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**INTERNATIONAL EXPANSION AND HOME COUNTRY NONMARKET POLITICAL
STRATEGY OF EMERGING MARKETS MULTINATIONALS**

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Esta tese foi julgada adequada para a obtenção do título de Doutor em Administração e aprovada pelo Curso de Doutorado em Administração, da Universidade do Vale do Itajaí.

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"Everything is possible for one who has faith."

(Mark 9:23)

ABSTRACT

This dissertation investigates the drivers of home country nonmarket political strategy and, why some emerging markets multinationals (EMNEs) intensify these political ties more than others EMNEs do. Theoretically grounded on institutional-based view of strategy, we theorized and empirically tested international expansion as a driver of home country nonmarket political strategy. Next, we also test resources and capabilities as moderators of nonmarket political strategy intensity. We argue that EMNEs with international expansion become more inclined to pursue a nonmarket political strategy in home country and, depending on their resources and capabilities, these MNEs implement higher or lower levels of political ties. Thus, the value of nonmarket political strategy to the EMNEs can increase as resources and capabilities to deal with international expansion issues decreased. We empirically test our theoretical framework using a longitudinal data set from 2002 to 2017 with Brazilian firms on campaign donations, state-owned loans and cross border mergers and acquisitions (CBM&A). We find that international expansion may be a relevant driver of home country nonmarket political strategy of EMNEs and that resources and capabilities of EMNEs negatively moderate the effects of international expansion on political ties decisions. We also find that nonmarket political strategy not only helps EMNEs to gain access to resources for their international expansion, as well also helps them to get resources with high quality. This dissertation contributes in several ways to the literature. First, extending the literature focused on the antecedents of nonmarket political strategy employed by EMNEs. Second, contributing to a central inquiry that the literature of strategy tripod seeks to address: how the "legs" interact to shape firms' strategy. This dissertation also makes empirical contributions to the literature. Most research on nonmarket political strategy has been primarily focused on developed markets or on China, a politically stable context. In addition, most research are cross sectional dissertation based on managerial perceptions with self-reported measurements. We integrated several data source and developing an original longitudinal data set to test our hypotheses in the largest economy in Latin America.

Keywords: International expansion. Nonmarket strategy. Political Ties. Multinationals. Emerging markets.

RESUMO

Esta tese investiga os *drivers* da estratégia política de não mercado doméstica e, por que algumas Empresas Multinacionais de Economias Emergentes (EMNEs) intensificam esses laços políticos mais do que outras empresas. Teoricamente fundamentada na visão baseada em instituições da estratégia, nos teorizamos e empiricamente testamos a expansão internacional como um *driver* da estratégia política de não mercado doméstica. Em seguida, nós também testamos recursos e capacidades como moderadores da intensidade da estratégia política de não mercado. Nós argumentamos que as EMNEs com expansão internacional são mais propensas a buscarem a estratégia política de não mercado no país doméstico e, dependendo de seus recursos e capacidades, essas MNEs implementam níveis mais altos ou mais baixos de laços políticos. Assim, o valor da estratégia política de não mercado para as EMNEs pode aumentar à medida que diminuem os recursos e capacidades para lidar com as questões de expansão internacional. Nós empiricamente testamos nosso modelo teórico usando um conjunto de dados longitudinal de 2002 a 2017 com empresas brasileiras sobre doações de campanha, empréstimos estatais e fusões e aquisições transfronteiriças. Nós encontramos que a expansão internacional deve ser um *driver* relevante da estratégia política de não mercado do país doméstico das EMNEs e que os recursos e capacidades das EMNEs negativamente moderam os efeitos da expansão internacional nas decisões de laços políticos. Nós também encontramos que a estratégia política de não mercado não apenas ajuda EMNEs a obterem acesso a recursos para sua expansão internacional, como também ajuda essas empresas a obterem recursos de alta qualidade. Esta tese contribui de vários modos com a literatura. Primeiro, estendendo a literatura focada nos antecedentes da estratégia política de não mercado empregada pelas EMNEs. Segundo, contribuindo para uma investigação central que a literatura do tripé da estratégia busca abordar: como as “legs” interagem para moldar a estratégia das empresas. Esta tese também faz contribuições empíricas para a literatura. A maioria das pesquisas sobre estratégia política de não mercado se concentrou primariamente em mercados desenvolvidos ou na China, um contexto politicamente estável. Além disso, a maioria das pesquisas são teses transversais baseadas em percepções gerenciais com medidas autorreferidas. Nós integramos várias fontes de dados e desenvolvemos um conjunto de dados original para testar nossas hipóteses na maior economia da América Latina.

Palavras chave: Expansão internacional. Estratégia de não mercado. Laços políticos. Multinacionais. Mercados emergentes.

LISTA DE ABREVIATURAS

BB	Banco do Brasil
BNDES	National Bank for Economic and Social Development
CBM&A	Cross border mergers and acquisitions
CEF	Caixa Econômica Federal
EMNEs	Emerging markets multinationals
FDI	Foreign direct investment
GDP	Gross domestic product
IB	International business
LN	Natural logarithm
MNEs	Multinationals
OFDI	Outward foreign direct investment
PND	National Privatization Program
ROA	Return on assets
ROE	Return on equity
TSE	Tribunal superior eleitoral
WGI	World governance indicators

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1 INTRODUCTION

The internationalization of EMNEs is a recent phenomenon that has been gaining importance in the global economy. Over the last two decades, EMNEs have been persistently internationalizing by undertaking foreign direct investment (FDI), becoming outstanding global players and drivers of FDI. The stock of emerging markets' outflow FDI more than doubled between 2009 and 2019 and the foreign acquisitions by EMNEs have increased approximately 690% in value from 2001 to 2017 compared to an increase of only 17% for foreign acquisitions by multinationals from developed markets (UNCTAD, 2020). The international expansion of EMNEs have challenged theoretical assumptions of the main theories from international business (IB), which are developed based on multinationals from advanced markets.

During its relatively brief history, the field of IB has broadened its research scope considering the strategy employed by MNEs' internationalization not only regarding the market interactions that MNEs undertake, but also regarding the nonmarket political interactions in which these MNEs do (Baron, 1995; Boddewyn & Doh, 2011; J. Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Dorobantu, Kaul, & Zelner, 2017; Peng, Wang, & Jiang, 2008). While we acknowledge the considerably efforts and unquestionable merits of these scholars in aiding our understanding, we also note that our knowledge is still limited about the drivers and the intensity of home country nonmarket political strategy of EMNEs (J. P. Doh, Lawton, & Rajwani, 2012; Hillman, Keim, & Schuler, 2004; Lux, Crook, & Woehr, 2011; Puck, Lawton, & Mohr, 2018; White, Hemphill, Rajwani, & Boddewyn, 2020). Despite this considerable relationship between EMNEs and nonmarket political strategy in home country and the large gaps in our knowledge, the topic remains incipient.

In this dissertation, we attempt to address this lacuna in the extant literature that moves us toward a more comprehensive understanding of the home country nonmarket political strategy employed by EMNEs and the intensity of this strategy. Theoretically grounded on institutional-based view of strategy (Peng 2006, 2008), we theorized and empirically demonstrated international expansion as a driver of home country nonmarket political strategy and we explain why some EMNEs are more politically active than others EMNEs do.

The choice of institutional-based view of strategy, centered on new institutionalism (North, 1990), is due to the fact that the main views of strategy assume institutions as “background”. This is not surprising because arise primarily out of research on competition in developed markets, which it seems reasonable to assume a relatively stable institutional framework. Moreover, the institutional-based view integrates and extends the isolated contributions of industry- and resource-based views in the EMNEs’ setting (Kostova, Roth, & Dacin, 2008; Peng, Sun, Pinkham, & Chen, 2009; Peng et al., 2008).

Our theoretical framework is tested using longitudinal analysis and an original database on campaign donations federal and municipal, Brazilian National Development Bank (BNDES) loans and CBM&A by Brazilian firms listed in the stock market over a 16-year time frame. We obtained the data set through four secondary sources: comprising the superior electoral court data (Tribunal Superior Eleitoral – TSE), BNDES, Economatica® database and Thomson Reuters® SDC Platinum database.

Several reasons make Brazil a suitable context for our empirical tests. Brazil is between the top 10 nations emerging in 2019 and led outward foreign direct investment (OFDI) in Latin America during our period of analysis (UNCTAD, 2020). Although Brazil has undergone by market reforms in the 1990s, the country still has a notable presence of institutional voids, for example, the country presents incipient capital market and is among the countries with the highest interest rates in the world (World Bank, 2020). Moreover, paradoxically, market and regulatory institutions developed themselves at the same time that politicians offered strong incentives to cultivate unusual relations with the government (S. G. S. G. Lazzarini, Musacchio, Bandeira-de-Mello, & Marcon, 2015).

Thus, this dissertation seeks to answer the following question: Does the international expansion work as a driver of home country nonmarket political strategy and why do some EMNEs intensify these political ties more than others EMNEs?

1.1 Research objective

The general objective of this dissertation is analyze the international expansion as a driver of home country nonmarket political strategy and investigate why some EMNEs intensify these political ties more than others EMNEs do.

1.1.1 Specific objectives

The following specific objectives have been defined:

- a) Measure companies' OFDI from 2002 to 2017;
- b) Measure political campaign donations federal and municipal from 2002 to 2017;
- c) Measure the economic and financial data of companies from 2002 to 2017;
and
- d) Evaluate the direct and indirect effects on the nonmarket political strategy.

1.2 Justification

This dissertation extends the literature focused on the antecedents of nonmarket political strategy employed by EMNEs. We theorize and empirically demonstrate international expansion as a relevant driver of home country nonmarket political strategy and the contingency role of resources and capabilities from EMNEs. We also contribute to a central inquiry that the literature of strategy tripod seeks to address. While it seems established that the industry, resources and institutions each individually account for a portion of variance in EMNEs' strategy, most of the literature to date has separately studied these factors. Thus, the knowledge of how the "legs" interact to shape firms' strategy is not a full mission of the strategy tripod research (Chen, Li, & Fan, 2018; P. Sun, Mellahi, & Wright, 2012; Wang, Hong, Kafouros, & Boateng, 2012).

This dissertation also makes empirical contributions to the literature. Most research on nonmarket political strategy has been primarily focused on developed markets (e.g. North American context). In emerging markets, scholars have been primarily focused on China, a politically stable context. In addition, most research are cross sectional based on managerial perceptions with self-reported measurements and, therefore, these studies have limitation inherent, such as common method bias, non-responses or potential false responses, as political ties may be a sensitive question. We overcome these obstacles by integrating several data source and

developing an original longitudinal data set to test our hypotheses in the largest economy in Latin America.

1.3 Outline of the dissertation

The dissertation is structured in five chapters. Chapter 1 provides an introduction to the proposed subject and its relevance, describing the research question, main objectives, results, and the relevance of the dissertation. Chapter 2 presents the theory that support the arguments of this dissertation, the literature review focused on EMNEs' international expansion and home country nonmarket political strategy, and the hypotheses development. Chapter 3 presents the research methodology used and the procedures employed to conduct the data analysis. Chapter 4 outlines the results and robustness check. Chapter 5 discusses the results and concludes the results of the dissertation, summarizing our findings and suggesting potential additional research.

2 THEORY AND HYPOTHESES

In this chapter, we discuss the theoretical aspects that support our main arguments in this dissertation, which investigates international expansion as driver of home country nonmarket political strategy, and why some EMNEs intensify these political ties more than others do.

In this dissertation, we adopted the institutional-based view of strategy, centered on new institutionalism (North, 1990). This choice is due to the fact that the main views of strategy, industry-based view (Porter, 1980) and resource-based view (Barney, 1991) assume institutions as “background”. This is not surprising because arise primarily out of research on competition in developed markets, which it seems reasonable to assume a relatively stable institutional framework. Moreover, the institutional-based view integrates and extends the isolated contributions of industry- and resource-based views in the EMNEs’ setting (Kostova, Roth, & Dacin, 2008; Peng, Sun, Pinkham, & Chen, 2009; Peng et al., 2008). These elements will be better discussed in next theoretical framework.

2.1 Institutional theory

Davis and North (1970) defined the institutional framework as the set of fundamental political, social, and legal ground rules that establishes the basis for production, exchange, and distribution. Posteriorly, North (1990) advanced on the classification of formal and informal institutions to which firms must adapt to survive and prosper. The author defined institutions as the rules of the game and the humanly devised constraints that structure political, economic and social interaction. In a similar way, Scott (1995) defined institutions as regulative, normative, and cultural-cognitive elements that, associated with activities and resources, provide stability and meaning to social life.

Scott (1995) proposed a framework with three pillars for monitor the environment: regulatory; normative; and cognitive. The regulatory pillar refers to setting, monitoring and enforcement of rules (North, 1990). The normative pillar prescribes the desirable goals and how to attain them. The cognitive pillar is related to internal representation of the environments by actors (DiMaggio & Powell, 1983). The

author further argued that these three pillars of the institutional environments are based on different types of motivation (coercive, mimetic and normative) and differ in the degree of formalization and how the pillars affect on firms.

According to North (1990), institutions impose restrictions by defining legal, moral and cultural boundaries, setting off legitimate from illegitimate activities (Scott, 1995: 50). From a theoretical point of view, one of the major focuses of the literature on institutions has been on considering them as efficient solutions to problems of organization in a competitive framework. Thus, the institutional environments are largely exogenous to firms (Oliver, 1991), although more recent theorization have advanced more comprehensive framework of what are institutional environments (Garrido, Gomez, Maicas, & Orcos, 2014).

North (1990) distinguishes between formal and informal institutions. This classification is widely accepted in strategy and IB field. Formal institutions refer to explicit rules in a society such as laws, regulations, property rights, protection or discipline of economic and political markets and contracts. They have to be explicitly established by an authority or an organization/individual. They are susceptible to change over time and can anticipate the desirable behavior of individuals and organizations. Informal institutions can be understood as those constraints that people in a society impose upon themselves to give a structure to their relations with others. These rules are transmitted from one generation to another by teaching and imitation, such as tradition, religion, language, customs, values and trust-based relationships. Unlike formal institutions, informal institutions have their source in the values of a society and they are difficult to change over time (Garrido, Gomez, Maicas, & Orcos, 2014; Meyer, Estrin, Bhaumik, & Peng, 2009; North, 1990).

Companies are created and evolve according to the rules of the institutional environment. Institutions evolve equally from changes in the environment, in society and in interactions with companies. From these interactions, companies and institutions influence each other and structure incentives in policies, social and economic relations (North, 1990). Since the institutional context differs in each country, the strategies adopted by companies may also be different in each environment that these companies operate. Considering these aspects, an institutional theory helps to explain the impact of institutions on strategy of companies (Hall et al., 2001).

2.2 The institutional-based view of strategy

What does drive firms' strategy? This is one of the most fundamental questions confronting the international business (IB) and strategy field (Peng, 2004; Peng et al., 2008). Traditionally, the explanation of firms' strategy rests upon two dominant theoretical foundations: industry-based view (Porter, 1980) and resource-based view (Barney, 1991). While these views answers are certainly insightful, they do not paint a complete picture because they largely ignore the institutional underpinning that provides the context of competition among industries and firms studied with these lenses. These two views assume institutions as "background", what is not surprising because industry- and resource-based views arise primarily out of research on competition in the United States, in which it may seem reasonable to assume a relatively stable institutional framework (Kostova, Roth, & Dacin, 2008; Peng, Sun, Pinkham, & Chen, 2009; Peng et al., 2008).

The field of Strategic Management has evolved a great deal since its inception. During the 1960s, the discipline paid attention in studies that focused on the importance of managerial skills (Andrews, 1971, Ansoff, 1965, Chandler, 1962). In the 1980s, literature attention has expanded for the role that industry structure played in determining differences in performance between firms, while the 1990s saw the birth of a new dominant paradigm, the resource-based view of the firm (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984). In last two decades, researchers increased the recognition of the institutional environment as a key determinant in the analysis of firm behavior and performance. This perspective does not only focus on the industry-specific environment, as happened in the 1980s, but also highlights the institutional environment. As a consequence, a third leading perspective has emerged in strategic management. This perspective has been named the institution-based view (Garrido et al., 2014; Meyer et al., 2009).

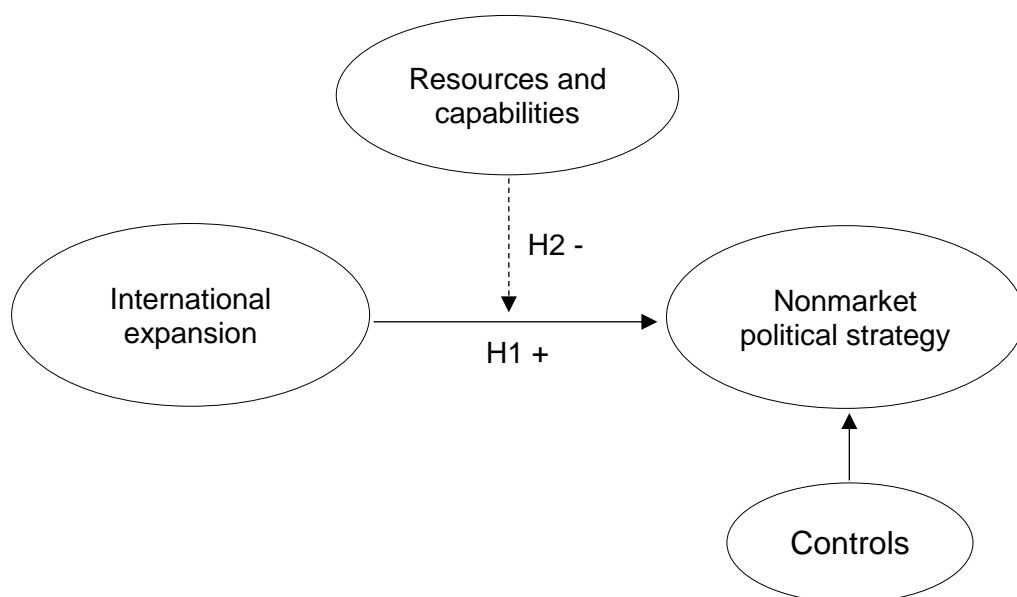
The debate that institutions matter in IB and strategy field has increased in last two decades, mainly in emerging markets context. The recent interest in this new paradigm comes from the globalization process that has affected most countries and industries in the last years (Dunning & Lundan, 2008). Thus, centered on new institutionalism (North, 1990) mostly conceptualized from emerging market perspective (Peng, 2002; Peng et al., 2009, 2008), the institutional-based view integrates and extends the isolated contributions of industry- and resource-based views in the

EMNEs' setting and adds the "third leg" of the "strategy tripod". The institution-based view of strategy is the result of a consideration of streams of research viewpoint sociological and economic in the context of business strategy. It conceives strategic choices as the result of dynamic interaction between organizations and institutional environment (Peng, 2002).

The term "Institution-Based View" was coined by Peng (2002) inspired by both economic (North, 1990) and sociological (DiMaggio & Powell, 1983; Scott, 1987) perspectives of the institutional theory literature. Recent studies, since the seminal work of Peng (2002), have tried to analyze how institutions condition strategic choices (e.g. FDI location and entry mode, innovation adoption, executive compensation and entrepreneurship) as well as performance (e.g. from family and multinational firms) (Garrido et al., 2014). The Institution-based view brings together distinct lines of research that have interest in the interaction between MNEs and institutional environments, at different levels of analysis, such as country, industry and firm level (Garrido et al., 2014; Meyer et al., 2009).

Therefore, theoretically grounded on institution-based view of strategy, we attempt to extend the literature focused on the antecedents of nonmarket political strategy employed by EMNEs in home country. Figure 1 shows the theoretical arguments of this dissertation.

Figure 1 – Conceptual model



2.3 EMNEs international expansion and home country nonmarket political strategy

Over the last two decades, EMNEs have been persistently internationalizing by undertaking FDI. The wave of investment in international production by EMNEs has been growing, and they have become critical forces in global businesses (Lebedev, Peng, Xie, & Stevens, 2015). These EMNEs face internationalization without the support of institutions specialized that can facilitate transactions and provide stability in home country (Cuervo-Cazurra, Newburry, & Park, 2016; C. Gao, Zuzul, Jones, & Khanna, 2017; Meyer et al., 2009; North, 1990).

Given that MNEs typically build their core resources base in home country, this context can play either an enhancing or constraining role in MNEs international expansion (Meyer, Mudambi, & Narula, 2011; White III et al., 2018). Therefore, international expansion can be a process fraught with difficulties for EMNEs given that their home country environment has a great presence of institutional voids that inhibit these MNEs' foreign expansion and can make these MNEs delay their internationalization process (Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018; Kim & Song, 2017; Wu & Chen, 2014). Well-established market-supporting institutions serve as the foundation on which firms thrive, while underdeveloped market-supporting institutions create institutional voids that undermine firms' success (Khanna & Palepu, 1997; Liedong, Peprah, Amartey, & Rajwani, 2020). Figure 2 graphically represents the presence of institutional voids.

Figure 2 – Relation of institutional voids and markets



Source: Adapted from Khanna and Palepu (2010).

Thus, EMNEs looking to expand into foreign markets from an environment characterized by greater institutional voids are likely to face higher costs due to, for

example, reduced information flows, legal and regulatory system uncertainty, underdeveloped factor markets, and limited market intermediaries. Finally, the international expansion will encourage EMNEs to find strategically ways to make up the institutional voids influence and of supporting access to resources for their expansion. Given all these difficulties, a critical issue that EMNEs face is how to respond to the institutional environment (J. Doh et al., 2017).

We argue that the absence or underdevelopment of critical institutions to support EMNEs international expansion signal to these MNEs which strategies are suitable to mitigate adverse effects associated from institutional voids in home country (Kostova et al., 2008; Peng, 2004; Peng et al., 2008; White III et al., 2015; Wright, Filatotchev, Hoskisson, & Peng, 2005). In emerging markets, MNEs develop political ties with key political actors as a strategically way to mitigate home country institutional voids uncertainty and improve the access to vital resources to their international expansion that, otherwise, would be scarce or unviable (Dorobantu et al., 2017; Hillman & Hitt, 1999; North, 1990; Rajwani & Liedong, 2015; White III et al., 2015).

Nonmarket political strategy can act as a key element in EMNEs international expansion, because this strategy may serve as substitutes for market-support institutions (Brouthers, 2002; White III et al., 2018). Home country government has discretion and controls critical resources to international expansion of EMNEs, such as distributing bank loans, subsidies, and favorable regulations, particularly in relation to FDI (Buckley et al., 2007; Luo, Xue, & Han, 2010). Thus, political ties with home government agents may be one of the relevant factor behind EMNEs' success in overcoming home country institutional voids (Chen et al., 2018).

In financial and capital markets, the government directly controls bank assets, and its role in finance is much broader than in regulation and enforcement functions. Credit operations through state-owned banks usually have subsidies and different conditions like reduced cost of capital, lower interest rates, and longer debt maturities (Claessens, Feijen, & Laeven, 2008; Faccio, 2006). Unlike their counterparts from developed markets, EMNEs have very limited and costly financial sources, given the lack or underdevelopment of financial intermediaries that limit the access to financial resources with attractive conditions for MNEs international projects (Kim & Song, 2017; Wu & Chen, 2014).

EMNEs have an additional liability due to the negative institutional image of their home country, especially when these MNEs expand into developed markets.

Institutional voids may actually “follow” these firms to new environments through their foreign direct investments, as a form of liability of origin. The poor institutional conditions of such firms’ home countries give rise to their negative stereotyping in host countries, which commonly creates conditions of suspicion and scrutiny about EMNEs (He & Zhang, 2018; Luo & Tung, 2007; Marano, Tashman, & Kostova, 2017; Newburry, 2012; Zhang, He, Zhou, & van Gorp, 2019). For example, a firm from a home country characterized by significant institutional voids may be perceived in other countries as having lower investment capabilities. Home country political actors can strengthen institutional communication and diplomacy with host country and direct efforts for that host country access more information from the acquirer's country and less stereotyped evaluations (Luo et al., 2010). In addition, EMNEs can benefit with the participation of home country government in foreign trade mission. The missions provided by government-to-government negotiations conducted on behalf of participating MNEs that seek to enter in a foreign market are often a prerequisite to signing private investment contracts (Baron, 1995; Bazuchi, Zacharias, Broering, Arreola, & Bandeira-de-Mello, 2013; Schuler, Schnietz, & Baggett, 2002).

When facing lack of information concerning codified commercial laws and rules in international expansion, EMNEs will be more likely to proactively invest in intensifying political ties in order to create channels of communication for the purpose of obtaining timely information and guidance to mitigate uncertainty associated with laws or rules inadequate and judicial arbitrariness (Boddewyn & Brewer, 1994; Khoury & Peng, 2011; Peng & Luo, 2000; White III et al., 2015). These political ties are particularly beneficial for predicting future legal and regulatory environmental in turbulent markets (Chen et al., 2018). Nonmarket political strategy with government actors will allow for greater influence in the judicial arena for the purpose of seeking a more certain playing field and a more predictable institutional environment (Bonardi, Holburn, & Vanden Bergh, 2006; P. Sun, Mellahi, & Thun, 2010; White III et al., 2015). Although regulatory agencies have the authority to create the rules, regulators' decisions are subject to subsequent oversight by political committees and can reformulated from the enactment of new legislation (Holburn & Vanden Bergh, 2008, 2014). MNEs with well-political ties enjoy lead knowledge of upcoming laws, regulations, and outward investment policies. Consequently, these MNEs are more poised to seize the strategic opportunities opened up by policy changes (Chen et al., 2018; Shi, Markóczy, & Stan, 2014).

Moreover, home country governments can adopt a series of mechanisms to encourage or discourage flows and maintenance of FDI, either by conceding benefits to MNEs or by reducing barriers created by other actors (Brockman, Rui, & Zou, 2013; Luo & Tung, 2007; Schweizer, Walker, & Zhang, 2019; Yang & Zhang, 2015). Political ties can grant easier access to financial support, preferential incentives as lighter taxation, relaxed regulatory oversight of the company in question or of its rivals, administrative assistance and potential bailout. (Chen et al., 2018; Cui & Jiang, 2012; Faccio, 2006; Shaffer, 1995). Finally, the nonmarket political strategy can compensate home country institutional deficiencies and enable EMNEs to compete against their counterparts from advanced economies.

Given the remarkable salient of nonmarket political strategy to mitigate uncertainty and improve EMNEs access to vital resources for their international expansion and that the access to actors key and benefits can be result of broad political activities from EMNEs, it becomes imperative for EMNEs to build political ties to pursuit of support to their international expansion. Therefore, it is reasonable to argue that EMNEs will actively seek to develop nonmarket political strategy with home country political actors. Hence, we propose that:

Hypothesis 1. In less developed institutional settings, international expansion of EMNEs positively affects home country nonmarket political strategy.

2.4 Intensity of nonmarket political strategy in home country

It is recognized the relevant role of international expansion and institutional voids in home country political strategic choices of EMNEs, but may be for distinct reasons that political ties are intensified. Internal and external factors may be interrelated in the intensity of nonmarket political strategy, in the sense that some factors may reinforce others or mutually affect the strategic choices made by EMNEs (G. Y. Gao, Murray, Kotabe, & Lu, 2010; Peng et al., 2008). We argue that EMNEs sensibility to institutional voids in their international expansion may vary systematically across EMNEs, making that some EMNEs have less need to intensify political ties than others do, depending on their resources and capabilities.

The resources are heterogeneously distributed across firms, and that resource differences can persist over time (Barney, 1991; Teece, Pisano, & Shuen, 1997; Wernerfelt, 1984). Firms accumulate both tangible/assets and intangible/capabilities resources specific over time (G. Y. Gao et al., 2010). As resources vary across EMNEs, it is reasonable to anticipate that EMNEs sensibility to institutional voids in their international expansion may also vary systematically across EMNEs, making some types of EMNEs more sensitive to institutional voids than others do. For some EMNEs may be an insurmountable voids in their international expansion, however for others may appear less if they possess more resources (Kingsley & Graham, 2017; Lu, Liu, & Wang, 2011; Luo, 2003; Peng et al., 2008).

Some EMNEs can have a deep knowledge about the home country and, consequently, more availability of strategic alternatives, therefore, these MNEs do not rely heavily on political ties to gain access to desirable resources for their international expansion (Kingsley & Graham, 2017). The knowledge and skills accumulated by MNEs can reduce their dependence on political ties to acquire resources to expand into foreign markets. MNEs with more knowledge and skills are able to deploy fewer resources or use available resources more efficiently to face home country institutional voids in international expansion. Besides political ties, firms with more resources and capabilities usually have multiple channels to acquire resources, including strategic alliances with foreign providers of technology and finance. Thus, resources and EMNEs with more capabilities may be less damaged by the absence or underdevelopment of critical institutions to support EMNEs international expansion than less-experienced ones because of their superior efficiency in deploying resources, as well as more alternative sources of resources (Zhu & Chung, 2014).

It is also important to consider that institutions can fail in different aspects of their mission: regulatory, monitoring, enforcement, protection and incentivization. Such failures can affect international expansion in contrasting ways and with varying degrees of severity. However, the different types of failures and aspects are unclear, and EMNEs may have different capabilities to identify, collect and process relevant information from the local context so that these MNEs can adapt rapid and flexible manner to institutional voids (Cuervo-Cazurra & Genc, 2008; J. Doh et al., 2017).

While firms without international inexperience are the most that suffer the lack of legitimacy, these firms are more willing to engage in networking. Their ability to identify and deploy the right agent in an unfamiliar environment may be constrained by

the inexperience of internationalization. Thus, less experienced firms in international activities are more reliant on home nonmarket political strategy to acquire government support (Chen et al., 2018). These organizational attributes may amplify or reduce the significance of resources acquired through political ties, as well as the opportunities (Zhu & Chung, 2014). Likewise, once political ties serve as an important channel for external financial resources (Johnson & Mitton, 2003; Khwaja & Mian, 2005), the ties with politicians that controls sources of credit can become more valuable to EMNEs with less financial resources and capabilities than to EMNEs with highly capabilities and financial resources.

The government support should be particularly helpful for EMNEs that have opportunity to engage in international expansion, however, with less ability to access capital. Because state actors value social goals other than pure profit maximization, state capital tend to be more "patient". Private investors tend to seek short-term gains and they are more sensible in moments of turmoil, state capital are more likely commit to projects with longer time horizons and, therefore, can be "friendlier" to provide long-term capital to EMNEs international expansion. In sum, the government may act as a venture capitalist, supporting firms with constrained opportunity (Inoue, Lazzarini, & Musacchio, 2013; Musacchio, Lazzarini, & Aguilera, 2015).

Therefore, we argue that resources and nonmarket political strategy are not necessarily substitutive and we also suggests that the need is weakened by firm's resources and capabilities (Chen et al., 2018; Zhu & Chung, 2014). Thus, when EMNEs have less resources and capabilities to overcome home country institutional voids, they need to rely more on nonmarket political strategies. Thereby, EMNEs are more likely to proactively intensify political ties to receive support in their international expansion and mitigate the effects of codified laws and rules. Therefore, the value of this political strategy to the EMNEs can increase as resources and capabilities decreased. Accordingly, we postulate that:

Hypothesis 2. In less developed institutional settings, the positive relationship between international expansion of EMNEs and nonmarket political strategy intensity will be less for EMNEs with more resources and capabilities.

3 METHOD

In this chapter we present the methodological choices including the empirical context, the data and sample, the variables employed and their measurement, and the statistical procedures employed to test the hypotheses.

3.1 Empirical context

Several reasons make Brazil a suitable context for our empirical tests. First, we consider the volume of Brazil's OFDI, for example, Brazil is between the top 10 emerging nations in 2019 and led OFDI in Latin America in our period of analysis (UNCTAD, 2020). Second, we also consider the notable presence of institutional voids. Although Brazil has undergone by market reforms, the country still presents incipient capital market and is among the countries with the highest interest rates in the world (World Bank, 2020). Moreover, the financial system from Brazil is very concentrated and long-term financing operations are still limited (Claessens, Feijen, & Laeven, 2008; Inoue, Lazzarini, & Musacchio, 2013; Lazzarni, Musacchio, Bandeira-de-Mello, & Marcon, 2015). Third, despite Brazilian MNEs being latecomers, they have successfully established themselves as key competitors in the global economy and the country is frequently selected by IB researchers who study business in emerging markets (Borda, Geleilate, Newburry, & Kundu, 2017; Brandl, Darendeli, & Mudambi, 2019; Cuervo-Cazurra, Carneiro, Finchelstein, Duran, Gonzalez-Perez, Montoya, Borda Reyes, Fleury, & Newburry, 2019).

3.1.1 Market reforms and institutional voids in Brazilian context

Brazilian government increased its active participation in the economy after the First World War, mainly in the 1940s, when the government (Getúlio Vargas) accentuated the investments of several strategic sectors for the country, such as steel plants, mining and chemical products (Musacchio, 2009).

In the following decade, with the latent need to expand investments in infrastructure of companies and the presence of accentuated institutional voids in financial market, in 1952 the government created a national development bank, the

National Bank for Economic and Social Development (BNDES), in order to attend the demand for long-term credit (S. G. S. G. Lazzarini et al., 2015). In the 1970s, BNDES also started to allocate capital directly to companies (BRASIL, 2002).

In the 1980s, given the critical financial situation of the state-owned companies and the state, triggered mainly by the oil crisis in previous years, the government and multilateral agencies attempted to implement reforms in the management model in order to change the negative situation. However, efforts were useless. The model adopted by the government in state-owned companies proved to be inefficient, became a burden and the public finances bleeding (Musacchio & Lazzarini, 2014).

To illustrate the magnitude of the problem, the census of state-owned companies in the 1980s pointed to the federal government as the holder of more than five hundred companies and, at least, more than a thousand being operated by state governments. These companies triggered losses close to 4% of gross domestic product (GDP), which generated significant deficits in the national budget and took on gigantic proportions when interest rates soared in the United States in 1979 and the loan markets closed to developing countries in 1982 (Musacchio & Lazzarini, 2014; Trebat, 1983).

The beginning of the 90's, marked by financial instability, hyperinflation and high budget deficit, leads Brazilian government reconsiders investments in state-owned companies, given the high cost of this participation. After decades of military dictatorship, Brazilian context face a democratic regime and the macroeconomic adjustments began to be necessary and clearly defined.

Thus, the National Privatization Program (PND) was created. PND formally spelled out the Collor's government intention to reduce the state's presence in the economy. In order to mitigate criticism of the transfer of assets to foreign entities and to reduce the costs and uncertainties associated with entering in new markets, the government allowed "mixed consortia" in privatizations (De Paula, Ferraz, & Iotto, 2002). In this process, BNDES played a fundamental role, as it was up to it to carry out the determinations of the National Privatization Council and provide capital for the recovery and development of companies.

This decade was also marked by the impeachment of President Collor, which occurred in October 1992. The vice-president, Itamar Franco, inherited the ongoing economic reform with the great challenge of stabilization. During this period, the Plano

Real was initiated and focused on the balance of public accounts, the creation of a stable unit of value and the change of currency.

In first years of the 90s, given the perceived risk in Brazil, international investors were averse to allocating resources in the country. As a way of speeding up privatizations, the interest rate was fixed at 6.5% per year in these operations (Velasco-Junior, 2010). With this new rule, a great opportunity was opened for national companies and, consequently, the majority of privatizations had national investors, mainly those with high government connectivity (Colpan, Hikino, & Lincoln, 2010; S. Lazzarini, 2007).

In 1993, there were scandals of illegal financing of electoral campaigns, which culminated in the approval of the law that regulated this practice by the national congress. Therefore, individuals and legal entities were allowed to make donations directly to candidates, but with the limit between 10% and 2% of gross annual income. In addition, it became an obligation that candidates report themselves to the electoral courts, indicating the origin and destination of these financial resources (Claessens et al., 2008).

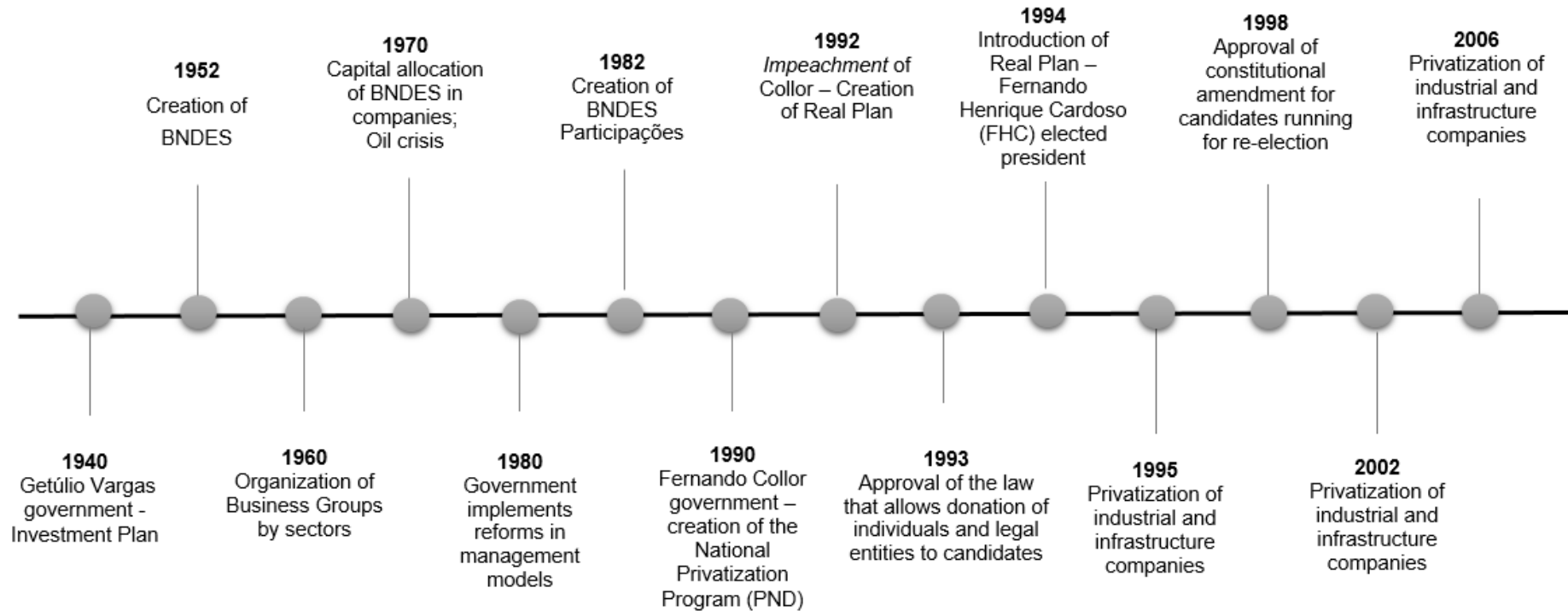
In 1994, the last stage of Plano Real happened, through a provisional measure that introduced the currency, based on the maintenance of its value through strict monetary policy. In the following months, inflation decreased, GDP grew up, and several sectors of the economy expanded. We highlight the importance of the revenues resulting from the privatization process, which had a relevant impact on the payment of public accounts and on helping the economic stabilization process. In 1995, the first stage of privatization was completed, mainly in industrial and infrastructure sectors. In order to increase the quality of public services, the new focus of privatizations has become public service concessionaires, notably electricity, transport and communications, at the federal and state levels. Therefore, in the following years, there was a significant advance in privatization, from the total of companies that were privatized in Brazil, approximately 75% occurred between 1997 and 1999, with emphasis on the telecommunications and electrical sectors (S. Lazzarini, 2007; Musacchio & Lazzarini, 2014).

Given the results of the reforms, the economic stabilization and other bases of macroeconomic policy established in Plano Real were maintained even with the change of government in 2002, when the opposition won the presidential elections.

Although slow, market reforms advanced in the 90s and 2000s until the end of first Lula's government. In the economic sphere, it was possible to control inflation, pay the foreign debt, expand the democratization, improve the investment classification, and reduce country risk and market barriers. On the other hand, it should be noted that Brazilian government still maintains a representative control over financial assets. Approximately 40% of the assets available in financial system are state-controlled (BNDES, Banco do Brasil - BB and Caixa Econômica Federal - CEF) (Claessens et al., 2008; Musacchio & Lazzarini, 2014; Xavier, Bandeira-de-Mello, & Marcon, 2014).

Figure 3 chronologically summarizes the main points of market reforms in recent decades in Brazilian context.

Figure 3 – Timeline of Brazilian market reforms



Source: Elaborated by the author (2020).

It is possible to note that market reforms have advanced, but the country still has a lot to evolve. In labor market, there is a significant tax burden on payroll, rigidity in labor laws, low levels of professional training, high turnover, informality, politicized unions and unrepresentative workers. These characteristics reduce the competitiveness of Brazilian companies (Puffer, McCarthy, & Jaeger, 2016; Schneider & Karcher, 2010).

Institutional voids associated with financial and capital markets also are highlighted. Substantial improvements are still need in interest rate and spread, as well as in legal and regulatory framework. In capital market, on average, during the period from 1995 to 2009, Brazilian companies capitalized in capital market the equivalent to 43.1% of GDP, compared to 98.7% in Chile and 129.7% in the United States (Inoue et al., 2013; Xavier et al., 2014). Thus, Brazilian companies operate in a much more restricted environment in terms of access to capital, when compared to context of other countries, which increases the cost of capital and limits the ability of companies to invest in relevant projects, especially those that require large capital allocations and have a long maturity (Inoue et al., 2013).

When we analyzed the institutional development in last decades, it is clear that Brazil is in an intermediate position and, despite Brazil has advanced in institutional and economic reforms, the country still has a considerable way to eliminate its institutional voids, as well as stabilize and solidify the country's institutions. This includes government fiscal discipline and a vibrant financial system with substantial improvements in the banking system, the stock market and the strengthening of Central Bank indecency (Puffer et al., 2016).

In order to synthesize the arguments presented chronologically, Table 1 summarizes the evolution of Brazil's regulatory institutional pillar in recent decades.

Table 1 – Multi-decade summary for Brazil

	1980	1990	2000	2010
Federal government	Military government, return to civilian control	Collor, first directly elected president, later impeached	Lula and Workers' party elected	Rousseff elected, growing dissatisfaction over stagnation, inflation and corruption
Legal system and law enforcement	1988 constitution reduces presidential powers	Land claims addressed, president can run for re-election	First police death squads revealed, corruption scandals	Clearing of some favelas, increased police in Rio before World Cup and Olympics, justice system goes after high officials for corruption
Economic System	Relatively closed economy with import substitution, hyperinflation	Relatively low inflation and a convertible currency for the first time in living memory, Mercosur created	Import substitution gradually abandoned, tariffs reduced	More integrated into the global economy
Central Bank	Participates in regulating economy, rationing foreign currency	Has role in real plan which stabilized the economy	Acts more like a central bank in a developed economy	Deals with financial crisis
Banking System	Banco do Brasil is government owned, overstaffed and bureaucratic	Private banking strengthens; Banco do Brasil restructured as commercial bank with massive layoffs and eventual profitability	Growth of foreign investment, Banco do Brasil still government controlled but stock actively traded	Possibility of IPO at Caixa Economica Federal, some activity abroad by banks
Capital Markets	Relatively limited capital markets by volume BRICS Exchanges	With stability of real, capital markets expand	Novo Mercado opens with stricter disclosure requirements for listed companies; IPOs	Alliance formed: cross-listing of benchmark equity index derivatives

Source: Adapted from Puffer (2016).

3.2 Data set

The unit of analysis in this dissertation is the firm. To test our hypothesis, we develop an original database that tracks information regarding CBM&A, firm-level financial information and nonmarket political strategy employed by 967 Brazilian firms from 2002 to 2017. We included all firms listed in the stock market during that period for which we could collect reliable financial and ownership information. Therefore, our analysis contemplates CBM&A and campaign donations carried out by Brazilian MNEs of our sample in 16 years of observation from four major electoral debates and four municipal electoral debates.

We obtained the data set through four secondary sources: comprising the superior electoral court data (Tribunal Superior Eleitoral – TSE), Economatica® database and Thomson Reuters® SDC Platinum database. From TSE database, we captured the campaign contributions to measure nonmarket political strategy; whereas, in Economatica® database, we collected economic-financial data and the sectors of the MNEs; in Thomson Reuters® database, we collected data regarding CBM&A by Brazilian MNEs. The panel is underbalanced due to mergers, acquisitions, cancellation of the listing on the stock exchange and missing information for some financial variables.

3.3 Variables

3.3.1 Dependent variables

Nonmarket Political Strategy. We use as proxy of nonmarket political strategy home country campaign donations of EMNEs. The choice of campaign donations as a means of nonmarket political strategy is due to several reasons. First, several studies have found that, in Brazil, political campaign financing is a crucial mechanism through which MNEs establish political ties (Boas, Hidalgo, & Richardson, 2014; Claessens et al., 2008; Gama, Galilea, Bandeira-de-Mello, & Marcon, 2019; S. G. S. G. Lazzarini et al., 2015; Xavier et al., 2014). Large election districts and an open-list competition create incentives for campaign donations and, Brazilian MNEs, unlike those in the United States, can make cash donations directly to candidates. Furthermore, collective

lobbying efforts, although widespread, are perceived as less effective than individual connections and the lack of strong associations pushes MNEs to establish their own home country political ties (Claessens et al., 2008; S. G. S. G. Lazzarini et al., 2015; Samuels, 2001).

Second, paradoxically, during the period of analysis, market and regulatory institutions developed themselves at the same time that politicians offered strong incentives to cultivate unusual relations with the government (Inoue et al., 2013). This relationship can be observed in 2014 majority elections, in which approximately 70% of elected congress representatives received resources from at least one of the ten firms that most made electoral donations. Finally, Brazilian legislation determines that all campaign donations must be reported to local authorities and the information becomes publicly available. Thus, campaign donations can be used as the most direct and objective measure of nonmarket political strategy between MNEs and elected officials (Claessens et al., 2008; S. G. S. G. Lazzarini et al., 2015; Samuels, 2001; Silva et al., 2018).

BNDES loans. In order to evaluate our arguments, we analyze BNDES loans through state-owned bank. We did this for two main reasons. First, capital constraints have been one of the central obstacles for projects of international expansion of EMNEs. Moreover, many governments of emerging markets increased support to international expansion of EMNEs made available credit to finance internationalization of MNEs with national control that aims to build new subsidiaries abroad, acquire or expand installed unities and raise its share participation on foreign firms (Arreola & Bandeira-de-Mello, 2018; Bazuchi et al., 2013; Finchelstein, 2017). The second reason is due to the intense presence of voids in Brazilian capital and financial markets. Brazil presents an incipient capital market and is among the countries with the highest interest rates in the world (World Bank, 2020). Besides, Brazilian financial system is very concentrated and long-term financing operations are still limited (Claessens et al., 2008; Lazzarini et al., 2015; Samuels, 2001; Xavier, Bandeira-de-Mello, & Marcon, 2014).

3.3.2 Explanatory variables

International expansion. We employed outward foreign direct investment through CBM&A as a proxy to capture international expansion. We did this for two

reasons. The first reason is due the EMNEs use predominant CBM&A as a vehicle for internationalization. Through CBM&A, EMNEs have quickly access to high level of resources and property as well production costs and cultural distance are reduced. Also, EMNEs are likely to suffer liability of foreignness, and this effect can be mitigated by CBM&A (Lebedev, Peng, Xie, & Stevens, 2015; Yamakawa, Khavul, Peng, & Deeds, 2013; Zaheer, 1995).

The second reason is due to the institutions are especially salient in CBM&As. Investment in foreign markets through CBM&A strongly depends on the quality of home country financial markets, which are shaped by the institutional environment. As emerging markets may exhibit a greater degree of institutional voids, transaction costs of M&A are generally higher (Hoskisson, Wright, Filatotchev, & Peng, 2013; Lebedev et al., 2015; S. L. Sun, Peng, Lee, & Tan, 2015).

We operationalize CBM&A by two main ways. First, we used individually the value of CBM&A, which is computed in natural logarithm (LN) and millions of dollars; the equity acquired, represented by the percentage of share acquired on transaction; and the number of CBM&A (Buckley & Munjal, 2017; Narayan & Thenmozhi, 2014). Next, we performed an exploratory factor analysis using the principal component method with varimax rotation, combining the individual variables previously described (value of CBM&A, equity acquired and number of CBM&A) in a single dimension for characterizing international expansion. Our analysis revealed one factor accounted for 95,25% of the variance.

3.3.3 Moderating variable

Resources and capabilities. We use two variables as proxy to represent resources and capabilities. First, we use the size measured by total assets as a proxy for the resources available for international expansion of EMNEs. Next, we use performance as a proxy of capabilities. Unfortunately, we were unable to find data more refined on EMNEs accumulated knowledge and skills to coordinate activities in less developed institutional settings. Although imperfect, this measure is theoretically consistent with rational that firms with superior capabilities have better performance (Barney, 1991; Teece, Pisano, & Shuen, 1997; Peng, 2008), therefore, following prior literature, we use performance as a proxy of capabilities. We employ two measures of performance. First, we use return on assets (ROA) that corresponds to net profits over

total assets in a given year. Second, we measure performance by return on equity (ROE) that corresponds the ratio of net profit to equity.

3.3.4 Control variables

We control two sets of variables related to nonmarket political strategy. In the first set, we control firm-level variables that include performance of market by Tobin's Q and financial controls by leverage. The second set includes country-level variables to measure capital market (market capitalization of listed domestic firms), financial market (domestic credit provided by financial sector), institutional environment (economic freedom) and political environment (political stability).

Market performance of firms, slack and leverage has been offered as an important driver of nonmarket political strategy for two main reasons. MNEs with high levels of market performance, slack and leverage will be active in nonmarket political strategy because they can afford to do so. On the other hand, MNEs with very low levels of market performance, slack and leverage will be politically active because a political solution may be one of the only way to correct their financial issues (Hillman et al., 2004; Lux et al., 2011; Schuler & Rehbein, 1997).

In country-level, we control freedom in market, political stability and legal system because they likely affect the decision of EMNEs to engage in political activities. We will probably see a gradually reduced role of political ties and a heavier reliance on market-based capabilities as formal market-supporting institutions are gradually implemented (Peng et al., 2008). We control the political stability because political ties are usually unstable and particularly vulnerable to political election and/or regime change events. Thus, these political ties can suddenly turn into a significant liability when unexpected changes in the political regimes occur (Choi, Jiménez, & Lee, 2020; Siegel, 2007; P. Sun et al., 2012). Moreover, markets with less government interference are likely to encourage MNEs to concentrate their efforts on economic rather than political activities (Bonardi, Hillman, & Keim, 2005; Hillman & Hitt, 1999; Lux et al., 2011; North, 1990). Variables are detailed in Table 2.

Table 2 – Variables

Variable	Description	Data source
<i>Dependent</i>		

Campaign donations	Value of campaign donations in logarithm	TSE
BNDES loans	Value of BNDES loans in logarithm	BNDES
<i>Explanatory</i>		
CBM&A	Value of the acquisition in logarithm (A) Percentage of shares acquired (B) Number of CBM&A by Brazilian MNEs (C) Factor Analysis Scores (A, C and B)	Thomson Reuters
<i>Moderating</i>		
ROA	Net profit divided over total assets in logarithm	Economática
ROE	Ratio net profit to equity in logarithm	Economática
Constrained	Tobin's Q is equal to one if Tobin's Q exceeds unity and zero otherwise Constraint C is equal to one if the firm has a ratio of net profits to the total assets that is below the sample median and zero otherwise Constrained opportunity is equal to one if both Q and C are equal to one and zero otherwise.	Economática
<i>Controls</i>		
Total assets	Total assets in logarithm	Economática
Tobin's Q	Market value of stocks plus debt divided by total assets	Economática
Leverage	Total debt divided by total assets in logarithm	Economática
Capital Market	Market capitalization of listed domestic firms in % of GDP	World Bank
Financial Market	Domestic credit provided by financial sector % of GDP	World Bank
Economic freedom	Index of Economic Freedom	Heritage Foundation
Political stability	Political stability and absence of violence (Estimate)	WGI

Source: Elaborated by the author (2020).

3.4 Estimation approach

We tested the hypotheses using an unobserved effects panel data model. Such a choice aims at controlling for unobservable variables and unobserved heterogeneity, which are accomplished by both fixed effects and random effects' methods. Univariate and multivariate normality tests were performed and no restrictions were noted. We also applied the Hausman specification test and results showed systematic variation between the random-effects and fixed effects' estimations (Allison, 2009; Xavier et al., 2014).

The final equation model that we employ to test our hypothesis is the following:

$$\text{Nonmarket Political Strategy}_{i,t} = \beta_0 + \beta_1 \text{International Expansion}_{i,t} + \beta_2 \text{Resources\&capabilities}_{i,t} + \beta_3 \text{International Expansion}_{i,t} \times \text{Resources\&capabilities}_{i,t} + \beta_4 \text{Controls} + \varepsilon_{i,t}$$

From this equation nonmarket political strategy i in period t , is represented by campaign donations; β_0 indicates the intercept; β_1 indicates the international expansion, represented by the metrics of the value of CBM&A, equity acquired and number of CB&MA; β_2 indicates the resources and capabilities, represented by total assets and performance; β_3 indicates the moderation, represented by interaction between international expansion and resources and capabilities; β_4 indicates control variables and; $\varepsilon_{i,t}$ represents the error.

We use firm and year fixed effects dummies. Standard errors are clustered by firms to control potential heteroscedasticity and autocorrelation and to provide robust standard error estimates with reliable t-statistics. Residual analysis and robustness checks show that the base model is adequate (Hu, Jiang, & Holmes, 2019; Petersen, 2009; Xavier et al., 2014).

4 RESULTS

Table 3 presents the descriptive statistics and correlations of the variables, reporting the mean, standard deviation, and the pairwise correlations among the variables used in the analyses. Most correlation coefficients between independent variables are relatively lower. Some variables have moderate correlation, such as interest rates and BNDES loans, leverage and Tobin Q and, financial market with economic freedom and legal system. As these are loan measures and the institutional environment, respectively, these moderate relationships were already expected. Thus, we adopt a mean-centering approach in our regressions to address any potential multicollinearity. We check variance inflation factor values are lower than 5, thus, multicollinearity is not a serious concern in our regressions (Choi et al., 2020; Hair, Black, Babin, & Anderson, 1998; Zhu & Chung, 2014).

Table 3 – Descriptive statistics and correlations matrix

Variables	Mean	Std.	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Campaign donations	-5.98e-08	2.94	1												
2 BNDES loans	2.08e-07	5.76	0.20*	1											
3 Interest rates	-4.92e-09	0.61	0.09*	0.69*	1										
4 International expansion	-1.07e-09	1	0.08*	0.14*	0.07*	1									
5 Capabilities	2.73e-07	1.34	-0.02	-0.01	0.00	0.07*	1								
6 Resources	-1.32e-06	3.27	0.14*	0.26*	0.21*	0.19*	-0.11*	1							
7 Tobin Q	4.56e-08	1.55	0.04*	0.05*	0.03*	0.01	0.11*	-0.05*	1						
8 Leverage	-3.59e-07	1.68	0.03*	0.06*	0.04*	-0.02	-0.13*	-0.16*	0.75*	1					
9 Capital market	-1.24e-06	18.48	-0.01	0.05*	0.02*	0.04*	0.07*	0.00	0.06*	-0.01	1				
10 Financial market	-4.29e-06	14.71	-0.00	-0.03*	0.02*	0.02*	-0.02	-0.02*	0.02	0.00	-0.07*	1			
11 Economic freedom	2.97e-07	3.12	0.01	0.02*	-0.01	-0.02*	0.01	0.00	-0.01	0.02	-0.25*	-0.60*	1		
12 Political stability	-4.46e-08	0.22	0.05*	0.06*	0.04*	-0.02*	0.01	0.03*	-0.01	-0.00	-0.13*	-0.22*	0.41*	1	
13 Legal system	-2.81e-08	0.14	0.01	0.02*	0.05*	-0.02	-0.03*	0.01	-0.02	-0.02	-0.15*	0.66*	-0.43*	0.31*	1

Note. * $p < 0.05$.

Table 4 presents the results based on the previously mentioned panel data regression. We used different regression models to test the hypotheses. First, we include only the controls variables (Model 1). Second, we estimated the direct effects of international expansion and performance on nonmarket political strategy with and without control variables (Models 2 to 5). Third, we include the interaction effects of international expansion with performance (Model 6). Finally, we include with total assets (Model 7).

Table 4 – Moderator effect of nonmarket political strategy

Variables	Nonmarket political strategy						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Hypothesized effects</i>							
International expansion		0.19*** (0.05)			0.16** (0.06)	0.21** (0.08)	0.06 (0.09)
Capabilities			0.13*** (0.03)		0.15*** (0.04)	0.12*** (0.03)	
Resource				0.03* (0.02)	0.26*** (0.08)		0.05* (0.02)
International expansion x capabilities						-0.10† (0.06)	
International expansion x resource							0.02 (0.02)
<i>Controls</i>							
Tobin Q	0.10* (0.04)				0.10 (0.08)	0.11 (0.08)	0.05 (0.04)
Leverage	-0.08* (0.04)				0.06 (0.09)	0.07 (0.09)	-0.02 (0.04)
Capital Market	-0.01*** (0.00)				-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)
Financial market	-0.03*** (0.01)				-0.04*** (0.01)	-0.03*** (0.01)	-0.03*** (0.01)
Economic freedom	0.00 (0.01)				-0.01 (0.02)	-0.01 (0.02)	0.01 (0.01)
Political stability	0.12 (0.19)				-0.09 (0.31)	-0.09 (0.32)	-0.05 (0.22)
Legal system	2.29*** (0.32)				3.53*** (0.60)	3.59*** (0.60)	2.49*** (0.41)
Constant	0.45*** (0.02)	-0.084*** (0.00)	0.48*** (0.00)	0.25*** (0.00)	0.41*** (0.07)	0.62*** (0.03)	0.32*** (0.03)

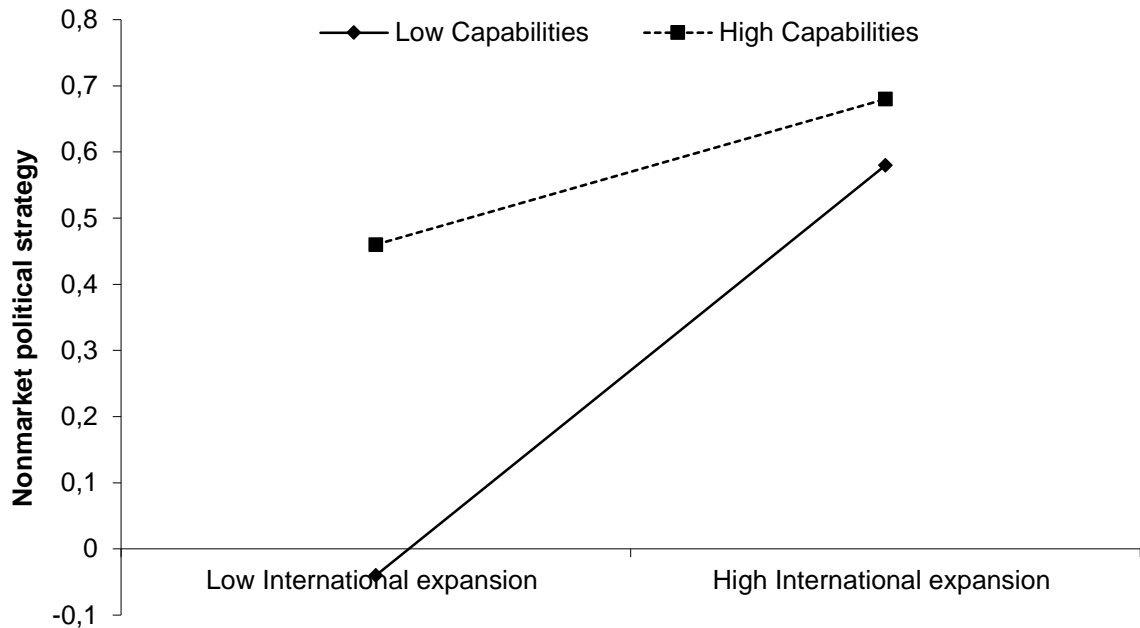
Year and firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N of observations	10414	17208	7038	11466	5624	5624	9366
N of firms	940	967	838	951	818	818	939
R-sq: within	0.01	0.00	0.00	0.00	0.02	0.02	0.01
R-sq: between	0.01	0.02	0.01	0.09	0.06	0.02	0.09
R-sq: overall	0.01	0.01	0.00	0.02	0.03	0.02	0.03

Note. *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, † $p < 0.10$. Robust standard errors (clustered on each firm) are in parentheses.

Model 5 reports the main test of Hypothesis 1, which predicts that international expansion of EMNEs positively affects home country nonmarket political strategy. We find a positively and significant ($b = 0.21$, $p < 0.01$) effect of international expansion on nonmarket political strategy of EMNEs, leading us to conclude that Hypothesis 1 is supported. Model 6 and 7 introduces all interacting relationships hypothesized and provides the main test of Hypothesis 2, which predicts that the resources and capabilities negatively moderates the intensity of home country nonmarket political strategy employed by EMNEs. The effect of the interaction term is negative and significant ($b = -0.10$, $p < 0.10$) for capabilities. However, the effect of the interaction is positive and not significant for resources, providing partial support for the Hypothesis 2.

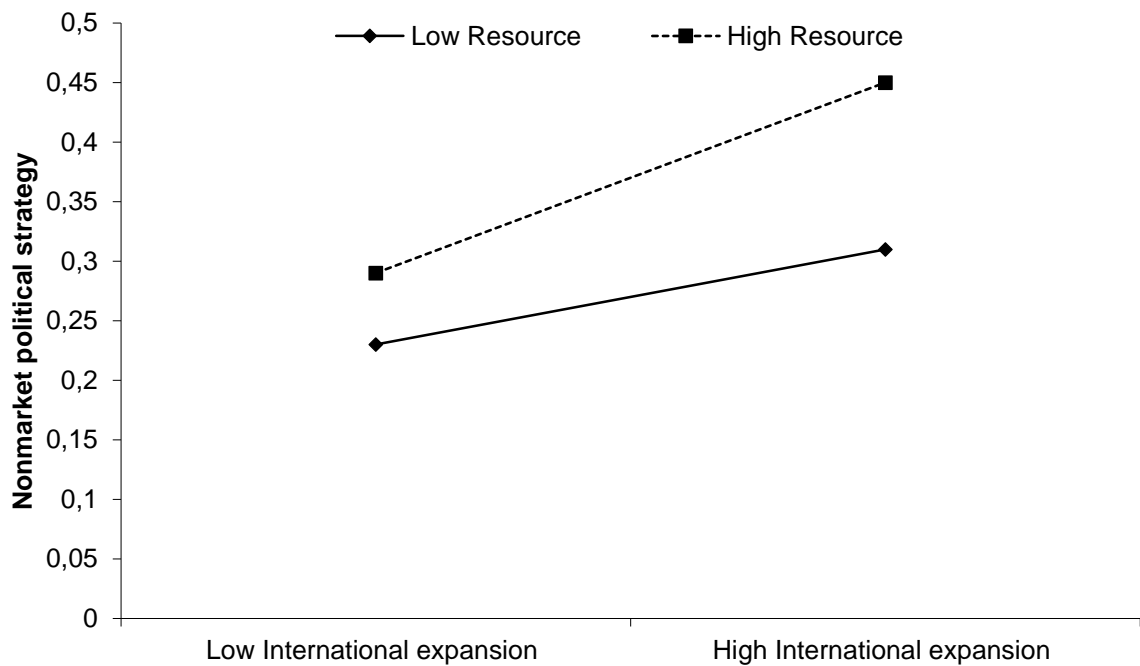
Figure 4 and 5 illustrates graphically the impact of EMNEs international expansion on home country nonmarket political strategy when these MNEs show high resources and capabilities vs when they show less resources and capabilities, respectively. As we can see in Figure 4, international expansion of EMNEs positively affects home country nonmarket political strategy. This finding is in line with Hypothesis 1. Moreover, we find a stronger effect (steeper slope) on the intensity of nonmarket political strategy for MNEs with less capabilities. However, this stronger effect (steeper slope) is not similar for EMNEs with less resources, as we can see in Figure 5, corroborating the partial support for the Hypothesis 2.

Figure 4 – The effect of international expansion on intensity of nonmarket political strategy at high and low levels of capabilities



Note: Chart is based on Model 6 from Table 4. High and low levels of capabilities are 1 standard deviation above and below its mean, respectively.

Figure 5 – The effect of international expansion on intensity of nonmarket political strategy at high and low levels of resources



Note: Chart is based on Model 6 from Table 4. High and low levels of resources are 1 standard deviation above and below its mean, respectively.

We conducted a series of additional analysis to evaluate our arguments and results. First, we evaluate arguments that subsidize our hypotheses, for this, we analyze the state-owned BNDES loans that Brazilian firms obtained from this bank. We did this for two main reasons. First, capital constraints have been one of the central obstacles for projects of international expansion of EMNEs. Moreover, many governments of emerging markets increased support to international expansion of EMNEs made available credit to finance internationalization of MNEs with national control that aims to build new subsidiaries abroad, acquire or expand installed unities and raise its share participation on foreign firms (Arreola & Bandeira-de-Mello, 2018; Finchelstein, 2017; Pinto, Ferreira, Falaster, Fleury, & Fleury, 2017). The second reason is due to the intense presence of voids in capital and financial markets in the context investigated (Claessens et al., 2008; S. G. S. G. Lazzarini et al., 2015).

Thus, aligned with arguments from Hypothesis 1 and 2, we expect that, (a) the international expansion of EMNEs increases the need for home country government support, represented by the state-owned loans, (b) nonmarket political strategy support EMNEs to access loans in state-owned bank and in better condition and, (c) EMNEs with more resources and capabilities have low need of state loans. We used different regression models for this. First, we evaluate the effects of EMNEs international expansion and nonmarket political strategy on state-owned BNDES loans (Model 1). Second, we evaluate the effects of EMNEs international expansion and their resources and capabilities (Models 2 and 3) and nonmarket political strategy effects on state-owned BNDES loans (Model 4). Next, we follow this same sequence to assess the effects on interest rate of loans (Model 5 to 8). Table 5 presents these results.

In Table 5, we find a positive coefficient of EMNEs' international expansion on state-owned loans in all models (Model 1 to 4), although only Model 2 the effect is statistically significant. The interaction with capabilities ($b = -0.17$, $p < 0.00$) and nonmarket political strategy ($b = 0.02$, $p < 0.05$) is also significant on state-owned loans. We also find a negative and statistically significant coefficient of EMNEs' international expansion on loans interest rate in all models (Model 5 to 8). All coefficients of the interaction are negative, yet only capabilities test ($b = -0.02$, $p < 0.01$) is statistically significant. Although some coefficients are not statistically significant, taken together, the results suggest that nonmarket political strategy not only helps to gain access to resources, but also with high quality. Likewise, resources and capabilities suggest less dependence on state loans and proved to be relevant to access financial resources

with high quality. These results provide support for our arguments that subsidize Hypotheses 1 and 2, that international expansion of EMNEs increases the need for home country government support and that nonmarket political strategy help EMNEs to access scarce and relevant financial resources for their international expansion.

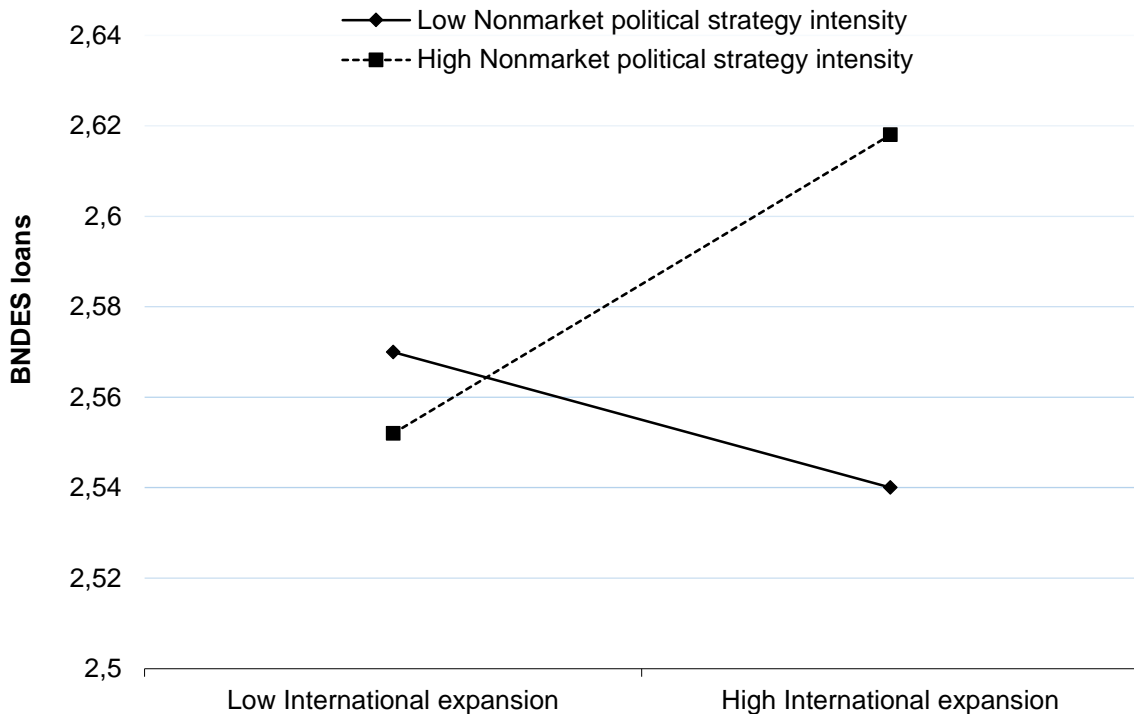
Table 5 – Regression results

Variables	BNDES loans value				BNDES loans interest rate			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
International expansion	0.07 (0.07)	0.15* (0.07)	0.04 (0.10)	0.01 (0.05)	-0.03** (0.01)	-0.02† (0.01)	-0.02 (0.01)	-0.02* (0.01)
Capabilities	-0.00 (0.07)	0.00 (0.07)			0.01 (0.01)	0.00 (0.01)		
Resource	0.01 (0.10)		-0.02 (0.05)		0.02 (0.01)		-0.00 (0.00)	
Nonmarket political strategy	0.00 (0.03)			0.02 (0.02)	-0.00 (0.00)			-0.00 (0.00)
International expansion x capabilities		- 0.17*** (0.05)				-0.02** (0.01)		
International expansion x resource			0.01 (0.03)				-0.00 (0.00)	
International expansion x nonmarket political strategy				0.02* (0.01)				-0.00 (0.00)
Tobin Q	0.08 (0.12)	0.09 (0.11)	0.17* (0.08)	0.17* (0.08)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)
Leverage	-0.04 (0.11)	-0.05 (0.11)	-0.22* (0.08)	-0.21* (0.08)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)
Capital Market	0.03*** (0.00)	0.03*** (0.00)	0.02*** (0.00)	0.01*** (0.00)	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)
Financial market	-0.01 (0.01)	-0.01 (0.01)	-0.02† (0.01)	-0.02 (0.01)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Economic freedom	0.11* (0.05)	0.12* (0.05)	0.08** (0.03)	0.08** (0.03)	0.01 (0.01)	0.01 (0.01)	0.01† (0.00)	0.01† (0.00)
Political stability	0.94† (0.58)	0.93 (0.58)	1.44*** (0.40)	1.43*** (0.40)	0.02 (0.08)	0.01 (0.08)	0.09† (0.05)	0.09† (0.05)
Legal system	2.96** (1.01)	2.93** (1.00)	2.16** (0.69)	2.07** (0.69)	0.43** (0.14)	0.41** (0.14)	0.31** (0.10)	0.31** (0.10)
Constant	3.32*** (0.11)	3.34*** (0.06)	2.58*** (0.04)	2.58*** (0.04)	0.21*** (0.01)	0.22*** (0.01)	0.17*** (0.01)	0.17*** (0.01)
Year and firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N of observations	5322	5322	8886	8886	5322	5322	8886	8886
N of firms	796	796	920	920	796	796	920	920
R-sq: within	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.01
R-sq: between	0.03	0.02	0.00	0.01	0.01	0.02	0.03	0.03
R-sq: overall	0.02	0.02	0.01	0.02	0.01	0.00	0.00	0.00

Note. *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, † $p < 0.10$. Robust standard errors (clustered on each firm) are in parentheses.

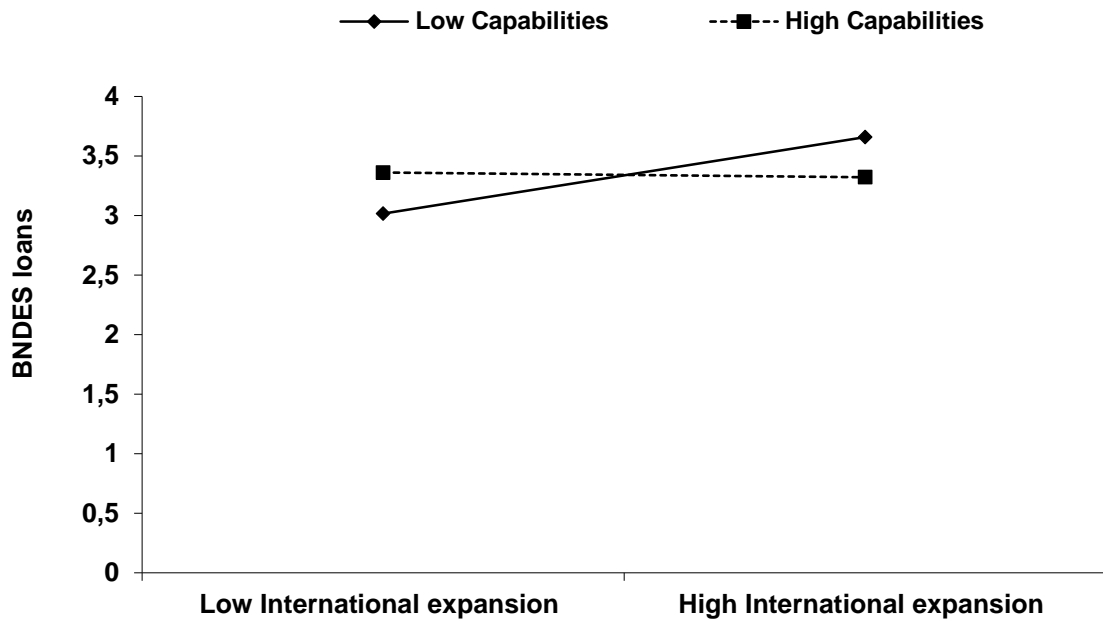
Figures 6 to 8 illustrates graphically the impact of the statistically significant relationships on state-owned BNDES loans and in interest rate. Figure 6 illustrates the effect of EMNEs' international expansion on state-owned BNDES loans when these MNEs employ more nonmarket political strategy vs when they employ less such strategy. As we can see in Figure 6, international expansion of EMNEs has a stronger effect (steeper slope) on state-owned BNDES loans when these MNEs employ more nonmarket political strategy. In Figure 7, international expansion has a stronger effect (steeper slope) on state-owned BNDES loans when MNEs present low levels of capabilities. As we predicted, when capabilities are higher than the mean, the slope is decreasingly positive and may even be virtually flat. Also, we can see in Figure 8 that international expansion has a stronger effect (steeper slope) on interest rate of loans when MNEs present low levels of capabilities.

Figure 6 – The effect of international expansion of EMNEs on state-owned BNDES loans at high and low levels of nonmarket political strategy intensity



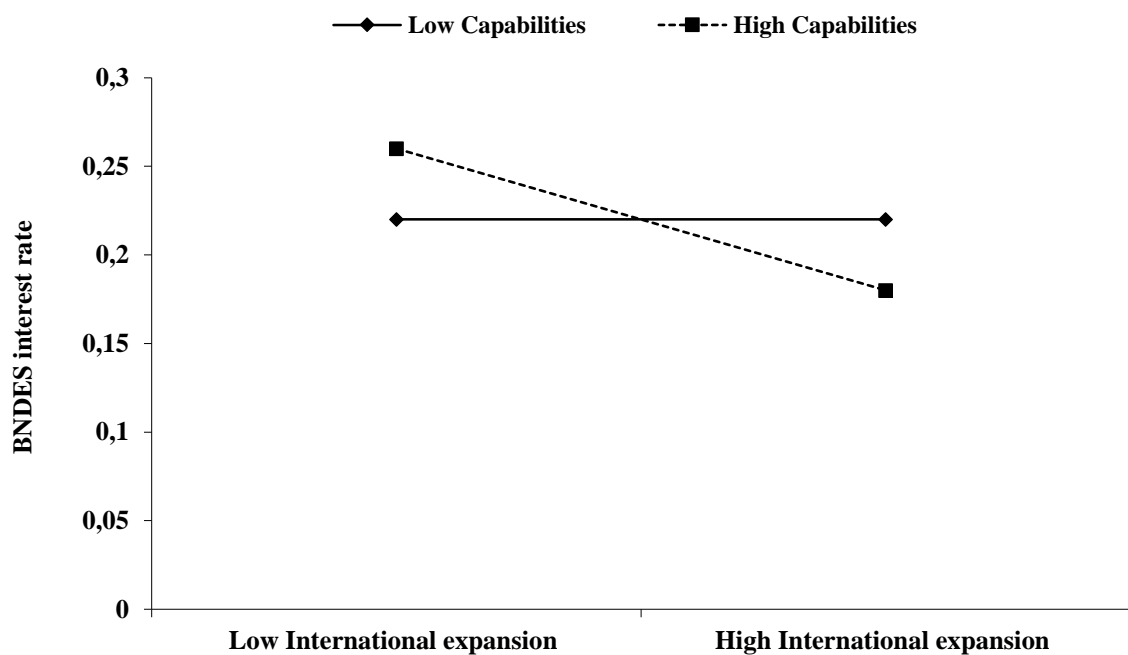
Note: Chart is based on Model 2 from Table 5. High and low levels of nonmarket political strategy are 1 standard deviation above and below its mean, respectively.

Figure 7 – The effect of international expansion of EMNEs on state-owned BNDES loans at high and low levels of capabilities



Note: Chart is based on Model 4 from Table 5. High and low levels of capacities are 1 standard deviation above and below its mean, respectively.

Figure 8 – The effect of international expansion of EMNEs on state-owned BNDES interest rate at high and low levels of capabilities



Note: Chart is based on Model 6 from Table 5. High and low levels of capacities are 1 standard deviation above and below its mean, respectively.

4.1 Robustness Check

In order to evaluate our arguments and results, we conducted several robustness checks to test the strength of our findings. Given that our period of analysis covers two distinct presidents' term (e.g. Luiz Inácio Lula da Silva, 2003–2010; and Dilma Rousseff, 2011–2016), we separate our regressions into two periods: 2003–2010 and 2011–2016. This separation is carried out to determine whether the changes in nonmarket political strategy effect found over the years are the result of changes in the government itself (Inoue et al., 2013). Splitting our regressions in periods fails to reveal substantial differences in our results.

We also ran sensitivity checks and conducted a series of analyses parallel. We remove observations from specific sectors, such as banking and financial sector and we tested the model with dummy of campaign donations and CBM&A. In summary, our sensitivity check findings were similar to our reported results in terms of significance and direction.

5 DISCUSSION

In this dissertation, we investigate the drivers of home country nonmarket political strategy and, why some EMNEs intensify political ties more than others do. Theoretically grounded on institutional-based view of strategy, we theorized and empirically tested international expansion as a driver of home country nonmarket political strategy and resources and capabilities as a moderator of political ties intensity. We empirically test our theoretical framework using a longitudinal data set from Brazilian firms and the results consistently support our hypotheses and arguments.

As we had hypothesized, our findings show that international expansion of EMNEs positively affects home country nonmarket political strategy (Hypothesis 1), leading us to confirm our theorizing initially predicted (Baron, 1995; Bazuchi, Zacharias, Broering, Arreola, & Bandeira-de-Mello, 2013; Boddewyn & Brewer, 1994; Chen, Li, & Fan, 2018; Schuler, Schnietz, & Baggett, 2002; White III et al., 2015, 2018). We also hypothesized that MNEs' resources and capabilities negatively moderate the intensity of home country nonmarket political strategy (Hypothesis 2) (Chen et al., 2018; Kingsley & Graham, 2017; Lu, Liu, & Wang, 2011; Luo, 2003; Peng, Wang, & Jiang, 2008; Zhu & Chung, 2014). The results show a negative association in this relation, suggesting that this finding is consistent with our theorizing initially predicted that the intensity of nonmarket political strategy is affected by the MNEs resources and capacity to deal with the international expansion issues to expand overseas without depending on relationship with political actors and home country vulnerability (Zhu & Chung, 2014).

Our results of BNDEs loans suggest that international expansion of EMNEs increases the need for home country government support and that nonmarket political strategy help EMNEs to access scarce and relevant financial resources for their international expansion. These results also suggest that nonmarket political strategy not only helps EMNEs to gain access to resources for their international expansion, as well also helps them to get resources with high quality. Likewise, the results suggest that EMNEs with more resources and capabilities have less dependence on state loans and these resources and capabilities proved to be relevant to access financial resources with high quality.

We argue that, as EMNEs become more focused on international expansion, they become more inclined to pursue a nonmarket political strategy in home country and depending on their resources and capabilities, consequently, these MNEs implement higher or lower levels of political ties. The resources and capabilities of a firm could decrease the severity or impact of institutional voids in international expansion, which could culminate in less intensity of nonmarket political strategy in home country. Therefore, nonmarket political strategy intensity of MNEs is affected by resources and capabilities that EMNEs have to deal with international expansion issues without depending on relationship with home country nonmarket political actors. Thus, the international expansion and organizational resources will mutually affect the intensification of political ties and the value of this strategy to the EMNEs can increase as resources and capabilities decreased.

6 CONCLUDING REMARKS AND FUTURE RESEARCH

This dissertation proposed to analyze the international expansion as a driver of home country nonmarket political strategy and investigated why some EMNEs intensify these political ties more than others EMNEs do. We found that international expansion may be a relevant driver of home country nonmarket political strategy of EMNEs and that resources and capabilities of EMNEs negatively moderates the effects of international expansion on political ties decisions. We also found that nonmarket political strategy not only helps EMNEs to gain access to resources for their international expansion, as well also helps them to get resources with high quality.

This dissertation extends the literature focused on the antecedents of nonmarket political strategy employed by EMNEs. We theorize and empirically demonstrate international expansion as a relevant driver of home country nonmarket political strategy and the contingency role of resources and capabilities from EMNEs. We also contribute to a central inquiry that the literature of strategy tripod seeks to address. While it seems established that the industry, resources and institutions each individually account for a portion of variance in EMNEs' strategy, most of the literature to date has separately studied these factors. Thus, the knowledge about how the "legs" interact to shape firms' strategy is not a full mission of the strategy tripod research (Chen et al., 2018; P. Sun et al., 2012; Wang et al., 2012).

This dissertation also makes empirical contributions to the literature. Most research on nonmarket political strategy has been primarily focused on developed markets (e.g. North American context). In emerging markets, scholars have been primarily focused on China, a politically stable context. In addition, most research are cross sectional based on managerial perceptions with self-reported measurements and, therefore, these studies have limitation inherent, such as common method bias, non-responses or potential false responses, mainly given that political ties may be a sensitive question. We overcome these obstacles by integrating several data source and developing an original longitudinal data set to test our hypotheses in the largest economy in Latin America.

5.1 Managerial implications

Furthermore, this dissertation also makes contributions to EMNEs managers. Given that MNEs in particular have several nonmarket political strategy factors, however few of them affect nonmarket political strategy to a large extent (Bach & Allen, 2010), we help for dissecting the thicket of critical factors, both to the upside and the downside. We also offer more subsidies for managers map nonmarket political arenas and actors and evaluate which factors matter to get to actionable nonmarket political strategies.

5.2 Limitations and future research avenues

While this dissertation presents some relevant findings to enhance our understanding on the field investigated, more research is called to develop a complete picture. First, this dissertation is based on a single country setting, and therefore future studies could test the validity of the model relying on comparative perspectives across various countries. Moreover, international expansion and nonmarket political strategy represent a complex and multifaceted phenomenon and the proxies can be under-represent the phenomena. Therefore, future research may seek more proxies in order to uncover distinct effects and more specific dimensions and explain what happens when EMNEs fail in establish ties with home country political actors.

Furthermore, more theoretical and empirical investigations are also needed to explain possible spillover or contagion effects of responses to institutional voids, as for example when this strategy increases negative perceptions in host countries about their ability to conduct business in a legitimate manner. Investigations regarding when political ties could turn into a liability as the institutional context changes or how dependence on external agents affect the EMNEs' autonomy also can bring findings to enhance our understanding of this phenomenon.

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