

Прикладная эконометрика, 2024, т. 74, с. 51–77.

Applied Econometrics, 2024, v. 74, pp. 51–77.

DOI: 10.22394/1993-7601-2024-74-51-77

E. Bessonova, K. Gonchar¹

How regional courts in Russia affected multinational decisions on affiliate size, entry and organization²

We investigate the impact of court conditions on multinational decisions on entry, subsidiary size and entry mode across subnational Russian regions in 2001–2014. We apply the literature on heterogeneous firms and the institution-based view of investor behaviour, which predict that higher institutional costs raise the size and productivity cut-off of start-up subsidiaries. Our empirical results based on microestablishment data of foreign-owned firms in Russia show that a weaker judicial framework and stronger political power of the local governor significantly de-stimulate entry. Most multinationals entered Russia, which is viewed as a high-risk country, through large and very large subsidiaries wholly owned by foreign parents. We largely explain business strategy variation of multinationals between regions by regional court conditions, as foreign investors adapted their strategic decisions to compensate court deficiencies by increasing the size of the subsidiary. When the investment climate deteriorated, firms turned to local partnerships as a viable mode of entry.

Keywords: multinational firms; institutions; regional courts; subsidiary size; entry mode; Russia.

JEL classification: F10; F23; L22; R30.

1. Introduction

Multinational firms prefer to invest in locations where protection of property rights is strong, and institutions, which provide such strength, are influential in creating incentives to invest (La Porta et al., 1999; Busse, Hefeker, 2007). Since developing countries, with relatively weak institutions, host more than half of global FDI flows, it is important to understand how multinationals design their entrance strategy when protection of property rights is less than perfect, so that host countries can optimize their policies for FDI promotion. The interaction of location specific institutions and traditional asset advantages is becoming more important in the complex and volatile global economy (Dunning, Lundan, 2008).

Our main research objective here is to study the way in which subnational institutions for the protection of property rights and contract enforcement — commercial courts in particular — have

¹ **Bessonova, Evguenia** — Bank of Russia and HSE University, Moscow; bessonovaev@cbr.ru.

Gonchar, Ksenia — HSE University, Moscow; kgonchar@hse.ru.

² The views expressed in this paper are solely those of the authors. The content and results of this research should not be considered or referred to in any publications as the Bank of Russia's official position, official policy, or decisions. Any errors in this document are the responsibility of the authors.