Foreign Country-Specific Experience And Ownership Level: Moderating Effect Of Host Country's Government Corruption

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ABSTRACT

According to internalization theory, corporate international expansion occurs as a series of incremental commitment processes, such as an increased level of ownership. In addition, it is well known that host country-specific experience facilitates the increased ownership level. However, the existing empirical studies show the mixed results about the relationship between host country-specific experience and ownership level: positive, negative, and non-significant. To elucidate these mixed results, this study carefully explores how host country's government corruption moderates the relationship, given that institutional environments influence standard economic activities within a specific economy. This study found that host country-specific experience has a positive effect on the ownership level in their foreign subsidiaries but the positive relationship was moderated by the negative effect of host countries' government corruption. Accordingly, this study carefully qualifies the direct relationship between country-specific experience and ownership strategy, suggesting that an institutional contingency perspective needs to be considered to understand corporate international expansion strategies by the increased ownership level.

Keywords: Ownership Level; Country-Specific Experience; Government Corruption; Contingency Perspective

INTRODUCTION

*A*ccording to the internalization theory (Buckley & Casson, 1998), the international expansion of multinational enterprises (MNEs) occurs as a series of incremental commitment such as an increased level of ownership over time. Decisions about the ownership level as an entry-mode choice are one of central strategic issues in multinational enterprises' foreign operations. The international business (IB) literature has identified both firm-level determinants such as international experiences (Delios & Beamish, 1999) and country-level institutional factors such as government corruption (Henisz & Delios, 2001; Lee et al., 2014; Rosenzweig & Singh, 1991) that affect the strategy choice of ownership level. For example, internal uncertainty caused by MNEs' lack of international experience in foreign markets makes MNEs hesitant to enter foreign markets aggressively, and external uncertainty caused by environmental conditions such as government corruption in a host country is less likely to compel MNEs to choose an ownership-based entry mode (Anderson & Gatignon, 1986; Hill & Kim, 1988).

International operations experience has become a critical determinant affecting the strategy choice of MNEs' entry mode (Hennart, 1991; Padmanabhan & Cho, 1999). The literature on international experience has explored how international operations experience affects the ownership strategy in foreign markets. Many existing studies have argued that new knowledge and capabilities gained from county-specific experience have a positive effect on sequential expansion strategies, such as an increased level of ownership over years (Barkema et al., 1996; Delios & Beamish, 2001). However, some studies find no significant relationship (Brouthers et al., 2003; Somlev & Hoshino, 2005) or a negative effect (Erramilli, 1991).

These mixed results might occur because the level of government corruption, which establishes the rules of the game for MNEs in foreign markets (Li & Meyer, 2009), varies across host countries. Understanding different levels of government corruption among host countries may be a critical factor for international expansion strategy, given that host countries' government corruption is considered a primary inhibitor in foreign direct investment (FDI) decisions

(Li & Meyer, 2009; Rodriguez et al., 2005). Zhao et al. (2004) meta-analyzed the prior studies and suggested that empirical studies on international experience need to carefully control for the context, as the effect of international experience on ownership strategy varies depending on host countries' institutional factors.

The government corruption problem is more serious in developing or emerging countries than developed ones (Monnte & Papagni, 2007). That is, developed economies are fairly transparent and efficient and their regulatory institutions are clearly defined, but developing economies are highly idiosyncratic in their institutional arrangements (Peng et al., 2008; Wright et al., 2005). When doing business in a country with a high level of government corruption, for example, MNEs tend to pay bribes to government officials in order to gain favorable conditions for permits, licenses, loans, and other government services (Wei, 2000). Thus, this study explores how a host country's government corruption affects the ownership strategy of Korean textile firms, given that most of the host markets are developing countries.

The sections below review the literature on organizational learning and government corruption and then develop the primary hypotheses. Thereafter, this study introduces sample data and an analytic method, and then it discusses the results, explores their implications, and outlines the study's limitations.

LITERATURE REVIEW

Ownership Level as Strategy Choice

The strategy choice of ownership level is likely to depend on the strategic preference of the parent company (Chang & Rosenzweig, 2001), unobserved firm attributes, and host country factors (Mani et al., 2007). Ownership level is determined under conditions of uncertainty that flow from the unfamiliar factors within a foreign country (Mutinelli & Piscitello, 1998). The ownership decision, whether a binary entry mode (i.e., joint venture versus wholly owned venture) or a continuous ownership level, is one of the most important corporate strategic issues in foreign operations because ownership level indicates control or governance over a foreign affiliate. While the binary entry mode helps researchers understand the strategic distinction between sole and shared ownership, the continuous ownership level may be more useful for capturing how minor changes in ownership level are influenced by organizational and environmental determinants (Dhanaraj & Beamish, 2004). Accordingly, this study focuses on the continuous ownership level rather than the binary entry mode.

Host Country-Specific Experience and Ownership Level

The main tenet of organizational learning is that an organization learns from experience (Cohen & Levinthal, 1990). Multinational enterprises generally develop new capabilities through ongoing foreign operations experience (Luo & Peng, 1999). Experiential learning is a cumulative process via operations in a given context. The organizational learning perspective focuses on the benefits generated from experience. Padmanabhan and Cho (1999) also contend that MNEs' international operations experience strongly influences their strategy choice of ownership level. Accumulated host country-specific experience is helpful in the search for alternative local partners and the formation of new relationships, facilitating joint ventures with new local partners (Li & Meyer, 2009). MNEs learn how to operate in host counties over time and their accumulated experience enables them to take higher levels of ownership (Chang & Rosenzweig, 2001; Chetty et al., 2006). New knowledge and capabilities gained from county-specific experience are likely to facilitate sequential internalization process such as an increased ownership level (Barkema et al., 1996; Delios & Beamish, 2001). In sum, the organizational learning theory suggests that accumulated knowledge in local markets may allow MNEs to take a higher level of ownership over time.

Government Corruption And Ownership Level

Institutional environments such as government corruption influence standard economic activities within a given economy (North, 1990; Rodriguez et al., 2005). Government corruption, roughly defined as the abuse of public office for private gain, is known to inhibit economic growth (Kostova & Zaheer, 1999; Meschi, 2009; Rodriguez et al., 2005). Government corruption is an ongoing institutional problem across countries and serves as a substantial inhibitor

to FDI activities. Some studies find that government corruption has a significant negative impact on both macroeconomic development and firm-level growth (Doh et al., 2003; Rodriguez et al., 2005). Tulluock (1996) argued that government corruption is closely related to FDI because ownership strategy in a foreign country cannot be determined in isolation from the host country's institutional environment. Accordingly, the linkage between government corruption and FDI has been a fundamental issue among policymakers and managers (Heineman & Heimann, 2006; Henisz, 2000). However, few have asked how MNEs' ownership strategy is affected by host countries' government corruption (Tekin-Koru, 2006).

Government Corruption and Experiential Learning During The Transition Period In South Korea

Korean firms had substantial experience in coping with government corruption during the transition period from long-time military dictatorship to democracy between 1986 and 1995. During this period, South Korea was one of the highly corrupt countries belonging to the Organization for Economic Cooperation and Development (OECD), and the Korean economy during the period observed a high level of government corruption (Kim, 2009). For example, two former presidents, Chun Doo-Hwan and Roh Tae-Woo, who represent the transition period, stood in court as defendants in 1993. President Chun was fined in connection with the amassing of a 220 billion won slush fund (c.f., one dollar was changed 1,276 won on average in 2009), and the latter president was fined 283.8 billion won for bribery (Kim, 2009).

While coping with a high level of government corruption in the domestic market during the transition period, Korean textile companies, which were one of the most contributing industries to the growth of Korean economy during the period, accumulated general knowledge and capabilities of minimizing graft's operational and strategic impact. Organizational learning perspective argues that such accumulated general knowledge, so-called 'non-location bound knowledge (Clarke et al., 2013), via operations experience in a given country can be easily applied in other countries (Delios & Beamish, 2001; Yu, 1990). Therefore, this study postulates that Korean textile firms could apply their accumulated general knowledge when entering other corrupt foreign countries, and they are less likely to regard host countries' government corruption as a critical factor in making decisions on the strategy choice of ownership level, particularly given that most foreign investments by Korean textile firms occurred in developing countries with similar governmental corruption levels during the observation period. The problem of government corruption is generally more widespread in developing countries for political, societal, and cultural reasons (Monnte & Papagni, 2007)".

HYPOTHESES

Country-Specific Experience and Ownership Level

Country-specific experience generally accumulates from MNEs' continuous operations experience in a given country, and thus, it allows MNEs to acquire country-specific knowledge. Country-specific knowledge is often tacit primarily generated via experiences in a host country over years (Kogut, 1991). Such knowledge provides important insights about the business environment and can be helpful in recognizing opportunities in a host country (Johanson & Vahlne, 1977), overcoming uncertainty due to political hazards (Delios & Henisz, 2003), and building relationships with local authorities (Luo, 1998). A firm's ownership strategy may rest on the acquisition of tacit knowledge (Kogut, 1991). Accordingly, international expansion occurs incrementally because MNEs tend to increase their commitment and take advantage of emerging opportunities in a host country (Buckley & Casson, 1998).

Accumulated experience in a given country allows MNEs to create or enhance necessary resources, especially experiential knowledge, and thus lower the costs of doing business (Luo & Peng, 1999). Scholars have argued that experienced MNEs develop competences to operate independently and are thus less likely to rest on local partners for necessary resources (Makino & Delios, 1996) or share control (Anderson & Gatignon, 1986; Broughers & Hennart, 2007). MNEs with a longer presence in a host country are likely to have competitive advantages, such as access to local resources and markets, a good corporate and product image (Mitchell et al., 1994), favorable connections with the business community and government authorities (Luo & Peng, 1999), and the capability to reduce uncertainty in the operational and financial environments (Luo, 1998). By contrast, less experienced MNEs in a foreign market are more likely to look for local partners who can supply local market knowledge. Accordingly, new knowledge and

capabilities gained via county-specific operations experience may influence MNEs' ownership strategy (Barkema et al., 1996; Delios & Beamish, 2001). Some researchers have acknowledged that experienced firms tend to have higher levels of control and equity (Chang & Rosenzweig, 2001; Delios & Beamish, 1999) than less experienced firms. Pak and Park (2004) also found from a Japanese case that the more experience a Japanese MNE possessed, the more likely it was to choose full ownership in foreign markets. The following hypothesis for Korean textile firms, therefore, can be postulated:

Hypothesis 1: The longevity of Korean textile firms' country-specific experience in a given foreign market will be positively associated with ownership level in their foreign subsidiaries.

Government Corruption and Ownership Level

Government corruption is regarded as a nonmarket constraint, which causes MNEs to cope with many uncertainties and additional costs in the corrupted countries due to differences in institutional structures and rules (Rodriguez et al., 2005). To overcome such uncertainties, MNEs must acquire additional knowledge of the local markets such as local governmental regulations (Tekin-Koru, 2006). Information asymmetries constitute a significant obstacle to capital flows across international borders. A high level of corruption is likely to exacerbate the information asymmetry problem, and it also increases the cost of doing business (Javorcik & Wei, 2009). Habib and Zurawicki (2002) argue that the inability to deal with corruption results in a competitive disadvantage for foreign investors from less corrupt countries. Thus, when a greater difference in government corruption levels exists between the home and the host country, MNEs are expected to search for local knowledge via a local partner (Meyer et al., 2009). Smarzynska and Wei (2000), in their cross-sectional analysis of FDI in Eastern Bloc countries, found that a high level of host-country's government corruption led to a preference for joint ventures over wholly owned subsidiaries.

Rodriguez et al. (2005) argue that, in an uncertain environment, the joint venture partner can be a source of reliable information, protection, and external legitimacy. Javorcik and Wei (2009) employed a unique firm-level dataset to examine the impact of corruption on FDI and found that corruption has a negative relationship with inward FDI, suggesting that the value of using a local partner increases in order to reduce the uncertainty caused by corruption in less-developed economies. Uhlenbruck et al. (2006) in the study of 220 telecommunications development projects in 64 emerging economies found that firms adapt to the pressures of corruption via joint ventures. Duanmu (2011) also found that the benefits of having local partners' help in dealing with the corrupt environment in Russia exceeded the corresponding costs. Therefore, the following hypothesis is suggested.

Hypothesis 2: Host countries' government corruption will be negatively associated with ownership level of Korean textile firms in their foreign subsidiaries.

Moderating Effect of Government Corruption

Meschi (2009) argues that "differences in country knowledge among foreign firms lead to different reactions to government corruptions" (p. 247), implying that MNEs may develop and accumulate distinct country-specific capabilities and knowledge. As mentioned earlier, this study posits that the importance of international experience for ownership strategy varies across host countries' institutional contexts. Li and Meyer (2009), for example, found that, while the relationship between country-specific experience and ownership level was not significant for developed countries, country-specific experience had a highly significant negative effect on ownership level in China, suggesting that the explanation for this interesting finding can be attributed to the importance of the country context. Some studies argue that developed economies are fairly transparent and efficient and their regulatory institutions are clearly defined but that developing and emerging economies are often highly idiosyncratic in their institutional arrangements (Peng et al., 2008; Wright et al., 2005). Without further arguments, this study postulates that the positive relationship between Korean textile firms' country-specific experience and ownership level in their foreign subsidiaries is moderated by the negative effect of government corruption in a host country, given most foreign investments by Korean textile firms occurred in developing countries with diverse levels of government corruption:

Hypothesis 3: The positive relationship between Korean textile firms' host country-specific experience and ownership level in their foreign subsidiaries will be moderated by the negative effect of a host country's government corruption.

METHOD AND ANALYSIS

Sample

This study focuses on the period between 1986 and 1995 for a few reasons. First, Korean textile firms have been actively pursuing FDI activities since 1986 because they faced increasing labor costs between 1986 and 1995, creating both pressure on and an opportunity for the extremely labor-intensive textile industry. To deal with this unfavorable situation in the domestic market, Korean textile firms were required to reorganize or rebuild their organizational strategies and structures in their home country while finding opportunities to exploit resources by investing in foreign countries. The dataset in this period is more suitable for interpreting the FDI activities of Korean textile firms. Second, it is because this period well represents the transition period from long-time military dictatorship to democracy. While combatting a high level of government corruption during this period, Korean textile firms could accumulate general knowledge to cope with government corruption. Accordingly, it is assumed that Korean textile firms are less likely to regard host countries' government corruption as a critical inhibitor in making an ownership decision, particularly given that most foreign investments by Korean textile firms happened in developing countries with similar governmental corruption levels. Last, this study intends to fill a gap in IB literature by focusing on the early period during which the IB literature had little examination of FDIs from developing and emerging countries. Canabal and White III (2008), for example, found from their meta-analysis that during the early period the IB literature has primarily studied FDIs by the so-called Triad of Developed nations (i.e., the United States, Western Europe, and Japan) but less explanation about FDIs by MNEs from developing and emerging nations.

The final sample consists of 1,171 subsidiary-by-year cases for Korean textile firms occurring in 46 countries with different levels of government corruption, circa 1995. Except for France, Germany, Japan, the United Kingdom, and the United States, most of the host countries were developing countries. The sample data, although relatively old, are more suitable for analyzing and understanding the strategy choice of ownership level executed by Korean textile firms equipped with accumulated general knowledge to cope with Korean government corruption.

Dependent Variable

This study employs ownership level rather than traditional entry mode choice because, although the binary entry mode is helpful for understanding the strategic distinction between sole and shared ownership, the continuous ownership level is more useful for capturing how minor changes in ownership level is influenced by organizational (e.g., MNEs' international experience) or environmental (e.g., host country corruption) determinants (Dhanaraj & Beamish, 2004).

Independent Variables

Country-Specific Experience

The longevity of country-specific experience is measured as the extent of previous operating experiences in the same host country (Delios & Henisz, 2003; Erramilli, 1991; Pak & Park, 2004). Specifically, the author first identified all the subsidiaries in the host countries and then calculated the accumulated number of years the foreign subsidiary had spent in a given market as a proxy for country-specific experience. The longevity of experience in the sample ranges from one to 10 years.

Government Corruption

Until recently, three types of corruption indexes were widely used (Meschi, 2009): the Economist's Economic Intelligence Unit and Political Risk Services Group (PRS) indexes (i.e., ICRG ratings), the Global Competitiveness Report (GCR) and World Development Report (WDR) indexes; and the Transparency International indexes. These indexes are measured in different ways. This study employs PRS ratings because only they can be applied to the

observation period of this study (i.e., between 1986 and 1995). Since 1979, PRS has recorded and reported 22 variables for political, financial, and economic risks for around 162 countries, circa 2009. This study focuses on corruption-rating scores. The original corruption score in the PRS ratings ranges between 0 (high level of corruption) and 6 (no corruption). To facilitate interpretation, the author recalculated the corruption score so that 0 means "no corruption" and 6 reflects the highest level of corruption.

Control Variables

This study controls for some confounding variables for subsidiary characteristics (such as investment amount and product diversification) and macro environment factors (such as GDP growth rate, inflation rate, exchange rate, tariff rate, political risk, host country's annual salary in the manufacturing industry) that are known to influence FDI activities.

First, the *amount of investment* at a given year was used as a proxy for a subsidiary's size and international expansion activities (Kim, 2014). According to transaction cost theorists, a firm is expected to increase its level of ownership as the amount of investment increases (Hennart, 1991). Multinational enterprises are likely to prefer joint venture if their foreign affiliates produce diversified goods, since the subsidiaries need to access resources that are not controlled by the parent firms (Gomes-Casseres, 1990; Hennart, 1991) and to annex the marketing knowledge of local firms (Stopford & Wells, 1972). This study employed *diversification* as a proxy for product areas, which was measured by the total number of products produced by a foreign affiliation

Several variables were used to measure the host country's environmental contexts. This study controlled for *GDP growth rate* (Tekin-Koru, 2006) in that it is expected to have a positive relationship with ownership level. *Inflation* and *tariff* rates, as proxies for location-specific economic environments, were also controlled. High inflation rates discourage market-seeking FDI because of increased uncertainty and volatility (Buckley et al., 2007). Tariff rates represent trade barriers or restraints (Hennart & Park, 1994). Hence, this study expects a positive relationship between the level of ownership and inflation and tariff rates. *Political risk* (POLCON3), as a proxy for political constraints (Henisz, 2000), is expected to have a negative impact on ownership level. Finally, *host country's annual salary* in the manufacturing industry was controlled as a proxy for a favorable economic environment. Increased salary is expected to have a negative effect on ownership level.

Analytic Method

The sample consists of time-series unbalanced panel data (e.g., some firms in the sample are observed for 10 years but others for only five). Fundamental to the analysis of panel data is the choice of coefficient estimator. This study employed Tobit analysis because our dependent variable, ownership level, was truncated between 0 and 100% (Baum, 2006; Cameron & Trivedi, 2009); the variable was observed neither below 0 nor beyond 100%.

The time-series Tobit model is

$$\text{Level of Ownership} = \alpha + \beta_1\text{Experience} - \beta_2\text{Corruption} - \beta_3(\text{Experience}) \times (\text{Corruption}) + \beta_4\text{Controls} + \varepsilon \qquad (1)$$

RESULTS

Table 1 shows the means and standard deviations of the variables and the correlations between variables. Table 1 indicates that most variables have very low correlations. To test for multicollinearity, the author examined the variance inflation factor (VIF). The findings show no general multicollinearity problems with the data.

As Table 2 shows, the main hypotheses were tested using nested Tobit analytic models to determine the model improvement. The first base model, Model 1 in Table 2, includes only the control variables for subsidiary characteristics and country-specific environmental factors. The main hypotheses were included in Models 2, 3, and 4 in sequence: the effect of host country-specific experience in Model 2, the main effect of host-country corruption in Model 3, and the moderating effect of corruption on the relationship between host country-specific experience and ownership level in Model 4.

The improvement in the Wald chi-square of each model is significant at the 1% level, implying that the addition of the primary variables in each nested model resulted in significant model improvements. The results thus imply that the covariates in the models were not trivial for the explanation of the ownership strategy of Korean textile firms.

Turning to the primary hypotheses, Hypothesis 1 predicted that the length of Korean textile firms' country-specific experience would have a positive relationship with ownership level in their foreign affiliates. The results across all models strongly support the organizational learning perspective that international ownership strategy occurs incrementally and that accumulated experience enables MNEs to take a higher level of ownership (Chetty et al., 2006; Luo & Peng, 1999; Makino & Delios, 1996). Hypothesis 2 predicted that host-country government corruption would be negatively associated with ownership level of Korean textile firms in their foreign subsidiaries. The results weakly support Hypothesis 2. Hypothesis 3 predicted that the positive relationship between Korean textile firms' host country-specific experience and ownership level in their foreign subsidiaries would be moderated by the negative effect of host-country corruption.

Consistent with that prediction, the coefficient for the interaction term in Model 4 was negative at a significant level, strongly supporting the institutional perspective's argument (Rodriguez et al., 2005; Smarzynska & Wei, 2000) that government corruption in a host country plays an important role as an inhibitor to ownership strategy of Korean textile firms.

Of the control variables, investment amount, a subsidiary-specific variable, has an expected positive association with ownership level in a foreign affiliation, confirming that ownership level increases as the amount of investment increases (Hennart, 1991). Thus, Korean textile firms are likely to increase the commitment to their foreign subsidiaries as their investment amount increases.

The results show that, among contextual host country variables, only the average annual salary in the manufacturing industry has the expected negative relationship with ownership level, implying that Korean textile firms are less likely to take ownership when entering host countries with high labor costs, perhaps because Korean textile firms heavily depend on labor costs. Given the textile industry's nature, the expected sign does not seem strange.

Table 1. Basic Statistics and Correlation Matrix *p < 0.05

	Obs.	Mean	Std.Dev.	Min	Max	1	2	3	4	5
1	2705	80.27	25.20	8	100	1				
2	2705	905.47	2083.87	2	51000	.1416*	1			
3	2705	2.54	.7018	1	4	.0878*	-.1145*	1		
4	2561	4.96	.8901	1.18	7.85	-.0285	-.0417*	-.0540*	1	
5	2505	6.67	1.37	.21	10	.0503*	-.0248	-.0713*	.4040*	1

(Table 1 continued)

	Obs.	Mean	Std.Dev.	Min	Max	6	7	8	9	10
6	2593	542.99	1636.7	0	11202	1				
7	1217	24.32	13.16	3.49	105.36	-.2326*	1			
8	2602	.1705	.2031	0	.5964	-.2552*	-.3762*	1		
9	2705	10067.5	2335.7	2955.1	12603.7	.0348	-.0317	-.1883*	1	
10	2707	2.82	1.94	1	10	.0037	-.3670*	.2031*	.2050*	1
11	2525	3.39	1.10	.08	6	-.2004*	.1071*	-.1273*	.1646*	-.0758*

1: Level of Ownership (%), 2: Investment Amount (Unit: 1,000 won), 3: Product Diversification (No. of Product Lines), 4: GDP Growth Rate (%), 5: Inflation Rate (%), 6: Exchange Rate (% of host country currency to US dollar), 7: Tariff Rate (%), 8: POLCON3 (Henisz 2003 Index), 9: Host Country's Annual Average Salary in Manufacturing, 10: Host Country-specific Experience (Number of Operating Years), 11: Corruption Score

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Table 2. Nested Time-series Tobit Analysis (Dep. Variable: Level of Ownership), **p< .01, *p<.05, †p < 0.1

		Model 1	Model 2	Model 3	Model 4
Control: Firm Characteristics	Constant	77.4597 (4.0166)**	84.3275 (4.8915)**	83.0195 (5.0816)**	85.4233 (5.1384)**
	Investment Amount	.0015 (.0003)**	.0015 (.0003)**	.0015 (.0003)**	.0015 (.0003)**
	Product Diversification	1.4728 (1.1054)	1.5051 (1.1018)	1.8534 (1.1290)	1.6949 (1.1262)
Control: Host country's Macro environmental contexts	GDP Growth Rate	-.0833 (.2968)	-.1003 (.2974)	-.0841 (.3347)	-.3620 (.3496)
	Inflation Rate	-.2016 (.2626)	-.1598 (.2633)	-.1859 (.2795)	-.0524 (.2836)
	Exchange Rate (Host Currency to US dollars)	-.0004 (.0012)	-.0014 (.0013)	-.0015 (.0013)	-.0027 (.0014) †
	Tariff Rate	-.0746 (.0609)	-.0851 (.0609)	-.0946 (.0645)	-.0874 (.0644)
	POLCON3 (Political Risk)	4.4340 (4.3874)	1.7869 (4.5082)	3.7298 (4.6849)	.2854 (4.8301)
	Host Country Avg. Annual Salary (in Manufacturing)	-.0001 (.0001)	-.0009 (.0003)**	-.0009 (.0003)**	-.0011 (.0003)**
H1	Host Country Experience		.9070 (.3701)**	.8430 (.4012)**	2.5578 (.7392)**
H2	Corruption			-.1321 (.3496) †	-.2722 (.3523) †
H3	(Experience) x (Corruption)				-.3875 (.1406)**
Log Likelihood		-4652.09	-4649.09	-4575.52	-4571.72
Model Chi-square		39.20**	45.21**	45.64**	53.23**
No. of Obs.		1196	1196	1171	1171

DISCUSSION AND IMPLICATIONS

This study applied both organizational learning and government corruption perspectives to carefully explore the strategy choices of ownership levels pursued by Korean textile firms. This study had two primary research purposes. First, this study investigated whether Korean textile firms increase ownership levels in their foreign subsidiaries as they accumulate host country–specific operations experience, as organizational learning perspective argues. Second, assuming that a host country's government corruption is an institutional inhibitor to FDI activities, this study posited that government corruption would have a negative moderating effect on the direct relationship between Korean textile firms' host country-specific experience and ownership level in their foreign subsidiaries.

This study found that the results across all models strongly support the positive effect of country-specific experience on ownership level, as expected in Hypothesis 1. These results provide clear evidence of the main tenet of organizational learning theory, which focuses on the "benefits" that accumulated experience can provide (Chang & Rosenzweig, 2001; Delios & Beamish, 1999). The findings thus imply that longer operations experiences in a host country enable Korean textile firms to have competitive advantages such as market knowledge and favorable connections with local resources and authorities, leading Korean textile firms to take a high level of ownership. The results also support the transaction cost theory's argument that accumulated operations experience enables MNEs to lower internal uncertainty and the costs of operating a fully owned subsidiary, as they are less dependent on local partners (Anderson & Gatignon, 1986; Brouthers & Hennart, 2007). Nonetheless, the result supporting H1 is not sufficient to answer why the relationship between ongoing country-specific experience and ownership level is negative (Erramilli, 1991) or non-significant (Somlev & Hoshino, 2005).

To explain the mixed results, this study introduced a host country's government corruption and posited its negative moderating role, given the arguments of recent studies that the effect of accumulated international experiences on FDI may vary across host-country contexts such as government corruption (Li & Meyer, 2009; Zhao et al., 2004).

Accordingly, this study assumed that the relationship between host country-specific experience and ownership level is more complex. The results show that the direct effect of government corruption is weakly supported in Models 3 and 4, and the results in Model 4 strongly support the moderating effect. Thus, the positive relationship between Korean textile firms' host country-specific experience and ownership level in their foreign subsidiaries was increasingly tradeoff over time by the negative effect of host countries' government corruption, as predicted in Hypothesis 3.

It is argued that the general knowledge accumulated via ongoing operations experience in a given country can be easily applied into another country (Delios & Beamish, 1999). While combatting government corruption in the domestic market during the transition period, Korean firms accumulated general knowledge and capabilities to cope with government corruption. Accordingly, this study posited that Korean textile firms would not regard host countries' government corruption as a critical inhibitor and thus they are likely to increase ownership levels in foreign subsidiaries, as they accumulate country-specific operations experience in host countries. However, the results in Models 3 and 4 suggest that Korean textile firms need to develop a different type of knowledge or ability to cope with idiosyncratic government corruption in host countries, given that host countries' government corruption plays a role as an inhibitor to ownership strategy. The results in Models 3 and 4 suggest that Korean textile firms do not sufficiently take advantage of their general knowledge in dealing with government corruption in other developing countries.

These results in models 3 and 4 imply that the simple direct relationship between country-specific experience and ownership level should be carefully interpreted to understand why the prior studies provided such mixed results. This study took a contingency perspective and then suggested that the mixed results might be attributable to host countries' institutional contexts. The negative sign in the interaction term in Model 4 indicates that the positive experience–ownership relationship varies depending on levels of corruption across host countries. To simply understand the effect of government corruption, let us consider an interaction term from Equation 1:

Level of Ownership = -.3875 (Country-specific Experience) × (Government Corruption)

To understand the moderating effect of corruption in Model 4, the author introduces a Korean MNE and calls it "K." To simplify, let us assume that K can enter either country A (PRS score = 1) or country B (PRS score = 3), where country A is less corrupt than country B. Accordingly, the ownership level taken by firm K is expected to be 67.87% (i.e., $e^{-.3875 (1) \times (1)}$) when it has one-year experience in country A and 31.27% (i.e., $e^{-.3875 (1) \times (3)}$) when it has one-year experience in country B. In addition, Figure 1 explaining the interaction role of host country's government corruption shows an interesting finding. As firm K does business over time in each host country, its increased ownership level by accumulated country-specific operations experience, all things being equal, seems to decrease in a different way according to host country's government corruption scores. The expected decreasing ownership rate in country B with a higher level of government corruption is much greater than in country A with a lower level of government corruption: that is, the expected ownership rate in country A decreases by around 32.12% (i.e., from 0.6787 after one-year experience to 0.4607 after two-year experience in country A), whereas that in country B decreases by around 68.72% (i.e., from 0.3127 after one-year experience to 0.0978 after two-year experience in country B). This finding suggests that the strategy choice of ownership level is likely to be inhibited by host country-specific government corruption, although Korean firms had accumulated the general knowledge gained by coping with government corruption in the domestic market. Figure 1 confirms the primary argument in question that MNEs with the same international experience may have different ownership strategies according to the level of host country's government corruption.

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Figure 1. Moderating Effect of Host Country's Government Corruption
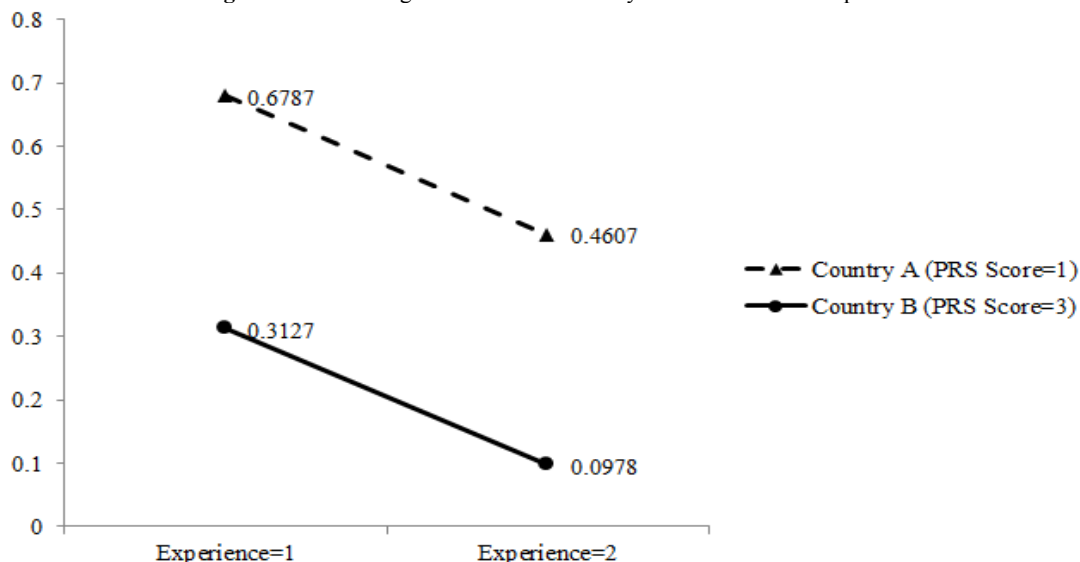
The literature has paid more attention to the simple direct effect of experience so that it has provided mixed results misleading both theorists and practitioners. Accordingly, this study introduces a contingency perspective to explain the effect of country-specific experience on ownership strategy. Incorporating a contingency framework of government corruption into the model, however, shows that why the positive effect of accumulated host country-specific operations experience on foreign subsidiary's ownership level decreases over time can be explained by the moderating role of government corruption. The findings in this study imply that the easy binary direct relationship between country-specific experience and ownership level should thus be carefully qualified and reinterpreted.

The current results also provide practical implications. Managers need to consider the institutional context (i.e., level of government corruption) of a host country, as well as firm-specific strategy attributes such as country-specific experience, when choosing the strategy choice of ownership level. Managers also need to develop an enhanced ability to cope with host country's government corruption, given that general knowledge Korean textile firms accumulated in the domestic market may not be easily transferred, and rather host countries' government corruption has a substantial influence on their ownership strategy.

Naturally, this study has some limitations. First, the sample data do not represent the whole population because foreign investments increased sharply after 1992 while the observation ended at the end of 1995 due to our focus on the early period and the unavailable or missing data for several years between 1995 and 2001. The FDIs established after 1992 were not sufficiently considered in this study. Second, Korean textile firms are labor-intensive and have already experienced the maturity stage of their industry life cycle, leading them to enter foreign countries to extend their declining domestic opportunities. Future studies could examine industries with different industry life cycles. Third, although this study admits that general experience in other countries may influence ownership decisions, it did not consider the effect of general experience. Fourth, ownership decisions can also be influenced by other firm-specific characteristics such as innovation intensity, R&D intensity, and entry timing, and the generally competitive dynamic environment in the host country. Future research could be enriched by the introduction of these variables. Finally, our dataset is relatively old and may thus explain the FDI activities of Korean textile firms only in the early period.

CONCLUSION

This study set out to discover why the effect of organizational experience on ownership strategy has shown mixed results by integrating organizational learning theory and institutional theory to carefully analyze FDI activities. The results suggest that the two theories can be complementary, as the host country's institutional context moderates the effect of country-specific experience on ownership strategy. Thus, the existing binary relationship between country-

specific experience and ownership level may vary depending on the degree of government corruption in a host country. This study puts forward a contingency model for understanding FDI activities.

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