

**THREE ESSAYS ON THE EFFECT OF POLITICAL INSTITUTIONS,
VIOLENT NON-STATE ACTORS, AND DYNAMIC COMPETITIVE
ENVIRONMENTS ON MULTINATIONAL ENTERPRISE ENTRY RATES
AND SUBSEQUENT PERFORMANCE**

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The relationship between political institutions and organizations has re-emerged as an active area of recent management inquiry. Recent research has examined the role of government in stimulating new industry creation and affecting a number of organizational characteristics and performance. Governments exert enormous power over organizations by providing (or failing to provide) legal, regulatory, and physical infrastructure. The first two chapters in dissertation examine how the political dynamics within the formal governmental apparatus and its ability (or inability) to provide public order affect multinational enterprise (MNE) entry rates within a host economy. The third chapter examines how, after entering into a host economy, MNEs cope with competitive pressures.

The first paper examines how the political dynamics within the formal governmental apparatus affect MNE entry rates within a host economy. Specifically, the study dissects how the content, stability, and structural fragmentation of formal subnational political institutions affect multinational enterprise entry rates. The second paper develops a theoretical framework on how government failure to impose public order, and the ensuing competitive dynamics among informal political actors seeking

to exercise this role, affect multinational enterprise entry rates into a host economy. Surprisingly very little management research has studied how government failure to provide its most basic – indeed defining - function, public order, affects organizations. This is an important question because this governmental function underpins the operation of many other institutional arrangements, such as the enforcement of contracts and the legal system, which have been shown to be vital for organizations.

The third paper, moves beyond the initial entry decision and examines how MNEs cope with instability in their competitive environment. Existing research examining how organizations cope with environmental instability assumes that all organizational resources are static, and, therefore, not a source of sustainable competitive advantage. In this view, only dynamics capabilities allow for adaptability to a changing competitive landscape. This study offers a complementary view and introduces the concept of dynamic resources — resources that allow organizations to cope with competitive environment instability. The study not only vindicates, but also extends the resource-based view (RBV) of the firm and complements research on dynamic capabilities.

BIOGRAPHICAL SKETCH

Arkangel Cordero received his undergraduate degree in Business Administration from Ave Maria College of the Americas in San Marcos, Carazo, Nicaragua in 2002. After graduation, he worked for Chevron-Texaco in Managua, Nicaragua. He earned a Master of Business Administration from Bentley University in 2006. Arkangel began his studies at Cornell in 2011, earning a Master of Science in Management in May of 2016 and graduating with a Ph.D. in Management in August of 2016. Arkangel is married to Irma Rosales, with whom he has two children.

DEDICATION

I would like to dedicate this dissertation to my *Heavenly Father*, my *Lord and Savior Jesus Christ*, and *God Holy Spirit*.

I appreciate my family and friends.

I appreciate my parent's love, support, and for teaching me to seek knowledge.

I appreciate Irma, Alma Isabel and Arkangel Andrés for their patience, support, and love.

Finally, I dedicate this dissertation to my maternal grandmother, Rosa Isabel Paéz Vargas (*R.I.P.*), and my paternal great-aunt Margarita Antonia Cordero Gómez (*R.I.P.*).

¡Las recuerdo y las quiero!

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LONG ABSTRACT

The relationship between political institutions and organizations has re-emerged as an active area of recent management inquiry. For example, government exerts enormous power over organizations to the extent that it provides the legal, regulatory, and physical infrastructure in which these organizations operate. Specific configurations of political institutions can stimulate new industry creation and affect a number of organizational characteristics and even performance. This dissertation develops three studies that examine how formal political institutions and violent non-state actors (ANSAs) affect multinational enterprise (MNE) entry rates within a host economy, and how, after entering into said economy, MNEs cope with competitive instability.

The first paper examines how formal political institutions affect MNE entry rates within a host economy. Specifically, the study examines three different mechanisms through which subnational formal political institutions affect multinational enterprise entry rates. Existing research has shown that national political institutions in a host economy affect the entry rates of multinational enterprise into that economy. While providing useful insights, this research has neglected to examine the role of subnational political institutions. This is an important question because vastly different formal and informal rules of the game may prevail in different subnational regions. The study develops a framework that disentangles the effect of the content, stability, and structural fragmentation of formal subnational political institutions on multinational enterprise entry rates.

The second paper develops a theoretical framework on how government failure to impose public order, and the ensuing competitive dynamics among informal political actors seeking to

exercise this role, affect multinational enterprise entry rates into a host economy. Very little research to date has studied how government failure to provide its most basic function, the provision of public order, affects organizations. This is an important question because this governmental function underpins the operation of many other institutional arrangements, such as the enforcement of contracts and the legal system, which have been shown to be vital for organizations. Hence, understanding how this formal institutional failure affects organizations has both theoretical and practical import. This paper disentangles the effect of the state's punitive capacity, public disorder, and the competitive dynamics among armed non-state actors (ANSAs) on MNE entry rates.

The third paper, moves beyond the initial entry decision and examines how organizations cope with instability in their competitive environment. Existing research examining how organizations cope with environmental instability assumes that all organizational resources are static, and, therefore, not a source of sustainable competitive advantage. In this view, only dynamics capabilities –internal scripts, routines, and processes that enable an organization to reconfigure its resources –determine adaptability to a changing competitive landscape. This study offers a complementary view and introduces the concept of dynamic resources — resources that allow organizations to cope with competitive environment instability. The study develops the concept of dynamic resources and a theoretical framework on how two different types of dynamic resources help organizations adapt to turbulent competitive environments. Specifically, the framework examines how an organization's managerial and technical resources buffer it from competitive environment instability. The study not only vindicates, but also extends the resource-based view (RBV) of the firm and complements research on dynamic capabilities.

DISSERTATION INTRODUCTION

Understanding the relationship between political institutions and organizations has once again become an active area of management inquiry (Pearce, Dibble, & Klein, 2009; Ring, Bigley, aunno, & Khanna, 2005). By providing (or failing to provide) the legal, regulatory (Fligstein & Calder, 2001; Scott, 1995) and physical infrastructure in which organizations operate, governments exert enormous power over organizations. For example, certain configurations of political institutions can stimulate new industry creation (Sine & Lee, 2009; Spencer, Murtha, & Lenway, 2005) and affect organizational form (Khanna & Palepu, 2000; Khanna & Rivkin, 2001), structure (Kalev, Shenhav, & De Vries, 2008; Zucker, 1986; J. W. Meyer & Rowan, 1977), strategies (Bonardi, Holburn, & Bergh, 2006; Bonardi, Hillman, & Keim, 2005; Peng, 2003), governance mechanisms (Kim & Prescott, 2005), competitive capabilities (Griffiths & Zammuto, 2005; Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004; Murtha & Lenway, 1994) and even performance (Pearce, Xin, Xu, & Rao, 2011; Peng & Luo, 2000).

The present dissertation consists of three studies that expand upon existing knowledge of how political institutions, violent non-state actors (VNAs), and dynamic competitive environments affect multinational enterprise (MNE) entry rates and performance. The first study examines how formal political institutions affect multinational enterprise (MNE) entry rates in a host economy. The second study examines how the state's inability to enforce public order and the ensuing competitive dynamics among violent non-state actors (VNAs) affect MNE entry rates in a host economy. The third, and last, study analyzes MNE performance once it has entered into the host economy. Specifically, the last study examines the effect of competitive

environment (customers, suppliers, and competitor) instability on MNE performance. Moreover, this last paper develops the concept of dynamic resources, defined as resources that allow organizations to cope with a changing competitive landscape. Specifically, the study examines the role of an organization's managerial and technical human resource endowments as a buffer against the negative performance effects of a changing competitive environment.

The first study examines how subnational institutional differences affect MNE location strategy, an important area of recent management inquiry. In particular, subnational location strategy—or the decision of where to locate new operations within a given economy—is an underexplored area of research (Kozhikode & Li, 2012). Past research has shown that national political institutions affect MNE entry into host economies (Hoskisson, Eden, Lau, & Wright, 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005). However, existing research has failed to examine how institutional differences within the same economy influence entry decisions (Meyer & Nguyen, 2005). This is an important question because vastly different formal and informal rules of the game may prevail in different subnational regions, affecting not only firm strategies, but also the effectiveness of these strategies.

This study examines the effect of political differences on multinational enterprise location strategy. Subnational political differences affect firms in at least two ways. First, in federal countries, such as the United States, local political authorities often have autonomy in shaping the regulatory environment of firms under their jurisdictions. This autonomy of local governments means they are likely to differ in their extent of policy innovation and new policy adoption (Edelman, 2008; Tolbert & Zucker, 1983; Walker, 1969). Local governments can impose taxes and pass regulations that can either facilitate or hinder firm entry (Hines, 1993; Coughlin, Terza, & Arromdee, 1991). Second, even when policy making is centralized by the

national government, policy implementation often falls on local governments. Local political power-holders have substantial leeway in implementing national policies and influence how these policies affect firms under their jurisdiction (Marquis & Qian, 2013; Arregle et al., 2013; Meyer & Nguyen, 2005). As the Chinese refrigerator manufacturer Haier learned when it decided to open new manufacturing facilities in the United States, subnational conditions play an important role in determining success in foreign markets (Ghemawat, Hout, & Siegel, 2011). Thus, understanding how firms respond to subnational differences in political institutions has important theoretical, practical, and policymaking implications.

The second paper examines how government failure to impose public order, and the ensuing competitive dynamics among informal political actors seeking to exercise this role, affect MNE entry rates into a host economy. Extant research has focused on how specific institutions, such as the legal system (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000a), policy stability (Henisz, 2000a), electoral business cycles (Vaaler, 2008a) and formal political institutional transitions (Meyer, Estrin, Bhaumik, & Peng, 2009; Peng, Wang, & Jiang, 2008; Meyer & Peng, 2005; Hoskisson, Eden, Lau, & Wright, 2000) affect organizations. However, existing literature has overlooked the larger institutional context in which these more specific institutions function. Stable markets, the enforcement of contracts, and strong property rights are all underpinned by the state's capacity to impose public order. Our lack of research in this area represents a glaring hole in our theory of how institutions affect organizations. Hence, understanding this question has substantial theoretical importance.

The third and final study moves beyond the initial entry decision and examines multinational enterprise (MNE) performance under conditions of competitive environment (customers, suppliers and competitors) instability. The dynamic capabilities framework (Teece,

Pisano, & Shuen, 1997, 2009) is the leading theoretical paradigm seeking to explain how organizations cope in these environments. The third study in this dissertation argues that there is nothing unique about capabilities per se that make them more important than resources in coping with a dynamic competitive environment. In fact, recent research recognizes that capabilities may be static and dynamic (Winter, 2003; Helfat et al., 2009). Static capabilities allow organizations to merely get by in current market conditions. Only dynamic capabilities allow organizations to adapt to changing market environments (Helfat & Winter, 2011). Hence, it is the dynamic nature of these capabilities, not the fact that they are capabilities per se, that makes them critical for coping with change in dynamic competitive environments.

The third study in this dissertation posits that a similar static-dynamic distinction can be made for organizational resources. Moreover, dynamic resources are as important as dynamic capabilities for coping with environmental change. After introducing the concept of dynamic resources, the study develops a theoretical framework on how two such types of resources—namely managerial and technical human resources—allow organizations to cope with instability in their competitive environments. In doing so, the study not only vindicates, but also extends on the resource-based view (RBV) of the firm and complements research on dynamic capabilities.

CHAPTER 1: SUBNATIONAL POLITICAL INSTITUTIONS AND MULTINATIONAL ENTERPRISE LOCATION STRATEGY

INTRODUCTION

Understanding how subnational institutional differences affect firm strategy is an important area of recent management inquiry. These differences emerge from variation in the formal and informal rules of the game (North, 1991, 1990) that are prevalent across subnational regions within the same economy. In particular, subnational location strategy—deciding where to locate new operations within a given economy—is an underexplored area of research (Meyer & Nguyen, 2005; Kozhikode & Li, 2012). This is an important issue because organizations typically have to operate out of specific locations within an economy. Institutional differences within an economy have been shown to affect organizational performance. For instance in China, MNEs in Beijing are more likely to fail than those that are located in Shanghai due to institutional differences between the cities (Ma & Delios, 2007). Hence, it is both theoretically and practically relevant to examine how subnational institutional differences also affect MNE location within a host economy.

Past research has shown that national political institutions, the formal regulatory arrangements prevalent in a nation, affect MNE entry into host economies (Hoskisson, Eden, Lau, & Wright, 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005). However, existing research has largely failed to examine how subnational political institutional differences, defined as differences in the formal regulatory arrangements prevalent in different regions within an economy, influence MNE location strategy. This is an important question because significant variations in the formal rules of the game (North, 1991, 1990) may prevail in different

subnational regions, affecting not only firm strategies, but also the effectiveness of these strategies.

This study examines how subnational political institutional differences affect MNE location strategy. Specifically, the study focuses on how MNE entry is affected by differences in the ideology and turnover of local power-holders (e.g. the mayor of the city). This type of subnational political difference affects firms in at least two ways. First, in federal nations such as the United States, local political authorities often have autonomy in shaping the regulatory environment of firms under their jurisdictions. Local government autonomy means that they are likely to differ in their extent of policy innovation and new policy adoption (Edelman, 2008; P. S. Tolbert & Zucker, 1983; Walker, 1969). Local governments can impose taxes and pass regulations that can either facilitate or hinder firm entry (Hines, 1993; Coughlin et al., 1991). Second, even when policymaking is centralized by the national government, policy implementation often falls on local governments. Local governments have substantial leeway in enforcing national policies, and hence in the way these policies affect firms under their jurisdiction (Arregle, Miller, Hitt, & Beamish, 2013; Marquis & Qian, 2013; Meyer & Nguyen, 2005). Understanding how MNEs respond to political subnational differences has important theoretical, practical and policy-making implications.

This study contributes to ongoing efforts to understand how subnational (hereafter “local”) political differences affect MNE location strategy. Specifically, I predict that the content, stability, and structural fragmentation of local political power holders affect where, within an economy, MNEs locate new operations. Empirically, the study examines the effect of these local political differences on MNE entry into Mexico, the second largest economy in Latin America, and an important trade and political ally of the United States.

The following section develops the theoretical framework that explains how the content, stability, and structural fragmentation of local political institutions impact multinational enterprise entry rates.

THEORY DEVELOPMENT AND HYPOTHESES

This section examines how the content, stability, and structural fragmentation of local political institutions affect multinational enterprise location strategy within a host economy. The following three subsections address each of these characteristics in detail.

The Content of Subnational Political Institutions

Existing research suggests that, at the national level, the political ideology of the incumbent affects MNE investment activity across and within countries over time. For instance, Vaaler (2008) finds that the expected political ideology of a future president predicts the level of MNE investment inflows into a host economy. An expected transition from a leftist to a rightist president stimulates investment activity. The converse is true when the expected transition is from a rightist to a leftist president. MNEs anticipate who will win the next election and, depending on this expectation, choose whether or not to invest in a country.

While studies of the effects of political ideology at the national level have provided valuable insights, an implicit assumption in this literature is that said ideology trickles down evenly throughout the economy. This idea is likely too strong of an assumption in economies with a decentralized political system. Local autonomy allows provinces and cities to establish their own regulations, which means that the political ideology of local officials will also affect MNEs. Even in centralized economies, it is frequently implausible to implement policies uniformly across the country. Provincial and city authorities often have leeway in the implementation of national policy. For instance, provincial governments in China enjoy

considerable latitude in their implementation of national policies (Marquis & Qian, 2013; Arregle et al., 2013).

The first prediction in this study is that the political ideology of subnational power holders influences where MNEs locate new operations within a host economy. Through their ability to dictate local policies and determine the extent of implementation of national policies, subnational power holders can encourage or discourage the entry of MNEs into their respective jurisdictions. I argue that, net of the ideology of the national incumbent, locations controlled by market-friendly political officials will have more MNE entries than will locations with market-hostile political officials. Hence, I hypothesize that:

Hypothesis 1: Cities where the local power-holder espouses a pro-market political ideology will have higher rates of MNE entry than will cities where the local power holder espouses an anti-market political ideology.

Subnational Political Instability

Political transition increases environmental uncertainty (Alesina, Özler, Roubini, & Swagel, 1996). Because MNEs incur irreversible investments in a host country, the increased uncertainty has a negative impact on the expected return of those investments. Accordingly, existing cross-national studies have shown that political instability, at the national level, discourages MNE entry into a host economy (Henisz, 2000; Henisz & Delios, 2001).

However, we know little as to whether local political instability affects MNE entry at the subnational level. Here, I argue that net of instability at the national level, political instability at the local level also matters for multinational enterprise location strategy. Local political entrenchment leads to routinized and taken-for-granted governmental procedures (Roy, 1981)

and stable power relations among local stakeholders (Hardy, 1985). Managers are better able to predict future political outcomes under these conditions. Political instability disrupts the status quo and hence decreases the predictability of the political environment. Locations with a higher uncertainty are less attractive to MNEs.

A competing argument is that political transition creates opportunities. Advocates of this view would claim that local political transition may tear down entry barriers erected by local stakeholders against MNEs. Some researchers have found that local stakeholders tend to oppose the entry of foreign organizations into their communities because said organizations are perceived as threatening to local identity and interests (Marquis & Lounsbury, 2007; Peng, 2003). One strategy deployed by local stakeholders to keep MNEs out of their communities is to lobby local political power holders to erect entry barriers for these organizations. The stronger the local stakeholders' ties to local political power holders, the greater the influence that these stakeholders can exert over the local political power holders (Migdal, 2001, 1988). In this view, entrenched local political power holders are more likely to uphold local entry barriers against MNEs than are newly elected officials. Hence, advocates of this view would posit that local political transitions carry the potential to increase a location's attractiveness for MNEs by opening the opportunity structure, such as the potential to reduce entry barriers erected by previously entrenched local interest groups.

While this mechanism may be at play, a large body of research in the organizational ecology tradition has found that such promises of change are often unattainable. During transitions, the negative effect of processes losses and disruptions to internal routines and procedures tend to drown any positive effect of transitions. This result is partially due to structural inertia (Hannan & Freeman, 1984). Past research has shown that local governments -

city administrations in particular - are subject to similar organizational dynamics as those of other organizational forms (Tolbert & Zucker, 1983). Hence, drawing from the organizational ecology literature, I predict that transitions will play a similar role on local government (city administration). If so, the disruptive effects of transition will drown any of its benefits. The prevalence of disruption increases uncertainty for potential multinational entrants, which in turn decreases their entry rates. Hence, I hypothesize that:

Hypothesis 2: Cities experiencing a local political transition will have lower rates of MNE entry than will cities not experiencing such a transition.

Structural Fragmentation of Subnational Political Institutions

In this section, I theorize about the effect of the structural fragmentation of local political institutions. Specifically, I hypothesize on the effects of vertical political fragmentation, defined as the situation when different, potentially rival, political parties control overlapping jurisdictions (e.g. federal, state, and city) (Kozhikode & Li, 2012). Vertical political fragmentation is a context ripe for power conflicts between the different political parties controlling the different levels within the hierarchy of the formal regulative institutional pillar. Managing these potentially conflicting jurisdictions is not only costly for organizations, but also likely to lead to coordination problems in the provision of basic public goods, such as roads, security, etc. Hence, I argue that locations with vertical political fragmentation are less attractive for MNEs.

The management literature has recently started drawing insights from political science on how organizations are affected by what I call “horizontal political fragmentation”, the situation when different—perhaps rival—political actors control different institutions at the same level within the formal regulative institutional apparatus (e.g. the executive and the legislative). The

dominant view in extant literature is that horizontal political fragmentation is favorable for business organizations. One stream of literature supporting this view draws from the political markets approach, which views the policy-making process as a market transaction process where politicians trade policy support for resources provided by organized interests groups (Buchanan & Tullock, 1962; Stigler, 1971). Bonardi, Holburn, & Bergh (2006) build on this insight to show that the higher the electoral competition among politicians, the more effective the political strategies deployed by heavily regulated organizations (electric utilities) in the United States. As competition intensifies among politicians to garner resources for future electoral campaigns, regulated organizations can use their donations to play politicians against each other and push for favorable policy outcomes.

Similarly, Holburn & Bergh (2008) conceive government not as a single all-encompassing institution, but as a collection of institutions with bureaucratic regulatory agencies on one side and political institutions—the executive, the house and the senate—on the other. Organizations not only have leeway in playing politicians against each other, but may also choose to target bureaucratic regulatory agencies directly or indirectly (through the political institutions). Hence, in this view, higher horizontal political fragmentation within the formal regulative institutional pillar benefits organizations by freeing them from homogenous policy preferences and dependence on any single political actor (Bonardi, Hillman, & Keim, 2005).

While research adopting the political markets approach has been conducted almost exclusively in advanced democratic settings, a similar insight has emerged from the international business literature, often studying multinational enterprises in less developed democratic settings (Henisz & Delios, 2001). For instance, Henisz (2000) argues that MNEs operating under the jurisdiction of a foreign host government face the risk of adverse policy changes. These adverse

policy changes may include outright expropriation (nationalization) or the passage of law allowing local partners to expropriate the assets (or a portion thereof) of the MNE. One political structural factor that helps MNEs mitigate the risk of adverse host government policy changes is the presence of a large number of independent host governmental actors holding veto power over the policy-making process. As the number of independent political actors with heterogeneous policy preferences increases within the host government, reaching political consensus to transition the status quo becomes more difficult (Henisz, 2000). The resulting policy stability is assumed to benefit MNEs. Hence, this “veto points” approach also predicts that horizontal political fragmentation benefits business organizations.

Both the political markets and the veto points approach reach a similar conclusion, albeit from different theoretical perspectives, regarding the benefits that business organizations derive from horizontal political fragmentation. The political markets approach emphasizes the increased ability of business organizations to shape formal policy or regulatory outcomes to their advantage. The veto points approach emphasizes the decreased ability (through increased internal political coordination problems) of potentially opportunistic host governments to reverse current formal policy that is favorable to business organizations. As a result, the opportunistic tendencies of host governments are constrained. While both of these approaches provide noble and valuable insights, they only consider horizontal political fragmentation: political fragmentation that occurs among institutions at the same hierarchal level within the state apparatus (e.g. the executive and the legislative).

However, political fragmentation can also occur vertically, for example, among hierarchically nested institutions with overlapping jurisdictions (Kozhikode & Li, 2012). I propose that vertical political fragmentation has a different effect on organizations than does the

horizontal political fragmentation that has been in the literature thus far. Specifically, I argue that vertical political fragmentation decreases a location's attractiveness for MNEs for three reasons. First, vertical political fragmentation decreases government coordination. When different levels of government are controlled by different and potentially rivaling political parties, coordinating government activities may become difficult. The decreased coordination, in turn, reduces the government's capability for providing basic public goods (such as roads, security, etc.) to MNEs. Second, power struggles between the different hierarchical levels of government with overlapping jurisdictions are likely to arise when these levels are controlled by different, potentially rivaling political parties. Political power holders at higher levels may purposely discourage MNEs from entering into lower level jurisdictions controlled by political rivals. Third, even if such active boycotts are not enacted, managing jurisdictional conflicts are costly and time consuming. Hence, MNEs will tend to avoid locations with a high number of political fractures. Hence, I hypothesize that:

Hypothesis 3: Cities with more political fractures in the vertical hierarchical levels of government (federal, state and city) will experience lower rates of multinational enterprise entry than will locations with less such fractures.

Figure 1 summarizes the theoretical framework. I test these hypotheses in the context of foreign manufacturing firms entering into Mexico between 1997 and 2006. The following section describes the context.

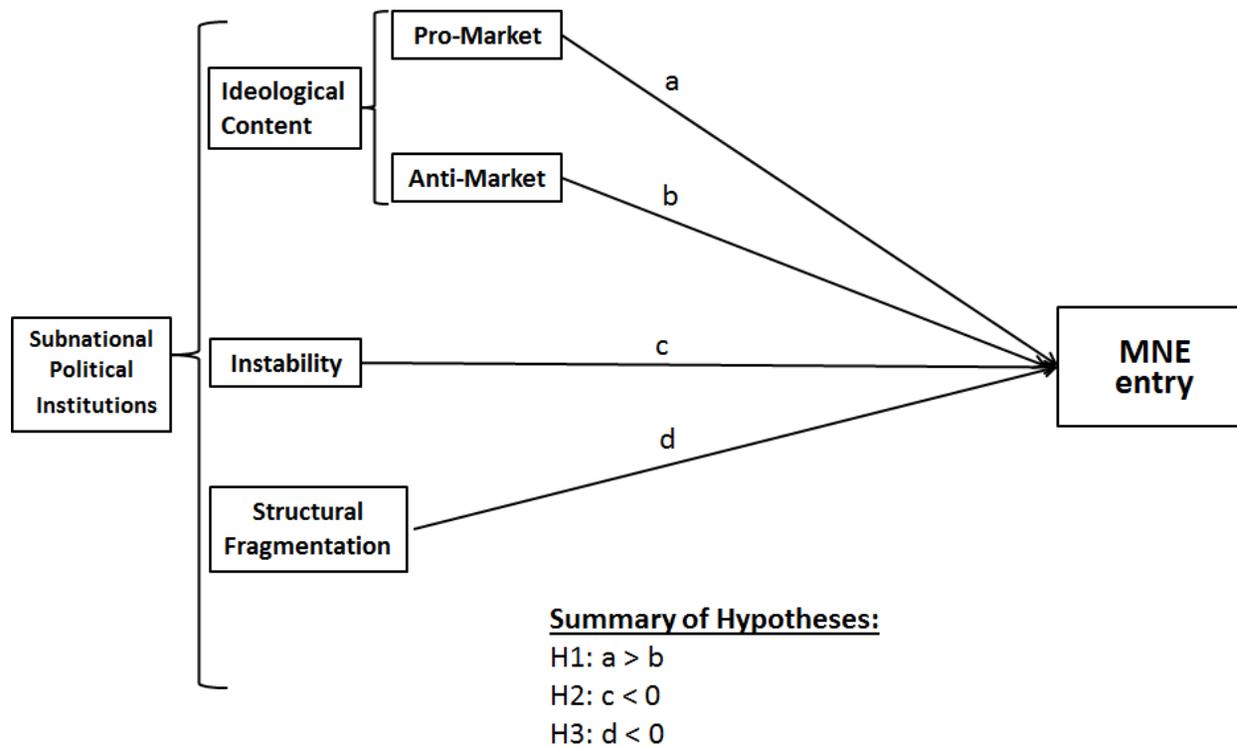


Figure 1: Theoretical Model of how Subnational Political Institutions Affect Multinational Enterprise (MNE) Entry

EMPIRICAL CONTEXT

Foreign Manufacturing Firms in Mexico

Foreign manufacturing firms constitute an important sector of the Mexican economy. The first wave of foreign manufacturing firms in Mexico started in 1965 when the Mexican government first introduced the Border Industrialization Program (Hansen, 2003). Mexico launched the program in an effort to curb high levels of unemployment in the country's northern region (some of the largest northern cities had unemployment rates ranging from 40% to 50% in 1965). Under this program, foreign manufacturing firms could import raw materials, components, and capital equipment into Mexico duty-free. Foreign personnel required for training, management and factory maintenance could also enter the country. Mexican duties would only be paid on the part of the manufacturing done in Mexico.

The Border Industrialization Program promised jobs in one of Mexico's poorest regions, and access to a cheap and abundant labor for foreign manufacturing firms. The program was originally restricted to a 12.5 mile wide strip along the 1,954 mile long Mexico-U.S. border. Foreign investment started pouring in 1966 and in 1967, a total of 57 foreign manufacturing firms were already operating and employing 4,257 workers. Mexicali, Tijuana, and Ciudad Juarez were the first cities to receive these investments. In 1972, a revision to the program allowed foreign manufacturing plants to open in the interior of the country. By 1974, the number of foreign manufacturing firms reached 455 that employed 76,000 Mexicans (Hansen, 2003).

In 1983 an inflection point occurred for foreign manufacturing firms in Mexico. President Miguel de la Madrid's new administration (1982-1988) implemented neoliberal economic reforms that greatly increased the country's attractiveness for foreign manufacturing firms

(Wilson, 2010). During Madrid's administration the number of firms more than doubled from 585 to 1,396 firms, and the number of jobs in the industry almost tripled from 127,048 to 369,489. The North American Trade Agreement (NAFTA) gave another great boost to the industry when it came into force in 1994. Between 1994 and 2001, the number of firms increased substantially from 2,143 in 1994 to 3,735 in June 2001 (See Figure 2). At their peak in 2001, foreign manufacturing firms employed 1.3 million workers in Mexico (Mexican Census Bureau, 2007). This represented 77 billion USD in exports, or about 48.7 % of total Mexican exports (Central Bank of Mexico, 2015a, 2015b). The early 2000s saw the failure of many firms due to a recession in the United States and increased competition from China (Utar & Ruiz, 2013). However, these firms still played a major role in Mexico's economy at the end of 2006, totaling 2,783 firms that employed 1.2 million workers (Mexican Census Bureau, 2007) and exported 112 billion USD, or about 44.7% of the country's total exports (Central Bank of Mexico, 2015a, 2015b).

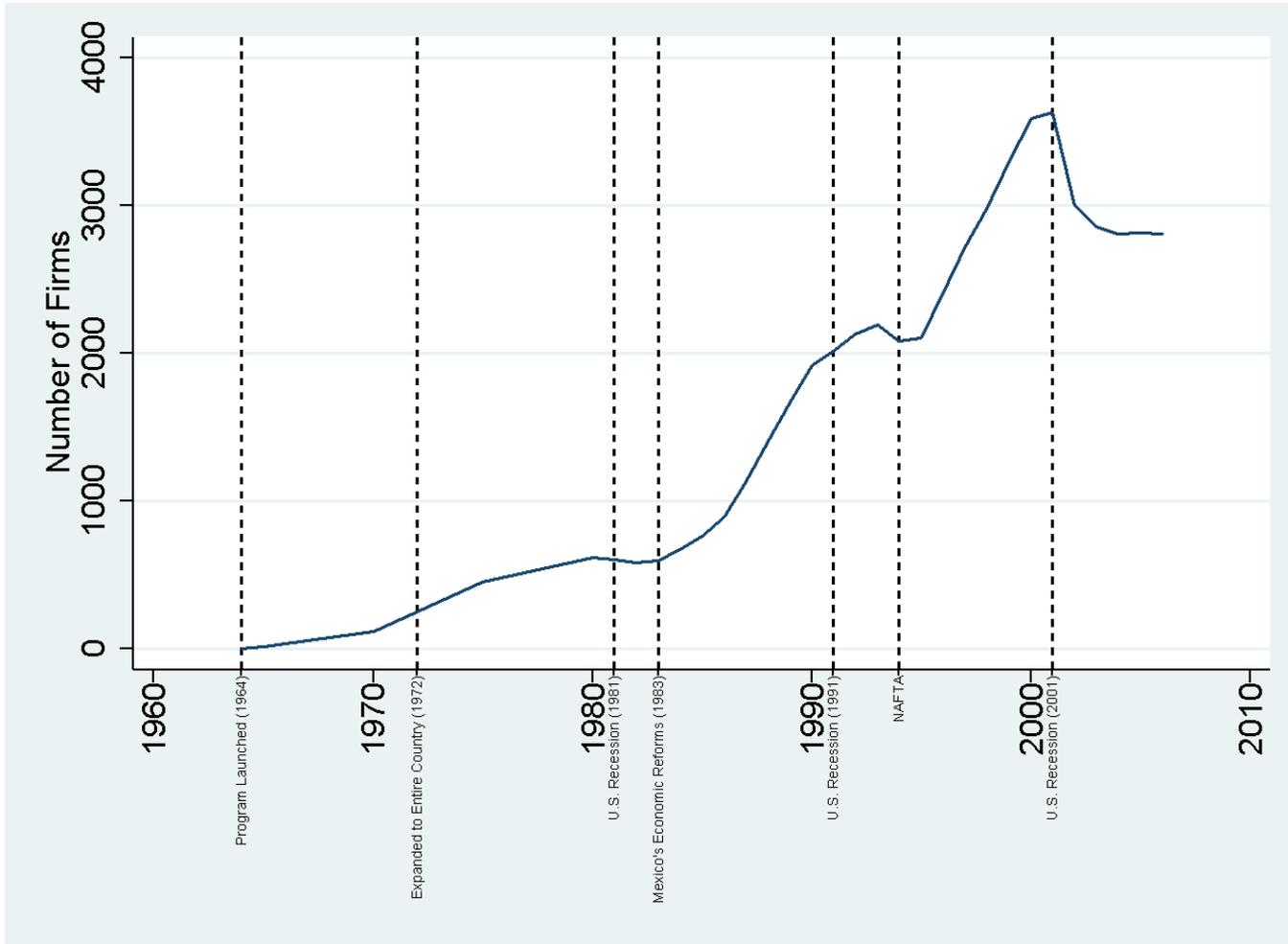


Figure 2: Historical Evolution of the Number of Foreign Manufacturing Firms in Mexico (1965 – 2006)

The Political Institutional Environment in Mexico

Mexico proclaimed its independence from Spain in 1821. The following 100 years brought significant internal political turmoil to the country. Political instability reached its climax during the Mexican Revolution in the 1910s (Bethell, 1987; Foster, 1997) with a total toll of 1.4 million deaths (McCaa, 2003), or about 10% of the country's total population in 1910 (Navarro, 1956). The end of the revolution was not a single discrete event but rather an amalgam of minor events. In 1917, Mexico promulgated its current constitution and by 1920, large scale military campaigns came to an end with the surrender of General Francisco (Pancho) Villa, former commander of the revolution's Northern Division. Despite the end of military hostilities in 1920, political rivalry among the different revolutionary factions remained high throughout the next decade (Knight, 1986; Slavicek, 2011). For instance, General Villa was assassinated in 1923 under the orders of Mexico's new President, General Alvaro Obregon (1920-1924). Villa had retired from the military arena in 1920, but his political rivalry with Obregon had remained high (Taibo II, 2008). General Obregon, the last surviving military leader of the revolution, was assassinated in 1928 by political rivals (Krause, 1999). Against this backdrop of intense political rivalry among the different revolutionary factions, President Plutarco Elias Calles (1924-1928) established the Institutional Revolutionary Party (Partido Revolucionario Institucional – PRI in Spanish) in 1929.

The creation of the Institutional Revolutionary Party was a landmark in Mexico's political history. The party was created with the intent to unify the different political factions that had participated in the Mexican Revolution. The unified party proved successful in bringing about political and social stability (Story, 1986). The PRI became the only arena where individuals aspiring to public office could compete, without letting political competition spill

over into the public arena, causing political and social turmoil. The PRI also managed to tame individual authoritarian ambitions while maintaining its corporate control over the Mexican state. The party did so by promoting the alternation of its members in the presidential office and by distributing other public offices among party members (Garrido, 1995; Story, 1986). The PRI was so successful that it maintained control over the Mexican state at all levels (federal, state and local) until the early 1980s.

Starting in 1983, the Institutional Revolutionary Party showed some signs of weakness. (Shirk, 2005). In the elections for mayor that took place that year, an opposition party won five cities in the state of Chihuahua¹. While it was the first time in history that the Institutional Revolutionary Party had lost an election, this was mostly a symbolic setback. In practice, the Institutional Revolutionary Party still controlled 99% (2,450 out of 2,455) of the cities in the country. It would take another decade for the opposition to make real headway at the city level. At the state and federal level, political transition would not start to occur until 1989 and 2000, respectively (Shirk, 2005).

When political transition finally arrived, it did so through two opposition parties that became the main political challengers to the Institutional Revolutionary Party. These parties were the National Action National Action Party (Partido Acción Nacional- PAN in Spanish) with a pro-market ideology and the Party of the Democratic Revolution (Partido de la Revolución Democrática – PRD in Spanish) with an anti-market leaning.

¹ The National Action Party (Partido Accion Nacional- PAN in Spanish)

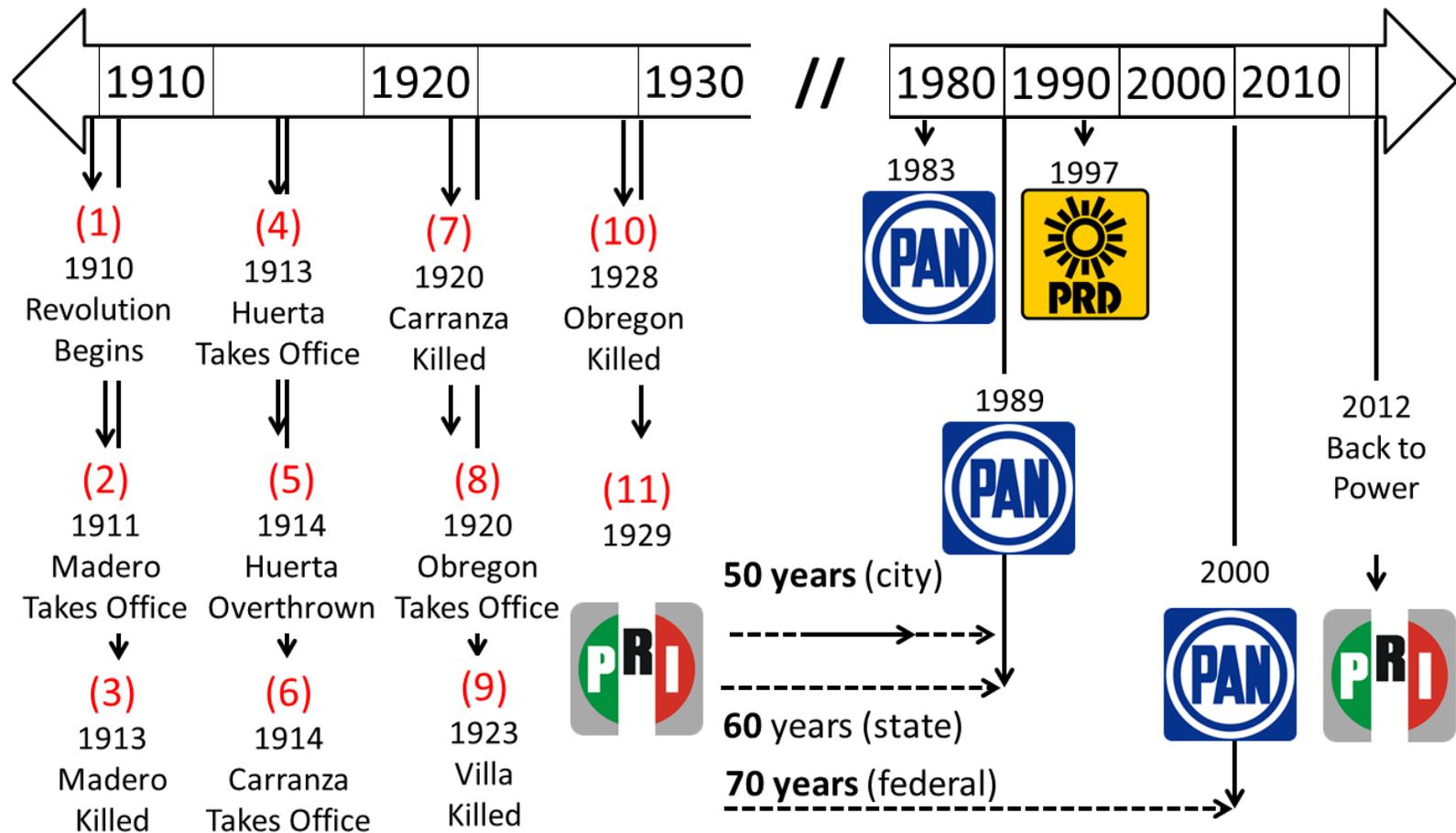


Figure 3: Political Environment in Mexico 1910 -2010

During the 1990s and 2000s, one of these two parties would snatch cities, states, and even the presidency from the Institutional Revolutionary Party (Magaloni, 2006). In so doing, these parties brought not only political transition, but also political fragmentation to the Mexican formal regulative pillar (Ríos, 2013). Figure 3 depicts the evolution of the political environment in Mexico between 1910 and 2010.

The formal regulative apparatus that had functioned as an extension of a single dominant party for decades was changing. The system was also evolving in divergent directions with states and cities being won by parties from often opposing ideologies. As a result, this was an unstable process with ongoing political transition. New parties in power did not have any guarantees of remaining in power. Elections were frequently hard fought between the two new opposition parties, and often the Institutional Revolutionary Party regained control of cities and states. The results were local transitions that differed in terms of ideological content and characterized by different levels of political instability and fragmentation within the formal regulative institutional apparatus (Ríos, 2013).

The rich and multilevel political dynamics of this setting provides a fruitful context to study how local political institutions affect MNE entry rates within the same economy. I test the theoretical framework about how the content, stability, and vertical structural fragmentation of local political institutions affect MNE entry rates. The observation window extends from 1997 to 2006. The data covers the 400 cities in Mexico that hosted at least one foreign manufacturing firm during this period. The data covers 4,600 foreign manufacturing firms, which represent the entire population of such firms entering into Mexico during that period.

METHODS & DATA

Data Sources

Data on the entire population of foreign manufacturing firms that opened operations in Mexico in the period from 1997 to 2006 came from the Mexican Census Bureau (Instituto Nacional de Estadísticas, Geografía e Informática - INEGI in Spanish). The data includes the total number of foreign manufacturing firms that opened operations by city, economic sector and entry dates. Overall, the data covers all 4,600 foreign manufacturing entries. Data on city level characteristics that may help explain foreign manufacturing entry was also obtained from INEGI. Data on political transitions came from the Research Center for Development (Centro de Investigación para el Desarrollo, A.C. – CIDAC in Spanish). CIDAC is a Non-Profit Organization (NGO) based in Mexico City that has compiled election result from 1985 to 2012. The original sources of this data were the 32 state-level electoral institutes, the official repository of the data.

Measures

Dependent variable (Entry): multinational enterprise entry is measured as the count of foreign owned manufacturing firm entry in a given city in a given year.

Independent variables:

Political Ideology at the Local Level: the political ideology of the local power-holder is measured by three dummy variables. The baseline, comparison or omitted, category measures whether a city is governed by the Institutional Revolutionary Party (PRI), the historical incumbent. The first indicator variable (**Local Pro-market Ideology**) measures whether a city is governed by the National Action Party (Partido de Acción Nacional – PAN in Spanish) in a given year. As explained earlier, the National Action Party holds a pro-market ideology and is

one of the two main challengers to the historically dominant Institutional Revolutionary Party (Partido Revolucionario Institucional- PRI in Spanish). The second indicator variable (**Local Anti-market Ideology**) measures whether a city is governed by the Democratic Revolution Party (Partido de la Revolución Democrática – PRD in Spanish) in a given year. As explained earlier, the Democratic Revolution Party holds an anti-market ideology is the other main challenger to the historically dominant Institutional Revolutionary Party (Partido Revolucionario Institucional- PRI in Spanish). A third indicator variable is included for completeness. This variable (**Minor**) measures whether a city is governed by a minor political party in a given year.

Local Political Instability: local political instability is measured by an indicator variable (*Local Political Instability*) capturing whether a city is experiencing political transition in a given year. In other words, the indicator variable captures the first year of an administration from a political party different from the one that governed the city in the previous three years (three years is the term of a mayor in Mexico).

Vertical Political Fragmentation (*Vertical Political Fragmentation*): vertical political fragmentation in a city is measured with the count of how many political parties occupy the three overlapping jurisdictions (federal, state and city) in a given year. This variable ranges from zero when the same political party controls all three jurisdictions, to two when each of these jurisdictions is controlled by a different political party.

Control variables:

I control for the geographic location advantages of the different cities. Central to the foreign manufacturing business model in Mexico is that raw materials are transported via trucks from the United States. The final product is also transported back to the United States via trucks. This is part of the reason that initially foreign manufacturing firms only tended to concentrate in

the states on the Mexican border. However, this pattern weakened in the last 20 years: by 2006 foreign manufacturing firms operated in 30 of the 32 Mexican states. Geographic location advantages are measured by the distance (*Distance*) between each city and the closest U.S. border crossing. This measure was constructed from data provided by the Mexican Census Bureau. I also control for the average wage level (*Income per capita*) in the city. Low wages are a main driver of foreign manufacturing entry into Mexico. This variable is measured by using per capita taxes in the city.

I also control for the size of the labor market. Availability of labor likely affects foreign manufacturing entry into Mexico. I measure this variable by the size of the population in the city (*Population*). Another factor that may affect whether foreign manufacturing firms enter into cities in Mexico is resource competition from alternative economic activities. Labor is one of the most important resources sought by foreign manufacturing firms in Mexico. One source of resource competition for incoming foreign manufacturing firms comes from existing foreign manufacturing firms. I account for this competitive dynamics by controlling for the *Density* and *Density square* of existing foreign manufacturing firms in the city. Another source of resource competition comes from agriculture, which is the main alternative economic activity. I account for resource competition from this alternative economic activity by controlling for the total harvested area in the city (*Agriculture*).

Another factor that may affect foreign manufacturing firm entry into Mexican cities is the real estate market. Manufacturing firms usually require substantial facility space. In highly crowded cities, like Mexico City (one of the world's most crowded cities), real estate is more expensive than in less crowded cities. I control for real estate cost (*Real estate*) by controlling for the per capita area in the city (Real Estate). All of this data comes from INEGI. The security

situation in a city is also likely to influence the entry rates of foreign manufacturing entry into Mexican cities. The country has long faced the presence of Drug Trafficking Organizations (DTOs), which have operated for in the country for decades. I measure the insecurity in a city with the number of homicides. Finally, I use year-specific dummies (*year*) to control for the time trend and year-specific shocks that may have affected all cities equally. Descriptive statistics and bivariate correlations are provided in Table 1.

Empirical Estimation

The dependent variable is a count of foreign manufacturing firms entering into Mexican cities. A linear model is not recommended for count data because of overdispersion in the standard errors. Two types of models that deal with overdispersed data are the Poisson and negative binomial. However, the data in this study also contains a large proportion of city-year observations where the response variable is zero (see Figure 4). In this case, zero-inflated-negative binomial models are preferable over conventional Poisson and negative binomial models (Cameron & Trivedi, 2005). I use a zero-inflated negative binomial model and cluster standard errors at the city-level to account for the non-dependence of multiple observations coming from the same city (Marquis & Lounsbury, 2007).

RESULTS

The estimates for the zero-inflated negative binomial model for MNE entry are presented in Table 2. The first model includes only control variables. The second model includes the dichotomous measures of the political ideology of the local power-holder (*Local Pro-Market Ideology; Local Anti-Market Ideology; and Local Minor Parties*) with the baseline category for PRI as the omitted reference category.

Table 1: Bivariate Correlations and Variable Descriptive Statistics

		Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
(1)	Annual Foreign Manufacturing Entry	0.91	3.87	0	82	1															
(2)	Foreign Manufacturing Density	0.08	0.38	0	7.21	0.90	1														
(3)	Foreign Manufacturing Density^2	0.15	1.89	0	51.98	0.79	0.88	1													
(4)	Distance	0.57	0.33	0	1.16	-0.20	-0.23	-0.13	1												
(5)	Income/Capita	1.23	0.83	0	7.28	-0.01	0.02	0.02	-0.33	1											
(6)	Agriculture	0.01	0.03	0	0.24	0.10	0.12	0.02	-0.06	0.01	1										
(7)	Real Estate	0.09	0.18	0	1.44	-0.08	-0.07	-0.03	-0.51	0.24	-0.08	1									
(8)	Population	0.12	0.23	0	1.69	0.49	0.50	0.33	-0.03	-0.004	0.17	-0.22	1								
(9)	Homicides	0.04	0.08	0	0.69	0.36	0.35	0.23	0.02	-0.04	0.13	-0.18	0.83	1							
(10)	Local Baseline Ideology (PRI)	0.55	0.50	0	1	-0.03	-0.02	0.003	-0.02	-0.06	-0.02	0.08	-0.15	-0.13	1						
(11)	Local Pro-Market Ideology	0.31	0.46	0	1	0.09	0.07	0.02	-0.04	0.04	0.04	-0.04	0.13	0.08	-0.74	1					
(12)	Local Anti-Market Ideology	0.07	0.25	0	1	-0.05	-0.05	-0.02	0.06	0.01	-0.04	-0.04	0.04	0.07	-0.30	-0.18	1				
(13)	Minor Parties	0.07	0.26	0	1	-0.04	-0.03	-0.02	0.06	0.04	0.01	-0.03	0.01	0.03	-0.31	-0.19	-0.08	1			
(14)	Local Political Instability	0.16	0.36	0	1	-0.01	-0.001	0.01	0.004	-0.01	0.01	-0.002	-0.02	-0.002	-0.14	0.08	0.05	0.08	1		
(15)	Vertical Political Fractures	0.90	0.71	0	2	-0.03	-0.01	-0.02	-0.15	0.28	0.05	-0.0001	0.08	0.11	-0.27	0.13	0.15	0.15	0.10	1	

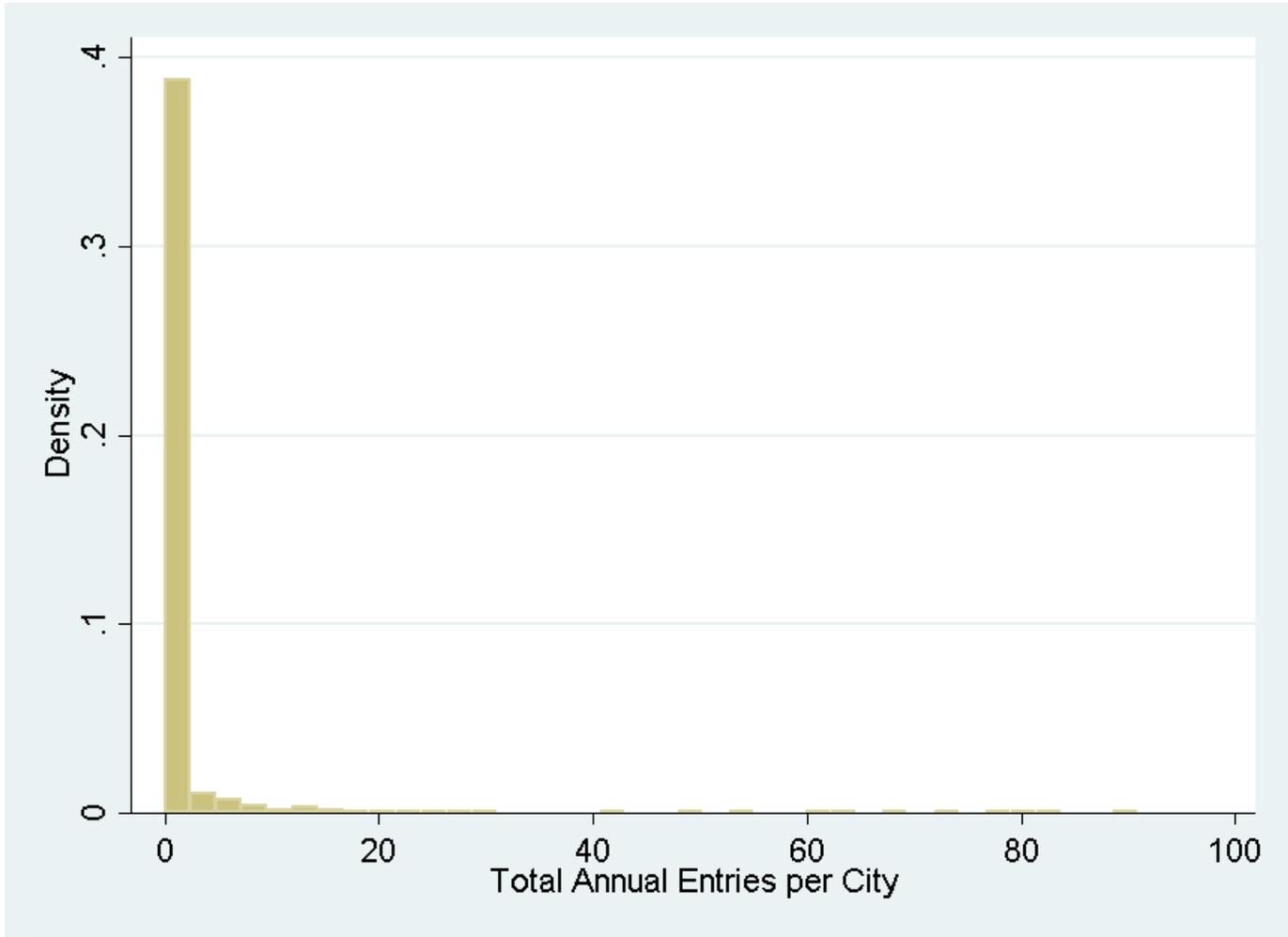


Figure 4: Histogram of the Dependent Variable: Annual City-level Foreign Manufacturing Entry

Table 2: Estimates of Zero-Inflated Negative Binomial Models for Foreign Manufacturing Firm Entry in Mexico 1997-2006
(Robust Standard Errors in Parentheses)

	Model 1	Model 2	Model 3	Model 4
Year Fixed Effects	Yes	Yes	Yes	Yes
Distance	-0.71 [^] (0.37)	-0.72 [^] (0.37)	-0.68 [^] (0.38)	-0.72 [*] (0.35)
Income/Capita	-0.01 (0.24)	0.06 (0.15)	0.05 (0.14)	0.03 (0.14)
Agriculture	-5.96 [^] (3.21)	-6.31 [^] (3.46)	-5.95 [^] (3.45)	-6.03 [^] (3.50)
Real Estate	-2.53 ^{**} (0.92)	-2.94 ^{***} (0.69)	-3.01 ^{***} (0.70)	-3.18 ^{***} (0.68)
Population (Millions)	1.92 ^{***} (0.38)	1.75 ^{***} (0.40)	1.74 ^{***} (0.40)	1.56 ^{***} (0.39)
Density	3.17 ^{***} (0.59)	3.04 ^{***} (0.55)	3.04 ^{***} (0.53)	3.00 ^{***} (0.54)
Density Square	-0.41 ^{***} (0.08)	-0.39 ^{***} (0.07)	-0.39 ^{***} (0.07)	-0.39 ^{***} (0.07)
Homicides	-2.03 [^] (1.09)	-2.00 [^] (1.02)	-1.95 [^] (1.02)	-1.50 (1.03)

[^] p<0.10; * p<0.05; ** p<0.01; *** p<0.001

Table 2 (Continued...)
 Estimates of Zero-Inflated Negative Binomial Models for Foreign Manufacturing Firm Entry in Mexico 1997-2006
 (Robust Standard Errors in Parentheses)

	Model 1	Model 2	Model 3	Model 4
<u>Hypothesis 1:</u>				
Local Pro-Market Ideology		0.33* (0.17)	0.34* (0.17)	0.45** (0.14)
Local Anti-Market Ideology		-0.98*** (0.23)	-0.93*** (0.24)	-0.78** (0.24)
Local Minor Parties		-0.10 (0.28)	-0.13 (0.28)	0.03 (0.28)
<u>Hypothesis 2:</u> Local Political Instability			-0.35* (0.15)	-0.33* (0.16)
<u>Hypothesis 3:</u> Vertical Political Fragmentation				-0.24* (0.11)
Number of Observations	2,426	2,426	2,426	2,426
AIC	3,786.93	3,761.50	3,759.79	3,755.65
Log lik.	-1,856.46	-1,837.75	-1,834.89	-1,830.83
Chi-squared	306.24	374.32	415.34	407.61
<u>Hypothesis 1: Wald Test</u>				
Chi2		24.67	24.32	24.20
Prob > chi2		0.0000	0.0000	0.0000

^ p<0.10; * p<0.05; ** p<0.01; *** p<0.001

Model 3 includes the effect of subnational political instability (*Local Political Instability*). Model 4, the full model, includes the effect of vertical political fragmentation (*Vertical Political Fragmentation*).

Across all models, several control variables had a statistically significant effect on foreign manufacturing firm entry into Mexican cities. The distance from the closest U.S. border crossings has a negative and marginally statistically significant ($p < 0.10$) effect in Models 1 through 3. The effect is negative and statistically significant ($p < .05$) in mode 4. The sign of the coefficients are in the expected negative direction. This supports the previous argument that distance to the U.S. border affects foreign manufacturing location strategy in Mexico.

Next, resource competition (over cheap labor) from alternative economic activities, in this case agriculture, has a marginally statistically significant effect ($p < 0.10$) in the expected negative direction. The real estate supply in a city has a negative and statistically significant effect on foreign-manufacturing entry into cities in Mexico. This result is contrary to our expectation that cities with more real estate supply would be more attractive for foreign manufacturing. On the contrary, the results suggest that foreign manufacturing tends to look for cities with high population density. The result aligns with our argument that labor availability is an important factor for foreign manufacturing location strategy. This interpretation is further supported by the positive and statistically significant effect that a city's population has on foreign manufacturing entry.

Finally, the agglomeration of preexisting foreign manufacturing firms in the city has the expected results. The linear term of density has a positive and statistically significant effect, suggesting a legitimizing effect of preexisting firms. The quadratic term of density has a negative and statically significant effect, suggesting a competitive effect. Together, these two results have

the typical density dependence interpretation (Carroll & Hannan, 2000). The number of pre-existing manufacturing firms in a city has a curvilinear (inverted-U) effect on new manufacturing entries into that city. Each additional pre-existing manufacturing firm increases new entry at a decreasing rate.

Turning to the main points of interest in Model 2, the effect of the subnational political ideology is supported. *Local Pro-Market Ideology* has a positive and statistically significant effect on entries, while *Local Anti-Market Ideology* has a negative and statistically significant effect on entries, both relative to the baseline category. Hypothesis 1 is further supported by a Wald test of differences between these two coefficients (see bottom of Table 2). The difference is in the expected direction and statistically significant ($p < .0001$). Cities where the local power-holder has a pro-market political ideology experience higher rates of foreign manufacturing entry than cities where the local power-holder has an anti-market political ideology.

Hypothesis 2 predicted that the political instability in a city would decrease foreign manufacturing entry rates. In line with this prediction, the coefficient for *Local Political Instability* is negative and statistically significant in Models 3 and 4. Cities experiencing political transition (i.e. political instability) have a lower rate of foreign manufacturing entry. Hypothesis 3 predicted that cities with more vertical political fractures within the hierarchical structure of government (federal, state and city) would have lower foreign manufacturing entry rates. Consistent with this prediction, the coefficient of *Vertical Political Fragmentation*, is negative and statistically significant in Model 4. Cities where the formal regulative institutional pillar is highly fractured politically experience fewer U.S. manufacturing entries.

DISCUSSION

In this paper, I examined how the ideological content, stability, and vertical fractures of subnational political institutions affect MNE entry rates into different locations within the same economy. I posit that while existing research has provided valuable insights into how cross-national differences in political institutions affect MNE strategy, we also need to understand the effect of subnational political differences. Extant research has implicitly assumed that national political institutions trickle down evenly in an economy. However, recent management literature has started to point out the importance of subnational institutional differences. Vastly different formal and informal rules of the game may prevail between sub-regions within the same economy. MNEs entering into a host economy often need to locate individual operations in a specific location within a country. This is a non-trivial choice, as subnational institutional differences are likely to affect the profitability, and even the overall viability, of MNE operations in a host economy (Ghemawat et al., 2011).

I theorize that subnational political institutions affect MNE location strategy within a host economy. Specifically, I examine differences in the ideological content, stability, and fragmentation of local political institutions. First, locations where political incumbents hold a pro-market power ideology have higher rates of MNE entry than do locations where political incumbents hold an anti-market ideology. Second, locations experiencing political instability experience fewer MNE entries. This result is consistent with previous research that has examined political instability at the national level. Political instability is a major deterrent of MNE entry (Henisz, 2000; Henisz & Delios, 2001).

Finally, I analyzed the effect of vertical political fragmentation, defined as the situation when different, potentially rival, political parties control overlapping jurisdictions (e.g. federal,

state, and city) (Kozhikode & Li, 2012). The empirical results support the theoretical prediction that locations with more political fractures attract fewer MNEs. Vertical and political fragmentation is a context ripe for power struggles between different and potentially rivaling political parties, as they control the different levels within the hierarchical and overlapping jurisdictional levels of government (federal, state, and local). Managing these potentially conflicting jurisdictions and the struggles between them is not only costly for organizations, but also likely to lead to the government providing fewer public services. Political incumbents who control the higher levels of government in the hierarchy may also actively discourage MNE entry into lower level jurisdictions controlled by political rivals.

This paper makes several theoretical contributions. First, it contributes to current research based on the institution-based view of strategy to study how institutional environments in general (Khanna, Palepu, & Sinha, 2005; Meyer, Estrin, Bhaumik, & Peng, 2009; Meyer & Nguyen, 2005; Meyer & Peng, 2005), and political institutions in particular, influence MNE location strategy in host economies. Specifically, the study contributes to the institution-based view of strategy literature by showing the relevance of subnational political institutions for MNE location strategy. The results not only illuminate current theory but also carry important practical and policy-making implications.

Second, the study opens the black box of government. Institutional theory has implicitly assumed that the institutional pillars (regulative, normative, and cultural-cognitive) are internally monolithic (Scott & Davis, 2015; Scott, 1995). Specifically, the dominant conceptualization of the formal regulative pillar (i.e. government) as a monolithic and homogenous institution has changed little since early neo-institutional formulations. The internal dynamics within the formal regulative pillar and the organizational consequences derived from these dynamics have received

little attention in the institutional literature. The study introduces the concept of institutional fragmentation to argue that the formal regulative pillar (i.e. the state) is not a monolithic institution. The study further distinguishes between horizontal and vertical institutional fragmentation and shows that vertical institutional fragmentation impacts organizational investment decisions.

Third, the study contributes to the expanding literature on institutional complexity. Extant literature defines institutional complexity as the coexistence of incompatible prescriptions from multiple institutional logics (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011). Institutional logics are overarching sets of principles that prescribe “how to interpret organizational reality, what constitutes appropriate behavior, and how to succeed” (Thornton, 2004; Friedland & Alford, 1991). Thornton, Ocasio, & Lounsbury (2012) identify seven types of institutions, each with its own institutional logics. These institutions are the family, community, religion, state, market, professions, and corporation. This literature posits that organizations and individuals face institutional complexity when they find themselves in the crossfire between the competing, often colliding, prescriptions from these seven institutions (Goodrick & Reay, 2011; Greenwood et al., 2011; Kraatz & Block, 2008; Pache & Santos, 2010; Thornton et al., 2012). While providing fruitful insights into how organizations and individuals manage such competing pressures, this literature has largely assumed that each of the seven institutional spheres is internally cohesive. This study shows that the state is not necessarily an internally cohesive institution. Future research could explore disconnectedness within other the other institutional spheres identified in this literature.

Fourth, the study contributes to the literature exploring how MNEs respond to political hazards (Henisz, 2000; Henisz & Delios, 2001). The bulk of this literature has focused on cross-

country studies or studies of the same country over time, but has assumed that political hazards at the national level are felt equally within the same economy. The study contributes to this literature by showing that subnational political hazards originate from political transitions at the local level. I also show that subnational political hazards affect multinational enterprise location within the same economy.

Fifth, the theory and results have implications for the expanding research on non-market strategy (Bonardi, Holburn, & Bergh, 2006; Holburn & Bergh, 2008; Bonardi, Hillman, & Keim, 2005). Extant research on non-market strategy has shown that horizontal political fragmentation at the national level of government (e.g. between the executive and the legislature) impacts the effectiveness of an organization's non-market strategy. I show that local political dynamics also affect organizations. Future research on non-market strategy could explore whether coping with local political dynamics require different kinds of strategies from organizations than do national political dynamics. Future research could also explore how national and local political dynamics interact to shape the effectiveness of organization non-market strategies.

CONCLUSION

In this paper, I develop, and find empirical support for a theoretical framework on how subnational political institutions affect MNE location strategy within a host economy. Specifically, the study examines how the content, stability, and vertical fragmentation of local political institutions influence where MNEs locate new operations within an economy. The study extends existing research from the institution-based view of strategy (Peng, 2002, 2003; Peng & Luo, 2000; Peng, Sun, Pinkham, & Chen, 2009); which studies how host-country institutions affect MNE location strategy in emerging economies (Meyer, 2001; Hoskisson, Johnson, Yiu, & Wan, 2001; Peng, 2003; Filatotchev, Wright, Uhlenbruck, Tihanyi, & Hoskisson, 2003; Meyer &

Peng, 2005b; Kostova, Roth, & Dacin, 2008). Locations with anti-market, unstable, and vertically fractured political institutions attract fewer MNEs.

The theory and empirical findings further contribute to institutional theory in two ways. First, I conceptualize the formal, regulative institutional pillar (i.e. the state) as a hierarchy of institutions with potentially overlapping jurisdictions, which may be at odds with each other. In so doing, I bring a fresh perspective into existing neoinstitutional conceptualizations of the formal regulative institutional pillar (Scott & Davis, 2015; Scott, 1995). Second, the concept of vertical institutional fragmentation is relevant for recent research on institutional complexity (Greenwood et al., 2011; Kraatz & Block, 2008; Thornton et al., 2012). Institutional complexity has so far been conceptualized as the situation when an individual or organizations faces competing pressures from competing institutional spheres (the family, community, religion, state, market, professions and corporation). However, the pervasive assumption in this line of research is that each of these institutional spheres is internally cohesive. I show that at least one of these institutions, the state, is actually a multifaceted institution. The theory and results are also relevant to existing work on political hazards affect MNEs (Henisz, 2000; Henisz & Delios, 2001). Extant work has theorized that horizontal political fragmentation (i.e. among institutions at the same level within the formal regulative institutional structure) at the national level provides policy stability, which benefits organizations. I show that vertical political fragmentation within the hierarchal structure of the formal regulative institutional pillar also affects MNE location strategy. Finally, the theory and results point to future directions for non-market strategy research (Bonardi, Holburn, & Bergh, 2006; Bonardi, Hillman, & Keim, 2005; Holburn & Bergh, 2008).

CHAPTER 2: LEVIATHAN'S LOST GRIP: PUBLIC DISORDER, ARMED NON-STATE ACTORS AND MULTINATIONAL ENTERPRISE (MNE) ENTRY RATES

“Hereby it is manifest that, during the time men live without a common power to keep them all in awe, they are in that condition which is called war, and such a war as is of every man against every man. [...] In such condition, there is **no place for Industry** [emphasis added]; because the **fruit thereof is uncertain** [emphasis added] [...] and which is worst of all, continual fear, and danger of violent death; And the life of man, solitary, poor, nasty, brutish, and short.” (Thomas Hobbes, Leviathan)²

INTRODUCTION

Examining the relationship between government and organizations has recently reemerged as an active area of management inquiry (Pearce, Dibble, & Klein, 2009; Ring, Bigley, Aunno, & Khanna, 2005). By providing (or failing to provide) legal, regulatory (Fligstein & Calder, 2001; Scott, 1995a) and physical infrastructure, governments exert enormous power over organizations. For example, recent literature has found that government action can stimulate new industry creation (Sine & Lee, 2009; Spencer, Murtha, & Lenway, 2005) and affect a host of organizational characteristics, such as organizational form (Khanna & Palepu, 2000; Khanna & Rivkin, 2001), structure (Kalev, Shenhav, & De Vries, 2008; Zucker, 1986; J. W. Meyer & Rowan, 1977), strategy (Bonardi, Holburn, & Bergh, 2006; Bonardi et al., 2005a; Peng, 2003a), governance mechanisms (Kim & Prescott, 2005), competitive capabilities (Griffiths & Zammuto, 2005; Hitt et al., 2004; Murtha & Lenway, 1994) and even organizational outcomes, such as performance (Pearce, Xin, Xu, & Rao, 2011; Peng & Luo, 2000).

² Hobbes, Thomas (1651). Chapter XIII. Leviathan.

Despite this recent surge in attention, most research to date is yet to examine how government³ failure to guarantee its most basic and defining function: the provision of public order (Brewer, Guelke, Hume, Moxon-Browne, & Wilford, 1988; Tilly, Evans, Rueschemeyer, & Skocpol, 1985; Weber, 1946) affects organizations (Hiatt & Sine, 2014). This trend has certainly been the case for management research, starting with Weber's (1922) focus on the progressive diffusion of bureaucracy from the public domain to other organizational spheres; early neo-institutional research examining the symbolic and coercive influence of the state (Meyer & Rowan, 1977; Tolbert & Zucker, 1983; DiMaggio & Powell, 1983); more recent research analyzing the effect of state policy on individual organizations (Briscoe & Safford, 2008) and entire industries (Hiatt, Sine, & Tolbert, 2009; Sine & Lee, 2009); and research examining the multiple institutional pressures, including that exerted by the state, on organizations (Pache & Santos, 2013; Thornton, Ocasio, & Lounsbury, 2012). Perhaps because of its focus on advanced economies, existing research has not paid sufficient attention to how the state's inability to guarantee public order, defined as the absence of actions that disrupt the operations of society and impair other people's ability to function freely (Siegel & McCormick, 2010), affects organizations and their strategies.

Even studies that explicitly examine the effect of cross-national institutional differences on organizations, an area of research one would expect to have noticed differences in the levels

³ Although government and state are distinct constructs in political science, this article treats them interchangeably. This is justified in terms of the focus of the present study, which makes this distinction unimportant. In political science, a state is defined as a political unit considered sovereign with a defined territory, people, and a central government responsible for administration. A government is defined as the institutions and people responsible for carrying out the affairs and administration of said political unit. Strictly speaking, the present study focuses on the government's inability to secure the control of the state over parts of its territory. From this perspective, failure to exercise control over a portion of territory is both a state and a governmental failure. Hence, for the purposes of this study, the subtle difference between state and government, that may very well be relevant for other studies, are relatively unimportant. The crux of the study is the formal (both governmental and state) institutional failure to provide public order and its effect on MNE entry.

of public order around the world, have overlooked this question. Extant research has focused on how the origin of the legal system (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000), policy stability (Henisz, 2000), electoral business cycles (Vaaler, 2008) and formal political institutional transitions (Meyer, Estrin, Bhaumik, & Peng, 2009; Peng, Wang, & Jiang, 2008; Meyer & Peng, 2005; Hoskisson, Eden, Lau, & Wright, 2000) affect organizations. However, this literature has overlooked the larger institutional context in which these more specific institutions function. Stable markets, the enforcement of contracts, and strong property rights are all underpinned by the state's capacity to impose public order. Our lack of research in this area represents a glaring hole in our theory of how institutions affect organizations. Hence, understanding this question has substantial theoretical importance.

Examining how state failure to provide public order affects organizations is also important for practical reasons. First, the modern state that is capable of guaranteeing public order is only a recent institutional development (Weber, 1946). It has existed for only a brief period of time in human history, and there is no guarantee that it will exist indefinitely (Fukuyama, 2014). Second, even the most advanced states today are not always able to guarantee public order within their borders all the time. For instance, the United States experienced public disorders as recently as 2014 and 2015 in Ferguson, Missouri and Baltimore, Maryland, respectively.

Third, even in the absence of widespread public disorder, the state is not always able to protect legitimate organizations from armed non-state actors (ANSAs), defined as armed non-government organizations that seek to control territory within a formally constituted state (Bailes, Schneckener, & Wulf, 2007). For example, since the early 1930s, the American Cosa Nostra, or American Mafia, has victimized, blackmailed, and infiltrated legitimate business

organizations in New York City, Chicago, and Las Vegas. The main tactic deployed by La Cosa Nostra to sustain its grip has been violence and the threat of violence (Marine, 2006), , precisely the terrors against which the state is supposed to protect its citizens. La Cosa Nostra had ongoing operations in New York City as recently as 2015 (The New York Times, 2016). These examples illustrate that armed non-state actors have important effects on legitimate business organizations, even under the veil of public order in developed economies. While public order is the norm in developed economies, this examples illustrate that state protection may fall short of the ideal.

Fourth, government failure to guarantee public order is ubiquitous in many parts of the world, particularly in emerging and developing economies (Bates, 2015; Berdal & Malone, 2000; Kingston & Spears, 2004; Migdal, 2001, 1988). This is important in its own right because the majority of organizations operate in developing and emerging economies (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). Therefore, if we are to develop a generalizable theory of how government affects organizations, examining how its failure to provide public order affects organizations outside developed economies is important.

Finally, state failure in emerging economies is also relevant for organizations from the developed world, particularly for multinational enterprise (MNE). MNEs from developed economies have increased their operations in emerging and developing markets over the last three decades (Peng, Wang, & Jiang, 2008). Hence, MNEs are likely to face this type of state failure, if not in their domestic, in their foreign operations. The following section develops theory and hypotheses on how formal government failure to provide public order and the ensuing competitive dynamics among armed non-state actors seeking to occupy this institutional void affect MNE location strategy within a host economy.

THEORY AND HYPOTHESES

This section develops theory on how state failure to impose public order and the ensuing competitive dynamics among armed non-state actors seeking to occupy this formal institutional void, affect multinational enterprise location strategy. The following subsections explore each of these issues in turn.

Public Disorder and MNE Entry

Academic interest in the role of an effective state, defined as one capable of imposing public order over its territory, as a precondition for business enterprise dates back to *Leviathan* (Hobbes, 1651). Writing in the midst of the English Civil War (1642–1651), Thomas Hobbes was the first academic to articulate the importance of the state as a guarantor of public order for business enterprise. Absent protection to the life and the property of individuals, the fear of violent death and property loss trumps any incentives to invest. An effective state enables individuals to move beyond their preoccupation with daily self-preservation to devote time and effort to business activities. Hobbes was ahead of his time in recognizing the impact of uncertainty on private enterprise, a theme that was picked up over 300 years later in the management literature (see for example, Scott & Davis, 2015, 2001; Powell & DiMaggio, 1991; DiMaggio & Powell, 1983). He also showed formidable foresight in identifying fear of violence as a potent form of uncertainty driving behavior, a conclusion supported by modern research in psychology (Solomon, Greenberg, & Pyszczynski, 1991). However, probably due to Hobbes's positioning as a political theorist, contemporary organization scholars have paid little attention to the implications of these insights for the theory and practice of management.

This section examines how a host government's failure to guarantee public order in its territory affects multinational enterprise (MNE) location strategy within that territory. Existing research has shown that public disorder in a host economy deters MNE entry (Plourde, Parker, & Schaan, 2014; Calvano, 2008; Blomberg & Mody, 2005). There are at least three reasons for this prediction. First, environments experiencing public disorder carry an increased risk of physical harm to both MNE property and personnel. This increases the risk not only for investors who may suffer property losses and damages, but also for employees and managers who may not be willing to relocate to these environments because of the increased risk of losing their lives. Second, public disorder is likely to disrupt firm operations. These disruptions decrease firm profitability, making MNE managers and owners wary of entering into such environments. Third, these locations carry increased environmental complexity because firms need to manage additional sources of uncertainty. Managing this increased complexity is costly, both in terms of finances and managerial effort.

However, very little research to date has examined whether different types of public disorder affect MNE entry differently. Given the discussion in the preceding paragraph, one may expect all types of public disorder to affect MNEs equally. Nonetheless, recent research has shown that only certain types of public disorder, such as those originating from labor disputes, seem to affect MNE entry (Evrensel & Kutan, 2007). Here, I distinguish between two types of public disorder: organized public disorder (OPD) and unorganized public disorder (UPD). Organized public disorder (OPD) is defined as being carried out by organizations, while unorganized public disorder (UPD) is not.

I argue that while both types of public disorder may have a negative impact on MNE entry, organized public disorder will have a stronger negative effect for at least two reasons.

First, organized public disorder is more effective in disrupting the normal functioning of society. Tilly, Evans, Rueschemeyer, & Skocpol (1985) argue that the level and scale of organization is the key characteristic that allows coercive actors⁴ to exert their power. I build on this insight to argue that organized public disorder (OPD) will tend to be better coordinated, and hence will be more effective at disrupting the normal functioning of society, including that of MNE personnel and operations. Second, organized public disorder (OPD) is likely to garner more media attention. The media feeds on news and organized public disorder tend to make better news than random acts of public disorder. For example during the late 1980s and early 1990s, Colombia was plagued with homicides executed both by common criminals and the infamous Cali and Medellin drug cartels. While the domestic and international media provided ample coverage of inter-cartel killings, it virtually ignored other types of homicides. Locations where homicides were predominantly cartel-related received a disproportionate amount of media coverage relative to locations where homicides were predominantly non-cartel related.

Moreover, recent research has shown that media coverage is an important determinant of MNE entry (Kulchina, 2014). Foreign investors seem to rely on the media for information on foreign locations. Hence, the disproportionate negative media coverage received by locations experiencing organized public disorder (OPD), as opposed to those experiencing only unorganized public disorder (UPD), will tend to discourage MNE entry into the former. Combining both of these arguments, organized public disorder (OPD) will not only have a stronger disruptive effect on the actual functioning of society than that of unorganized public disorder (UPD), but will also tend to be less attractive to foreign investors, due to a disproportionate higher level of negative media coverage. Hence, the negative effect of

⁴ Including bandits as well as states

organized public disorder (OPD) on MNE entry will be stronger than that of unorganized public disorder (UPD). Thus, I hypothesize that:

Hypothesis One: The negative effect of organized public disorder (OPD) on MNE entry will be stronger than that of unorganized public disorder (UPD)

The Competitive Dynamics of Organized Disorder

The previous subsection introduced the distinction between organized and unorganized public disorder. So far, I have only hypothesized about the relative effects of the former versus the latter. Here, I drill down on the competitive dynamics among the actors who are driving organized public disorder. Given how the construct was defined above, these actors are actually organizations. I examine the competitive dynamic among these organizations and how this dynamic influences MNE entry. For ease of discussion, I focus on a particular type of organization that is particularly well suited to engage in public disorder, namely armed non-state actors (ANSAs);, defined as armed non-government organizations that seek to control territory within a formally constituted state (Bailes et al., 2007). Armed non-state actors can challenge both the state and each other through the means of arms.

I start by considering how the presence of ANSAs impacts MNE entry rates. Specifically, I posit that the presence of ANSAs will have a negative impact on MNE entry for at least four reasons. First, whenever ANSAs are present, there will be the potential for confrontation between the state and ANSAs and among ANSAs themselves. If confrontations were to materialize, they would likely disrupt MNE operations and pose a danger to the firm's property and personnel. Second, the mere presence of an ANSA increases environmental complexity. Managing the increased complexity depletes firm financial and managerial resources. Third, ANSAs often demand bribes from firms operating in their territory. Besides the obvious financial

cost of paying such bribes, MNEs face the risk of legal sanctions by their home country. Legal sanctions represent not only a financial burden, but may also damage the firm's reputation and legitimacy (Briscoe & Safford, 2008; King, 2008). For instance, Chiquita Brands (formerly the United Fruit Company) was fined with 27 million USD by the U.S. Department of Justice in 2007 for paying protection bribes to violent non-state actors (VNAs) in Colombia⁵. Finally, even with the absence of public disorder and extortion by ANSAs at the time of entry, MNEs are likely to avoid entry into locations where ANSAs operate. MNEs typically have long-term investment horizons. Hence, these firms are not only concerned with the immediate conditions at entry, but also with the long-term prospects in their host locations. To the extent that ANSAs are present, there will always be the potential for public disorder and/or extortion in the future. Hence, I hypothesize that:

Hypothesis Two: The presence of armed non-state actors (ANSAs) will have a negative effect on MNE entry

Another factor affecting MNE entry is the intensity of ANSA activity. Focusing exclusively on the presence of ANSAs is not enough. ANSAs do not have the capacity to operate with the same intensity everywhere. In fact, not even the state is capable of the same degree of surveillance everywhere. So while ANSAs may be present in a territory, their level of activity is likely to vary. For the same reasons expounded for Hypotheses Two, a higher intensity of ANSA activity will increase the uncertainty and environmental complexity faced by MNEs. Hence, I hypothesize that:

Hypothesis Three: The intensity of ANSA activity will have a negative effect on MNE entry

⁵ These included payments to Colombian Revolutionary Armed Forces (FARCs in Spanish), the United Self-Defense Forces of Colombia (AUC in Spanish), the Colombian para-military, and the National Liberation Army (ELN in Spanish)

Finally, I consider the competitive dynamics among ANSAs. Prior research has shown that a single dominant ANSA may be able to impose order in an otherwise chaotic environment. By doing so, a dominant ANSA may actually decrease uncertainty and promote business activity (Boege, Brown, Clements, & Nolan, 2008; Hagmann & Höhne, 2007; Menkhaus, 2007). For example, when Pablo Escobar's drug trafficking organization controlled the city of Medellin in Colombia, the cartel provided order and even public services, such as schools, bridges, roads, and health clinics (Simons, 2004; J. Pearce, 1990). This in turn favored legitimate business activity. However, once another ANSA, the Cali cartel, started challenging the dominant position that Escobar's cartel enjoyed in Medellin, the situation soon deteriorated into violent confrontation and public disorder (Bowden, 2001), which had a direct negative effect on legitimate business activity (Gugliotta & Leen, 2011; Melguizo & Cronshaw, 2001). Whether ANSA activity will result in order or chaos is not a foretold conclusion; it depends on the competitive dynamics among ANSAs. High levels of ANSA competition increases the potential for disorder, and, therefore, increases uncertainty. Hence, MNEs will be more likely to enter into environments with low levels of ANSA competition than into those with high levels of ANSA completion. I hypothesize that:

Hypothesis Four: Lower competition among non-state actors (ANSAs) will have a positive effect on MNE entry

The theoretical framework in Figure 5 summarizes the hypotheses.

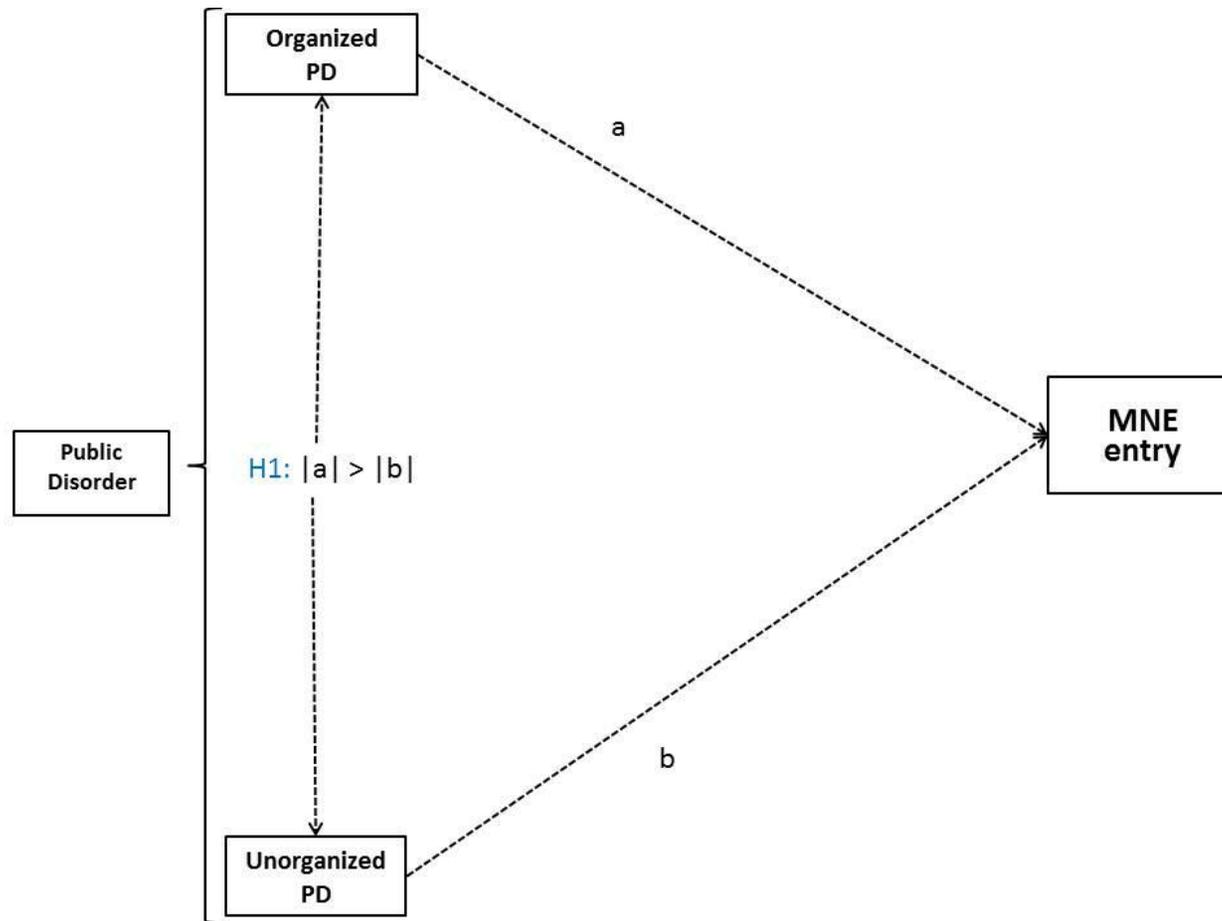


Figure 5: Theoretical Model on the Relative Effect of Organized vs. Unorganized Public Disorder on MNE Entry

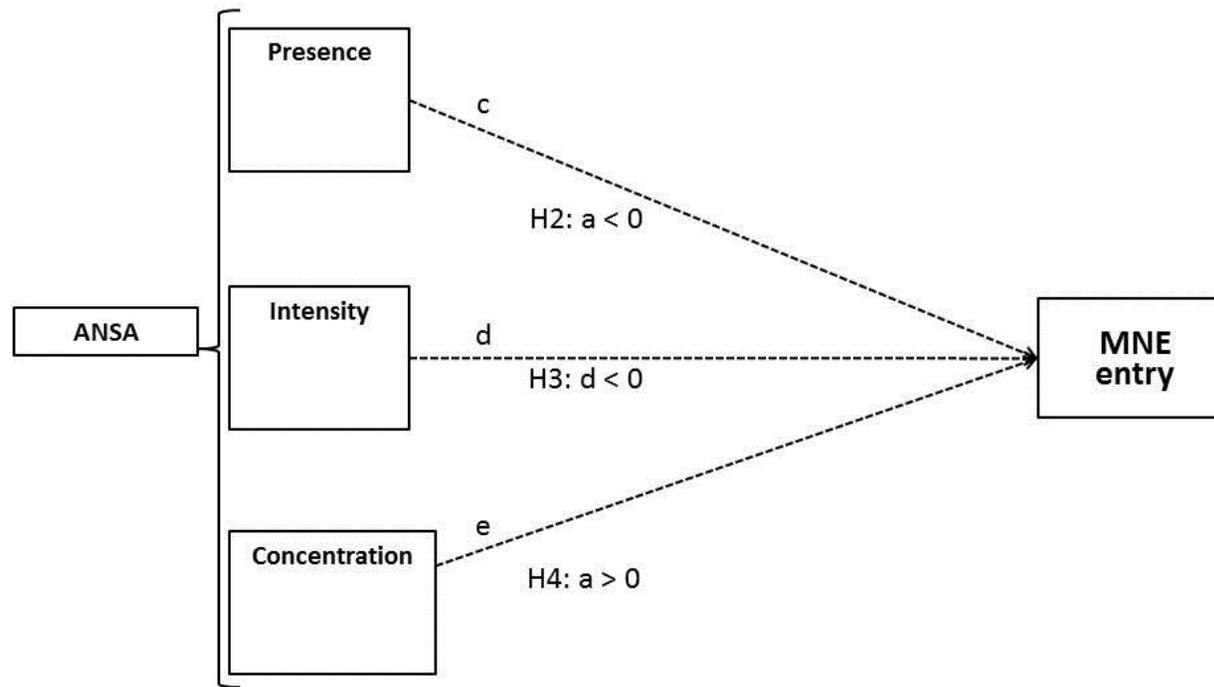


Figure 5: (Continued...) Theoretical Model on the Relative Effect of Organized vs. Unorganized Public Disorder on MNE Entry

EMPIRICAL CONTEXT

I test these hypotheses in the context of foreign manufacturing firms opening new operations in Mexico from 2000 to 2006. During this time, Mexico experienced large spatial and temporal variations in state punitive capacity, organized and unorganized public disorder, and competition among armed non-state actors (ANSAs). Also, 2,500 foreign manufacturing plants opened in 282 Mexican cities during this period. In this section, I describe the foreign manufacturing industry and the operations of armed non-state actors (ANSAs) in Mexico.

Foreign Manufacturing Firms in Mexico

Foreign manufacturing firms constitute an important sector of the Mexican economy. The first wave of foreign manufacturing firms in Mexico started in 1965 when the Mexican government first introduced the Border Industrialization Program (Hansen, 2003). Mexico launched the program in an effort to curb high levels of unemployment in the country's northern region (some of the largest northern cities had unemployment rates ranging from 40% to 50% in 1965). Under this program, foreign manufacturing firms could import raw materials, components, and capital equipment into Mexico duty-free. Foreign personnel required for training, management and factory maintenance could also enter the country. Mexican duties would only be paid on the part of the manufacturing done in Mexico.

The Border Industrialization Program promised jobs in one of Mexico's poorest regions, and access to a cheap and abundant labor for foreign manufacturing firms. The program was originally restricted to a 12.5 mile wide strip along the 1,954 mile long Mexico-U.S. border. Foreign investment started pouring in 1966 and in 1967, a total of 57 foreign manufacturing

firms were already operating and employing 4,257 workers. Mexicali, Tijuana, and Ciudad Juarez were the first cities to receive these investments. In 1972, a revision to the program allowed foreign manufacturing plants to open in the interior of the country. By 1974, the number of foreign manufacturing firms reached 455 that employed 76,000 Mexicans (Hansen, 2003).

In 1983 an inflection point occurred for foreign manufacturing firms in Mexico. President Miguel de la Madrid's new administration (1982-1988) implemented neoliberal economic reforms that greatly increased the country's attractiveness for foreign manufacturing firms (Wilson, 2010). During Madrid's administration the number of firms more than doubled from 585 to 1,396 firms, and the number of jobs in the industry almost tripled from 127,048 to 369,489. The North American Trade Agreement (NAFTA) gave another great boost to the industry when it came into force in 1994. Between 1994 and 2001, the number of firms increased substantially from 2,143 in 1994 to 3,735 in June 2001 (See Figure 2 in Chapter 1). At their peak in 2001, foreign manufacturing firms employed 1.3 million workers in Mexico (Mexican Census Bureau, 2007). This represented 77 billion USD in exports, or about 48.7 % of total Mexican exports (Central Bank of Mexico, 2015a, 2015b). The early 2000s saw the failure of many firms due to a recession in the United States and increased competition from China (Utar & Ruiz, 2013a). However, these firms still played a major role in Mexico's economy at the end of 2006, totaling 2,783 firms that employed 1.2 million workers (Mexican Census Bureau, 2007) and exported 112 billion USD, or about 44.7% of the country's total exports (Central Bank of Mexico, 2015a, 2015b).

Public Disorder and Armed Non-State Actors (ANSAs) in Mexico

Mexico proclaimed its independence from Spain in 1821. The following 100 years brought significant internal political turmoil to the country. Political violence reached its climax during the Mexican Revolution in the 1910s (Foster, 1997; Bethell, 1987). By the early 1930s, violence had given way to a reasonably politically stable state (Story, 1986). However, just as the Mexican state emerged out of political violence, organized crime brewed in the shadows (Recio, 2002; Bailey & Godson, 2000). Organized crime has recently become a major source of organized public disorder in Mexico (Osorio, 2015; Rios, 2014; Ríos, 2013). The following two subsections describe the dynamics of public disorder and competition among Drug Trafficking Organizations (DTOs), the most important type of armed non-state actor (ANSA) operating in Mexico during this period.

Drug Trafficking Organizations and their Competitive Dynamics in Mexico

Historically, organized crime in Mexico has concentrated in the areas bordering the United States. The origin of modern drug cartels in Mexico dates back to two distinct groups of organized criminals that emerged between 1930 and 1970, one group based in the Gulf coast and another based in the Pacific coast. The Gulf coast has been the historical turf of the Gulf cartel and its private army, the now independent Zeta cartel. The Pacific coast was the turf of the Guadalajara cartel, which split into the three different factions, namely the Sinaloa, Juarez and Tijuana cartels, in 1989. The Milenio cartel, a smaller group, has also operated in the Pacific since the late 1970s. The section below explains the changing landscape of on non-state violence among drug cartels in Mexico (Grillo, 2012; Astorga Almanza, 2005).

Drug Trafficking Organizations in the Gulf Coast

The origins of organized crime in Mexico dates back to the 1930s when Juan Nepomuceno Guerra (1915-2001) started an illegal organization that smuggled alcohol from the state of Tamaulipas, an area bordering the United States and the Gulf of Mexico, into the United States during the nation's Prohibition Era (1920-1933). When the United States ended the Prohibition, Guerra's organization switched to trafficking marijuana and opium poppy (Astorga Almanza, 2005). By the 1970s, Guerra's organization came to be known as the Gulf Cartel for its traditional control of the coastal territory along the Gulf of Mexico (Atlantic coast) and started trafficking cocaine.

In 1993, the Gulf cartel, now under the leadership of Juan Garcia Abrego (Guerra's nephew and successor), established peace agreements with the Tijuana, Sinaloa, and Juarez cartels. Garcia Abrego was incarcerated in 1996, and Osiel Cardenas Guillen emerged as the new leader of the Gulf cartel. Cardenas Guillen not only broke the previous alliances that the Gulf cartel held with the Pacific coast cartels, but he also recruited a group of elite Mexican and Guatemalan army soldiers to build a private "hit" army. This army became known as the Zetas, which sought to conquer the other cartels' territories and drug smuggling routes.

Cardenas Guillen was arrested in 2003. While in prison, Cardenas Guillen formed an alliance with Benjamin Arellano Felix, the leader of the Tijuana cartel who was being held in the same prison. As a result of this alliance, the Tijuana cartel has functioned as an appendage of Gulf cartel since 2003 (De la O, 2011). In 2007, Cardenas Guillen was extradited to the United States. His extradition led to a power vacuum that ultimately led to a violent separation of the Zetas from the Gulf cartel (Ravelo, 2012). The Zetas became an independent cartel in 2008. In 2012, infighting broke within the Zetas. As of 2015, the Zeta cartel was fighting its former

employers, the Gulf cartel, as well as the Pacific coast cartels. The Gulf cartel still operated in the states of Mexico, Tamaulipas and Monterrey.

Drug Trafficking Organizations in the Pacific Coast

In the late 1960s, Pedro Aviles Perez started an illegal organization dedicated to trafficking marijuana and opium poppy into the United States. Aviles's organization, eventually known as the Guadalajara Cartel, operated along the Mexican Pacific coast (Lupsha, 1991). In 1978, Aviles died in a shootout with the Mexican police, and his nephew, Miguel Angel Felix Gallardo, became the new leader of the organization. In the 1980s, the Guadalajara cartel reached its peak under the command of Felix Gallardo when this cartel came to dominate virtually all drug trafficking from Mexico into the United States. However in 1989, a major external shock fragmented the organization. Felix Gallardo was arrested after being accused and convicted for his involvement in the torture and assassination of the United States Drug Enforcement Agent (DEA), Enrique ("Kike") Camarena, in 1985. Camarena's case shocked the American public and led to diplomatic tensions between the United States and Mexico. In 1989, Mexican authorities captured Felix Gallardo, along with other leaders of the Guadalajara Cartel (Beith, 2010).

Felix Gallardo tried to maintain control over his organization from prison, but he decided to divide his turf among his lieutenants after he was transferred to a maximum security prison and could no longer exercise direct control over the organization. The agreement for the division of territory took place in a summit in the city of Acapulco in late 1989. Three distinct factions emerged from this agreement, namely the Tijuana, Sinaloa and Juarez cartels. Under the terms of the agreement, these new "sibling" cartels were to cooperate and pay fees to each other for the use of their respective drug smuggling routes (Ravelo, 2007; Astorga Almanza, 2005). However,

alliances and rivalries soon emerged among these cartels. The Tijuana cartel's territory and routes (including Tijuana, a city bordering San Diego, and most of Mexico's northwestern border) were highly valuable for their proximity to the United States. The Sinaloa and Juarez cartels owed rents for their drug shipments en route to the United States via the Tijuana cartel's territory. The Sinaloa and Juarez cartels soon claimed that the terms of the 1989 Acapulco agreement had been designed to give an unfair advantage to the Tijuana cartel, controlled by the Arellano Felix brothers, nephews of the former big boss Felix Gallardo who had decided on the division of territory. The claim was that all three cartels needed to send their shipments through the border region in order to reach the United States. By making the border region an exclusive turf of the Tijuana cartel, Felix Gallardo had effectively doomed the Sinaloa and Juarez cartels to be vassals to his nephews (Valdés, 2013; De la O, 2011; Ravelo, 2007, 2006).

Almost immediately after their creation in 1989, the Sinaloa and Juarez cartels formed an alliance. In 1992, the Sinaloa-Juarez alliance started fighting the Tijuana cartel for its drug trafficking routes. The Tijuana cartel struck back, and multiple eruptions of inter drug cartel violence ensued. The Sinaloa-Juarez alliance lasted until 2001 when the Sinaloa cartel leader Joaquin ("El Chapo") Guzman escaped from a maximum security prison and did not recognize Vicente Carillo Fuentes (brother of Amado Carillo Fuentes, the first leader of the Juarez cartel who died in 1997) as the new leader of the Juarez cartel. The three-way rivalry between the Tijuana, Sinaloa and Juarez cartels continues today (Valdés Castellanos, 2013; Grillo, 2012; Beith, 2010).

In sum, the nature of competition among Mexican Drug Trafficking Organizations (DTOs) changed in the 1990s. Before 1989, the Guadalajara (Pacific coast) and the Gulf (Atlantic coast) cartels functioned as a duopoly under relative stability, but by 1990, the

Guadalajara cartel had broken into the Sinaloa, Juarez and Tijuana cartels. The relationship between these factions has been characterized by shifting alliances and rivalries. The Sinaloa and Juarez faction became allies in 1989 and began fighting the Tijuana cartel together over territory in 1992. However, since 2001, the Sinaloa and Juarez cartels have been at war with each other, while continuing their individual wars against the Tijuana cartel.

Despite the rivalries between these factions, the Tijuana, Sinaloa, and Juarez cartels independently reached a truce with the Gulf cartel in 1993. However, in 1997, the Gulf cartel unilaterally broke the truce and recruited a private army that was formed by former Mexican and Guatemalan elite military in order to conquer all drug smuggling routes. The Gulf cartel reestablished an alliance with the Tijuana cartel in 2003. In 2002, the Milenio cartel, a smaller cartel operating in the Pacific coast, tried to conquer the drug smuggling routes controlled by the Tijuana cartel after the major leader from that cartel was arrested. Similarly, in 2003, the Milenio cartel tried to encroach on the territory of the Gulf cartel after the arrest of that cartel's major leader. Ultimately, the major Milenio cartel leader was imprisoned in 2003, and his successor decided to ally his organization with the Sinaloa cartel. Predictively, all attempts to encroach upon a rival drug cartel's territory have been attempted and resisted through the use of violence, a form of organized public disorder (OPD). Since the early 1990s, an escalation of inter-cartel competition has been a major feature of Mexico's institutional environment.

METHODS

Data Sources

Data on the entire population of foreign manufacturing firms that opened operations in Mexico from 2000 to 2006 came from the Mexican Census Bureau (Instituto Nacional de Estadísticas, Geografía e Informática - INEGI in Spanish). The data includes the total number of foreign manufacturing firms that opened operations by city, economic sector, and entry dates. Overall, the data covers all 2,500 foreign manufacturing entries. Data on city-level characteristics that may help explain foreign manufacturing entry was also obtained from INEGI. Data on political variables came from the Research Center for Development (Centro de Investigación para el Desarrollo, A.C. – CIDAC in Spanish). CIDAC is a Non-Profit Organization (NGO) based in Mexico City that has compiled election results from 1985 to 2012. The original sources of this data were the 32 state-level electoral institutes, the official repository of the data.

Data for the state's punitive capacity and aggregate public disorder comes from the Mexican Census Bureau (INEGI). Data disaggregating public disorder into its constitutive organized and unorganized components comes from a study published by Calderón, Robles, Díaz-Cayeros, & Magaloni (2015). Based a novel dataset of organized violence published by the Mexican government⁶, these authors used time series techniques to desegregate the overall

⁶ The dataset on confirmed cases of violence among DTOs was released by the Mexican government only from 2006 to 2010. No further information is available before or after that period. In fact, the government dataset used by Calderón, Robles, Díaz-Cayeros, & Magaloni (2015) is no longer available to the public. When the administration of President Enrique Peña Nieto took office in December of 2012, the dataset suddenly became unavailable. It is for this reason of data unavailability on organized violence that the authors used time-series techniques to determine what component of general homicides (a figure that is publicly available since 1980) best predicted organized violence in the dataset published by the government from 2006 to 2010. The authors found that homicides of males between 15 and 39 years of age was the component of general homicides that best predicted organized violence in the dataset published by the government. Using this result, the authors disaggregated the general homicide figures (publicly available since 1980) into two components. The first is the number of homicides of males between 15 and

homicide trend into two components, which are the best existing proxies for organized and unorganized violence. Data on the presence and activity level of Drug Trafficking Organizations (DTOs) comes from a study published by Coscia & Rios (2012)⁷.

Measures

Dependent variable (Entry): multinational enterprise entry is measured as the count of foreign- owned manufacturing firm entry in a given city in a given year.

Independent variables

Overall Public Disorder: this variable is measured by the total number of homicides in a city in a given year

Organized Public Disorder (OPD): following Calderón, Robles, Díaz-Cayeros, & Magaloni (2015), this variable is measured by the number of homicides of males between 15 and 39 years of age in a city in a given year.

Unorganized Public Disorder (OPD): following Calderón, Robles, Díaz-Cayeros, & Magaloni (2015), this variable is measured by the total number of homicides minus those of males between 15 and 39 years of age in a city in a given year.

ANSA Presence: this variable is measured as an indicator variable that captures whether at least one DTO operates in a city in a given year, as reported by Coscia & Rios (2012).

ANSA Intensity: this variable is measured as the total DTO activity in a city in a given year, as reported by Coscia & Rios (2012).

39 years of age (the proxy for violence among DTOs) the second is all other homicides (the proxy for unorganized violence).

⁷ I obtained data from prior research documenting the media coverage of the five major Drug Trafficking Organizations (Gulf, Sinaloa, Juarez, Tijuana and Milenio) in Mexico for each city in the period 1990 and 2010 (Rios, 2014). This dataset was generated from Web content using the MOGO (Making Order using Google as an Oracle) framework (Coscia & Rios, 2012). Under the MOGO framework an algorithm searches all web content and counts the number of unique hits (newspaper articles, blogs, etc.) that link a particular drug cartel, to a particular city, in a particular year (Rios, 2014; Ríos, 2013; Coscia & Rios, 2012). I use this as a measure of the activity that a particular drug cartel had in a particular city-year observation.

ANSA Concentration: this variable is measured as the Herfindahl index of total DTO activity in a city in a given year. The Herfindahl index is widely used in the literature to capture the competitive dynamics in a market, with the index ranging from 0 to 1. A higher the index indicates more concentration, and hence, an uncompetitive market. Following this same logic, I constructed a Herfindahl index capturing the concentration of DTO activity. Coscia & Rios (2012) report overall DTO activity in each city, each year, between 1990 and 2010. Using this data, I grouped the total cartel activity into the main five DTOs in Mexico (Tijuana, Sinaloa, Juarez, Gulf and Milenio cartels). Then, I constructed a Herfindahl index to capture the concentration of DTO activity among these five major DTOs in a city in a given year.

Control variables

I control for the geographic location advantages of the different cities. Central to the foreign manufacturing business model in Mexico is that raw materials are transported via trucks from the United States. The final product is also transported back to the United States via trucks. This setup is partially why initially foreign manufacturing firms only tended to concentrate in the states bordering the United States. However, this pattern has weakened in the last 20 years, and foreign manufacturing firms operated in 30 of the 32 Mexican states by 2006. Geographic location advantages are measured by the distance (***Distance***) between each city and the closest U.S. border crossing. This measure was constructed from data provided by the Mexican Census Bureau. I also control for the average wage level (***Income per capita***) in the city because low wages are a main driver of foreign manufacturing entry into Mexico. This variable is measured by using per capita taxes in the city. I also control for the size of the labor market, as the availability of labor likely affects foreign manufacturing entry into Mexico. I measure this variable by the size of the population in the city (***Population***).

Another factor that may affect whether foreign manufacturing firms enter into cities in Mexico is resource competition from alternative economic activities. Labor is one of the most important resources sought by foreign manufacturing firms in Mexico. One source of resource competition for incoming foreign manufacturing firms comes from existing foreign manufacturing firms. I account for this competitive dynamics by controlling for the *Density* and *Density Square* of existing foreign manufacturing firms in the city. Another source of resource competition comes from agriculture, which is the main alternative economic activity. I account for resource competition from this alternative economic activity by controlling for the total harvested area in the city (*Agriculture*).

Another factor that may affect foreign manufacturing firm entry into Mexican cities is the real estate market, as manufacturing firms usually require substantial facility space. In highly crowded cities, like Mexico City (one of the most crowded cities in the world), real estate is more expensive than in less crowded cities. I control for real estate cost (*Real estate*) by controlling for the per capita area in the city (Real Estate). I also control for differences in the state's capacity to prosecute acts of public disorder, whether organized or unorganized (*State Punitive Capacity*). A strong punitive capacity signals the host state's long-term ability and commitment to maintain public order. Also, strong punitive capacity reassures foreign investors that the state will back them up if damage is inflicted upon them by other actors. Hence, regions where the state has a stronger punitive capacity should attract more MNE entry. This variable is measured using the ratio of the number of homicide convictions to actual homicides in a city in a given year. All of this data comes from INEGI.

Previous research by Cordero (2016) using this same dataset has shown that the ideological content and structural stability of local political institutions affect the entry rate of

foreign manufacturing firms in Mexico. I use a factor variable to capture the effect of the political ideology of the party ruling the city (*Pro-market Ideology Old, Pro-market Ideology New, Anti-market Ideology New, Mixed Ideology New, Minor Parties*). The omitted category refers to environments controlled by the historically dominant Institutional Revolutionary Party (Pro-Market Ideology Old). I control for political stability in a given city with the variable (*Political Instability*) with a dummy variable indicating whether a given city is experiencing political transition from one party to another in a given year. I also control for the number of political fractures in the adjacent level of governments (*Political Fragmentation*). Finally, I use year-specific dummies (*Year*) to control for the time trend and year-specific shocks that may have affected all cities equally. Descriptive statistics and bivariate correlations are provided in Table 3.

Empirical Estimation

The dependent variable is a count of foreign manufacturing firms entering into Mexican cities. Using a linear model is not recommended for this type of data for several reasons. First, count data suffers from overdispersion in the standard errors. Poisson and negative binomial models can be used to correct for overdispersion. Furthermore, this data contains a large proportion of city-year observations where the response variable is zero (see Figure 4 in Chapter 1).

Table 3: Bivariate Correlations and Variable Descriptive Statistics

	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
(1) Annual Foreign Manufacturing Entry	0.86	3.91	0	82	1																					
(2) Distance	0.56	0.31	0	1.158	-0.21	1																				
(3) Income/Capita	1.46	0.79	0.16	7.278	-0.01	-0.38	1																			
(4) Agriculture	0.02	0.03	0	0.24	0.07	-0.08	-0.04	1																		
(5) Real Estate	0.08	0.17	0.00005	1.443	-0.08	-0.50	0.34	-0.07	1																	
(6) Population	0.13	0.24	0.001	1.688	0.47	-0.02	-0.05	0.16	-0.22	1																
(7) Foreign Manufacturing Density	0.09	0.40	0	7.21	0.93	-0.23	0.01	0.10	-0.07	0.48	1															
(8) Foreign Manufacturing Density^2	0.17	2.12	0	51.98	0.85	-0.13	0.01	0.01	-0.03	0.33	0.89	1														
(9) Local Baseline Ideology (PRI)	0.54	0.50	0	1	-0.03	-0.06	-0.01	-0.02	0.09	-0.16	-0.03	-0.01	1													
(10) Local Pro-Market Ideology	0.32	0.47	0	1	0.08	-0.01	0.03	0.04	-0.07	0.16	0.07	0.04	-0.74	1												
(11) Local Anti-Market Ideology	0.07	0.26	0	1	-0.05	0.07	-0.03	-0.04	-0.03	0.02	-0.05	-0.02	-0.30	-0.19	1											
(12) Mixed Ideology-New	0.02	0.14	0	1	0.01	-0.01	0.02	0.08	0.06	0.01	0.01	-0.01	-0.16	-0.10	-0.04	1										
(13) Minor Parties	0.05	0.22	0	1	-0.04	0.09	-0.02	-0.03	-0.05	-0.02	-0.04	-0.02	-0.24	-0.16	-0.06	-0.03	1									
(14) Local Political Instability	0.15	0.36	0	1	-0.01	0.02	-0.02	0.004	-0.001	-0.03	0.01	0.01	-0.12	0.03	0.05	0.11	0.08	1								
(15) Vertical Political Fractures	1.02	0.68	0	2	-0.06	-0.10	0.17	-0.003	0.02	0.04	-0.04	-0.04	-0.28	0.10	0.16	0.11	0.17	0.11	1							
(16) State Punitive Capacity	0.62	0.85	0.01	19	-0.03	0.11	-0.07	-0.08	-0.01	-0.15	-0.04	-0.03	0.07	-0.04	-0.03	-0.01	-0.02	-0.01	-0.05	1						
(17) Overall Public Disorder	0.04	0.08	0	0.69	0.28	0.07	-0.05	0.11	-0.18	0.82	0.31	0.22	-0.14	0.10	0.06	-0.02	0.05	-0.03	0.12	-0.23	1					
(18) Unorganized Public Disorder (UPD)	0.06	0.14	0	1.35	0.41	-0.01	-0.02	0.12	-0.15	0.82	0.47	0.37	-0.13	0.11	0.06	-0.01	0.001	-0.02	0.13	-0.15	0.87	1				
(19) Organized Public Disorder (OPD)	0.07	0.19	0	2.08	0.57	-0.08	-0.02	0.15	-0.14	0.80	0.64	0.56	-0.10	0.09	0.04	-0.02	-0.01	-0.02	0.08	-0.12	0.80	0.90	1			
(20) ANSA Presence	0.16	0.37	0	1	0.26	-0.16	0.12	0.13	-0.07	0.45	0.28	0.16	-0.01	-0.003	0.01	0.02	0.00	-0.03	0.07	-0.11	0.38	0.40	0.38	1		
(21) ANSA Intensity	0.03	0.19	0	3.99	0.24	-0.12	0.11	0.13	-0.04	0.33	0.32	0.23	0.02	-0.02	-0.02	0.04	-0.02	-0.04	0.03	-0.05	0.29	0.37	0.40	0.38	1	
(22) ANSA Concentration	0.10	0.26	0	1	0.18	-0.12	0.05	0.08	-0.06	0.29	0.18	0.09	-0.002	-0.02	0.03	0.001	0.01	-0.01	0.06	-0.09	0.26	0.26	0.25	0.88	0.15	1

In this case, zero-inflated-negative binomial models are preferable over conventional poisson and negative binomial models (Cameron & Trivedi, 2013, 2005). I use a zero-inflated negative binomial model and clustered standard errors at the city level to account for the non-dependence of multiple observations coming from the same city (Marquis & Lounsbury, 2007).

RESULTS

The results for the zero-inflated negative binomial model for entry are presented in Table 4. The first model includes only control variables, including the effects of the ideological content, transition and fragmentation of local political institutions found by Cordero (2016). Model 2 includes the effect of overall public disorder (**Overall Disorder**), while Model 3 introduces the term for unorganized public disorder (**UPD**) by itself, and Model 4 contains the term for organized public disorder (**OPD**) by itself. Model 5 includes the term for both unorganized public disorder (**UPD**) and organized public disorder (**OPD**). Model 6 includes the effect of ANSA presence (**ANSA Presence**), and Model 7 introduces the effect of total ANSA activity (**ANSA Intensity**). Finally, Model 8 includes the term for ANSA concentration (**ANSA Concentration**).

Across models, several control variables had a statistically significant effect on foreign manufacturing firm entry into Mexican cities. First, a city's distance to the United States border has a negative and statistically significant effect on foreign manufacturing firm entry into that city.

Table 4: Estimates of Zero-Inflated Negative Binomial Models for Foreign-Manufacturing Firm Entry Rates in Mexico 2000-2006
(Robust Standard Errors in Parentheses)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Year Fixed Effects	Yes							
Distance	-1.014** (0.38)	-0.915* (0.37)	-0.967** (0.36)	-1.056** (0.36)	-1.124** (0.36)	-1.049** (0.36)	-1.136** (0.37)	-1.099** (0.37)
Income/Capita	-0.0941 (0.10)	-0.0716 (0.11)	-0.0674 (0.11)	0.0346 (0.12)	0.0705 (0.11)	0.0281 (0.11)	0.073 (0.11)	0.127 (0.12)
Agriculture	-4.346 (3.46)	-4.397 (3.40)	-3.884 (2.92)	-3.248 (2.17)	-3.226 (2.17)	-3.136 (2.03)	-2.442 (2.00)	-2.141 (2.06)
Real Estate	-3.031** (1.06)	-2.890** (1.04)	-2.567* (1.08)	-2.884** (1.02)	-3.256*** (0.97)	-3.113*** (0.93)	-3.306*** (0.94)	-3.378*** (0.94)
Population	0.807*** (0.23)	1.197*** (0.36)	1.200*** (0.26)	1.444*** (0.23)	1.359*** (0.25)	1.297*** (0.24)	1.323*** (0.25)	1.395*** (0.25)
Density	1.977*** (0.50)	1.945*** (0.49)	2.011*** (0.40)	2.083*** (0.32)	2.097*** (0.32)	2.017*** (0.33)	2.010*** (0.34)	2.016*** (0.34)
Density^2	-0.239*** (0.07)	-0.233*** (0.07)	-0.229*** (0.06)	-0.191*** (0.05)	-0.182*** (0.04)	-0.176*** (0.04)	-0.162*** (0.04)	-0.162*** (0.05)
Anti-Market	-1.824*** (0.31)	-1.862*** (0.31)	-1.844*** (0.31)	-1.846*** (0.28)	-1.821*** (0.28)	-1.844*** (0.28)	-1.869*** (0.28)	-1.899*** (0.28)
Mixed Ideology	0.832* (0.37)	0.734* (0.33)	0.722** (0.28)	0.523* (0.25)	0.528^ (0.27)	0.542* (0.28)	0.684* (0.27)	0.703** (0.26)
Minor Parties	-0.585 (0.75)	-0.616 (0.76)	-0.59 (0.76)	-0.572 (0.73)	-0.628 (0.71)	-0.517 (0.71)	-0.631 (0.69)	-0.64 (0.69)
Pol. Instability	-0.464* (0.18)	-0.492** (0.19)	-0.458** (0.18)	-0.389* (0.18)	-0.371* (0.17)	-0.382* (0.17)	-0.374* (0.17)	-0.413** (0.16)
Vert. Fractures	-0.272* (0.11)	-0.213^ (0.11)	-0.191^ (0.12)	-0.146 (0.11)	-0.17 (0.11)	-0.145 (0.11)	-0.139 (0.10)	-0.126 (0.10)
Punitive Capacity	0.0598** (0.02)	0.0496* (0.02)	0.0555** (0.02)	0.0608** (0.02)	0.0623** (0.02)	0.0701** (0.02)	0.0603** (0.02)	0.0550** (0.02)

^ p<0.10; * p<0.05; ** p<0.01; *** p<0.001

Table 4 (Continued...)

Estimates of Zero-Inflated Negative Binomial Models for Foreign-Manufacturing Firm Entry Rates in Mexico 2000-2006
(Robust Standard Errors in Parentheses)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Overall Public Disorder		-0.172 (0.13)						
Unorganized Public Disorder (UPD)			-1.416 (0.87)		1.049 (0.73)	0.593 (0.68)	1.107 (0.72)	1.089 (0.71)
Organized Public Disorder (OPD)				-1.931*** (0.42)	-2.609*** (0.42)	-2.282*** (0.39)	-2.687*** (0.45)	-2.720*** (0.44)
H2: ANSA Presence						0.195 (0.18)	0.206 (0.17)	-0.192 (0.20)
H3: ANSA Intensity							-0.375* (0.16)	-0.276^ (0.16)
H4: ANSA Concentration								0.583** (0.20)
Constant	1.035** -0.355	0.976** -0.337	0.934** -0.314	0.974** -0.306	1.040*** -0.307	1.014*** -0.307	1.053*** -0.31	0.951** -0.322
N	1,877	1,877	1,877	1,877	1,877	1,877	1,877	1,877
AIC	2,593.4	2,592.7	2,583.6	2,557.0	2,555.5	2,558.1	2,555.9	2,554.2
Log lik.	-1,254.7	-1,252.4	-1,247.8	-1,234.5	-1,231.8	-1,232.1	-1,227.9	-1,225.1

^ p<0.10; * p<0.05; ** p<0.01; *** p<0.001

This finding is consistent with previous cross-national research showing that MNEs seek location advantages when they internationalize (Cantwell, 2009; Dunning, 1998; Porter, 1994). Our finding, however, is different because I show that even within the same emerging economy, MNEs seek location advantages at the subnational level. In addition, the size of the population in a city has a positive and statistically significant effect on foreign manufacturing firm entry. Cities with larger populations attract more factories than cities with smaller populations. This result makes sense, considering that labor is a critical resource for foreign manufacturing firms. Past research has argued that the main driver of foreign manufacturing firm entry into Mexico is the availability of cheap labor. Interestingly, after controlling for the size of a city's population, the per capita income is not statistically significant. The supply of real estate in a city has a negative and statistically significant effect on maquiladora entry. This result is contrary to our expectation that cities with more real estate supply would be more attractive for maquiladoras.

The agglomeration of preexisting foreign manufacturing firms in the city has the expected result. The linear term of density has a positive and statistically significant effect, suggesting a legitimizing effect of preexisting maquiladoras. The quadratic term of density has a negative and statistically significant effect, suggesting a competitive effect. Together, these two results confirm the traditional density dependence argument. The number of preexisting maquiladoras in a city has a curvilinear effect on new maquiladora entries into that city. However, each additional preexisting maquiladora increases new maquiladora entries at a decreasing rate because of competitive effects (Carroll & Hannan, 2000). The controls for the effect of the ideological content, transition and fragmentation of local political institutions are consistent with the findings of Cordero (2016). Finally, the control for state punitive capacity is positive and

statistically significant. As expected, the higher the state's punitive capacity in a city, the higher the rate of MNE entry.

Turning to our main points of interest in Model 2, the effect of overall public disorder (**Overall Disorder**) is not statistically significant. In Model 3, the effect of unorganized public disorder (**UPD**) is not statistically significant. However, the effect of organized public disorder (**OPD**) in Models 4-8 is statistically significant and in the expected negative direction. Moreover, a Wald test of the difference between the coefficients for unorganized public disorder (**UPD**) and organized public disorder (**OPD**) is statistically significant and in the expected direction. This result supports Hypothesis 1 that the negative effect of organized public disorder (**OPD**) on multinational enterprise entry is stronger than that of unorganized public disorder (**UPD**).

Models 6-8 test hypotheses regarding the presence, activity level and competitive dynamics among armed non-state actors (ANSAs) on multinational enterprise entry. Model 6 introduces the effect on ANSA presence (**ANSA Presence**). The effect is not statistically significant. Hence, Hypothesis 2 is not supported. Model 7 introduces the effect of overall ANSA activity (**ANSA Intensity**). The effect is statistically significant and in the expected negative direction in Model 7, but only marginally statistically significant in Model 8, albeit in the expected negative direction. Hence, there is some support for Hypothesis 3. Finally, Model 8 introduces the effect of ANSA Concentration (**ANSA Concentration**). The effect is statistically significant and in the expected positive direction. Lower competition among ANSAs attracts more MNE entry than does higher competition. Hence, Hypothesis 4 is also supported.

Robustness Test

Table 1 shows that organized public disorder (OPD) and unorganized public disorder (UPD) are highly correlated (0.90). The high correlation raises the question of whether multicollinearity

entails a problem in Models 5-8 in Table 4. In order to explore the potential consequences of multicollinearity on the results of these models, I ran three sets of robustness tests, all shown in Appendix 1. First, I ran Models 6-8 in Table 4, including only one of the variables at a time—organized public disorder (OPD) or unorganized public disorder (UPD). The results show that only organized public disorder (OPD) yields positive and statistically significant results. Second, I ran models 6-8 with mean-centered versions of organized public disorder (OPD) and unorganized public disorder (UPD). The results are substantively the same as those in Table 2. Finally, I ran the models 5-8 using a synthetic instrument built using a modified Gram-Schmidt procedure for orthogonalization (Golub & Van Loan, 1996)⁸. The results are substantially the same.

DISCUSSION

The paper makes several theoretical contributions. First, it contributes to the emerging literature adopting the institution-based view of international business strategy (Peng, Wang, & Jiang, 2008). Extant research in this vein has found that the origin of the legal system (La Porta et al., 2000), policy stability (Henisz, 2000), electoral business cycles (Vaaler, 2008), and formal political institutional transitions all affect whether an MNE decides to enter a particular emerging economy. While this literature has provided valuable insights, it has overlooked that these more specific institutions must operate within the larger institutional context of a minimally functioning state, defined as one that is able to impose public order (Weber, 1965). Here, I call attention to the fact that this is often not the case, even in the developed world. The state frequently competes with armed non-state actors (ANSAs), and these actors often compete among themselves (Migdal, 1988, 2001). Such competition may lead to public

⁸ Using the “orthog” command in Stata 14.

disorder, which in turn affects legitimate organizations. Moreover, even in the absence of widespread public disorder, armed non-state actors (ANSAs) may still affect MNEs.

Second, the study contributes to institutional theory by calling attention to the fact that the state is not always able to monopolize the means of violence in society. Institutional theory inherited this sociological conceptualization of the state from Weber (1965). However, departing from the Weberian conceptualization of the state can enrich our theory of how institutions affect organizations. After all, the modern nation-state with absolute monopoly over the means of violence over its territory is a relatively new institutional development (Weber, 1922), and one that we are not sure will persist indefinitely (Fukuyama, 2014). In fact even in the most advanced economies, the state is not always able to protect its inhabitants from non-state violence (Marine, 2006). Understanding how departures from the all-powerful Weberian state affects organizations has the potential to enrich institutional theory. This study contributes to this effort by developing a theoretical framework on how different types of public order, as well as the competitive dynamics among armed non-state actors (ANSAs) that are seeking to fill the void left by the state, affects organizations.

Third, the study contributes to the expanding literature on institutional complexity. Extant literature defines institutional complexity as the coexistence of incompatible prescriptions from multiple institutional logics (Greenwood et al., 2011). Institutional logics are overarching sets of principles that prescribe “how to interpret organizational reality, what constitutes appropriate behavior, and how to succeed” (Thornton, 2004: 70; Friedland & Alford, 1991). Thornton, Ocasio, & Lounsbury (2012) identify seven types of institutions, each with its own institutional logics. These institutions are the family, community, religion, state, market, professions and corporation. This literature posits that organizations and individuals face institutional complexity

when they find themselves in the cross fire between the competing, often colliding, prescriptions from these seven institutions (Goodrick & Reay, 2011; Greenwood et al., 2011; Kraatz & Block, 2008; Pache & Santos, 2010; Thornton et al., 2012). This literature has sought to enumerate the different institutional spheres to which individuals and organizations must attend. Here, I have pointed to another institution, organized crime. While organized crime is social-politically illegitimate (Aldrich & Fiol, 1994), organized crime is often a cultural-cognitive institution in emerging economies. It is taken for granted that organized crime exists and that both domestic and foreign firms need to attend to pressures from organized crime. Future research could explore how firms attend to similar pressures in developed economies, and we have some evidence that they do (Marine, 2006).

Finally, the study contributes to the emerging literature on how subnational institutional variations affect organizations above and beyond national institutional arrangements (Kozhikode & Li, 2012; Meyer & Nguyen, 2005). Recent studies have explored how change in economic institutions at the subnational level impact MNE entry decisions (K. E. Meyer & Nguyen, 2005). This study contributes to this emerging area of research by introducing the idea that temporal and subnational variations in the state's punitive capacity and levels of public order are also important for multinational enterprise entry decisions within a host economy.

CONCLUSION

This paper examines how the state's failure to provide public order affects MNE strategy within a host economy. First, I call attention to the theoretical and practical importance of better understanding the consequences of this extreme form of institutional failure. While prior research has examined how specific institutional arrangements, such the enforcement of property rights and contracts, affect MNE location strategy across host countries (Meyer, Estrin,

Bhaumik, & Peng, 2009; Peng, Wang, & Jiang, 2008; Vaaler, 2008; Henisz, 2000; Hoskisson, Eden, Lau, & Wright, 2000; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000), existing research has overlooked the role of the broader institutional content in which these more specific institutions are embedded, namely the state's capacity to impose public order. This is after all the core function of the state (Tilly et al., 1985b; Weber, 1922, 1946b), which underpins the proper operation of other institutional arrangements. Hence, understanding how the states' failure to impose public order affects organizations is theoretically important.

The question also has practical implications for organizations operating in developed, developing, and emerging economies. As evidenced by the recent riots in the United States, even modern states are not able to continually maintain public order. Furthermore, even under the veil of public order that prevails in advanced states, armed non-state actors (ANSAs) may have a strong influence on legitimate organizations, as evidenced by decades of victimization of legitimate business enterprise by La Cosa Nostra in major cities in the United States (Marine, 2006).

Moreover, the state's inability to impose public order is ubiquitous in emerging and developing economies. This finding is relevant for MNEs in developed economies because of the increasing trend towards globalization. Over the last three decades, MNEs in developed nations have increased their operations in emerging and developing economies. Hence, these organizations will likely deal with state failure to impose public order in their host economies, if not in their home economy. Finally, considering that the majority of business organizations in the world operate in emerging and developing economies, understanding how this extreme form of institutional failure affects organizations is important in its own right.

The theoretical and empirical findings in this study are relevant for current management research. The paper develops a theoretical framework predicting how state failure to impose public order affects MNE location strategy within a host economy. It disentangles the effect of organized public and unorganized public disorder and develops theory regarding the relative effect of both of these categories. Finally, the framework predicts how armed non-state actors (ANSAs) affect multinational enterprise location strategy through their presence, level of activity, and competition.

CHAPTER 3: NAVIGATING TURBULENT WATERS: DYNAMIC RESOURCES AS A BUFFER FOR COMPETITIVE ENVIRONMENT INSTABILITY

INTRODUCTION

Management researcher has long sought to understand how organizations cope with the negative performance consequences of competitive environment instability (Fredrickson & Mitchell, 1984; Bourgeois, 1985; Keats & Hitt, 1988; Eisenhardt & Martin, 2000; Rindova & Kotha, 2001), defined as uncertainty with respect to an organization's ability to sustain future transactions with customers, suppliers and competitors (Meyer, Scott, & Deal, 1980). The dynamic capabilities framework (Teece, Pisano, & Shuen, 1997, 2009) is the leading theoretical paradigm seeking to explain how organizations cope in these environments. Dynamic capabilities are abilities (Teece et al., 1997; Teece, 2000; Zahra, Sapienza, & Davidsson, 2006); processes and routines (Eisenhardt & Martin, 2000); and patterns of collective activity (Zollo & Winter, 2002) that allow an organization to reconfigure its resources in response to changes in the competitive environment (Teece et al., 1997).

Teece et al., (1997) developed the framework by arguing that the resource-based view (RBV) of the firm (Barney, 1991; Barney, Wright, & Ketchen, 2001) could not explain sustained competitive advantage in a changing competitive environment. From this perspective, resource configurations that are valuable under one set of market conditions will likely become obsolete when the competitive environment is in flux. Organizations in these environments need to constantly reconfigure their resources in order to remain competitive. It is this ability to reconfigure resources to match competitive pressures that defines dynamic capabilities. This

framework has provided valuable insights into how organizations learn to redeploy their resources to not only cope with, but take advantage of and perhaps even influence, change in the competitive environment (Teece & Pisano, 1994; Grant, 1996; Tushman, Smith, Wood, Westerman, & O'Reilly, 2003; O'Reilly & Tushman, 2008; Helfat & Peteraf, 2009; Helfat & Winter, 2011).

However, this critique to the resource-based-view (RBV) of the firm was unwarranted. Resources can also be dynamic. Dynamic resources are those that enable organizations to adapt to a changing competitive environment. This is an important theoretical issue because the entire literature on dynamic capabilities has been explicitly built on the notion that all resources are static and that an organization's ability to change resides exclusively in processes, routines, and scripts, but it cannot depend on resources. I argue that dynamic resources also help organizations cope with a changing competitive environment. In doing so, the study not only vindicates, but also extends the resource-based-view (RBV) of the firm and complements research on dynamic capabilities. The following section builds the rationale for distinguishing between dynamic resources and capabilities. It also theorizes how two such types of dynamic resources, namely managerial and human technical resources, buffer organizations from the negative performance effects of competitive environment instability on organizational performance.

THEORY AND HYPOTHESES

Teece et al., (1997) developed the dynamic capabilities framework in response to the perceived inability of the resource-based view (RBV) of the firm (Penrose, 1959; Barney, 1991; Barney et al., 2001) to deal with dynamic competitive environments (Teece et al., 1997, 2009; Barreto, 2010). The distinction between resources and capabilities is vital for understanding the

novelty of the dynamic capabilities framework. Resources are stocks of available factors controlled by an organization, such as physical and financial assets and human capital (Amit & Schoemaker, 1993). Capabilities are defined as the organization's capacity to combine and use those resources in order to compete successfully. Therefore, resources and capabilities are two related, but analytically distinct, sets of organizational attributes. According to the dynamic capabilities framework, resources that had been valuable may become obsolete and even worthless, due to a changing competitive landscape. Therefore, organizations in dynamic environments need to constantly reconfigure their resources in order to remain competitive.

In this view, the main rationale for moving away from resources into capabilities is that resources are a necessary but insufficient condition for organizations to successfully cope with environmental change (Teece et al., 1997, 2009). Dynamic capabilities are defined as an organization's ability to reconfigure its resources in response to unstable competitive environments (Teece et al., 1997). Specifically, dynamic capabilities have been defined as capabilities and competences (Teece & Pisano, 1994), capacities (Helfat et al., 2009; Teece et al., 2009), abilities (Teece et al., 1997; Teece, 2000; Zahra, Sapienza, & Davidsson, 2006), processes and routines (Eisenhardt & Martin, 2000), and patterns of collective activity (Zollo & Winter, 2002). The common thread in all of these definitions is their focus on capabilities, as opposed to resources.

However, I argue here that there is nothing unique about capabilities per se that make them more important than resources in coping with a dynamic competitive environment. In fact, recent research recognizes that capabilities may be static and dynamic (Winter, 2003; Helfat et al., 2009). Static capabilities allow organizations to merely get by in current market conditions. Only dynamic capabilities allow organizations to adapt to changing market environments (Helfat

& Winter, 2011). Hence, it is their dynamic nature, not that they are capabilities per se, that makes dynamic capabilities critical for coping with change in dynamic competitive environments. I argue that a similar static-dynamic distinction can be made for organizational resources. Static resources allow organizations to get by in existing environmental conditions, while dynamic resources allow organizations to adapt to changing competitive conditions. Moreover, dynamic resources are as important as dynamic capabilities for coping with environmental change. After all, the original critique of focusing exclusively on resources can easily be turned on its head against the literature's all too common tendency to focus exclusively on dynamic capabilities. Dynamic capabilities would be of little use to an organization without dynamic resources to enable said processes, routines and scripts (Eisenhardt & Martin, 2000; Barreto, 2010) to operate.

After making the case for dynamic resources as an organizational feature distinct from dynamic capabilities, I now examine how dynamic resources buffer the negative effect of competitive environment instability on organizational performance. Specifically, I examine how the organization's endowment of human resources with tacit technical and managerial knowledge moderates the negative relationship between competitive environment instability and organizational performance. First, previous studies have shown that competitive environment volatility tends to have a negative effect on organizational performance (Sine, Mitsuhashi, & Kirsch, 2006; Carroll & Huo, 1987; Burns & Stalker, 1961). For example, in their study of the newspaper industry in the San Francisco-Oakland-San Jose region in California, Carroll & Huo (1987) showed that instability in the competitive environment had a strong negative effect on newspaper performance. Oliver (1997) found a similar strong negative result on the effect of competitive environment instability on the performance of Canadian construction companies.

Second, I argue that organizations with a larger endowment of human resources, specifically technical and managerial knowledge, will be able to cope better with competitive environment instability. When organizations face instability in the competitive environment, management first needs to acknowledge the instability, identify its source, and recognize the need to adjust internal organizational tasks to match the environment. Organizations with more managerial resources have a wider collective attention span (Hatch, 1998; Weick, 1998; Davis, Eisenhardt, & Bingham, 2009). Organizations with a wider collective attention span will be better able to attend to identify competitive instability and devise ways to manage it. Hence, I argue that the negative effect of competitive environment instability on an organization's performance will depend, at least partially, on the amount of managerial resources held by the organization. The more managerial resources held by an organization, the weaker the negative effect of technical environment instability on performance. Therefore, I hypothesize that:

Hypothesis 1: The amount of managerial resources held by an organization will moderate the effect of competitive environment instability on organizational performance, so that the more managerial resources held by an organization, the weaker the negative effect of competitive environment instability on performance

However, management awareness of instability in the competitive environment is only part of the adaptation process. Management awareness and willingness to adapt is of little help if the organization lacks those who know how to tweak existing production processes and equipment to meet the new demands in the competitive environment. The organization must also have sufficient technical human resources to implement changes in internal processes and routines. In this respect, human resources that possess tacit technical knowledge on how to modify internal production processes and capital equipment are critical for adaptation. Hence, I argue that the negative effect of competitive environment instability on an organization's

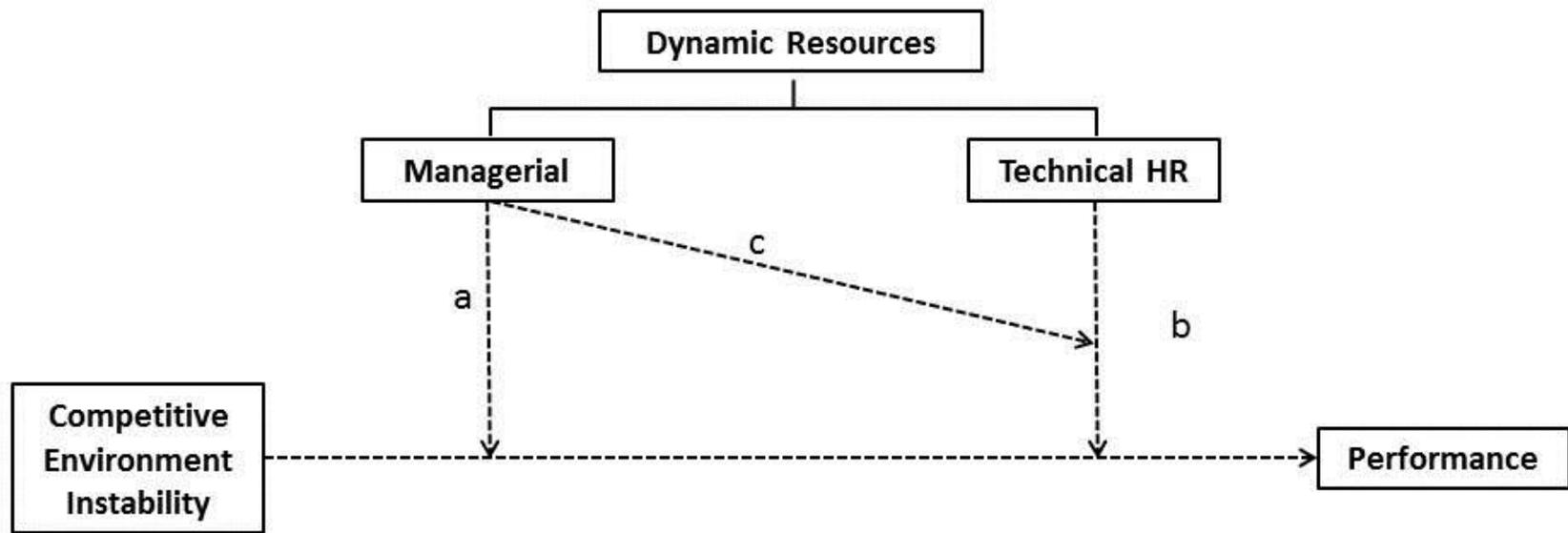
performance will at least partially depend on the amount of technical human resources in the organization. The more technical human resources held by an organization, the weaker the negative effect of competitive environment instability on performance. Hence, I hypothesize that:

Hypothesis 2: The amount of technical human resources held by an organization will moderate the effect of competitive environment instability on organizational performance, so that the more technical human resources held by an organization, the weaker the negative effect of competitive environment instability on performance

However, even organizations that possess a large endowment of technical resources may falter if they lack sufficient managerial resources to identify threats in the competitive environment and reconfigure technical resources in order to properly adapt. Therefore, the moderating effect of an organization's technical human resources on the negative relationship between competitive environment instability and an organization's performance will itself depend on the organization having sufficient managerial resources. In other words, the effect of an organization's technical human resources as a buffer against competitive environment instability will be contingent on the level of managerial resources held by the organization. Hence, I hypothesize that:

Hypothesis 3: The amount of managerial resources held by an organization will have a (second order) moderating effect on the (first order) moderating effect of the organization's technical human resources on the negative relationship between competitive environment instability and organizational performance, so that the more managerial resources held by an organization, the stronger the buffering effect of the organization's technical human resources on performance

Figure 6 depicts the theoretical model and summarizes the hypotheses.



Summary of Hypotheses

H1: $a > 0$

H2: $b > 0$

H3: $c > 0$

Figure 6: Theoretical Model of the Relationship between Dynamic Resources, Competitive Environment Instability, and Organizational Performance

EMPIRICAL CONTEXT

The theoretical predictions developed in this study are tested in the context of new manufacturing operations opened in Mexico from 1997 to 2006. Over 6,000 foreign factories operated during this period, half of which subsequently failed. This is a fruitful context for testing the hypotheses developed in this study for several reasons. First, the foreign manufacturing sector in Mexico faced a volatile competitive environment during this period. Specifically, China's entry into the World Trade Organization (WTO) in 2001 meant that the sector in Mexico experienced increased competition from new Chinese factories. In order to enter the World Trade Organization (WTO), China had to pass a series of legal reforms to protect foreign investors, which led to massive foreign direct investment inflows into China. Much of this investment went to new factories that started competing directly with foreign manufacturing operations in Mexico (Utar & Ruiz, 2013). Therefore, the context provides substantial variation in the competitive environment.

Moreover, foreign manufacturing operations in Mexico exhibit substantial variation in their managerial and technical human resources, not only between operations, but also within operations over time. This allows for an examination of the interaction effects between these internal resources and competitive environment instability on organizational performance. Finally, performance data is available for these organizations during that 10-year period. The following subsections describe the context in more detail. First, I describe the foreign manufacturing industry in Mexico.

Foreign Manufacturing Firms in Mexico

Foreign manufacturing firms constitute an important sector of the Mexican economy. The first wave of foreign manufacturing firms in Mexico started in 1965 when the Mexican government first introduced the Border Industrialization Program (Hansen, 2003). Mexico launched the program in an effort to curb high levels of unemployment in the country's northern region (some of the largest northern cities had unemployment rates ranging from 40% to 50% in 1965). Under this program, foreign manufacturing firms could import raw materials, components, and capital equipment into Mexico duty-free. Foreign personnel required for training, management and factory maintenance could also enter the country. Mexican duties would only be paid on the part of the manufacturing done in Mexico.

The Border Industrialization Program promised jobs in one of Mexico's poorest regions, and access to a cheap and abundant labor for foreign manufacturing firms. The program was originally restricted to a 12.5 mile wide strip along the 1,954 mile long Mexico-U.S. border. Foreign investment started pouring in 1966 and in 1967, a total of 57 foreign manufacturing firms were already operating and employing 4,257 workers. Mexicali, Tijuana, and Ciudad Juarez were the first cities to receive these investments. In 1972, a revision to the program allowed foreign manufacturing plants to open in the interior of the country. By 1974, the number of foreign manufacturing firms reached 455 that employed 76,000 Mexicans (Hansen, 2003).

In 1983 an inflection point occurred for foreign manufacturing firms in Mexico. President Miguel de la Madrid's new administration (1982-1988) implemented neoliberal economic reforms that greatly increased the country's attractiveness for foreign manufacturing firms (Wilson, 2010). During Madrid's administration the number of firms more than doubled from

585 to 1,396 firms, and the number of jobs in the industry almost tripled from 127,048 to 369,489. The North American Trade Agreement (NAFTA) gave another great boost to the industry when it came into force in 1994. Between 1994 and 2001, the number of firms increased substantially from 2,143 in 1994 to 3,735 in June 2001 (See Figure 2 in Chapter 1). At their peak in 2001, foreign manufacturing firms employed 1.3 million workers in Mexico (Mexican Census Bureau, 2007). This represented 77 billion USD in exports, or about 48.7 % of total Mexican exports (Central Bank of Mexico, 2015a, 2015b). The early 2000s saw the failure of many firms due to a recession in the United States and increased competition from China (Utar & Ruiz, 2013a). However, these firms still played a major role in Mexico's economy at the end of 2006, totaling 2,783 firms that employed 1.2 million workers (Mexican Census Bureau, 2007) and exported 112 billion USD, or about 44.7% of the country's total exports (Central Bank of Mexico, 2015a, 2015b).

Competitive Environment for Foreign Manufacturing Firms in Mexico

The technical environment consists of external actors that generate direct competitive pressures on organizations, i.e. customers, suppliers and competitors (Meyer et al., 1980). Foreign manufacturing operations in Mexico faced a number of competitive threats from 1990 to 2006, most notably, China's acceptance into the World Trade Organization (WTO). In order to secure its entry into the World Trade Organization (WTO), China had to pass a series of legal reforms to protect foreign investors, which led to massive foreign direct investment flows into China. Much of this investment went to Chinese factories that started competing directly with foreign manufacturing operations in Mexico (Utar & Ruiz, 2013). However, the manufacturing sector experienced competition even before China became a serious competitive threat. Manufacturing facilities in Central and South America, South East Asia, as well as local Mexican

and American factories, posed competition to foreign manufacturing operations in Mexico during the 1990s.

METHODS

Data Sources

Data on the entire population of foreign manufacturing firms that opened operations in Mexico from 1990 to 2006 came from the Mexican Census Bureau (Instituto Nacional de Estadísticas, Geografía e Informática - INEGI in Spanish). The data includes firm-level internal data on the number of blue-collar, technical and managerial employees, sales, accounting profits, entry and exit dates. The dataset follows each firm on a monthly basis from entry to failure, hence providing a complete picture of the internal characteristics of an organization over its entire live span. Overall, the data covers over 6,000 foreign manufacturing new entries, for a total of 540,000 organization-month observations.

Data on the characteristics of both the technical and institutional environments (operationalized here at the city level) was also obtained from INEGI. Data on the formal political environment came from the Research Center for Development (Centro de Investigación para el Desarrollo, A.C. – CIDAC in Spanish). CIDAC is a Non-Profit Organization (NGO) based in Mexico City that has compiled election result from 1985 to 2012. The original sources of this data were the 32 state-level electoral institutes. Data on the presence and activity level of Drug Trafficking Organizations (DTOs) comes from a study published by Coscia & Rios (2012).

Measures

Dependent Variable

Performance: Organizational performance is operationalized as the monthly accounting profits of the factory.

Independent variables

Organization's Managerial Resources (MR): This variable is operationalized as the total number of managers working for the organization.

Organization's Technical Human Resources (THR): This variable is operationalized as the total number of technical employees working for the organization.

Competitive Environment Instability (CEI): This variable is operationalized as the variance of an organization's sales for the previous three months.

Moderation of Managerial Resources on the Performance Effects of Competitive Environment Instability: This variable was operationalized as the product of total managerial resources (MR) and competitive environment instability (CEI), i.e. **MR x CEI**.

Moderation of Technical Human Resources on the Performance Effects of Competitive Environment Instability: This variable was operationalized as the product of total technical human resources (THR) and competitive environment instability (CEI), i.e. **THR x CEI**.

Second order moderation of Managerial Resources on the first order moderation of Technical Human Resources on the Performance Effects of Competitive Environment Instability: This variable was operationalized as the product of managerial resources, total technical human resources (THR) and competitive environment instability (CEI), i.e. **MR x THR x CEI**.

Control variables

I control for the geographic location advantages of the different cities. Transporting raw materials from the United States to Mexico and finished products back to the United States is a central component of the foreign manufacturing business model in Mexico. The bulk of this transportation is conducted using trucks. This is why initially foreign manufacturing firms tended to concentrate in the states on the US-Mexico border. However, this pattern has weakened in the last 20 years. By 2006, foreign manufacturing firms were operating in 30 of the 32 Mexican states. Geographic location advantages are measured by the distance (***Distance***) between each city and the closest U.S. border crossing. This measure was constructed from data provided by the Mexican Census Bureau.

I also control for the average wage level (***Income per capita***) in the city. Low wages are a main driver of foreign manufacturing entry into Mexico. This variable is measured by using per capita taxes in the city. I also control for the size of the labor market. Availability of labor likely affects foreign manufacturing entry into Mexico. I measure this variable by the size of the population in the city (***Population***). Resource competition from alternative economic activities is another factor that may affect whether foreign manufacturing firms enter into cities in Mexico. Labor is one of foreign manufacturing firms' most important resources. Another source of resource competition for incoming foreign manufacturing firms comes from existing foreign manufacturing firms. I account for this competitive dynamics by controlling for the ***Density*** and ***Density Square*** of existing foreign manufacturing firms in the city. Agriculture, the main alternative economic activity, is another source of resource competition. I account for resource competition from this alternative economic activity by controlling for the total harvested area in the city (***Agriculture***).

Another factor that may affect foreign manufacturing firm entry into Mexican cities is the real estate market. Manufacturing firms usually require substantial facility space, but in one of the world's most crowded cities, like Mexico City, real estate is more expensive than less densely populated cities. I control for real estate cost (*Real estate*) by controlling for the per capita area in the city (Real Estate). All of this data comes from INEGI. I also control for size dependence (Carroll & Hannan, 2000; Amburgey & Rao, 1996; Hannan & Freeman, 1993). I operationalize this variable with the natural logarithm of the total number of blue-collar employees in the manufacturing operation.

Previous research by (Cordero, 2016 b) using this same dataset has shown that the ideological content and structural stability of local political institutions affect the entry rate of foreign manufacturing firms in Mexico. I use a factor variable to capture the effect of the political ideology of the party ruling the city (*Pro-market Ideology Old, Pro-market Ideology New, Anti-market Ideology New, Mixed Ideology New, Minor Parties*). The omitted category refers to environments controlled by the historically dominant Institutional Revolutionary Party (Pro-Market Ideology Old). I also control for political stability in a given city with the variable (*Political Instability*) with a dummy variable indicating whether a given city is experiencing political transition from one party to another in a given year. I also control for the number of political fractures in the adjacent level of governments (*Political Fragmentation*).

Previous research by (Cordero, 2016 a) also using this dataset has shown that public disorder and armed non-state actor (ANSA) presence, activity level, and competition also affect the entry rate of foreign manufacturing firms in Mexico. Public Disorder (*Public Disorder*) is measured by the total number of homicides in a city in a given year. ANSA Presence (*ANSA Presence*) is measured as an indicator variable that captures whether at least one drug cartel

operates in a city in a given year as reported by Coscia & Rios (2012). ANSA Intensity (*ANSA Intensity*) is measured as the total drug cartel activity in a city in a given year as reported by Coscia & Rios (2012). ANSA Concentration (*ANSA Concentration*) is measured as the Herfindahl index of total drug cartel activity in a city in a given year. The Herfindahl index is widely used in the literature to capture the competitive dynamics in a market, and the index ranges from 0 to 1. A higher the index indicates a more concentrated, and hence uncompetitive, market. Following this same logic, I constructed a Herfindahl index capturing the concentration of drug cartel activity. Coscia & Rios (2012) report overall drug cartel activity in each city, each year, between 1990 and 2010. Using this data, I grouped the total cartel activity into the main five drug cartels in Mexico (Tijuana, Sinaloa, Juarez, Gulf and Milenio cartels). Then, I constructed a Herfindahl index to capture the concentration of drug cartel activity among these five major drug cartels in a city in a given year. Finally, I use year- specific dummies (year) to control for the time trend and year-specific shocks that may have affected all cities equally. Descriptive statistics and bivariate correlations are provided in Table 5.

Table 5: Bivariate Correlations and Variable Descriptive Statistics

	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
Profit	478	3,814	-45,391	760,970	1																					
Historical Political Incumbent	0.46	0.50	0	1	-0.01	1																				
Pro-Market Ideology	0.51	0.50	0	1	0.01	-0.93	1																			
Anti-Market Ideology	0.01	0.12	0	1	0.01	-0.11	-0.12	1																		
Mixed Ideology	0.01	0.10	0	1	0.01	-0.10	-0.11	-0.01	1																	
Minor Political Party	0.01	0.11	0	1	-0.002	-0.10	-0.11	-0.01	-0.01	1																
Distance	0.22	0.30	0.00	1.16	0.05	-0.06	0.00	0.10	0.12	0.04	1															
Income/Capita	1.13	0.59	0.06	5.49	0.03	0.12	-0.12	-0.03	0.04	0.01	-0.17	1														
Agriculture	0.03	0.05	0	0.24	0.001	-0.08	0.10	-0.01	-0.04	-0.03	-0.22	0.13	1													
Density	2.05	2.60	0	8.61	-0.03	-0.34	0.39	-0.08	-0.05	-0.07	-0.49	0.07	-0.07	1												
Density^2	10.95	19.85	0	74.13	-0.02	-0.34	0.38	-0.06	-0.05	-0.06	-0.39	0.05	-0.17	0.97	1											
Real Estate	0.03	0.07	0	1.43	-0.02	0.13	-0.13	0.02	-0.02	0.02	-0.10	0.04	-0.004	-0.21	-0.18	1										
Population	0.62	0.47	0	1.69	-0.01	-0.40	0.44	-0.13	0.01	-0.10	-0.27	0.10	-0.03	0.75	0.67	-0.32	1									
Size	4.01	1.89	0	9.10	0.13	0.02	-0.03	0.01	0.03	0.00	0.00	-0.03	0.03	-0.03	-0.03	-0.02	-0.04	1								
Political Instability	0.13	0.33	0	1.00	0.01	0.02	-0.06	0.04	0.10	0.06	0.03	0.00	-0.02	-0.05	-0.07	0.01	0.05	0.04	1							
Political Fragmentation	0.85	0.66	0	2.00	0.01	-0.16	0.11	0.06	0.11	0.10	-0.10	0.06	0.02	-0.02	-0.07	0.02	-0.03	0.03	0.16	1						
ANSA Concentration	0.28	0.32	0	1.00	-0.003	-0.07	0.10	-0.07	-0.04	-0.04	-0.28	0.15	0.20	0.26	0.21	-0.08	0.26	-0.01	0.04	0.07	1					
ANSA Intensity	0.18	0.38	0	3.99	0.01	0.04	-0.04	-0.05	0.12	-0.04	-0.22	0.30	0.06	0.35	0.32	-0.12	0.42	0.01	0.02	0.04	0.12	1				
Public Disorder	44.89	39.93	0	300	-0.01	-0.31	0.36	-0.09	-0.04	-0.08	-0.38	0.04	-0.04	0.69	0.60	-0.27	0.89	0.001	0.06	0.01	0.23	0.41	1			
Competitive Env. Instability (CEI)	5.04	405.50	0	128,664	0.09	-0.01	0.01	0.0003	-0.001	-0.001	0.01	-0.001	-0.001	-0.01	-0.004	-0.003	-0.01	0.02	-0.002	0.001	-0.005	-0.003	-0.01	1		
Managerial Resources	0.20	0.58	0	44	0.44	0.004	-0.01	-0.003	0.02	-0.01	0.02	0.03	-0.005	-0.04	-0.04	-0.04	0.005	0.37	0.02	0.03	0.02	0.02	0.01	0.07	1	
Technical Human Resources	0.31	0.91	0	31	0.31	0.01	-0.01	-0.0004	0.02	-0.004	0.01	0.03	0.001	-0.03	-0.04	-0.03	-0.003	0.40	0.03	0.02	-0.002	0.02	0.01	0.07	0.58	1

Empirical Estimation

To model the effect of organizational performance, I use a fixed-effects linear model. All models are ran with cluster robust standard errors at the city-level and year and month fixed effects (Cameron & Trivedi, 2010).

RESULTS

Table 6 shows the results. Model 1 includes only control variables. Model 2 includes the effects of Competitive Environment Instability (**CEI**). Model 3 includes the interaction term **MR x CEI**, which tests Hypothesis 1 that an organization's endowment of managerial resources (**MR**) moderates the negative relationship between Competitive Environment Instability (**CEI**) and performance. The coefficient of the interaction term (**MR x CEI**) is in the expected positive direction and statistically significant. Therefore, the results support Hypothesis 1 that a larger endowment of managerial resources buffers organizations from Competitive Environment Instability's (**CEI**) negative effects. Model 4 tests for Hypothesis 2, which predicts that an organization's endowment of technical human resources (**THR**) moderates the negative relationship between Competitive Environment Instability (**CEI**) and performance. The coefficient of the interaction term (**THR x CEI**) is in the expected positive direction, but not statistically significant. Hence, the results do not support Hypothesis 2.

Table 6: Fixed Effects Linear Estimates for Foreign-Manufacturing Firm Short-term Performance in Mexico 2000-2006
(Cluster Robust Standard Errors in Parentheses)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Month Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Size	128.78*** (29.99)	130.06*** (30.12)	131.17*** (30.17)	112.04** (41.94)	78.96* (31.29)	107.80 (70.73)
Income/Capita (1,000 pesos)	78.45 (111.92)	135.47 (120.99)	117.70 (115.38)	107.32 (108.42)	109.09 (107.27)	105.25 (106.32)
Agriculture (Millions of Acres)	-1,470.57 (1,913.48)	-1,206.22 (2,090.49)	-1,092.99 (2,156.78)	-971.67 (2,088.98)	-966.75 (1,972.63)	-1,000.60 (1,933.71)
Foreign Manufacturing Density	-703.17 (438.83)	-633.75 (398.39)	-633.07 (396.97)	-660.23^ (381.57)	-716.71^ (388.31)	-696.39^ (382.10)
Foreign Manufacturing Density^2	58.46^ (32.54)	59.20 (36.30)	59.93 (36.41)	61.48^ (35.97)	65.76^ (36.16)	64.61^ (36.10)
Real Estate (Km^2/inhabitant)	1,026.96 (4,854.46)	1,447.65 (5,051.45)	1,763.85 (5,250.02)	1,718.94 (5,300.10)	1,658.81 (5,299.81)	1,636.52 (5,337.37)
Population (Millions)	676.53 (709.37)	575.54 (793.33)	490.05 (846.39)	386.70 (829.85)	161.09 (855.07)	232.98 (808.63)
Pro-Market Ideology		28.54 (55.34)	23.54 (56.48)	19.29 (57.24)	27.78 (58.47)	29.50 (57.89)
Anti-Market Ideology		-129.84 (129.84)	-139.96 (132.24)	-143.96 (131.90)	-159.08 (134.39)	-157.08 (133.53)
Mixed Ideology		356.10 (291.35)	354.06 (290.45)	357.76 (295.64)	354.56 (287.38)	353.80 (284.70)
Minor Political Party		-177.55 (123.11)	-182.64 (125.27)	-177.96 (121.11)	-205.28^ (123.51)	-205.62^ (124.29)
Political Instability		81.16 (59.70)	84.43 (61.23)	82.06 (60.29)	79.75 (59.62)	74.12 (60.29)
Political Fragmentation		36.03 (83.00)	47.59 (89.32)	49.55 (90.20)	57.01 (90.03)	56.43 (89.37)
ANSA Concentration		(255.62) (178.79)	(264.88) (186.15)	(264.60) (183.82)	(259.34) (184.12)	(255.51) (184.51)
ANSA Intensity		37.00 (86.74)	36.90 (86.95)	33.16 (85.57)	31.42 (85.00)	33.78 (84.29)
Public Disorder		2.05 (1.78)	2.04 (1.81)	1.98 (1.81)	2.00 (1.86)	2.03 (1.84)

^ p<0.10; * p<0.05; ** p<0.01; *** p<0.001

Table 6 (Continued...)
 Fixed Effects Linear Estimates for Foreign-Manufacturing Firm Short-term Performance in Mexico 2000-2006
 (Cluster Robust Standard Errors in Parentheses)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Competitive Env. Instability (CEI)			-0.64*** (0.02)	-2.55*** (0.40)	-0.66^ (0.34)	1.28 (2.32)
Managerial Resources (MR)				252.11 (298.09)	199.28 (347.72)	77.56 (354.72)
H1:				0.44*** (0.09)		(0.36) (0.49)
Technical Human Resources (THR)					317.56 (194.16)	307.08 (189.35)
H2:					0.01 (0.05)	-0.29* (0.13)
H3:						0.06* (0.02)
Constant	-76 (516)	-301 (564)	-262 (601)	-128 (554)	126 (573)	38 (535)
Observations	188,806	188,806	188,806	188,806	188,806	188,806
R-squared	0.003	0.003	0.013	0.019	0.016	0.023
AIC	3,589,482	3,589,397	3,587,449	3,586,324	3,586,948	3,585,569
BIC	3,589,766	3,589,773	3,587,835	3,586,730	3,587,364	3,586,005
Log lik.	-1,794,713	-1,794,662	-1,793,687	-1,793,122	-1,793,433	-1,792,741

^ p<0.10; * p<0.05; ** p<0.01; *** p<0.001

Hypothesis 3 posited that the moderating effect of an organization's endowment of technical human resources (**THR**) would depend on the organization's managerial endowment. The argument is that an organization's level of technical human resources (**THR**) would be most helpful for coping with Competitive Environment Instability (**CEI**) when the organization also has abundant managerial resources. After all, it is managers who decide on the redeployment of technical human resources in order to cope with uncertain competitive environments. Hypothesis 3 is tested in Model 5 with the interaction term **MR x THR x CEI**. Consistent with Hypothesis 3, the coefficient of the interaction term is in the expected positive direction and statistically significant. Hence, Hypothesis 3 is supported.

DISCUSSION

This study makes two theoretical contributions. First, the study integrates insights from contingency theory and the resource-based view of the firm (RBV) to show the connection between competitive environment instability, the internal resource endowment of an organization, and its performance. Second, the study introduces the concept of dynamic resources, defined as resources that allow an organization to cope with competitive environment instability. Previous research has focused on dynamic capabilities, which have been shown to be crucial for an organization's ability to cope with competitive instability (Grant, 1996; Teece et al., 1997; Eisenhardt & Martin, 2000; Zollo & Winter, 2002; O'Reilly & Tushman, 2008; Helfat et al., 2009). However, the focus on capabilities has distracted attention from organizational resources. Resources and capabilities are analytically distinct organizational attributes (Amit & Schoemaker, 1993). The characteristic that makes dynamic resources so valuable for coping with environmental change is not that they are capabilities per se, but that they are dynamic.

Existing research has shown that capabilities can be both static, which allow organizations simply to get by in a current environment, or dynamic, which allows organizations to cope with environmental change (Winter, 2003; Helfat et al., 2009; Helfat & Winter, 2011). It is their dynamic nature that makes dynamic capabilities valuable during environmental turmoil. I have argued that organizational resources can also be static or dynamic. The dynamic capabilities literature has considered all organizational resources to be static. Here, I argue that resources can also be dynamic. Specifically, I have shown that the managerial and technical human resources controlled by an organization help it cope with the negative performance consequences of competitive environment instability.

CONCLUSION

This study introduces the concept of dynamic resources, defined as resources that enable organizations to cope with unstable competitive environments. While the current dynamic capabilities literature is built on the premise that resources themselves cannot be a source of sustainable competitive advantage in changing environments, this study posits that certain organizational resources—namely dynamic resources—can help organizations cope in these environments. Specifically, the study examines the effect that an organization’s managerial and technical human resources play in helping it cope with the negative performance consequences of competitive environment instability. The empirical results confirm that a larger endowment of managerial resources buffer organizations from the negative effect of competitive instability on performance. The buffering effect of technical human resources is more nuanced; these human resources only serve as a buffer when the organization also has abundant managerial resources. This makes sense considering that many organizations with deep technical know-how, such as

Kodak, have faltered. It takes managerial action to identify competitive threats and redeploy technical resources to cope with such threats.

The paper makes two theoretical contributions. First, it introduces the concept of dynamic resources. Second, it bridges the literatures on contingency theory and the resource based view of the firm (RBV) to show the connection between competitive environment instability, the dynamic resource endowment of an organization, and organizational performance.

DISSERTATION CONCLUSION

This dissertation has examined how subnational political institutions, violent non-state actors (VNAs) and dynamic competitive environments affect multinational enterprise (MNE) entry rates and subsequent performance. Chapter 1 develops and finds empirical support for a theoretical framework on how subnational political institutional dynamics affect multinational enterprise location strategy within a host economy. Specifically, the study examines how the content, stability, and vertical fragmentation of local political institutions influence where multinational enterprises (MNEs) locate new operations within an economy. These enterprises will be less attracted to locations with anti-market, unstable, and vertically fractured political institutions.

The theory and empirical findings contribute to institutional theory in two ways. First, I conceptualize the formal regulative institutional pillar (i.e. the state) as a hierarchy of institutions with potentially overlapping jurisdictions, which may be at odds with each other. In doing so, I bring a fresh perspective into existing neoinstitutional conceptualizations of the formal regulative institutional pillar (Scott & Davis, 2015a; Scott, 1995b). Second, the concept of vertical institutional fragmentation is relevant for recent research on institutional complexity (Greenwood et al., 2011; Kraatz & Block, 2008; Thornton et al., 2012a). Institutional complexity has thus far been conceptualized as the situation when an individual or organizations faces competing pressures from competing institutional spheres (the family, community, religion, state, market, professions and corporation). However, the

pervasive assumption in this line of research is that each of these institutional spheres is internally cohesive. I show that at least one of these institutions —the state—is actually a multifaceted institution. The theory and results are also relevant to existing work on how political hazards affect MNEs (Henisz, 2000a; Henisz & Delios, 2001). Extant work has theorized that horizontal political fragmentation (i.e. among institutions at the same level within the formal regulative institutional structure) at the national level provides policy stability and that this stability benefits organizations. I show that vertical political fragmentation within the hierarchal structure of the formal regulative institutional pillar also affects MNE's location strategy. Finally, the theory and results point to future directions for non-market strategy research (Bonardi, Holburn, & Bergh, 2006; Bonardi, Hillman, & Keim, 2005; Holburn & Bergh, 2008).

Chapter 2 examines how the state's failure to provide public order affects MNE location strategy within a host economy. First, I call attention to the theoretical and practical importance of better understanding the consequences of this extreme form of institutional failure. While prior research has examined how specific institutional arrangements, such the enforcement of property rights and contracts, affect MNE location strategy across host countries (Meyer, Estrin, Bhaumik, & Peng, 2009; Peng, Wang, & Jiang, 2008; Vaaler, 2008; Henisz, 2000; Hoskisson, Eden, Lau, & Wright, 2000; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000), existing research has overlooked the role of the broader institutional content in which those other, more specific, institutions are embedded, namely the state's capacity to impose public order. This is after all the core function of the state (Tilly et al., 1985b; Weber, 1922, 1946b) and underpins the proper operation of other institutional arrangements.

Hence, understanding how state failure to impose public order affects organizations is theoretically important.

The question also has practical implications for organizations operating in developed, emerging, and developing economies. As evidenced by the recent riots in the United States, even advanced states are not able to maintain public order all the time. Furthermore, even under the veil of public order that prevails in advanced states, armed non-state actors (ANSAs) may have a strong influence on legitimate organizations, as evidenced by decades of victimization of legitimate business enterprise by La Cosa Nostra in major cities in the United States (Marine, 2006). Moreover, the state's inability to impose public order is ubiquitous in emerging and developing economies. This is relevant for developed-world MNEs because of the increasing trend towards globalization. Over the last three decades, developed-world MNEs have increased their operations in emerging and developing economies. Hence, these organizations are likely to have to deal with state failure to impose public order in their host economies, if not in their home economy. Finally, considering that the majority of business organizations in the world operate in emerging and developing economies, understanding how this extreme form of institutional failure affects organizations is important in its own right.

The theory and the empirical findings in the second study are relevant for current management research. The paper develops a theoretical framework predicting how state failure to impose public order affects MNE location strategy within a host economy. It disentangles the effect of organized and unorganized public disorder and develops theory regarding the relative effect of both categories. Finally, the framework

predicts how armed non-state actors (ANSAs) affect MNE location strategy through their presence, level of activity, and competition.

The third and final chapter introduces the concept of dynamic resources, defined as resources that enable organizations to cope with unstable competitive environments. While the dynamic capabilities literature is built on the premise that resources cannot be a source of sustainable competitive advantage in changing environments, the third study in this dissertation posits that certain organizational resources—namely dynamic resources—can help organizations cope in these environments. Specifically, the study examines the role that an organization’s managerial and technical human resources play in helping it cope with the negative performance consequences of competitive environment instability. The empirical results confirm that a larger endowment of managerial resources buffer organizations from the negative effect of competitive instability on performance. The buffering effect of technical human resources is more nuanced. Technical human resources only serve as a buffer when the organization also has abundant managerial resources. It takes managerial action to identify competitive threats and redeploy technical resources to cope with such threats. The paper makes two theoretical contributions. First, it introduces the concept of dynamic resources. Second, it bridges the literatures on contingency theory and the resource-based view of the firm (RBV) to show the connections between competitive environment instability, the dynamic resource endowment of an organization, and organizational performance.

APPENDIX 1: ROBUSTNESS TESTS FOR MODELS IN CHAPTER 2

		Extended Models													
		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	Model 14
	Overall Public Disorder		-0.172 (0.13)												
	Unorganized Public Disorder (UPD)			-1.416 (0.87)		1.049 (0.73)	0.593 (0.68)	1.107 (0.72)	1.089 (0.71)	-1.525^ (0.80)	-1.435^ (0.82)	-1.454^ (0.85)			
	Organized Public Disorder (OPD)				-1.931*** (0.42)	-2.609*** (0.42)	-2.282*** (0.39)	-2.687*** (0.45)	-2.720*** (0.44)				-1.943*** (0.39)	-1.967*** (0.40)	-2.016*** (0.41)
H2:	ANSA Presence						0.195 (0.18)	0.206 (0.17)	-0.192 (0.20)	0.226 (0.22)	0.239 (0.22)	-0.0773 (0.26)	0.213 (0.17)	0.239 (0.17)	-0.157 (0.18)
H3	ANSA Intensity							-0.375* (0.16)	-0.276^ (0.16)		-0.214* (0.11)	-0.143 (0.12)		-0.306* (0.14)	-0.207 (0.15)
H4:	ANSA Concentration								0.583** (0.20)			0.458* (0.18)			0.578** (0.19)
	Constant	1.035** -0.355	0.976** -0.337	0.934** -0.314	0.974** -0.306	1.040*** -0.307	1.014*** -0.307	1.053*** -0.31	0.951** -0.322	0.936** -0.312	0.931** -0.315	0.842* -0.334	0.976** -0.305	0.975** -0.304	0.869** -0.319
	N	1,877	1,877	1,877	1,877	1,877	1,877	1,877	1,877	1,877	1,877	1,877	1,877	1,877	1,877
	AIC	2,593.4	2,592.7	2,583.6	2,557.0	2,555.5	2,558.1	2,555.9	2,554.2	2,584.2	2,586.2	2,586.6	2,557.3	2,557.5	2,555.7
	Log lik.	-1,254.7	-1,252.4	-1,247.8	-1,234.5	-1,231.8	-1,232.1	-1,227.9	-1,225.1	-1,246.1	-1,245.1	-1,243.3	-1,232.7	-1,230.7	-1,227.9

Models with Mean-Centered Variables

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Overall Public Disorder		-0.172 (0.13)						
Unorganized Public Disorder (UPD)			-1.416 (0.87)		1.049 (0.73)	0.888 (0.78)	1.107 (0.72)	1.089 (0.71)
Organized Public Disorder (OPD)				-1.931*** (0.42)	-2.609*** (0.42)	-2.517*** (0.44)	-2.687*** (0.45)	-2.720*** (0.44)
H2: ANSA Presence						0.18 (0.18)	0.206 (0.17)	-0.192 (0.20)
H3: ANSA Intensity							-0.375* (0.16)	-0.276^ (0.16)
H4: ANSA Concentration								0.583** (0.20)
Constant	1.035**	0.976**	0.855**	0.843**	0.921**	0.913**	0.932**	0.827*
N	1,877	1,877	1,877	1,877	1,877	1,877	1,877	1,877
AIC	2,593.4	2,592.7	2,583.6	2,557.0	2,555.5	2,557.0	2,555.9	2,554.2
Log lik.	-1,254.7	-1,252.4	-1,247.8	-1,234.5	-1,231.8	-1,230.5	-1,227.9	-1,225.1

Models with Synthetic Instrument

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Overall Public Disorder		-0.17 (0.13)						
Unorganized Public Disorder (UPD)			0.0898** (0.03)		0.06 (0.04)	0.05 (0.05)	0.07 (0.04)	0.07 (0.04)
Organized Public Disorder (OPD)				-0.362*** (0.08)	-0.361*** (0.08)	-0.363*** (0.07)	-0.368*** (0.07)	-0.377*** (0.07)
H2: ANSA Presence						0.18 (0.18)	0.21 (0.17)	-0.19 (0.20)
H3: ANSA Intensity							-0.375* (0.16)	-0.277^ (0.16)
H4: ANSA Concentration								0.583** (0.20)
Constant	1.035**	0.976**	1.165***	0.843**	0.921**	0.913**	0.932**	0.827*
N	1,877	1,877	1,877	1,877	1,877	1,877	1,877	1,877
AIC	2,593.4	2,592.7	2,590.3	2,557.0	2,555.5	2,557.0	2,555.9	2,554.2
Log lik.	-1,254.7	-1,252.4	-1,251.2	-1,234.5	-1,231.8	-1,230.5	-1,227.9	-1,225.1

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