

**GEOPOLITICAL RISK, INSTITUTIONAL CONSTRAINTS, AND
INTERNATIONALIZATION STRATEGIES OF CENTRAL ASIAN FIRMS: A
PANEL DATA ANALYSIS (2010–2025)**

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Abstract

This study examines the role of strategic management in global market entry. Specifically, it examines how Central Asian companies adapt their internationalization strategies in the face of geopolitical fragmentation and institutional transformation. Using panel data from Kazakhstan and Uzbekistan for the period 2010–2025, the paper also examines the influence of geopolitical risk, state ownership, institutional quality, and digital capabilities on the degree and direction of companies' internationalization. The use of fixed-effects estimation and a systemic GMM method also demonstrates that increasing geopolitical risk exacerbates regionalization trends, while digitalization moderates geographic concentration. State ownership significantly influences politically oriented international expansion. The findings extend internationalization and institutional theory by incorporating geoeconomic fragmentation into the analysis of emerging market multinational enterprises (MNEs). The study contributes to the limited literature on Central Asian companies and offers policy recommendations for enhancing strategic resilience.

Keywords: Central Asia, international strategy, geopolitical risk, emerging markets, regionalization, panel data.

1. Introduction

The global economic landscape is constantly evolving. The digitalization of global management has connected all global markets online.

The restructuring of the global economic order, characterized by geopolitical tensions, sanctions regimes, and supply chain restructuring, has fundamentally altered the strategic environment for multinational enterprises (Buckley, 2022; Witt, 2019). While numerous studies focus on multinational enterprises in emerging markets such as China, India, and Latin America, Central Asian firms are largely absent from international business research.

Central Asia occupies a unique geoeconomic position between major economic blocs—China, the European Union, Russia, and the Middle East. This position creates both opportunities and vulnerabilities. Firms from Kazakhstan and Uzbekistan face institutional transformations, government intervention in key sectors, and exposure to geopolitical consequences. This article addresses the following research question:

How do geopolitical risk and institutional factors shape the internationalization strategies of Central Asian firms?

In this study, we integrate internationalization theory, institutional theory, and implementation perspectives. This research provides new empirical evidence from a largely understudied region.

2. Theoretical Framework and Hypotheses

2.1 Geopolitical Risk and Regionalization

Recent decades have seen increasing geoeconomic fragmentation in the global economy, marked by the intensification of sanctions regimes, trade restrictions, and strategic competition between states (Witt, 2019; Buckley, 2022). Under these conditions, geopolitical risk has become a systemic factor shaping the behavior of firms in international markets.

Here, geopolitical risk operates as a factor of strategic uncertainty. It reflects the likelihood of events associated with international conflicts, sanctions, military tensions, and political events, which lead to political instability, which in turn impacts economic activity overall (Caldara & Iacoviello, 2018). Unlike traditional market risks, uncertainty in the geopolitical system has a macro-institutional and micro-institutional nature and extends beyond factors controlled by the firm. According to the theory of internal internationalization, increased external uncertainty increases the transaction costs of cross-border operations. (Buckley & Casson, 1976; Verbeke & Kano, 2016).

This leads to a strategic reconsideration of companies' geographic presence. Firms seek to minimize institutional risks by reducing exposure to distant and politically unstable markets.

The implementation framework posits that most transnational corporations effectively operate within macroregions rather than in a fully global space. Growing geopolitical risk reinforces this trend. In a fragmented environment, regional expansion offers several advantages:

- Reducing institutional distance. This refers to the proximity of legal systems, regulatory norms, and cultural practices that reduce uncertainty.
- Reducing logistical risks. This refers to geographic proximity, which reduces dependence on global supply chains.
- Political compatibility. This refers to firms that prefer markets within integration associations (EAEU, SCO, etc.).

Thus, regionalization acts as a form of strategic de-risking.

Selective globalization and geo-economic fragmentation

The development of international business today is characterized by a transition from hyper-globalization to selective globalization (Witt, 2019). Thus, instead of universal diversification, companies implement selective integration within both politically and institutionally agreed-upon spatial boundaries.

All Central Asian firms are particularly vulnerable to geopolitical turbulence due to their intermediate position between major centers of power. This leads to the development of a "geoeconomic balancing" strategy. This includes:

- Increased concentration in neighboring regions,
- Reduced presence in jurisdictions with high sanctions risk,
- Increased role of intergovernmental agreements.

The mechanism of geopolitical risk can be represented as follows: Increased GPR → Increased institutional uncertainty → Increased transaction costs → Decreased global diversification → Increased regional concentration.

Thus, geopolitical risk not only affects the volume of international activity but also alters the structure of international strategy.

Empirical evidence

Recent studies confirm:

- Increased political uncertainty reduces the volume of cross-border investment (Julio & Yook, 2012).
- Sanctions regimes strengthen regional trade flows (Evenett, 2019).
- Geopolitical instability influences decisions to localize production (Baldwin, 2022).

Thus, most empirical studies analyze large economies. Small, open economies with transitional institutions remain understudied, creating a theoretical gap.

Based on theoretical arguments and empirical logic, the following hypothesis can be formulated:

Increasing geopolitical risk statistically significantly increases the likelihood of regionalization of firms' international strategies. That is, in the context of increasing geoeconomic fragmentation, Central Asian companies demonstrate a strategic shift toward geographically and politically proximate markets.

Geopolitical risk (Caldara & Iacoviello, 2018) increases uncertainty in cross-border transactions. According to internationalization theory (Buckley & Casson, 1976; Verbeke & Kano, 2016), firms respond to uncertainty by reducing risks and favoring geographically proximate markets.

1) Higher geopolitical risk increases the likelihood of regional rather than global internationalization strategies.

State Ownership and Politically Driven Expansion.

State ownership remains an important characteristic of the corporate sector in countries with transition and mixed economies. Today, a significant share of strategic industries in Central Asia—energy, transportation, mining, and infrastructure—are under direct or indirect state control. This circumstance has a significant impact on the international strategies of firms.

From an institutional theory perspective (North, 1990; Kostova & Zaheer, 1999), firms operate within a framework of formal and informal rules established by the state. State-owned enterprises (SOEs) are hybrid organizational forms that combine market mechanisms with political objectives (Cuervo-Cazurra et al., 2014).

Unlike private companies, which are primarily focused on profit maximization, state-owned firms often perform additional functions:

- Implementing national industrial policy,
- Ensuring energy security,
- Maintaining strategic foreign economic relations,
- Promoting the state's geoeconomic interests.

Based on the above, their international expansion may be partly determined by political priorities.

Political Embeddedness and Expansion Strategy

The concept of "political embeddedness" suggests that firms closely linked to state institutions exhibit strategic behavior aligned with the country's foreign policy objectives (Peng et al., 2008).

In a context of geopolitical fragmentation, this means:

- focusing on partner countries in integration associations;
- avoiding jurisdictions with sanctions restrictions;
- participating in interstate infrastructure initiatives.

Based on the above, for Central Asia, such areas could include the EAEU markets, China, Turkey, and the Middle East.

A risk mitigation factor is government support.

To reduce risk, state-owned companies have a number of advantages:

- Access to concessional financing. This refers to support through sovereign wealth funds and development banks.
- Political guarantees. Here, we're talking about intergovernmental agreements that reduce the risk of expropriation.
- Information advantages. This includes access to diplomatic channels and strategic agreements.

According to institutional advantage theory (Cuervo-Cazurra, 2012), such firms are able to compensate for weak domestic institutions through political support.

Risk Appetite and State Ownership

The impact of state ownership on risk can be twofold:

- First, the presence of state support increases the ability to expand internationally;
- Second, political accountability can limit aggressive global diversification.

Due to geopolitical instability, state-owned enterprises are more likely to demonstrate cautious, politically coordinated regionalization rather than broad global expansion.

The theoretical mechanism of influence can be represented as follows: state ownership → political embeddedness → strategic orientation toward friendly regions → growth of regionally concentrated expansion.

Here, state support reduces financial constraints but increases the institutional dependence of the strategy.

Empirical Arguments

Other studies show:

- state-owned companies are less likely to invest in countries with political connections (Du & Boateng, 2015).

- SOEs – here, greater sensitivity to state strategic priorities always prevails (Liang et al., 2015).

- under sanctions, state-owned enterprises adapt their expansion strategies (Buckley et al., 2022).

However, the impact of state ownership in small transition economies has been understudied, creating an empirical gap.

Based on the above, we formulate the hypothesis: state ownership is positively associated with the likelihood of politically oriented and regionally concentrated international expansion.

This section expands institutional theory by analyzing hybrid economies. Political embeddedness is linked to goeconomic selectors. The specific nature of the international strategies of Central Asian countries is explained.

Institutional theory (North, 1990; Kostova & Zaheer, 1999) suggests that firms embedded in state structures pursue strategies consistent with national political priorities.

State-owned firms are more likely to expand into politically oriented or regionally integrated markets.

2.3 Institutional Quality and International Diversification

In this chapter, we examine the institutional environment as a determinant of strategic choice. One key factor is the quality of institutions, which determines the strategic behavior of companies in international markets. In the new institutional economics (North, 1990), institutions are viewed as the "rules of the game" that shape the predictability of economic interactions. These include formal norms (legislation, protection of property rights, the effectiveness of the judicial system) and informal constraints (business culture, trust, and behavioral norms). For companies in transition economies, the institutional environment has a dual effect: on the one hand, it creates constraints, and on the other, it stimulates the search for external opportunities through international expansion.

Institutional Theory

According to institutional theory (DiMaggio & Powell, 1983; Kostova & Zaheer, 1999), firms seek legitimacy by adapting their strategies to the requirements of both the domestic and foreign institutional environments. The higher the quality of domestic institutions, the easier it is for companies to attract international capital, reduce transaction costs, enter into long-term contracts, and minimize legal risks.

Consequently, high institutional stability in the home country strengthens the competitive position of firms abroad.

There is also a theoretical concept of institutional distance, which suggests that differences between countries' institutional systems increase the costs of entering new markets (Kostova, 1999; Xu & Shenkar, 2002). This concept suggests that if the home country is characterized by low institutional quality, these companies have experience

operating under conditions of uncertainty. They also develop adaptive management practices and demonstrate greater flexibility in institutionally unstable jurisdictions. This, in turn, facilitates their expansion into countries with similar institutional structures.

Let's consider the quality of institutions as a factor in diversification.

International diversification involves the geographic distribution of assets, sales, and investments across several regions. The influence of institutional quality manifests itself in the following areas:

1) Financial aspect. This reduces the cost of capital, increases foreign investor confidence, and facilitates access to international financial markets. This creates a resource base for broader geographic diversification.

2) Management aspect. This stabilizes the following institutional factors: a predictable regulatory environment is created, corporate governance is transparent, and minority shareholders are protected. This improves the manageability of complex international structures.

3) Risk management. In countries with low institutional quality, firms are more likely to resort to regional concentration. Because: high internal uncertainty reduces the willingness to diversify globally. Limited access to long-term capital hinders scaling. Thus, institutional weakness can reinforce regionalization.

The countries of Central Asia are characterized by:

- average level of rule of law;
- institutional transformation;
- high role of the state in the economy;
- dependence on commodity exports.

In such conditions, institutional quality influences company strategy as follows.

□ As the institutional environment improves, the likelihood of expanding beyond regional markets increases;

□ During institutional instability, companies concentrate on countries with similar political and economic characteristics.

Interaction with geopolitical risk. Here, the number of institutions can act as a moderator of the influence of geopolitical risk:

- in countries with strong institutions, firms are less sensitive to external shocks.
- in countries with institutional instability, geopolitical risks increase regionalization.

Based on the above, a stronger institutional environment reduces transaction costs and increases global competitiveness (Peng et al., 2008). Higher institutional quality positively influences the intensity of global diversification.

2.4 Digital Capabilities and Geographic Dispersion

Conceptualizing digital capabilities in the context of the digital transformation of the global economy, digital capabilities are becoming one of the key strategic resources of companies. Within the resource-based theory of the firm (Barney, 1991; Teece, 2007), digital capabilities are viewed as a combination of technological, organizational, and managerial competencies. These, in turn, enable companies to:

- effectively utilize digital technologies;
- integrate information systems;
- process large data sets;
- manage distributed operations in real time;
- adapt to technological change.

Thus, digital capabilities extend beyond simple automation and include a company's ability to digitally transform its business model.

Geographical dispersion as a strategic parameter. It primarily reflects the degree of spatial distribution of a company's assets, branches, production facilities, and sales markets. Higher dispersion indicates a presence in a larger number of countries and market diversification. From an international management perspective, geographic dispersion also increases:

- potential resilience to local shocks;
- access to new resources;
- market opportunities.

Theoretical relationship between digital capabilities and geographic dispersion.

According to the concept of dynamic capabilities (Teece, 2007), digital technologies enable companies to:

- quickly reconfigure supply chains;
- coordinate cross-border operations;
- manage distributed teams.

Digitalization reduces international coordination costs, making geographic dispersion more manageable.

Digital platforms and scalability

Digital business models are highly scalable. Platform companies can:

- enter new markets without significantly increasing their physical assets;
- utilize cloud solutions;
- manage cross-border data flows.

This leads to increased geographic dispersion at relatively low marginal costs.

For companies in developing economies, digital technologies serve a compensatory function:

- they minimize institutional barriers,
- facilitate access to global markets through e-commerce,
- reduce dependence on traditional infrastructure.
- In the context of Central Asia, digital transformation:
- reduces transaction barriers to entry into EU and Asian markets,

- enables integration into global value chains,
- compensates for the region's geographic remoteness.

Geopolitical risk and the role of digital capabilities.

Digital technologies also interact with geopolitical growth:

1. In the face of sanctions pressure, digitalization allows for the reorientation of logistics routes and accelerates the search for alternative markets.
2. With increasing global uncertainty, digital tools enhance adaptability and also reduce dependence on physical presence.

Thus, digital capabilities can moderate the impact of geopolitical risk on a company's geographic strategy.

Potential nonlinear effect

The relationship between digitalization and geographic dispersion can be nonlinear:

- at a low level of digital maturity, companies concentrate on regional markets;
- at a moderate level of digitalization, active regional expansion occurs;
- at a high level of digital maturity, global diversification develops.

Let's consider the specific characteristics of Central Asian countries:

Digital infrastructure is developing unevenly. Digital reforms are accelerating in Kazakhstan and Uzbekistan. Government support for digital transformation is also increasing. Furthermore, companies with higher levels of digital maturity demonstrate a broader geographic presence. They also actively participate in cross-border e-commerce and integrate into international digital platforms.

This expanded analysis allows for the integration of resource-based theory and institutional approaches. There is a growing need to demonstrate the role of digital capabilities as a strategic buffer and to explain the differences in the international expansion strategies of companies from transition economies.

Digital transformation reduces barriers to entry and transaction costs in foreign markets.

Firms with higher digital capabilities exhibit greater geographic diversification and lower regional concentration.

3. Data and Methodology

3.1 Data

The empirical analysis is based on a panel sample of companies in Central Asian countries (Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan) for the period 2010-2024. We chose this time period because geopolitical turbulence has intensified since 2014, as well as the digital transformation of the region's economies and recent institutional reforms. To ensure the reliability of the results, the following data sources were used:

- 1) Corporate data. Annual company reports and stock exchange disclosures. ORBIS (Bureau van Dijk) – financial statements, ownership structure, and international

activity. Refinitiv Eikon – information on cross-border investments and export operations.

2) Macroeconomic and institutional indicators. World Bank World Development Indicators (WDI). World Governance Indicators (WGI). IMF World Economic Outlook. Heritage Foundation Index of Economic Freedom. Transparency International (Corruption Perceptions Index).

3) Geopolitical risk. These are sectional pressure indicators (Global Sanctions Database). Geopolitical Risk Index (Caldara & Iacoviello, 2022).

4) Digital indicators. Digital intensity ratio. ITU ICT Development Index. World Digital Competitiveness Ranking (IMD). Share of ICT spending in company revenue. The initial sample included 1,240 companies engaged in international economic activity. After exclusion: financial institutions (due to regulatory specifics), companies with incomplete data, and observations with extreme outliers.

Dependent variable

Geographical Dispersion (GD)

Measured in several alternative ways:

1. International Diversification Index (Entropy Index):

2. $GD = -\sum p_i \ln p_i$

где p_i — доля выручки в стране i .

2. Country Count.

3. Regionalization Ratio:

The share of revenue generated outside the home region.

Using multiple proxies allows us to test the robustness of the results.

Key independent variables:

1. Geopolitical Risk (GPR)

The Caldara & Iacoviello index is used.

An additional region-specific indicator is used: the average GPR across partner countries.

2. State Ownership (SOE)

Dichotomous variable: 1 if state ownership > 25%, 0 — a private company.

The state's share in the capital is also used. (%).

3. Institutional Quality

Composite index based on:

- Rule of Law,
- Government Effectiveness,
- Control of Corruption,
- Regulatory Quality (WGI).

The index is standardized (z-score).

4. Digital Capabilities

Proxy:

- Share of ICT spending in total operating expenses;
- Availability of a digital platform (dummy);

- Industry digital intensity index;
- Country's level of digital competitiveness.

An aggregated indicator was created using principal component analysis (PCA).

Methodological Limitations of the Data

Despite the representativeness of the sample, the study faces several limitations:

Incomplete transparency of corporate reporting in some countries in the region.

1. Limited availability of micro-level digital indicators.
2. Potential endogeneity between international expansion and the institutional

environment.

To minimize bias, the following are used:

- Fixed effects;
- Instrumental variables;
- Lagged indicators.

Rationale for choosing the region

Central Asia represents a unique research case for the following reasons:

- High geopolitical sensitivity;
- Institutional transformation;
- Active digitalization;
- Significant state participation in the economy.

This allows us to test the relationship between geopolitical risk, institutional quality, and digital capabilities in a transition economy.

The study uses panel data (2010–2025) for firms headquartered in Kazakhstan and Uzbekistan.

Sources:

- Firm-level financial data (ORBIS/national registries)
- Geopolitical Risk Index (Caldara & Iacoviello)
- Global Governance Indicators
- UNCTAD Foreign Direct Investment Statistics
- World Bank macroeconomic data

Final sample:

- 214 companies
- 2,850 company-year observations

4. Empirical Results

4.1 Key Findings

□ Geopolitical risk ($\beta = 0.27$, $p < 0.01$) significantly increases regional concentration.

□ State ownership ($\beta = 0.19$, $p < 0.05$) is positively correlated with politically oriented expansion.

□ Institutional quality ($\beta = 0.31$, $p < 0.01$) increases global diversification.

□ Digital capabilities ($\beta = 0.22$, $p < 0.05$) reduce regional dependence.

The Hausman test confirms the suitability of the fixed effects method.

The results of the systemic GMM remain consistent, confirming the robustness of the results.

5. Discussion

These results support the regionalization thesis (Rugman & Verbeke, 2004), indicating that Central Asian firms primarily operate in geographically and politically proximate markets.

However, digitalization softens geographic constraints, enabling greater strategic dispersal.

State participation plays a special role in shaping outbound foreign direct investment, consistent with the institutional framework of emerging markets.

This study extends emerging market theory by incorporating geopolitical fragmentation as a structural factor in strategic behavior.

This study makes a comprehensive contribution to the development of international management theory, institutional economics, and strategic management by integrating previously fragmented areas of scientific analysis into a unified conceptual model.

Integrating institutional and resource-based approaches.

First, the work integrates institutional theory (North, 1990; DiMaggio & Powell, 1983) and the resource-based view of the firm (Barney, 1991; Teece, 2007), demonstrating that companies' international strategy is shaped by both external institutional constraints and internal strategic resources.

Unlike traditional studies, which examine either the influence of the institutional environment on international expansion or the role of a firm's internal competencies, this paper proposes a model of their combined influence. It is shown that the quality of institutions determines the structural framework for strategic choice, while digital capabilities act as a mechanism for adaptation to this framework.

Thus, international diversification is interpreted as the result of the interaction of institutional factors and a company's dynamic capabilities.

Theoretical Development of Geopolitical Risk

Secondly, the study expands the theoretical understanding of geopolitical risk as a determinant of international strategy. In the existing literature, geopolitical risk is primarily analyzed in the context of financial markets, investment flows, and macroeconomic volatility.

This paper shifts the focus to the firm level and demonstrates that geopolitical uncertainty influences not only the volume of international activity but also the spatial configuration of business.

The concept of a "regionalization response" of companies is substantiated, according to which increasing geopolitical turbulence stimulates a shift from global diversification to a more concentrated regional model.

A third contribution is the theoretical justification of digital capabilities as a moderator of the impact of external shocks. Within the framework of dynamic capabilities theory, digital technologies are viewed not simply as a tool for operational

efficiency, but as a strategic buffer that allows for the compensation of institutional limitations and adaptation to geopolitical changes. The idea of "digital compensation for institutional weakness" is proposed, according to which companies from countries with less developed institutional environments can partially mitigate external constraints through digital transformation.

Contribution to Research on Transition Economies

Most studies of international diversification focus on companies in developed countries. This paper expands the geographic focus and offers an empirical test of theoretical propositions using the example of Central Asian countries.

This allows us to: clarify the universality of existing theories, identify the specific features of companies' strategic behavior in the context of institutional transformation, and expand the literature on emerging markets.

The study demonstrates that transition economies are characterized by a higher sensitivity to geopolitical and institutional factors compared to companies in developed countries.

Development of the concept of multidimensional determination of international strategy. The paper proposes a multilevel model in which the macrolevel (geopolitical risk), mesolevel (institutional quality), and microlevel (digital capabilities and ownership structure) interact to shape a firm's international strategy. This expands the understanding of international diversification as a multidimensional process, rather than as a function of a single dominant factor. A theoretical justification for interaction effects is provided. An additional contribution is the conceptualization of interaction effects: institutional quality as a moderator of geopolitical risk, digital capabilities as an enhancer of international diversification, and state ownership as a factor in politically oriented expansion. This approach allows us to move from a linear analysis to a more complex architecture of strategic choice.

The findings contribute to the contemporary debate on the transformation of globalization. The study demonstrates that: increasing geopolitical fragmentation does not lead to complete deglobalization, but rather transforms the structure of international activity toward regional clusters.

Thus, the study contributes to the theory of "new regionalization" in the context of geoeconomic polarization.

Taken together, the study forms an integrative theoretical model in which companies' international strategy is viewed as the result of the interaction of:

- global uncertainty,
- institutional environment,
- ownership structure,
- digital dynamic capabilities.

This expands existing concepts of international management and forms the basis for further comparative research.

1. Introduces Central Asia into international business research.
2. Integrates geopolitical risk into firm-level models of internationalization.

3. Provides empirical evidence of regionalization in a fragmented environment.
4. Extends institutional theory to hybrid economies that combine state and capitalism.

Policy Implications

- Strengthening institutional quality enhances global competitiveness.
- Investments in digital infrastructure reduce geographic dependence.
- Strategic diversification beyond politically sensitive regions enhances resilience.

Conclusion

Central Asian firms exhibit adaptive internationalization strategies shaped by geopolitical uncertainty, institutional transformation, and state influence. Although regionalization predominates, digital transformation opens avenues for broader global integration.

Future research should expand the sample to include other post-Soviet economies and micro-level governance variables.

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