

Corporate Social Performance, Legitimacy, and the Choice of Foreign Partners by State-Controlled Entities in the Global Extractive Industries

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ABSTRACT We study the outcome of the decision of a state-controlled entity (SCE) to form an international joint venture (IJV) with a foreign partner in the SCE's country. Focusing on the perspective of the host SCE, we propose that in its search for a partner, the SCE will evaluate the sociopolitical legitimacy effect of a candidate partner's corporate social performance (CSP). Thereby, the SCE will consider CSP an important selection criterion because of its legitimacy effect on the selection decision, the SCE, the IJV, and the host state in the eyes of salient local and international stakeholders. Moreover, the legitimacy effect of a candidate partner's CSP will further influence the decision outcome through its interaction with the level of corruption in the candidate partner's home country, the extant sociopolitical legitimacy of the host state, and the number of neighbouring countries of the host country participating in international multi-stakeholder initiatives. We find support for our hypotheses using a novel sample of extractive industries IJVs between SCEs from 48 countries and 203 foreign partners from 22 countries for the period 2000–15.

Keywords: corporate social performance, extractive industries, international joint ventures, legitimacy, state-controlled entities

INTRODUCTION

Partner selection in international joint ventures (IJVs^[1]) is an important but understudied phenomenon, especially when viewed from the perspective of the host state actors involved (Nippa and Reuer, 2019; Sun et al., 2021a). Several state actors and state-controlled entities (SCEs) in particular – state agencies, departments, or state-owned

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enterprises responsible for the commercial management of a country's resources or participation of the state in commercial operations^[2] – are the protagonists in forming IJVs in their countries in partnership with foreign multinational enterprises (MNEs) (Sun et al., 2021a). In this paper, we focus on how host SCEs select their foreign partners.

The IJV literature suggests that the transactional attributes that firms encounter are likely endogenous to partner selection (Luo, 2007a). Partner selection determines an IJV's mix of skills and resources, operating policies, vulnerability to national conditions and institutional changes, and overall performance and competitiveness (Geringer, 1991; Hitt et al., 2000; Jin and Wang, 2021; Mohr et al., 2016; Roy and Oliver, 2009). Notably, prior research assumes that international strategy decisions reflect the interests of MNEs, when, in fact, the interests of other organizations involved may be equally salient (Nippa and Reuer, 2019), especially when those include the host state or its agents.

Our understanding of partner selection is based solely on the perspective of MNEs, which employ various selection criteria (Alcantara et al., 2006; Chand and Katou, 2012; Dacin et al., 1997; Hitt et al., 2004; Luo, 1997; Roy, 2012; Roy and Oliver, 2009; Shi et al., 2012; Shi et al., 2014) broadly classified as 'task-related' or 'partner-related' (Geringer, 1991) that affect dimensions of IJV performance differently (Luo, 1997). Also, contextual conditions, such as a partnership's institutional environment (Hitt et al., 2004; Roy and Oliver, 2009; Shi et al., 2012), influence the importance MNE executives attribute to particular selection criteria.

There is little discussion of the perspective and interests of the host partner, even when this partner holds sway (Nippa and Reuer, 2019). Understanding the perspective of the host partner, the focus of this paper, is critical because, often, it is this local actor that initiates the search for foreign partners (Shi et al., 2014), or it can dominate the partnership due to location-specific advantages (Erramilli et al., 1997). Additionally, the value of strategies aimed to give MNEs a foothold in the host country, such as nonmarket strategies (Sun et al., 2021b), hinges on the perceptions of local partners.

The host country partner perspective is especially salient when the local state is that partner and when one considers the economic impact of SCEs (OECD, 2017) and their significant involvement in partnerships with MNEs (Sun et al., 2021a). Furthermore, SCEs often dominate their focal industries, exhibit unique institutional logics (Lazzarini et al., 2021), and play a mixed role as regulators, commercial enterprises, and social contributors (Sun et al., 2021a; Wiig and Kolstad, 2010). Given their governmental affiliation, they possess substantial political capital and bargaining power (Dacin et al., 2007). Importantly, SCEs are unique in how their sociopolitical legitimacy is formed, i.e., the extent to which sociopolitical stakeholders, such as local and international NGOs and activist groups, international organizations, local communities, and political actors and foreign states (Claassen and Roloff, 2012), accept the SCE and its actions as appropriate and in conformance with recognized principles or accepted rules and standards (Suchman, 1995). This uniqueness stems mostly from the explicit or implicit social contract between the state and the local society and from the state's distinct salient sociopolitical stakeholders.

The sociopolitical legitimacy of the state and its actors has significant implications for the success of the state's economic exchanges, including its IJVs with foreign MNEs. In this paper, we draw on neo-institutional theory (Kostova and Zaheer, 1999) and argue that in selecting an IJV partner, in addition to using other important

task- or partner-related selection criteria, an SCE will search for and evaluate partner characteristics that help enhance its legitimacy, that of the IJV, and ultimately that of the state in the eyes of salient stakeholders. One such characteristic is, as we argue, a candidate foreign partner's corporate social performance (CSP), defined as a firm's 'configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to [its] societal relationships' (Wood, 1991, p. 693). We consider the legitimation mechanisms bolstered by CSP and explain how particular institutional factors in the foreign country, the host country and supranationally interact with them, influencing CSP's importance as a selection criterion. Though the literature has discussed IJVs' legitimacy from the MNE's perspective and suggested that MNEs seek to enhance legitimacy through CSP (Bai et al., 2019; Luo, 2006), we know very little about the legitimacy demands on the IJV when the local partner is the state.

The context of our study is the global extractive industries. They are a crucial wealth-creating instrument for resource-rich countries, which often rely on foreign partners to exploit resources (Mohr et al., 2016). However, because of the often-disruptive effects of these industries' activities on communities and the natural environment and local and international sociopolitical stakeholders' scrutiny, the foreign partner's CSP, the legitimacy of the IJV, and ultimately that of the SCE and the state may determine partnership success. The intensity of the phenomena of interest in this context (Müllner and Puck, 2018) provides ample opportunity for empirical examination.

We test our hypotheses using a sample of IJVs between SCEs from 48 countries and 203 foreign partners from 22 countries between 2000–2015. Our findings suggest that an MNE's CSP can be an attractive selection criterion for an SCE because of its legitimacy effects. The SCE's evaluation of CSP as legitimacy enhancing is influenced by the level of corruption in the MNE's home country, the legitimacy of the host state, and the number of neighbouring countries participating in international multi-stakeholder initiatives.

Our examination of host SCEs represents the first, to our knowledge, attempt to study the host state's perspective in forming partnerships with foreign MNEs and considering MNEs' CSP as a selection criterion. We shed new light on foreign partner selection criteria in IJVs, generate insights into the scholarship examining the strategy of SCEs (Kalasin et al., 2020; Musacchio et al., 2015), and provide a more holistic picture of CSP's importance in global strategy. Our examination of contingency factors allows us to widen the focus of existing literature by showing how nonmarket strategy interacts with institutional elements at the host, home, and supranational levels.

In the remainder of the paper, we discuss our research context, develop our hypotheses, and describe our research design and empirical results. We conclude with a discussion of our study's importance and added value to the extant literature.

RESEARCH CONTEXT: THE GLOBAL EXTRACTIVE INDUSTRIES

The global extractive industries (oil, gas, and mining) serve as the context of our study (Shapiro et al., 2018). Non-renewable mineral resources generated annual revenues in excess of \$2 trillion in 2019^[3] and collectively accounted for a quarter of the global

GDP in 2021 (World Bank, 2021).^[4] However, extractive activities can also negatively affect national economies, communities, and the natural environment: they contribute to the ‘resource curse’ faced by many developing countries, they may destroy the natural environment and the livelihoods of communities near extractive sites, while the benefits they generate may not be shared by those most impacted (Banerjee, 2011; Ehrnström-Fuentes, 2016). Earning social acceptance is, therefore, critical for the success of extractive projects and is one of the industries’ most significant challenges (Christensen, 2019).

The benefits to resource owners may also be limited by the industry’s long and capital-intensive development (Sigam and Garcia, 2012) – from exploration to the commercial exploitation of a mine or an oil field, the building of the necessary infrastructure, and, eventually, the closure of project sites and the reclamation of affected areas (Fraser et al., 2019). The industry’s dependence on sophisticated management and specialized technology (Cameron and Stanley, 2017), the volatility of costs and rents (Jacks et al., 2011), and conditions of corruption can also negatively affect potential benefits (O’Higgins, 2006). To overcome such constraints, and because they lack the means to do so by themselves (Dow et al., 2020; Luo, 2007a), most resource-rich countries partner with foreign firms to extract and market national resources (Mohr et al., 2016; Pongsiri, 2004).

The state is then the dominant host country actor to collaborate with in extractive IJVs (Shapiro et al., 2018) as it grants foreign firms the political and legal licence to operate there. Moreover, it is the state that often selects a partner to form an IJV because – with the exception of the USA and Canada (Claes, 2018) – it owns the country’s natural resources (Cillari et al., 2021), while SCEs are instruments states use to manage these resources. Of course, foreign country MNEs may have significant leverage in how IJVs are structured, governed, or operate. Nevertheless, the partner selection outcome (the focus of our paper), resulting in the initial formation of a partnership, often rests with the state. The SCE’s dominant role in the partner selection outcome may extend to the whole value network beyond resource ownership, as shown in multiple cases (e.g., in Angola, Saudi Arabia, Democratic Republic of Congo, Venezuela) (De Oliveira, 2007).

The selection of a partner by the state begins at the very early stage of the process and may involve direct negotiation and/or a licensing round. It is widely accepted that the selection criteria employed by governments influence both the quality of the foreign partner and the partnership, including the ability of the state to capture the expected national benefits associated with extractive projects (Cillari et al., 2021).

In practice, mineral-rich country SCEs apply diverse combinations of a wide range of partner selection criteria (Åm and Heiberg, 2014; Garcia et al., 2014; Stadler et al., 2013; Wiig and Kolstad, 2010), seeking partner resources and capabilities that will enable the IJV to compete effectively and maximize partners’ fit (Columbia Center on Sustainable Investment, 2019). Specifically, SCEs may evaluate candidate partners’ proposed work program, their capabilities (e.g., financial, operational, technical, managerial, organizational, and collaborative), their international and (prior) host country experience, their local R&D investment, their plans for local knowledge transfer, their previous social and environmental performance, and the alignment of their interests with those of the host

state. Where there is sufficient interest in a particular natural asset to attract bids from multiple companies, the state may conduct a competitive bidding process where only bidders pre-qualified against a set of selection criteria will receive an invitation to bid on that asset. In such a case, the bid price will represent an additional criterion (see Table AI in Appendix A for details on selection criteria).

Moreover, given the extractive industries' social and environmental record, firms cannot simply opt for no-harm strategies. Instead, they must actively engage with social and environmental initiatives to stand out from competitors when vying to join an IJV. In fact, many low-risk destinations, such as Norway and Canada (Müllner and Puck, 2018), and high-risk ones, such as Angola (Wiig and Kolstad, 2010), have strict social and environmental criteria, making CSP a precondition to accessing mineral resources.^[5] A valuable nonmarket strategic asset, like a foreign partner's CSP, becomes even more important as countries try to manage a well-organized international civil society movement and various market and nonmarket stakeholder initiatives (Mena and Palazzo, 2012) targeting these industries (Banerjee, 2018), strive to conform with the demands of global sociopolitical stakeholders, including the Extractive Industries Transparency Initiative (EITI), attempt to benefit from participation in initiatives such as the World Bank's Climate-Smart Mining Initiative, or endeavour to attain the UN's Sustainable Development Goals (SDGs).

Finally, an extractive industry SCE is not a typical profit-maximizing organization. It is expected to be more focused on promoting the public interest and social welfare (Bénabou and Tirole, 2010; Besley and Ghatak, 2001; Hsu et al., 2021). Thus, its functions and objectives are distinct from those of the typical private-sector organization. Beyond economic consequences, it is often more exposed to sociopolitical scrutiny than private organizations where and when its actions may endanger employees, society at large, and the environment. The consequences of scrutiny are manifested, for example, in the long-lasting political repercussions on the Norwegian state following a coal mine accident on Svalbard (Garcia et al., 2014). In sum, then, the distinct characteristics of SCEs further elevate the importance of CSP in enhancing legitimacy in its partnership decisions.

LITERATURE REVIEW

Across the world, there is renewed interest among MNEs and SCEs to form joint ventures (Chen and Harrison, 2017). For instance, China has strongly encouraged foreign private companies to participate in its ongoing state-owned enterprise reform (Sun et al., 2021a). Other countries have followed suit nurturing the national and international growth of SCEs (Li et al., 2017; Mariotti and Marzano, 2019).

In this context, understanding the understudied perspective of SCEs in foreign partner selection (Nippa and Reuer, 2019; Sun et al., 2021a) becomes important, especially considering how they differ from private sector organizations. Compared to such organizations, SCEs possess unique organizational attributes: they follow unique institutional logics (Bruton et al., 2015), exhibit unconventional motives of business conduct (Mariotti and Marzano, 2019), adopt complex governance structures (Duanmu, 2014; Mariotti and Marzano, 2019), and capitalize on state-related capabilities (Cuervo-Cazurra et al., 2014; Duanmu, 2014). Also, they may play a mixed role as regulators, commercial enterprises, and social contributors (Sun et al., 2021a; Wiig and Kolstad, 2010).

Notably, because of their political affiliation, SCEs exhibit two main distinctions regarding how their sociopolitical legitimacy forms. First, the state's 'publicness' implies that, unlike the private sector, the state holds an explicit or implicit social contract with local society. This social contract defines the state's essential 'duties' of administering justice, implementing and maintaining public works and institutions, and providing public goods (Bénabou and Tirole, 2010; Besley and Ghatak, 2001). Accordingly, it confers the necessary powers upon the state to deliver its duties (through the SCE), including the power to exploit national wealth. In forming beliefs about state legitimacy, citizens weigh independently and heavily the state's performance (Gilley, 2006a). Second, SCEs' salient stakeholders include political actors predominantly specific to SCEs. Political actors, such as local legislatures and foreign states, are among the most critical sources of state legitimacy (Gilley, 2006a) because state legitimation operates mainly as a state response to political pressures (Frickel and Davidson, 2004). On one level, a local legislature has the authority to confer or withdraw legitimacy by providing an institutional forum for criticism of the executive, oversight of the bureaucracy, representation of societal diversity, and the expression of political dissent, which produce a sense of the government's moral right to rule (Mishler and Rose, 1994). On another level, new movements have drawn attention to the state's global political performance, arguing that state legitimacy depends on how well it fulfils its obligations to the rest of the world. Among these obligations, civil rights and environmental governance feature prominently (Davidson and Frickel, 2004; Frank et al., 2000; Frickel and Davidson, 2004).

Such stakeholders, along with others not unique to SCEs, pose legitimacy demands on the SCE, its partnerships and, by extension, the state. Arguably, an avenue available to SCEs to satisfy legitimacy concerns is forming alliances with socially responsible foreign partners. With well-documented stakeholder expectations regarding foreign partner behaviours and outcomes (McWilliams and Siegel, 2001), establishing and maintaining legitimacy in this context is a significant challenge for those involved (Gardberg and Fombrun, 2006; Kostova et al., 2008; Kostova and Zaheer, 1999; Zygliopoulos et al., 2016). A growing literature shows that improvements in a company's CSP can be essential in addressing stakeholder suspicions, negative perceptions, and other legitimacy challenges (Bai et al., 2019; Deephouse and Carter, 2005; Du and Vieira Jr, 2012; Gardberg and Fombrun, 2006; Suchman, 1995). That is because improved CSP may signal conformance to the demands of stakeholders and other institutional actors, with research confirming that MNEs invest in their CSP to strengthen their acceptance by sociopolitical stakeholders internationally (Kang, 2013; Symeou et al., 2018).

CSP can become an important selection criterion for the host country partner (i.e., the SCE) due to its association with candidate partners' strategic attributes (Lu, 1998). As a nonmarket strategy, the management of CSP manifests in all voluntary organizational actions in the nonmarket environment (e.g., government and public institutions) in response to stakeholder expectations (Mellahi et al., 2016; Sun et al., 2021b). Voluntary actions convey useful behavioural traits about a candidate partner's values in establishing and developing exchange relationships. Firstly, CSP signals beneficial corporate traits and information about values and character to stakeholders (Gardberg et al., 2019; Gardberg and Fombrun, 2006), who may operate under incomplete information (Ravasi et al., 2018). The CSP of a candidate partner can become an essential attribute as it enables an SCE to reduce information asymmetries, financial risks, and operational uncertainties (Flammer, 2018). A partner's

CSP can also signal a lower probability of acting opportunistically. That is because CSP suggests that the partner is likely to follow fundamental principles of social exchange, such as equity and reciprocity, that improve trust and commitment in a partnership and minimize the likelihood of internal conflicts (Luo, 2007b).

HYPOTHESES DEVELOPMENT

We suggest that in searching for foreign partners, the SCE is motivated to enhance both its sociopolitical legitimacy (and that of the state) and the IJV's. We propose that, in addition to other criteria (Geringer, 1991; Roy, 2012; Roy and Oliver, 2009), the SCE will consider a candidate foreign partner's CSP because it is a legitimacy-enhancing organizational attribute that encapsulates activities aligned with stakeholder expectations (Husted and Allen, 2006; Luo, 2006; Stevens and Newenham-Kahindi, 2021; Zyglidopoulos et al., 2016). Thus, we suggest that legitimacy is the mechanism that underpins the relationship between CSP and foreign firm selection. We discuss how CSP fosters legitimacy at different levels below.

The Legitimacy of the Selection Decision and that of the SCE

When an SCE chooses an IJV partner, it implicitly lends a 'stamp of approval' on behalf of the host country government to the IJV and, by implication, the foreign partner. Because this is risky (i.e., partnering with an unworthy MNE), the SCE needs a signal that the risk is low. The candidate foreign partner's CSP is that signal. As a result, the SCE is more likely to choose a partner the higher its CSP. As already discussed, compliance with laws and regulations and meeting stakeholder expectations will arguably increase the acceptability of an MNE partner since its CSP may reduce risk and uncertainty (Flammer, 2018). In fact, governments increasingly emphasize the role of CSP as a legitimacy-building tool. They may award privileged contracts (e.g., taxes or concessions) to international firms with the expectation that these firms will contribute to local communities and underwrite economic improvement (Gardberg and Fombrun, 2006). A vivid example is the Chinese government, which introduced national mandates strengthening the importance of firms' social responsibilities after the country entered the World Trade Organization in 2001 (Bai et al., 2019).

The Legitimacy of the IJV

The SCE will choose a foreign partner using various task-related and partner-related criteria to enable the IJV to attain strategic and commercial objectives and criteria that increase the IJV's legitimacy. Recent empirical evidence suggests that MNEs' CSP positively influences the legitimacy of the IJV (Bai et al., 2019). For example, more responsible firms engage with community stakeholders and activist groups in ways that allow them to gain acceptance because they satisfy societal needs. Gaining and maintaining the support of sociopolitical stakeholders, including those who live or are active in areas impacted by IJV-related projects, is critical in obtaining a social licence to operate (Gifford et al., 2010; Oh et al., 2020), a sine qua non in the extractive industries. Forming a partnership with a foreign MNE possessing a strong CSP can be a valuable strategy for an SCE as it enables legitimacy gains associated with the partner's CSP to spill over to the IJV (Kostova and Zaheer, 1999).

A higher CSP also suggests that the foreign partner follows principles of social exchange (Luo, 2007b) and may enable an MNE to redress the stereotype of being an exploiter of a country's resources in the eyes of stakeholders. Doing so can also showcase an IJV that embraces corporate citizenship and contributes to local welfare.

The Legitimacy of the Host State

As discussed earlier, a state exists to sufficiently administer justice, implement and maintain public works and institutions, and provide other public goods (Hillman and Keim, 1995). States also develop policies for the fair distribution of rents from exploiting national wealth. Naturally, then, the state's sociopolitical legitimacy is of paramount importance.

Such legitimacy is possible if stakeholders believe the state is fulfilling common interests, including quality governance and improved welfare (Gilley, 2006a, 2006b). How well salient stakeholders evaluate a state's performance signifies the strength of its legitimacy, whereas performance failure exposes a fundamental doubt about the state's authority (Beetham, 2013). Often, the state depends on those subordinate to it to achieve its goals. This dependence makes it critical that the state forms a relationship with them by acknowledging reciprocal rights and duties (Gilley, 2006b). For example, when a state forms an IJV to exploit natural resources, projects associated with the IJV may constitute a bad social and environmental indicator to local stakeholders. However, it makes a great difference to a state if those subject to its authority accept its right to engage in such initiatives and consider the purpose fair. A state's failure to act in a socially accepted or desired way by sociopolitical stakeholders may cause public opposition and deprive the state of the public's consent (Gilley, 2006a).

Where the state forms an IJV to pursue its strategic objectives, advancing its legitimacy through the partner selection decision is essential. Local sociopolitical stakeholders may envision a state collaborating with its partners to achieve a healthy mix of economic rents and social capital from a socially-embedded, appropriately-governed exchange structure. Stakeholder evaluations of governance quality and welfare gains stemming from an IJV's operations will impact the state's legitimacy (Gilley, 2006a).

We suggest a state's legitimacy would benefit from a foreign partner with a stronger CSP. By leveraging the foreign partner's reputation for responsibility, the state (through the SCE) may enhance its own image of transparency, accountability, and integrity, thereby convincing sociopolitical stakeholders about the importance of a resource project, instilling confidence in the state's determination and ability to perform its duties, and ultimately gain necessary consent. The partner's CSP can also contribute to the state's legitimacy as it increases the likelihood that the partnership will have quality governance and control mechanisms that strike a balance between economic and social objectives that benefits local welfare. A stronger partner CSP may reassure sociopolitical constituents that the state will pursue its strategic objectives while safeguarding social welfare and the natural environment.

Considering how the candidate foreign partner's CSP may foster the legitimacy of the selection decision and the SCE, the IJV, and the host state in the eyes of sociopolitical stakeholders, we hypothesize that:

Hypothesis 1: A SCE is more likely to select a foreign IJV partner with a stronger CSP, *ceteris paribus*.

Moderations

The extractive industry context is characterized by high levels of corruption, IJVs involving developing country SCEs and primarily developed country MNEs, and often disruptive externalities that international multi-stakeholder initiatives try to mitigate. We argue that these institutional elements interact with the ability of candidate partners' CSP to affect the sociopolitical legitimacy of the SCE, the IJV, and the host state and, consequently, the SCE's partner selection decision. We discuss these influences below.

Foreign Country Corruption. In forming an IJV, SCEs will join MNEs anchored in domestic settings differentiated by culture and political, economic, and legal systems that influence how MNEs capitalize on CSP in their interactions with their stakeholders (Symeou et al., 2018; Zyglidopoulos et al., 2016). We focus on corruption^[6] in the MNE's country of origin, which we see as 'the misuse of entrusted power for private gain' (Cuervo-Cazurra, 2016; Transparency International, 2010, p. 4), to suggest that corruption can have an impact on how the SCE values the MNE's CSP in enhancing sociopolitical legitimacy.

Corruption is driven primarily by the positional power of elite actors in formal institutions, both in the public (governmental) and private sectors (i.e., major corporations) (Keig et al., 2015). It '... may be inside a single firm, may be between firms, or may involve a firm and the government' (Castro et al., 2020, p. 937). It includes substantial transactional activities embedded in institutional structures and reflects corrupt behaviour from powerful high-level individuals within formal institutions. Globally, firms are key players in much of the corruption that occurs (Castro et al., 2020).

Formal institutions in the candidate partner's country are a powerful source of information on what constitutes legitimate behaviour in its domestic market (Suchman, 1995), and a firm's activities reflect the norms of its formal institutional environment (North, 1990). A more pervasively corrupt domestic environment increases the likelihood that an MNE will engage in illegitimate practices (Castro et al., 2020; Cuervo-Cazurra, 2016; Uhlenbruck et al., 2006). For MNEs with a history and culture that accepts corruption, unethical behaviour may be embedded within the organization (Anand et al., 2004). Corrupt domestic environments may allow or encourage MNE managers to side-step socially responsible behaviour by lowering ethical standards. Indeed, the overarching impression in the literature is that the level of corruption in the home country is negatively associated with both sociopolitical legitimacy (Gilley, 2006a) and indigenous firms' CSP (Ioannou and Serafeim, 2012b; Keig et al., 2015).

Naturally, one would expect that SCEs will view MNEs from less corrupt home countries more positively, where there is greater compliance with laws, rules, and standards and greater transparency and accountability. Research shows that the foreign country is used by the host country's government and society as a salient cognitive category to form judgements about the individual category member (Stevens and Newenham-Kahindi, 2017). That explains why MNEs from developing countries experience legitimacy deficits in developed countries, which they attempt to address by investing more in CSP (Zyglidopoulos et al., 2016).

Overall, then, we expect the role of CSP in enhancing legitimacy to gain importance when the MNE comes from a more corrupt environment because CSP showcases the conscious and systematic attempts of the MNE to escape this liability of origin (Marano et al., 2017). Incongruence between the firm's activities and the norms of its institutional environment will increase how much the SCE values the legitimacy impact of a given level of an MNE's CSP and, thereby, the SCE's confidence that its partner selection will be considered legitimate. On the other hand, we expect that the value of a given level of CSP in enhancing legitimacy will be lower in the eyes of the SCE when an MNE comes from a less corrupt country. That is because the MNE's CSP is more aligned with the foreign country's institutional norms that host country stakeholders will perceive it as more or less the anticipated performance. Therefore, the SCE will rely more on a given level of CSP as a selection criterion when an MNE comes from a more corrupt country; and CSP will contribute more positively to the probability of partner selection. We thus formally hypothesize that:

Hypothesis 2: A given level of MNE CSP has a stronger positive effect on the selection probability of a foreign IJV partner when the MNE comes from a more corrupt home country, *ceteris paribus*.

The Host state's Extant Legitimacy. Our central argument posits that a foreign partner's CSP influences a host state's (and its actors') sociopolitical legitimacy. Here we hypothesize that how a state evaluates the legitimacy contribution of a partner's CSP will also depend on the state's own extant sociopolitical legitimacy, which reflects its relationship with institutional constituents and its behaviour toward their welfare. The more legitimate the state, the more support it enjoys from salient sociopolitical stakeholders who set future expectations based on what they view is best from the public's perspective (Gilley, 2006b).

A state with higher legitimacy is more likely to meet salient stakeholders' expectations who want their expectations to guide the state's decisions, including in IJV partner selection. Therefore, in forming IJVs, that state will search for partners who will enable it to meet these expectations. These are partners with whom the state believes there is a high-value congruence (Tong et al., 2020).

When a state cannot live up to stakeholder expectations, the state's higher legitimacy may become a liability (Ashforth and Gibbs, 1990). Both the socio-evaluations literature (e.g., Mishina et al., 2010; Rindova et al., 2006) and the literature on organizational reputation, which is strongly related to legitimacy (Bitektine, 2011), broadly support the notion that expectations drive stakeholder reactions. For example, stakeholders expect more from organizations with a strong reputation (Petkova et al., 2014) and will express more avid consternation when these organizations engage in misconduct (Kassinis et al., 2022; Zavyalova et al., 2016). So, the literature suggests that the potential backlash for violating stakeholders' expectations can be harsher for highly-reputable organizations than less reputable ones (Fombrun, 1996). Correspondingly, higher state legitimacy implies a more significant sociopolitical legitimacy loss for a state that fails to meet stakeholder expectations, thus prompting the state – through its SCE – to more seriously consider a given level of a candidate partner's CSP. Thus, in addition to drawing on a partner's CSP as a legitimacy-enhancing attribute, a state with higher legitimacy may capitalize on a given level of a candidate partner's CSP

to showcase its commitment to meeting salient stakeholders' expectations. Thus, we hypothesize that:

Hypothesis 3: A given level of MNE CSP has a stronger positive effect on the selection probability of a foreign IJV partner when the host state's extant sociopolitical legitimacy is higher, *ceteris paribus*.

International Multi-Stakeholder Initiatives. The process of gaining legitimacy is complex, especially when considering the broader institutional context within which states, their SCEs, MNEs, and sociopolitical stakeholders interact. This complexity is highlighted by international multi-stakeholder initiatives targeting the negative externalities created by globally-stretched value chains (e.g., those in the extractive industries). Such initiatives craft 'new rules of the game' for organizations. They are governance mechanisms involving corporations, civil society organizations, NGOs, and governments striving to cope with social and environmental challenges across industries (Mena and Palazzo, 2012). They are '...global "meta" institutions promoting guidelines for [firm] behaviour' worldwide (Kostova et al., 2008, p. 998) that derive their normative force through recognition of social expectations (Mena and Palazzo, 2012) and aim to fill regulatory gaps by issuing non-binding, voluntary rules such as 'soft law' standards (Utting, 2002).

Such voluntary programs (Aragon-Correa et al., 2020; York et al., 2018) produce both private goods (benefits to program participants) and public goods (benefits to non-participants via positive spillovers arising from improvements in participants' performance) (Zeyen et al., 2016). When organizations join multi-stakeholder initiatives to improve their legitimacy (Zeyen et al., 2016), they may unintentionally create legitimacy spillovers benefiting adjacent non-participating peers belonging to the same category (e.g., other resource-rich countries or their organizations in the same region) (Shi et al., 2022). The organizational population legitimacy literature confirms the external 'validating' effect of transnational governance mechanisms (such as multi-stakeholder initiatives) on a participating organization's legitimacy and its subsequent spillover effect on non-participating peer organizations (e.g., geographically-neighbouring national states) (Kuilman and Li, 2009). Thus, because neighbouring states belong to the same category as focal states, stakeholders may also legitimize the former via the discussed positive spillovers and ultimately, the overall category.

We argue that as the number of states in a region that are signatories to an initiative increases, positive legitimacy effects and their spillovers on participating and non-participating states, respectively, are more significant (Haack et al., 2014). As a result, states' and SCEs' continued search for enhanced legitimacy vis-à-vis CSP issues in response to sociopolitical pressures is satisfied, at least in part, through the outlined legitimacy effects. This will lead SCEs to lower their emphasis on candidate foreign partners' CSP as a legitimacy-enhancing attribute, when choosing an IJV partner. Thus, we hypothesize:

Hypothesis 4: A given level of MNE CSP has a weaker positive effect on the selection probability of a foreign IJV partner when the number of neighbouring countries of the host country signing onto an international multi-stakeholder initiative is higher, *ceteris paribus*.

Exhibit 1 graphically depicts the theorized mechanisms leading to our research hypotheses.

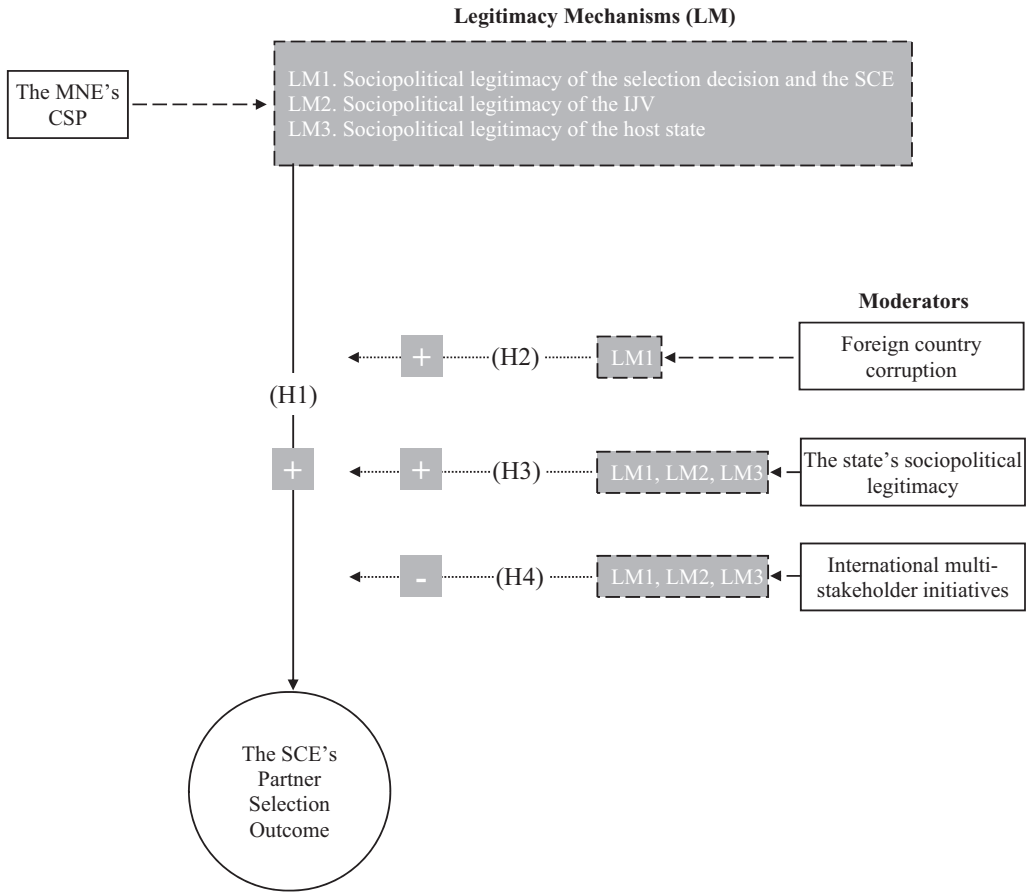


Exhibit 1. Theoretical mechanisms and research hypotheses

METHODS

Sample and Data Collection

We contextualize our study in the global extractive industries. Our unit of analysis is the decision made by an SCE to select a particular MNE among a pool of alternatives to form an IJV in the SCE's home country. We searched for all MNEs in the extractive industries globally that might have formed such an IJV to ensure sufficient information existed about the candidate MNE and its CSP. We drew on Thomson Reuters' ASSET4 database, an established and rich source of environmental, social, and governance information widely used for empirical research on CSP (Cheng et al., 2014; Zygliopoulos et al., 2016). We selected all publicly listed companies reported by ASSET4 for the mining and oil and gas industries, as defined by Shapiro et al. (2018). These companies correspond to the following 2-digit SIC codes: (10) 'Metal Mining' (165 firms); (12) 'Coal Mining' (32 firms); (13) 'Oil and Gas Extraction' (173 firms); and (14) 'Mining and Quarrying of Nonmetallic Minerals, Except Fuels' (7 firms).

Our initial sample consisted of 377 companies from 2000–15, originating from 29 countries. Oil, gas, and mining companies are often vertically integrated, from exploration to selling retail products (Cameron and Stanley, 2017). Our sample consists of companies that perform all or diverse stages of the value chain, including (1) upstream (exploration, development, and extraction activities), (2) midstream (storage, trading, and transportation activities), and (3) downstream (refining, processing, and marketing).

We then analysed the international activities of sample companies based on information we derived from company annual reports. Sixty-eight companies (and four countries) with no foreign presence were dropped from the sample. We examined the remaining companies to identify their countries of operation and modes of entry. We excluded 21 companies whose modes of entry did not involve IJVs. That left us with a sample of 288 companies that formed 1945 IJVs. We searched for all partners within each IJV and identified 236 IJVs that involved SCEs from the host countries. The final sample consists of 203 MNEs from 22 countries (three additional countries were dropped from the sample) that partnered with SCEs from 48 countries during 2000–15 (see Table AII in Appendix A for sample details).

Measures

Dependent variable. *Foreign partner selection outcome* is a categorical variable that takes the value 1 for each foreign MNE a focal SCE decided to partner with in a particular year from the pool of 203 alternative foreign partners resulting in the formation of a partnership and entry in the host country. It takes the value 0 for all non-selected candidates. We do not examine the selection process that may involve negotiations before forming the partnership or ensuing negotiations that may result in partnership modifications. As such, the variable does not follow the development of the partnership.^[7]

Independent variables. *CSP.* SCEs might receive information on the CSP of the foreign MNE from other governments, international organizations, NGOs, civil society groups, and the media. Proper measurement of an MNE's CSP should involve a comprehensive CSP assessment framework that accounts for all available information. Moreover, the extractive activities' social and environmental impacts suggest examining both dimensions of CSP (Symeou et al., 2018).

We use social and environmental measures of an MNE's global CSP developed by ASSET4, which has collected data and scored firms on environmental and social dimensions since 2002^[8] (Ioannou and Serafeim, 2012a, 2012b; Symeou et al., 2018). Its analysts collect 750 evaluation data points per firm, and all primary data used must be objective, systematic, and publicly available. Data sources include company reports, filings, and websites, NGO websites, CSR reports, and reputable media outlets. Every data point question goes through a multi-step verification control to ensure high accuracy and quality. They are then used to calculate 250 key performance indicators, organized into categories within major pillars. Every year, a firm receives a z-score for each pillar benchmarking its performance with the rest of the firms.

The social pillar comprises seven categories (e.g., community, diversity, health and safety, human rights, and product responsibility). We use its score to proxy for an MNE's social performance at a global firm level (Ioannou and Serafeim, 2012a, 2012b; Symeou et al., 2018). The variable takes values between 0 and 100, with higher values reflecting higher *Social Performance* levels. Indicatively, the community category measures a company's commitment and effectiveness toward maintaining the company's reputation within the general community (local, national, and global). It reflects a company's capacity to maintain its licence to operate by being a good citizen (e.g., donations of cash or goods), protecting public health (e.g., avoidance of industrial accidents), and respecting business ethics (e.g., avoiding bribery and corruption).

The environmental pillar comprises three category groupings (emission reduction, product innovation, and resource reduction). We use its score to measure an MNE's impact on natural systems and ecosystems and how a company uses management practices to generate long-term shareholder value at a global firm level (Ioannou and Serafeim, 2012b; Symeou et al., 2018). It takes values from 0–100, with higher values reflecting better *Environmental Performance*. Indicatively, the emission reduction category reflects a company's capacity to reduce air emissions, waste, spills, or its impacts on biodiversity and partner with environmental organizations.

Moderators

Foreign country corruption. We use data from the World Bank's Worldwide Governance Indicators (WGI) (Kaufmann et al., 2011) to measure the level of corruption in the candidate partners' home country yearly. WGI rely on perceptions-based data sources, including surveys of firms and households, the assessments of commercial business information providers, NGOs, multilateral organizations, and public-sector bodies worldwide. A composite indicator, 'Control of Corruption', combines these perceptions, capturing perceptions of the extent of the exercise of public power for private gain and of the 'capture' of the state by elites and private interests. The indicator ranges from –2.5 to 2.5, with higher values indicating a less corrupt environment.

State sociopolitical legitimacy. We follow Gilley (2006b), who conceptualizes state sociopolitical legitimacy as a notion projected by the citizens' views of legality, justification, and acts of consent. Views of legality refers to the idea that the state has acquired and exercised power in a way that agrees with citizen views about laws and customs. Views of justification refers to citizen responses to the moral reasons given by the state for how it holds and exercises power. Acts of consent refers to positive actions that express a citizen's acceptance of the state's political authority and to obey its decisions. Using data from the World Values Survey (WVS), the IMF, and the Global Barometer Surveys, Gilley (2006b) selected nine indicators to measure the constitutive subtypes of state legitimacy, which he aggregated into a single value for each of a total of 72 states. Gilley (2012) updated the values of the sample or added new states. The values range between 1–10, with higher values reflecting higher legitimacy.

The variable covers only a few countries and years, significantly impacting our sample size. We sought to identify a variable that might be conceptually proximate to state

legitimacy and highly correlated with the above measure. We considered the variable 'People's confidence in local government' from the WVS, which asks individuals to rate their confidence in government using the scale: 1 for 'a great deal of confidence'; 2 for 'quite a lot of confidence'; 3 for 'not very much confidence'; and 4 for 'no confidence at all'. This measure enjoys face validity, as indicated by Easton (1975). Also, confidence in government correlates highly with Gilley's measure (Pearson $r = -0.57$). We use confidence in government to measure state legitimacy in the primary analysis and Gilley's measure in robustness tests. We re-coded the variable so that higher values suggest higher sociopolitical legitimacy.

Number of neighbouring countries signing onto an international multi-stakeholder initiative. Multi-stakeholder initiatives are global institutions trying to fill the gap of regulating global business activities' social and environmental externalities that governments are not always able or willing to do (Mena and Palazzo, 2012). The Extractive Industries Transparency Initiative (EITI) implements the global standard that promotes the open and accountable management of oil, gas, and mineral resources. It requires the disclosure of information along the whole value chain. In doing so, it seeks to strengthen public and corporate governance, promote an understanding of natural resource management, and provide the data to inform reforms for greater transparency and accountability. The international EITI Board upholds the standard, which includes representatives of implementing and supporting countries, civil society organizations, industry, and institutional investors. Though a voluntary standard, EITI implementation is now mandated by law in several countries, including Liberia, Nigeria, and Norway.

A validated EITI member must complete a sign-up process related to government commitment, company and civil society engagement, establishing a multi-stakeholder group, and an EITI work plan agreement. Once the EITI Board has cleared the above, the country can apply to become a candidate implementing country. When the EITI Board admits the country, it sets deadlines for undertaking validation.

For each country in our sample, if applicable, we record the year when the EITI Board admitted the country. We use this information to develop a variable (*Number of regional EITI members*) that reports the yearly number of implementing countries in a particular continent other than the focal country of interest (i.e., the SCE's country).

Controls. We consider several other factors influencing the SCE's decision. We account for multiple organizational characteristics that the literature on IJVs (e.g., Geringer, 1991; Roy, 2012; Roy and Oliver, 2009; Shi et al., 2012; Shi et al., 2014) and extractive industries (Åm and Heiberg, 2014; Columbia Center on Sustainable Investment, 2019; Garcia et al., 2014; Stadler et al., 2013; Wiig and Kolstad, 2010) recognize as significant selection criteria. Firm-level control variables primarily draw on information from firms' annual reports. When we use a different source, we point it out.

At the MNE level, we control for *Previous experience*. This binary variable signifies whether the MNE has had previous entries in the focal country. A track record allows MNEs to establish a reputation for being trustworthy partners. We control for *MNE size* (i.e., the logarithm of the firm's total assets) since larger firms may possess the necessary scale, resources, and technologies to perform demanding tasks, higher visibility, and the

ability to institutionalize CSP programs (Orlitzky, 2001). We control for *MNE financial performance* (i.e., return on assets) because of its links with CSP (Margolis and Walsh, 2003). Financially robust organizations can also mitigate the likelihood of the partnership encountering economic breakdowns. We account for *MNE age* (i.e., year of establishment) (Chen et al., 2008). Older MNEs may have more experience dealing with partnerships and CSP matters affecting partnership viability. We measure an MNE's *International diversification* (Hitt et al., 2006) (i.e., the logarithm of the yearly number of host countries where the firm has a physical presence) that influences a firm's visibility to SCEs and, thus, the selection decision risk.

We control for *MNE corporate governance* using ASSET4's pillar of governance performance (Hawn and Ioannou, 2016). The measure ranges from 0–100, with higher values reflecting more robust governance. We use the ESG controversies category score from ASSET4 to account for candidate partners' socially irresponsible practices (*MNE controversies*). It measures a company's exposure to environmental, social, and governance controversies and adverse events reflected in global media that occur independently from responsible activities (Surroca et al., 2013).^[9] The score ranges between 0–100, with higher values suggesting greater irresponsibility.

We use information from Derwent Innovations Index to measure the firm's yearly cumulative number of patent applications (in logarithmic form). *Number of patents* accounts for an MNE's innovativeness that previous research has associated with CSP (e.g., Mithani, 2017).

We use the binary variable *MNE is SCE* to indicate whether the MNE's home government, in a given year, holds 25 per cent or more of the company shares (Cui and Jiang, 2012). This variable considers the MNE's ability to engage in corporate political activities (Mellahi et al., 2016), which is another nonmarket strategy that might substitute or complement CSP (Sun et al., 2021b).

We control for the average number of partners that MNEs have in their IJVs with local SCEs. More partners may suggest that the MNE possesses a better ability to collaborate. In our sample, 71 per cent of IJVs involve only the foreign MNE and the SCE; 20 per cent have an additional partner; 5.5 per cent have four partners; 3 per cent have five partners, and there is one case with six partners (0.5 per cent). For each candidate MNE, we identified all partners in all its IJVs involving SCEs. Then, for each MNE, we calculated the sample average number of IJV partners (*Number of partners*).

MNE's share measures the average equity share the MNE has had across all its equity-based IJVs in our sample. A higher share gives the foreign partner more control over the venture, suggesting greater risk tolerance and higher rent claims. It may influence an SCE's decision regarding its role and share of rents. We found information for 176 out of 203 sample MNEs; thus, we used this variable in the robustness analysis. Lastly, we use the 2-digit SIC industry classification of the firm to control for industry fixed effects.^[10]

At the host-country level, we use a binary variable (*SCE is SOE*) to signify whether the SCE is a state-owned enterprise whose decision-making functions may differ from those of non-corporate SCEs. Our sample follows the decisions of 75 state-owned enterprises (77 per cent) and 22 non-corporate SCEs (23 per cent). We account for *Host country corruption*, as described above, to account for the state's and the SCE's respect for the institutions that govern economic and social interactions among them.

We expect this respect to favour responsibility behaviours and influence the probability of partner selection. Using the Environmental Performance Index (EPI) (Hsu et al., 2018), which ranks countries based on multiple environmental performance indicators, we account for *Host country quality of environmental institutions*. We expect SCEs in countries with higher rankings to embrace responsible behaviour and be more sensitive to candidate partners' CSP. Additionally, we use a dichotomous variable to account for whether the EITI admitted the country as an implementing country in a given year (*Host country is EITI member*), which may influence an SCE's search for legitimacy.

At the foreign-country level, we account for country-of-origin effects associated with the commitment and effectiveness of local macro-institutions toward protecting and promoting fundamental social and environmental qualities. We use *Foreign country quality of environmental institutions* as above. MNEs from countries with more robust environmental and social institutions are likely to be perceived by SCEs as more legitimate and, thus, enjoy a better probability of selection.

Finally, we follow Dow and Karunaratna (2006) to account for cross-country differences in language, religion, industrial development, education, and political systems that influence managerial perceptions and decision-making. We calculate the average value of the measures of cross-country differences reported by Dow and Karunaratna (2006) to develop the *Psychic distance* measure. Higher values suggest a more significant psychic distance between the host and foreign markets, resulting in more disparate managerial ideologies (Dacin, 1997; Hitt et al., 1997).

Empirical Analysis

To test our hypotheses, we use a variation of McFadden's fixed effects conditional logit model (McFadden, 1974). This selection model is commonly applied in IB research (Maggioni et al., 2019; Nachum et al., 2008). It shows that the conditional probability that an SCE i will select foreign partner j in year t , given the pool of candidates to select from, is represented by the following expression:

$$\Pr[\text{Foreign partner selection outcome } (Y_{it} = j)] = \frac{\exp(\beta X_{ijt})}{\sum_j \exp(\beta X_{ijt})}.$$

The dependent variable *Foreign partner selection outcome* ($Y_{it} = j$) equals 1 if MNE j was selected by SCE i , in year t to form an IJV. It equals 0 for all other MNEs not chosen in year t . X_{ijt} is a vector of time-varying covariates.

Given that multiple entries are clustered within a particular host country, we need to negate the need for independent observations, requiring only that the observations are independent from cluster to cluster. Therefore, we obtain an unbiased estimator for cluster-correlated data by invoking the variance-covariance estimator with observations clustered in SCEs' home countries. These standard errors allow for intragroup correlation and account for residual autocorrelation (Peterson et al., 2012).

Our empirical model assumes that in every year of our sample period, each SCE evaluates all MNEs in our sample for which information is available. The empirical model considers multi-year observations for a particular IJV decision, regardless of if an IJV decision is made in a given year. Inevitably, not all 203 MNEs in our sample are in the consideration set of the focal SCE in each and every year, which results in an unbalanced data structure. On the other hand, our sample SCEs may not actively consider all 203 MNEs as alternative partners. The existing empirical literature notes that this has limited empirical impact by showing that adding alternatives with a low likelihood of being chosen has almost no effect on conditional logit coefficients (Nachum et al., 2008).

Table I reports the summary statistics and pairwise correlations between our variables. Moderately large correlations between the country pairs of *Country quality of environmental institutions* and *Country corruption* suggest that less corrupt environments are associated with stronger environmental performance. Moreover, the correlation between *Foreign country corruption* and *MNE is SOE* suggests that the state is less likely to have a controlling stake in an MNE in less corrupt foreign environments. Additionally, the higher the regional EITI membership, the more likely the focal host country will apply for membership. Lastly, more innovative companies exhibit stronger environmental performance, while larger MNEs exhibit higher international diversification. To mitigate the possibility that these correlations create multicollinearity problems, we followed Hofmann and Gavin (1998) in centring firm-level variables around their country mean and country-level variables around the overall sample mean. The mean of the variance inflation factors was 1.42, which is substantially lower than the accepted threshold of 10 (Allison, 2012).

Findings

Table II shows the regression results for both social and environmental performance. Model 1 includes only the control variables, and Model 2 adds the moderating variables.

Models 3–6 and Models 7–10 test Hypotheses 1–4 for the two dimensions of CSP. In Model 3/7, the coefficient of CSP is positive and statistically significant ($b = 0.017/0.016$, $se = 0.007/0.008$, $p = 0.017/0.054$), thus, supporting Hypothesis 1.

We test Hypotheses 2–4 by adding to Model 3/7 the interaction between CSP and the relevant moderator. Due to the non-linearity of the conditional logit regression, the interaction term, which is the variable of interest, cannot be evaluated simply by looking at the sign, magnitude, or statistical significance of the interaction term's coefficient (Ai and Norton, 2003; Hoetker, 2007; Norton et al., 2004; Zelner, 2009). The interaction effect is a function of the coefficient for the interaction, the coefficients for each interacted variable, and the values of all the variables, which has several critical implications for hypothesis testing. First, the sign of the interaction coefficient may not indicate the direction of the interaction effect, which may change for different values of covariates. Thus, the interaction effect must be calculated at different representative values of the interaction term. Second, the statistical significance of the interaction effect cannot be determined just by the significance of the interaction coefficient. Some observations can have a significant interaction effect, even if the interaction coefficient is not significant, and vice versa. Thus, a test of the statistical significance and magnitude of the interaction

Table I. Summary statistics and pairwise correlations

| Variable | Mean | Std.Dev. | Min | Max | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) | (17) | (18) | (19) | (20) | (21) | (22) | (23) | (24) |
|--|-------|----------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|--------|--------|--------|-------|-------|------|------|------|------|------|------|------|------|
| (1) Foreign partner selection | 0 | 0.03 | 0 | 1 | 1 | | | | | | | | | | | | | | | | | | | | | | | |
| (2) Social performance | 49.3 | 20.51 | 6.74 | 98.39 | 0.02* | 1 | | | | | | | | | | | | | | | | | | | | | | |
| (3) Environmental performance | 48.16 | 20.45 | 5.51 | 98.38 | 0.02* | 0.74* | 1 | | | | | | | | | | | | | | | | | | | | | |
| (4) Foreign country corruption | 1.38 | 0.93 | -1.13 | 2.31 | -0.01* | -0.12* | -0.24* | 1 | | | | | | | | | | | | | | | | | | | | |
| (5) State sociopolitical legitimacy | 2.56 | 0.36 | 1.78 | 3.78 | 0.00 | 0.00 | 0.00 | 0.00 | 1 | | | | | | | | | | | | | | | | | | | |
| (6) Number of regional EIT members | 5.22 | 7.29 | 0 | 23 | 0.00 | 0.04* | 0.05* | -0.03* | 0.03* | 1 | | | | | | | | | | | | | | | | | | |
| (7) SCE is SOE | 0.72 | 0.45 | 0 | 1 | 0.01 | 0.00 | 0.00 | 0.00 | 0.10* | -0.15* | 1 | | | | | | | | | | | | | | | | | |
| (8) Host country is EIT member | 0.16 | 0.36 | 0 | 1 | 0.00 | 0.02* | 0.03* | -0.02* | 0.07* | 0.49* | -0.11* | 1 | | | | | | | | | | | | | | | | |
| (9) Host country corruption | -0.38 | 0.75 | -1.56 | 2.26 | -0.01 | 0.00 | 0.00 | 0.00 | -0.26* | -0.20* | 0.05* | -0.14* | 1 | | | | | | | | | | | | | | | |
| (10) Host country quality of env. incl. | 48.55 | 10.72 | 18.43 | 78.04 | 0.00 | 0.00 | 0.00 | 0.00 | -0.27* | -0.16* | -0.07* | -0.09* | 0.50* | 1 | | | | | | | | | | | | | | |
| (11) Foreign country quality of env. incl. | 57.91 | 9.21 | 31.23 | 82.4 | 0.01* | 0.02* | -0.02* | 0.56* | 0.00 | 0.20* | 0.00 | 0.11* | 0.00 | 0.00 | 1 | | | | | | | | | | | | | |
| (12) MNE is SOE | 0.13 | 0.33 | 0 | 1 | 0.01 | 0.03* | 0.10* | -0.54* | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.27* | 1 | | | | | | | | | | | | |
| (13) MNE's share | 48.2 | 14.82 | 11.89 | 87.5 | -0.01 | -0.02* | -0.07* | 0.18* | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.05* | -0.15* | 1 | | | | | | | | | | | |
| (14) Number of partners | 2.24 | 0.33 | 2 | 6 | 0.01* | -0.06* | -0.15* | -0.12* | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01* | 0.19* | -0.16* | 1 | | | | | | | | | | |
| (15) Number of patents | -2.45 | 5.31 | -6.91 | 6.92 | 0.01* | 0.35* | 0.33* | -0.51* | 0.00 | 0.10* | -0.01 | 0.06* | 0.00 | 0.00 | 0.03* | 0.16* | -0.05* | 0.03* | 1 | | | | | | | | | |
| (16) Previous experience | 0.01 | 0.08 | 0 | 1 | 0.08* | 0.05* | 0.05* | -0.02* | 0.01* | 0.03* | 0.00 | 0.02* | -0.02* | -0.01 | 0.02* | 0.02* | -0.01* | 0.01 | 0.03* | 1 | | | | | | | | |
| (17) MNE corporate governance | 50.78 | 19.54 | 7.29 | 99 | 0.01* | 0.41* | 0.40* | -0.06* | 0.00 | 0.03* | 0.00 | 0.02* | 0.00 | 0.00 | -0.03* | 0.02* | -0.01* | -0.06* | 0.28* | 0.03* | 1 | | | | | | | |

(Continues)

Table I. (Continued)

| Variable | Mean | Std.Dev. | Min | Max | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) | (17) | (18) | (19) | (20) | (21) | (22) | (23) | (24) | |
|------------------------------------|---------|----------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|------|--|
| (18) MNE controversies | 50.27 | 18.26 | 0.23 | 100 | -0.01* | -0.44* | -0.44* | 0.10* | 0.00 | -0.05* | 0.00 | -0.03* | 0.00 | 0.00 | 0.01* | -0.01* | -0.02* | 0.04* | -0.31* | -0.05* | -0.29* | 1 | | | | | | | |
| (19) 2-digit SIC | 14.94 | 9.31 | 10 | 14 | 0.00 | 0.07* | 0.21* | -0.33* | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.04* | 0.11* | -0.15* | 0.06* | 0.32* | 0.00 | -0.06* | 0.04* | 1 | | | | | | |
| (20) MNE financial performance | -0.27 | 14.5 | -732 | 20.91 | 0.00 | 0.00 | 0.03* | -0.02* | 0.00 | 0.01* | 0.00 | 0.01* | 0.00 | 0.00 | 0.00 | 0.01* | -0.01* | -0.04* | 0.02* | 0.00 | -0.01* | 0.01* | 0.01* | 1 | | | | | |
| (21) MNE age | 1980.17 | 27.56 | 1880 | 2012 | -0.01 | -0.28* | -0.36* | 0.10* | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01* | 0.11* | 0.11* | 0.02* | -0.33* | -0.03* | -0.21* | 0.20* | -0.23* | -0.01* | 1 | | | | |
| (22) International diversification | -0.05 | 0.86 | -3.34 | 2.15 | 0.00 | 0.22* | 0.28* | 0.07* | 0.00 | 0.14* | -0.01* | 0.08* | 0.00 | 0.01* | 0.02* | 0.01 | -0.04* | -0.04* | 0.29* | 0.02* | 0.26* | -0.18* | 0.01* | 0.03* | -0.13* | 1 | | | |
| (23) MNE size | 0.03 | 2.14 | -13.08 | 5.7 | 0.00 | 0.34* | 0.39* | -0.08* | -0.01* | 0.27* | -0.01* | 0.10* | 0.00 | 0.02* | 0.01* | 0.02* | -0.03* | -0.04* | 0.38* | 0.04* | 0.33* | -0.30* | 0.06* | 0.09* | -0.18* | 0.52* | 1 | | |
| (24) Psychic distance | 0.6 | 0.43 | -1.32 | 1.58 | 0.00 | -0.04* | -0.04* | 0.28* | 0.23* | 0.10* | -0.01* | -0.01* | -0.04* | -0.37* | 0.19* | -0.16* | 0.08* | -0.07* | -0.02* | 0.01* | -0.01* | 0.05* | -0.05* | 0.00 | 0.01 | 0.04* | -0.01* | 1 | |

Note: Observations 102,139. Summary statistics are calculated on pre-centred variables.

*Shows significance at the 0.05 level.

Table II. Regression results

| | Social performance | | | | Environmental performance | | | | | |
|----------------------------------|--------------------|-------------------|-------------------|-------------------|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Controls | Log of odds | Log of odds | Hypothesis 1 | Hypothesis 2 | Hypothesis 3 | Hypothesis 4 | Hypothesis 1 | Hypothesis 2 | Hypothesis 3 | Hypothesis 4 |
| | (SE) | (SE) | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds |
| | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value |
| CSP | | | 0.017 (0.007) | 0.017 (0.007) | 0.016 (0.007) | 0.017 (0.007) | 0.016 (0.008) | 0.018 (0.009) | 0.014 (0.008) | 0.017 (0.008) |
| Foreign country corruption | | -0.333 (0.182) | -0.314 (0.179) | -0.177 (0.196) | -0.313 (0.179) | -0.320 (0.179) | -0.309 (0.182) | -0.163 (0.204) | -0.307 (0.182) | -0.333 (0.183) |
| | | 0.067 | 0.079 | 0.365 | 0.080 | 0.073 | 0.089 | 0.422 | 0.092 | 0.069 |
| | | 2.547 (2.379) | 2.620 (2.372) | 2.649 (2.379) | 2.461 (2.373) | 2.585 (2.376) | 2.605 (2.379) | 2.706 (2.391) | 2.405 (2.377) | 2.462 (2.387) |
| State sociopolitical legitimacy | | 0.284 | 0.269 | 0.265 | 0.300 | 0.277 | 0.274 | 0.258 | 0.312 | 0.302 |
| | | -0.016 | -0.014 | -0.017 | -0.015 | -0.005 | -0.015 | -0.016 | -0.016 | -0.007 |
| | | (0.020) | (0.020) | (0.020) | (0.020) | (0.020) | (0.020) | (0.020) | (0.020) | (0.020) |
| Number of regional EFTI members | | 0.420 | 0.473 | 0.394 | 0.460 | 0.822 | 0.442 | 0.424 | 0.434 | 0.748 |
| | | | | -0.016 | | | | -0.021 | | |
| | | | | (0.007) | | | | (0.008) | | |
| GSP X Foreign country corruption | | | | 0.023 | | | | | | |
| | | | | | | | | | | |

(Continues)

Table II. (Continued)

| | Social performance | | | | Environmental performance | | | | | |
|---|--------------------|-------------|-------------|-------------|---------------------------|-------------|-------------|-------------|-------------|-------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Controls | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds |
| | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) |
| Moderators | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value |
| | | | | | | | | | | |
| GSP X State sociopolitical legitimacy | | | | | | | | | | |
| | | | | | | | | | | |
| GSP X Number of regional EIT members | | | | | | | | | | |
| | | | | | | | | | | |
| Host country is EIT member | | | | | | | | | | |
| | | | | | | | | | | |
| Host country corruption | | | | | | | | | | |
| | | | | | | | | | | |
| Host country quality of env. institutions | | | | | | | | | | |
| | | | | | | | | | | |
| SCE is SOE | | | | | | | | | | |
| | | | | | | | | | | |

Table II. (Continued)

| | Environmental performance | | | | | | | | | |
|-----------------|---------------------------|-----------------|-----------------|-----------------|-----------------|---------------------------|-----------------|-----------------|-----------------|-----------------|
| | Social performance | | | | | Environmental performance | | | | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Controls | | | | | | | | | | |
| Log of odds | | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds | Log of odds |
| (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) |
| <i>p</i> -value | <i>p</i> -value | <i>p</i> -value | <i>p</i> -value | <i>p</i> -value | <i>p</i> -value | <i>p</i> -value | <i>p</i> -value | <i>p</i> -value | <i>p</i> -value | <i>p</i> -value |
| 0.01 | 0.027 | 0.027 | 0.029 | 0.027 | 0.027 | 0.027 | 0.030 | 0.033 | 0.030 | 0.031 |
| (0.013) | (0.015) | (0.015) | (0.016) | (0.015) | (0.015) | (0.015) | (0.015) | (0.016) | (0.015) | (0.015) |
| 0.405 | 0.079 | 0.077 | 0.061 | 0.075 | 0.078 | 0.056 | 0.052 | 0.038 | 0.052 | 0.041 |
| -0.089 | -0.422 | -0.336 | -0.291 | -0.327 | -0.313 | -0.308 | -0.256 | -0.256 | -0.289 | -0.274 |
| (0.311) | (0.366) | (0.365) | (0.365) | (0.365) | (0.364) | (0.373) | (0.384) | (0.373) | (0.373) | (0.374) |
| 0.774 | 0.249 | 0.358 | 0.426 | 0.371 | 0.390 | 0.409 | 0.505 | 0.439 | 0.439 | 0.464 |
| 0.310 | 0.289 | 0.254 | 0.379 | 0.255 | 0.260 | 0.266 | 0.277 | 0.267 | 0.267 | 0.247 |
| (0.231) | (0.227) | (0.225) | (0.232) | (0.225) | (0.224) | (0.226) | (0.235) | (0.235) | (0.226) | (0.225) |
| 0.179 | 0.203 | 0.259 | 0.102 | 0.257 | 0.245 | 0.240 | 0.240 | 0.240 | 0.238 | 0.272 |
| 2.967 | 2.935 | 2.857 | 2.821 | 2.845 | 2.895 | 2.906 | 2.839 | 2.863 | 2.863 | 2.934 |
| (0.283) | (0.285) | (0.288) | (0.288) | (0.288) | (0.287) | (0.285) | (0.287) | (0.287) | (0.287) | (0.284) |
| 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 0.007 | 0.007 | 0.004 | 0.004 | 0.004 | 0.003 | 0.004 | 0.007 | 0.007 | 0.005 | 0.004 |
| (0.006) | (0.006) | (0.006) | (0.006) | (0.006) | (0.006) | (0.006) | (0.006) | (0.006) | (0.006) | (0.006) |
| 0.249 | 0.251 | 0.561 | 0.463 | 0.554 | 0.632 | 0.489 | 0.283 | 0.453 | 0.453 | 0.526 |
| -0.013 | -0.013 | -0.010 | -0.009 | -0.010 | -0.010 | -0.011 | -0.009 | -0.011 | -0.011 | -0.010 |
| (0.005) | (0.005) | (0.006) | (0.006) | (0.006) | (0.005) | (0.006) | (0.006) | (0.006) | (0.006) | (0.005) |
| 0.017 | 0.021 | 0.074 | 0.117 | 0.077 | 0.061 | 0.053 | 0.092 | 0.057 | 0.057 | 0.064 |

(Continues)

Table II. (Continued)

| | Social performance | | | | | Environmental performance | | | | |
|--|--------------------|--------------------|---------------------|---------------------|---------------------|---------------------------|---------------------|---------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| <i>Controls</i> | | | | | | | | | | |
| <i>Log of odds</i> | | <i>Moderators</i> | <i>Hypothesis 1</i> | <i>Hypothesis 2</i> | <i>Hypothesis 3</i> | <i>Hypothesis 4</i> | <i>Hypothesis 1</i> | <i>Hypothesis 2</i> | <i>Hypothesis 3</i> | <i>Hypothesis 4</i> |
| <i>(SE)</i> | | <i>Log of odds</i> | <i>Log of odds</i> | <i>Log of odds</i> | <i>Log of odds</i> | <i>Log of odds</i> | <i>Log of odds</i> | <i>Log of odds</i> | <i>Log of odds</i> | <i>Log of odds</i> |
| <i>p-value</i> | | <i>(SE)</i> | <i>(SE)</i> | <i>(SE)</i> | <i>(SE)</i> | <i>(SE)</i> | <i>(SE)</i> | <i>(SE)</i> | <i>(SE)</i> | <i>(SE)</i> |
| | | <i>p-value</i> | <i>p-value</i> | <i>p-value</i> | <i>p-value</i> | <i>p-value</i> | <i>p-value</i> | <i>p-value</i> | <i>p-value</i> | <i>p-value</i> |
| Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 102,139 | 102,139 | 102,139 | 102,139 | 102,139 | 102,139 | 102,139 | 102,139 | 102,139 | 102,139 | 102,139 |
| 48/22/203 | 48/22/203 | 48/22/203 | 48/22/203 | 48/22/203 | 48/22/203 | 48/22/203 | 48/22/203 | 48/22/203 | 48/22/203 | 48/22/203 |
| -639.2625 | -636.3523 | -633.537 | -630.7522 | -632.9503 | -629.7526 | -634.4847 | -631.1948 | -633.4422 | -626.4192 | |
| 0.12 | 0.13 | 0.13 | 0.14 | 0.13 | 0.14 | 0.13 | 0.14 | 0.13 | 0.14 | |
| 1326.53 | 1328.70 | 1325.07 | 1321.50 | 1325.90 | 1319.51 | 1326.97 | 1322.39 | 1326.88 | 1312.84 | |
| 1555.34 | 1595.66 | 1601.56 | 1607.53 | 1611.92 | 1605.53 | 1603.46 | 1608.41 | 1612.91 | 1598.86 | |
| Industry (SIC 2-digit) fixed effects | | | | | | | | | | |
| Number of observations | | | | | | | | | | |
| Number of hosts/foreign countries/MNEs | | | | | | | | | | |
| Log-likelihood | | | | | | | | | | |
| R-squared (pseudo) | | | | | | | | | | |
| AIC | | | | | | | | | | |
| BIC | | | | | | | | | | |

effect must be based on the estimated cross-partial derivative of the expected value of the dependent variable. Consistent with the literature (Ai and Norton, 2003; Hoetker, 2007; Norton et al., 2004), we evaluate the moderation effects by estimating the cross-partial derivative at representative values of the interaction term while keeping all other variables at their sample means. We use graphical techniques to display the full range of interactive relationships along with confidence intervals surrounding the estimated effects (Hoetker, 2007; Huang and Shields, 2000).

Model 4/8 tests Hypothesis 2. The coefficient of *CSP X Foreign country corruption* is negative and statistically significant ($b = -0.016 / -0.021$, $se = 0.007 / 0.008$, $p = 0.023 / 0.012$). We remind here that higher values of *Foreign country corruption* depict stronger institutional controls against corruption in the country. We examine this effect graphically in Figure 1a,b for *CSP* and *Foreign country corruption* values at the sample mean and 1 S.D. above and below the sample mean. The graphs illustrate that the moderation effect of foreign country corruption is statistically significant for all values of the interaction term and in agreement with our predictions.

However, what does this effect mean? Choice models are known to be challenging to interpret (Nachum et al., 2008). The coefficients are almost uninterpretable. They merely inform on changes in the likelihood of an SCE selecting a foreign MNE partner due to a change of one unit in the variable in question. Figure 1a,b shows that at higher corruption levels, the predicted probability of selection increases at given levels of CSP of the MNE. This effect is more evident at higher levels of CSP (i.e., higher than the sample average CSP), where the probability of selection for an MNE with a given level of CSP triples compared to the probability of selection for another MNE with equivalent CSP, but with a less corrupt home environment. That is, the probability of selection increases from 0.0005 to 0.0015 when the MNE comes from a home environment whose level of corruption controls is 1SD higher than the sample mean. Put differently, we expect 0.05 per cent of SCEs to select an MNE with a strong social performance that is based in a weakly corrupt home country, ceteris paribus. Conversely, we expect 0.15 per cent of SCEs to select an MNE with equivalent social performance that is based in a more

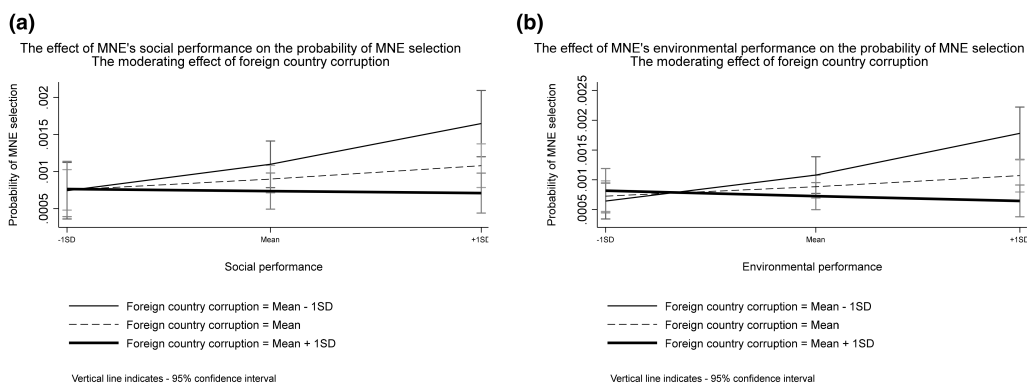


Figure 1. (a) The effect of MNE's social performance on the probability of MNE selection: the moderating effect of foreign country corruption. (b) The effect of MNE's environmental performance on the probability of MNE selection: the moderating effect of foreign country corruption

corrupt home country, *ceteris paribus*. In absolute terms, the change in the probability of selection may not seem major. However, for choice models, a predicted probability is the probability of a decision maker (i.e., the SCE) choosing one of the possible alternatives (MNEs), and these probabilities sum to one across the alternatives. In our case, an SCE faces 203 alternative MNEs, a vast pool of candidates to consider. A similar logic applies to all estimated interaction effects.

Model 5/9 tests Hypothesis 3. The coefficient of *CSP X State sociopolitical legitimacy* has the expected positive sign but is statistically nonsignificant ($b = 0.018/0.023$, $se = 0.017/0.016$, $p = 0.287/0.156$). We examine this effect graphically in Figure 2a,b for *CSP* and *State sociopolitical legitimacy* values at the sample mean and 1 S.D. above and below the sample mean (for *CSP* we additionally consider the minimum and maximum values). The graph for social performance (Figure 2a) suggests that the effect is statistically significant within the 95% confidence interval, except where MNEs report extremely low CSP. The graph for environmental performance (Figure 2b)

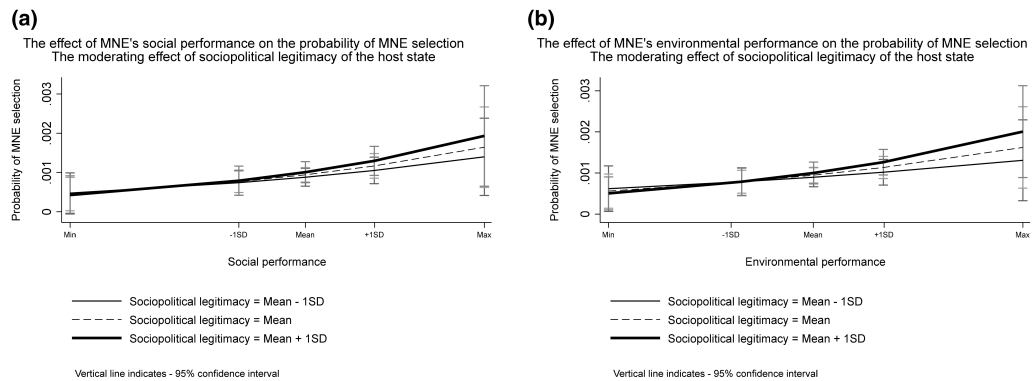


Figure 2. (a) The effect of MNE's social performance on the probability of MINE selection: the moderating effect of sociopolitical legitimacy of the host state. (b) The effect of MNE's environmental performance on the probability of MNE selection: the moderating effect of sociopolitical legitimacy of the host state

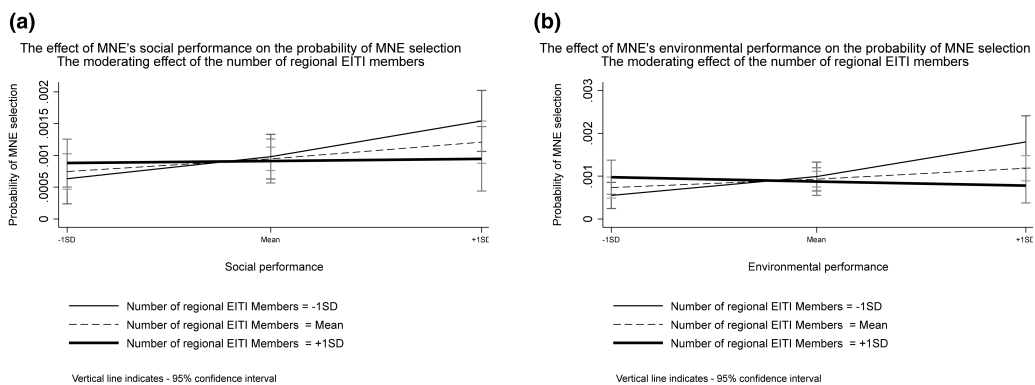


Figure 3. (a) The effect of MNE's social performance on the probability of MNE selection: the moderating effect of the number of regional EITI members. (b) The effect of MNE's environmental performance on the probability of MNE selection: the moderating effect of the number of regional EITI members

suggests that the effect is statistically significant for all values of the interaction term. Thus, Hypothesis 3 is weakly supported.

Finally, Model 6/10 tests Hypothesis 4. The coefficient of *CSP X Number of regional EITI members* has the expected negative sign and is statistically significant ($b = -0.002 / -0.003$, $se = 0.001 / 0.001$, $p = 0.006 / 0.000$). We graphically examine this effect in Figure 3a,b for *CSP* and *Number of regional EITI members* values at the sample mean and 1 S.D. above and below the sample mean. The graphs indicate that the effect of the MNE's CSP on the selection probability decreases when the number of neighbouring EITI members increases. The moderation effect is statistically significant for all values of the interaction term, supporting Hypothesis 4.

Identification of Effects

A theoretical assumption underlying the sensitivity of the host country state (and its actors) to sociopolitical legitimacy regards their unique political properties within and in relation to the host country's political environment. The host state's social contract with local society and its predominantly specific political stakeholders are critical sources of state legitimacy, exerting legitimacy pressures on the state and its actors and influencing their partner selection model. We examine this assumption by considering host country private actors that do not share such political properties and are involved in IJVs with foreign partners in the host country.

In our dataset, we identified 317 IJVs involving MNEs whose local partners were all non-SCEs. We isolated these cases from those where a local SCE was also a partner to ensure that the state's influence on the non-SCE's partners was limited. We used these data to estimate a new selection model comparable to the primary analysis, assuming that non-SCEs are, too, influenced by candidate foreign partners' CSP. The results (reported in Table III, Models 1 and 2) suggest that non-SCEs do not consider CSP a selection criterion. They indicate that political properties distinguishing SCEs from private companies – partly – explain SCEs' foreign partner selection model. Our results do not suggest that host country private companies are not considering CSP as a selection criterion. They merely point out that SCEs are more sensitive because of their political properties.

We identify the effect underlying Hypothesis 4 that suggests that regional legitimacy benefits from adopting a multi-stakeholder initiative and related positive spillover effects satisfy, at least in part, SCEs' search for legitimacy, reducing their reliance on MNEs' CSP. However, signatory countries enjoying a direct and immediate legitimacy improvement may instead consider a candidate partner's CSP more seriously because of the risk of potential backlash for violating stakeholders' expectations (insinuated by Hypothesis 3). We explicitly disentangle these alternative mechanisms by introducing in Model 6 (10), testing Hypothesis 4, the two-way interaction *CSP X Host country is EITI member*. The results (reported in Table III, Models 3 and 4) show that the coefficient of *CSP X Host country is EITI member* is positive but statistically non-significant. The graphical examination of the interaction effect suggests that the interaction effect is statistically significant for CSP values between 1 S.D. above or below the sample mean, providing some evidence that higher legitimacy may incentivize

Table III. Identification of effects and robustness analysis

| | Model (1) | Model (2) | Model (3) | Model (4) | Model (5) | Model (6) | Model (7) | Model (8) | Model (9) | Model (10) | Model (11) | Model (12) | Model (13) |
|-----------------------------------|-------------|-------------|-------------|-------------|------------------|-------------|----------------|----------------|------------------|------------------|-------------|--------------------|--------------|
| Social | | | Social | | Inv. Mills Ratio | Full sample | CSP 2-year lag | Political ties | State legitimacy | Distance of Env. | Partners | Partners alignment | Equity share |
| Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds |
| (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) |
| p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value |
| 0.006 | 0.002 | 0.013 | 0.015 | 0.012 | 0.014 | 0.028 | 0.012 | 0.004 | 0.012 | 0.032 | 0.011 | 0.014 | |
| (0.004) | (0.004) | (0.008) | (0.009) | (0.007) | (0.007) | (0.007) | (0.007) | (0.009) | (0.007) | (0.015) | (0.006) | (0.007) | |
| 0.150 | 0.697 | 0.080 | 0.092 | 0.089 | 0.030 | 0.000 | 0.076 | 0.688 | 0.090 | 0.037 | 0.090 | 0.054 | |
| CSP X | | -0.002 | -0.003 | | | | | | | | | | |
| num-ber of regional EITI Members | | (0.001) | (0.001) | | | | | | | | | | |
| | | 0.003 | 0.000 | | | | | | | | | | |
| CSP X host country is EITI member | | 0.017 | 0.009 | | | | | | | | | | |
| | | (0.016) | (0.016) | | | | | | | | | | |
| | | 0.270 | 0.596 | | | | | | | | | | |
| MNE's share | | | | | | | | | | | | | 0.019 |
| | | | | | | | | | | | | | (0.010) |
| Inverse Mills' ratio | | | | | | | | | | | | | 0.056 |

(Continues)

Table III. (Continued)

| | Model (1) | Model (2) | Model (3) | Model (4) | Model (5) | Model (6) | Model (7) | Model (8) | Model (9) | Model (10) | Model (11) | Model (12) | Model (13) |
|-------------|-------------|-------------|-------------|-------------|------------------|-------------|----------------|-------------------|------------------|------------------|-------------|--------------------|--------------|
| Social | | | Social | | Inv. Mills Ratio | Full sample | CSP 2-year lag | Political ties | State legitimacy | Distance of Env. | Partners | Partners alignment | Equity share |
| Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds |
| (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) |
| p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value |
| | | | | | | | | -0.004 (0.156) | | | 0.291 | -1.350 | |
| | | | | | | | | 0.979 | | | 0.163 | 0.394 | |
| | | | | | | | | -0.003 (0.005) | | | 0.075 | 0.001 | |
| | | | | | | | | 0.582 | | | | | |
| | | | | | | | | | 0.163 (1.141) | | | | |
| | | | | | | | | | 0.886 | | | | |
| | | | | | | | | | 0.013 (0.006) | | | | |
| | | | | | | | | | 0.042 | | | | |

(Continues)

Table III. (Continued)

| | Model (1) | Model (2) | Model (3) | Model (4) | Model (5) | Model (6) | Model (7) | Model (8) | Model (9) | Model (10) | Model (11) | Model (12) | Model (13) |
|--|-------------|-------------|-------------|-------------|------------------|-------------|----------------|----------------|------------------|------------------|-------------|--------------------|--------------|
| Social | | | Social | Env. | Inv. Mills Ratio | Full sample | CSP 2-year lag | Political ties | State legitimacy | Distance of Env. | Partners | Partners alignment | Equity share |
| Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds | Log of Odds |
| (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) | (SE) |
| p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value | p-value |
| Distance in quality of env. institutions | | | | | | | | | | 0.020 (0.012) | | | |
| Control variables | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Number of observations | 421,386 | 421,386 | 102,139 | 102,139 | 95,472 | 205,980 | 89,677 | 106,402 | 58,971 | 109,432 | 89,889 | 104,570 | 89,129 |

.Note: Sample elements for Model 1 and Model 2: foreign countries (17), foreign MNEs (112), host countries (63), host country local non-SCE partners (254), number of IJVs (291 from 317 in total, 26 IJVs could not be modelled because of missing data).

SCEs to increase their consideration of MNEs' CSP, as suggested by Hypothesis 3. Notably, the coefficient of *CSP X Number of regional EITI members* has the expected negative sign and continues to be statistically significant. The graphical examination of the interaction effect (graphs available from the authors) casts additional statistical evidence of a moderation effect consistent with Hypothesis 4.

Robustness Analysis

We conduct several tests to examine the robustness of our results. The results appear in Table III (Models 5–13). For brevity, we discuss only those related to social performance.

Because ASSET4 only covers major equity indices, we take steps to address sample selection bias concerns. We collected new data on 7472 companies studied by the Revenue Watch Institute (RWI). The RWI researched the 35 largest non-US stock exchanges by market capitalization, the Oslo Børs of Norway, the TSX Venture Exchange, the Canadian National Stock Exchange, and the U.S. NYSE, AMEX, and NASDAQ exchanges. We identified which RWI companies appeared in our sample. We then modelled the probability of inclusion by regressing a dichotomous variable of sample inclusion on data reported by RWI, including market capitalization and fixed effects of the country of origin, stock exchange, and industry. We then computed the *Inverse Mills' ratio*, which we added to our main model. Model 5 shows that the coefficient of the *Inverse Mills' ratio* is statistically nonsignificant, suggesting that the regression estimates do not suffer from selection bias.

We may have caused a selection bias by excluding from our analysis firms that never used IJVs. Model 6 includes all initial 377 sample firms. The dependent variable for the additional 174 MNEs always takes a value of 0 as an SCE has never selected them to form an IJV. The new estimations suggest that the additional observations do not influence the initial results. We expected this outcome because a conditional logit model assumes that the odds of a decision maker selecting any of the alternatives already included in the model do not depend on other available alternatives (Long and Freese, 2014).

We address concerns about the potential endogeneity of our primary independent variable (CSP). An online supplementary document describes our complete strategy. For instance, we estimate models where CSP values enter the models in one-year or two-year lag(s). Thus, the SCE is assumed to consider the historical values of CSP rather than the contemporaneous values of CSP. This enables us to impose a unidirectional relationship between the selection decision of the SCE and the CSP of the MNE more strictly. Model 7 reports the coefficient of the 2-year lagged CSP that continues to support a positive effect on the selection outcome despite the substantial loss of observations.

Model 8 adds *Political ties* and its interaction with CSP. *Political ties* measures convergence in the political preferences of the host and foreign state. Diplomatic ties between two states may increase the probability of forming an IJV, rendering CSP less important. We draw on Bailey et al. (2017), who follow the voting behaviour of nations during UN decisions to develop 'Idealpoint,' a measure of the convergence of nations' foreign political preferences. We take the absolute value of the difference in Idealpoint between

a host and a foreign country to develop a proxy of political ties. The coefficients of the new variables are statistically nonsignificant, suggesting that CSP has a persistent effect.

In Model 9, we replace *State sociopolitical legitimacy* with the measure developed by Gilley (2006b). Despite the small sample, the coefficient of *CSP X State sociopolitical legitimacy* is positive and statistically significant. A graphical examination of the interaction effect (available from the authors) illustrates that the effect is statistically significant within the 95% confidence interval, except where MNEs report extremely low CSP. This finding is consistent with the main analysis of a weakly supported Hypothesis 3.

We develop a measure of the difference between *Foreign/Host country quality of environmental institutions* to test whether the CSP distance between partners' countries matters. We used this in place of the two variables above. Model 10 shows that the coefficient of the new variable is weakly statistically significant.

We substitute *Number of partners* with alternative measures. Model 11 includes the average number of the MNE's partners for all its IJVs, regardless of if an SCE is a partner. The coefficient is positive and statistically significant, suggesting that the candidate partners associated with larger partnerships are preferred. Model 12 adds the absolute value of the difference between the average number of partners that SCEs historically have had in their IJVs and the average number of partners that MNEs have had in their IJVs with SCEs. The underlying logic is that partners' alignment in partnership size preference might influence the selection decision. The negative and statistically significant coefficient suggests that alignment in partnership size preference is important. These results do not affect our main empirical results.

Model 13 also controls for the MNE's average equity share in all equity-based partnerships in our sample. The variable's coefficient is positive and statistically significant, suggesting that SCEs may prefer lower rents over more control and risk in the venture.

Finally, similar to Yen and André (2019), we conceptually treat corporate governance separately from CSP and employ separate empirical measures in our analyses. We are thus consistent with scholars exploring the interface between corporate governance mechanisms and CSP who accept governance as an antecedent of CSP (Devinney et al., 2013; Jo and Harjoto, 2012) and treat the two separately. The coefficient of corporate governance is always statistically nonsignificant. We examined its interactions with our moderators and found no meaningful results. These results further corroborate the distinct functions of CSP and corporate governance mechanisms. Overall, our primary and robustness analyses jointly justify confidence in our results.

DISCUSSION

We focus on the host SCE's perspective and propose that an SCE will consider a candidate foreign partner's CSP as a selection criterion when forming an IJV. The underpinning logic is that an SCE evaluates CSP's sociopolitical legitimacy effect on the selection decision, the SCE, the IJV, and the host state in the eyes of salient local and international stakeholders. We further suggest that SCEs' evaluation of CSP as legitimacy enhancing and, thereby, CSP as a selection criterion is influenced by the level of corruption in the MNE's home country, the legitimacy of the host state, and the

number of neighbouring countries participating in international multi-stakeholder initiatives. Our results support most of our hypotheses, providing weak support only for Hypothesis 3. They enable us to contribute to international business, the strategy of SCEs, the nonmarket strategy of MNEs, and strategic management in extractive industries.

We add value to the international business literature, particularly the IJV partner selection research, by examining the perspective and interests of the host country partner. Much of that literature assumes that international strategy decisions reflect the interests of an expanding MNE (Geringer, 1991; Hitt et al., 2000; Mohr et al., 2016) when in several cases, it is the other party that holds sway (Nippa and Reuer, 2019). Our investigation of extractive industries highlights the decisive role of the host country state partner in forming the IJV. It shows that the local actor is often the one that initiates the search for foreign partners, possesses location-specific advantages associated with the ownership and control of valuable national resources, evaluates MNEs' nonmarket strategy involving CSP, and grants the political and legal licence to an MNE to operate in the country. By focusing on the host SCE's perspective, our study complements research on the incoming MNE's perspective (e.g., Alcantara et al., 2006; Chand and Katou, 2012; Hitt et al., 2004; Luo, 1997; Roy, 2012; Roy and Oliver, 2009; Shi et al., 2012; Shi et al., 2014). It, therefore, helps provide a more holistic understanding of the underlying rationales of this two-way partner selection decision in IJVs.

We generate fresh insights into the scholarship examining SCE' strategy (Kalasin et al., 2020; Musacchio et al., 2015) as we connect research on IJV partner selection with the strand of the international business literature on SCEs. As state agents, SCEs increasingly engage in major IJVs, which they can forcefully influence, where they encounter the legitimacy demands of diverse sociopolitical stakeholders. Such demands lead SCEs to evaluate the legitimacy effects of candidate partners' CSP, thus, influencing their partner selection decisions. In the context of SCE strategy, our research may contribute to the broader, burgeoning literature on the 'multidimensional phenomenon' of state capitalism (Wright et al., 2021, p. 101). In particular, it may do so where this literature focuses on states' actions (and those of their entities) as 'economic agents' driven by motives such as efficiency, ideology, values, and economic development (Wright et al., 2022). In this literature, our study may also begin to contribute to calls for future research on organizational-level interactions between states and firms and on institutional issues in state capitalism and their consequences for corporate political activity and strategic CSR (Brejnholt et al., 2022; Dong and Luo, 2022; Gao et al., 2022; Wright et al., 2022).

These insights enable us to contribute to a growing body of research, which explores the relationships between MNEs' internationalization strategies and how MNEs manage nonmarket strategy in responding to local institutional pressures (Husted and Allen, 2006; Mellahi et al., 2016; Oh et al., 2020; Stevens and Newenham-Kahindi, 2021; Sun et al., 2021b; Symeou et al., 2018; Zhou and Wang, 2020; Zyglidopoulos et al., 2016). In particular, we extend the work of Luo (2006), which represents a rare attempt to link the MNE's CSP with the MNE's ability to manage its relationship with the host state partner. He shows that MNEs determine their

assertiveness and cooperativeness with host states depending on their focus on CSP. Conversely, our study takes the view of the host country state. By assessing the legitimacy effects of an MNE's CSP, we show that the SCE incorporates CSP in its partner choice model. We thus help international business scholars better understand CSP's role in partnerships involving MNEs and host country states by enabling an integrative view of partner selection and partnership management.

Our study highlights institutional theory's value, particularly legitimacy research, in understanding the formation of international partnerships by bringing research on institutions and IJVs closer together. We thus answer renewed calls for strategy research to consider the importance of the institutional context in selecting partners in IJVs (Dorobantu et al., 2019). We first navigate through particular legitimizing mechanisms, which CSP bolsters, suggesting that sociopolitical stakeholders' concerns about the legitimacy of the SCE's partnership decisions, the SCE, and the host state will direct the SCE to select foreign partners with better CSP. We then condition the selection decision on institutional elements of the foreign country, the host country, and supranational settings, which interact with the proposed legitimizing mechanisms. We thus position our research within the literature on the institutional environment's role in foreign partner selection (Hitt et al., 2004; Roy and Oliver, 2009; Shi et al., 2012), which we extend by considering institutional environment effects transcending the country level.

We find that partner CSP has more importance if the partner comes from a country with more significant corruption. The incongruence between the firm's responsibility behaviour and the corrupt institutional environment in its home country alters how much the SCE values the legitimacy impact of partner CSP. This finding allows us to connect our study with the literature on CSP's role in addressing liabilities of origin (Marano et al., 2017; Zyglidopoulos et al., 2016). We substantiate the findings of this research by viewing the legitimacy contributions of MNE CSP from the host partner's perspective, particularly the state, whose endorsement foreign MNEs seek (Luo, 2006). Our findings suggest that CSP can be essential for addressing institutional liabilities of origin, such as corruption, and receives favourable impressions from host country partners. Moreover, our work extends research focusing on the role of host country corruption in the calculus of MNEs' IJV partner selection (Roy, 2012; Roy and Oliver, 2009; Sartor and Beamish, 2018, 2020). It highlights the need to consider the perspective of the host country partner generally and the perspective of SCE partners in particular.

We show that SCEs from more legitimate states pay extra attention to the legitimacy effects of partner CSP. The underlying logic is that tapping into the legitimacy effects of CSP may enable the SCE to additionally claim value congruence with the state's sociopolitical stakeholders and avoid a harsh potential backlash for violating their expectations. Our findings allow us to connect political science's view of legitimacy management (Beetham, 2013; Frickel and Davidson, 2004; Gilley, 2006a, 2006b) with strategy's view of legitimacy management (Ashforth and Gibbs, 1990; Oliver, 1991; Suchman, 1995). The former suggests that the state has a *prima facie* obligation to fulfil rather than frustrate the legitimate expectations of salient sociopolitical stakeholders. However, states and their actors cannot always honour the expectations they previously created. Because discrepancies from expectations raise new demands, the latter suggests that organizations attaining sufficient endorsement may expend effort to maintain sociopolitical legitimacy

by employing maintenance activities, including symbolic assurances. We posit that more legitimate states utilize candidate partners' CSP to provide assurance of their commitment to meeting legitimacy expectations.

Additionally, we suggest that pressures from international sociopolitical stakeholders influence organizational perceptions of legitimacy and how legitimacy deficits may be addressed. Our findings suggest that legitimacy is a complex and dynamic concept floating between individual- and collective-level considerations and effects. We show that multi-stakeholder initiatives, such as EITI, in addition to the legitimacy and other benefits they create for participating organizations, may also benefit non-participants via positive legitimacy spillovers. As an EITI member, an SCE may satisfy its search for legitimacy in response to continued stakeholder pressures and lean less on an MNE's CSP as a selection criterion. We thus help fill a gap in the literature that Sun et al. (2021b) exposed about the role of supranational institutional factors in the stakeholder groups with which MNEs engage.

Finally, we contribute to research exploring strategic management in extractive industries (Casarin et al., 2020). We highlight the interactions between the state's decision to partner with MNEs, MNEs' nonmarket strategy, and the global institutional environment to highlight strategic implications for IJVs. In the extractive industries, SCEs are uniquely positioned to provide access to national assets they control to prospective MNE partners. In doing so, they seek to safeguard sociopolitical legitimacy and draw on the foreign partner's CSP to gauge potential legitimacy benefits from the partnership. As the institutional environment permeates extractives' global value chain, foreign country corruption and multi-stakeholder initiatives intervene in the legitimacy value of CSP and, thus, the partner selection decision.

Suggestions for Future Research and Research Limitations

Our research suggests that host country SCEs' sensitivity to sociopolitical legitimacy and, thus, foreign candidate partners' CSP is partly attributed to the unique political properties distinguishing them from private entities. This distinction is justified exclusively within and in relation to the host country's political environment. We thus recognize the theoretical value of bridging our host country partner perspective with the predominant foreign partner perspective of IJVs, considering the significance of SCEs' internationalization (Kalasin et al., 2020).

Both perspectives underscore SCEs' sociopolitical legitimacy. A most relevant question is whether foreign SCEs, too, seek legitimacy-enhancing partner characteristics, such as CSP, in their IJVs. Scholars may be able to shed some light on this question by drawing on the dual liabilities of 'foreignness' (Zaheer, 1995) and 'stateness' (Cuervo-Cazurra and Li, 2021) from which foreign SCEs suffer in host countries (Li et al., 2017). Local stakeholders' unfavourable evaluations may strongly impair foreign SCEs' sociopolitical legitimacy (Nachum, 2010) and the prospect of obtaining a social licence to operate (Gunningham et al., 2004). They must therefore prove capable of overcoming their legitimacy deficits in advance. Research suggests that MNEs seeking conformance to the demands of international stakeholders invest more intensely in their CSP (Kang, 2013; Symeou et al., 2018). Their principal reliance on internal CSP insinuates their weak reliance on host country partners' CSP. Therefore, contrary to our findings, foreign SCEs searching for host country partners may value candidate partners' CSP less as a selection criterion.

This study examines the effect of one type of nonmarket strategy – managing CSP – on the MNE's attractiveness in international partnerships with state agents. However, an MNE's repertoire of nonmarket strategies also includes corporate political activities (CPA) (Mellahi et al., 2016; Sun et al., 2021b). In modelling our relationships, we account for the possible impact of CPA. We do so by controlling whether the MNE is a state-owned enterprise, where affiliation with the government could reinforce the MNE's political capabilities. We also control for political ties between the foreign and host country that can confer favourable political treatment on the MNE. Our results suggest that SCEs reward MNEs for their CSP irrespective of CPA. We are thus consistent with prior studies (Müllner and Puck, 2018) suggesting that MNE CSP, compared to CPA, has a lasting effect on continuing partnership negotiations in the extractive industries. CPA's effect is suggested to be more time-sensitive as it is associated with changes in political power and host country administration. Our study and prior research point out that the interplay between the different nonmarket strategies, i.e., whether they act as substitutes or complements, is not a priori obvious. Moreover, the rich institutional environment underlying the global extractive industries, their significance to the global economy, and social and environmental record justify attention to comparative nonmarket strategy practices across different institutional settings. These remain fruitful avenues for future research.

Our study has several limitations that may be addressed by future research. We contextualize our empirical examination in the extractive industries, which does not allow us to observe a cross-industry variation of SCEs' behaviour over the importance of legitimacy and, thus, the partner's CSP. The visibility of extractive projects by institutional constituents, such as local citizens and activist groups, might bolster the legitimacy pressures on the SCE, which other industries may not share. Firms' legitimacy needs may vary depending on environmental characteristics (Dacin et al., 2007). Examining how legitimacy needs vary systematically with industry context may be useful.

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NOTES

- [1] We see IJVs 'as organizational arrangements where two or more independent organizations establish and maintain a separate legal organizational entity to collaborate for mutual strategic interests under an incomplete contract, wherein at least one of the entities (i.e., parent firm or venture) is located in another country. They can be strategic in the sense that they are established to achieve long-term objectives of consequence to a parent firm's position compared to rivals' (Nippa and Reuer, 2019, p. 566).
- [2] Particularly for state-owned enterprises, we see them as separate legal entities, established by governments to engage in commercial activities and controlled by the governments or governmental entities through at least 25 percent ownership (Cui and Jiang, 2012; Mariotti and Marzano, 2019). According

- to UNCTAD (2017), ownership of more than 10 per cent of equity is high enough that the state likely influences corporate governance and thereby affects firm decisions and performance.
- [3] Authors' calculations from data obtained from the World Bank's World Development Indicators on global rents (i.e. revenues in excess of all costs of production) from minerals, oil, natural gas, and coal.
 - [4] The oil and gas sector dominates the Fortune Global 500 with 85 companies (\$7.11 trillion sales) followed by metals and mining with 24 companies (\$1.06 trillion sales) (GlobalData, 2019, 23 September). Retrieved from <https://www.globaldata.com/oil-and-gas-sector-continues-to-rule-2019-fortune-globa-l-500-list-in-revenue-generation-finds-globaldata/>
 - [5] Wiig and Kolstad (2010) interviewed oil and gas MNE executives and Angolan government officials regarding the state's licence and contract allocation decisions. They considered various selection criteria, including the candidate partner's bid price, technological prowess, regional experience, and financial strength. They showed that environmental issues (e.g., reputation and efforts to reduce oil spills) and social issues (e.g., training, local content and cooperation, and health and safety standards) were particularly relevant.
 - [6] We consider 'formal' corruption and not what Keig et al. (2015) refer to as 'informal' corruption, which captures the general public's views on and perceptions of corruption in their everyday lives specific to dealing with formal institutions (e.g., paying a bribe to get a charge dropped). The formal and informal corruption dimensions are not uncorrelated and it may be difficult to distinguish between the two. For instance, corrupt behaviour that may be common in the informal corruption environment may eventually be formalized and reflected in transactions found in large-scale formal institutional interactions. Political or governmental corruption is often the main origin or cause of widespread corruption in society at large (Rose-Ackerman, 1999). Importantly, in our case of IJVs, informal corruption is less relevant because a SCE, in assessing the level of corruption in the foreign country, will rely on decoding corruption cues associated with macro-level formal institutions of that country.
 - [7] We do not have information about whether a particular selection decision pertains to a renewed JV. In the case where different partnerships between a MNE-SCE pair occur over different years, we treat them as separate observations and empirically control for all the historical partnerships that a MNE might have had with a particular SCE over our sample period. Considering that JV projects in the extractive industries involve long-term projects, as well as that JVs may not involve contractual agreements with specific durations but equity-based partnerships, makes the event of observing renewals in our sample rare.
 - [8] We apply a process of linear extrapolation to the values of environmental and social performance to cover the years 2000 and 2001 that minimizes the loss of observations on IJVs for those years.
 - [9] We thank an anonymous reviewer for bringing this to our attention.
 - [10] Our firm-level controls enable us to account for candidate partner characteristics underlying various forms of MNE legitimacy, including relational, investment, and market legitimacy (Dacin et al., 2007). By isolating the effects of CSP associated with sociopolitical legitimacy, we unravel its influence on partner selection, if any.

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SUPPORTING INFORMATION

Additional supporting information may be found in the online version of this article at the publisher's web site.

APPENDIX A

Table AI. SCEs' partner selection criteria in the extractive industries

| <i>Criteria</i> | <i>Description</i> |
|------------------------------------|--|
| Work program | The program of exploration, extraction, mining, development, and exploitation operations the candidate partner proposes to carry out and its expenditure commitments. |
| Financial capabilities | The candidate partner's financial capacity and capability to raise equity and debt in global capital markets. |
| Operational/Technical capabilities | Operational capabilities in upstream (e.g., geological understanding, deploying complex seismic imaging technologies, geospatial data visualization, reservoir modelling, subsalt imaging, subsea High Integrity Pressure Protection Systems, multilateral well drilling, water flooding, hydraulic fracturing, quarrying, and dredging), midstream (e.g., storage, trading, and transportation), and downstream activities (e.g., oil refining, separating valuable minerals from their ore, processing, marketing). Also, operational capabilities in the supply chain, logistics, and operations optimization, global sourcing of project equipment, and integration of qualified technologies. |
| Technical innovation capabilities | R&D spending, continuous innovation, prototyping, and safely proving new technologies at scale. |
| Organizational capabilities | Capabilities in investment planning, budgeting, financial control, and handling of public relations, legal, and social affairs. |
| Human resources capability | The capability to upgrade the operational know-how of technicians and managers and the company's scope for retraining and applying new skills in the field. |
| Collaboration capability | Collaborative ability manifested in successful partnerships in projects of similar scale and complexity and in creating new shared technology and infrastructure. |
| International experience | International experience in carrying out the proposed operations. It suggests the candidate partner's: a) capability to adapt operational and logistical routines to accommodate different and uncharted geological realities, b) project management capabilities concerning large-scale, complex operations at a multinational level, c) capability to manage its contracts with the mineral-producing countries more efficiently, and d) capabilities related to negotiations and legal transactions. |
| Local experience | It concerns whether the candidate partner already holds mining rights in a different area in the host country. |
| Local investments | The size of the candidate partner's proposed local R&D spending and investment in engaging local talents and promoting entrepreneurship. |

(Continues)

Table AI. (Continued)

| <i>Criteria</i> | <i>Description</i> |
|---------------------------------------|---|
| Environment, Health, and Safety (EHS) | It relates to various socio-economic advantages for the state, the province, and the surrounding community, including the impact on the environment and compliance with environmental laws and regulations. Social impact considerations revolve around the expected effect [of the concession and partnership] on national income, proposals regarding the employment and training of nationals, and the effect on the communities, industries, and other sectors of the economy. They require a description of the candidate partner's experience and procedures that will apply to securing the health, safety, and welfare of persons involved in or will be affected by mineral activities. Environmental impact considerations require a description of the candidate partner's experience and procedures that will apply to protecting the environment, preventing, minimizing, and remedying pollution and other impacts from mineral activities. |
| Interests alignment | The alignment of interests between the MNE and the local state is a prerequisite for developing long-term effective investment programs. It includes managing relationships with the state, often touching on geopolitical concerns that must be addressed at the highest level between firms, the foreign and host country state. |
| Bid price | States can directly negotiate with candidate partners regarding the development of a particular mineral reserve or, when there is sufficient interest in a particular asset to attract bids from multiple companies, to conduct a competitive bidding process. In the latter case, candidates are invited to submit their bid price for a reserved mineral deposit in a competitive bidding process. It typically requires a pre-qualification evaluation of bidders where only those that have been pre-qualified are invited to submit bids. The state may require prospective bidders to submit documentation verifying their qualifications, including minimum or threshold standards relating to the bidder's professional and technical qualifications and competences, financial resources, equipment, and other physical facilities, managerial capability, experience, business reputation, and personnel. All applicants who meet the minimum criteria for pre-qualification are invited to bid. Where pre-qualification proceedings are not conducted, post-qualification is used, in which the concession bid evaluation verifies the qualifications of the selected bidder against the criteria stated in the bid documents. |

Sources: Columbia Center on Sustainable Investment (2019), Åm and Heiberg (2014), Garcia et al. (2014), and Stadler et al. (2013).

Table AII. Sample description

| <i>Foreign country</i> | <i>MNEs</i> | <i>Percent</i> | <i>Host country</i> | <i>IJVs with SCEs</i> | <i>Percent</i> | <i>Host country</i> | <i>IJVs with SCEs</i> | <i>Percent</i> |
|------------------------|-------------|----------------|---------------------|-----------------------|----------------|----------------------|-----------------------|----------------|
| Australia | 50 | 24.63 | Angola | 11 | 4.66 | Mexico | 3 | 1.27 |
| Austria | 1 | 0.49 | Algeria | 5 | 2.12 | Mongolia | 3 | 1.27 |
| Brazil | 3 | 1.48 | Azerbaijan | 4 | 1.69 | Morocco | 5 | 2.12 |
| Canada | 42 | 20.69 | Bahrain | 3 | 1.27 | Mozambique | 3 | 1.27 |
| China | 6 | 2.96 | Bolivia | 3 | 1.27 | Namibia | 8 | 3.39 |
| Colombia | 1 | 0.49 | Brazil | 3 | 1.27 | Nigeria | 4 | 1.69 |
| Egypt, Arab Rep. | 1 | 0.49 | China | 19 | 8.05 | Norway | 3 | 1.27 |
| France | 5 | 2.46 | Colombia | 6 | 2.54 | Oman | 3 | 1.27 |
| Germany | 2 | 0.99 | Congo, Dem. Rep. | 8 | 3.39 | Pakistan | 9 | 3.81 |
| India | 4 | 1.97 | Congo, Rep. | 3 | 1.27 | Peru | 3 | 1.27 |
| Italy | 1 | 0.49 | Bangladesh | 6 | 2.54 | Saudi Arabia | 3 | 1.27 |
| Japan | 10 | 4.93 | Egypt, Arab Rep. | 4 | 1.69 | South Africa | 3 | 1.27 |
| Malaysia | 3 | 1.48 | Eritrea | 3 | 1.27 | Kazakhstan | 7 | 2.97 |
| Netherlands | 1 | 0.49 | France | 3 | 1.27 | Syrian Arab Republic | 3 | 1.27 |
| Norway | 2 | 0.99 | Gabon | 5 | 2.12 | Tanzania | 3 | 1.27 |
| Russian Federation | 10 | 4.93 | Ghana | 5 | 2.12 | Trinidad and Tobago | 3 | 1.27 |
| South Africa | 6 | 2.96 | India | 5 | 2.12 | Senegal | 9 | 3.81 |
| Sweden | 2 | 0.99 | Indonesia | 8 | 3.39 | Turkey | 3 | 1.27 |
| Thailand | 2 | 0.99 | Iran, Islamic Rep. | 3 | 1.27 | Turkmenistan | 3 | 1.27 |

(Continues)

Table AII. (Continued)

| <i>Foreign country</i> | <i>MNEs</i> | <i>Percent</i> | <i>Host country</i> | <i>IJVs with SCEs</i> | <i>Percent</i> | <i>Host country</i> | <i>IJVs with SCEs</i> | <i>Percent</i> |
|------------------------|-------------|----------------|---------------------|-----------------------|----------------|----------------------|-----------------------|----------------|
| Turkey | 1 | 0.49 | Iraq | 4 | 1.69 | United Arab Emirates | 3 | 1.27 |
| United Kingdom | 22 | 10.84 | Kenya | 3 | 1.27 | Equatorial Guinea | 4 | 1.69 |
| United States | 28 | 13.79 | Libya | 8 | 3.39 | Venezuela, RB | 7 | 2.97 |
| | | | Malaysia | 4 | 1.69 | Vietnam | 4 | 1.69 |
| | | | Mali | 8 | 3.39 | Yemen, Rep. | 3 | 1.27 |
| Totals | | | | | | | | |
| Foreign countries: | 22 | | | | | | | |
| MNEs: | 203 | | | | | | | |
| Host countries: | 48 | | | | | | | |
| IJVs: | 236 | | | | | | | |