activity, enforce contracts, and facilitate market exchange (Khanna & Palepu, 1997). It also investigates institutional quality where institutions ensure static efficiency, legitimacy, security, and adaptability, resulting from a sound development level, income distribution system, tax system, and international openness (Alonso & Garcimartín, 2013).

Institutional inefficiencies encompass different sectors of the institutional spectrum, namely political, economic, physical infrastructure, and human capital. Political institutional inefficiencies refer to the failure of political institutions to establish and implement an

effective legal system, regulatory governance, and political stability (Chan & Du, 2022; North, 1990; Rodriguez et al., 2005). Inefficiencies within the legal system mean absence or ineffectiveness regarding the rule of law (Helmke & Levitsky, 2006), legal enforcement, property rights protection, the judicial system, transparent laws (Esquirol, 2008), etc. Where regulatory governance is lacking, there is more bureaucratism and corruption, arbitrariness in dealing with the government, poor contract enforcement mechanisms (Falaster et al., 2021), and lack or deficient market-oriented policies (Chan & Du, 2022; Cuervo-Cazurra et al., 2019). Economic institutional inefficiencies refer to the absence of efficient market intermediaries and infrastructures that facilitate or provide access to resources and support for labor, product, and capital markets (Chan et al., 2008). Market infrastructures encompass physical, human, and technological infrastructures in addition to labor forces and facilities (Chan & Du, 2022). Economic institutional inefficiencies also refer to a difficulty accessing reliable information and resources related to financial and capital markets (Khanna & Palepu, 2000; Shinkle & McCann, 2014). Other types of inefficiencies include voids within physical infrastructures and human capital, where general and technical skills and knowledge within the society and government institutions are lacking (Wang & Cuervo-Cazurra, 2017).

Some studies introduced an additional layer to the analysis of institutional inefficiencies by distinguishing between generalized and arbitrary institutional inefficiencies (Falaster et al., 2021). Generalized institutional inefficiencies are explicit problems and obstacles that firms equally experience because they are pervasive within the institutional context. However, firms do not equally experience arbitrary institutional inefficiencies because they arise from changing legal, judicial, and policy implementations, and depend on the decisions of powerful agents (Falaster et al., 2021). This generalized-arbitrary view of inefficiencies has also been introduced to the study of one aspect of institutional inefficiencies, namely corruption and its impact on foreign direct investment and entry strategies (Cuervo-Cazurra, 2008; Doh et al., 2003; Uhlenbruck et al., 2006).

While institutional inefficiencies affect any type of economy, they are more often pervasive in emerging economies (Doh et al., 2017). Firms operating in developed economies normally have similar experiences with the institutional environment which provides fair and mostly identical conditions to all firms (Falaster et al., 2021). However, firms go through more variable experiences within and across emerging economies because the institutional environment is weaker and highly unpredictable (Meyer et al., 2009; Mingo et al., 2018).

The uncertainty is even more pronounced in countries establishing pro-market reforms (Cuervo-Cazurra & Dau, 2009). As a result, firms may adopt different strategies to respond to different types and levels of severity of institutional inefficiencies in emerging economies (Khanna & Palepu, 2005). Institutional inefficiencies lead to a “less effective” business environment (Falaster et al., 2021), making it more difficult and costly for firms, particularly foreign firms, to operate in emerging economies (Palepu & Khanna, 1998). As a result, it can be viewed as a “private tax” that creates additional costs and reduces profits (Aizenman & Spiegel, 2006, p. 684). This tax is more pronounced for foreign firms—compared to domestic firms—which enter an environment high in institutional inefficiencies (Aizenman & Spiegel, 2006). In this sense, transaction costs increase because firms need to put in more effort to operate and protect their interests (Meyer, 2001). By disturbing the functioning of markets, institutional inefficiencies likely increase opportunism and reduce competition (Doh et al., 2017). They also lead to weaker governance structures and consequently information asymmetries regarding the rules of the game and “anomalies” in their application (Falaster et al., 2021, p. 1727). This uneven application where powerful agents act according to some agenda, may benefit some firms over others (Wang & Cuervo-Cazurra, 2017).

To overcome institutional inefficiencies, firms engage in local corruption to facilitate business and circumvent institutional obstacles (Cuervo-Cazurra, 2008). Alternatively, the literature suggests relying on informal institutions to partially substitute ineffective formal institutions (Chan & Du, 2022; Peng, 2003). This can be done through local partners and actors, entrepreneurship opportunities, or new organizational arrangements (Dahan et al., 2010; Kostova & Hult, 2016). Other strategies include borrowing another country's institutional arrangements (Pinkham & Peng, 2017), substituting market information deficiencies with private information sources (Kingsley & Graham, 2017), and internalizing functions and capabilities to cut transaction costs (Kim & Song, 2017). Literature shows that the entry mode choice of firms is greatly influenced by the institutional environment of the host country (Brouthers, 2002; Chan & Makino, 2007; Delios & Beamish, 1999). Some aspects studied in the entry mode choice include the institutional distance—or difference—between the home and host countries (Dikova et al., 2010) and the institutional inefficiencies (Falaster et al., 2021), and their role in driving firm's strategies and behaviors (Dikova & Witteloostuijn, 2007; Meyer et al., 2009).

2.3. Ownership strategy

Institutions play a significant role in the entry strategy of internationalizing firms (Peng, 2003). The ownership strategy, commonly part of the entry mode strategy is “the choice concerning the degree of ownership (percent equity holding) taken when a foreign investment is made” (Delios & Beamish, 1999, p. 915). Ownership is thus taken where firms choose equity entry modes such as acquisition or greenfield investment, as opposed to non-equity modes such as exporting combined to licensing or franchising (Gatignon & Anderson, 1986). Among these equity entry modes, firms can decide to keep full ownership (greenfield wholly owned subsidiary or full acquisition) or share ownership (greenfield joint venture or partial acquisition) (Brouthers & Hennart, 2007). The choice between full and partial ownership is linked to firm strategy, as ownership provides entrants with varying degrees of control (Anderson & Gatignon, 1986).

Control is the “ability to influence systems, methods, and decisions” (Anderson & Gatignon, 1986, p. 3). Therefore, high control allows for higher returns, but also a great deal of responsibility, resource commitment, exposure, and risks whereas low control is often associated with lower risk and return (Anderson & Gatignon, 1986). The control perspective of ownership thus helps to understand the way firms adjust between risk and returns when entering a foreign market. The ownership strategy also affects the survival, performance, and success of the entrant in the host market, its legitimacy and the access and loss of knowledge (Li, 1995; Meyer et al., 2018).

In some countries, internationalizing firms face policies adopted by host governments to promote or restrict inward FDI. Some of the restrictions target foreign ownership: Foreign firms are excluded from specific fields and industries or are required to share part of the equity with a local partner (Gomes-Casseres, 1990). These restrictions are adopted on the grounds of national security or competition, particularly in developing countries, and on the idea that local owners can support the host economy by maximizing FDI advantages in terms of resource transfers and employment (Hill, 2007).

A firm entering a new market and an unfamiliar institutional environment faces a liability of foreignness, and increased costs of doing business abroad (Eden & Miller, 2004; Zaheer, 1995). To overcome the liability of foreignness, having access to local knowledge is an important way to navigate a foreign and unfamiliar institutional environment (Meyer et al., 2009). Knowledge of the local institutional environment is even more critical for firms

entering emerging economies and transition economies because they are more likely to present weak, absent, or excessively regulated institutions (Peng et al., 2008). Therefore, a firm entering a new market may turn to a local partner to overcome the asymmetry in accessing information induced by institutional inefficiencies (Falaster et al., 2021). This in turn lowers the economic and social costs of doing business abroad (Eden & Miller, 2004).

2.4. Institutional inefficiencies and ownership strategy in MENA

The Middle East and North Africa (MENA) region has been globally underrepresented in international management literature for reasons ranging from data shortage to little scholarly research. However, the eruption of the Arab Spring has generated more interest in the region as an empirical context (Haj Youssef & Teng, 2021; Kalliny & Benmamoun, 2014). Research has primarily focused on the expansion and operations of foreign firms in MENA and on FDI determinants in the region (Demirbag et al., 2011; Dimitrova et al., 2020). The MENA region has been labeled as “the world’s most acute hot spot for economic, political and security vulnerabilities” (Miller et al., 2018, p. 54). It is particularly interesting for research because it provides “fertile ground” to explore the factors influencing individual and firm decisions, and the role that potentially “outdated” institutions may play in the process (Zahra, 2011, p. 9). The region is significant for the study of FDI because of its abundant resources, its strategic location, its high-risk geopolitical positioning, its four strategic choke points (the Turkish straits, Bab el-Mandeb Strait, the Suez Canal, and Hormuz Strait) for global trade and its young and growing population (Demirbag et al., 2011; Stephens, 2022). One of the particularities of the MENA region is the intertwining of politics, ideology, economics, history, religion, and culture, and their role in shaping policies, markets, industries, organizations, and management practices (Ali, 1999; Zahra, 2011). In light of the institutional complexity of the region, foreign firms entering the MENA market should opt for a more nuanced approach to navigate and adapt to the local business environment (Cuervo-Cazurra et al., 2016; Rugman & Verbeke, 2004).

The MENA region is conceptualized as a “socio-political and cultural area that does not have precise borders” (Budhwar & Mellahi, 2007, p. 2). It is thus defined in multiple ways depending on the approach or the studying organization, including or excluding non-Arab countries such as Turkey, Israel, and Iran (Kalliny & Benmamoun, 2014). In this study, the MENA comprises the 22 member countries of the League of Arab States: Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine [the West Bank and Gaza Strip], Qatar, Saudi

Arabia, Syria¹, United Arab Emirates, and Yemen, which are geographically situated in the Middle East; and Algeria, Comoros, Djibouti, Egypt, Eritrea, Libya, Mauritania, Morocco, Somalia, Sudan, and Tunisia, which are located in Africa. The members of the League of Arab States are considered “culturally similar”, having in common the Arabic language and the influence of Islam (Hutchings & Weir, 2006). Some authors argue that the MENA region can be divided into sub-regions based on geographic and socio-cultural similarities: the Arab Maghreb Union (Mauritania, Morocco, Algeria, Tunisia and Libya), the Al-Mashreq group (Egypt, Jordan, Lebanon, Syria and Palestine [the West Bank and Gaza Strip]), the Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates) (Hakimi & Hamdi, 2017). Other authors distinguish between oil-producing countries members of the Organization of the Petroleum Exporting Countries (OPEC), non-OPEC members, and the rest of MENA countries (Rogmans & Ebbers, 2013). This sub-regional categorization helps to differentiate between resource-seeking and non-resource-seeking FDI in the region (Aziz & Mishra, 2016).

The countries of the MENA region share the use of the Arabic language (with different regional dialects), and French in some parts (Jamali et al., 2020). The region is the cradle of three major religions: Judaism, Christianity, and Islam. The latter is the dominant religion adhered to by approximately 93% of Muslims in the region, with 87-90% of Sunni and 10-13% of Shia Muslim as of 2010 (Pew Research Center, 2015). The Sunni-Shia relationship is a critical lens to understand political and religious tensions in the MENA region, which may significantly impact the institutional and business environments (Dimitrova et al., 2020). Beyond commonalities related to culture, language, religion and history, the MENA region is highly diverse in terms of natural resource endowment, economic development, and institutional quality (Al-Khoury, 2015), leading to a wide gap in terms of income and wealth distribution in the region (Mellahi et al., 2011). For example, countries of the Gulf Cooperation Council (GCC) enjoy more political and financial stability (Al-Janadi, 2021). They heavily rely on their resources, particularly on oil production, and have a higher income than the rest of MENA countries and have a higher propensity to attract FDI (Al-Khoury, 2015). As a matter of fact, natural resources provide a significant location advantage for some MENA countries, particularly for resource-seeking FDI (Aziz, 2018). More generally,

¹ Syria's membership in the League of Arab State was suspended in November 2011 and reinstated in May 2023.

MENA countries try to implement governance, macroeconomic, and legal reforms to attract investments and diversify their economy (Al-Khouri, 2015; Dimitrova et al., 2020).

Firms expanding into the MENA region should have a deeper understanding of the complexities and the disruptions within the local host environment (Jamali et al., 2020). The MENA region suffers from a series of cumulative and interconnected crises (Stephens, 2022), including persistent conflicts and weak institutions (Budhwar & Mellahi, 2007). For the past decades, it has witnessed upheavals (such as the Arab Spring and the *Intifada* movement), religious and ethnic tensions, terrorism, ravaging internal and external conflicts in countries such as Syria, Yemen, Iraq, Libya, Sudan, etc., with a risk of spilling across borders (Barakat et al., 2015; Stephens Balakrishnan, 2016). These events lead to state fragility, and wreak havoc on the economy, businesses, security, and infrastructures, increasing chances of business failure (Tingbani et al., 2019). They also lead to humanitarian crises and large-scale displacement of refugees and migrants (United Nations High Commissioner for Refugees, 2021). Additionally, the MENA region is increasingly prone to proxy wars and rivalries between major powers which can affect national institutions (Benmamoun et al., 2016). The political and economic transition triggered by the Arab Spring created additional challenges for domestic and foreign firms which are no longer under the protection of the “heavy hand” of local governments and need to adjust to a rapidly shifting business environment (Dimitrova et al., 2020, p. 3). The instability and the political, geopolitical, economic, and social risks in the region create high environmental uncertainty, which provides an unfavorable business environment and increases the risk of doing business (Al-Khouri, 2015). Operating in an unstable and highly volatile environment becomes a challenge for foreign firms that are not familiar with such conditions and have limited information about the local institutions (Eden & Miller, 2004). This increases liability of foreignness, which is already associated with entering a new and unfamiliar market (Zaheer, 1995). Access to local knowledge is critical to overcoming liability of foreignness and navigating unfamiliar environments (Meyer et al., 2009). Thus, firms may need an experienced local partner familiar with the host country's institutional environment (Falaster et al., 2021). Such a partner can provide knowledge about the country, gather and interpret information from the institutions, help to manage crises, operate in adverse conditions, and identify risks proper to MENA countries (Cuervo-Cazurra, 2011; Luo & Park, 2001; Stephens, 2022).

The MENA region's investment and economic growth has been hindered by persistent structural problems such as weak governance, systems of government, poor fiscal policies, dominant and inefficient public sectors, weak bureaucracy, deficient political systems, corruption, lack of infrastructure, limited economic diversification, underdeveloped financial markets, high trade restrictiveness, weak private sector dynamism, in addition to other factors such as a rapidly growing population, alarming weather conditions, oil price fluctuation, and human rights concerns (Burger et al., 2016; Makdisi et al., 2006; Zahra, 2011). As a result, MENA countries perform poorly economically, except for a few countries like the United Arab Emirates, which are also among the leading countries in terms of ease of doing business (Aminova et al., 2020). Other countries, such as Morocco, are also implementing changes to reduce institutional obstacles to doing business (The World Bank, 2019). Considering the historical, geographical, political, economic, and sociocultural disparities across MENA countries, national institutions are more likely to be “heterogeneous”, even among similar countries (Jamali et al., 2020, p. 2). Institutional inefficiencies can constitute a competitive disadvantage for firms, particularly because of information asymmetry (Rodriguez et al., 2005). Having a local partner can help firms access knowledge about local idiosyncrasies, in terms of rules, regulations, practices, customs, etc. (Hitt et al., 2004). Experienced local partners hold accumulated institutional knowledge and experience proper to each local environment (Arino et al., 1997). They collect information from formal and informal sources and networks, help firms interpret government decisions, prepare for potential policy changes, and circumvent generalized institutional inefficiencies (Falaster et al., 2021). As a result, firms learn to identify and evaluate institutional inefficiencies, and develop strategies to manage them, without enduring the costs of learning, which are typically higher for institutional outsiders (Meyer, 2001).

The political regimes in the MENA region are diverse, ranging from sheikhdoms and absolute monarchies (e.g., the GCC), to deficient sectarian or multi-party political systems (e.g., Lebanon) and other types of military or autocratic regimes leaning towards socialist, Arab nationalist, or Islamist ideologies (Jamali et al., 2020). Most of the Arab governments are centralized, “authoritative and coercive” and/or are “limited to providing domestic security” (Schwarz, 2008, p. 612). In some regions, particularly in highly volatile and conflict-torn regions of MENA, the institutional and political landscape is dominated by “sub-state actors” such as militias, tribes, ethnic groups, and religious leaders, which play a role in business and may affect investment decisions (Mezran & Varvelli, 2018). Other non-

state actors may also play a role in the institutional environment such as international organizations and non-governmental organizations (Stephens, 2022). Firms embedded in such political landscapes face multiple challenges, including the risk of favoritism, arbitrary government decisions, excessive government control, appropriation by the government or local groups, and institutional instability and paralysis (Schwarz, 2008; Ta'Amnha et al., 2016). In such contexts, knowing how to navigate the institutional environment is critical to reducing environmental risks and promoting firms' survival (Chari & Chang, 2009). Thus, firms that are unfamiliar with such contexts need access to local knowledge and established networks that a partner can provide, without enduring the costs of learning (Johanson & Vahlne, 1977). In addition to bringing location-specific knowledge to deal with each local government, actor, and institution, a partner can also help build connections to access to local resources through influential groups and state-owned groups (Khanna & Rivkin, 2001; Lin et al., 2009). More importantly, the right partner can provide the necessary legitimacy to deal with local actors (Alcantara et al., 2006). Legitimacy refers to "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" (Suchman, 1995, p. 577). In turn, it reduces the risk of being attacked by potential opponents (Henisz & Zelner, 2005). External legitimacy is even more critical in MENA countries, similarly to other emerging economies, which witness more "authoritarian or discretionary power over policy formulation, interpretation, and implementation" (Falaster et al., 2021, p. 1730). Legitimacy thus allows firms to establish partnerships with local actors and organizations, and personal relationship with governments and officials (Boddewyn & Brewer, 1994). In environments prone to terrorism or security concerns, firms should particularly seek to establish legitimacy among relevant stakeholders (Czinkota et al., 2010). Institutional inefficiencies thus influence firms to adopt ownership strategies to navigate the host institutional environment (Tan & Meyer, 2011). It is a response to the need to reduce uncertainty and access local institutional knowledge, but also to the need for local connections, networks, and external legitimacy among relevant actors (Wright et al., 2005). In this sense, firms are more likely to make a tradeoff: retaining less control over the operations and sharing more ownership with a partner (Falaster et al., 2021; Shirodkar & Konara, 2017).

The institutional environment in the MENA region in general is crippled with institutional inefficiencies and market failures, which hinder their global competitiveness (Mellahi, 2007).

The judicial system, the legislative system, and the media are deeply influenced and often controlled by powerful political authorities and actors (Belkhir et al., 2016), affecting civil liberties, political rights, and freedom of the press (Nabli, 2007). MENA countries that suffer from a weak institutional environment are characterized with poor institutional quality, a weak legal framework, including the proliferation of—often outdated—laws and regulations, red tape, lack of transparency and accountability, extensive institutionalized corruption, etc. (Dimitrova et al., 2020). Weak and unpredictable legal protection and enforcement expose firms to the risk of expropriation, inadequate enforcement of contracts, insecurity regarding property rights, and difficulty to access public services and business opportunities (Karam & Zaki, 2019; Nabli, 2007). As a result, firms face uncertainty and investment risks, which increase transaction costs associated with doing business in the host country (Kostova & Zaheer, 1999). Formal written rules and laws need a deep understanding of the host country institutional and regulatory environment (Peng et al., 2008). They also come with unwritten codes and implicit knowledge, making it difficult for firms which are unfamiliar with the local institutional environment to respond and adjust to formal and informal regulatory institutional requirements (Gaur & Lu, 2007). Sharing ownership with a partner not only helps firm to access knowledge to alleviate the impact of institutional inefficiencies, it also helps to reduce costs associated with institutional unfamiliarity (Meyer, 2001), build legitimacy (Alcantara et al., 2006), reduce the risk of asset appropriation by governments or hostile groups (Wright et al., 2005), facilitate bureaucratic processes such as licenses (Arino et al., 1997), formulate a political strategy to avoid friction with the local government (Hillman & Wan, 2005), and protect their intangible assets from weak intellectual property laws (McGaughey et al., 2000).

While corruption increases the cost of doing business and may impact reputation (Dimitrova et al., 2020), it is also viewed as a “helping hand” in overcoming bureaucratic obstacles, circumventing bad or restrictive laws and behaviors, greasing the wheels of complex bureaucratic procedures and thus facilitating investment (Cuervo-Cazurra, 2008; Helmy, 2013). In the MENA region, public services and business opportunities are frequently allocated based on neopatrimonial factors such as nepotism, tribal connections, patronage, or financial incentives (Belkhir et al., 2016). As a matter of fact, neopatrimonialism shows the “interplay of formal and informal institutions” in the MENA region (Demmelhuber et al., 2020, p. 501), highlighting the informal nature of politics and the role of informal institutions in the political sphere (Schwarz, 2008). Consequently, becoming isomorphic and

complying with pervasive local corruption practices (e.g., paying bribes, engaging in corrupt activities) is likely to bring external legitimacy to firms and acceptance by local institutional actors (DiMaggio & Powell, 1983). The core concept to understand neopatrimonialism and the interplay of informal and formal institutions in the MENA region is *wasta*, i.e., “going in between” (Smith et al., 2012, p. 137). *Wasta* is a powerful and pervasive “culturally based system of social networks of exchange among in-group members in the Arab world” (Berger et al., 2019, p. 1). Also known as *piston*, *m'aarifa* or *k'tef* in North African countries, it is a social mechanism and an implied and unwritten social agreement used to circumvent the law and obtain favors and benefits, sometimes at the expense of other people (Budhwar et al., 2019). It is compared to the practice of *guanxi* in China (Hutchings & Weir, 2006), *sviazi* in Russia (McCarthy & Puffer, 2008), or *jaan-pechaan* in India (Bhattacharjee & Zhang, 2011). *Wasta* typically requires “the intervention of a patron in favour of a client to obtain benefits and/or resources from a third party” (Mohamed & Hamdy, 2008, p. 1). It involves links with influential actors in key positions and status, characteristically within family, tribal, religious, and kinship relationships but also through cronyism, close friendship, and business relationships (Ali, 1996; Ta'Amnha et al., 2016). It is a form of social capital, associated with loyalty and solidarity (*asabiyya*) in social networks (Abosag & Lee, 2013). *Wasta* is also seen as “the hidden force” behind decision-making in the Middle East (Cunningham & Sarayrah, 1993) making it a business model that allows firms and individuals to get processes and services done that could otherwise not be achieved without help (Mohamed & Mohamad, 2011). When seekers of the same benefit are many, only applicants with the strongest *wasta* succeed (Hutchings & Weir, 2006). Moreover, *wasta* persists due to weak formal institutional structures, and most importantly, because of its inherent ties to neopatrimonial networks (Al-Hussan et al., 2014). Although *wasta* is punished by law in some countries (e.g., Jordan), it has become increasingly pervasive in the region as it appears to be the only way to overcome bureaucratic obstacles (Budhwar et al., 2019). The prevalence of *wasta* within inefficient institutions may pose additional challenges to firms which are unfamiliar with such networks and lack legitimacy as outsiders (Johanson & Vahlne, 2009). In an environment where family or multi-family-owned businesses are common, managers typically use their family or social networks to build trust and establish business relations (Berger et al., 2019). Thus, a foreign firm needs a partner able to interact with institutions and build legitimacy among local elites (Meyer et al., 2009). Moreover, a partner that is familiar with the local environment is able to gain access and knowledge about social networks, which facilitates access to power, information, and capital (Elfring &

Hulsink, 2003) and reduces costs induced by unfamiliarity hazards and relational hazards (Gaur & Lu, 2007). As a result, foreign firms are inclined to trade ownership for legitimacy and knowledge in the host environment (Yiu & Makino, 2002).

Other factors account for institutional inefficiencies and pose a challenge to firms. For example, laws that restrict FDI and foreign ownership, or require sharing ownership with a local partner (Khyeda, 2007). Incoming firms may also face unfamiliarity with Islamic finances and with role of Islamic Sharia law in the business environment of countries like Saudi Arabia (Kappen et al., 2019; Sayani & Stephens Balakrishnan, 2013). Moreover, reforms were introduced in some countries to liberalize the financial system, thus liberalizing stock markets to foreign investors, ending government controls on deposit and lending rates, etc. (Belkhir et al., 2016). However, the government or central authorities are still heavily involved in a number of market mechanisms with government-owned banks, known for lower efficiency in allocating credit, deficient risk management systems, deficient market information sharing systems, etc. (Madeddu, 2010). Foreign firms may also struggle to deal with inefficient local labor practices and laws such as the *kafala* employment system common among many MENA countries. *Kafala* is a rigid sponsorship system for domestic workers and oftentimes low-skilled migrant workers which requires a sponsor from the local nationality (Budhwar et al., 2019). Foreign firms may also struggle to deal with job nationalization programs, especially in the Gulf, which aim to prioritize the employment of host country nationals, potentially affecting firm legitimacy (Goby et al., 2015). In such circumstances, an informed local partner provides local institutional knowledge, but also helps to comply with local formal and informal institutions, thus lowering risks and costs (Falaster et al., 2021).

Literature on informal institutions in the MENA region is scant (Aziz & Mishra, 2016; Dimitrova & Triki, 2018; Helmy, 2013; Roberts & Almahmood, 2009). As a matter of fact, informal institutions take over to govern societies when formal institutions are weak (Aminova & Jegers, 2011). They are also a key aspect of neopatrimonialism (Demmelhuber et al., 2020). Western firms may encounter a wide cultural distance with MENA societies and practices (Kostova & Roth, 2002; Roberts & Almahmood, 2009) and may be unfamiliar with the influence of Arab culture and values on management systems (Budhwar & Mellahi, 2007). In such cases, cultural distance may lead to lower ownership stakes (Chari & Chang, 2009). Arab countries represent high context cultures where nonverbal communication and unwritten implied practices are common (Berger et al., 2019). MENA countries more

commonly share cultural values, such as strong group orientation, hierarchical structures, tradition, masculinity, high power distance, and weak future orientation (Mellahi & Budhwar, 2006). More importantly, individuals within Arab societies show strong loyalty to their own families, friends, tribes, kin, or regional groups (Berger et al., 2019). This loyalty may “override” loyalty to organizational procedures (Budhwar et al., 2019, p. 925) or identification with the larger entities and their nation state (Abosag & Lee, 2013). As a result, nepotism and social neopatrimonial networks and practices abound, which give rise to *wasta* (Ali, 2009). Moreover, the influence of religion, i.e., Islam, is prevalent in many aspects of daily life, routines, behaviors, norms, values, practices, and operations in most of the MENA region, affecting local and foreign businesses (Aycaan et al., 2007). An important element to consider is the prevalence of halal products, i.e., “lawful” products conforming to Islam (Izberk-Bilgin & Nakata, 2016). Moreover, since the MENA region is prone to international political rivalries and meddling, this might create animosity or boycott campaigns against western firms and/or western products (Mellahi et al., 2011), in addition to “remnants of antipathy” left by past military, political, or economic events (Klein et al., 1998, p. 90). In these circumstances, western firms face heightened degrees of liability of foreignness which may lead to risks and cost increase (Zaheer, 1995). They need knowledge about informal institutions to comply with the national culture, navigate the local host environment and mitigate risks associated with cultural differences (Yiu & Makino, 2002). Since informal institutions are socially shared, implied, and unwritten, having access to a local partner that is familiar with such context-specific institutions may contribute to firm action (Chan & Du, 2022). More importantly, a legitimate local partner may help the foreign firm acquire social legitimacy with relevant stakeholders, thus preserving its reputation (Mezias et al., 2002).

3. Conceptual Model

Firms that enter the MENA region encounter a highly volatile region generally marked by political, geopolitical, economic, and social instability. They also typically struggle to grasp the formal and informal institutional complexities of the region and adapt to them. Institutional inefficiencies, whether political or economic, thus increase transaction costs and the risk of doing business in the host country (Al-Khouri, 2015). Generalized institutional inefficiencies develop across most MENA countries through institutionalized corruption, deficient political systems and bureaucracy, outdated and weak laws, lack of transparency and accountability, weak legal protection and enforcement, unclear procedures, among others (Burger et al., 2016). As a result, firms face growing insecurity regarding property rights, and access to public services and business opportunities (Karam & Zaki, 2019).

In the face of unpredictability and the proliferation of institutional inefficiencies, foreign firms that are unfamiliar with the institutional environment of MENA countries face growing liability of foreignness (Zaheer, 1995). To overcome such liability, access to local knowledge and information can promote firm performance and survival (Meyer et al., 2009). Thus, firms can resort to an experienced local partner who is familiar with the host country's institutional environment to access location-specific and stable knowledge about formal and informal institutions (Falaster et al., 2021). For example, local partners help foreign firms gather and interpret real-time information, identify government patterns and risks proper to MENA countries, navigate crises and operate in adverse conditions. As a result, firms learn to identify and evaluate institutional inefficiencies, and develop strategies to manage them, without enduring the costs of learning (Meyer, 2001). Partners' knowledge is even more critical in the MENA region because of its high-context culture and pervasive unwritten rules and norms. Thus, partners draw knowledge from their own sources, networks, and experience, which foreign firms cannot access on their own. Their knowledge also helps to comply with informal institutions (e.g., local norms, culture, and religion), reducing the risk of marginalization.

The particularity of the MENA context is the interplay of formal and informal institutions which bring additional obstacles to the firm and increase the risk of favoritism, arbitrary government decisions, expropriation, and information asymmetry (Demmelhuber et al., 2020). In other words, foreign firms incur the risk of being at a disadvantage compared to

domestic firms, for example to win public markets because foreign ownership may be seen as exploitative or opportunistic towards local resources (Schoorman et al. 2007). In this sense, a local well-connected partner can transfer its legitimacy to the foreign firm, helping it build trust and establish relationships with local actors that could otherwise not be achieved independently (Alcantara et al., 2006). This is particularly the case where sub-state actors such as militias, tribes, ethnic and religious groups have control over formal institutions or the informal economy. In some cases, they may have animosity towards foreign—particularly Western—firms. The partner thus acts as a local *façade* to protect the foreign firm's interests and shield it from risks associated with its foreignness. The role of the local partner is even more important where institutions are dominated by neopatrimonial networks and access to high-stake resources and services is linked to group membership and kinship, ethnic, religious, and sectarian affiliation (Belkhir et al., 2016). For example, in a country with a stronger presence of Sunni in power, Sunni firm owners are likely to receive more favorable treatment than other firms, *ceteris paribus*. Such advantages include winning public deals and tenders or obtaining government approval over high-stake land access. In such cases, firms should preferably turn to a Sunni partner to deal with local obstacles.

In this sense, a foreign firm more likely needs a legitimate local partner and a local *façade* to represent its interests in *wasta*-dominated institutions. Partners can thus leverage their personal connections and long-term personal relationships with top-level influential actors to access strategic resources and services. Moreover, in MENA countries where foreign firms risk being perceived as exploiting local resources, having a local partner helps them build credibility and trust, not only with local institutional actors, but also with the general public (Schoorman et al. 2007).

Based on the above, the ownership strategy of the foreign firm is a response to the need to reduce uncertainty, risks, and costs, but also to the need for local institutional knowledge, local connections, and external legitimacy (Wright et al. 2005). In this sense, firms are more likely to make a tradeoff: to reduce control and share more ownership with a partner. Thus, I posit that:

Hypothesis 1. The higher the degree of generalized institutional inefficiencies in a MENA country, the smaller the ownership stake taken by a foreign firm.

Informal institutions are embedded in a society and play a crucial role in social interactions, particularly in terms of norms of behavior, self-imposed codes of conduct, traditions,

religion, and culture (North, 1990). In the MENA region such norms include honor, trust, reciprocity, justice, nepotism, clientelism, and corruption (Dau et al., 2022b). Informal institutions play a prevalent role in the MENA region in the way they govern routines and behaviors but also in the way they partially substitute inefficient formal institutions (Chan & Du, 2022). In this sense, informal institutions are a crucial way to access information and services, and protect investments.

Informal institutional distance refers to national cultural differences between the home and host country of a firm (Dikova et al., 2010). Firms originating from culturally close countries find it easier to grasp and adapt to informal institutions in the host country because they encounter similar informal institutions in their home country (Liou et al., 2016). For example, firms originating from a non-Arab Muslim country most likely find it easier to comply with informal institutions in an Islam-dominated Arab country. Familiarity with informal institutions thus reduces costs and risks associated with liability of foreignness (Zaheer, 1995).

Since informal institutions play an important role in partially substituting inefficient formal institutions in MENA countries, foreign firms that come from a culturally close country have more knowledge and experience dealing with weak formal institutions (Shirodkar & Konara, 2017). Consequently, they find it easier to search for the necessary knowledge among local sources and networks in order to respond to generalized institutional inefficiencies. This in turn reduces the need for a local partner (Falaster et al., 2021). Moreover, smaller institutional distance most likely makes it easier for firms to build legitimacy among relevant networks and access *wasta* because their cultural proximity makes them less threatening in the eyes of local stakeholders (Mezias et al., 2002).

Smaller informal institutional distance helps reduce the knowledge and cultural gap between home and host country, facilitating integration, experiential learning, legitimacy, and reputation. As a result, foreign firms find it easier to build networks and reduce costs and risks, thus reducing their need for a local partner to deal with generalized institutional inefficiencies. Since foreign firms that encounter a higher degree of informal institutional distance tend to opt for a lower ownership position (Liou et al., 2016), I posit that:

Hypothesis 2. Informal institutional distance strengthens the negative relationship between generalized institutional inefficiencies in a MENA country and the ownership stake taken by a firm.

Firms established in developed countries and used to operating within stronger and more efficient institutions are more likely to face challenges in the MENA region because of the uncertainty in the region and their unfamiliarity with understanding the local institutional environment. However, firms that have previous experience in the MENA region are better equipped at navigating weaker institutions because they are already aware of the rules of the game (Cuervo-Cazurra, 2008). Experience thus helps to mitigate liability of foreignness associated with unfamiliarity with the host environment (Zaheer, 1995). It allows it to obtain local knowledge and helps reduce costs and risks, and achieve greater legitimacy (Zaheer, 1995; Liou et al., 2016).

Firms enhance their capabilities in a specific institutional environment through an experiential learning process (Johanson & Vahlne, 2009). Hence, firms that have previous experience in the MENA region possess knowledge, routines, and procedures that can relatively be transferred to another target MENA country. Thus, experienced firms leverage their built knowledge and relationships to navigate the local institutions and deal with generalized institutional inefficiencies (Lahiri et al., 2014). This in turn reduces costs associated with learning and adjusting to generalized institutional inefficiencies, which are typically higher for institutional outsiders (Falaster et al., 2021).

Experience not only reduces the unfamiliarity of the firm with formal institutions, but it also facilitates their access to informal institutions (Elango et al., 2013). Having greater knowledge of local cultural and normative rules mitigates risks associated with foreignness. Plus, experienced firms can leverage their regional networks and connections to approach neopatrimonial networks and initiate *wasta* relationships. Their experience enhances their reputation and credibility with locally established networks, which helps access resources, reduce risks, and protect investments (Boddewyn & Brewer, 1994).

Previous studies show that experience in the host country prompts foreign firms to adopt higher ownership stakes in their investment (Arslan & Dikova, 2015; Delios & Beamish, 1999). Through their relevant accumulated knowledge and experience in the MENA region, foreign firms are better equipped at dealing with generalized institutional inefficiencies in host MENA countries, which in turn reduces the need for a local partner (Falaster et al., 2021). As a result, I posit that:

Hypothesis 3. The investing firm's experience weakens the negative relationship between generalized institutional inefficiencies in a MENA country and the ownership stake taken.

The three hypotheses are represented in the following conceptual model (Figure 3.1):

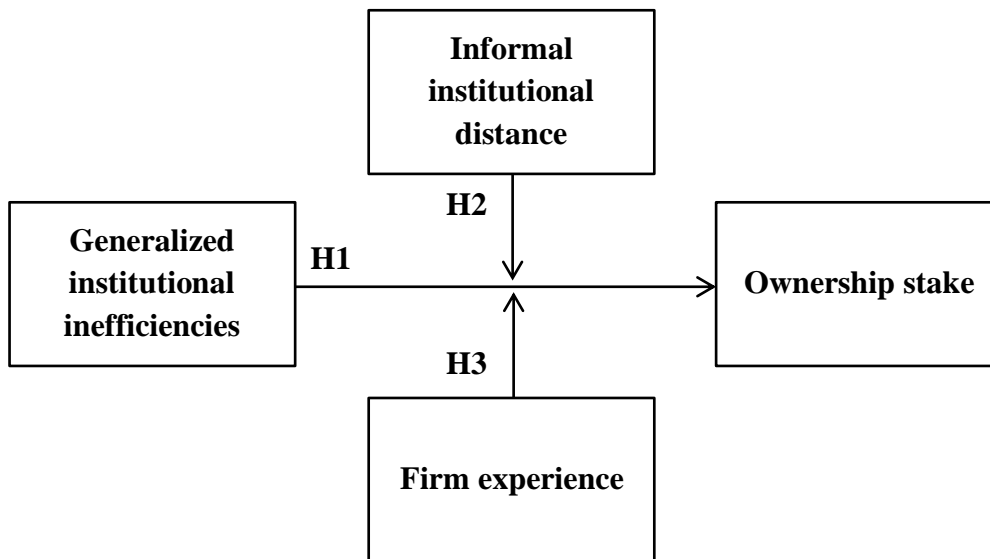


Figure 3.1 – Conceptual Model

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4. Method

4.1. Sample and data

Firm data was collected from Bureau van Dijk's Orbis database, which provides subsidiary-level data for 2022. The sample includes foreign-owned firms from around the world targeting 12 countries of the Middle East and North Africa (MENA) region which are members of the League of Arab States. These countries are Djibouti, Egypt, Iraq, Jordan, Lebanon, Mauritania, Morocco, Palestine [the West Bank and Gaza Strip], Saudi Arabia, Sudan, Tunisia, and Yemen. The sample was restricted to these 12 countries because of the limited number of MENA countries providing data on institutional inefficiencies (The World Bank, 2023). Moreover, the subsidiary country sample is representative of different geographic sub-regions of MENA which present similar socio-cultural characteristics: the Maghreb (Mauritania, Morocco, and Tunisia), the Horn of Africa (Djibouti), the Levant (Egypt, Jordan, Lebanon, Palestine [the West Bank and Gaza Strip], and Sudan), and the Arab Peninsula (Saudi Arabia and Yemen) (Hakimi & Hamdi, 2017).

The sample contains observations updated in 2022 that provide the most recent results. It excludes domestic firms and firm information related to public authorities, states, governments. It also excludes firms in the bank and insurance sector because these sectors present specific and unique characteristics (Lester, 2011).

The final sample comprises 1050 foreign firms registered in 60 home countries with a total of 2211 subsidiaries in 12 countries of the MENA region. The most common home country is France, followed by Germany with respectively 337 and 182 subsidiaries. The most common host countries are Egypt with 566 subsidiaries, Saudi Arabia with 540, and Morocco with 429 subsidiaries. The most frequent combination is France-Morocco with 145 subsidiaries.

4.2. Variables

Dependent variable

Ownership stake was measured using the direct ownership percentage taken by a foreign firm in the subsidiaries located in the 12 host MENA countries. The direct ownership

percentage was chosen, in comparison with the total ownership percentage, because it allows to investigate in a more direct way the ownership decision in a specific subsidiary located in a specific country (Corsi & Prencipe, 2018). Ownership stake information represents between 10 and 100% of the equity in the subsidiary. The use of a continuous variable for ownership is adequate because it allows for a more nuanced view of the ownership strategy compared to dichotomous variables which would only capture partial or full ownership (Contractor et al., 2014; Falaster et al., 2021). A 10% threshold was defined, which is a common threshold in international business research (Benito & Gripsrud, 1992).

Independent variable

The variable *generalized institutional inefficiencies* was measured based on data retrieved from the World Bank's Enterprise Survey (The World Bank, 2023) available at www.enterprisesurveys.org. It has previously been used in the literature to measure the impact of the institutional environment on firms (Choi et al., 2015; Cuervo-Cazurra, 2008). I extracted data on "biggest obstacle" as a proxy for institutional inefficiencies as used by Falaster et al. (2021).

The survey provides data on 12 countries of the MENA region pertaining to the League of Arab States. I chose the most recent data available for each country: Djibouti (2013), Egypt (2020), Iraq (2011), Jordan (2019), Lebanon (2019), Mauritania (2014), Morocco (2019), Palestine (2019), Saudi Arabia (2022), Sudan (2014), Tunisia (2020), and Yemen (2013). The information retrieved comprised data collected from firms with 10% or more foreign ownership, thus excluding domestic firms because institutional inefficiencies are perceived differently by domestic and foreign firms (Aizenman & Spiegel, 2006).

The Enterprise Survey includes questions asking firms to choose the "biggest obstacle" to their establishment (out of a list of 15 elements) in the host country. It shows the percentage of firms choosing [variable] as their biggest obstacle. Similar to Falaster et al. (2021), I excluded obstacles related to the infrastructure quality (electricity and transport) and only included obstacles linked to the institutional environment: access to finance, access to land, business licensing and permits, corruption, courts, crime, theft and disorder, customs and trade regulations, education of the workforce, labor regulations, political instability, practices of competitors in the informal sector, tax administration, and tax rates.

Based on Falaster et al. (2021), I computed an exploratory factor analysis of the 13 “biggest obstacles” collected from the Enterprise Survey. I obtained a single factor solution composed of 5 variables, as shown in Table 4.1. The results of the factor analysis indicate a valid mean KMO (0.746) and internal validity of the construct (Cronbach’s alpha = 0.767).

Table 4.1 – Factor Analysis of “Biggest Obstacle”

Percentage of firms choosing [variable] as their biggest obstacle	Factor score
Access to land	0.635
Business licensing and permits	0.754
Courts	0.959
Crime, theft and disorder	0.958
Practices of the informal sector	0.905
Kaiser-Meyer-Olkin Measure of Sampling Adequacy	0.746
Approx. Chi-Square	17352.549
Sig.	0.000
Cronbach's Alpha	0.767

Note. Extraction method: Principal component analysis.

Moderating variables

The first moderating variable is *informal institutional distance* which is measured through cultural distance. Cultural distance is a common proxy to assess the difference between two countries' informal institutions (Dikova et al., 2010; Gaur et al., 2007). I opted for Hofstede’s six dimensions of national culture, as commonly used in the international business literature to measure cultural distance (Li et al., 2016; Sartor & Beamish, 2014). The six dimensions are: power distance, uncertainty avoidance, individualism/collectivism, masculinity/femininity, long/short term orientation, and indulgence/restraint (Hofstede et al., 2010). I retrieved the corresponding scores for home and host countries from www.geerthofstede.com (2015 version).

For host countries, the data retrieved included country-specific data for four dimensions (power distance, uncertainty avoidance, individualism/collectivism, masculinity/femininity) for only Morocco. For these four dimensions, I used data gathered under the general entry “Arab countries” and applied it to the rest of the 11 countries. I also included data on the two

other dimensions (long/short term orientation, and indulgence/restraint) which include information specific to each country of the sample.

To calculate “cultural distance” between home and host countries, I used a formula developed by Kogut and Singh (1988), which generates an absolute value of the score difference between host and home cultures. The formula is as follows:

$$KSI_{ij} = \sum_{k=1}^4 \left(\frac{(I_{ki} - I_{kj})^2 / V_k}{4} \right).$$

KSI_{ij} represents the cultural distance between country i and country j . I_{ki} and I_{kj} refer to the values of each cultural dimension k ($k = 1-4$) for country i and country j , respectively. V_k is the variance of the cultural dimension k .

The second moderating variable is *firm experience*. It was measured using the foreign firm's age in 2022 based on its year of incorporation. The foreign firm's age shows the foreign firm's experience and its accumulated capacity to deal with institutional environments (LiPuma et al., 2013).

Control variables

Based on the previous literature, I included a number of control variables on the investing firm level and home and host country levels for the year 2021. I accounted for *firm size* based on the classification provided by Orbis which categorizes firms according to their operating revenue (turnover), total assets, and/or number of employees. I assigned a dummy variable to each category: (1) small companies, (2) medium sized companies, (3) large companies, (4) very large companies. Firm size is relevant to this study because larger firms have more financial means, which may enhance their likelihood of taking more ownership than smaller firms (Meyer, 2001).

I also included two country development indicators: *host country GDP* (in current USD) and *home country GDP* (in current USD) for 2021, taken from the World Development Indicators of the World Bank (2022). Accounting for host and home GDP allows to control for the attractiveness of the economy and measure market size (Meyer et al., 2008). *Ceteris paribus*, bigger markets provide opportunities for higher returns (Uhlenbruck et al., 2006).

I account for three host country governance indicators: *rule of law*, *voice and accountability*, and *control of corruption*, extracted from the Worldwide Governance Indicators 2021 of the World Bank (2022). The variable *rule of law* refers to the perceptions regarding the level of adherence to societal rules such as contract enforcement property rights, police, courts, and the prevalence of crime and violence. *Voice and accountability* relate to political, civil, and human rights. *Control of corruption* captures the extent of public power used for private gain. Governance indicators thus measure the quality of institutions and are associated with the attractiveness of investing with local partners, the trustworthiness of the institutional environment and the propensity to engage in illegal transactions (Habib & Zurawicki, 2002).

4.3. Procedure

I computed an Ordinary Least Squares (OLS) linear regression model to analyze the effects of generalized institutional inefficiencies on the ownership stake taken by a foreign firm in the host country subsidiary. The OLS linear regression method is suitable for this study because of the nature of the continuous variables (McCormick & Salcedo, 2017).

Before estimating the OLS model, I examined assumptions required to further use the linear regression model. All assumptions were verified, showing no multicollinearity and heteroscedasticity concerns, and low variance inflation factors (VIF) which fall under the commonly accepted value of 5 (McCormick & Salcedo, 2017).

5. Results

5.1. Descriptive statistics and correlation

I reported the descriptive statistics and correlations of all variables in Table 5.1 and Table 5.2. Table 5.1 presents the minimum, maximum, mean, and standard deviation of the dependent, independent, moderating, and control variables. In my sample, the *ownership stake* ranging from 10 to 100% has a mean of 78%. The *generalized institutional inefficiencies* factor scores range between -0.995 and 1.953 with a mean of 0.000. *Informal institutional distance* shows a mean value of 2.416. *Firm experience*, which ranged between 1 and 357 years shows a mean of 53.46 years. Firm size shows a mean of 3.80 which indicates the prevalence of large and very large foreign firms in the sample.

Table 5.1 – Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. deviation
Ownership stake (%)	2211	10	100	78.37	27.146
Generalized institutional inefficiencies	2211	-0.995	1.953	0.000	1.000
Informal institutional distance	2197	0.00	8.73	2.4160	1.81649
Firm experience	2211	1	357	53.46	43.456
Home country GDP (Current USD)	2197	5898449687.98	2331508056000.00	3113882184958.61	5346791429980.21
Host country GDP (current USD)	2211	3482987379.10	833541236569.30	350664107517.0033	306800072617.08970
Host rule of law	2211	-1.80	16.12	-0.1698	0.59025
Host voice and accountability	2211	-1.68	0.19	-1.0416	0.59492
Host control of corruption	2211	-1.65	80.00	-0.2815	2.46508
Firm size	2211	1	4	3.80	0.600
Valid N (listwise)	2183				

5.2. Correlation matrix

Table 5.2 shows the correlation matrix, including the variance inflation factor (VIF) of the variables used in the model. The table suggests that multicollinearity is not a major concern, as confirmed by the VIF values lower than 5, ranging from 1.059 to 3.940 (McCormick & Salcedo, 2017).

Table 5.2 – Correlation Matrix

Variable	VIF	1	2	3	4	5	6	7	8	9	10
1. Ownership stake (%)		1.00									
2. Generalized institutional inefficiencies	1.059	0.113**	1.00								
3. Informal institutional distance	1.129	0.005	-0.064**	1.00							
4. Firm experience	1.107	-0.009	0.029	0.192**	1.00						
5. Home country GDP (current USD)	1.062	0.069**	0.013	0.185**	0.091**	1.00					
6. Host country GDP (current USD)	3.940	-0.090**	-0.089**	0.015	0.014	0.075**	1.00				
7. Host rule of law	3.132	-0.027	0.010	-0.059**	0.002	0.026	0.354**	1.00			
8. Host voice and accountability	3.459	0.073**	0.205**	-0.142**	0.000	-0.032	-0.769**	-0.075**	1.00		
9. Host control of corruption	2.487	-0.013	-0.001	-0.031	0.001	-0.007	.095**	.717**	-0.052*	1.00	
10. Firm size	1.097	0.038	-0.048*	0.097**	0.242**	0.118**	0.050*	-0.008	-0.117**	0.006	1.00

Note. Significance: * $p < 0.05$ ** $p < 0.01$

5.3. Linear regression models

The OLS regression model is presented in Table 5.3 as follows: Model 1 includes control variables only. It shows that only *home country GDP* and *host country GDP* have a significant effect on *ownership stake*. Model 2 tests for *Hypothesis 1* and includes the control variables and the independent variable *generalized institutional inefficiencies*. Model 3 tests for *Hypothesis 2* and includes control variables, the independent variable, and the first moderating variable *informal institutional distance*. Model 4 tests for *Hypothesis 3* and includes control variables, the independent variable, and the second moderating variable *firm experience*. Model 5 is the full model including all variables.

I reported the standardized regression coefficient, the p-value and the standard errors. I opted for the standardized regression coefficient because the included variables are by nature measured on different scales (McCormick & Salcedo, 2017). A standardized regression coefficient thus allows to better understand the effects of variables on the *ownership stake*.

Table 5.3 – Regression Results for Ownership Stake

Variable	Model 1		Model 2		Model 3		Model 4		Model 5	
	Est.	p-value	Est.	p-value	Est.	p-value	Est.	p-value	Est.	p-value
Constant	(3.751)	<0.001	(3.742)	<0.001	(3.831)	<0.001	(3.747)	<0.001	(3.842)	<0.001
Generalized institutional inefficiencies			0.108*** (0.586)	<0.001	0.113** (1.126)	0.007	0.125*** (0.896)	<0.001	0.128** (1.266)	0.006
Informal institutional distance					-0.011 (0.351)	0.642			-0.007 (0.356)	0.777
Experience							-0.026 (0.014)	0.238	-0.025 (0.014)	0.255
Generalized institutional inefficiencies * Informal institutional distance					-0.008 (0.429)	0.851			-0.006 (0.432)	0.894
Generalized institutional inefficiencies * Experience							-0.021 (0.013)	0.518	-0.021 (0.013)	0.533
Home country GDP	0.073*** (0.000)	<0.001	0.072*** (0.000)	<0.001	0.073*** (0.000)	<0.001	0.073*** (0.000)	<0.001	0.074*** (0.000)	<0.001
Host country GDP	-0.116** (0.000)	0.005	-0.138 (0.000)	<0.001	-1.42*** (0.000)	<0.001	-0.138*** (0.000)	<0.001	-0.140*** (0.000)	<0.001
Host rule of law	0.021 (1.728)	0.584	0.029 (1.721)	0.437	0.031 (1.724)	0.402	0.028 (1.721)	0.447	0.031 (1.724)	0.414
Host voice and accountability	-0.010 (1.715)	0.793	-0.049 (1.742)	0.203	-0.53 (1.781)	0.178	-0.047 (1.743)	0.219	-0.050 (1.787)	0.203
Host control of corruption	-0.018 (0.365)	0.581	-0.024 (0.364)	0.465	-0.026 (0.364)	0.436	-0.024 (0.364)	0.472	-0.025 (0.364)	0.446
Firm size	0.031 (0.976)	0.148	0.033 (0.971)	0.120	0.039 (0.986)	0.071	0.040 (1.000)	0.069	0.046* (1.014)	0.040
N	2197		2197		2183		2197		2183	
F-Value	5.986***		8.744***		6.789***		7.016***		5.721***	
R²	0.016		0.027		0.027		0.028		0.028	
Adjusted R²	0.013		0.024		0.023		0.024		0.023	

Note. Dependent variable: Ownership stake (%); Significance: * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$; Standard errors in parentheses

In *Hypothesis 1*, I suggested a negative relationship between *generalized institutional inefficiencies* in a MENA country and the *ownership stake* taken by a foreign firm in that country. Contrary to what expected, model 2 showed a positive and statistically significant coefficient ($\beta = 0.108, p < 0.001$). In other words, model 2 indicates that the higher the degree of *generalized institutional inefficiencies* in a MENA country, the higher the *ownership stake* taken by a firm. Thus, *Hypothesis 1* is not supported.

In *Hypothesis 2*, I suggested that *informal institutional distance* strengthens the negative relationship between *generalized institutional inefficiencies* in a MENA country and the *ownership stake* taken by a firm. Model 3 shows that the interaction is not statistically significant ($\beta = -0.008, p = 0.851$). Thus, *Hypothesis 2* is not supported.

In *Hypothesis 3*, I suggested that the investing *firm's experience* weakens the negative relationship between *generalized institutional inefficiencies* in a MENA country and the *ownership stake* taken. Model 4 shows that the interaction is not statistically significant ($\beta = -0.021, p = 0.518$). Thus, *Hypothesis 3* is not supported.

5.4. Robustness tests

I conducted two robustness tests to test the validity of models related to *Hypothesis 2*. To measure *informal institutional distance*, I substituted *cultural distance* with *religious distance* and *language distance* in Table 5.4.1 and Table 5.4.2 respectively. *Religious distance* and *language distance* are both measures used in international business research to measure informal institutional distance (Shirodkar & Konara, 2017). They are particularly relevant to the MENA region since religion and the dominant Arabic language play a significant role in shaping formal and informal institutions in Arab societies (Aziz & Mishra, 2016). Results show that like *cultural distance* ($\beta = -0.008, p = 0.851$), the interaction is not statistically significant for both *religious distance* ($\beta = 0.085, p = 0.302$) and *language distance* ($\beta = -0.026, p = 0.238$). These two robustness tests thus confirm that model 3 is not sensitive to alternative measures.

Table 5.4.1 – Robustness Test with Religious Distance

Variable	Model 1		Model 2		Model 3		Model 4		Model 5	
	Est.	p-value	Est.	p-value	Est.	p-value	Est.	p-value	Est.	p-value
Constant	(3.751)	<0.001	(3.742)	<0.001	(4.131)	<0.001	(3.747)	<0.001	(4.161)	
Generalized institutional inefficiencies			0.108*** (0.586)	<0.001	.038 (2.265)	0.658	0.125*** (0.896)	<0.001	0.057*** (2.317)	<0.001
Religious distance					-0.045 (0.259)	0.084			-0.043 (0.265)	0.509
Experience							-0.026 (0.14)	0.238	0.094 (0.311)	0.110
Generalized institutional inefficiencies * Religious distance					0.085 (0.310)	0.302			-0.013 (0.014)	0.260
Generalized institutional inefficiencies * Experience							-0.021 (0.13)	.518	-0.036 (0.013)	0.556
Home country GDP	0.073*** (0.000)	<0.001	0.072*** (0.000)	<0.001	0.089*** (0.000)	<0.001	0.073*** (0.000)	<0.001	0.088 (0.000)	0.279
Host country GDP	-0.116** (0.000)	0.005	-0.138*** (0.000)	<0.001	-0.127** (0.000)	0.004	-0.138*** (0.000)	<0.001	-0.126*** (0.000)	<0.001
Host rule of law	0.021 (1.728)	0.584	0.029 (1.721)	0.437	0.034 (1.734)	0.368	0.028 (1.721)	0.447	0.034** (1.736)	0.004
Host voice and accountability	-0.010 (1.715)	0.793	-0.049 (1.742)	0.203	-0.031 (1.815)	0.447	-0.047 (1.743)	0.219	-0.030 (1.815)	0.373
Host control of corruption	-0.018 (0.365)	0.581	-0.024 (0.364)	0.465	-0.026 (0.364)	0.435	-0.024 (0.364)	0.472	-0.026 (0.364)	0.461
Firm size	0.031 (0.976)	0.148	0.033 (0.971)	0.120	0.042 (0.983)	0.052	0.040 (1.000)	0.069	0.047 (1.013)	0.438
N	2197		2197		2125		2197		2125	
F-Value	5.986***		8.744***		7.527***		7.016***		6.311***	
R²	0.016		0.027		0.031		0.028		0.032	
Adjusted R²	0.013		0.024		0.027		0.024		0.027	

Note. Dependent variable: Ownership stake (%); Significance: *p < 0.05 **p < 0.01 ***p < 0.001; Standard errors in parentheses

Table 5.4.2 – Robustness Test with Language Distance

Variable	Model 1		Model 2		Model 3		Model 4		Model 5	
	Est.	p-value	Est.	p-value	Est.	p-value	Est.	p-value	Est.	p-value
Constant	(3.751)	<0.001	(3.742)	<0.001	(4.545)	<0.001	(3.747)	<0.001	(4.595)	<0.001
Generalized institutional inefficiencies			0.108*** (0.586)	<0.001	0.099 (3.714)	0.476	0.125*** (0.896)	<0.001	0.110 (3.732)	0.431
Language distance					-0.039 (0.293)	0.167			-0.036 (0.300)	0.217
Experience					0.017 (0.403)	0.899			0.033 (0.405)	0.809
Generalized institutional inefficiencies * Language distance							-0.026 (0.014)	0.238	-0.015 (0.014)	0.528
Generalized institutional inefficiencies * Experience							-0.021 (0.013)	0.518	-0.035 (0.013)	0.303
Home country GDP	0.073*** (0.000)	<0.001	0.072*** (0.000)	<0.001	0.083*** (0.000)	<0.001	0.073*** (0.000)	<0.001	0.082*** (0.000)	<0.001
Host country GDP	-0.116** (0.000)	0.005	-0.138*** (0.000)	<0.001	-0.132** (0.000)	0.003	-0.138*** (0.000)	<0.001	-0.131** (0.000)	0.003
Host rule of law	0.021 (1.728)	0.584	0.029 (1.721)	0.437	0.029 (1.733)	0.445	0.028 (1.721)	0.447	0.029 (1.734)	0.450
Host voice and accountability	-0.010 (1.715)	0.793	-0.049 (1.742)	0.203	-0.040 (1.805)	0.319	-0.047 (1.743)	0.219	-0.039 (1.806)	0.332
Host control of corruption	-0.018 (0.365)	0.581	-0.024 (0.364)	0.465	-0.025 (0.364)	0.459	-0.024 (0.364)	0.472	-0.025 (0.364)	0.462
Firm size	0.031 (0.976)	0.148	0.033 (0.971)	0.120	0.043 (0.985)	0.050	0.040 (1.000)	0.069	0.047* (1.013)	0.035
N	2197		2197		2125		2197		2125	
F-Value	5.986***		8.744***		7.260***		7.016***		6.088***	
R²	0.016		0.027		0.030		0.028		0.031	
Adjusted R²	0.013		0.024		0.026		0.024		0.026	

Note. Dependent variable: Ownership stake (%); Significance: *p < 0.05 **p < 0.01 ***p < 0.001; Standard errors in parentheses

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6. Discussion

My study draws on institutional theory (North, 1990; Peng, 2002) to investigate the way foreign firms shape their ownership strategies to address generalized institutional inefficiencies in the MENA region. It examines the specificities of such institutional inefficiencies in the MENA region, particularly focusing on the idiosyncrasies, the interplay of formal and informal institutions, and the need to access local institutional knowledge. Results show that firms facing high levels of generalized institutional inefficiencies in MENA countries opt to retain more ownership in their subsidiaries. Such results contrast with the findings of previous studies on institutional inefficiencies. For example, Falaster et al. (2021) show that firms facing high levels of generalized institutional inefficiencies choose lower ownership levels in cross-border acquisitions in emerging economies. Similarly, Chan and Du (2022) find that foreign firms facing high political and economic deficiencies opt for lower ownership levels in China. Both findings indicate that by retaining less ownership and relying on a local partner, foreign firms increase their access to local knowledge and aim to reduce unfamiliarity with the host environment (Meyer et al., 2009). More research is needed to reconcile differences found.

The underlying theoretical motivation to my study was that foreign firms which are unfamiliar with the institutional environment in the MENA region more likely need the help of a local partner to cope with institutional obstacles, access institutional knowledge and lower risks and costs of doing business (Eden & Miller, 2004). However, the positive relationship between generalized institutional inefficiencies and ownership stake that I obtained can be attributed to various potential explanations. One of them may be related to the location of the study and the attributes of the MENA region. Literature on ownership in the MENA region is scant, and studies on the influence of institutions on ownership are almost non-existent. The characteristics of the political, geopolitical, legal, economic, social, and cultural landscape of the region may play a role in foreign firms' decisions leading them to choose more ownership in the MENA region (Dimitrova et al., 2020). Another aspect could be the costs associated with shared ownership which include, among others, a partial control over the venture, sharing profits with the partner, coordination difficulties, limited operations integration and poor adherence to the parent firm's objectives (Dikova, 2012).

The positive relation between generalized institutional inefficiencies and ownership stake may also be due to the difficulty of finding an appropriate local partner in the region. Foreign firms risk experiencing partner opportunism (Anderson & Gatignon, 1986) which can involve the risk of knowledge spill and losing proprietary assets to competitors or free riders, especially where legal enforcement frameworks and intellectual property protection are weak (Luo, 2001). Moreover, in the MENA context where formal and informal institutions are interconnected, foreign firms risk sharing ownership with a partner whose allegiance to their own kinship group overrides their loyalty to the foreign firm and its organizational procedures, particularly where proprietary assets' stakes are high (Budhwar et al., 2019). As a result, by retaining more ownership and more control over the venture in countries with high levels of generalized institutional inefficiencies, foreign firms protect their interests from partner opportunism.

Another explanation for the higher ownership stake taken is that in some situations, a partner's help may not be needed, unless firms are legally required to share ownership with a local actor (Delios & Beamish, 1999). Access to institutional knowledge may have different values. Some firms may already have internalized knowledge, whether from experiential learning or from the local acquired firm in the case of an acquisition (Ahammad et al., 2016). The knowledge provided by a local partner is mostly useful when it allows the foreign firm to build legitimacy and cope with institutional inefficiencies (Falaster et al., 2021). The need to gain legitimacy and circumvent some types of institutional inefficiencies may depend on the size of the foreign firm and its local subsidiary, the entry mode, and the industry in which they operate (Meyer et al., 2018). For example, having access to networks and knowledge may not be needed when the local organizational procedures and employees are retained. Hence, the need to take into consideration the entry mode and the type of investment in the study of ownership.

An alternative reason for the decision to take more ownership may be the substitutive role of developed social institutions. Where the level of economic institutional inefficiencies is high, foreign firms might not need to reduce ownership and to rely on a local partner to access institutional knowledge: social institutions can play a role in substituting weak economic institutions (Chan & Du, 2022). That is, where social institutions—the level of trust and justice in a society—are developed, foreign firms can access knowledge through informal networks of information to compensate for the weak or non-existent information intermediaries. As a result, they are less likely to sacrifice ownership and share it with a

partner. This highlights the need to distinguish between political and economic institutional inefficiencies in the study of ownership.

Results are not enough to validate or refute the assertion that informal institutional distance and firm experience moderate the effect of generalized institutional inefficiencies on the ownership strategy. This likely indicates a lower level or magnitude of difference between variables. Some measures used might not be relevant, such as Hofstede's six dimensions of culture which were majorly based on the entry "Arab countries" because the index does not include scores for all the countries of the sample (Hofstede et al., 2010). Similarly, firm age may not be enough to measure firms' experience and link it to their experience in the region. The findings of this study thus confirm the need for more thorough investigation of the complexity of institutional environments because institutional factors may have different effects on firm behavior and activity (Taussig & Delios, 2015).

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7. Conclusion

7.1. Theoretical contributions

In this study, I draw on institutional theory (Peng, 2002) to elaborate a conceptual analysis of the relationship between generalized institutional inefficiencies and the ownership strategy, thereby filling the gap in the literature. I include informal institutions and firm experience in the theoretical model and adapt it to the context of the Middle East and North Africa (MENA) region. The MENA region is a particularly relevant area of study because of its underrepresentation in international business literature (Haj Youssef & Teng, 2021). I analyze the influence of generalized institutional inefficiencies on the ownership stake taken in 2022 by 1050 foreign firms with subsidiaries in 12 countries members of the League of Arab States. I show that, contrary to recent studies, firms that enter a country in the MENA region with high levels of generalized institutional inefficiencies are more likely to choose more ownership in their venture. I also find that informal institutional distance and experience do not play a role in this relationship. I hence contribute empirically to the literature on FDI, ownership and institutional inefficiencies in the MENA region.

I also contribute to the literature on institutions in the MENA region by exploring the formal and informal institutional specificities of the region. Formal institutional inefficiencies in the MENA region may take the form of a weak legal framework, institutionalized corruption, a deficient court, tax and customs system, political and economic instability, difficulty to access public services and business opportunities (Karam & Zaki, 2019). I show that the particularity of the MENA context is the interplay of formal and informal institutions in many aspects of society. This interaction can be understood through the lens of neopatrimonialism and the concept of *wasta*, a social system of exchange among in-group members in Arab societies (Berger et al., 2019). Foreign firms that are unfamiliar with the institutional environment in the MENA region may face challenges such as the need to access local institutional knowledge and gain legitimacy in an effort to reduce uncertainty, risks and costs associated with doing business abroad (Wright et al., 2005).

7.2. Managerial implications

This context-specific empirical study provides managers and businesses interested in internationalizing in the MENA region with an in-depth understanding of the idiosyncrasies of the formal and informal institutional environment. They can draw on the findings to develop their ownership strategy taking into consideration the levels of generalized institutional inefficiencies in the MENA target countries. Similarly, the study helps foreign managers and decision-makers be aware of opportunistic behaviors in the MENA region and adopt strategies to circumvent them (Anderson & Gatignon, 1986).

As for decision-makers, this study shares some aspects that can lead to a better understanding of the effects of generalized institutional inefficiencies and obstacles on firm strategies in their country. This awareness is particularly important for countries implementing governance, macroeconomic, and legal reforms aimed at attracting investments and diversifying their economies (Al-Khouri, 2015).

7.3. Limitations and future research

This study has several limitations that can be addressed in future research. One limitation is the measurement of the independent variable, *generalized institutional inefficiencies*, via the percentage of firms choosing [variable] as their biggest obstacle. Due to the nature of the survey question, it does not fully capture the nuances of each inefficiency or obstacle faced by foreign firms. Future studies could use more appropriate sources and measures and eventually distinguish between political and economic institutional inefficiencies to obtain more relevant results on ownership stake (Chan & Du, 2022).

Another limitation lies in the discrepancy between the measure of obstacles obtained between 2011 and 2023 (depending on country data availability), and the year of the ownership study, i.e., 2022. Future studies could consider a longer timeframe to observe potential changes and consider the political, economic, and security situations that may affect FDI and ownership decisions (Dimitrova et al., 2020).

The measure used to calculate cultural distance, based on Hofstede's six dimensions of culture, may also be improved (Hofstede et al., 2010). Future research could explore more recent and relevant data, such as the ongoing GLOBE 2020 research project, which is integrating more countries of the MENA region in its mapping. Once published, the GLOBE 2020 research project could be used to provide a specific cultural score for each Arab

country, which could improve the quality of cultural distance measure (more information available on: www.globeproject.com).

Furthermore, the measure of firm experience, based on firm age, may not fully capture the nuances of the firm experience in the MENA region or even in a country with high institutional inefficiencies. Alternative measures, such as considering the firm's experience in the host country or region, or the number of subsidiaries in the host country or region, could provide more insights into the potential effect of experience on ownership (Shirodkar & Konara, 2017).

Additionally, the study does not control for industry differences, which may play a role in the relationship between institutional inefficiencies and ownership, and which may abide by different country laws. Future research could distinguish between manufacturing and service firms; low-tech and high-tech sectors; oil and non-oil related industries to further explore these dynamics (Al-Khouri, 2015).

Moreover, the study does not differentiate between entry modes, such as acquisitions, joint ventures, and greenfield investments, which could impact the need or lack thereof for local institutional knowledge and legitimacy (Meyer et al., 2009). Future research could investigate the influence of generalized institutional inefficiencies on ownership in various entry modes to identify potential patterns specific to each mode.

Similarly, the size of the foreign firm may positively or negatively influence the need for knowledge and legitimacy (Aizenman & Spiegel, 2006). Future research could examine the relationship between firm size and ownership taken as a response to generalized institutional inefficiencies, to detect potential strategy patterns according to firm size.

Another limitation is the reduced number of countries in the sample, consisting of 12 out of the 22 members of the League of Arab States, which does not allow to generalize conclusions to the whole MENA region. Future research could ensure that more countries of the League of Arab States are included in the sample in a way that can be more representative of the whole region. Future research could also analyze the effects of generalized institutional inefficiencies on sub-regions of MENA that share cultural socio-economic characteristics such as the GCC or the Arab Maghreb Union (Al-Janadi, 2021; Jamali et al., 2020).

Finally, this study opens additional avenues for research and exploration. Future research could introduce a second layer of analysis in the study of institutional inefficiencies in the

MENA region by distinguishing between generalized and arbitrary institutional inefficiencies (Falaster et al., 2021). The study of institutional inefficiencies may also be extended to other aspects of firm action, including the role they play in firm performance, location choice, FDI flows, government relations, and entry modes (Dimitrova et al., 2020). Qualitative research may also be conducted to further understand the reasons behind foreign firms' ownership strategies in the MENA region (Berger et al., 2019).

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