PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA MINISTRY OF HIGHER EDUCATION AND SCIENTIFIC RESEARCH UNIVERSITY OF MOHAMED BOUDIAF - M'SILA

FACULTY OF: Economic, Management, and Financial Sciences
DEPARTMENT OF: Management Sciences
N°:……..

DOMAIN: Management Sciences
STREAM: Management Sciences
OPTION: Business Administration

Dissertation Submitted to the Department of Management in Partial Fulfilment of the requirements for the Degree of Master

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Titled

The effect of institutional distance on the diversification degree of MNEs products in the developing countries: Evidence from MNEs in Algeria

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ACADEMIC YEAR : 2019/2020

Abstract:

Through many decades, institutional theories took an important place in the literature of international businesses. Scholars over time sought in these theories and developed many frameworks that allow organizations differentiating between one country and another based on mathematical and statistical calculations. In the present research, we used the nine dimensions of Berry *et al*., (2010) "Economic, financial, political, administrative, cultural, demographic, knowledge, global connectedness, geographic" as an institutional distance framework to investigate their impact on the diversification strategy, more precisely, the products diversification degree in the MNEs located in Algeria. To fulfill our aim, we followed a quantitative method by using a sample of 130 MNEs and calculated both the diversification degree and the nine dimensions. Eventually, our analysis showed a weak and negative correlation between the political distance and diversification degree, while we did not find significant results for the rest of the dimensions. Thus, we concluded that the institutional distance influences directly the making of the strategic decision of diversification while the diversification degree is the inevitable result of this decision.

Keywords: Institutional theory, Institutional distance, Corporate strategies, diversification strategy, diversification degree, Multinational enterprises, Emerging economies.

الملخص:

على مدى عقود عديدة ، احتلت النظريات المؤسساتية مكانًا مهمًا في أدبيات الاعمال الدولية. سعى العلماء بمرور الوقت في هذه النظريات وطوروا العديد من أطر العمل و الهياكل التي تسمح للمنظمات بالتمييز بين دولة وأخرى بناءً على الحسابات الرياضية والإحصائية. في هذا البحث، استخدمنا الأبعاد التسعة للباحث باري (2010) و هي "الاقتصادية، المالية، السياسية، الإدارية، الثقافية، الديموغرافية، المعرفية، الترابط العالمي، والجغرافية" كإطارعمل للمسافة المؤسساتية للتحقيق في تأثيرها على استراتيجية التنويع، و بالتحديد، درجة تنويع المنتجات في الشركات متعددة الجنسيات الموجودة في الجزائر. لتحقيق هدفنا، اتبعنا طريقة كمية باستخدام عينة من 130 مؤسسة بالإضافة الي حساب كل من درجة التنويع والأبعاد التسعة لباري. في النهاية أظهر تحليلنا ارتباط ضعيف وسلبي بين المسافة السياسية ودرجة التنويع ، بينما لم نجد نتائج مهمة لباقي الأبعاد. وهكذا توصلنا إلى أن المسافة المؤسسية تؤثر بشكل مباشر على اتخاذ قرار التنويع الاستراتيجي بينما درجة التنويع هي النتيجة الحتمية لهذا القرار.

الكلمات المفتاحية: النظرية المؤسساتية، المسافة المؤسساتية، استراتيجية الشركة، استراتيجية التنويع، درجة التنويع، المؤسسات المتعددة الجنسيات، الافتصاديات النامية.

Acknowledgment

I would like to pay my special regards and express my sincere appreciation to my supervisor, Dr. Hamza Aib. His persistent help led to achieving the goal behind my thesis, by providing guidance and feedback throughout this research even when the road got tough.

I am extremely grateful to Dr. Debbi Ali, and Dr. Boudjemaa Amroune, who accepted to serve my thesis committee. I truly appreciate their valuable time spent in evaluating my research. And it would be a great pleasure to collaborate with them in the future.

I wish to express my deepest gratitude to the academic crew of our department, to all the professors who have taught me during the past five years at university. Their knowledge and contributions have been huge crutches that helped me develop myself and my insights in this field.

I would like to express my gratitude for my colleagues Ilham, Siham, Fatima, Dalila, Amira, and Khaira, and all the unmentioned ones whom I passed the greatest moments in my life with, and whose support and encouragement has been invaluable throughout my curriculum and until this phase.

I would like to thank and heartedly appreciate those whom without I would not have been able to complete this research, and whom without I would not have made it through my master's degree. My family, their support, and great love kept me going on, and this work would not have been possible without their input.

Table of contents

List of tables

List of figures

List of abbreviations

IB…… International Business
ID……. Institutional Distance
IT…… Institutional Theory
NIT……. New Institutional Theory
MNE…… Multinational Enterprise

Introduction

1- Introduction

1-1 Background:

In recent years, international management took an important place as firms started to invest across borders, and by international management, we imply distance management. As Zaheer Srilata, Margaret Spring Schomaker, and Lilach (2012) said, when there is an ability to manage the different resources of firms across borders, we can consider that international management is mainly distance management. Nevertheless, managing across borders has been representing huge challenges for firms, managers ignored this fact and focused more on the benefits behind foreign investments and the expansions through new markets. Scholars over the years have taken in charge these obstacles and built upon it some several theories to encourage and facilitate operating overseas.

Scholars over the years have taken in charge the study of distances between countries and developed theories to explain firms' strategic behavior across borders and how to facilitate operating overseas. Institutional Theory (IT, hereafter), as one of the most paramount theories in international management, arose in the United States when scholars during the 1970s recognized that organizations cannot be explained without the understanding of wider environmental forces (Lammers & Garcia, 2017). Therefore, Institutional theory is concerned with the need of groups and organizations to conform to rules and norms of a specific institutional environment, to gain legitimacy and secure their positions (Meyer and Rowan,1991; Scott,2007; Bruton, Ahlstrom, & Li, 2010). Due the many excellent reviews of institutional theory in the last few years (Dacin *et al*., 2002) it has become a dominant perspective in macro organization theory (Greenwood & Hinings, 1996). By the time, IT has been developed to 'New institutional theory' (NIT), which is ultimately like IT but focused more on isomorphism, formal and informal institutions, besides the institutions' change.

Institutional distance by which scholars have organized the institutions refers to the dissimilarity ratio in formal and informal institutions between two countries (Kostova & Zaheer, 1999, Xu & Shenkar, 2002). And represents dissimilarity between institutional environments of the country of origin and the host country (Kostova, 1997). These dissimilarities affect robustly the firm's process of expanding into new countries especially those who are characterized by weak economic growth.

Firms seeking to expand and diversify their products/markets head up to a specific strategic mixture that combines between the diversification strategy and the extent or the scope of applying this strategy which is on the international level as we focusing on a cross border expansion. Diversification strategy deals with diversifying in a firm's products which means new production lines, or its markets in or outside the parent country. When firms implement this strategy, the unspoken purpose usually is increasing their profits by gaining competitive advantages in host markets.

Sometimes or maybe most of the times, when firms transfer their operations and practices to foreign countries and precisely in emerging economies, they do it with reservation, in other

words, they might decrease their production lines, or change completely their product to conform to the new institutional environment, the difference between the products' number represented by the parent country firm and the number of those represented by the host country firm in the host market is a clear evidence on how much the firm is diving into the product diversification strategy in its businesses. This variation is a reflective mirror to the term of 'Diversification degree'.

1-2 The relevance of the research:

Institutional distance (ID, hereafter) is mainly concerned with the institutional environments as it represents the dissimilarity between countries besides the ability to measure this contrast, by providing many indices such as Scott's (1995, 2001) three pillars of the institutional framework (regulative, normative, cognitive). The substantial importance behind ID is allowing firms to make different decisions on the international level. Xu & Shenkar, (2002); Eden & Miller, (2004); Gaur & Lu, (2007), have argued that institutional distance has implications for strategic decisions in international business.

Studies that used ID dimensions have been always focusing on their impacts on firms operating or willing to operate across borders, because this latter explains the environment by which firms engage in, using the principle of comparing and calculating the dissimilarities ratios between environments through analyzing the institutions and isomorphism levels, thence using the results to enhance the decision-making process, and decrease the unfamiliarity in a given context. The rewards behind aligning within the institutional context are gaining legitimacy, resources, stability, and better survival chances, (Meyer & Rowan, 1977), thus achieving competitive advantages, because as Chao, Chen-Ho, Seung, Zhao, & Chin-Chun, (2012) demonstrated, firms by expanding their operations globally and exploit their core competencies in a good way can leverage their competitive advantages.

The main focus in ID researches is on institutions, North (1993:15), defines institutions as *"the humanly devised constraints that structure human interaction"* as he distinguishes formal constraints (rules, laws, constitutions) from informal constraints (norms of behavior, conventions, and self-imposed codes of conduct), and from enforcement characteristics. Whom helped thereafter the researchers to dive into the institutional distance and determine its crutches. While Scott (2004), argued that the association between institutions, activities and resources, provide stability and give meaning to social life. And explained that institutions are comprised of regulative, normative, and cultural-cognitive elements that, when associated

Institutional distance has significant effects on the different international business (IB, hereafter) literature, howbeit, most researchers included it in their papers and sought in the firms' performance (e.g Brouthers, Keig, & Marshall, 2019; Aguilera-Caracuel, Aragón-Correa, Hurtado-Torres, & Rugman, 2012) or investment decisions (e.g. Bénassy-Quéré, Coupet, & Mayer, 2007; Ionascu, Meyer, & Estrin, 2004; Brouthers, and Brouthers, 2001). Conversely, there is a lack of studies investigating the effect of ID on corporate strategies.

Previous studies sought in diversification strategies indeed, however, they used the institutional distance as a moderating agent to find relationships among diversification strategies (product/international diversification) and performance (e.g. Chao *et al.,* 2012; Geringer *et al.,* 1989…). Chao *et al.* (2012), on their paper, argued that when international diversification and product diversification increase, governance or coordination costs increase as well, consequently, costs may exceed the benefits of international and product diversifications. This means that diversification strategies affect negatively the firms' performance when institutional distances between home and host countries of MNEs are greater (Chao *et al.*, 2012). Thus, the diversification strategies are both important corporate strategies, but their impact on firm performance relies on the institutional environments of foreign markets (Chao *et al.,* 2012). In this stream, many prior studies supported the contention that a negative relationship exists between firm performance and product diversification (Amit & Livnat, 1988).

Conversely, international diversity can improve the corporate performance, as it increases sales in foreign markets, moreover, international diversity can also lower costs by economies of scale when a firm grows and production units increase, and through economies of scope in business functions like research and development, marketing, and distribution system (Chao *et al*., 2012). On this side, diverse studies demonstrated that there exists a positive relationship between the product diversification degree and performance (Boateng, Qian, & Tianle, 2008; Zhao & Luo, 2002).

When focusing on one effect direction, results where confusing, consequently, scholars have combined between positive and negative impacts of product diversification on performance, by clarifying this relationship with a nonlinear relationship (Geringer, Beamish, & Dacosta, 1989; Palich, & Gomez-Mejia, 1999; Rumelt, 1982; Tanriverdi & Venkatraman, 2005). Subsequently, a reasonable product diversification degree has a positive but limited impact on performance, whilst high diversification degree increases the costs and leads to exceeding the benefits (Chao *et al*., 2012). A low degree of product diversification allows MNEs to enjoy the rewards of a successful resource's exploitation (e.g., skilled labor, economies of scope, firm-specific knowledge), which is a positive relationship. On the other hand, a high product diversification degree increases the governance and coordination costs, besides the managerial constraints. Which represents a negative relationship (Chao *et al.,* 2012).

Geringer *et al.,* (1989) have paramountly reinforced the usefulness of the diversification strategy variable for explaining performance differences within a large sample of MNEs. Furthermore, they claimed that diversification strategy hasn't received the needed attention in the international business literature and might be an oversight, which gives a valuable opportunity for researchers. This testimony proves that there's a huge gap in the international strategic management literature which must be fulfilled to represent further explanations on how can corporates implement the diversification strategies across borders, and what constraints affect them in the given institutional environments, precisely institutional environments in emerging economies. Inversely, we tried to find the impact of ID on product diversification degree on the international level, viz, between the home country firm and its

subsidiaries in foreign markets. Which intuitively and eventually clarify its impact on corporate performance.

1-3 Problem statement and research questions:

Despite the challenges that face management across borders, large firms tend to diversify their products internationally and invest in foreign markets in order to increase their profits. These firms, while engaging in new countries face several constraints. According to Berry *et al.,* (2010), ID has various dimensions, including economic, political, administrative, cultural, demographic, knowledge, connectedness, and geographical. Scholars over decades developed IT, which led to the development of NIT. While scholars used IT to explain the effect of institutional environment on firm performance, we draw on IT to explain the effect of ID on MNE diversification strategy. Precisely, we investigate the effect of ID on the product diversification degree of MNEs in the developing countries. The problem statement of this research is:

How does institutional distance affect MNEs' product diversification degree in the developing countries?

To answer the problem statement, we intend to answer nine questions reflecting institutional dimensions on MNE product diversification degree in the developing countries:

(1) How does economic distance affect MNEs' product diversification degree in the developing countries?
(2) How does financial distance affect MNEs' product diversification degree in the developing countries?
(3) How does political distance affect MNEs' product diversification degree in the developing countries?
(4) How does administrative distance affect MNEs' product diversification degree in the developing countries?
(5) How does cultural distance affect MNEs' product diversification degree in the developing countries?
(6) How does demographic distance affect MNEs' product diversification degree in the developing countries?
(7) How does knowledge distance affect MNEs' product diversification degree in the developing countries?
(8) How does connectedness distance affect MNEs' product diversification degree in the developing countries?
(9) How does geographical distance affect MNEs' product diversification degree in the developing countries?

1-4 **Research objectives:**

This research aims to determine the impact of institutional distance on the product diversification degree in MNEs located in Algeria, as we willing to distinguish between the

parent country firms' product diversification degree and the host country firms' product diversification degree. Using the institutional dimensions as they constrain the strategic decision-making and the MNEs' operations across borders. And to better understand the impacts, a quantitative method will be used. Although the research objectives are many, perhaps the most important of them are listed below:

1) To assess the impact of economic and political constraints on diversification degree.
2) To explain the influence of financial distance on product diversification degree.
3) To demonstrate the effect of cultural barriers on MNE's product diversification degree.
4) To identify managerial influence on the diversification degree.
5) To determine the influence of knowledge distance on the product diversification degree.
6) To analyze the demographic distance's impact on the product diversification degree
7) To prove that connectedness levels in host markets impact the product diversification degree
8) To show the impact of geographic distances effects on product diversification degree.

1-5 Research design:

In order to proceed our research, we follow a positivist epistemological approach. Following a hypothetic-deductive approach, we develop our research hypotheses and the research model based on the literature review. we use a sample of 130 MNEs listed in the 500 Global fortunes, which market their products in Algeria. A deep review of literature shows a lack of using Algeria as a context representing developing countries in IB literature. Algeria is rich in natural resources and economically stable, furthermore, in recent years it became an important investment center for Gulf investors, turkey, and china (eg. BAIC inetrantional, Sinopec Group…etc.). Since they have been investing heavily in algeria. Moreover, algeria has some strong and tempting advantages that encourage the FDI. Among these motives: Low cost of energy, Large liquidity reserve, Strong potential in renewable energy and tourism, Skilled and inexpensive workforce, Recent laws to encourage foreign investments and various incentives for foreign investors. And last but not least, Algeria's proximity to Europe, its geographic location as an interface between Europe and Africa and inside the Maghreb. We used data of 2019 and 2020 in calculating diversification degree as well as the nine dimensions of ID.

Table 1: Research process

Process	**Tool**	**Objectives**
1- Review for institutional theories studies using peer-reviewed journals and earlier studies	1- ISI web of sciences 2- SNDL, 3- and Google Scholar	1- Identification of theories explaining institutional distance, leading to provide a theoretical basis literature review

2- Review for institutional distance, corporate strategies, and diversification degree studies using peer-reviewed journals and earlier studies	1- ISI web of sciences 2- SNDL, 3- Google Scholar	1- Identification of institutional distance 2- Review for corporate strategies and diversification degree 3- Building conceptual framework and developing hypotheses
3- Data collection about MNEs having business activities in Algeria, and about institutional dimensions.	1- Global 500 fortunes 2- Companies annual reports	Constitution of a database that consists of the MNEs operating in Algeria formed in 2020
4- Consulting books, and articles for econometric analysis	1- Berry, H., Guillén, M. F., & Zhou, N. (2010). 2- Other studies	Identification the appropriate method for data analysis
5- Data analysis	STATA/MP 16.0	Testing research hypotheses
6- Reporting results and discussion		1- Answering research questions 2- Comparing our results with pervious results 3- Explaining unsupported research hypotheses

1-6 Structure of the thesis:

As we seeking to find out the impacts of institutional distance on the product diversification degree in MNEs located in Algeria, and by using a quantitative method, we divided the thesis in the form of seven elements including introduction, literature review, hypotheses development, research design, data analysis, research findings, discussion, and conclusion. A further explanation for these sections will be demonstrated in the table below:

Table 2. Structure of the research

1-Introduction
1- Background 2- Relevance of the research 3- Problem statement and research questions 4- Research objectives 5- Research design 6- Structure of the thesis
2-Literature review
1- Research theories 2- Overview on the institutional distance, Corporate strategies, and diversification degree of MNEs in host markets 3- Hypotheses development
3-Research design
1- Research epistemology 2- Research methodology 3- Variable measurements 4- Calculation method 5- Technique of analysis
4-Data analysis and results
1- Normality 2- Descriptive statistics and correlation matrix
6-Discussion
7-Conclusion
1- Research summary 2- Answers to the research questions 3- Contributions 4- Limitations and perspectives

Literature Review

2-LITERATURE REVIEW:

2-1 Research theories:

2-1-1 Institutional theory:

2-1-1-1 Institutional theory evolution:

In the United States, scholars during the 1970s recognized that organizations cannot be explained without the understanding of wider environmental forces. And with the occurrence of other macro-environmental approaches including resource dependence theory, population ecology theory, and systems theory, Institutional theory arose (Lammers & Garcia, 2017). And its roots were established through the several formative years of the social sciences, which led to incorporate the creative insights of scholars starting from Marx and Weber, Cooley and Mead, to Veblen and Commons (Scott, 2004). Suddaby (2010), argued that organizations often behave in ways that confront economic logic or norms of rational behavior. Thus, the main concept behind the institutional theory is to understand how organizations adopt and justify practices that are non-rational or distinctly separate from obvious economic motivations (Suddaby, 2010). More precisely, how organizations adopt processes and structures for their meaning rather than their productive value (Sudabby, 2010).

There have been many excellent reviews of institutional theory in the last few years (Dacin, Goodstein, and Scott, 2002). Hence, it has become a dominant perspective in macro organization theory (Greenwood & Hinings, 1996). Moreover, scholars used its paradigms as they become dominant in the studies of human sciences (economy, politics, education, etc.) alongside organizations. (Hwang, Colyvas, & Drori, 2019). Because, the institutional theory provides a theoretical lens through which researchers can identify and examine issues such as culture, legal environment, tradition and history in an industry, and all economic incentives that can impact an industry (Bruton *et al.,* 2010).

2-1-1-2 Institutional theory's concept:

According to the definition of one of the leading theorists in institutional theory Puffer and McCarthy, (2014), Institutional theory attends to the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behavior. It inquires into how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse (Scott, 2004). On the other side, Lincoln (1995:1147) offers perhaps the best statement of the core concept of institutional theory: *"the tendency for social structures and processes to acquire meaning and stability in their own right rather than as instrumental tools for the achievement of specialized ends."*

Therefore, Institutional theory is concerned with the need of groups and organizations to conform to rules and norms of a specific institutional environment, in order to gain legitimacy thence better secure their positions (Meyer & Rowan,1991; Scott,2007; Bruton *et al.,* 2010). Accurately, focuses on institutional forces whose been identified in intensive works from

sociology (DiMaggio & Powell, 1983, 1991; Roy) and organizational theory (Meyer & Rowan, 1991) to political science (Bonchek & Shepsle, 1996), and economics (North, 1990). These are collected and summarized by Scott (2007) in his well-known formulation of three categories of institutional forces (Bruton *et al.,* 2010).

Legitimacy occurs as a result of adopting practices and structures that are institutionalized in a particular environment (field), and this process is the act of becoming isomorphic (Kostova, Roth, & Dacin, 2008; Puffer & McCarthy, 2014). And by Institutional isomorphism, we mean the process of organizations conforming to the rules and beliefs of the prevailing institutional environment (DiMaggio & Powell, 1983). Such concurrence brings legitimacy that leads to the survival and permanence of organizations, which they seek in order to establish or maintain their reputations (Puffer & McCarthy, 2014). Reputation was defined by Podolny (2005) as *"expectations of some behavior or behaviors based on past demonstrations of those same behaviors"* (Puffer & McCarthy, 2014:152).

When diving more into Institutional theory, we will find that it suggests firms to rely upon the formal and informal cues in their external environments to identify accepted and expected behavior and to establish legitimacy in their markets (DiMaggio & Powell, 1983; Scott, 1987; Brouthers *et al.,* 2019). these external environments are characterized by specific contexts through something called institutions, as they form the social world and represents a theoretical framework for analyzing social and precisely organizational phenomena (Lawrence & Shadnam, 2008). For example, Hotho & Pedersen, (2012), present an insightful framework which consists three strands of institutional theory: organizational institutionalism, institutional economics, and comparative institutionalism, that propose different conceptualizations of institutions, institutional distance, and the mechanisms that affect various outcomes (Kostova, Beugelsdijk, Scott, Kunst, Chua, & van Essen, 2020). Hence, Institutional theory in recent times has provided an explanation of how institutions affect organizations and, in turn, are affected by those organizations. And that's what shows the main role of the institutional theory which is taking the organizations' external environments as important determinants of organizational communication and behavior, organizational systems, organizational changes in firm competitiveness and strategies of MNEs...etc. (Puffer & McCarthy, 2014).

Before the revolution of institutionalism, there was a traditional view to organizations where they were viewed primarily as production systems and/or exchange systems, and their structures were viewed as being shaped largely by their technologies, their transactions, or the power-dependency relations growing out of such interdependencies. Furthermore, environments were conceived of as task environments: as stocks of resources, sources of information, or loci of competitors and exchange partners. Institutional theorists demonstrated that these views are not wrong but they are incomplete, also they shed the light on the importance of symbolic aspects of organizations and their environments. They rejected the "organization is just a technical system" stream and proved as well that all organizations exist in both institutional environments and technical environments. Scott & Meyer (1983) defined technical environments as *"those within which a product or service is exchanged in a market such that organizations are rewarded for effective and efficient control of the work process"* (Scott & Meyer, 1983:143),

while they referred institutional environments to those that *"are characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy"* (Scott & Meyer, 1983:149). These environments are multiple, diverse, and variable over time. And this explains the impossibility of neglecting them otherwise, organizations will mis-specify important factors that shape their structures and practices, and affect their casual models. (Scott, 1987).

According to North (1992), organizations are players consisting of groups of individuals bound by a common purpose to achieve objectives. They include political bodies (e.g. political parties, the senate, a city council, a regulatory agency, etc.); economic bodies (e.g. firms, trade unions, family farms, cooperatives, etc.); social bodies (e.g. churches, clubs, athletic associations, etc.); and educational bodies (e.g. schools, colleges, vocational training centers, etc.). Institutions are *"the devised constraints that structure human interaction*" (North, 1990: 3), They are composed of formal rules (e.g. statute law, common law, regulations), informal constraints (e.g. conventions, norms of behavior, and self-imposed rules of behavior); and the enforcement characteristics of both (North, 1992), that exert conformance pressures (DiMaggio & Powell, 1983, 1991) forming the institutional environment. Therefore, the institutions is a mechanism of reducing uncertainty in human exchange (North, 1992).

Moreover, Lawrence & Shadnam, (2008), showed Durkheim's concept of institutions, which demonstrate that the institutions are symbolic systems: systems of knowledge, belief, and moral authority. who are subjective products of human interaction, but experienced by people as objects. So, institutions play a similar role to external facts in people's lives, and possess moral authority and are backed by religion-like sanctions. Institutions define therefore what is appropriate in an objective sense, and thus render other actions unacceptable or even beyond consideration (DiMaggio & Powell, 1991).

Furthermore, institutions are fundamental in explaining and understanding the social world because they are built into the social order, and direct the flow of social life (Lawrence & Shadnam, 2008). Likewise, create expectations that determine appropriate actions for organizations (Meyer & Rowan, 1977), and also form the logic by which laws, rules, and taken-for-granted behavioral expectations appear natural and abiding (Zucker, 1977; Bruton *et al.,* 2010). Hence, the definitions have in common the insights of belief systems that constrain actions in a social world, and in return, these systems are obeyed and accepted by individuals, groups, and organizations in order to acquire an accepted institutional isomorphism level and get legitimacy within a specific environment.

In addition, Lawrence & Shadnam, (2008), emphasized that Institutions are situated within specific social contexts and condition action within those contexts only and not everywhere and for everyone, thus, institutional research normally focuses on the institutional context which represents a set of institutions and the interrelations between them and the effects that are relevant in a situation. Besides providing cognitive frameworks for social actors, and these frameworks both constrain action by enacting rules that are often invisible, having a taken-for-granted status among actors in that context. and enable action by making the world understandable and actions meaningful.

Continuous shifts make institutions as a challenge for organizations. Institutions change over time and affect organizations in varying degrees. These changes lead organizations also to change alike in order to maintain an isomorphic relationship (Brouthers *et al.,* 2019; Puffer & McCarthy, 2014). Scott (2001) explained the potential instability in institutions, suggesting that "the weakening and disappearance of one set of beliefs and practices are likely to be associated with the arrival of new beliefs and practices" Scott (2001:184). Such changes, termed deinstitutionalization, arises from dissatisfaction with prevailing institutionalized practices (Scott, 2001).

Institutionalization refers to the operation by which actions become repeated over time and are assigned similar meanings by self and others (Scott, 1987). Institutionalization involves the processes by which social processes, obligations, or actualities come to take on a rule-like status in social thought and action (Scott, 1987), it operates to produce common understandings about what is appropriate and, fundamentally, meaningful behavior (Zucker, 1983). The common feature in all of these definitions is that institutionalization is viewed as the social process by which individuals come to accept a shared definition of social reality, a conception whose taken for granted as defining the "way things are" and the "way things are to be done". Institutionalized acts, then, must be perceived as both objective and exterior (Scott, 1987).

Institutionalized acts, practices or norms, are affected by three fundamental sources of pressures: functional pressures for deinstitutionalization are those that arise from perceived problems in performance levels or the perceived utility associated with institutionalized practices, political pressures, result primarily from shifts in the interests and underlying power distributions that have supported and legitimated existing institutional arrangements. Such shifts may occur in response to performance crises, environmental changes, Institutional change, and deinstitutionalization may also be influenced by social pressures associated with differentiation of groups (for instance, increasing workforce diversity), the existence of heterogeneous divergent or discordant beliefs and practices (as a result of mergers, for example), and changes in laws or social expectations that might hinder the continuation of a practice (Oliver, 1992; Scott, 2001; Dacin *et al.,* 2002).

2-1-1-3 Importance of Institutional theory:

The importance of institutional theory has been determined over the years through excessive researches by a huge number of scholars across the world. each one of them has contributed to this field with remarkable insights and showed the feasibility of this theory in a specific stream. for example, Hoskisson Eden, Lau, & Wright (2000); Khanna & Palepu (2000); Peng (2003); Ramamurti (2004), argued that Institutional theory has emerged as a leading theoretical foundation for research on enterprise strategies in emerging economies, and provides a framework to analyze the determinants of business strategies in such economies (Peng 2003, Wright *et al.,* 2005; Ionascu *et al.,* 2005). On the other side, Ahlstrom & Bruton, (2002); Peng, (2006) focused on the role of institutional theory in explaining the forces that shape entrepreneurial success, besides the entrepreneurial and organizational sources.

While the institutional theory has proven highly useful, its use has reached a point that there is a need to establish a clearer understanding of its wide-ranging application to entrepreneurship research (Bruton *et al.,* 2010), and other research streams. Moreover, Sandhu (2018), argued that institutional theory gained traction in sociology, organizational studies, and management thinking and has now advanced to one major theoretical perspective in management and organization studies. On the other hand, Scott (2004), showed that the utility of the theory is not confined to the organizational level only but Important changes are also underway at national, transnational, and global levels, and institutional theory is well-positioned to assist scholars in characterizing and explaining these changes.

Ultimately, Scott, (2004:30) showed the importance of the institutional theory as follows: *"I have tried to suggest, institutional theory has a long past and a promising future. It is not a fly-by-night theory that is here today and gone tomorrow. It is not a boutique theory in which some academic entrepreneur declares his or her theory to explain a disproportionate proportion of the variance in some, specific dependent variable or some limited domain of social behavior. It is broadly positioned to help us confront important and enduring questions, including the bases of organizational similarity and differentiation, the relation between structure and behavior, the role of symbols in social life, the relation between ideas and interests, and the tensions between freedom and order."* Inversely, Lang (2018), discusses the main problem of the institutional theory which is its focus on the description of the way institutions work, and not where they come from, how they change, and why particular institutions gain relevance while others do not.

2-1-2 New institutional theory:

2-1-2-1 Overview of the new institutional theory's emergence:

New institutional theory (NIT) refers to different disciplinary approaches and traditions in sociology, social psychology, economics, and political sciences. It constitutes a set of theoretical propositions and a conceptual toolbox of seeming high pertinence and significant popularity. Bearing on influential contributions (Schneider & Bettini, 2018), such as Zucker, (1977); Meyer & Rowan, (1977); DiMaggio & Powell, (1983). Moreover, it offers a useful conceptual framework not only for organizational studies but also for other fields in the social sciences, such as urban and regional studies or political studies (Lang, 2018).

The NIT is well attached to three founding publications. The first, by Zucker (1977), focusing on the micro-processes that lead to the transformation of authority through becoming institutionalized in organizations (Suddaby, 2010), over and above, tackles the perspective that understands organizations as institutions (Zucker, 1977). The second by Meyer & Rowan (1977), which emphasized that organizations do not make their structures more efficient in terms of task-performing functions but align their structures with the institutional context, and through this process, they gain legitimacy, resources, stability, and better survival chances, the key idea established in this work was that formal organizational structure has both symbolic

and functional aspects, and the focus was on the symbolic aspect as it influences the structure adoption decision, the legitimacy gaining, and survival chances (Lawrence & Shadnam, 2008). Also emphasizes the ideational elements of institutionalization in demonstrating how organizations attribute rationality to some activities and not others (Suddaby, 2010). Ultimately, showed how societal rules, norms, and implicit expectations affect organizations (Meyer & Rowan, 1977).

The third key work that established NIT was by DiMaggio & Powell (1983) suggesting that organizations who adopt a similar structural position in an organizational field will become isomorphic --the striking structural homogeneity or similarity of organizational structures-- (Sandhu, 2018), with their common institutional environment (Suddaby, 2010), in other words, similar to each other, in form and practice. They introduced three isomorphic processes: coercive, mimetic, and normative. Coercive isomorphism is connected to formal pressures as the government and other organizations, and informal pressures as the cultural expectations of the environment, which are exerted on organizations. Mimetic isomorphism takes place when the organizational decision-makers adopt structures and practices that model other leading organizations in their field. for example, establishing the same accounting routines or reporting systems, and the main reason for this isomorphism is the ambiguity or uncertainty in the organization's environment (Sandhu, 2018) more precisely, in goals, technology, or market dynamics. Normative isomorphism results from the standards and cognitive frameworks that are created and controlled by professions and other moral standards-making bodies (Lawrence & Shadnam, 2008). These three forms of isomorphism fit well into the three-pillar model of Scott (1995/2001), (Sandhu, 2018).

Lawrence & Shadnam, (2008:03) argued that: *"since these seminal works in the new institutional movement, extensive work has been published under the banner of institutional theory, particularly in the area of organization studies. Within this tradition, researchers have challenged the classic themes of study by introducing new concepts and units for analysis. Most critically, the concept of a field – as the set of all the organizations that form a recognized area of institutional life, including key suppliers, resource and product consumers, regulatory agencies, organizations with similar products or services, etc. – has become perhaps the central focus of analysis in neo-institutional theory (e.g., DiMaggio1991; Fligstein 2001; Greenwood et al. 2002). Other key concepts include institutional logics (Friedland & Alford 1991; Thornton & Ocasio 1999), institutional change (Greenwood & Hinings 1996; Seo&Creed2002), and institutional entrepreneurship (Eisenstadt 1980; Fligstein 1997; Greenwood & Suddaby 2006)".*

2-1-2-2 The concept of new institutional theory:

North in the third annual conference on the New Institutional Theory, showed that the NIT has two basic premises: the first, neo-classical theory should be integrated into the NIT theoretical framework with an analysis of how institutions modify the choice set available to human beings. Accordingly claimed that the new institutional theory builds on, modifies, and extends the neo-classical theory to permit it to come to grips and deal with an entire range of issues heretofore beyond its ken (north, 1992); and second, this framework must build upon the basic

determinants of institutions, in order to define the choices set available to people at any time, besides analyzing the way in which institutions change thus the available choices set alters over time. (north, 1986).

An important concept to talk about in the NIT is the institutions' change and the institutions' creation, which represent two sides to the same coin, thus, creating institutions endeavors to provide new institutional structures. In the regulative dimension, they can be created by investing in political action, including advocacy by mobilizing political and regulatory support, identity definitions, and vesting. Institutions can be established also by changing moral expectations like norms and values. While the normative dimension stresses the construction of identities, changing associations, and constructing networks (Sandhu, 2018).

Massive studies in this field have emphasized the insights of North, Williamson, Zucker, DiMaggio & Powell, showing that the NIT aims to develop an economic theory of institutions in order to provide a set of historical evidence on how institutions affect the development of countries. Over time, explained the role of institutions in determining the social, economic, political, and environmental outcomes of a society. Hence, the theoretical proposal of the new institutional theory is to introduce the institutions as constraints that, alongside the usual restrictions studied by economists in general, guide the actions of individuals. Hence, any pattern of collective behavior represents an institution, and as such determines the "rules of the game" within a society (Carvalho, 2017).

In other words, Carvalho, (2017:144) demonstrated that: *"the new institutional theory helps to understand how the members of a community build cooperative solutions to focus on the formal and informal rules that hinder or facilitate collective action, such as local councils, associations, government agencies, legislation, agreements, and contracts, among others".*

2-1-2-3 The golden triangle of NIT:

On another vein, many scholars have divided the NIT into fundamental concepts to better explain it and represent an efficient framework, Schneider & Bettini, (2018) for example, argued that NIE most known concepts are: transaction cost, asset specificity, contractual choice, institutional change, path dependence, enforcement, formal and informal institutions, and property rights. And ensured that it can be found in a vast array of fields of studies such as economics, business, public administration, and law, either with pure theoretical or with applied, empirical approach. While Ménard, (2017) aggregated the main concepts emerged from contributors who eventually created the international society for NIT. In three basic dimensions calling them the golden triangle of NIT (figure 1). He considers this triangle as a powerful tool to investigate in the institutional dimensions.

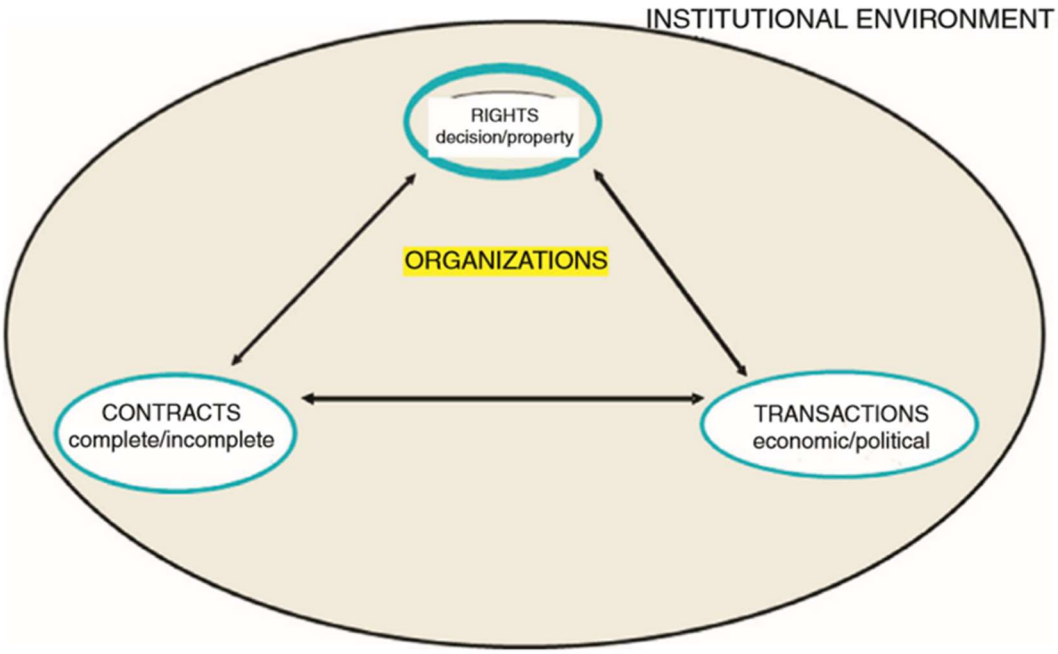

Figure 1, The golden triangle, based on (Ménard, 2017:05)

"The first corner represents rights, which are devised into two types: property rights and decision rights. The 2nd corner is about transactions and transaction costs. The 3rd corner is about contracts, which are most of the time incomplete, but they provide a good point of entry to the analysis of the role played by rights and transactions and also, the analysis of organizations (firms, markets, and interfirm agreements) and their institutional embeddedness" (Ménard, 2017:05).

these concepts have split the new institutional theory program into two main sections: one focusing on the micro-analytical level, or the organizational level, the other, focusing on the macro-level of the political judicial, and administrative institutions (Ménard, 2017).

2.2 Overview on the institutional distance, corporate strategies, and diversification degree of MNEs in host markets

2-2-1 Institutional distance:

2-2-1-1 Definitions:

When there is an ability to manage the different resources of firms across borders, we can consider that international management is mainly distance management (Zaheer *et al.,* 2012). Thus, the term institutional distance refers to the dissimilarity ratio in formal and informal institutions between the two countries (Kostova & Zaheer, 1999, Xu & Shenkar, 2002). And represents dissimilarity between institutional environments of the country of origin and the host country (Kostova, 1997). And according to Beugelsdijk, Maseland, & Hoorn, (2015), the distance can be measured between two entities, but in most IB research, distance is measured between countries. Furthermore, the greater the geometric distance between the two countries, the larger the negative effect of distance, due to the misfit ratio between home and host country (Kostova & Roth 2002). Kostova & Zaheer, (1999) argued that a large institutional distance can be considered as a challenge for firms to overcome and to establish legitimacy and adapt their domestic practices to foreign markets. And also, to determine their strategies in the host environment. Besides, large institutional distance increases risk and uncertainty and requires organizational learning which makes it more difficult for MNEs to effectively operate across diverse countries (Xu & Shenkar, 2002).

Therefore, the institutional distance is the dissimilarity between two institutional environments and precisely a measurable contrast between two countries which allows the firms to make different decisions on the international level. as Xu & Shenkar, (2002); Eden & Miller, (2004); Gaur & Lu, (2007), have argued that institutional distance has implications for strategic decisions in international business. While Bénassy-Quéré *et al.,* (2007), mentioned that traditional arguments of the literature on management, concentrated on "psychic distance" as a major impediment to the decision of companies to enter foreign markets. The institutional distance can be measured by researchers with many indices based on Scott's (1995, 2001) three pillars of the institutional framework (regulative, normative, cognitive), who provide a wide base to recognize and differentiate between the countries' institutional profiles' aspects (Bénassy-Quéré, 2007).

North (1993), defines institutions as *"the humanly devised constraints that structure human interaction"*. He further distinguishes 'formal constraints (rules, laws, constitutions)' from 'informal constraints (norms of behavior, conventions, and self-imposed codes of conduct)' and from enforcement characteristics. Whom helped thereafter the researchers to dive into the institutional distance and determine its crutches.

Scott (2014), explained that institutions are a general definition that can be explored to provide a wider understanding and that they comprise regulative, normative, and cultural-cognitive elements that, when associated with activities and resources, provide stability and give meaning

to social life (Chang & Ogasavara, 2019) This means that the institutional environment consists of institutions that are moderated by the three pillars of the institutional distance that when combined with activities and resources lead effectively to stability and affect social life. And each pillar of those can be measured by distances between home and host countries (Moore, Arya, Chahine, Ginsburg, Hess, Moye, Nelson, & Ekoma, 2018; Swoboda *et al.,* 2015).

Moreover, Chao *et al.* (2010). treated institutional distances in their regulative, normative, and cultural-cognitive pillars, in the same way as those of Scott (1995,2001,2014). Brouthers (2013) and Zaheer *et al.* (2012), Also contributed to the field by highlighting the aspects of convergence between the three pillars and criticized the excessive generalization in their definition (Chang & Ogasavara, 2019).

Regulative pillar describes three important aims: (a) rule-setting, (b) monitoring, (c) and sanctioning activities settled by institutions (Chang & Ogasavara, 2019). Therefore, regulative distance is the perceived contrast between two legal environments, i.e. the home and the host country environments (Chao *et al.,* 2010). Regulative distance focuses closely on formal behavior and the effective creation of a system of rules that rewards compliance and penalizes noncompliance (Scott 2012, 2014; Chao *et al.,* 2010).

Normative pillar concerns values and norms that rule and run people's behavior (Chao *et al.,* 2010). Thus, normative distance is related to the perceived differences in social norms, values, beliefs, and premises and behavior, between home and host countries (Kostova 1997). Normative elements prevail in more value-loaded environments, such as family groups, religious communities, and occupational and professional groups (Chang & Ogasavara, 2019). Thus, normative pillar incorporates informal norms, procedures, and codes of conduct, which are often unwritten and subsequently difficult to learn (Moore *et al.,* 2018). Consequently, they constrain the transfer of MNE routines (Xu & Shenkar, 2002).

Cultural-cognitive pillar sheds light on the shared conceptions that are built based on the use of a shared vocabulary between individuals. These shared conceptions reflect the nature of social reality and the fixation of mutual meanings (Chang & Ogasavara, 2019). Scott (2012, 2014) claimed that cultural-cognitive pillar is the most important the three institutional pillars, since the cultural elements and structures have a direct effect on building norms and rules, which they cannot be determined in the absence of the cultural-cognitive pillar. Hence, this pillar focuses on the different sides of culture and treats them as symbolic systems that consist of subjective beliefs (Scott, 2014). Symbols, such as words, signs, and gestures, aim to give shapes to meanings and what is intangible (Chang & Ogasavara, 2019). Symbols are technically related to cognitive elements, like thought patterns, feelings, and actions (De Mooij, & Hofstede, 2010). According to Barkema *et al*. (1996), cultural-cognitive distances become more evident when "double-layered acculturation" is required, which is made of the subsidiary adapting to local cultures, i.e. host country culture, and to that of the country of origin, i.e. parent country culture (Chang & Ogasavara, 2019). However, the greater the cultural dissimilarities between home and host countries, the less an MNE can operate efficiently through subsidiaries (Tihanyi, Griffith, & Russell, 2005). A large institutional distance may reflect on the firms'

ability to overcome, as they endeavor to establish legitimacy and transfer their domestic practices to foreign markets (Kostova & Zaheer, 1999).

Brouthers (2013) and Zaheer *et al.* (2012) highlighted the aspects of convergence between the three pillars and criticized the excessive generalization in their definition. We, thus, shed light on the institutional dimensions of Berry, H., Guillén, M. F., & Zhou, N. (2010) in the next sub-section.

2-2-1-2 Dimensions of institutional distance:

Berry *et al.* (2010), mentioned that the previous researches on cross-national distance had been a major problem that affected the theoretical framework which accommodates the different dimensions differentiating between countries. And based on this gap they have provided such a framework Following recent institutional theorizing in the field of international business.

Berry *et al.* (2010), provided an approach consisting of nine dimensions to measure institutional distance. They developed this approach based on three theoretical perspectives on cross-national institutions. The first, which was pioneered by Richard Whitley (1992). It focuses on the concept of "national business systems". The second was formulated by management scholar Henisz & economist Williamson (1999); La Porta, Lopez-de-Silanes, Shleifer, & Robert Vishny (1998). It shows the implications of differences in national systems of governance. The third was proposed by economist Richard Nelson and economic historian Nathan Rosenberg (1993), (Berry *et al.,* 2010)

Berry *et al*. (2010), argued that countries differ variously in their business systems' characteristics, specifically their economic, financial, and administrative practices. Based on Whitley's (1992) argument shows that such differences originate in demographic, geographic, cultural, and political institutions, which make a contrast in distances and differences between countries, besides, considering it as a characteristic that affects managerial decisions.

Literature on cross-national institutions shed light on the governance dimensions because of the need of firms to establish relationships with stakeholders in order to operate in a given country and make relevant managerial decisions. National governance systems refer to the "set of incentives, safeguards, and dispute-resolution processes used to order the activities of various corporate stakeholders" (Kester, 1996:109), who originate in administrative (including legal) and political institutions (Glendon, Gordon, & Osakwe, 1994; Henisz, 2000; Henisz & Williamson, 1999; La Porta *et al.,* 1998). Likewise, Ando & Paik, (2013), showed governance indicators components in six institutional dimensions: voice and accountability, political instability and violence, government effectiveness, regularity burden, rule of law, and control and corruption. using data from world bank's governance indicators, that are based on several variables dragged from 37 data sources built by 31 organizations.

Finally, a focal doctrine documented in the literature is that countries differ in their ability to produce knowledge, and how can they leverage it by being connected to other countries (Furman, Porter, & Stern, 2002; Porter, 1990). And that is what led to focus on the national

innovation systems that refer to configurations of institutions that foster the development of technology and innovation (Nelson & Rosenberg, 1993).

Ultimately, Berry *et al.* (2010) classified institutional distance along nine dimensions: economic, financial, political, administrative, cultural, demographic, knowledge, connectedness, and geography. Table 1 provides a summary of each of the nine dimensions, including definitions, components, variables, and sources.

Table 1: the nine dimensions of Berry et al., and their components

Dimension of distance	Definition	Dimension components	Component variables
1-Economic	Variances in economic development and macroeconomic characteristics	Income Inflation Exports Imports	Income GDP per capita (2000 US$) Inflation GDP deflator (% GDP) Exports of goods and services (% GDP) Imports of goods and services (% GDP)
2-Financial	Variances in financial sector development	Private credit Stock market cap	Domestic credit to private sector (% GDP) Market capitalization of listed companies (% GDP)
3-Political	Variances in political stability, democracy, and trade bloc membership	Policy-making uncertainty Democratic character Size of the state Regional trade agreement	Political stability measured by considering independent institutional actors with veto power Democracy score Government consumption (% GDP) Dyadic membership in the same trade bloc
4-Administrative	Variances in colonial ties, language, religion, and legal system	Colonizer–colonized link Common language Common religion Legal system	Whether dyad shares a colonial tie % population that speak the same language in the dyad % population that share the same religion in the dyad Whether dyad shares the same legal system
5-Cultural	Variances in attitudes toward authority, trust, individuality, and importance of work and family	Power distance Uncertainty avoidance Individualism Masculinity	WVS questions on obedience and respect for authority WVS questions on trusting people and job security WVS questions on independence and the role of government in providing for its citizens WVS questions on the importance of family and work
6-Demographic	Variances in demographic characteristics	Life expectancy Birth rate Population under 14 Population under 65	Life expectancy at birth, total (years) Birth rate, crude (per 1000 people) Population ages 0–14 (% of total) Population ages 65 and above (% of total)
7-Knowledge	Variances in patents and scientific production	Patents Scientific articles	Number of patents per 1 million population Number of scientific articles per 1 million population

8-Connectedness	Variances in tourism and Internet use	International tourism expenditure International tourism receipts Internet use	International tourism, expenditures (% GDP) International tourism, receipts (% GDP) Internet users per 1000 people
9-Geographic	Great circle distance between geographic center of countries	Great circle distance	Great circle distance between two countries according to the coordinates of the geographic center of the countries

Source: Adapted from *Berry et al*. (2010:1464-1465)

2-2-1-3 environment and institutional pressures:

Swaminathn & Wade (2016), state that conformity to institutional norms can confer legitimacy and provide increased access to resources, thus, the institutional environment is a key strategic concern, and it consists of normative and regulatory pressures exerted on organizations by the state, which represents a central strategic factor in the institutional environment that organizations must take into account, because of its superordinate status and its ability to generate and enforce regulations, or society and the professions. Showing that These pressures can have a coercive and direct effect on organizations through mechanisms such as courts and regulations. Reversely, it can also affect organizations indirectly by creating expectations and norms that organizations must conform to in order to acquire legitimacy and resources.

Accordingly, Each country has a unique combination of institutional elements (Kogut, 1991), and these elements are recognized as institutional pressures, that condition the MNEs activities that are identified in two types by (Aguilera-Caracuel *et al.,* 2012). First, at the inter-organizational level, external sources such as governments, markets, and society represent the sources that arise the institutional pressures (Hoffman, 2001). Second, at the organizational level, institutional pressures show up from the culture, shared beliefs, political processes (DiMaggio & Powell 1983), and shareholders (Henriques & Sadorsky 1996, 1999).

Confirming the previous idea of Kogut (1991), and digging more into the institutional environment, we shed light on the differences in the institutional environments that affect forcibly the firms' operations across countries (Xu & Shenkar, 2002). On one side, a country's formal institutional environment may result in increased (decreased) regulatory pressures related to social responsibility compliance (Matten & Moon, 2008), such as in environmental and labor practices (Brouthers *et al.,* 2019). Through experience, MNEs develop or acquire the needed resources and capabilities to meet the specific formal institutional expectations of their target locations (Kostova & Zaheer, 1999). Nonetheless, once a firm has successfully conformed to the formal institutional stringency in a specific country, it would be able to apply and leverage this capability into less stringent environments (Marano & Kostova, 2016), In other words, if a firm has met the world's most stringent formal institutional standard, it can more easily meet less stringent country standards (Brouthers *et al.,* 2019). Reimann *et al*. (2015) argued that MNEs can transfer their formal institutional experience between countries that are similar in the stringency level. On the other side, a country's informal institutional environment makes transferring firms' practices difficult (Brouthers *et al.,* 2019). Each country in a firm's portfolio brings with it a disparate set of cultural challenges because it has a specific history, culture, and customs. Pisani & Prasad (2008), Shenkar *et al*. (2008) and Shenkar (2012) argued that the diversity of informal institutional environments leads to a type of cultural friction or disharmony. Therefore, experience in one country does not necessarily imply ready to experience in another country (O'Grady & Lane, 1996).

Fortwengel (2017) claimed that when there is a significant institutional distance between home and host country, but institutionalization is low in the host environment, and there is a weak

institutional pressure, a foreign MNE might still be able to transfer its practices and strategies. Hence, the difference between institutional environments is less relevant.

Economists as Douglas North and other new institutionalists have shown and convincingly confirmed the importance of the institutional environment as a long-term affecting factor (Swaminathn & Wade, 2016). They argue, for instance, that countries with superior institutions will have better long-term outcomes (North 1971; North & Thomas 1973). Likewise, Carroll & Huo (1986), who argued that task and institutional environments have distinct effects on organizational outcomes. While, Scott (1992) shed the light on markets that reward organizations for effective and efficient performance, showing that they are institutionally constituted and supported by rules regarding private property, norms governing fair exchange, definitions concerning legitimate economic actors, beliefs regarding the appropriate role of the state in governing economic transactions, and so on.

Research in economics and political science suggest that actors influence and shape institutional environment (Swaminathn &Wade, 2016). DiMaggio (1988) claimed that interested actors and their relative power have a strong effect on the institutional environment's ultimate form. Actors, according to DiMaggio (1988), those possessing sufficient resources, as institutional entrepreneurs, and attempting to shape the environment under their interests. Furthermore, Oliver (1991) claimed that organizations are not always feeble and surrendered to institutional pressures but may respond strategically in a variety of ways, such as negotiating with key institutional stakeholders or trying to manipulate and change the underlying rules and practices. Inversely, Scott (2008) noted that the ability to strategically influence the institutional environment is in many ways where actors are subject to taken-for-granted assumptions about the institutional environment and are constrained by them. And assumed that the construction of institutional environments occurs through a process that is unconscious and not subject to the influence or direction of agents.

Firms often try to influence the institutional environment by focusing on and seizing opportunities that come about, because of exogenous shifts in the institutional environment, such as policy changes. Nonetheless, even when organizations sometimes have opportunities to influence the institutional environment, successfully doing so remains challenging (Swaminathn & Wade, 2016).

In recent years, scholars have moved beyond aggregate and singular concepts of distance and come to appreciate the complexities involved in institutional environments as multi-dimensional (Berry *et al.* 2010; Ferner *et al.* 2012; Jackson & Deeg 2008; Kang *et al.* 2017). They have made progress in understanding better what dimensions and features of an institutional environment are critical for MNC behavior. First, it is now widely understood that countries differ in the way businesses coordinate their activities, Second, institutions differ in strength, meaning that the pressures to conform to standard practice vary. Third, institutions often differ at the intra-national level, meaning that even locations that are in close geographic proximity within a country may be far apart in institutional terms. And finally, it is increasingly

understood that institutions not (only) constrain organizations, but that they also offer resources that may be used by collective actors for particular purposes.

2-2-1-4 Institutional distance challenges for MNEs:

The differences in regulations, norms, and cognition between the home and host countries make the challenge of MNEs harder in monitoring, interpreting the behavior of foreign subsidiaries, and obtaining accurate and full information about subsidiary actions and performances (Ando & Paik, 2013). Besides, they complicate transferring organizational practices and knowledge (Kostova, 1999). Consequently, they affect firm's strategy, decisions, and practices in the host country.

Likewise, institutional distance between home and host countries is considered as a challenge to MNEs concerning the legitimacy settlement and preservation in the host country (Kostova & Zaheer, 1999, xu & Shankar, 2002), as long as it is defined as an obligation to use appropriate structures and practices that suits and go along with the local context (DiMaggio & Powell, 1983; Scott,2008). This means that institutions of a host country may affect the practices of a mother country and makes it difficult for a firm to transmit its organizational practices (Kostova, 1999; brothers *et al.* 2008). Reversely, when the subsidiary succumbs to the legitimacy practices of the parent firm, local host culture expectations may be left unfulfilled or contradicted (Jamali & Neville, 2011).

Ando & Paik (2013) claimed that MNEs need to make themselves act more local by increasing the ratio of host country nations to subsidiary employees in order to meet the legitimacy requirements. Thus, MNEs dynamically address legitimacy issues by increasing host country nations ratio (Chao *et al.,* 2010). In addition, MNEs should build their strategies focusing on the institutional environment and the institutional distance between the parent's and the host countries. Kostova & Zaheer (1999) showed that in IB, institutional dimensions influence strategies and operations of subsidiaries. They control the acceptance of MNE's norms and practices within the system of rules, norms, and cognitive structures in different host environments, which eventually facilitate or impede the transfer of strategic organizational practices from a parent firm to their subsidiaries (Kostova & Roth, 2002). Therefore, firms usually adapt to the external environment's norms and regulations (Bitektine, 2011)

Distance is not decreasing according to recent research (Beugelsdijk *et al.,* 2015), even when there is an increasing level of socio-cultural and business exchange between countries. They showed that distance continues to be an important factor in managing MNEs in their constant grapple with the ID challenges where the lack of external fit is a take for granted issue in a host environment (Fortwengel, 2017).

2-2-2 Corporate strategy and diversification degree of MNEs in host markets:

2-2-2-1 Roots of strategy:

The strategy has been traditionally used by states by influencing both their position within the international system and the structure of the system itself. But strategic discourse has now moved well beyond its original roots and is notably prominent in organizational and business theory (Freedman, 2006). And over past decades, military strategy and business strategy led to changes in the international system and it has resulted in important developments (Freedman, 2006). Sanchez & Heene, (1997) argued that prior strategy theory and research have typically focused on content variables like the asset profiles of a firm or the resource endowments, or on process variables representing some aspects of intra-firm or inter-firm dynamics. Showing that the firms are analyzed as open systems of resources and capabilities, shifting to another important point in their article which is the strategic value of a specific resource that must be embedded in each firm's systemic resources using processes, and it depends technically on the way a firm combines, coordinates, and deploys that resource with other firm-specific and firm-addressable resources (Sanchez & Heene, 1997). Moreover, firms can create competitive advantages if they had a superior ability to target and coordinate firm-addressable resources (Sanchez & Heene, 1997).

Previously, Mintzberg & Waters (1985), in their processual approach represented the critical alternative to the rationalist school on strategy. Showing that the strategy emerges from political processes of negotiation within the organization and between the organization and different elements in its environment, and obviously does not emerge out of rational planning. Therefore, the formation of a firm's strategy depends on the environment in which the firm operates (Gatignon & Xuereb, 1997; Kohli & Jaworski, 1990; Miller, 1988). When the match between strategy and environment is strong it can obtain better performance, reversely, a poor match can hurt performance (Grant, 1999; Miller, 1988). According to this perspective, strategy drives performance. (Yang & Morgan 2011). Mintzberg & Waters (1985) shift the focus of their previous analyses (1982, 1984) to encompass emergent strategies which are *"patterns or consistencies realized despite, or in the absence of, intentions"* (Mintzberg & Waters, 1985: 257). By contrast, the argument of Pettigrew (1984), is that the content of strategy can only be understood and managed in terms of the process (e.g. internal politics) and the context (e.g. internal ideology and external environment) in which it is located. (Knights & Morgan, 1991),

Hence, Sanchez & Heene (1997:306), demonstrated that *"the new strategy concepts introduced in the 1980s sought, in one form or another, to link some aspects of a firm's resources, processes, and capabilities with its competitive interactions with other firms".* And several notions concerning the strategy since then have emerged, some scholars represented the strategy of a firm as a clever, comprehensive plan for achieving specific results (Mathers, 2010). While Freedman, (2006) claimed that strategy is about choice. And it depends on the ability to understand situations and appreciate the dangers and opportunities they contain. Admitting that talented strategists are able to look forward, and distinguish between benign and malign situations and how to act in each situation.

Mintzberg & Waters as shown previously have focused on emergent strategies, which represents the realized patterns within the absence of intentions, while Knights & Morgan, (1991:268), have claimed the opposite by defining the strategy as a term that, *"within the commonsense use of language, is adopted indiscriminately to describe the intentions or plans behind any action from warfare to waltzing".* Breaking from this, a strategy is concerned with the constitution of intentions and actions from which it is thought to be derived. Thus, it is an integral part and not independent of the actions and practices, and it is frequently drawn upon to explain or justify (Knights & Morgan, 1991)

Furthermore, Knights & Morgan (1991:270), demonstrated the relationship between the strategy and the problems as it is *"actively involved in the constitution, or re-definition, of problems in advance of offering itself as a solution to them".* by conceptualizing that strategy also constitutes the problems which it then claims to have exclusive expertise in solving. *"Problems and solutions are then mutually constituted through the discourse of strategy, but they are also always in a state of flux or a continuous process of reconstitution*" (Knights & Morgan, 1991:267).

Porter (1996), on the other hand, sought in Strategy and defined it as the creation of a unique and valuable position, involving a different set of activities. Demonstrating that strategic position emerges from three distinct sources (Porter, 1996): 1-serving a few needs of many customers, 2-serving broad needs of few customers. 3-serving broad needs of many customers in a narrow market

More recently, as researchers increasingly probe into emerging economies whose institutions differ significantly from those in developed economies, the role of formal and informal institutions has popped up, commonly known as the 'rules of the game' (North, 1990). As they shape the strategy and performance of domestic and foreign firms in emerging economies (Hoskisson *et al.,* 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005; peng *et al,* 2007).

Ultimately, a strategy is *"the long-term direction of an organization"* (Johnson, Whittington, & Scholes, 2017:22).

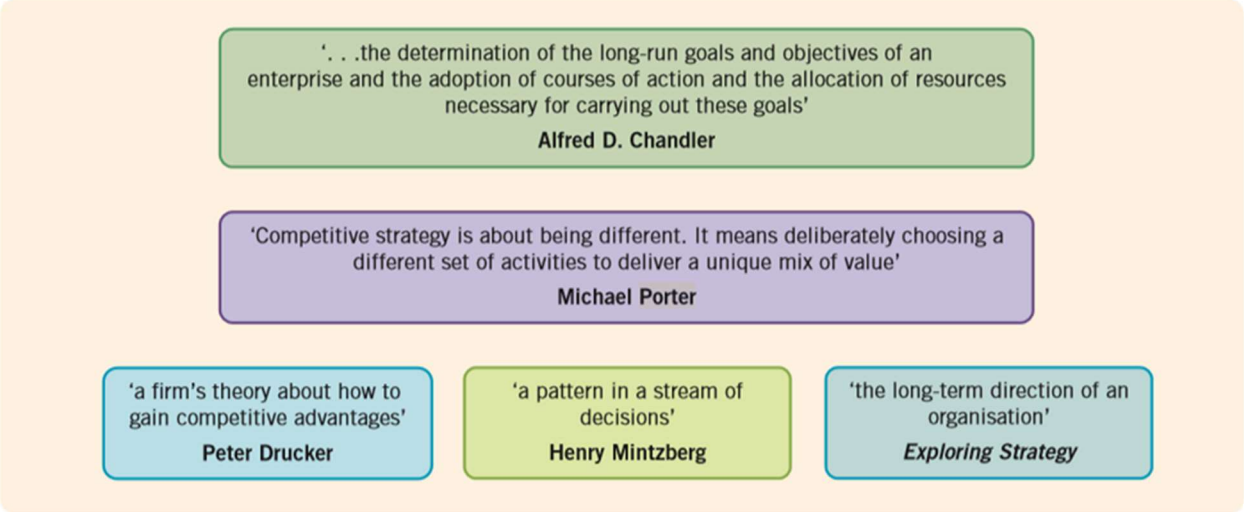

Figure 2, Definition of strategy, Gerry Johnson *et al.,* (2017:4).

2-2-2-2 levels of strategy:

As Johnson *et al.* (2017), demonstrated, a strategy has the following three levels:

A. The corporate-level strategy is concerned with the overall scope of an organization, precisely, defines the business areas in which the firm will operate. and how to add value to the constituent businesses of the firm.

B. Business-level strategy is about how the individual businesses should compete in their particular markets; thus, it defines the competitive position of a strategic business unit. And a business-level strategy is based on the generic competitive strategies (cost leadership, differentiation, and focus). The business-level strategy typically concerns issues such as innovation, appropriate scale, and response to competitors' moves.

C. Functional strategies are concerned with how the components of an organization such as marketing, production and operations, finance, and human resources, deliver effectively the corporate and business-level strategies in terms of resources, processes, and people.

Therefore, each level needs to be aligned with the others. Hence, these three levels underline the importance of integration in strategy. And the demands of integrating levels define an important characteristic of strategy: *"strategy is typically complex, requiring careful and sensitive management. The strategy is rarely simple"* (Johnson *et al.,* 2017:11).

2-2-2-3 Corporate strategy:

During the past decades, scholars have fundamentally focused on the international business and dug more into the strategic management by shedding the light on corporate-level strategy as it represents and denotes the most general level of strategy in an organization and this sense

involves other levels of strategy, Johnson, Scholes, & Whittington (2005). And through this concept, we find the connections in-between the previous studies who sought in internationalization and specialization, the impact of diversification strategy on the company's performance (Chatterjee & Wernerfelt 1991; Miller 2004; Geringer *et al.* 1989; Belkaoui 1996; Aleson & Escuer 2002; Wan & Hoskisson 2003; Chao *et al*. 2012; Sambharya 2015). Antoncic (2006), on the other side, confirmed that corporate strategy and diversification decisions are important for the behavior and performance of organizations, it may affect also the financial position of a company (Kochhar & Hitt 1998; Bausch & Pils 2009) …etc.

Furthermore, Porter (1989), ensured that the business strategy and corporate strategies are the subdivision or the components of the strategy of a diversified company. However, the business strategy concerns how to create a competitive advantage in each of the businesses in which a company competes. While the corporate strategy concerns the kind of businesses the company should be in, besides the way its office should manage the array of business units, as it represents the overall plan for a diversified company, the corporate strategy: *"is both the darling and the stepchild of contemporary management practice - the darling because CEOs have been obsessed with diversification since the early 1960s, the stepchild because almost no consensus exists about what corporate strategy is, much less about how a company should formulate it"* (Porter, 1989:234). In other words, a corporate strategy is what makes the corporate whole add up to more than the sum of its business unit parts, (Porter, 1989).

2-2-2-3-1 Premises of corporate strategy:

Porter (1989), claimed that a successful corporate strategy should be built on several premises that cannot be altered and their ignorance would somehow lead to the failure of the corporate strategy, hence, the success of the corporate strategy comes if it truly adds value to business units by providing tangible benefits that offset the inherent costs of lost independence and to shareholders by diversifying in a way they could not replicate. These premises are (Porter, 1989:236):

A. *Diversification inevitably adds costs and constraints to business units. Obvious costs such as the corporate overhead allocated to a unit may not be as important or subtle as the hidden costs and constraints.*

B. *Shareholders can readily diversify themselves: Shareholders can diversify their portfolios of stocks by selecting those that best match their preferences and risk profiles*

On the other hand, Porter, 1989, put three tests in order to ease formulating the corporate strategy which specifies the conditions under which diversification will truly create shareholder value, the three essential tests are as following (Porter, 1989:237):

A. *The attractiveness test: The industries chosen for diversification must be structurally attractive or capable of being made attractive.*

B. *The cost-of-entry test: The cost of entry must not capitalize on all the future profits.*

C. *The better-off test: Either the new unit must gain a competitive advantage from its link with the corporation or vice versa.*

Porter (1989), emphasized his study that when companies ignored one or two of those tests, the strategic results were disastrous. Undoubtedly, meeting those three tests is so difficult that most diversification fails. Due to the lack of a specific concept of corporate strategy to guide their diversification or the poor implementation of the strategy.

2-2-2-3-2 Concepts of corporate strategy:

In his study, Porter (1989), identified four concepts of corporate strategy that have been put into practice, each one has a different mechanism by which the corporation creates shareholder value and each requires the diversified company to manage and organize itself in a particular way, and clearly define the corporation's role and objectives. The first two require no connections among business units; while the second two depend on those connections. Ignoring any of the concepts will lead to failure. Otherwise, today some make more sense than others.

1. Portfolio management: This concept is the most used one, it is based primarily on diversification through acquisition. Hence, the corporation acquires attractive companies that do not have to be in the same industries as existing units.

2. Restructuring: A company that bases its strategy on restructuring becomes an active restructuring of business units. These businesses are not necessarily related to existing units. And they would likely be undeveloped, sick, or threatened organizations or industries on the threshold of significant change.

3. Transferring skills: The transferring of skills happens through the value chain of business units in the diversified company, while each unit has an independent value chain, knowledge about how to perform activities is transferred among the units and this would significantly change the strategy or operations of the receiving unit.

4. Sharing activities: Activities in the value chains can be shared among business units, and this process represents a strong basis for corporate strategy because sharing normally enhances competitive advantage by lowering cost or raising differentiation. Moreover, Aleson & Escuer (2002), showed that researches have argued from an RBV perspective that sharing skills, knowledge and other resources between businesses could improve the performance of the diversified firm.

2-2-2-4 Diversification strategy:

2-2-2-4-1 Ansoff's matrix:

To better understand the roots of diversification, Johnson *et al.* (2014), explained the Ansoff product/market growth matrix as it is a corporate strategy framework for generating four basic

directions for organizational growth. According to Ansoff, the organization may choose between penetrating which means staying in its existing sphere, or increasing its diversity by increasing the novelty of markets or novelty of products. The process of increasing diversity of markets or products is known as 'diversification'. This term is divided into two components, the first one is 'related diversification' and it refers to expanding into products or services that are connected to the existing business, the second one 'unrelated (conglomerate) diversification' is about diversifying into new products and services that have no relationships to the existing one, (Johnson, 2014). The directions according to Ansoff are (Johnson *et al.,* 2014:227):

1. *Market penetration: Market penetration implies an increasing share of current markets with the current product range.*
2. *Product development: Product development is where organizations deliver modified or new products (or services) to existing markets.*
3. *Market development: Market development involves offering existing products to new markets.*
4. *Conglomerate diversification: Conglomerate (or unrelated) diversification takes the organization beyond both its existing markets and its existing products. In this sense, it radically increases the organization's scope. However, it is important to recognize that the distinction between related and conglomerate (unrelated) diversification is often a matter of degree.*

Over the past decades, diversification took an important place in a firm's strategic management (Palepu, 1985). And this importance derives from the resource-based view (RBV) of firms which provides a motive to diversify. Ye, Lu, Flanagan, & Kunhui Ye (2018:01) argued that *"as a firm gathers resources for one business, it may maintain excess capacity over time that can be sufficiently scalable for use in other product lines or markets. Therefore, it is the excess capacity with the profit-seeking motivation that drives the decisions to diversify".* And there is another motive which is risk management, as Rubinstein (2002) mentioned, diversification is a way to reduce risk.

Diversification is a multidimensional concept, Ye *et al.* (2018). Numerous studies on diversification at the individual company level have been published over the past decades (e.g. Jacquemin & Berry 1979, Palepu 1985, Chang & Thomas 1989, Chang 1996, Pandya & Rao 1998, Palich & Gomez-Mejia 1999, Wiersema & Bowen 2008, Kim & Reinschmidt 2011, Kang 2013, Su & Tsang 2015). The term diversification as a business strategy was first coined by Ansoff (1957), it was defined by Kim & Reinschmidt (2011), as a departure from a firm's previous experience base. Ye *et al.* (2018), argued that the term has been well mainstreamed and almost self-explanatory which doesn't require scholar definitions.

Furthermore, diversification has different types and typologies, for example, concentric diversification and conglomerate diversification, (Ye *et al.,* 2018). Ansoff (1957) proposed the typology of vertical, horizontal, and lateral diversification. While, Wrigley (1970),

distinguished two modes of product diversification as Ye *et al.* (2018:02) explained related and unrelated diversification, *"Related diversification exists when a firm owns several different business units, all of which are related in one way or another while under unrelated diversification the firm diversifies into substantively different areas from the existing ones (Rowe & Wright 1997)".*

Regarding Williamson, (1981); and Qian, (1997), when the corporate seeks to reduce transaction costs in allocating resources, transfer and process information, avoid shirking, and overcome agency problems, it resorts to the diversification strategy. Nonetheless, diversification might be undertaken for a variety of reasons, some are more value-creating than others, (Johnson, *et al.,* 2005). Hence, diversification is typically defined as a strategy that increases the diversity of a corporate parent by taking the corporate into new markets and/or products, thence it must be controlled (Johnson, *et al.,* 2005). Furthermore, Belkaoui, (1996:369), explained the types of diversification strategies regarding the strategic management literature: related and unrelated. *"Related diversifiers diversify predominantly within their industries while unrelated diversifiers diversify predominantly across industries".*

Moreover, diversification strategy is the decision to expand a firm's business beyond its domestic market (Grant, 2005; Wiersema & Bowen 2008; Hitt, Hoskisson, Robert, & Hicheon, 1997). For Antoncic, (2006); and Bausch & Pils, (2009), diversification strategy answers the question of what business the organization should be in, besides considering it as a reflection of the corporate strategy as a whole. On the other side, Antoncic (2006), confirmed the definition of diversification by Roberts & Berry (1985) and deemed that diversification's focus is basically on the search for synergy to find what complements the organization's existing market/product. And *"it deals with the strategic selection of businesses for entrance or expansion based on an examination of their market, or product, and familiarity to the existing organizational product/market base"* (Antoncic, 2006:50).

2-2-2-4-2 Importance of diversification:

Chen, & Keung (2018:05), Cited some advantages behind following the diversification strategy, arguing that by diversifying into new lines of business, firms obtain several benefits, such as:

1. *First, corporate diversification is advantageous in building up economies of scale and exploiting strategic assets (Markides & Williamson, 1994).*
2. *Second, diversification can help lower capital costs and increase capital raising capacity because earnings streams from diversified divisions have low correlations, which stabilize corporate cash flows (Lewellen, 1971).*
3. *Third, multidivisional firms can operate efficiently by coordinating specialized divisions (Chandler, 1977).*

4. *Fourth, diversification can mitigate the underinvestment problem through an efficient allocation of assets by creating an internal capital market (Stulz, 1990).*

2-2-2-4-3 Diversification strategies:

Wan & Hoskisson, (2003), re-conceptualized various corporate diversification strategies as strategic actions by suggesting that certain diversification strategies would better be associated with superior performance in certain home country environments, to facilitate the utilization of factors and institutions as means for enhancing firms' competitive advantages.

1. Product Diversification: Most previous studies have shed light on the product diversification strategy. Bausch & Pils, (2009), define it as expanding the scope of the firm's activities and, according to the prevailing theory, it has an essential relevance to performance. However, high product diversification requires competent managers to monitor the variety of businesses, otherwise, it may be an undesirable strategy (Hill & Hoskisson, 1987).

2. Outbound International Diversification: Past studies have shown that outbound international diversification is positively related to firm performance (e.g. Grant, 1987) because it can provide firms with many benefits as lowering the overall risk exposure, gaining scale or scope economies, and collecting valuable international experience for additional expansion, Johanson & Vahlne, (1977). This strategy allows a firm to extend its capabilities across borders instead of being solely dependent on its home country, to share core competencies across multinational operations, or to better configure its value chain (Porter, 1990). And by engaging in outbound international diversification, Firms can gain competitive advantages in foreign markets by relying on skills acquired at home, (Wan & Hoskisson, 2003).

3. Inbound International Diversification: Inbound international diversification is likely to be beneficial to firms in less munificent environments, in other words, multinational firms may improve the productivity of host country firms, (Wan & Hoskisson, 2003) through personnel training by foreign firms or simply from observation by host country firms (Caves, 1996).

2-2-2-5 Effects of globalization on product/market diversification strategy:

Buckley & Ghauri (2004:81) recently suggested that *"the impact of industry globalization on the strategies of multinational firms represents the 'big unanswered question' for international business researchers".* As it has principally changed the competitive conditions facing firms, and subsequently has a significant impact on firms' international diversification strategy, (Wiersema & Bowen, 2008).

Wiersema & Bowen (2008:117), define the industry globalization as *"a process characterized by growing linkages among national markets in terms of consumers, production activities of*

firms, and the extent of the relevant market in which firms compete". And for Porter, (1998:13), *"An industry is global if there is some competitive advantage to integrating activities on a worldwide basis".*

Consequently, the product diversification and geographic diversification are conflicting expansion strategies, (Wan & Hoskisson, 2003), whereas the firm's level of product diversification may influence its international diversification strategy. Also, *"firms with higher levels of product diversification are more likely to face resource and managerial constraints that can limit their ability to develop global competitive advantages and to thus compete internationally"* (Wan & Hoskisson, 2003:119). Conversely, firms with more focused business portfolios are less likely to face such limits. The implication is that firms should choose a proper product diversification strategy when they enter international markets, (Hitt *et al.,* 1997). And work on a mixed strategy in both product diversification and international diversification instead of emphasizing either one as it may improve firm performance under uncertainty, (Sun, Peng, & Tan, 2017).

Essentially, Wan & Hoskisson, (2003), claimed that their study also indicates that the expansion of foreign competition in the firm's domestic market has a significant influence on its international diversification strategy. Thence, both diversification strategy and degree of internationalization influence the performance of MNEs, (Geringer *et al.,* 1989).

To avoid such limitations, international business scholars consider how institutional environments affect MNEs' behavior. As recent research argues that diversification strategies are significantly influenced by nonmarket, institutional factors, and it is no longer controversial to assert that institutions matter in diversification strategies both in developed economies and emerging economies, (Sun *et al.,* 2017). While Chao *et al.* (2012), consider how MNEs expand to foreign markets and perform better on the international level by integrating the institutional distance as a moderating agent, arguing that MNEs must adjust their practices to fit in the foreign institutional environments so they can well face the challenges, such as differences in laws, regulations, policies, enforcement, government's attitudes toward industries…etc. because institutions promote certain restrictions and constraints under these three pillars (regulative, normative, cognitive).

2-2-2-6 International diversification:

Scholars have argued over decades that the international diversification is substantial because it leads to exploit foreign markets opportunities and imperfections through internalization, (Rugman, 1981). Hit, *et al.,* (1997), defined the international diversification as expansion across the borders of countries, this expansion leads up the firm into different geographic locations or markets. And to measure the level of international diversification a firm can rely on the number of the markets in which it operates and their importance can be defined by the percentage of total sales represented by each market (Hit, *et al.,* 1997).

As mentioned before, the product diversification strategy has been a highly popular one among large and growing industrial firms in the United States, Europe, Asia, and others (Chang & Choi, 1988; Dyas & Thanheiser, 1976; McDougall & Round, 1984; Suzuki, 1980). Nonetheless, its importance goes beyond helping to boost and achieving the international diversification strategy, and integration of product and international diversification can also help firms exploit interdependencies across their businesses and discover potential synergies, (Hit *et al.,* 1997). Consequently, from the RBV of the firm, implementing product diversification strategies would inevitably and meaningfully influence the implementation of international diversification strategies (Hit *et al.,* 1997).

Mayer, Stadler, & Hautz (2015), suggested that high products and markets diversification degree can further enhance resources and capabilities (Barkema & Vermeulen, 1998; Hitt *et al.,* 1997; Zahra, Ireland & Hitt, 2000) that can be leveraged across product and geographic markets. Hence, confirming that the positive relationship between growth in both product and international diversification will be reinforced.

However, managing international diversification is difficult (Hit, *et al.,* 1997). Geographic dispersal has a positive relationship with transaction costs and managerial information-processing demands, hence, in case of high geographic dispersal, the transaction costs and managerial information-processing demands would be high too (Hit, *et al.,* 1997). Porter (1990), on the other side, suggested that increased coordination and distribution costs cause unavoidably the complexity of international diversification. And those costs are exacerbated by trade barriers, logistical costs, cultural diversity, and other country differences. However, CEOs with international experience have stronger cognitive knowledge and talents to deal with the complexity in international diversification (Sun *et al.,* 2017).

2-2-2-6-1 Reasons for international diversity:

Johnson *et al.* (2005:291), have divided those reasons into three sections, as follows:

1/Market-based reasons:

a. *The globalization of markets and competition*
b. *Firms acting as suppliers to industrial companies may follow their customers when these internationalize their operations.*
c. *By expanding its markets internationally, a firm can bypass limitations in its home market*
d. *There may also be opportunities to exploit differences between countries and geographical regions*

2/Taking advantage of strategic capabilities:

a. *By internationalizing, companies can broaden the size of the market to exploit strategic capabilities.*

b. *The internationalization of value-adding activities allows an organization to access and develop resources and capabilities in ways not possible in its 'home' country thereby enhancing its competitive advantage and competitive position*

c. *Companies may also seek to enhance their knowledge base by entering markets that are strategically important as a source of industry innovation*

3/Economic benefits:

a. *International diversification allows firms to reap economies of scale by expanding the size of the market they serve.*

b. *Stabilization of earnings across markets*

2-2-2-7 Diversification degree in MNEs in host markets:

Qian (2002), confirmed the ideas of Hitt *et al.* (1997), who has mainly found that the performance of a firm's product diversification strategy depends on the degree of multinationality. Hence, the diversification degree is related to multinationality. And this is as Qian (2002:620) mentioned, because of: *"(1) interaction of these two dimensions helps firms exploit interdependencies across their businesses to achieve potential synergies (Geringer et al., 1989); and (2) experience with product diversification can build managerial capabilities that allow more effective management of multinationality"* (Hitt *et al.,* 1997).

Furthermore, Geringer *et al.* (1989), discussed the certainty of using the related product diversification strategy when a firm seeks to deploy its resources for a competitive advantage. Moreover, firms can also achieve the same result through geographic rather than product diversification. Hence, related diversification is beneficial on both national and international levels. Also, the degree of diversification as Chang (2007:350) argued, is well attached to *"moderate product diversification, foreign expansion speed and geographic scope which affect and increase emerging-market MNEs capacities to exploit different market opportunities when they engage in the foreign activity. By contrast, firm performance will turn negative if MNEs heavily expand their product range and geographic scope".*

Ultimately, there are two main streams, one emphasizes that there is a positive relationship between product diversification strategy and multinationality (Qian, 2002), and the other claims that a high level of product diversification affects negatively the firm's performance whether on the national or international level (Chang, 2007). Additionally, Johnson *et al.* (2005:303), agreed on these intellects and suggested that *"product-diversified firms are likely to do better from international expansion because they have already developed the necessary skills and structures for managing internal diversity. At the other end of the spectrum, there is a consensus*

that firms that are highly diversified both in terms of product and internationally are likely to face excessive costs of coordination and control leading to poor performance. As many firms have not yet reached levels of internationalization where negative effects outweigh possible gains and because of current skepticism concerning the benefits of high levels of product diversification, many companies currently opt for reducing their product diversity whilst focusing in international scope".

2-2-2-7-1 The three-stage theory of emerging-market international expansion:

Chang (2007), in his research, used the three-stage theory as an analytical tool to clarify the reasons why MNEs should minimize the diversification degree in emerging markets, they are also good reasons which show that internationalization-performance relationship is different for firms in emerging-market MNEs. These reasons are as following, (Chang, 2007:333):

1. *First, firms in developing countries are generally less advanced in managerial and technological knowledge in comparison with developed-country firms (Tolentino, 1993).*
2. *Second, they may face different macroeconomic conditions and institutional environments from developed-country firms (Khanna and Rivkin, 2001).*
3. *Third, developed and developing countries differ in international competitiveness by sector (Nachum, 2004).*

Initially, there are multiple barriers to emerging-market MNEs' internationalization, (Chang, 2007), the most important ones are as follows:

1. Due to the unfamiliarity with foreign markets, cultures, and environments, emerging-market MNEs have large learning costs.
2. Emerging-markets are known with less efficient production and less internationally competitive knowledge-based industries (Guillen, 2000),
3. Emerging-markets suffer from weak or non-existing institutions (Khanna and Rivkin, 2001), as well as underdeveloped capital markets (Singh, 1995).
4. Barriers to emerging-market MNEs' internationalization also include cultural distance (Johanson and Vahlne, 1977) and establishing the firm's legitimacy abroad (Zaheer and Mosakowski, 1997).

Therefore, and based on the previous reasons, Chang (2007:337), argued that *"emerging-market MNEs that moderate levels of product diversification have a beneficial influence on their performance when they do not engage heavily in product diversification; but if they go far beyond their original industries, their performance will turn negative, with further high levels of product diversification".*

On the other side, Mayer *et al.* (2015), discussed deeper and precisely the constraints that limit the transferability of knowledge and absorptive capacity (Kumar, 2009), thence, the ability to exploit both product and international diversification opportunities, as follows:

1. Causal ambiguity (Martin and Salomon, 2003; Rivkin, 2001) makes it difficult to leverage resources and capabilities in new settings.

2. Bounded rationality and managerial resource constraints reduce the absorptive capacity of a firm and therefore its ability to grow along both dimensions of scope (Vermeulen and Barkema, 2002).

3. The increases in internal governance costs and managerial complexity associated with both product and international diversification individually (Bowen and Wiersema, 2005; Coase, 1938; Jones and Hill, 1988) are likely to be more substantial when firms establish coordination and control mechanisms across both national and market boundaries (Geringer *et al.,* 2000).

An important viewpoint has been discussed by Sun *et al.* (2016), which is the importance of political ties (Sun *et al.,* 2010), which affect the scope of the firm in terms of both product diversification and international diversification. and the diversification degree in a host market. Moreover, Chen, & Keung (2018), and other scholars focused more on the asymmetry of information in diversified firms as they are considered subject to larger asymmetric information problems than focused firms because both product diversification and international diversification require significant operational and informational complexity.

Substantially, when most of the researchers claim that high diversification degrees would negatively affect the firm's performance, there are multiple ways to raise the diversification degree while maintaining a high-performance level. Sun *et al.* (2017) argued that firms can raise the diversification degree by focusing on well transferring international experience across multiple industries and countries. Because this process grants a higher ability of learning which allows the firm to detect new opportunities in different industries and different countries, thus enhancing both product diversification and international diversification.

2-3 Hypotheses development:

Our study is majorly built on the assumption that the institutional distance impacts strongly the MNEs' corporate strategy and precisely diversification strategy and the degree of products diversification in their developing-countries located subsidiaries 'empirical study of MNEs in Algeria'. Our premises were developed based on the nine dimensions of Berry *et al.* (2010), as they classified institutional distance along nine dimensions: economic, financial, political, administrative, cultural, demographic, knowledge, connectedness, and geographic.

1. Economic:

Researchers over decades have been making efforts in economic theory and industrial organization economics that yielded thorough literature. Most of it supports the suggestion that firm profits, performance, and diversification strategy are highly influenced by the market structure variables in which the firm operates (Christensen & Montgomery, 1981). More precisely, the influence relationship between the market structure and diversification strategy is based on the concept of defensive diversification (Christensen & Montgomery, 1981; Serrano, 2013) which means that firms located in markets who constrain their growth or profitability are the most likely candidates for diversification (Christensen & Montgomery, 1981). Consequently, firms during poor economic conditions tend to diversify, because diversification helps firms face economic and financial risks by leading them to discover and exploit new opportunities (Serrano, 2013). Conversely, diversification strategy can be used by firms during stable and positive macroeconomic conditions to gain benefits such as faster growth.

However, if we focused more on international-level diversification, the diversification degree is negatively related to economy-wide measures of economic activity, such as the change in gross domestic product, and the change in wholesales trading (Serrano, 2013). Hence, *"market conditions or macroeconomic factors are probably the main force that leads a firm to the diversification decision. A positive economic environment should drive firms to invest through diversification, to take advantage of a healthy economy"* (Serrano, 2013:145), and vice versa.

> Hypothesis 1: There exists a negative relationship between economic constraints on the international level and diversification degree.

2. **Financial**:

According to Bettis & Hall (1982:256), and by following financial economics, *"risk is considered as the variability of returns. Other risks, such as the risk of bankruptcy or the risk to management of a takeover, are not explicitly considered"*. Firms can reduce their operating risk through diversification better than depending on a single operation (Amit & Livnat, 1988). *"As shown in finance theory, whenever the cash flows of the individual units are not perfectly correlated, the total risk, as measured by variability of consolidated cash flows, is reduced by diversification. Thus, it seems that firms should diversify their operations"* (Amit & Livnat, 1988:100). Hence, Diversification can reduce the variability of operating earnings if the returns are negatively correlated. Consequently, on a wider scope, diversification strategy is the better

choice when there are financial risks, or new financial economics facing the firm, and axiomatically the ratio of financial risks in foreign markets is higher due to the collision with new financial economics and the unfamiliarity with the host market.

> Hypothesis 2: MNEs tend to use diversification strategy in case of a collision with new/high financial risks.

3. Political:

As the international diversification is a multifaceted strategy, it has high levels of risk but contrariwise, the potential for significant rewards. Ellstrand (2002) demonstrated that a significant part of this risk is a result of international political environments that have been increasingly assessed and institutionalized in U.S. multinational firms. On the other side, Cosset & Suret, (1994) ensured that firms execute in foreign markets need besides assessing economic and social developments to consider political conditions and risks too. Political risk as defined by Ellstrand (2002:770) *"is a multidimensional concept that includes economic, sociocultural, and political factors"* which affect directly/indirectly the international decisions made by directors and the value of a firm. Hence, corporate executives would rather use the diversification strategy as a tool to reduce the overall risk in a firm's portfolio (Ellstrand, 2002).

Nevertheless, political risk is important to managers and investors as nations differ in political risk thence political instability creates uncertainty, which may ultimately have a significant influence on the value of a firm and a negative effect on the stability of their markets. On the contrary, firms that function in these markets gain a competitive advantage as they find less competition than in more stable markets since most of the firms are not interested in competing in politically risky markets (Ellstrand, 2002)

According to Cosset & Suret, (1994:303) *"Political risks in international business exist (1) when discontinuities occur in the business environment, (2) when they are difficult to anticipate and (3) when they result from political change".* Focusing on the third argument, political changes occur when firms expand beyond borders into foreign markets, consequently, it increases the political risks which lead the firm to use the diversification strategy because it improves the risk-return characteristics of optimal portfolios in case of functioning in politically risky countries (Cosset & Suret, 1994)

> Hypothesis 3a: when MNEs function in politically risky markets/face political changes due to the unfamiliarity with the political environment, they rely on diversification strategy as a tool to reduce the overall risk in their portfolios.

> Hypothesis 3b: when MNEs operate in politically stable environments/low political risk, they do not necessarily use the diversification strategy.

4. Administrative:

Morgan (2017), showed that assessing administrative constraints is important as it helps firms or individuals to consider the impact of various factors like national legislation, regional regulations, and bureaucracy. Moreover, he argued that overcoming any associated administrative obstacles is a substantial step to employ the diversification strategy, On the other hand, Doz, Bartlett, & Prahalad (1981), mentioned that structuring the firm's internal decision-making process represents an administrative challenge to management, however, Past studies have confirmed that the design of the organizational structure is a key administrative mechanism that firms can use to manage with uncertainty (Govindarajan, 1988). The structure of a firm as Doz *et al.* (1981:73) explained that *"varies substantially between a company with a single business in a few foreign markets, and a diversified company operating in a large number of national environments. Not only is there likely to be an increased need for a coordinated management approach in the latter situation, but top management will be less able to maintain a detailed understanding of the substance of the numerous complex decisions central to the company's successful operations".* Thus, the diversification degree in a firm is well attached to administrative and managerial constraints (Morgan, 2017; Doz *et al.,* 1981).

Hypothesis 4: the lower the administrative constraints in the host country the higher the diversification degree in the MNEs' products/markets.

5. Cultural:

The dimension of cultural distance has helped over years in explaining a wide range of MNE strategies, such as international diversification (Tihanyi *et al.,* 2005). But, despite the large research showing the strong impact of culture on business practices around the world, cultural diversity has not been thoroughly integrated as an important construct in strategic management studies of globalization (Palich & Gomez-Mejia, 1999). Furthermore, Palich & Gomez-Mejia (1999), argued that culture impacts strategic management by altering managers' perceptions and affect the making-decisions process of an MNE, and to better avoid the disadvantages of those effects a firm must seek for the greater cultural similarity of global strategic staff as it reduces disagreement and facilitates international coordination, thence gaining a competitive advantage. Ultimately, when businesses are established in countries that are related in terms of national culture, firms would efficiently manage international business units because culture impacts buyer preferences, people from similar cultures are likely to value and purchase similar products (Palich & Gomez-Mejia, 1999; Tihanyi *et al.,* 2005).

Increased cultural diversity can lead to increased competition, and management problems associated with local production, thus the difficulty of managing an MNE's portfolio of foreign subsidiaries (Tihanyi *et al*., 2005). Consequently, expanding internationally requires managerial adaptation due to differences between national cultures, even when a global firm as Palich mentioned may be tempted to transfer its home country structure to its international units to maintain efficiency, it would last mortgaged to cultural diversity. Hence, the strategy of an

MNE is influenced by culture as it might be easier to change an organization's strategy than to change its culture (Goll & Sambharya, 1995).

Hypothesis 5: When an MNE faces higher culture diversity in its foreign subsidiaries it resorts to minimize the diversification degree.

6. Demographic:

Previously, many researchers demonstrated that demographic traits have a significant affect the strategic change in a firm (Wiersema & Bantel, 1992). Moreover, these traits as age, education, and functional background experiences are associated to the corporate elites' (CEs) cognitive biases and values, which affect in turn their strategy preferences and dispositions (Jensen & Zajac, 2004). Hence, demographic characteristics are indicators of the cognitive bases' qualities and they do predict the corporate strategy (Jensen & Zajac, 2004), Furthermore, Hutzschenreuter & Horstkotte (2013), argued in their paper that demographic faultlines within the CEs moderate the relationship between added product scope per period and profitability, as they impact the CEs' ability to process information and coordinate diversification.

On the other side, researchers have focused on demographic homogeneity and demographic heterogeneity. Wiersema & Bantel (1992) suggested that homogeneity on demographic traits leads to perceptions of similarity with and attraction to others, while heterogeneity refers to diversity within a group on the demographic variables of age and organizational tenure. This diversity hardens communication besides staining the decision-making process. Consequently, when heterogeneity increases it affects the firm negatively, especially increases the strategic change.

Wiersema & Bantel (1992:114), found out that *"heterogeneity with respect to educational specialization was related to strategic change, consistent with the theory that diversity in cognitive perspective facilitates adaptation. But heterogeneity on age, organizational tenure, and team tenure were not significantly associated with strategic change".* Ultimately, cognitive and demographic diversity might enhance complex decision-making and improve adaptation.

Hypothesis 6: The diversification degree of an MNE increases when diversity in some demographic characteristics is high.

7. Knowledge:

Despite the wide literature about the firm's knowledge, researchers have constantly linked it to the RBV (e.g. Fang, Wade, Delios, & Beamish, 2007) as it's considered as an intangible, rare, and valuable resource which allow firms to diversify their markets and gain competitive advantages (Fang *et al.,* 2007). For example, the transfer of valuable and rare resources as knowledge between the subsidiaries of a firm lead to a successful long-term diversification (Fang *et al.,* 2007). Gaining intangible resources like knowledge improves the international

diversification process of a firm (Majocchi & strange, 2012). Even though transferring knowledge is an evident method to maintain the moderate level of an MNE's performance, diversification requires learning and creating new knowledge too and by which takes time (Hutzschenreuter & Horstkotte, 2013), and it's considered as an important step to pass through since there are costs associated with international diversification, notably arising from a lack of foreign market knowledge who lead to increased coordination costs (Majocchi & strange, 2012).

> Hypothesis 7: MNEs tend to transfer their knowledge to foreign subsidiaries/gain knowledge from foreign subsidiaries as it represents a strength that cannot be imitated and which by the way allows MNEs to rise the diversification degree.

8. Global connectedness:

Connectedness is a concept that includes variances in tourism and internet use, most researchers shed the light on the internet connectedness as it's considered as a measure that explores the nature of individuals (Mesch, 2012). Mesch (2012:320), demonstrated that: *"An important issue is an extent that ethnic differences in patterns of information and communication technologies (ICT) use remain after socioeconomic factors are controlled. There is some evidence for this argument, a study that focused on connected individuals reported that ethnic and racial differences in use remained even after measures of socioeconomic status (SES) are controlled".* Consequently, and affirmatively, internet connectedness has a big role on the individuals' behavior regardless other factors such as socioeconomics, and on diversification as well because it gives a firm the sense of belonging to the community and access to social, cultural, and political resources and leaders in neighborhood associations (Mesch, 2012).

> Hypothesis 8: Connectedness helps firms belong to a community thence increases the diversification degree as it enhances the diversification.

9. Geographic:

Geographical elements and variables can be used in various researches and especially in economic researches as they provide a useful database (e.g. estimation by trade, economists of gravity, equations describing bilateral patterns of trade flows…etc.) (Mayer & Zignago, 2006). Geographic distance as Kim & Cohen (2010) defined it is the distance in kilometers between two cities, which can be calculated from the cities' longitude and latitude using the great circle formula. This geographic distance as Basu & Chevrier (2011) argued, represents a concern because when firms tend to cluster geographically, a strategy of acquiring targets located close by may be indistinguishable from a strategy of acquiring targets in the same industry. Thus, the greater the geometric distance between the two countries, the larger the negative effect of

distance, due to the misfit ratio between home and host country (Kostova & Roth, 2002). In other words, the greater the geographic distance the higher the firms' concerns.

> Hypothesis 9: The greater the geographic distance between the parent country firm and host country firm the lower the diversification degree.

Methodology Design

3- Methodology design:

3-1 Research epistemology:

Many researchers in business have defined epistemology as a branch of philosophy that deals with the sources of knowledge, possibilities, and the nature of knowledge, in simple words, epistemology focuses on what is known to be true. Knowledge is about true believes that have been justified. Over time, four major research philosophy components have developed, pragmatism, positivism, realism, interpretivism to demonstrate the researcher's view regarding what constitutes acceptable knowledge.

Pragmatism focuses on practical applied research, integrating different perspectives to help interpret the data. Positivism focuses on causality and law-like generalizations, reducing phenomena to the simplest elements. Realism is divided to direct realism which implies that insufficient data means inaccuracies in sensations, alternatively, phenomena create sensations that are open to misinterpretation is critical realism, thus realism focus on explaining within a context or contexts. Ultimately, interpretivism focuses upon the details of the situation, a reality behind these details, subjective meanings, and motivating actions.

In the given research, we follow positivism philosophy as we seek to provide causal laws who lead eventually to credible and rational data and facts about the impact of institutional distance on the corporate strategy and precisely the diversification degree in host markets, which supply the MNEs' managers with further details by which they can use in the strategic decision-making process concerning their subsidiaries in developing economies.

As we building quantitative research, we follow the deductive approach. And among the four research modes which are the most used in human sciences (Explorative, descriptive, confirmatory, and explicative research), the chosen type for this research is confirmatory-explicative, as it aims to accurately and systematically explain the phenomenon. And help us answer the questions related to our subject, also confirm what the previous theories have shown, and demonstrate if they were supported by facts.

3-2 Research methodology:

3-2-1 Research design:

Our research shed light on one principle type of data collection, which is secondary data, as a crutch that will conduct our sampling process. Hence, it is mainly used in both parts of the data collection, the first part consists a table describing the MNEs located in Algeria, and a comparison between their products' categories in the home country and products' categories represented in Algeria to show the product diversification degree, while the other part will be focusing on gathering the latest statistics about the institutional distance indices, so we can calculate the latter by formulating a mathematical formula.

Hence, this study employs a confirmatory-explicative research design to look into the effects of institutional distance on the product diversification degree in MNEs located in Algeria. The

confirmatory-explicative design offers to us a profile of analyzed aspects of the phenomena of interest from an individual, organizational, and industry-oriented perspectives. Therefore, our research design enables us to gather data from a wide range of MNEs, and help us analyze the impacts of ID dimensions on the diversification degree and answer our questions.

To address the key research objectives, we chose a quantitative method and used secondary data sources. Research methods, sampling definition, data collection, and sampling process, are discussed under this section.

3-2-2 Research Methods:

For this research, we decided to employ secondary data, as we seeking to collect data that have been already published, it will be collected from the official websites of the MNEs resulting in Algeria and the parent country of each firm, annual reports, business databases…etc. (e.g., number of employees, revenues,…). Moreover, the data concerning the institutional distance will be also secondary, and it will be collected from different websites to determine the indices that are going to be used to measure the institutional distance between the home country firms and the host country firms regarding the nine dimensions of Berry *et al.* (2010), further details will be represented in the sampling definition section and sampling process.

3-2-3 Sampling definition:

in order to choose the sample for our research by which the population is represented, we chose a multistage sampling method, which is a technique where we take samples in stages using smaller and smaller sampling units at each stage. First, we chose the list of Global 500 Fortunes, second, MNEs having commercial engagements in Algeria, and finally, MNEs using diversification as a corporate strategy.

for this process, we are seeking to reach several 200 MNEs located in Algeria as our final sample to study the impact of the institutional constraints on the product diversification degree besides determining the product diversification degree between the parent country firms and their subsidiaries in Algeria. Thus, 200 represents our ceiling, as we might find more or less in the sampling process.

It is sometimes argued that this method is theoretically simple to understand but difficult to practically implement. Because working with large sample size and in the shape of clusters isn't an easy task and it can sometimes be a challenge finding a realistic sampling frame. Consequently, we expect to meet some challenges in the sampling process, as we are going to pinpoint this process on 500 firms operate across the world and narrow the search to itemize 200 firms located in Algeria and take it to be analyzed and studied as our final sample in this thesis.

3-2-4 Data collection:

In our research, and to achieve our purpose which is determining if there is an influence from ID indices on the product diversification degree in MNEs operating in Algeria, we decided to

use the observation method to collect the secondary data related to our sample and variables, this process will be conducted by using the internet as we shall shed the light and focus on the list of "The Global 500 Fortune", as it represents MNEs operating across the world and undoubtedly in Algeria as well.

3-2-4-1 Sample data:

In order to distinguish between the MNEs who are operating in Algeria and who aren't, we used the observation method, to better understand this section, read the sampling steps below:

1. we visited the official website of 'Global 500 Fortune' and precisely the latest list which is concerned with companies who are ranked by total revenues for their respective fiscal years ended on or before March 31, 2019.
2. Besides using the annual reports of Global 500 Fortune, we searched for the companies by typing their names beside their presence in Algeria.
3. We looked into their commercial engagements in Algeria by searching for their subsidiaries/products/contracts/distributors present in here.
4. In case of finding the presence of an MNE's products in Algeria, we collect the needed data for our research which are (the firm's name, country of origin, number of employees, revenue, assets, products categories in the parent country, product categories in the host country, related/unrelated diversification, and finally the diversification degree).
5. To fulfill our goal, we had to do further researches about the presence of these companies' products in Algeria, as we didn't find the official websites of many of them, we looked into their conventions with Algerian firms, especially for those in the sector of energy, who have made contracts with SONATRACH. Or their brands in Algeria and mostly those in the motor vehicles sector, electronics, food, and beverages. Or their distributors, viz the Algerian importers, such as healthcare products, industrial machinery. And finally, through offices located in Algeria chiefly those who provide services such as delivery firms, also firms in the construction sector, and technology sector.
6. As a result, we found the absence of 369 companies, most of them are in the following sectors: financials, insurance, wholesalers, internet services and retailing, food and drug stores, banks, Aerospace, and Defense.

After collecting the data about these MNEs we headed toward discovering which diversification strategy are they in, related versus unrelated diversification strategy. Related diversification strategy is when a business adds or expands its existing product lines or markets. For example, a telecommunication company expands its products and services by purchasing another company in the sector of telecommunication. While an unrelated diversification strategy is when the business adds new product lines and penetrates new markets that are unrelated to the current products and markets. For example, if an automotive producer enters the business of clothing manufacturing.

To decide whether the diversification strategy by which a firm is engaging in is related or unrelated, we used a solid protocol which is the 2-digit SIC (Standard Industrial Classification) codes, as it contains 99 codes divided onto 11 business sectors (e.g., Agriculture, Forestry, & Fishing; Mining; Construction; Manufacturing; Transportation & Public Utilities…etc.), and each sector is split into sub-sectors (e.g., Mining is divided to 10 Metal, Mining; 12 Coal Mining; 13 Oil & Gas Extraction; 14 Nonmetallic Minerals, Except Fuels). Hence, when finding that activities of the MNE under analyzing are following one code, we consider its diversification strategy as related and distinguish between its presence in the home country and Algeria by the number of its products/brands. If the MNEs' activities were belonging to more than one code we consider their strategy as unrelated diversification and use their product categories to differentiate between their presence in the host country and Algeria.

To explain more this process, we drew the following table to demonstrate how we chose between related versus unrelated diversification for five MNEs who are taken from our sample.

Table 4: Exemplifying table on how we distinguished between related versus unrelated diversification strategy based on the 2-digit SIC codes.

MNE	**Industry**	**2-digit SIC code**	**Related/Unrelated**
Procter and Gamble	Household and Personal Products	-20 Food & Kindred Products -26 Paper & Allied Products -28 Chemical & Allied Products	Unrelated
General Electric	Industrial Machinery	-33 Primary Metal Industries -34 Fabricated Metal Products -93 Finance, Taxation, & Monetary Policy -73 Business Services -36 Electronic & Other Electric Equipment -49 Electric, Gas, & Sanitary Services	Unrelated
Christian Dior	Apparel	-23 Apparel & Other Textile Products -28 Chemical & Allied Products	Unrelated
Nestle	Food Consumer Products	-20 Food & Kindred Products	Related
Volkswagen	Motor Vehicles and Parts	-37 Transportation Equipment	Related

Source: Prepared by the student

3-2-4-2 Institutional distance data:

To collect data about the ID's nine dimensions proposed by Berry *et al.* (2010), we used the sources mentioned in their article and some other sources that have been used by other scholars and in different researches. To better understand this process, we put in your hands the next table of how we collected each of the nine dimensions data:

Table 5: The nine dimensions' data sources

Dimensions	**Components**	**Sources**
1-Economic distance	Income	WDI
	Inflation	WDI
	Exports	WDI

	Imports	WDI
2-Financial distance	Private credit	WDI
	Stock market cap	WDI
3-Political distance	Policy-making uncertainty	POLCON
	Democratic character	Freedom house
	Size of the state	WDI
	Regional trade agreement	WTO
4-Administrative distance	Economic Freedom	HERITAGE FOUNDATION
	Inefficient Government Bureaucracy	THE WORLD BANK
5-Cultural distance	Power distance	HOFSTEDE INSIGHTS
	Individualism	HOFSTEDE INSIGHTS
	Masculinity	HOFSTEDE INSIGHTS
	Uncertainty avoidance	HOFSTEDE INSIGHTS
	Long-term orientation	HOFSTEDE INSIGHTS
	Indulgence	HOFSTEDE INSIGHTS
6-Demographic distance	Life expectancy	WDI
	Birth rate	WDI
	Population under 14	WDI
	Population under 65	WDI
7-Knowledge distance	Patents	WITO
	Scientific articles	WDI
8-Global connectedness distance	International tourism expenditure	WDI
	International tourism receipts	WDI
	Internet use	WDI
9-Geographic distance	Great circle distance	MOVABLE TYPE SCRIPTS

Source: Prepared by the student

3-3 Variables measurement

3-3-1 Dependent variable:

The dependent variables in the research are the variables that depend on other factors that are measured. These variables are expected to change as a result of the experimental manipulation of the independent variables. Hence, the dependent variable is the one who gets affected by the changes in independent variable/variables. In our research, the dependent variable is the product diversification degree. To explain our dependent variable, we measured it using numbers, and this was by calculating the products or/and the products' categories represented by the MNEs in the parent country and the host country which is Algeria.

The level of measurement of the dependent variable is the factor that determines the choice of statistical tests that can be used to analyze the data. Hence, it's important to well set the right level of measurement. Among the four levels of measurement of variables: 1) nominal, 2) ordinal, 3) interval, and 4) ratio. We chose the interval scale, since it is one of the two quantitative measures, and because it can be used where there are order and the difference between two values is meaningful. Moreover, basic algebraic calculations can be done to represent values and relationships between them, and this is what we did, a simple calculation,

which is a division (number of products/product categories in host country/number of products/ product categories in home country).

Precisely, we measured the diversification degree of MNEs adopting related diversification using the number of MNEs products in the host country divided by the number of products in the home country. Thence, for MNEs adopting an unrelated diversification strategy, we measured diversification degree using the number of MNEs industry categories in the host country divided by the number of industry categories of products in the home country. Consequently, we distinguished between MNEs adopting related diversification strategies and those adopting unrelated diversification strategies. And, to explain whether the diversification strategy is related or unrelated, we coded 0 for related diversification strategy and 1 for an unrelated diversification strategy.

3-3-2 Independent variables:

As shown in the literature review, our dependent variable 'product diversification degree' is going to be conducted by the independent variables that we determined before, which derive from the literature of institutional distance, and who were built upon the nine dimensions of Berry *et al.* (2010), economic distance, financial distance, political distance, demographic distance, cultural distance, administrative distance, knowledge distance, global connectedness distance, and geographic distance. All these dimensions were used as quantitative measures by Berry *et al*. (2010); Kogut & Singh (1988); McCarthy & Aalbers (2016) …etc., and many other scholars. In our research, we followed this as well:

1. Economic distance: Following Berry *et al.* (2010), we measured economic distance by the income, inflation, exports, and imports of each country.
2. Financial distance: Following Berry *et al.* (2010), we measured financial distance by the private credit, stock market cap.
3. Political distance: Following Berry *et al.* (2010), we measured political distance by the policy-making uncertainty, democratic character, size of the state, and regional trade agreement.
4. Administrative distance: Following Berry *et al.* (2010:1467) who state that *"administrative distance refers to differences in bureaucratic patterns..."* we measured administrative distance using the Economic Freedom index and Inefficient Government Bureaucracy Index.
5. Cultural distance: Following Kogut & Singh (1988), we measured the cultural distance using the six dimensions of Hofstede, power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence.
6. Demographic distance: Following Berry *et al.* (2010), we measured demographic distance by the life expectancy, birth rate, population under 14, and population under 65.
7. Knowledge distance: Following Berry *et al.* (2010), we measured knowledge distance by patents and scientific articles.

8. Global connectedness distance: Following Berry *et al.* (2010), we measured global connectedness distance by international tourism expenditure, international tourism receipts, and internet users.
9. Geographic distance: Following McCarthy & Aalbers (2016), we measured the geographic distance by the great circle distance, using the Haversine formula.

3-4 Calculation method:

3-4-1 Data normalization:

The word "normalization" is used informally in statistics, and it can have multiple meanings. In most cases, normalizing data means to eliminate the units of measurement for this latter, which enable us afterward to more easily compare data from different places. Some of the more common ways to normalize data include:

1. Standardization: transforming data using a z-score or t-score.
2. Feature scaling: Rescaling data to have values between 0 and 1.
3. Standardizing residuals: Ratios used in regression analysis can force residuals into the shape of a normal distribution.
4. Normalizing Moments: using the formula μ/σ.
5. Normalizing vectors: (in linear algebra) to a norm of one. Normalization in this sense means to transform a vector so that it has a length of one.

This list is not full, since there are many other meanings for the word normalization. However, we've included the most common ones. In our calculation, we accurately used two methods, normalization, and standardization. They are sometimes used interchangeably, but they usually refer to different things.

1. the 1st one, standardization which takes into consideration the average and the standard deviation. Thus, transforms data to have a mean of zero and a standard deviation of 1. This standardization is called a z-score. Data can be standardized mathematically with the following formula:

$$\boldsymbol{Zi} = \frac{(\boldsymbol{xi} - \bar{\boldsymbol{x}})}{\boldsymbol{s}}$$

Where:

- $\boldsymbol{Zi}$ is the normalized value,
- $\boldsymbol{xi}$ is a data point (x1, x2…xn),
- $\bar{\boldsymbol{x}}$ is the sample mean,
- $\boldsymbol{s}$ is the sample standard deviation.

2. The 2nd method is the feature scaling, to get results between 0 and 1. We mathematically used the next formula, **Normalized X = (X - Minimum value) / (Maximum value - Minimum value).**

$$Zi = \frac{(x - x_{min})}{(x_{max} - x_{min})}$$

Where:

- ***Zi*** is the normalized value,
- ***x*** is an original value,
- ***min (x)*** and ***max (x)*** are the MIN-MAX values.

3-4-2 Euclidean distance:

The Euclidean distance is so fundamental in mathematics and physics, as one of the mechanical proofs shown by the Pythagorean theorem, although in either science it's not the only distance formula used this system of geometry is still in use today. Euclidean distance is the distance between two points in Euclidean space. Thus, Euclidean geometry specifically applies to spaces of two and three dimensions. However, it can easily be generalized to higher-order dimensions. Mathematically, the distance between two points is defined as the square root of the sum of the squares of the differences between the corresponding coordinates of the points.

The Euclidean distance formula used in this research is ('n'-dimensions) formula which refers to more Than 3 Dimensions. Precisely, the number of dimensions being worked in depends on the number of variables each cell (case) is described by. If each cell is described by 3 variables then it is in 3D space, if there are 20 variables then it is 20D space. Therefore 'n' variables are represented in 'n'-dimensional space:

$$d_{ij} = \sqrt{\sum_{v=1}^{n} (x_{vi} - x_{vj})^2}$$

Where:

- $\boldsymbol{n}$ is the number of variables used,
- the variables are represented from the first $\boldsymbol{v} = 1$ to the last $\boldsymbol{v} = \boldsymbol{n}$ so that $\boldsymbol{v} = 1$ to $\boldsymbol{n}$,
- $\boldsymbol{x_{vi} - x_{vj}}$ would be the value of $\boldsymbol{v^{th}}$ variable for cell $\boldsymbol{i}$ minus the value of the $\boldsymbol{v^{th}}$ variable for cell $\boldsymbol{j}$.

Thus, the square of the Distance between 2 cells ($\boldsymbol{i}$ & $\boldsymbol{j}$; d_{ij}) is equal to the sum (S), from the first variable ($\boldsymbol{v} = 1$) to the last variable ($\boldsymbol{v} = \boldsymbol{n}$) of the squares of the distances in each dimension.

3-4-3 Kogut and Singh index (1988):

KSI was built upon Hofstede's indices, based on the deviation along each of the four cultural dimensions previously (i.e., power distance, uncertainty avoidance, masculinity/femininity, and individualism) (Kogut & Singh, 1988). "The deviations were corrected for differences in the variances of each dimension and then arithmetically averaged" (Kogut & Singh, 1988:422). The raw formula for the KSI is:

$$\boldsymbol{CD_j = \sum_{i=1}^{4} \{(I_{ij} - I_{iu})^2 / V_i\} / 4}$$

Where:

- $\boldsymbol{I_{ij}}$ stands for the index for the $\boldsymbol{i^{th}}$ cultural dimension and $\boldsymbol{j^{th}}$ country,
- $\boldsymbol{V_i}$ is the variance of the index of the $\boldsymbol{i^{th}}$ dimension,
- $\boldsymbol{u}$ indicates the United States,
- $\boldsymbol{CD_j}$ is the cultural difference of the $\boldsymbol{j^{th}}$ country from the $\boldsymbol{i^{th}}$ country.

In our research, we used KSI to calculate the cultural distance by including the Hofstede's six indices. Hence, we added two more indices (i.e., long term orientation, indulgence), who are represented basically in 'Hofstede insights' which is an effective and proven framework based on Geert Hofstede's work. Consequently, we used the next formula:

$$\boldsymbol{CD_j = \sum_{i=1}^{4} \{(I_{ij} - I_{ia})^2 / V_i\} / 6}$$

Where:

- $\boldsymbol{a}$ indicates Algeria,
- **6** is the number of indices.

3-4-4 Mahalanobis distance:

Mahalanobis distance is an effective multivariate distance metric that measures the distance between a point and a distribution. And not between two distinct points. It is a multi-dimensional generalization of the idea of measuring how many standard deviations away the point is from the mean of the distribution. It is effectively a multivariate equivalent of the Euclidean distance. Because, the Mahalanobis distance corresponds to standard Euclidean distance in the transformed space. The Mahalanobis distance is thus unitless and scale-invariant, and takes into account the correlations of the data set.

Thus, Mahalanobis distance:

- Transforms the columns into uncorrelated variables
- Scale the columns to make their variance equal to 1

- Finally, it calculates the Euclidean distance.

The formula to compute Mahalanobis distance is as follows:

$$D^2 = (x - m)^T \,.\, C^{-1}.\,(x - m)$$

Where:

- $\boldsymbol{D^2}$ is the square of the Mahalanobis distance,
- **x** is the vector of the observation (row in a dataset),
- **m** is the vector of mean values of independent variables (mean of each column),
- $\boldsymbol{C^{-1}}$ is the inverse covariance matrix of independent variables.

3-4-5 The differences:

Calculating differences is the simplest method to find distances, and it's basically determining the distance between two points by subtracting the value of a point A from a point B and vice versa. Differences can be used to calculate distances from one dimension to 'n' dimensions, thus it depends on the variables we have, the formula to compute differences is as follows:

$$D_i = (x_i - x_{i-1}) + (y_i - y_{i-1}) + \cdots + (n_i - n_{i-1})$$

Where:

- $\boldsymbol{D_i}$ is the difference that represents the distance,
- $\boldsymbol{x_i}$, $\boldsymbol{y_i}$, ... $\boldsymbol{n_i}$ are variables,
- $(\boldsymbol{x_i - x_{i-1}})$ would be the value of variable $\boldsymbol{x}$ for cell $\boldsymbol{i}$ minus the value of variable $\boldsymbol{x}$ for cell $\boldsymbol{i - 1.}$

After using these four methods for the calculation of the institutional distance, we moved to the next step which is the data analysis, and since we had to choose between these methods, we did our best to implement our analysis with the right method. Our results when using the Euclidean distance shown insignificant coefficients in the correlation matrix using Pearson's correlation, after finding out that our population follows the normal distribution, and same after using KSI. Likewise, we used the Mahalanobis distance and the Differences and discovered afterward that our population doesn't belong to the normal distribution, and eventually used a non-parametric measure which is the 'Spearman's correlation'.

Data Analysis and Results

5- Data analysis and results:

4-1 Normality:

Table 6: Normality test: Shapiro-Wilk W test for normal data

Variable	Obs.	W	V	Z	Prob>Z
diversification~degree	130	0.88958	11.371	5.47	0.00000
md_eco	130	0.90986	9.283	5.013	0.00000
dif_nor_eco	130	0.95008	5.141	3.684	0.00011
dif_sta_eco	130	0.87311	13.068	5.783	0.00000
md_fin	130	0.92634	7.586	4.559	0.00000
dif_nor_fin	130	0.98357	1.692	1.184	0.11823
dif_sta_fin	130	0.98335	1.715	1.214	0.11243
md_pol	130	0.91311	8.948	4.931	0.00000
dif_nor_pol	130	0.92534	7.689	4.589	0.00000
dif_sta_pol	130	0.91812	8.432	4.797	0.00000
md_adm	130	0.87378	12.999	5.771	0.00000
dif_nor_adm	130	0.9435	5.818	3.962	0.00004
dif_sta_adm	130	0.93788	6.397	4.176	0.00001
md_cult	130	0.92896	7.316	4.478	0.00000
dif_cult	130	0.94918	5.233	3.724	0.00010
md_dem	130	0.85869	14.552	6.025	0.00000
dif_nor_dem	130	0.91701	8.546	4.827	0.00000
dif_sta_dem	130	0.92812	7.403	4.504	0.00000
md_kno	130	0.74661	26.094	7.339	0.00000
dif_nor_kno	130	0.92425	7.801	4.622	0.00000
dif_sta_kno	130	0.91035	9.232	5.001	0.00000
md_con	130	0.97098	2.988	2.463	0.00689
dif_nor_con	130	0.86535	13.866	5.916	0.00000
dif_sta_con	130	0.91392	8.865	4.91	0.00000
log_geo_di~e	130	0.83521	16.97	6.371	0.00000

Our data is not normally distributed since the population value is lower than the chosen alpha level (0.05). Thus, the null hypothesis that the data came from a normally distributed population is rejected, see figure 3.

Figure 3: scatter showing the data distribution

4-2 Descriptive statistics:

4-2-1 Frequencies:

In our research, we have data of 130 MNEs, we focused on the diversification strategy, and the frequency of each country in the sample. Diversification strategy is divided into related versus unrelated diversification, while the frequency for each country is based on many MNEs from a specific country are available in Algeria, see table 5. For the diversification strategy, we discovered that we have 62 MNEs applying related diversification strategy, and 68 applying the unrelated diversification, see table 6.

Table 7: Frequencies of countries in our sample

Country	**Frequencies**	**Percentages**
China	16	12.31
France	15	11.54
Germany	17	13.07
Japan	19	14.62
Netherlands	3	2.31
Russian Federation	2	1.54
Korea REP.	7	5.39
Switzerland	4	3.08
United States of America	29	22.33
Australia	1	0.77
Canada	1	0.77
Denmark	1	0.77
Finland	1	0.77
India	1	0.77
Indonesia	1	0.77
Ireland	1	0.77
Italy	1	0.77
Japan	13	10
Japan	2	1.54
Norway	1	0.77
Spain	3	2.31
Sweden	1	0.77
United Kingdom	5	3.85
Total	**130**	**100.00**

Table 8: Frequencies of the diversification strategy in our sample

Country	**Frequencies**	**Percentages**
Related diversification	62	47.69
Unrelated diversification	68	52.31
Total	**130**	**100.00**

4-2-2 Summary statistics:

After calculating frequencies, we moved to summary statistics, to define the number of observations, mean, standard deviation, and the minimum and maximum values. Thus, summary statistics are a way to explore our dataset, find patterns, and more (e.g., we discovered that the average for diversification degree is 0.4116287; the standard deviation is 0.2954239 which is a low standard deviation, hence the values are not spread out too much; the max. and min. values (0.0555556; 1) are the values of the greatest and least elements of the diversification degree in our sample)…and so on for the other variables. See table 7, and figure 4.

Table 9: Summary statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
diversific~e	130	0.4116287	0.2954239	0.0555556	1
md_eco	130	1.199336	0.7113219	-0.9448352	2.12487
dif_nor_eco	130	0.9969046	0.3703868	0.4388164	2.30451
dif_sta_eco	130	3.541199	1.915883	1.192425	12.7403
md_fin	130	0.7080911	0.5470674	0.0943201	1.649321
dif_nor_fin	130	1.089913	0.410308	0.1751615	1.894222
dif_sta_fin	130	4.171381	1.596328	0.7433228	7.756535
md_pol	130	0.7628092	0.3000108	0.0037825	1.270041
dif_nor_pol	130	0.876025	0.7471225	-0.4903916	2.240753
dif_sta_pol	130	2.737837	2.475552	-1.93497	7.252598
md_adm	130	2.070918	0.4512359	1.350071	3.074415
dif_nor_adm	130	0.0327112	0.377984	-0.6000602	0.8915937
dif_sta_adm	130	0.6744736	1.341551	-1.609193	3.576859
md_cult	130	0.4744885	0.3000629	0.0072022	1.465153
dif_cult	130	70.77692	38.62426	-42	139
md_dem	130	2.159073	0.9298389	-0.0843139	3.196975
dif_nor_dem	130	0.1426777	0.2327335	-0.5624853	0.5486794
dif_sta_dem	130	0.0931326	0.846687	-2.417206	1.508859
md_kno	130	1.01	0.9361636	0.0349574	3.19424
dif_nor_kno	130	0.5751912	0.3355619	0.0422608	1.143449
dif_sta_kno	130	2.490234	1.520533	0.2030413	5.39715
md_con	130	1.421451	0.4901231	0.321555	2.131658
dif_nor_con	130	1.209705	0.3346921	-0.0452695	1.680653
dif_sta_con	130	4.85625	1.565789	-0.0261839	7.184171
log_geo_di~e	130	8.618355	0.7081051	7.291656	9.6343

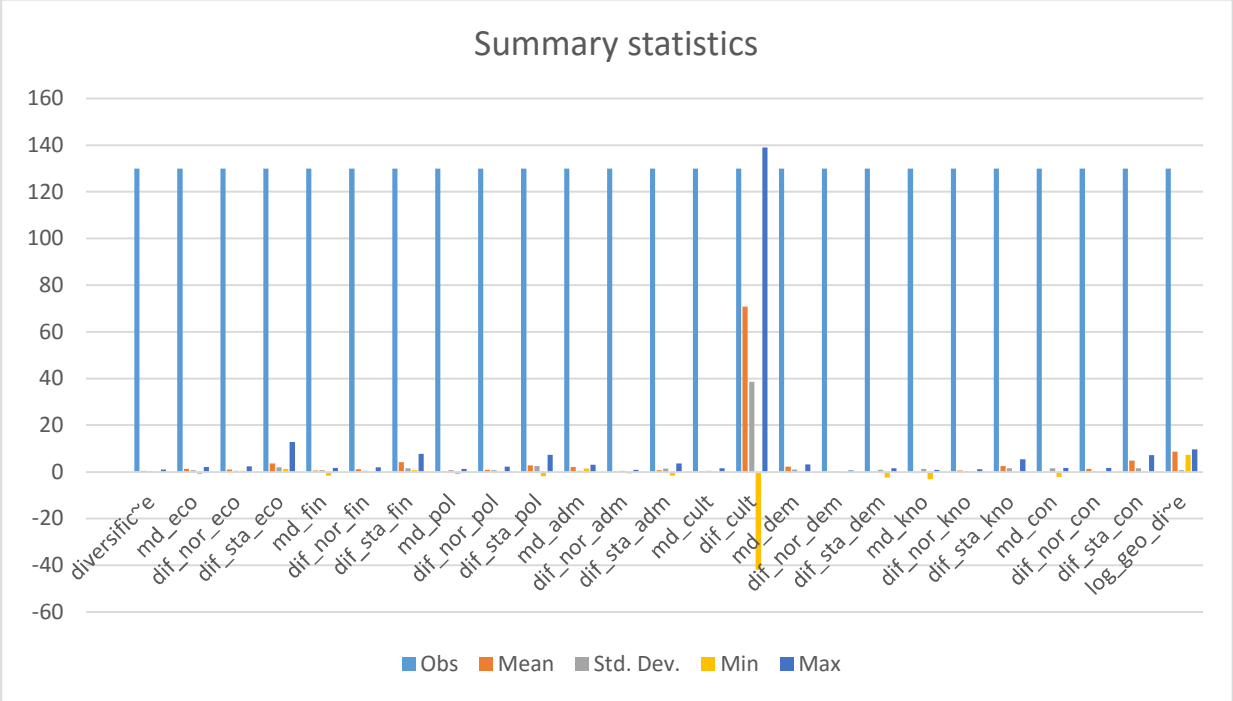

Figure 4: Summary statistics

4-3 Spearman's rank correlation:

A correlation matrix is a table showing correlation coefficients between sets of variables. Each random variable (Xi) in the table is correlated with each of the other values in the table (Xj). The correlation coefficient can range in value from −1 to +1. The larger the absolute value of the coefficient, the stronger the relationship between the variables. Means that. for the Spearman's correlation, an absolute value of +1 indicates a perfect positive monotonic correlation. A correlation of an absolute value of -1 indicates a perfect negative monotonic correlation between the variables.

The Spearman rank-order correlation coefficient is a nonparametric test that is used to measure the degree of association between two variables and measures the strength and direction of the association between two variables that are measured on an ordinal or continuous scale. It is a useful test when Pearson's correlation cannot be run due to violations of normality, a non-linear relationship, or when ordinal variables are being used. In our case, we found that our data do not follow the normal distribution.

To understand Spearman's correlation, it is necessary to know what a monotonic function is. A monotonic function is one that either never increases or never decreases as its independent variable increases. Monotonic functions are as following:

- Monotonically increasing: as the x variable increases the y variable never decreases;
- Monotonically decreasing: as the x variable increases the y variable never increases;

- Not monotonic: as the x variable increases the y variable sometimes decreases and sometimes increases.

Using Spearman's correlation, we calculated the correlations for all our variables, to disclose preliminary relationships between the dependent variable 'diversification degree' and independent variable 'institutional distance', see table 9. The correlation between diversification degree and institutional distance was divided into:

- First: very weak, negative, and statically insignificant correlation between diversification degree and economic distance (r_s= -0.0689, P > 0.05), administrative distance (r_s= -0.0699, P > 0.05), and cultural distance (r_s= -0.0670, P > 0.05), these relationships refer to a very weak negative monotonic correlation. Thus, when our independent variables (X= economic distance/administrative distance/global connectedness) increase, the dependent variable (Y= diversification degree) never increases.
- Second: very weak, positive, and statically insignificant correlation between diversification degree and financial distance (r_s= 0.0854, P > 0.05), demographic distance (r_s= 0.1407, P > 0.05), knowledge distance (r_s= 0.0889, P > 0.05), geographic distance (r_s= 0.0076, P > 0.05). as well as with the global connectedness distance (r_s= 0.1100, P > 0.05). Thus, very weak monotonically increasing relationships, viz when our independent variables (X= financial distance/demographic distance/knowledge distance/geographic distance) increase, the dependent variable (Y= diversification degree) never decreases.
- Third: we found a very weak, negative correlation between diversification degree and political distance. Hence, a monotonically decreasing relationship which is statically significant since (r_s= 0.1827, P < 0.05).

Table 10: The correlation matrix

	1	2	3	4	5	6	7	8	9	10
Diversification degree	1.0000									
Economic distance	-0.0689 0.4360	1.0000								
Financial distance	0.0854 0.3339	-0.0306 0.7296	1.0000							
Political distance	-0.1827* 0.0375	0.3822* 0.0000	-0.2043* 0.0197	1.0000						
Administrative distance	-0.0699 0.4291	0.0526 0.5526	-0.0038 0.9661	0.6831* 0.0000	1.0000					
Cultural distance	-0.0670 0.4491	0.0624 0.4805	0.0067 0.9397	0.5112* 0.0000	0.5609* 0.0000	1.0000				
Demographic distance	-0.1407 0.1103	-0.0980 0.2673	-0.2183* 0.0126	0.5874* 0.0000	0.5202* 0.0000	0.6930* 0.0000	1.0000			
Knowledge distance	0.0889 0.3144	-0.5892* 0.0000	0.4827* 0.0000	-0.5985* 0.0000	-0.2741* 0.0016	-0.0885 0.3165	0.0036 0.9678	1.0000		
Global Connectedness distance	0.1100 0.2127	-0.0188 0.8316	0.5987* 0.0000	-0.5154* 0.0000	-0.4800* 0.0000	-0.0737 0.4049	-0.2538* 0.0036	0.5032* 0.0000	1.0000	
Geographic distance^	0.0076 0.9316	-0.5509* 0.0000	0.5047* 0.0000	-0.4679* 0.0000	-0.0288 0.7446	-0.0855 0.3335	-0.0486 0.5832	0.7539* 0.0000	0.3594* 0.0000	1.0000

^ logarithmically transformed

* Imply significant relationship (P < 0.05)

N=130

Discussion

6- **Discussion:**

In this research, we aimed and worked on examining an influence relationship, which is, the impact of institutional distance on the products' diversification degree. Ultimately, we dug into the nine dimensions of Berry *et al.* (2010) (economic distance, financial distance, political distance, administrative distance, cultural distance, demographic distance, knowledge distance, global connectedness distance, geographic distance). Moreover, demonstrated how each of the dimensions affects the diversification degree of an MNE in a host market, which is in our case the Algerian one. Using a sample of 130 MNEs. In this section, I discuss the results that we obtained.

To explicate our findings, first, we demonstrate whether our hypotheses are significantly accepted or refused for each of the nine dimensions with the diversification degree, by linking our findings with our literature and theory, thence we answer the research questions. Afterward, we compare the results with previous relevant studies.

The model of our research presents relationships between the nine dimensions, namely economic distance, financial distance, political distance, administrative distance, cultural distance, demographic distance, knowledge distance, global connectedness distance, geographic distance, and the product diversification degree. The first hypothesis suggested that there exists a negative relationship between economic constraints on the international level and diversification degree. Findings do not support the hypothesis. Thus, we refuse the alternate hypothesis H_1 and do not reject the null hypothesis H_0. Where:

- H_0: There exists a statically insignificant impact at the level of (0.05) between economic constraints on the international level and diversification degree
- H_1: There exists a statically significant impact at the level of (0.05) between economic constraints on the international level and diversification degree

Hence, we cannot demonstrate the impact of the economic constraints on the diversification degree. Since we do not have sufficient evidence to accept the alternate hypothesis, a reasonable explanation is that industry globalization has impacted international economics by growing linkages among international markets in terms of consumers, production activities, and the extent to which firms compete. Thus, it became an aiding factor in decreasing the economic distance's impact on the strategic decision making, but on the other side increases the competitive conditions facing firms, and impacts the firms' international diversification strategy (Buckley & Ghauri 2004; Wiersema & Bowen, 2008).

In the second hypothesis, I suggested that MNEs tend to use diversification strategy in case of a collision with new/high financial risks. Based on the finance theory, which proves that firms should diversify their operations since diversification reduces the total risk of cash flows. Our findings do not support the alternate hypothesis; thus, we cannot reject the null hypothesis.

- H_0: There exists a statically insignificant impact at the level of (0.05) between new/high financial risks and diversification degree
- H_1: There exists a statically significant impact at the level of (0.05) between new/high financial risks and diversification degree

The possible explanation for this is that the diversification strategies may have a strong relationship with the financial risks such as the risk of bankruptcy or the risk to management of a takeover (Bettis & Hall, 1982). However, financial risks do not necessarily affect the product diversification degree. Substantially, financial distance is likely to affect directly the strategic-decision of diversification as a whole and not the degree of this diversification.

In terms of political distance and its impact on diversification degree, we found significant results. Thus, our findings support and accept the alternate hypothesis and reject the null hypothesis. We suggested two sub-hypotheses as follows:

H_{3a} Confirms that when MNEs function in politically risky markets or face political changes due to the unfamiliarity with the political environment, they rely on diversification strategy as a tool to reduce the overall risk in their portfolios. Which represents a positive relationship between political distance and diversification degree. While H_{3b} suggests that when MNEs operate in politically stable environments/low political risk, they do not necessarily use the diversification strategy. This means that there is a negative relationship between political distance and diversification degree. Consequently, our findings imply that H_{3b} is significantly accepted and there is a weak, negative, and monotonically decreasing relationship between the two variables. Thus, firms in stable political environments do not tend to diversify their businesses; in this case, the product diversification degree is low, and vice versa.

- H_{a0}: There exists a statically insignificant impact at the level of (0.05) between politically risky markets/political changes and diversification degrees.
- H_{a1}: There exists a statically significant impact at the level of (0.05) between politically risky markets/political changes and diversification degrees.
- H_{b0}: There exists a statically insignificant impact at the level of (0.05) between politically stable environments/low political risk and diversification degree.
- H_{b1}: There exists a statically significant impact at the level of (0.05) between politically stable environments/low political risk and diversification degree.

In the fourth hypothesis, the administrative constraints were proposed to affect the diversification degree in a positive relationship. Thus, the higher the administrative constrains in the host country the higher the diversification degree in the MNEs' products/markets. And vice versa. We did not find support for our hypothesis, and we cannot reject the null hypothesis.

- H_0: There exists a statically insignificant impact at the level of (0.05) between administrative constraints and diversification degree.
- H_1: There exists a statically significant impact at the level of (0.05) between administrative constraints and diversification degree.

The first explanation for this result is that firms when assessing administrative constraints and determine various factors like national legislation, bureaucracy, and regional regulations, seek to overcome the administrative obstacles which afterward allow them to consider the decision of diversification (Morgan, 2017). The second explanation is that the diversification degree might be related to the organizational structure more than the administrative constraints since the structure of a firm varies substantially between a company with a single business in a few

foreign markets, and a diversified company operating in a large number of national environments. Thus, the firm's structure represents a good basis to determine if the diversification degree is high or low.

For the cultural distance, we suggested that higher culture diversity in foreign subsidiaries lead MNEs to minimize the diversification degree. Thus, a negative relationship between cultural distance and diversification degree. However, the results did not support our hypothesis. For this, the null hypothesis cannot be rejected.

- H_0: There exists a statically insignificant impact at the level of (0.05) between cultural distance and diversification degree.
- H_1: There exists a statically significant impact at the level of (0.05) between cultural distance and diversification degree.

The only possible explanation is that when culture impacts strategic management by altering the managers' perceptions in the host country and affect the making-decisions process of the MNE (Palich & Gomez-Mejia, 1999), the diversification decision won't be affected. Since the diversification strategy is a corporate-level strategy, and strategic staff in subsidiaries do not have a direct relationship with the strategic-decision of diversification. Thus, the cultural distance cannot have a direct influence on the diversification strategy nor the diversification degree, but only a -to be considered- factor when framing the diversification strategy by the parent country firm.

In terms of demographic distance, our sixth hypothesis proposes that the diversification degree of an MNE increases when diversity in some demographic characteristics is high. Characters as age, education, and functional background experiences are associated with the CEs' cognitive biases and values, which affect in turn their strategy preferences and dispositions. Our findings do not support the hypothesis. Hence, we do not reject the null hypothesis.

- H_0: There exists a statically insignificant impact at the level of (0.05) between demographic distance and diversification degree.
- H_1: There exists a statically significant impact at the level of (0.05) between demographic distance and diversification degree.

The possible reason behind this insignificance is that in both demographic heterogeneity and demographic homogeneity the decision of diversification can be made. Each scholar can determine a specific set of demographic characteristics that lead to a distinctive decision, for example, we can have demographically homogeneous CEs (e.g., age, sex, education…etc.) who make different strategic decisions. Inversely, we can find that demographically heterogeneous CEs would make a unified strategic decision, such as diversification. Thus, demographic characteristics do not necessarily affect the strategic-decision of diversification and inevitably not the diversification degree, but a given set of characteristics do.

Our hypothesis regarding the knowledge distance suggested that MNEs tend to transfer their knowledge to foreign subsidiaries/gain knowledge from foreign subsidiaries as it represents a strength that cannot be imitated and which by the way allows MNEs to rise the diversification degree. We found a negative relationship that is statically insignificant in our results. Consequently, we cannot reject the null hypothesis.

- H_0: There exists a statically insignificant impact at the level of (0.05) between knowledge distance and diversification degree.
- H_1: There exists a statically significant impact at the level of (0.05) between knowledge distance and diversification degree.

The reasonable explanation for this case is that knowledge should be beheld as an important bypass to diversification. Because the latter requires learning and creating new knowledge (Hutzschenreuter & Horstkotte, 2013). Thus, knowledge as an intangible resource based on the RBV is a tool to improve the strategic-decision making and achieve competitive advantages to the firm. Hence, it has no direct impact on the product diversification degree.

The relationship between global connectedness distance and diversification distance was suggested as a positive relationship. Connectedness helps firms belong to a community thence increases the diversification degree as it enhances the diversification. Our findings do not support the hypothesis. Hence, we do not accept the alternate hypothesis and do not reject the null hypothesis.

- H_0: There exists a statically insignificant impact at the level of (0.05) between global connectedness distance and diversification degree.
- H_1: There exists a statically significant impact at the level of (0.05) between global connectedness distance and diversification degree.

The main connectedness factor that would impact the diversification strategy is the internet. Hence, the possible explanation is that the internet use does not impact the diversification degree in a direct way but demonstrate to the home country firm whether they can engage in diversification strategy or not, based on how much the host country environment would be impacted by their products through the internet. Thus, the real query is not the internet use but the influence the parent country firm can create in the host country environment. Thus, the decision of diversifying would be related directly to the ability to promote this diversification through the internet. Consequently, a relationship between diversification degree and international digital marketing strategies is what should be sought in.

Finally, in terms of geographic distance, we proposed a negative relationship based on previous researches. The greater the geographic distance between the parent country firm and host country firm the lower the diversification degree. The findings did not support our hypothesis. Thus, we cannot reject the null hypothesis nor accept the alternate.

- H_0: There exists a statically insignificant impact at the level of (0.05) between geographic distance and diversification degree.
- H_1: There exists a statically significant impact at the level of (0.05) between geographic distance and diversification degree.

The possible reasons why the relationship between geographic distance and diversification degree does not exist can be divided into two facets. First, due to globalization and the fast development we are witnessing, the geographic distance became a less affecting factor in many spheres. Second, geographic distance can only affect the process of expanding the product's diversification internationally, since they are conflicting strategies (Wan & Hoskisson, 2003),

thus there is a relationship between product diversification and geographic diversification but not the degree of diversification.

Ultimately, the nine dimensions of Berry *et al.* (2010) have a direct influence on diversification strategies and not the product diversification degree. Furthermore, we can consider the diversification degree as a result of using diversification strategies since it has a character of output, while the institutional distance focuses more on conforming to formal and informal institutions to gain legitimacy, which helps afterward in transferring practices, knowledge, operations and more to the host country firm. And substantially achieve a better position in the market besides gaining competitive advantages. Hence, the diversification degree appears due to the decisions that were made after implying institutional distance in the decision-making process.

Conclusion

7- Conclusion

1- Research summary:

In the present research, we aimed to find and explain the relationship between the institutional distance and the diversification degree. To accomplish that, we divided it into six main sections, where we represented the introduction in the first one by focusing on the relevance of the research, the questions, and the objectives. While in the second section we demonstrated the previous literature, as we dug into the theoretical conceptualization of the institutional distance theories, thence the institutional distance, corporate strategies, and the diversification degree in MNEs in host markets. Afterward, we built the research hypotheses based on the nine dimensions of Berry *et al.* (2010).

Thereafter, we moved to the methodology design, which was divided basically into research epistemology, research methodology, the variables measurements, and calculation methods. In research epistemology, we expounded the philosophy and the methodological approaches we are following in this research. Whilst, in the research methodology we mentioned the research methods and sampling process. After that, we explained the dependent and independent variables measurement. And finally, we elucidated the various calculation methods that we used to find significant results.

Latterly, we moved to the data analysis and results, as we analyzed our data's normality, and calculated descriptive statistics and Spearman's correlation matrix. Subsequently, we interpreted the results we found. Thence, we discussed them by testing our hypotheses and giving a wider critical explanation on each one by focusing on the previous literature. This procedure resulted in only one accepted hypothesis that is related to the relationship between diversification degree and political distance.

2- Answers to the research questions:

In the present research, we have one main question with nine sub-questions, our main question focused on the impact of institutional distance on the MNEs' product diversification strategy/degree in Algeria. We found that the institutional distance with its nine dimensions does not impact directly the diversification degree but with a great probability influence the strategic-decision of diversification. While the sub-question concerning the political distance and diversification degree was about determining the process by which the political distance impact the diversification degree in host country markets, we found a weak and negative relationship between the two variables, Thus, firms in politically stable environments do not tend to diversify their businesses, and vice versa.

3- Research contributions

3-1 Theoretical contributions:

As theoretical contributions, we contributed to the literature of institutional distance by providing a wider explanation of how it affects by its pressures and challenges the MNEs in host markets. On the other hand, we demonstrated the employment of a moderate product diversification strategy as a key to achieve an optimal diversification degree, thus emphasizing the idea we discussed previously which is the diversification degree as an output. Furthermore,

we expounded the importance of governance as a probable dependent tenth dimension in the model of Berry *et al*. (2010), as it combines between the administrative and political distances.

Besides, we contributed to the literature of strategic management by combining the concept of diversification degree with institutional theories. Hence, we helped find the place where the diversification degree is in from the institutional distance literature. That was latterly considered as an output rather than a related constituent to the institutional distance. Which eventually would help further studies to well frame their researches.

3-2 Methodological contributions:

For the methodological contribution, we provided an original sample of 130 MNEs located in Algeria, their parent country firms were distributed on 20 countries and based on our studies, we did not find previous researches related to institutional distance and diversification degree that used a sample of MNEs located in Algeria. Moreover, most scholars formerly have used either one institutional distance as cultural distance or the three pillars by Scott (1995/2001) - regulative, normative, cognitive-. Conversely, in our research, we used the nine dimensions of Berry *et al.* (2010) as they give a detailed framework that was built on the national business systems to analyze the differences between countries across the world.

After testing normality and finding out that our sample does not follow the normal distribution, we employed the Spearman's correlation matrix as a non-parametric model. Based on this, we found that eight of the nine dimensions are not correlated to the diversification degree except the political distance. Thus, the main contribution of the present research in terms of analysis method is the application of the nine dimensions framework to calculate institutional distance and demonstrate whether it raises or decreases the diversification degree, precisely, the impact of the institutional distance on products diversification degree, e.g., the influence of economic distance on diversification degree.

3-3 Managerial contributions:

Since we sought in a corporate-level strategy, our practical implications should be directed to the CEs. The interesting result that should be applied in the ground is the usage of political risks and changes as indices to make the strategic-decision of diversification. It helps firms know whether they should engage in diversification strategies or not. Hence, entering a new market that is politically risky necessitates using the diversification strategy. Whilst in politically stable environments, firms are not obliged to diversify.

On the other side, our results imply that managers when seeking to increase the diversification degree should determine the business they should be in based on the institutional distance. Thus, determining which diversification strategy suits the firm the most during the expanding process, thereafter, the diversification degree would be automatically affected by this strategic decision.

4- Research limitations and perspectives

In this thesis, we faced many limitations that had inevitably impacted the research path. First, regarding the theoretical implications, we shed the light on the institutional distance dimensions by Berry *et al.* (2010) rather than other crutches such as Scot's three pillars. Furthermore, we used different indices to calculate administrative, cultural, and geographic distance, e.g. we used

Hofstede's 6-D model to calculate cultural distance and Haversine formula to calculate geographic distance. Further studies may use different indices to calculate distances,

Moreover, we used the diversification degree as the main variable (dependent variable) to be influenced by the institutional distance. Nonetheless, the better process to determine the level of diversification degree is to find relationships between diversification strategies and institutional distance. Consequently, further studies may search in the impact of institutional distance on the strategic decision of diversification, or precisely, its impact on the selection among the diversification strategies.

Regarding methodological limitations, our research has limitations in terms of sampling. As we see that a bigger sample would reveal more significant results, thus, instead of using the list of '500 Global Fortune', future research should preferably use the list of '2000 Global Fortune'. Concerning the second limitation, the measurement of the independent variable, we recommend using different calculation methods to calculate the institutional distance, or merging the methods and using the most suitable one for each dimension, e.g. Kogut and Singh index (1988) for the cultural distance, the differences for political distance.

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Appendices

Appendix 1: Shapiro-Wilk W test for normal data

```
. swilk diversification_degree md_eco dif_nor_eco dif_sta_eco md_fin dif_nor_
> fin dif_sta_fin md_pol dif_nor_pol dif_sta_pol md_adm dif_nor_adm dif_sta_a
> dm md_cult dif_cult md_dem dif_nor_dem dif_sta_dem md_kno dif_nor_kno dif_s
> ta_kno md_con dif_nor_con dif_sta_con log_geo_distance

                    Shapiro-Wilk W test for normal data

    Variable |        Obs       W           V         z       Prob>z
-------------+-------------------------------------------------------
diversific~e |        130    0.88958     11.371     5.470    0.00000
      md_eco |        130    0.90986      9.283     5.013    0.00000
 dif_nor_eco |        130    0.95008      5.141     3.684    0.00011
 dif_sta_eco |        130    0.87311     13.068     5.783    0.00000
      md_fin |        130    0.92634      7.586     4.559    0.00000
 dif_nor_fin |        130    0.98357      1.692     1.184    0.11823
 dif_sta_fin |        130    0.98335      1.715     1.214    0.11243
      md_pol |        130    0.91311      8.948     4.931    0.00000
 dif_nor_pol |        130    0.92534      7.689     4.589    0.00000
 dif_sta_pol |        130    0.91812      8.432     4.797    0.00000
      md_adm |        130    0.87378     12.999     5.771    0.00000
 dif_nor_adm |        130    0.94350      5.818     3.962    0.00004
 dif_sta_adm |        130    0.93788      6.397     4.176    0.00001
     md_cult |        130    0.92896      7.316     4.478    0.00000
    dif_cult |        130    0.94918      5.233     3.724    0.00010
      md_dem |        130    0.85869     14.552     6.025    0.00000
 dif_nor_dem |        130    0.91701      8.546     4.827    0.00000
 dif_sta_dem |        130    0.92812      7.403     4.504    0.00000
      md_kno |        130    0.74661     26.094     7.339    0.00000
 dif_nor_kno |        130    0.92425      7.801     4.622    0.00000
 dif_sta_kno |        130    0.91035      9.232     5.001    0.00000
      md_con |        130    0.97098      2.988     2.463    0.00689
 dif_nor_con |        130    0.86535     13.866     5.916    0.00000
 dif_sta_con |        130    0.91392      8.865     4.910    0.00000
log_geo_di~e |        130    0.83521     16.970     6.371    0.00000

.
```

Appendix 2: Descriptive statistics

Frequencies of countries

```
. tabulate country
```

COUNTRY	Freq.	Percent	Cum.
China	2	1.54	1.54
China	2	1.54	3.08
France	2	1.54	4.62
Germany	3	2.31	6.92
Japan	3	2.31	9.23
Japan	1	0.77	10.00
Netherlands	1	0.77	10.77
Russia	2	1.54	12.31
South Korea	1	0.77	13.08
Switzerland	1	0.77	13.85
USA	9	6.92	20.77
australia	1	0.77	21.54
canada	1	0.77	22.31
china	7	5.38	27.69
china	5	3.85	31.54
denmark	1	0.77	32.31
finland	1	0.77	33.08
france	3	2.31	35.38
france	10	7.69	43.08
germany	4	3.08	46.15
germany	10	7.69	53.85
india	1	0.77	54.62
indonesia	1	0.77	55.38
ireland	1	0.77	56.15
italy	1	0.77	56.92
japan	13	10.00	66.92
japan	2	1.54	68.46
netherlands	2	1.54	70.00
norway	1	0.77	70.77
south korea	3	2.31	73.08
south korea	3	2.31	75.38
spain	3	2.31	77.69
sweden	1	0.77	78.46
switzerland	3	2.31	80.77
uk	5	3.85	84.62
usa	20	15.38	100.00
Total	130	100.00	

Frequencies of diversification strategy, related (0) vs unrelated (1)

```
. tabulate relatedvsunrelateddiversificatio
```

RELATED VS UNRELATED DIVERSIFICATION	Freq.	Percent	Cum.
0	62	47.69	47.69
1	68	52.31	100.00
Total	130	100.00	

Summary statistics

```
. summarize diversification_degree md_eco dif_nor_eco dif_sta_eco md_fin dif_
> nor_fin dif_sta_fin md_pol dif_nor_pol dif_sta_pol md_adm dif_nor_adm dif_s
> ta_adm md_cult dif_cult md_dem dif_nor_dem dif_sta_dem md_kno dif_nor_kno d
> if_sta_kno md_con dif_nor_con dif_sta_con log_geo_distance, separator(0)
```

Variable	Obs	Mean	Std. Dev.	Min	Max
diversific~e	130	.4116287	.2954239	.0555556	1
md_eco	130	1.199336	.7113219	-.9448352	2.12487
dif_nor_eco	130	.9969046	.3703868	.4388164	2.30451
dif_sta_eco	130	3.541199	1.915883	1.192425	12.7403
md_fin	130	.7080911	.5470674	.0943201	1.649321
dif_nor_fin	130	1.089913	.410308	.1751615	1.894222
dif_sta_fin	130	4.171381	1.596328	.7433228	7.756535
md_pol	130	.7628092	.3000108	.0037825	1.270041
dif_nor_pol	130	.876025	.7471225	-.4903916	2.240753
dif_sta_pol	130	2.737837	2.475552	-1.93497	7.252598
md_adm	130	2.070918	.4512359	1.350071	3.074415
dif_nor_adm	130	.0327112	.377984	-.6000602	.8915937
dif_sta_adm	130	.6744736	1.341551	-1.609193	3.576859
md_cult	130	.4744885	.3000629	.0072022	1.465153
dif_cult	130	70.77692	38.62426	-42	139
md_dem	130	2.159073	.9298389	-.0843139	3.196975
dif_nor_dem	130	.1426777	.2327335	-.5624853	.5486794
dif_sta_dem	130	.0931326	.846687	-2.417206	1.508859
md_kno	130	1.01	.9361636	.0349574	3.19424
dif_nor_kno	130	.5751912	.3355619	.0422608	1.143449
dif_sta_kno	130	2.490234	1.520533	.2030413	5.39715
md_con	130	1.421451	.4901231	.321555	2.131658
dif_nor_con	130	1.209705	.3346921	-.0452695	1.680653
dif_sta_con	130	4.85625	1.565789	-.0261839	7.184171
log_geo_di~e	130	8.618355	.7081051	7.291656	9.6343

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.
```

Appendix 3: Correlation matrix

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. spearman diversification_degree md_eco dif_nor_eco dif_sta_eco md_fin dif_nor_fin dif_sta_fin md_pol dif_nor_pol dif_sta_pol md_ad
> m dif_nor_adm dif_sta_adm md_cult dif_cult md_dem dif_nor_dem dif_sta_dem md_kno dif_nor_kno dif_sta_kno md_con dif_nor_con dif_st
> a_con log_geo_distance, stats(rho p) star(0.05)
(obs=130)
```

Key
rho *Sig. level*

	divers~e	md_eco	dif_n~co	dif_s~co	md_fin	dif_n~in	dif_s~in	md_pol	dif_no~l	dif_st~l	md_adm	dif_n~dm	dif_s~dm
diversific~e	1.0000												
md_eco	-0.0384 0.6647	1.0000											
dif_nor_eco	-0.0689 0.4360	-0.0906 0.3054	1.0000										
dif_sta_eco	-0.0742 0.4014	0.2490* 0.0043	0.8451* 0.0000	1.0000									
md_fin	-0.0539 0.5428	0.7109* 0.0000	0.2621* 0.0026	0.6573* 0.0000	1.0000								
dif_nor_fin	0.0854 0.3339	-0.6481* 0.0000	-0.0306 0.7296	-0.3713* 0.0000	-0.5115* 0.0000	1.0000							
dif_sta_fin	0.0862 0.3295	-0.6505* 0.0000	0.0076 0.9316	-0.3285* 0.0001	-0.4910* 0.0000	0.9944* 0.0000	1.0000						
md_pol	-0.1059 0.2304	0.0251 0.7765	0.1915* 0.0290	-0.0171 0.8471	0.0027 0.9757	0.1573 0.0738	0.1742* 0.0474	1.0000					
dif_nor_pol	-0.1827* 0.0375	0.4860* 0.0000	0.3822* 0.0000	0.5359* 0.0000	0.6993* 0.0000	-0.2043* 0.0197	-0.1611 0.0670	0.3016* 0.0005	1.0000				
dif_sta_pol	-0.1741* 0.0475	0.5595* 0.0000	0.3673* 0.0000	0.5663* 0.0000	0.7436* 0.0000	-0.2578* 0.0031	-0.2144* 0.0143	0.2436* 0.0052	0.9862* 0.0000	1.0000			
md_adm	-0.0871 0.3246	0.6746* 0.0000	-0.1253 0.1554	0.2873* 0.0009	0.6412* 0.0000	-0.6497* 0.0000	-0.6509* 0.0000	0.0981 0.2667	0.3878* 0.0000	0.4384* 0.0000	1.0000		
dif_nor_adm	-0.0699 0.4291	0.3871* 0.0000	0.0526 0.5526	0.2705* 0.0019	0.5882* 0.0000	-0.0038 0.9661	0.0344 0.6979	0.3214* 0.0002	0.6831* 0.0000	0.7309* 0.0000	0.3773* 0.0000	1.0000	
dif_sta_adm	-0.0652 0.4612	0.3498* 0.0000	0.1313 0.1363	0.3091* 0.0003	0.5464* 0.0000	-0.0223 0.8011	0.0156 0.8604	0.4084* 0.0000	0.6053* 0.0000	0.6563* 0.0000	0.3535* 0.0000	0.9756* 0.0000	1.0000
md_cult	0.1228 0.1638	-0.2878* 0.0009	0.3255* 0.0002	0.1006 0.2548	-0.2935* 0.0007	0.3779* 0.0000	0.3751* 0.0000	-0.3264* 0.0002	-0.1676 0.0566	-0.1807* 0.0396	-0.5137* 0.0000	-0.4167* 0.0000	-0.4425* 0.0000
dif_cult	-0.0670 0.4491	0.4561* 0.0000	0.0624 0.4805	0.1403 0.1114	0.5141* 0.0000	0.0067 0.9397	0.0114 0.8973	0.4755* 0.0000	0.5112* 0.0000	0.5252* 0.0000	0.1714 0.0512	0.5609* 0.0000	0.5360* 0.0000
md_dem	0.0404 0.6479	-0.1932* 0.0277	0.7491* 0.0000	0.5659* 0.0000	0.0684 0.4391	0.3065* 0.0004	0.3326* 0.0001	0.1252 0.1560	0.1789* 0.0416	0.1927* 0.0281	-0.1944* 0.0267	-0.0029 0.9734	0.0256 0.7721
dif_nor_dem	-0.1407 0.1103	0.6946* 0.0000	-0.0980 0.2673	-0.0063 0.9435	0.4350* 0.0000	-0.2183* 0.0126	-0.2303* 0.0084	0.3370* 0.0001	0.5874* 0.0000	0.6061* 0.0000	0.3240* 0.0002	0.5202* 0.0000	0.4884* 0.0000
dif_sta_dem	-0.1177 0.1825	0.6182* 0.0000	-0.2618* 0.0026	-0.1853* 0.0348	0.2736* 0.0016	-0.1520 0.0844	-0.1695 0.0538	0.1994* 0.0229	0.4578* 0.0000	0.4788* 0.0000	0.2207* 0.0116	0.4188* 0.0000	0.3655* 0.0000
md_kno	-0.0275 0.7560	0.3412* 0.0001	-0.7078* 0.0000	-0.5367* 0.0000	-0.1068 0.2265	-0.2021* 0.0211	-0.2297* 0.0086	0.0599 0.4988	-0.1959* 0.0255	-0.1803* 0.0401	0.3940* 0.0000	0.0120 0.8926	-0.0034 0.9692
dif_nor_kno	0.0889 0.3144	-0.3149* 0.0003	-0.5892* 0.0000	-0.7980* 0.0000	-0.6536* 0.0000	0.4827* 0.0000	0.4398* 0.0000	0.2105* 0.0162	-0.5985* 0.0000	-0.6430* 0.0000	-0.2600* 0.0028	-0.2741* 0.0016	-0.2351* 0.0071
dif_sta_kno	0.0902 0.3072	-0.3149* 0.0003	-0.5935* 0.0000	-0.8015* 0.0000	-0.6525* 0.0000	0.4802* 0.0000	0.4366* 0.0000	0.2064* 0.0184	-0.6034* 0.0000	-0.6479* 0.0000	-0.2642* 0.0024	-0.2769* 0.0014	-0.2384* 0.0063
md_con	0.0797 0.3675	-0.5117* 0.0000	0.2697* 0.0019	-0.0611 0.4898	-0.4912* 0.0000	0.3182* 0.0002	0.2998* 0.0005	-0.1063 0.2289	-0.4110* 0.0000	-0.5020* 0.0000	-0.5210* 0.0000	-0.7670* 0.0000	-0.7547* 0.0000
dif_nor_con	0.1100 0.2127	-0.3960* 0.0000	-0.0188 0.8316	-0.4090* 0.0000	-0.6872* 0.0000	0.5987* 0.0000	0.5730* 0.0000	0.1659 0.0593	-0.5154* 0.0000	-0.5289* 0.0000	-0.5581* 0.0000	-0.4800* 0.0000	-0.4426* 0.0000
dif_sta_con	0.1041 0.2384	-0.3610* 0.0000	-0.0846 0.3383	-0.4394* 0.0000	-0.6530* 0.0000	0.6229* 0.0000	0.5996* 0.0000	0.0841 0.3416	-0.4371* 0.0000	-0.4507* 0.0000	-0.5407* 0.0000	-0.4533* 0.0000	-0.4620* 0.0000
log_geo_di~e	0.0076 0.9316	-0.4504* 0.0000	-0.5509* 0.0000	-0.7728* 0.0000	-0.6343* 0.0000	0.5047* 0.0000	0.4850* 0.0000	0.2834* 0.0011	-0.4679* 0.0000	-0.4876* 0.0000	-0.2928* 0.0007	-0.0288 0.7446	0.0163 0.8542

	md_cult	dif_cult	md_dem	dif_n~em	dif_s~em	md_kno	dif_n~no	dif_s~no	md_con	dif_n~on	dif_s~on	log_ge~e
md_cult	1.0000											
dif_cult	-0.4142*	1.0000										
	0.0000											
md_dem	0.5897*	0.0357	1.0000									
	0.0000	0.6867										
dif_nor_dem	-0.4375*	0.6930*	-0.3070*	1.0000								
	0.0000	0.0000	0.0004									
dif_sta_dem	-0.4178*	0.5921*	-0.4212*	0.9629*	1.0000							
	0.0000	0.0000	0.0000	0.0000								
md_kno	-0.5800*	0.1081	-0.7511*	0.4120*	0.5056*	1.0000						
	0.0000	0.2210	0.0000	0.0000	0.0000							
dif_nor_kno	-0.1569	-0.0885	-0.4350*	0.0036	0.1263	0.6320*	1.0000					
	0.0747	0.3165	0.0000	0.9678	0.1521	0.0000						
dif_sta_kno	-0.1584	-0.0844	-0.4400*	0.0028	0.1257	0.6313*	0.9998*	1.0000				
	0.0718	0.3399	0.0000	0.9745	0.1540	0.0000	0.0000					
md_con	0.6210*	-0.3596*	0.3201*	-0.4901*	-0.4719*	-0.2778*	0.2074*	0.2106*	1.0000			
	0.0000	0.0000	0.0002	0.0000	0.0000	0.0014	0.0179	0.0162				
dif_nor_con	0.5380*	-0.0737	0.3959*	-0.2538*	-0.1905*	-0.0789	0.5032*	0.5027*	0.5855*	1.0000		
	0.0000	0.4049	0.0000	0.0036	0.0299	0.3725	0.0000	0.0000	0.0000			
dif_sta_con	0.5651*	-0.0396	0.3804*	-0.2155*	-0.1291	-0.0626	0.4632*	0.4625*	0.5639*	0.9765*	1.0000	
	0.0000	0.6546	0.0000	0.0138	0.1432	0.4793	0.0000	0.0000	0.0000	0.0000		
log_geo_di~e	-0.2587*	-0.0855	-0.3962*	-0.0486	0.0512	0.4055*	0.7539*	0.7539*	-0.0906	0.3594*	0.3221*	1.0000
	0.0030	0.3335	0.0000	0.5832	0.5625	0.0000	0.0000	0.0000	0.3052	0.0000	0.0002	

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