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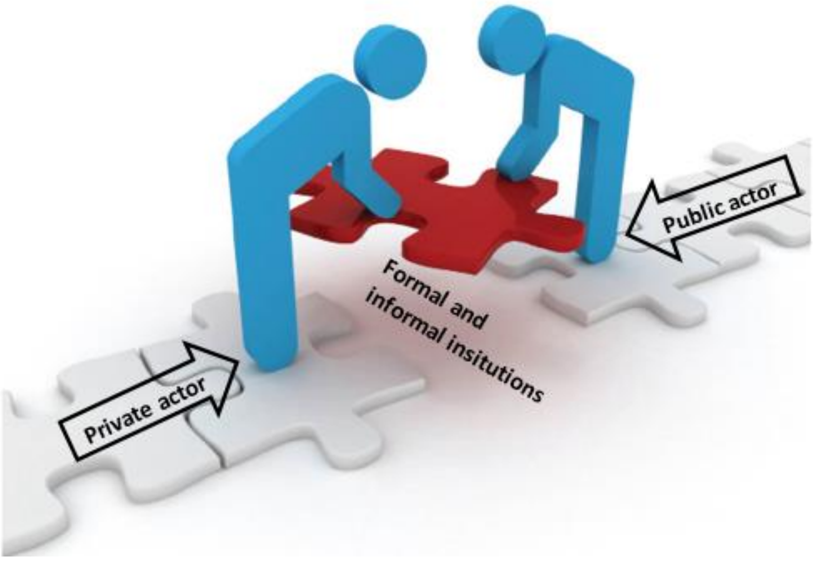
Multinational companies, institutional distance and the governance of public-private partnerships in Sub-Saharan Africa



Master Thesis Agricultural Economics and Rural Policy & Management studies

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Multinational companies, institutional distance and the governance of public-private partnerships in Sub-Saharan Africa

MSc Thesis Report, Master Management, Economics & Consumer studies (AEP-80433)

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Abstract

This research investigates how institutional background and institutional distance influence the governance structures of public-private partnerships between multinational companies and public actors in Sub-Saharan Africa. An appropriate governance structure increases the chances on long run survival and decreases uncertainty for both actors. In order to do this, this research focus on PPPs between multinational companies (MNCs) originating from a Western country (i.e. the USA and Europe) or from China and a Sub-Saharan (SSA) public actor. Thereby this study makes mainly four contributions to the literature. Firstly, it examines possible indicators of formal and informal institutions, which determine together the institutional background. Secondly, it examines the literature on the governance of PPPs, including different mechanisms and structures. Thirdly, these research outcomes are used to develop theoretical propositions on the possible influence of formal institutional distance, informal institutional distance and informal institutional background on the governance of PPPs. Six propositions are developed and discussed by consulting a large amount of literature. Finally, formal and informal institutional distance between China, Western countries and Sub-Saharan Africa (SSA) is operationalized and illustrated by four cases.

The formal and informal distance is larger between a 'Western' MNC and a SSA public actor, compared to the formal and informal distance between a Chinese MNC and a SSA public actor. A large formal distance leads to a PPP with a larger share of private equity and authority, whereas a large informal distance leads to a PPP with a more equal share of public and private partners in equity and authority.

Together, the findings of this research suggest that the institutional background of MNCs influences the PPP governance structure and that formal and informal distance between the home and the host country of the MNC can have differing effects. More empirical research is needed to further explore this relation. This study advises MNC managers to examine institutional distance before making an investment. Governance structures must be matched with institutional distance to the host country in order to enhance competitive advantages.

Keywords: *formal institutional distance, informal institutional distance, institutional background, public-private partnership, governance structure, governance mechanism, Multinational companies, Sub-Saharan Africa*

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1 Introduction

1.1 Introduction

All over the world, people make transactions, trade with each other and exchange goods, services, money and information. These trade agreements are coordinated by governance structures. The governance structure is chosen that coordinates the transaction at the lowest possible cost (Groenewegen et al., 2010; North, 1991; Wijk et al.,2011). It distributes duties in the transaction and has implications for who benefits from the transaction. A governance structure describes exactly which parties are involved, which actors are allowed to make decisions and what is owned by who (Groenewegen et al., 2010).

An example of a governance structure is a public-private partnership (PPP). This term can be used to describe a wide diversity of relationships in a variety of locations and circumstances. The most important aspect of a PPP is that it includes collaboration between people or organisations in the private and public sector to achieve a common goal (McQuid, 2002). Since the last decade, PPPs are gaining more attention in cross-cultural collaboration research (Börzel & Risse, 2005). PPPs are increasingly seen as a new and appropriate type for inter-organizational collaboration and as an alternative for business to business collaborations. The effectiveness of a PPP depends on different factors such as how the PPP is led, legitimised, resourced and managed. This will be determined by the local circumstances, the objectives of the partnership, but also by the governance of the PPP (McQuid, 2002). Every PPP needs an appropriate governance structure, including suitable governance mechanisms, to be effective and to reach the desired goals (Dahlquist & Griffith, 2015). The governance structure of a PPP always is designed in a way that mitigates the risks (Rufín & Rivera Santos, 2012).

Moreover, the institutional background of the different actors plays a role in cross-cultural collaboration (McQuid, 2002). A factor which has reserved not much attention, although a greater understanding of the differences in the institutional background will be useful for international business research (Jackson & Deeg, 2008). Within the term institutional background, a distinction can be made between formal and informal institutions. With formal institutions, we denote rules that are legally enforced and with informal institutions, we denote customs and norms that are not enforced by a legal framework but they are socially constructed. Taboos, customs and traditions are examples of informal constraints that belong to informal institutions, examples of formal constraints/rules are laws and property rights (Carmody & Owusu, 2007; Holmes et al, 2013; Wijk et al., 2011).

Formal and informal Institutions determine for a large part the actions, initiatives and incentives of individuals, and hence also the grounds of whether or not to engage in an economic activity (Ahlstrom & Bruton, 2003; North, 1991). Besides individuals, formal and informal institutions can also exert an influence on the strategies, organisation structures and behaviour of companies (Lenway & Murtha, 1994; Dahlquist & Griffith, 2015; Wijk et al., 2011)

1.2 Problem statement & research questions

There is a large variation between countries in the institutional background; (Lenway & Murtha, 1994; Ahlstrom & Bruton, 2003). When the differences between the private actor and the public actor in a cross-cultural PPP are large, this can result in high costs for negotiation and conflict resolution which can ultimately lead to a failed PPP (Wijk et al., 2011). There has been some research on the differences between the institutional environments of nations. However, these studies did not examine the complexities private actors, especially multinational companies[1] (MNCs), face when they are operating in or between countries with different institutional environments (Ang et al., 2015). Moreover, the influence of the institutional background on the governance of PPPs has never been researched before.

This research contributes to this research gap by examining the impact of the institutional background of the private actor (MNC) and the institutional differences between the private actor and the public actor on the governance of a PPP. In order to compare the institutional background, a distinction is made between home country institutions (belonging to the private actor) and host country institutions (belonging to the public actor). Figure 1 gives an overview of the used terms.

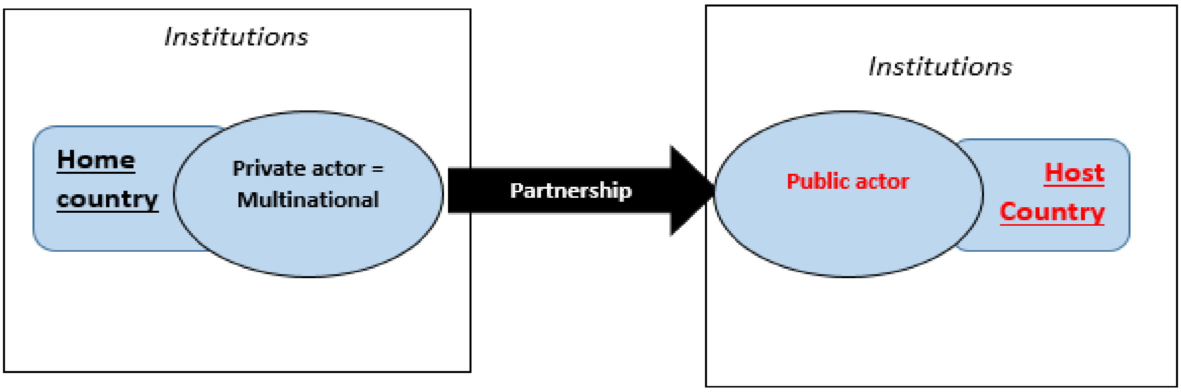

Figure 1: Institutional differences between home and host countries

In order to address the above issues, the following general research question is formulated:

How do institutional background and institutional distance influence the governance of public-private partnerships between multinational companies and public actors in Sub-Saharan African?

In order to answer this main question the following sub-questions should be answered:

- *(1) What are indicators of formal and informal institutions?*
- *(2) What are different governance elements and mechanisms of public-private partnerships?*
- *(3) How do institutional distance and informal institutional background influence the governance of public-private partnerships?*
- *(4) How does the institutional distance influence the governance of public-private partnerships between Chinese, American and European multinational companies and public actors in Sub-Saharan Africa?*

[1] This research defines a multinational company as a company that owns or controls the production of goods or services in one or more country than their own country (the home country)

This research will focus especially on PPPs in Sub-Saharan Africa (SSA) since PPPs are seen as a new policy instrument in the context of developing countries. The developing world has been seeking for participation in the world trade system and are increasingly taking on the principles of free markets. Privatisation has brought success in various developing countries and this has increased the interest in PPPs (Jamali, 2004). Multilateral bodies within Africa, such as the UN Economic Commission for Africa, the African Union and the African Development Bank have all endorsed the use of PPPs. Financial and technical support comes from the World Bank, the Organisation for Economic Co-operation and the international monetary fund. Moreover, PPPs help Sub-Saharan African governments to relieve the shortage of funds, to reduce their debt, to shift financial risks from the public sector to the private sector and to achieve more efficient projects (Loxley, 2013).

1.3 Outline and source of data

The thesis is organised as follows. At first, the thesis will start with a literature review of formal and informal institutions that are capable of explaining the differences in institutional background between countries. A summary of the most important formal and informal institutions will be given, otherwise, a comparison can't be made, in order to answer the main question. Second, an in-depth analysis of the different governance structures of partnerships is given. Theories and research on the governance of PPPs (with the main focus on governance mechanisms) are examined and two ideal PPP governance structures are explained. This is followed by chapter four, that makes the link between the previous two sub-questions and examine the findings from (international business) literature about a possible relationship between differences in institutional background and the governance of PPPs. Different propositions are developed and discussed. Chapter 5 operationalizes the concept of formal and informal distance for three continents; Europe, North-America and Sub-Saharan Africa. Formal distance is operationalized with data from the Economic Freedom Index, the Political risk services group, the Freedom House and POLCON (political constraints index) data. Informal distance is measured with the data of Hofstede. Moreover, this chapter explores how formal and informal distance between a European MNC or a Chinese MNC and a SSA public actor can influence the governance of a PPP. This is illustrated by two cases in the oil industry in Nigeria and two cases in the agricultural sector in Mozambique and South-East Africa.

2 Indicators of formal and informal institutions

2.1 Introduction

Institutions together with the standard constraints of economics determine the transaction and production costs of an economic activity (Li & Zahra, 2012). Institutions determine the 'rules of the game' (North, 1991). A distinction can be made between formal and informal institutions. Both forms of institutions have been studied in different fields of science, such as political science, economics and sociology (Jackson & Deeg, 2008). The aim of this chapter is to outline the indicators that explain the formal and informal institutions that determine the institutional background of a country. This will be done by answering the first sub-question:

What are indicators of formal and informal institutions?

This chapter will state and explain both informal as formal institutions and show what indicators different indicators have an impact on partnerships. First, the definition of formal institutions is described. A distinction is made between regulatory institutions, economic institutions and political institutions. Secondly, it will be explained why cultural distance seems to be an appropriate indicator. Hofstede (1980) separates four cultural dimensions to measure cultural distance and all of them will be discussed in section 2.3. The chapter will conclude with an overview of the different indicators.

2.2 Formal institutions

Formal institutions structure economic exchange, help to reduce problems with transactions costs and may provide incentives that stimulate (cross-cultural) investments (Li & Zahra, 2012). In addition, formal institutions contain authoritative behavioural guidelines and this promotes order and stability (Scott, 1995). Compared to informal institutions, there has been little consensus among scholars about the relevancy of different formal institutions in the institutional environment. Formal institutions can change rapidly and are deformable because of shifts in national economic and political policies (Li & Zahra, 2012). Scott (1995) makes a distinction between normative, regulatory and cognitive institutions. Regulatory institutions represent the standards and laws. Normative institutions can be seen as accepted authority systems and cognitive institutions are the most informal institutions (Ahlstrom & Bruton, 2003; Moore et al., 2015). Holmes et al., (2013) separate three different formal institutions: regulatory, economic and political. The different types are identifiable by their function in the society. Here, a clear distinction is difficult as well, since the different institutions influence each other. For example, political institutions influence the development and characteristics of regulatory and economic institutions (Voigt, 2013; Holmes et al., 2013). Nevertheless, several researchers have used this classification (Holmes et al., 2013; Bae & Salomon, 2010) and therefore, it will be further explained in this section.

2.2.1 Regulatory institutions

Regulatory institutions develop laws and policies and enforce them. These laws and policies constraint and limit the activities of individuals and organisations (Holmes et al., 2013). Regulatory institutions prevent the economy from market failures like moral hazard and adverse selection. In this way, they regulate goods, assets, labour and financial markets (Rodrik, 2000). Regulatory institutions are expressed in several indicators: corruption, contract and property rights, fiscal burden (taxation and government spending), foreign investment restrictions, government control over wages and prices, government intervention in banking, government restrictions on industry, informal markets, monetary policy, regulatory burden, and trade policy (Holmes et al., 2013). Some regulations are also specific to particular industries (Bae & Salomon, 2010).

Ionascu et al. (2004) measure regulatory institutions by the 'regulatory factor' of the Economic Freedom Index, published by the Heritage Foundation. Six indices are important: the licensing requirement to operate a business (1), the ease of obtaining a business license (2), the corruption within the bureaucracy (3), the labour regulations (paid vacations, established workweeks(4), the environmental, consumer safety and worker health regulations (5) and the regulations that impose a burden on business (6).

2.2.2 Economic institutions

Another important formal institution, thereby also the formal institution with the most indicators, is the economic institution. The economic institutions embody the availability and value of the society's financial resources. These institutions are visible in the fiscal and monetary policy of a country (Holmes et al., 2013; Tonoyon et al., 2010). Lenway and Murtha (1994) make a distinction between macroeconomic institutions and microeconomic institutions. Micro-economic institutions affect particular transactions only, loans and subsidies for specific companies for example. Macro-economic institutions are tools of monetary and fiscal policy that can affect entire economies (Lenway & Murtha, 1994). They play a role in the stabilisation of an economy. Macroeconomic instability can result in instability in the financial markets. Holmes et al., (2013) separate all the economic institutions in two factors: capital availability and market liquidity. This first factor can be expressed in capital investments, money supply, net reserves, total foreign debt and nominal GDP of a country. The second factor is based on the liabilities, the exchange rate and the liquidity within a country.

2.2.3 Political institutions

The third indicator of formal institutions are the political institutions. The political institutions exert an influence on the stability of formal institutions. Political institutions determine the rules for establishing new institutions and change or remove the existing institutions. Also, they can range from institutions that concentrate power in the hands of a few people (a dictatorship for example), to democratic institutions where the power is equally distributed among the population (Holmes et al., 2013). Political institutions remain relatively stable over time and are therefore a reliable indicator for formal institutions (Lenway & Murtha, 1994). Indicators for political institutions are civil liberties, executive political restrictions, political constraints and political rights. These political institutions show the power distribution in the government and which actors are able to participate in this. These institutions also give an insight into how formal institutions can be created or changed by governments and individuals (Holmes et al., 2013). Different measures can be used to get an indication of the political institutions. For example the political constraints index (POLCON), which measures the political risk in a country by assessing the probability of an adverse change in the policies or the governmental regime (Bae & Salomon, 2010). Another example is the measure developed by Kaufmann et al., (2007). Political stability, government effectiveness, control of corruption, the rule of law, regulatory quality and voice and accountability are this six features measured in this measurement (Bae & Salomon, 2010).

2.3 Informal institutions

Informal institutions play an important role in societies and can be seen as 'codes of conduct'. They are not defined by documented rules and standards (Holmes et al., 2013), and are not designed in a conscious way (Tonoyan et al., 2010). An important representation of a country's informal institution is culture: a system of shared meanings and collective understandings[2] (Holmes et al., 2013). The values and norms of a society are embodied in a country's culture. The culture determines for example which actions, arrangements and activities are accepted and how people act. Culture influences the beliefs, priorities and assumptions and is socially constructed through socialisation processes. It reflects everything that a society produces; like music, food, art etc. (Holmes et al., 2013).

Various frameworks exist that classify culture (Babatunde & Low, 2015). Kluckhohn and Strodtbeck (1961) developed a well-known value orientation framework. This sociological framework is not frequently used in the analysis of the cross-cultural behaviour of companies and more dominant in the field of cross-cultural psychology. Also, the theory is not complete because the authors didn't provide measurements for all their proposed orientations (Hofstede, 1996). Building on this framework, Hofstede (1980) developed a framework, that does take these things into account. This framework is widely used in different fields of science. His work has led to a great deal of further research (Hills, 2002). Hofstede regarded that culture differs among four dimensions of national culture. His definition of a dimension is '*an aspect of culture that can be measured relative to other cultures*' (Hofstede and Hofstede 2005, p. 23). The four primary dimensions are: (1) power distance, (2) uncertainty avoidance, (3) individualism versus collectivism and (4) masculinity versus femininity (Hofstede, 1980).

Although Hofstede (1991) later on added another dimension to his framework (long-term orientation), the more widely adopted framework of national cultural distance is based on the first four dimensions of Hofstede (Bae & Salomon, 2010). Several researchers (Trompenaars, 1994; House et al., 2004) have tried to expand Hofstede's dimensions, but none of them developed a framework that plays such an important role in different fields of science. Hofstede's theory has already been tested by many scholars (Barkema & Vermeulen, 1997; Jackson & Deeg, 2008; Engelen et al., 2015; Babatunde & Low, 2015, Steensma et al., 2000) and is the most widely accepted framework for cross-cultural research. His study is the largest organizationally based study; the data was gathered in 70 countries all over the world with over 11600 respondents (Ahlstrom & Bruton, 2009). This makes the indicators reliable to outline the informal institutional background of a country. The cultural values of Hofstede are stable over time and therefore still relevant. Although many scholars agree that cultures are converging, they do not signal convergences in the values of different cultures (Barkema & Vermeulen, 1997).

[2] Culture can be seen as multilayer construction. The most external layer is the layer of global culture. This culture is determined by Western MNCs and is based on a free market economy, acceptance of diversity, individual rights, openness to change and democracy. Below this layer is the layer of national culture, varying from one nation to another. The third layer is the layer of organizational culture, which differs between local organizations (Holmes et al., 2013). This research focuses on the national culture

2.3.1 Power distance

Power distance refers to the degree in which people are comfortable with inequality in relationships (Hofstede, 1980). It shows whether people accept unequal distribution of power (Barkema & Vermeulen, 1997). The degree of power distance is illustrated in the Power Distance index (PDI). In societies with a high PDI, people are used to a hierarchical order and accept inequalities among people (Hofstede, 1980). For example, employees, with a low level of education, follow orders as a matter of procedure. When the PDI is extremely high, strict obedience can also be found at the upper levels. Also, organisations in countries with a high PDI have tall organisation structures and are more centralised (Hodgetts et al., 2006). The opposite applies for societies with a low PDI, where people ask for justification of inequalities of power and strive to equalise the distribution of power (Hofstede, 1980). Organisations in countries with a low PDI have flatter organisation structures and are more decentralised.

2.3.2 Uncertainty and the avoidance of uncertainty

The degree of uncertainty avoidance indicates *'The extent to which a society feels threatened by uncertain and ambiguous situations and tries to avoid these situations by providing greater career stability, establishing more formal rules, not tolerating deviant ideas and behaviours, and believing in absolute truths and the attainment of expertise'* (Hofstede, 1980, p. 45). A distinction can be made between cultures with high levels of uncertainty and cultures that are more uncertainty-avoiding. In the latter, innovative and entrepreneurial ideas face organisational resistance. People will be more conservative and it is difficult to change established processes. (Engelen et al., 2015; Steensma et al., 2000). Structuring organisational activities takes a lot of time and there are many written rules. In these settings, managers are afraid to take high risks (Hodgetts et al., 2006). On the other hand, in countries with a culture characterised by high levels of uncertainty, people are more attracted to low levels of formalisation and hierarchy and they place great value on flexibility and the possibility to change (Barkema & Vermeulen, 1997). In these cultures, people accept that risks are associated with the unknown, but this should not hinder your life. Here, activities are less structured and there are fewer written rules (Hodgetts et al., 2006).

2.3.3 Collectivism vs individualism

Hofstede characterises individualism as: *'Societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family'* (Hofstede, 1991, p.51). The predominance of individual interest over groups in the individualism index (IDV) is reflected (Babatunde & Low, 2015). In individualistic societies, the willingness to make more independent and innovative decisions is larger (Engelen et al., 2015). Furthermore, one gives priority to the autonomous and independent person. People desire independence from any sort of group relation. In a collectivistic society, inhabitants are integrated into strong groups with a high content of cohesion and place priority on the interest of these groups (Holmes et al., 2013). These groups protect their members in exchange for loyalty (Steensma et al., 2000).

2.3.4 Masculinity vs Femininity

Hofstede (1991) made a distinction between masculine and feminine countries and measured this dimension on a continuum ranging from masculinity to femininity The masculinity/femininity dimension indicates the degree to which people prefer competition and the values of success over prudence as well as care for others (Barkema & Vermeulen, 1997). It measures the overall ‘toughness’ of a society (Steensma et al., 2000). People from masculine countries are more aggressive and less modest than those from feminine countries (Hofstede, 1991). They view the world in terms of winners and losers and people only want to cooperate if there is a win-win situation (Steensma et al., 2000). Challenge, recognition, advancement and earnings are of great importance. Managers from these societies keep their employees under strict control (Hodgetts et al., 2006). The inhabitants of the more feminine countries prefer to resolve conflicts by negotiation and making compromises. (Steensma et al., 2000). There is a friendly atmosphere and cooperation is of great importance. People prefer small-scale enterprises and the living environment is of great importance (Hodgetts et al., 2006).

2.4 Conclusion

At the end of this chapter, it is clear that there are many different ways and indicators to measure the formal and informal institutions. With a focus on literature in cross-cultural investments research, different indicators are summarised. Culture is an appropriate indicator to measure the informal institutions of a country and can be divided into four dimensions; (1) power distance, (2) uncertainty avoidance, (3) individualism versus collectivism and (4) masculinity versus femininity (Hofstede, 1980). Formal institutions can be grouped in regulatory institutions, economic institutions and political institutions. An overview of all indicators can be found in table 1.

Table 1 Indicators of informal and formal institutions

Indicators of informal institutions	**Indicators of formal institutions**
Uncertainty avoidance	Regulatory institutions
Individualism vs collectivism	Economic institutions
Power distance	Political institutions
Masculinity vs Femininity	

3 The governance of public-private partnerships

3.1 Introduction

Public-private partnerships (PPPs) are far from a uniform phenomenon. Different scholars observe a high heterogeneity in terms of governance structures of PPPs, including contractual mechanisms and the distribution of tasks and responsibilities between the private and the public sector (Quelin et al., 2014). As a result, a suitable governance framework for assessing PPPs of is still lacking (Johnston & Gudergan, 2007). Governing a PPP is always accompanied by many uncertainties and risks due to difficulties such as technical requirements and the involvement of multiple actors (van den Hurk & Verhoest, 2015). Learning from best practices can likely increase the chance of a successful PPP. This chapter will contribute to the missing framework by examining the different elements of PPP governance as defined by Skelcher (2010) as well as examining the governance mechanisms that form the governance structure. In order to do so, the following question will be answered:

What are different governance elements and mechanisms of public-private partnerships?

There has been much research on PPPs and the term has been addressed from a variety of perspectives (Brinkerhoff & Brinkerhoff, 2011). Therefore, conceptual clarity of the term PPP is a prerequisite for a research related to PPP governance (Skelcher, 2005), and will be given, along with an explanation of its increasing interest, in the first section of this chapter. Secondly the different elements of PPP governance: legal, regulatory, democratic, corporate and relational governance will be explained. Governance mechanisms play an important role in the governance of PPPs (Rufín & Rivera Santos, 2012) and they will be explained as parts of the governance elements, as far as possible. By way of illustration, this chapter ends with two different ideal 'governance structures'. An autonomous and an integrative one, developed by Kivleniece & Quelin (2012).

3.2 Increasing interest in public-private partnerships

The term public-private partnership can be interpreted in different ways (Ahadzi & Bowles, 2004; Hodge & Greve, 2007). The term describes a range of possible relations or collaborations between different actors, varying with regard to governance, contributions and operational roles, policy-setting prerogatives, legal states and management. But it should be underlined that a PPP always involves collaboration for a common objective (Jamali, 2004).

Another requirement for PPPs is that there are always at least one public and at least one private actor involved. To separate public and private actors, one has to assess the differences, but this is complicated, since the many different types of organisations that are covered by the public sector. State-owned enterprises are public actors, but resemble some characteristics of private firms as well. Therefore this research focuses on government agencies as public actors, since there are distinct differences between government agencies and private actors (Rufín & Rivera-Santos, 2012). According to Rufín & Rivera Santos (2012), the literature identifies two main characteristics of government agencies, which differentiate them from private actors. First, the main funding sources for government agencies are the use of taxation and they are therefore subject to controls. Second, there is the difference in objectives between a government agency (producing public goods) and a private actor (making profit).

There are many different concepts of PPPs. Many scholars use a definition that resembles the definition of Nijkamp et al. (2002): '*A PPP is an institutionalised form of cooperation of public and private actors, which, on the basis of their own indigenous objectives, work together towards a joint target'* (Nijkamp et al., 2002, p. 1689). However, Van Ham & Koppenjan (2001) add to this definition and apply the following: *"A cooperation of some sort of durability between public and private actors in which they jointly develop products and services and share risks, costs, and resources which are connected with these products"* (van Ham & Koppenjan, 2001, p. 598). This definition shows us that a PPP is a cooperation of some durability and can't take place in short-term contracts. It also emphasises the idea of sharing risk (Hodge & Greve, 2007). Summarising, a PPP has to satisfy the following requirements: it involves collaboration for a common objective, it includes public and private actors, it is a consortium of some durability and its involved actors share the risks.

The growing interest in PPPs arises from the success of privatisation in various countries together with increasing awareness of the market mechanisms (Jamali, 2004). In highly industrialised countries PPPs have been around for some time, but since the last decade, it is also an object of research in cross-cultural research. PPPs are increasingly seen as a new and appropriate type for inter-organizational collaboration and as an alternative for business to business collaborations. Scholars agree that PPPs are able to increase both the legitimacy of international governance as well as problem-solving capacity *(*Börzel & Risse, 2005). Besides, private initiatives are important to stimulate the general development of a country (Rodrik, 2000). The different qualities of both public and private actors can enhance the results for both parties. Cooperation between the different actors can entail a new service or product that would not be generated if the actors didn't work together (Hodge & Greve, 2007). These innovative initiatives are often accompanied by more risk and are therefore not taken by public actors (Rodrik, 2000). Public actors also stimulate the development of PPPs to overcome financial limitations in the public sector. Thereby, they are interested in the knowledge and capabilities that private actors bring into the partnership. Specialised private actors can help the public actors to improve execution performance (Jamali, 2004; Quelin et al., 2014). Dependencies from both sides thus lead to an increasing interest in the development of partnerships between public and private actors. This is especially the case when the transaction and bureaucracy costs are limited, and both actors can maintain their autonomy (van Ham & Koppenjan, 2001). Though, this is often not the case.

3.3 PPP governance and governance mechanisms

Governance is a multi-dimensional term (Dahlquist & Griffith, 2015) and can be discussed from several perspectives (van den Hurk & Verhoest, 2015). Governance has different meanings in different contexts (Skelcher, 2010) and it includes organisational structures, decision-making procedures, agreements and contracts (van den Hurk & Verhoest, 2015). Skelcher (2010) defines governance, related to PPPs as '*the rules that prescribe who should make, execute and be accountable for the conduct of a PPP, and in what way that conduct should be exercised, for example through consultation with interested parties, transparency in decision-making, and so on'* (Skelcher, 2010, p. 293). Also, he distinguishes four elements of governance: legal governance, regulatory governance, corporate governance, and democratic governance, but we will add a fifth element, relational governance. This will be further addressed in the next paragraphs.

Every PPP needs an appropriate governance structure, including suitable governance mechanisms, also called 'stability mechanisms' (Dahlquist & Griffith, 2015). The governance mechanisms are fundamental for an effective governance structure (Dimitratos et al., 2010). Rufín & Rivera Santos (2012) define governance mechanisms as '*mechanisms that influence the partners' behaviour by increasing the cost of opportunistic behaviour and aligning the interests of each partner with the success of the alliance'* (Rufín & Rivera Santos, 2012, p. 1639). They thereby expect that risks associated with opportunism in PPPs may be similar to those in alliances (Rufín & Rivera Santos, 2012). Governance mechanisms protect the public interest (despite the delegation of authority to private actors) and create constraints on the power of the private actors and reduce the risk for the public actor in a PPP. Contrastingly, governance mechanisms can also act as a constraint to the public actor, allowing private actors to exploit the innovative potential of the PPP (Skelcher, 2010). The literature on economic transaction costs focuses on formal governance mechanisms, but the importance of informal governance mechanisms should not be underestimated. The combination of the different formal (contract, equity, scope, non- equity hostages) and informal (trust-based) governance mechanisms determine the portfolio of the governance structure. Following the transaction cost theory, the governance structure of a PPP always is designed in a way that mitigates the risks of opportunistic behaviour (Rufín & Rivera Santos, 2012).

The portfolio of mechanisms can be subsumed by the different elements of PPP governance that are distinguished by Skelcher (2010). Combining the theories and concepts of both Skelcher (2010) and Rufín & Rivera Santos (2012) is valuable since this make a more comprehensive framework. Skelcher (2010) looks through 'public glasses', while Rufín & Rivera Santos (2012) focus more on the private actor perspective since they examined the literature on the governance of alliances. Also, bringing the different elements of PPP governance and the related mechanisms together creates a clearer overview, which can be helpful when explaining the different elements of PPP governance. Figure 2 shows how the elements and mechanisms are related.

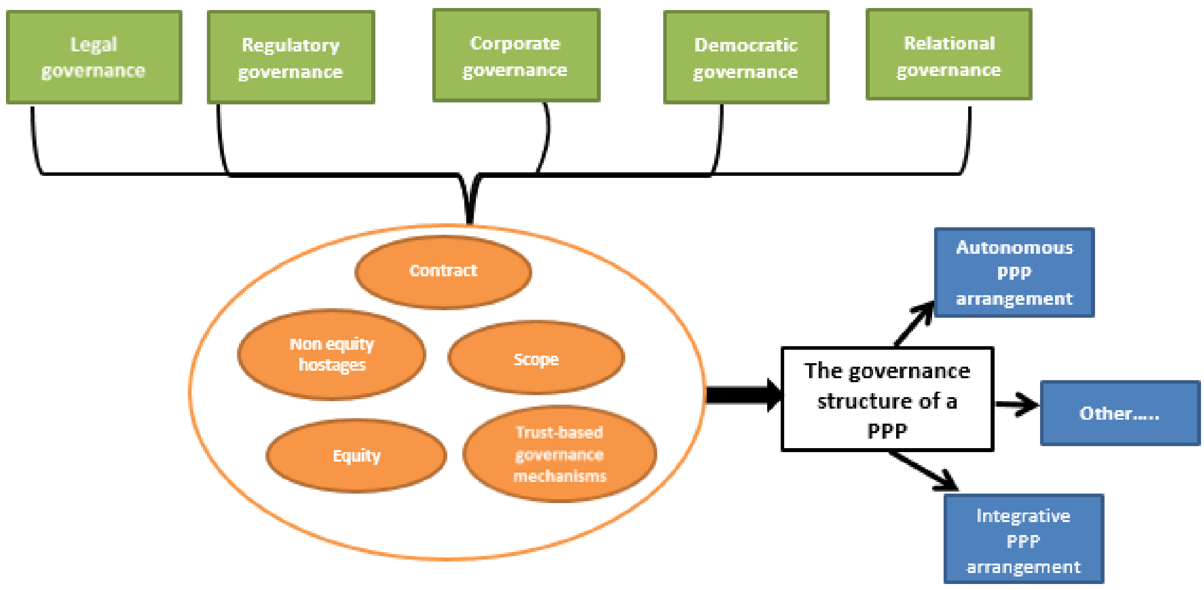

Figure 2: The connection between the five elements of governance (5 boxes), the different governance mechanisms (orange circles) and possible governance structures of a PPP.

3.3.1 Legal governance

Legal governance describes what legal form the PPP has, depending on two factors. Firstly, there is the type of PPP, on which the legal form will be based. Secondly, the PPP governance structure reflects the extent to which the actors are willing to integrate their activities into a separate entity or the extent to which they are prepared to give up autonomy in order to undertake a collective activity (Skelcher, 2010).

The legal form the PPP takes has implications for the allocation of responsibilities and roles between the public and private actors in the PPP (Skelcher, 2010). Actors are always embedded in both a social network and a legal framework (van den Hurk & Verhoest, 2015). The legal framework of the public actor has an influence on the legal form, but also the regime of commercial law in which the private actor operates.

A separate corporate entity can be constituted, but often contracts are used as a form of legal governance for PPPs (Skelcher, 2010). Thereby, contracts are highly recognised as an important governance mechanism to decrease opportunism (Dahlquist & Griffith, 2015; Rufín & Rivera-Santos, 2012; Shaoul et al., 2015). The **contract,** which describes the obligations, contributions, benefits and commitments accruing to each partner is a security for both partners (Skelcher, 2010; van den Hurk & Verhoest, 2016). It includes mechanisms for contract resolution such as arbitration conditions and lawsuit regulations (Rufín &Rivera-Santos, 2012; Shaoul et al., 2015). It should be mentioned, however, that contracts are always incomplete and never provide full protection against the opportunistic behaviour of actors. More complex contracts incorporate more contract elements, but this increases the costs of contract writing and monitoring. The more complex the relationship between the partners, the more likely the contract is 'incomplete' (Rufín &Rivera-Santos, 2012).

To control the behaviour of the partner, even more, equity-based structures are often stated in the contract. **Equity** is a governance mechanism that implies the sharing of profit and risk. The division of equity financing between private partners and public agencies should be determined during the making of the contract and needs careful attention and evaluation. Only when private actors foresee a high rate of return, private actors are willing to make an investment in PPPs. Therefore, public agencies may have to give away a large amount of the total profit of the partnerships to attract investments of private investments (Sharma & Cui, 2009). If the public and the private actor both have a financial stake, withdrawing from the partnership is more difficult. It is more expensive and difficult for a public actor than for a private actor to create an equity-based PPP ,since they are not organised as a commercial venture and don't have making profit as their main goal. Even when it seems obvious (due to the characteristics of the PPP) to choose for an equity-based PPP governance structure, it will be less likely that public partners choose this form (Rufín & Rivera-Santos, 2012). Lane & Bearnish (1990) recommend that foreign partners should take in a cross-cultural collaboration equal amount or a minority of equity, though many companies are sceptical about this since they believe a major equity can increase their power in decision making and control. Therefore, it is good to keep in mind that ownership is not the same as control. Minority equity doesn't mean that you don't have a voice in the operation and control of the partnership.

3.3.2 Regulatory governance

Another form of governance is regulatory governance. Skelcher (2010) describes regulatory governance as '*the legal and contractual obligations on parties, the procedures through which they are enforced and the softer norms that operate around these'* (Skelcher, 2010, p. 295). Regulatory governance can be seen as the systems of rules of the PPP. This element of governance is needed to ensure the interest of as well the public as the private actor. It should be decided if the interactions between the partners will be tested through the courts, by quasi-legal arbitration mechanisms or through softer forms of regulation. To find a middle way between informal and legalistic modes of regulatory governance, arbitration mechanisms such as financial penalties can be used (Skelcher, 2010; Shaoul et al., 2015), but also **non-equity hostages** can be applied as a governance mechanism. Non-equity hostages play an important role in the governance structure when equity-based structures are undesirable. Examples of non-equity hostages are payments into escrow accounts, security bonds, and guarantees. These are specific sets of rules applicable to a specific PPP in order to prevent opportunistic behaviour and to offer clearer guarantees to the different actors. This in line with the concept of 'metagovernance', (Rufín &Rivera-Santos, 2012), i.e. the governance of governance. This is defined as '*The regulatory environments of mechanisms and processes that enables or constrains the PPPs'* (Koch and Buser, 2006, p. 551). Beyond the national scope of the metagovernance mechanisms, additional guarantees can be created by using international financial institutions. For example, insurance schemes like the World Bank's Multilateral Investment Guarantee Agency or potential penalties and international arbitrations can be used (Rufín &Rivera-Santos, 2012).

Although Skelcher (2010) makes a distinction between legal and regulatory governance, it is difficult to fully grasp this distinction. A more complex contract increases the need for more regulatory governance. Thereby, the contract needs to be monitored (van den Hurk & Verhoest, 2016), which is part of regulatory governance. It needs to be controlled if the rules are implemented and obstacles in the contract need to be identified (Shaoul et al., 2015). Here, legal and regulatory governance convergence and therefore this research states that they are intertwined.

3.3.3 Democratic governance

Democratic governance is especially important for the public actor since the nature of the state changes when it gives public responsibilities to third parties. This may create confusion in who is accountable and responsible. Public actors are acquired to account for their action and this can be difficult in a PPP. PPPs can lack transparency which is normally granted in activities of the public sector in the input, throughput and output stages. This is not the case in the private sector where accountability and responsibility are clearer. This questions the form and level of constitutional oversight in PPPs and is, therefore, the main discussion point of democratic governance. The output is probably the only oversight of the PPP (Skelcher, 2010). Reynaers (2012) developed a kind of governance mechanism, related to democratic governance. He focused on output specifications, monitoring and payment. The output specification, created by the public actor, indicates what needs to be done and the quality that is expected of the PPP. Subsequently, a monitoring plan needs to be developed to check the performance in terms of the output specification and the payment scheme that rewards the actors. Unfortunately, the information on the working of these mechanisms is limited and is therefore not further discussed in this thesis.

3.3.4 Corporate governance

According to Skelcher (2010) corporate governance can be construed according to the definition of Hodge et al., (1996) *'The procedures associated with the decision-making, performance and control of organizations, with providing structures to give overall direction to the organization and to satisfy reasonable expectations of accountability to those outside it'* (Hodges, Wright and Keasey, 1996, p. 7). During the development of a PPP, it needs to be decided what the roles of the different actors are in the partnership and how the PPP will be structured. Different actors play different roles at the same time (van Ham & Koppenjan, 2001). The directors of the PPP are derived from both sectors, mostly in proportion to their equity stake (Shaoul et al., 2012). Clarity regarding the involvement of the private and the public partner in the multiple roles is needed. The division of roles will have an influence on the risks, benefits and costs of the different public and private partner(s) (van Ham & Koppenjan, 2001). Not much research has been devoted to the corporate governance of PPPs, probably caused by problems in accessing areas where political and commercial sensitives are pronounced. Different incentives of the public and private partners can lead to structural tensions and threaten the viability of the PPP (Skelcher, 2010).

The **scope,** which refers to the range of the activities in the partnership, is an important governance mechanism to control opportunism (Rufín & Rivera Santos, 2012). Although the scope of the partnership is part of the contract (how large is the cooperation, at how man areas/field of activity do the partners collaborate?) it can also be part of corporate governance since it discusses how intensive the actors collaborate. The scope of the PPP can prevent the partners from accessing valuable information through the partnership. The scope can serve as a protection mechanism in very uncertain environments. In these environments, the partnership will probably have a narrow focus (Rufín &Rivera-Santos, 2012). Nevertheless, this mechanism remains understudied.

The scope can reduce the complexity of the project, but at the same time decrease the range of solutions. Remarkably, since PPPs are mainly established to go behind the standard solutions and to achieve something that cannot be achieved without the other partner. Expanding the scope of a partnership increases the possibilities for both partners to find interesting content for both(van Ham & Koppenjan, 2001). Therefore, using the scope as a governance mechanisms to reduce the likelihood of opportunistic behaviour, seems inconvenient.

3.3.5 Relational governance

Informal governance can be seen as relational governance (Dahlquist & Griffith, 2015). Relational governance refers to exchanges between actors that includes relationship-specific assets combined with trust (Yu et al., 2006). Some PPPs are built on the idea of relational governance. Here, **trust-based governance mechanisms**, based on informal elements, decrease incentives to act opportunistically (Rufín & Rivera Santos, 2012). Trust is an informal way of contracting since it reduces transaction costs by substituting contracts with 'handshakes'. Other scholars argue that formal and trust-based governance mechanisms can complement each other: trust can be a safeguard against hazards that are not protected or poorly protected by the contract (van den Hurk & Verhoest, 2016).

Trust-based governance mechanisms originate from four sources. First of all, a common background and experience can increase the trust between partners. Second, during partner selection and well-running negotiations, trust can be built. Thirdly, trust that is built during the partnership is also important. Finally, the behaviour from the partners outside the partnership can increase the level of trust (Rufín & Rivera Santos, 2012). The disadvantage of trust-based mechanisms is that it is difficult to measure (Skelcher, 2010). Moreover, PPPs can lack a basis for the existence of relational mechanisms when it is the first time they form a partnership. If this is the case, the partners should treat relational mechanisms as something that can form over time (Dahlquist & Griffith, 2015).

3.4 Two ideal PPP governance structures

Based on the different governance mechanisms several authors have put forward classifications of PPPs. To make our examination of the governance of PPPs less abstract this thesis distinguishes two conceptually different ideal types of PPP governance structures, based on a private-actor perspective: a more autonomous PPP construction versus a more integrative PPP construction. In these perspectives, the authors focus on the value for the private actor, created in the two different PPP governance structures. This private-actor perspective is interesting since this thesis attempts to answer the main question on MNCs that are building cross-cultural PPPs.

The distribution of operational tasks, ownership decisions, control and incentive regimes are different between the two ideal types. Both will be examined, with a focus on the different governance mechanisms. Unfortunately, not all governance mechanisms, as described in the previous paragraph, are discussed by Kivleniece & Quelin (2012). Besides, it is important to note that the different governance structures serve as representations of hypothetical ideal types and are not empirically tested (Kivleniece & Quelin, 2012).

3.4.1 The autonomous PPP governance structure

The autonomous PPP governance structure creates value by merging public sector oversight and private operational and managerial autonomy into one governance structure. The private actor takes an investment in public assets and is relatively independent. Additionally, the private actor is active in a full set of value chain activities and brings in the most skills and competencies. The public actor, in turn, is particularly active in monitoring functions and not much engaged in day-to-day activities. The private actor derives revenue from the consumers or end-users of the service. Based on the rights obtained from the public partner, the private actor undertakes an investment in public assets (Kivleniece & Quelin, 2012). Private property rights are dominant, so the private actor has a bigger financial stake and can be seen as the main operator. Therefore, the private actor faces a considerably higher degree of uncertainty related to changes in the economic environment (future demand, an increase in cost). The advantage of this governance structure for the private actor is that the chance on opportunistic behaviour is smaller as for example in an integrative PPP governance structure. A disadvantage for the private actor is that it can increase public distrust caused by lower legitimacy associated with visibility and power of the private actor. An autonomous governance structure is likely to be more resilient to instability and has lower overall costs of governance. The public actor takes a minority of equity, but this doesn't mean that this actor has no role in the operation and control of the partnership (Lane & Bearnish, 1990). The reasons why public actors stimulate autonomous PPPs are welfare objectives. These objectives are based on the relative resource costs advantages and more optimal resource allocation decisions. On the other hand, when the scope of private responsibility is much higher than the scope of the public actor, it increases also uncertainty for the public actor (Roehrich et al., 2014). Moreover, the welfare objectives should exceed the costs of controlling and contracting to safeguard the interests of the public actor. Otherwise, there is no welfare gain for the public actor (Kivleniece & Quelin, 2012).

3.4.2 The integrative PPP governance structure

In an integrative PPP governance structure, public and private actors jointly share the responsibilities for the management, development and the responsibilities of a public service or good. It is a synergetic combination of private and public resources. Private actors are mainly active in the operational part, the public actor is especially active in the tasks with limited private sector expertise. The integrative partnership also implies a higher degree of the public element in property rights and the public actor takes a share in equity. If this is found to be undesirable, the public actor can take a role in the investment indirectly ,through for example payback guarantees (Kivleniece & Quelin, 2012),. The private actors complement existing public sector capabilities and competencies. These more integrated operations can mitigate the chance on moral hazard since they both have an equal stake and withdrawing from the partnership is more difficult. On the other hand, this governance structure can increase the chance on opportunism trough increased collaboration, since there is resource dependency and operational tasks are shared. Private actors in the integrative governance structure may be confronted with a higher incidence of opportunistic claims by the public partner. The contract might be more complex in the autonomous governance structure because in this partnership equity and property rights are shared between the public and the private actor. A complex contract spells out in excruciating detail, what the public and private actors should do in a wide range of circumstances. Thereby, it comprises many contractual safeguards. An important reason for the private actor to choose for this governance structure is to reduce and share market uncertainty. When market uncertainty is high, private actors will seek a higher degree of participation of the public partner, in the form of shared input costs or a guaranteed purchased volume by the public sector. It should, however, be noted that the contracting and coordinating costs should not exceed the positive externalities and resource synergies, otherwise the partnership won't be fruitful (Kivleniece & Quelin, 2012).

Table 2: An overview of the role for the public and private actor and the (dis)advantages for the private actor in an autonomous and an integrative PPP as explained by Kivleniece & Quilin (2012).

	Autonomous PPP	Integrative PPP
Role private actor	• Major equity for private actor • Operational tasks delegated to private actor	• Shared equity with public actor • Shared property rights with public actor
Role public actor	• Supervising and monitoring	• Shared equity with private actor • Shared property rights with private actor
Advantage(s) for private actor	• Less chance on opportunistic behaviour	• Share market uncertainty with public actor
Disadvantage(s) for private actor	• Market uncertainty • can increase public distrust caused by lower legitimacy	• Higher incidence of opportunistic claims by the public partner. • Higher contract and coordinating costs

Looking at the role of various governance mechanisms in these two governance structures, mainly (the share of) equity and the sharing of tasks distinguishes the two. In the autonomous PPP governance structure, there is a strong private authority and the private actor takes a majority of equity. In the integrative partnership, the public actor takes also a share in equity

3.5 Conclusion

A PPP includes always public and private actors who collaborate for a common objective for some durability and in that way risks. Governance of PPPs is a multidimensional term and can be divided into five elements: legal governance, regulatory governance, corporate governance, democratic governance and relational governance. Formal governance mechanisms (contract, equity, scope, non- equity hostages) and informal (trust-based) governance mechanisms determine the governance structure of a PPP. Contracts and financial commitments such as equity and non-equity hostages are the most important governance mechanisms to decrease the chance of opportunistic behaviour within a partnership. One should not underestimate the importance of relational governance and the corresponding trust-based governance mechanisms. Combinations of the different governance mechanism form a governance structure and aim to reduce uncertainty and opportunistic behaviour in the PPP. An autonomous PPP governance structure is enabled by merging private operational and managerial autonomy and public actor oversight and decrease uncertainty by reducing the chance on opportunistic behaviour. The integrative PPP governance structure combines the resources and tasks of the public and the private actor. Both actors share equity and property rights. This reduces market uncertainty for the private actor.

4 Institutional differences and the governance of PPPs

4.1 Introduction

Several studies have found that the quality of host country institutions affects the preferences of the multinationals with regard to contractual risks and transaction costs (Jackson & Deeg, 2008; Quelin et al., 2014). On the other hand, the institutional environment of the home country determines the strategy of a firm for a large part. It influences the resource allocation, strategic orientation and organisational structure of the firm (Engelen et al., 2015). Almost all MNCs can be associated with one particular country of origin. The society in this country influenced the company during the period that it was not extensively internationalised. In order to explore the influence of this background, this research assumes that this influence is lasting (Noorderhaven & Harzing, 2003).

The implications of (home-country) institutions on investment decisions have not been investigated extensively (Holmes et al., 2013) , especially not with a focus on MNCs. This in contrast to research on the effect of institutional distance which has an important place in international business research (Salomon & Wu, 2012). Different scholars have examined this concept in relation to location choice and entry mode (Xu & Shenkar, 2002), the performance of foreign firms (Gaur & Lu, 2007), local isomorphism (Salomon & Wu, 2012) and corporate social responsibility (Campbell et al., 2012). Many scholars agree that institutions matter, but in which ways is still a challenging question (Jackson & Deeg, 2008). Also, the responses of MNCs to institutional differences, during investments in a foreign country, have not been studied systematically (Xu & Shenkar, 2002). A greater understanding of the 'topography of the institutional landscapes' will be useful for international business research (Jackson & Deeg, 2008). This chapter contributes to this and will answer the following question:

How do institutional distance and informal institutional background influence the governance of public-private partnerships?

To answer this question, literature has been studied and propositions are formulated. The propositions state how formal distance, informal distance and informal home country characteristics can influence the governance mechanisms and thereby the governance structure of a PPP. All these propositions are based on what was findable in the literature, whereby most of them are focused on the equity or contract governance mechanism. This chapter is structured in the following way. First, as an introduction, the concept of institutional distance and the importance of doing research to the institutional environment before starting an international business will be explained. Secondly, the possible impact of formal institutional distance on the governance of PPPs will be examined. The last section focuses on the impact of informal institutional distance and informal institutional background characteristics.

4.2 The concept of institutional distance

To examine institutional distance and the impact of institutional distance, a distinction can be made between formal institutional distance and informal institutional distance, also called cultural distance. A combination of formal institutional and cultural distance is the best choice for a comprehensive assessment of the environment in a country (Gaur & Lu, 2007; Bae & Salomon, 2010). Scholars who focus more on an economic understanding of institutional distance, stress the regulatory, political and economic components of distance, while scholars who focus on a sociological understanding of institutions adopt the cultural components of distance mainly (Bae & Salomon, 2010). Bae & Salomon (2010) have reviewed the studies on institutional distance and suggest that it is time to find a 'common ground' across the different literature. Their advice is to define institutional distance by including cultural/cognitive as one dimension and political/regulatory and economic factors as a second dimension. To limit the discourse across the different kinds of literature, this research focuses on both.

Examining the institutional distance before making an investment is important since extra costs for coordinating an activity in international business are expected when the degree of institutional distance is high (Jackson & Deeg, 2008, Moore et al., 2015). Besides, successful implementation of an international PPP requires an understanding of the partners' culture. Ignoring the partners' culture can be a serious threat for building successful PPPs and may even lead to failure (Rufín & Rivera Santos, 2012). The norms, rules and regulations of doing business can vary enormously from the norms, rules and regulations the MNC is used to in his own country. Van Ham & Koppenjan (2001) argue that these differences can be seen as challenges, but according to Gaur & Lu (2007) also as opportunities. A MNC is most familiar with the institutional environment it originates from, but this doesn't mean that this environment is most favourable.

4.3 Formal institutional distance

The first sub-question of this research identified three indicators of formal institutions: regulatory, economic and political institutions. All differences between the regulatory, economic and political institutions of the home and host countries can be summarised in the formal institutional distance. Therein most researchers focus on regulatory aspects of formal institutional distance. The formal institutional distance is the magnitude of the differences between the formal institutional environment of the home and the host country (Gaur & Lu, 2007). Regulatory, economic and political distance and their influence will be explained and finally, a proposition will be made on how the concepts together influence the governance of a PPP.

The ability of foreign firms to understand the regulatory environment of the host country is affected by the regulatory distance between the home and the host country (Ang et al., 2015; Bae & Salomon, 2010). Regulatory distance can be described as the differences between the legal environment of the home country of the MNC and the host country where it makes an investment.

The magnitude of the differences in economic institutions in the home and the host country determines the economic distance. There are large differences between countries in market orientation, economic structure (Salomon & Wu, 2012), inflation rates, intensities of trade (Berry et al., 2010), wealth/income, and production factors (costs, quality). The more similarities there are between these factors, the smaller the economic distance and the more likely there are similarities in lifestyle and attitude of the consumers. This can be an advantage for MNCs and reduces market uncertainty (Campbell et al., 2012).

The differences in political and governmental institutions between two countries can be described as political distance. Political distance measurements emphasise the uncertainty of the political environment. Also, the stability of the government and the control of corruption are important features of political institutions (Bae & Solomon, 2010).

4.3.1 The implications of formal institutional distance

A lager economic, regulatory and political distance increases uncertainty and costs for the MNC. Large differences in the protection of the technology transferred and the scope of patent protection between countries can lead to misunderstanding and missteps and finally result in monetary penalties, fines or fees (Ang et al., 2015; Moore et al., 2015). Furthermore, differences in the financial market can increase uncertainty when the orientation of the financial market of the home country is very different than the financial market of the host country (Bae & Salomon, 2010; Salomon & Wu, 2012). Large differences between political environments can increase political uncertainty. A higher chance on opportunistic behaviour, caused by a large formal institutional distance, increases uncertainty even more. Lack of commonality with the legal or political environment of the partner may enhance the risk of opportunistic behaviour (Dahlquist & Griffith, 2015). Moreover, a very large institutional distance (particularly caused by regulatory institutional differences) can create difficulties for a MNC to establish legitimacy in the host country (Kostava & Zaheer, 1999; Xu & Shenkar, 2002). Foreign MNCs are seen as less legitimate (Salomon & Wu, 2012) and can be treated differently by the host country's government (Jackson & Deeg, 2008). Additionally, it can be difficult for the MNC to understand the host environment and legitimacy requirements (Kostava& Zaheer, 1999). Finally, a firm may operate less efficient when economic distance is large (Bae& Salomon, 2010; Salomon & Wu, 2012) and a higher institutional distance decreases the success of the performance of the company (Moore et al., 2015). When foreign firms face a greater political distance, it becomes difficult for them to operate effectively and to anticipate to changes (Bae & Salomon, 2010).

Summarising, increased uncertainty, difficulties with establishing legitimacy, an enhanced chance on opportunistic behaviour and reduced success rates are caused by a larger political, economic and regulatory distance, i.e. a larger formal distance. The larger the formal distance between the home and the host country, the more complexities the MNC face in the host country (Moore et al., 2015). The more complexities, the larger the (transaction) costs and thus the more implications for a cross-cultural collaboration (Jackson & Deeg, 2008), and thus also for cross-cultural public-private partnerships

4.3.2 The influence of formal institutional distance on the governance of PPPs

An increased formal institutional distance may influence the perception of the public and the private actor in a collaboration and therefore, the appropriate governance. A higher regulatory distance may lead to a governance portfolio with an increased sense of uncertainty and risk and can strengthen the feeling to seek for enhanced safeguarding (Dahlquist & Griffith, 2015). This is reflected in a governance structure with a more complex contract, including many safeguards and contracting and monitoring mechanisms.

The formal institutional distance between the home and host country can influence ownership decisions as well. The larger the formal distance (measured as regulatory distance), the more likely the MNC will favour an entry mode with a low contractual ownership or a high ownership (Eden & Miller, 2004). Gaur & Lu (2007) argue that the larger the formal distance between the home and the host country, the more likely the MNC will opt for a higher level of equity in collaboration. The costs of doing business in institutionally distant countries could be high, but several strategies can mitigate such costs. Ownership strategy, in the form of a large equity position, has been identified as a useful tool in this regard and can be a critical control governance mechanism in a PPP. Therefore, a higher level of equity ownership provides MNCs with a larger degree of control and decreases thereby the uncertainty. Ionuascu et al., (2004) argue that the larger the regulatory distance, the more likely the MNC will opt for greenfield investment. This means that the MNC prefers to develop and build its operations in the host country from the ground up (Ionascu et al., 2004).

Gaur & Lu (2007) agree that unfamiliarity hazards can be alleviated with the help of local knowledge from local partners. Furthermore, it can enhance their own local legitimacy. Nevertheless, in practice, it is a challenge to find a trustworthy local partner in an unfamiliar country. Local actors may act opportunistically and this can increase the safeguarding costs. Moreover, including local actors can solve the difficulties only partially (Xu & Shenkar, 2002). Formal aspects are clearly stated and MNCs can find easy information about these aspects since it is codified (Moore et al., 2015; Gaur & Lu, 2007; Xu & Shenkar, 2002), therefore they do not need to rely on local partners. Working intensively with a local partner and sharing equity can increase the costs of the partnership and therefore makes it is wiser for the MNC to choose for high levels of ownership (Gaur & Lu, 2007). Although above results originate mainly from literature focusing on business to business alliances, foreign subsidiaries or doing business abroad, it can be expected that MNCs will face many of these circumstances also in the governance of public-private partnerships. Therefore:

Proposition 1: Other things being equal, the larger the formal institutional distance between the home and the host country of the MNC, the more likely the MNC will choose to form a partnership with a larger share of private equity and authority, protected by a complex contract, including many safeguards.

4.4 Informal institutional distance

The first sub-question of this research identified four indicators of informal institutions: (1) power distance, (2) uncertainty avoidance, (3) individualism versus collectivism and (4) masculinity versus femininity. The different indicators that Hofstede (1980) states, can be summarised in the term cultural distance. Cultural distance refers to the distance between the national cultural characteristics of the host and the home country. Larger differences in power distance, uncertainty avoidance, the ratio of collectivism/individualism and the ratio of masculinity/femininity will create a larger cultural distance (Barkema &Vermeulen, 1997; Hennart & Larimo, 1998; Salomon & Wu, 2012).

Research shows that the national culture determines not only the norms for individuals but also the norms for firms (Babatunde & Low, 2015; Engelen et al., 2015). It explains the key differences between companies (Steensma et al., 2000). Culture impacts organisational values and actions, managerial goals and management processes (Bae & Salomon, 2010). MNCs are for a large part a product of their environment, so it can be assumed that culture will influence the behaviour and strategies of a MNC in a PPP.

Many scholars in international business research examined the influence of cultural distance on equity decisions (Gaur & Lu, 2007), entry mode choice (Ionascu et al., 2004), ownership strategy (Eden & Miller, 2004) and local isomorphism (Salomon & Wu, 2012). Although none of these scholars have researched the influence of cultural distance on the governance of PPPs in particular, their research outcomes are somehow related to it. Their findings will be used to formulate our proposition about the influence of cultural distance.

4.4.1 The implications of informal institutional distance

When the public and private partners have common values and norms this creates trust. Common objectives, standards and visions, lead to lower costs of coordination and a reduced need for safeguards (Steensma et al., 2000). The larger the cultural distance between the home and the host country, the more implications for the cross-cultural collaboration are expected (Hennart & Larimo, 1998). Cultural differences can decrease the efficiency of operations, it obstructs the ability of firms to transfer competencies from the home country to the host country and above all, it increases the cost of entry (Jackson & Deeg, 2008). These differences are often difficult to overcome and when they are very large, cross-cultural communication is likely to fail (Ionascu et al., 2004). Differences in customs and standards can be a barrier for interaction between different managers and to implement each other's strategy (Moore et al., 2015).

Besides, a high degree of cultural distance increases the challenges for a MNC to establish legitimacy and creates a chance on discriminatory treatment. Suppliers and buyers may prefer doing business with domestic firms (consumer ethnocentrism). The local government may also treat the firm different, for example by levying more oppressive taxes compared to local firms and by prohibiting the firm from engaging in special activities. Even if the public actor guarantees full national treatment under host country laws, informal discriminatory treatment can take place in activities (Eden & Miller, 2004). This implies that an elaborated contract as a governance mechanism is not enough to safeguard the private actor.

4.4.2 The influence of informal institutional distance on the governance of PPPs

Eden & Miller (2004) state, that when the cultural institutional distance rises between the home and the host country, the MNC will probably choose to share equity or favour a lower equity mode. Hennart & Larimo (1998) proved that this hypothesis is true for joint ventures and also Gaur & Lu (2007) argue that the higher the cultural distance, the higher the levels of cooperation by local partners are required. This is reflected in a higher level of equity for the local partner. It may be too difficult for the MNC to comprehend the cultural norms and values of the host country (Ionascu et al., 2004). The benefits of collaborating: knowledge of consumer preferences and institutions to decrease market uncertainty outweigh the potential hazard the firm can encounter, by collaborating intensively, with an actor from a totally different cultural background (Barkema & Vermeulen, 1997). Although there are also some scholars that see cultural distance as a challenge to overcome (Moore et al., 2015), this research argues that when it is too large, it is too difficult to overcome. Therefore:

Proposition 2 : Other things being equal, the larger the informal institutional distance (measured as cultural distance) between the home and the host country of the MNC, the more likely the MNC will opt for a PPP with shared equity and authority.

4.5 The influence of the informal institutional background

Many scholars not only examine the influence of informal institutional distance, they explore the influence of the dimensions of informal institutional background on the governance of PPPs as well. Among others, Steensma et al., (2000) explores the effect of the four dimensions on the attitude of entrepreneurs toward cooperative strategies and Barkema & Vermeulen (1997) tested the effect of Hofstede's dimensions (1980) on the survival of international joint ventures. Hennart & Larimo (1998) measured the effect of the power distance index and uncertainty avoidance indices on shared-equity ventures. Engelen et al., (2015) have researched only the influence of uncertainty avoidance and individualism on entrepreneurial orientation. Therefore, this paper develops four propositions based on Hofstede's (1980) cultural indicators: the influence of the ratio of individualism, the influence of the uncertainty avoidance degree, the influence of power distance and the influence of masculinity.

4.5.1 The influence of the ratio of individualism/collectivism

The individualism/collectivism ration has an influence on the decisions of firms. Firms in individualistic societies make their decisions more autonomic than firms in collectivistic societies. This can result in more risky decisions and therefore more risky enterprises. Furthermore, these firms are encouraged to take innovative decisions and are used to work without interference (Engelen et al., 2015). In collectivistic societies, the well-being of others plays a major role (Holmes et al., 2013). People and companies from a more collectivistic society prefer collaborating more than companies from an individualistic society. Collectivistic societies are more committed to cooperate and to share assets, knowledge and control (Steensma et al., 2000). Sharing equity is not a problem and in collaboration, tasks are equally divided. For companies originating from more individualistic societies, the opposite can be expected.

Companies departing from collectivistic societies will perform less free-riding behaviour than companies from individualistic societies (Holmes et al., 2013). In individualistic societies, personal goals take priority over group goals. Therefore, this thesis assumes that companies departing from individualistic societies will be more suspicious and will attach more importance to the contract as a governance mechanism, compared to companies in collectivistic societies (Steensma et al., 2000). The contract will include many contractual safeguards and this will lead to a more complex contract, including many safeguards. Therefore:

Proposition 3: Other things being equal, MNCs originating from a society with a high IDV will choose for a PPP with a larger share of private equity and authority, protected by a complex contract, including many contractual safeguards.

4.5.2 The influence of uncertainty avoidance

The degree of uncertainty avoidance can have an influence on cross-cultural business and collaboration (Erramilli, 1996). Hennart & Larimo (1998) examined the impact of culture on the strategy of MNCs and found no relation that uncertainty avoidance affects ownership decisions of MNCs. This contradicts the conclusion of Erramilli (1996) who argues that MNCs based in countries with higher levels of uncertainty avoidance will probably opt for higher levels of ownership (Erramilli, 1996). Barkema and Vermeulen (1997) concluded that MNCs, originating from countries characterised by high uncertainty avoidance, respond to uncertainty by building up a system of high formalisation. However, people from countries where the level of uncertainty avoidance is low, feel more comfortable in flexible structures, where there is room for negotiation and improvisation. These people feel uncomfortable with hierarchy and strict rules (Hofstede, 1991).

Exploring the influence of uncertainty avoidance on the governance of PPPs is debatable. Choosing for a more cooperative strategy by sharing equity and authority can increase, but also decrease uncertainty. Sharing equity facilitates risk sharing among the different partners and therefore, the costs of failure are spread across all partners. This decreases market uncertainty. By contrast, a PPP where the private partners share fewer tasks and equity with the public actor, they share also less risk. It is less likely that your partner will take advantage of you because sharing equity can mitigate the chance on moral hazard. The latter corresponds to the result of Steensma et al., (2000); entrepreneurs from uncertainty avoiding countries attach greater importance to collaboration than entrepreneurs from societies that accept uncertainty. They appreciate the cooperation, but demand also contractual safeguards (Steensma et al., 2000). This contrasts with findings from Hennart & Larimo (1998) as well as Kogut & Singh (1988), who argue that a MNC based in a country with a high level of uncertainty avoidance, prefer (all other factors constant) partly or wholly owned investments over acquisitions. Although greenfield investments/acquisitions are not the same as a public-private partnership, these findings must be taken into account.

Because of this debate, it is difficult to suggest that an uncertainty avoiding country will opt for a PPP where equity, authority and tasks are shared since this can also increase the uncertainty. It depends on what kind of uncertainty the country wants to avoid: market uncertainty or the uncertainty that there is a chance of opportunistic behaviour. What is known is that a MNC originating from an uncertainty avoiding country will place high importance on contractual safeguards. Therefore, the contract will be more complex and trust-based mechanisms are not enough for the private actor. Therefore:

Proposition 4 : Other things being equal, a MNC originating from an uncertainty avoiding country places high importance on contractual safeguards, leading to more complex contracts.

4.5.3 The influence of the power distance

The degree of power distance has an influence on the relation of the firm with its employees (Barkema & Vermeulen, 1997) and probably not that much on the governance of a PPP. Although, the underlying culture of the entrepreneurs and thus also the company in which the entrepreneur works has an influence on his attitude towards cooperation (Steensma et al., 2000). Managers of MNCs, based in countries with a high level of power distance are more autocratic, less willing to make collaborative decisions and to share equity in a partnership. It is expected that firms that are originally from a country that is characterised by a high power distance, opt for higher levels of ownership (Hennart & Larimo, 1998). So the degree of PDI can provide a slight preference towards a PPP with mainly private authority and equity. Therefore:

Proposition 5: Other things being equal, MNCs originating from a country with a high PDI will prefer a PPP characterised by a larger share of private equity and authority

4.5.4 The influence of masculinity/femininity

Not many international business articles point out the possible impact of masculinity on international cooperation. It should be clear that masculine cultures have a high level of competition. Therefore, masculine countries may also decrease the willingness towards cooperation. Cooperation may even be seen as a form of weakness. In masculine societies, the idea prevails that formal mechanisms and an elaborated contract are needed to protect interests in collaborations. People might be afraid for opportunistic behaviour and to be on the losing end. Stipulations and penalties are seen as effective tools and therefore contractual safeguards might be of great value in these societies (Steensma et al., 2000). In the more feminine countries, people prefer to resolve conflicts through negotiations (Lucas, 2006). Establishing relationships based on trust is more likely in these societies. Although this hypothesis seems logic, Steensma et al., (2000) were not able to support them with their results. But they did find evidence for a negative influence of masculinity on appreciation for negotiation. Therefore,

Proposition 6: Other things being equal, MNCs, originating from a masculine country, will prefer a PPP characterised by a larger share of private equity and authority

Interesting to note is that having a combination of partners from a more ‘feminine’ country and a more ‘masculine’ country may benefit the international corporation. A more aggressive partner, who aims at individual performance and achievement and a more feminine partner may complement each other (Barkema & Vermeulen, 1997).

4.5 Overview of the propositions

An overview of the propositions can be found in figure 3. The upper half of the figure is focused on formal institutions and the second half on informal institutions. The blue boxes represent different indicators of formal and informal institutions or the distance between the different institutions. The arrows represent the positive influence of an indicator on the governance of PPPs. Some arrows lead to a governance structure which reflects mainly choices around equity and contract as governance mechanisms.

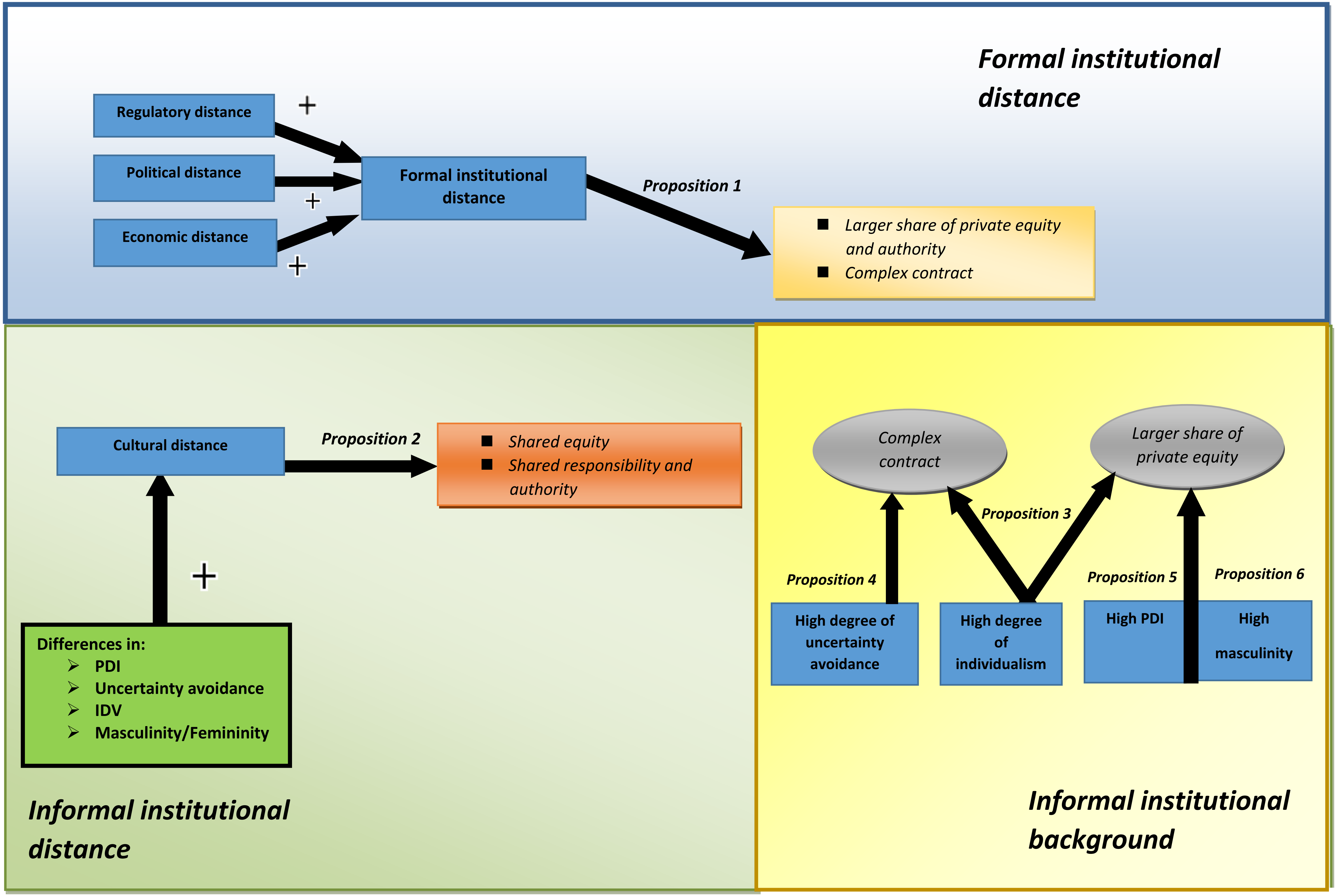

Figure 3: Overview of the propositions

5 The propositions in context

5.1 Introduction

This chapter contributes to the research in two ways. First, it operationalizes the concepts of formal and informal distance for three continents; Europe, North-America, China and Sub-Saharan Africa (SSA). Secondly, it explores how formal and informal distance can influence the governance of a PPP with a public actor in SSA, according to the first two propositions stated in chapter four. This is illustrated by several cases. It is interesting to focus on SSA since PPPs are seen as an important vehicle for foreign direct investment. Mostly, OECD-based MNCs participate in PPPs in SSA (Thomsen, 2005). However, China's interest in SSA is growing and Chinese relations with Africa experienced a tremendous growth in the last decade (Corkin et al., 2008). Therefore, the distances between 'Western' (i.e. USA an Europe) countries and SSA and between China and SSA will be examined by answering the fourth sub question:

How does the institutional distance influence the governance of public-private partnerships between Chinese, American and European multinational companies and public actors in Sub-Saharan Africa?

First, the formal distance will be measured and discussed in relation to proposition 1, illustrated by two cases. Afterwards, the informal institutional distance will be measured and discussed in relation to proposition 2, also illustrated by two cases. Unfortunately, this chapter doesn't focus on the four propositions related to informal institutional background, since it was extremely difficult to find supportive cases.

5.2 Measuring the indicators of formal institutional distance

The formal distance between the home and the host country can be divided into the regulatory institutional distance, economic institutional distance and political institutional distance. To operationalize formal institutional distance, all subcategories will be measured. The influence of the distance between the different continents will be explained. Furthermore how the different distances can influence the governance of PPPs will be explained for USA, Europe, Sub-Saharan Africa and China.

5.2.1 Regulatory distance

Regulatory institutions are often measured with the help of the Index of Economic Freedom (Ionascu et al., 2004; Holmes et al., 2013). This index takes an elaborated view on economic freedom. Most of the aspects are concerned with the policies within a country, others focus on a country's interactions with other countries. Countries are scored on ten factors of economic freedom, using statistics from organisations like the International Monetary Fund, the World Bank and the Economist Intelligence Unit. The score is always between 0 and 100. How to interpret the numbers is explained in the second column of table 3.

Table 3 : Regulatory institutions of China, Sub-Saharan Africa, USA and Europe based on the Index of Economic Freedom (2016)

Name	*Index*	*China*	*Sub-Saharan Africa*[3]	*USA*	*Europe*[4]
(Freedom from) Corruption	The higher the level of corruption, the lower a country's score.	**36,0**	**32,8**	**63,3**	**57,6**
Property rights	The more certain the legal protection of property rights, the higher the score.	**20,0**	**29,8**	**73,3**	**59,8**
Government spending[5]	Considers the government expenditure as a percentage of GDP (a too high or too low percentage receives a low score).	**74,3**	**76,1**	**60,5**	**43,8**
Fiscal Freedom	A measure of the tax burden imposed by the government. The more fiscal freedom the higher the score.	**69,7**	**75,9**	**73,5**	**72,3**
Business Freedom	The higher the score, the freer the business environment.	**54,2**	**51,5**	**79,1**	**75,4**
Labor Freedom	The higher the score, the freer a country's labour market.	**62,0**	**55,3**	**74,1**	**59,5**
Monetary Freedom	The higher the score, the more monetary freedom (less inflation, price controls).	**70,6**	**74,2**	**77,1**	**80,5**
Trade Freedom	The higher the score, the fewer trade barriers on imports and exports.	**72,8**	**68,4**	**84,4**	**86,1**
Investment Freedom	The higher the score, the fewer constraints on the flow of investment capital	**30,0**	**50,9**	**73,3**	**74,1**
Financial Freedom	The higher the score, the more freedom for financial institutions in the country and less interference by the government	**30,0**	**40,2**	**70,0**	**62,4**
Total score		**519,6**	**555,1**	**728,6**	**671,5**

Table 3 gives an indication of the differences between the regulatory institutions of the different continents or countries. The total score at the end of the table takes all the indicators of the index of economic freedom into account, which can be seen as the final score for regulatory institutions. Based on all the different factors, the Index of Economic Freedom distinguishes 5 categories: free, mostly free, moderately free, mostly unfree and repressed. Most 'Western' countries, such as the United Kingdom, United States, Germany and Denmark are all categorised in the 'mostly free' category. A significant majority of SSA (Uganda, Kenya, Nigeria, Ghana) countries are categorised in the bottom of the moderately free category or in the mostly unfree category. The latter is also the category of China. Belonging to the same category indicates similarities between the regulatory institutions of the countries (Index of Economic Freedom, 2016).

[3] Including South-Africa
[4] Based on the average of 44 European countries (including Russia) as identified by the United nations
[5] The scale is non-linear. Government spending close to zero are lightly 'penalized', levels of government spending exceeding 30 percent of GDP get a much worse score, caused by the square in the formula.

Taking the Index of Economic Freedom as a measurement for regulatory institutions, it can be concluded that the institutions of Europe and North-America show similarities and the regulatory institutions of China and SSA also. The relationship between China and Sub-Saharan Africa can be seen as a 'South-South collaboration' (Egbula & Zheng, 2011). This may indicate that other things being equal, a MNC from Europe or from USA will choose another governance structure in a partnership with a SSA public actor than a MNC from China. Even though the distances are not very large, a larger regulatory distance has a positive influence on formal institutional distance.

5.2.2 Economic distance

Holmes et al. (2013) identified 20 indicators for economic institutions, derived from the Political Risk Services group (PRS). For every indicator, an index is created. Unfortunately, not all PRS data are open for public. The following indicators that Holmes et al., (2013) used in their research to measure economic institutions are missing in table 4: capital investments, change in real wages, credit transfers, industry work force, money supply, net reserves, unemployment rate, unionized work force, liabilities, size of population, services work force and value of stocks traded. Besides, some of the indicators Holmes et al., (2013) have used are slightly different in table 4. For example, this research doesn't use exchange rate, but exchange rate stability. This means that table 4 gives an incomplete picture of the economic institutions of the different societies. Looking at table 4, there are no large differences in economic distance between China and Western countries compared with SSA countries. Although, the difference in nominal GDP is significantly large. China shows similarities in nominal GDP with Sub-Saharan countries, while the nominal GDP is much higher in Western countries. Summarising, using these 8 indicators from the PRS there is only a small economic distance between SSA and USA or Europe and a slightly larger economic distance between SSA and China.

Table 4: Economic institutions of China, Sub-Saharan Africa (Ghana, Nigeria, Tanzania, Uganda, South- Africa), USA and Europe (France, Denmark, United Kingdom, Germany) based on the political risk services group (2015)

Name	*Index*	*China*	*Sub-Saharan Africa*	*USA*	*Europe*
Budget balance as a percentage of the estimated GDP	Index= 1 till 10. The higher the balance the higher the score	6,0	Ghana (3,0), Nigeria (6,5) Tanzania (5,0), Uganda (5,0), South Africa (5,0) Average= 4,9	6,5	France (5,5), Denmark (7,0) United kingdom (5,0), Germany (8,0) Average= 6,4
Exchange rate stability as % of change	Index= 1 till 10 The smaller the change the higher the score	10,0	Ghana (5,5), Nigeria (8,0) Tanzania (9,0), Uganda (8,0), South Africa (10,0) Average = 8,1	9,0	France (6,0), Denmark (6,5) United kingdom (8,5), Germany (6,0) Average= 8
Debt service cost as % of Exports of Goods and services	Index = 1 till 10. The smaller the debt ratio, the higher the score	10,0	Ghana (10,0), Nigeria (10,0) Tanzania (10,0), Uganda (10,0), South Africa (8,5) Average= 9,7	7,5	France (7,5), Denmark (10,0) United kingdom (10,0), Germany (9,0) Average= 9,1
Inflation rate (stability)	Index= 1 till 10. The smaller the change, the higher the score	9,5	Ghana (5,0), Nigeria (7,5) Tanzania (8,5), Uganda (8,5), South Africa (8,0) Average= 7,5	10	France (10,0), Denmark (10,0) United kingdom (10,0), Germany (8,0) Average = 9,5
International liquidity as Months of Import Cover	Index = 1 till 5. The higher the net liquidity in months, the higher the score	5,0	Ghana (2,0), Nigeria (3,5) Tanzania (2,0), Uganda (3,5), South Africa (3,5) Average = 2,9	0,0	France (0,0), Denmark (3,5) United kingdom (0,5), Germany (1,0) Average = 1,25
Nominal GDP	Index=1 till 5, (compared with world average), The higher the GDP, the higher the score	1,5	Ghana (0,5), Nigeria (0,0) Tanzania (0,0), Uganda (0,0), South Africa (2,5) Average= 0,6	5,0	France (5,0), Denmark (5,0) United kingdom (4,5), Germany (5,0) Average = 4,9
Trade balance Current account as % of Exports and Goods and services	Index= 1 till 15. The higher the current account, the higher the GDP, the higher the score	13,0	Ghana (9,5), Nigeria (13,5) Tanzania (7,5), Uganda (7,0), South Africa (10,0) Average= 9,5	11,0	France (12,0), Denmark (13,5) United kingdom (11,5), Germany (13,5) Average= 12,6
Total foreign debt as a percentage of GDP	Index= 1 till 10. The higher the foreign debt ratio, the higher the core	9,5	Ghana (6,5), Nigeria (10,0) Tanzania (5,5), Uganda (8,0), South Africa (6,5) Average = 7,3	5,0	France (7,0), Denmark (7,5) United kingdom (5,0), Germany (8,5) Average= 7,0
Total score		**64,5**	**50,5**	**54**	**58,8**

5.2.3 Political distance

Holmes et al., (2013) use four different factors to measure political institutions. Civil liberties and political rights are measured with data from the Freedom House. The executive political restrictions and political constraints are measured with the POLCON (political constraints index) data. This index measures a nation's political risk by assessing the likelihood of an unfavourable change in the policies of a regime or even in the governmental regime (Bae & Solomon, 2010). This index takes veto players and their influence into account. This research has only the data from the political constraints index. Looking at table 5, Europe and the USA show similarities as expected. The outcomes of the index for SSA countries is slightly closer to China than to the Western countries. Based on this difference, this research states that the political distance between China and SSA is smaller than between Western Countries and SSA countries.

Table 5: Political institutions for China, Sub-Saharan Africa, USA and Europe based on data from Freedom House (2016) and POLCON (2012)

Name and source	*Index*	*China*	*Sub-Saharan Africa (including all SSA countries)*	*USA*	*Europe (including all European countries)*
Civil liberties (Freedom House)	Score between 1 and 7. The lower the number, the better the civil liberties	6	4,4	1	1,5
Political rights (Freedom House)	Score between 1 and 7, the lower the number the more political rights	7	4,5	1	1,5
Political constrictions (POLCON)	The index theoretically ranges from 0 to 1, with higher scores indicating more political constraints and thus less feasibility of policy change	0	Nigeria (0,43), Tanzania (0,27) South Africa (0,412) Ghana (0,313) Average = 0,36	0,413	UK (0,41) France (0,52) Germany (0,50) Denmark (0,53) Average = 0,49
Total score		**13**	**9,25**	**2,4**	**3,5**

5.3 Total formal distance in relation to the proposition

By summing up the scores for the regulatory institutions, the economic institutions and the political institutions, the total formal distance can be found. Table 6 gives an overview of the scores. The differences between the total scores is the total formal distance in percentages.

Table 6: Total scores of regulatory, economic and political institutions for China, SSA, Europe and USA

	China	**SSA**	**USA**	**Europe**
Regulatory institutions	519,6	555,1	728,6	671,5
Economic institutions	64,5	50,5	54	58,8
Political institutions	13	9,25	2,4	3,5
Total	**597,1**	**614,85**	**785**	**733,8**

According to the first proposition, formal distance has an influence on the governance of a PPP. A Western MNC will, because of a larger formal distance to SSA choose for a partnership with a larger share of private equity and authority. Thereby is a contract, including many safeguards, of great importance for a Western MNC. It is likely that a Chinese MNC, which has a small formal institutional distance, will choose for a PPP characterised by an equal share of public and private partners in equity and authority. To illustrate this formal distance, figure 4 is conducted and two cases between a Western MNC and a SSA public actor and a Chinese MNC and a SSA public actor will be explained.

Figure 4: Overview of formal institutional distance between China-SSA, Europe-SSA, United States-SSA

	Formal distance	**Influence on the governance of PPPs**
China-SSA	***3 %***	■ *Shared equity* ■ *Shared responsibility and authority*
Europe-SSA	***19 %***	■ *Larger share of private equity and authority* ■ *Complex contract*
United States-SSA	***27 %***	■ *Larger share of private equity and authority* ■ *Complex contract*

The numbers show the differences between the formal institutions (e.g. the formal institutional distance) of the countries/continents. A green arrow, pointing downwards, means a small formal institutional distance. A red arrow, pointing up, means a large formal institutional distance.

5.4 Formal institutional distance illustrated by two cases

The first case is the WEMA (Water Efficient Maize for Africa) PPP. The aim of this PPP is to provide smallholder farmers in Mozambique, Kenya, Uganda, Tanzania and South Africa with better seeds to improve their harvests. The African Agricultural Technology Foundation (AATF) is the leader of the partnership, an organisation funded by the Bill and Melinda Gates foundation (BMFG), the United states Agency for International Development (USAID) and the Howard G. Buffett Foundations. Moreover, different Agricultural research systems (NARS) are included. Since 2008, the MNC Monsanto participates in the partnership (African Centre for biodiversity, 2015). Monsanto shared 600 elite parental lines of maize seed, biotech drought-tolerant insect protection traits and technical plant breeding know-how (Edge, 2015). In the PPP, Monsanto granted to AATF a personal, non-transferable, non-exclusive, fully paid-up, royalty-free license to each of the drought-tolerant maize lines in the project (African Centre for Biodiversity, 2015). Monsanto provides not directly money, but seeds that are very valuable. This makes it difficult to measure the share of equity and authority of Monsanto in the PPP.

The costs of the first phase of the project were US$ 47 million, with US$ 39.1 million coming from the BMGF and the remainder from the Howard G. Buffet Foundation. In the second phase of the project, which started in 2012, the BMGF contributed a further US$ 48.9. Furthermore, the USAID contributed about US$ 7.5 million during the second phase. This indicates the large amounts of foreign public finance in the WEMA partnership (African Centre for Biodiversity, 2015). There is no clear African public actor in this PPP, although all the activities taking place in these countries are in theory subject to public control. It was difficult to find information about the complexity of the contract. Although funding from different sources might increase the complexity of the contract. It can be concluded that this case slightly confirms proposition 1. Other things being equal, a higher formal distance between USA and SSA may lead to a contract with a larger share of private equity and authority.

A comparable case is the PPP, formed in 2007, between the government of Gaza (Mozambique) and a Chinese enterprise from Hubei province. The Chinese enterprise, named Lianfeng Overseas Agricultural Development Co Ltd., established a rice production project and planned to transfer Chinese rice technology to local farmers. The project had a budget of US$1.2 million and was implemented in an area of 300 hectares. After three years, the Hubei Lianfeng Overseas Agriculture Development Co. was replaced by the Chinese company, Wanbao Oil & Grain Co (Chichava et al., 2013). The PPP expanded in 2012 when an exploration contract for leasing 20,000 hectares was finally signed by the Mozambican government and the China Wanbao Oil & Grain Co invested US $1.9 billion (Macauhub, 2014). To develop its activities, the PPP received a loan from the Fund for Cooperation between China and the Portuguese-speaking countries, created by the China Development Bank (CDB) (Chicava, 2015). Also, in this case, the share of total equity is not clear, although it is clear that the SSA public actor is highly involved by providing land to the Chinese MNC. The SSA public actor is in this PPP more involved compared to the WEMA partnership. Unfortunately, information about the complexity of the contract was untraceable. It can be concluded that this case slightly confirms proposition 1. Since the formal distance is smaller between China and SSA, it is less likely that a Chinese MNC will opt for a contract with a larger share of private equity and authority.

5.5 Measuring the indicators of informal institutional distance

By comparing the different countries/continents along the four cultural dimension scores (Hofstede, 1991), some tentative conclusions can be made (see also table 7). First, Western countries have generally a lower power distance (Europe an average of 51, USA 40) than China (80). Second, looking at the degree of individualism, Western countries score generally much higher (USA 91, average of Europe 58) than China (20). Finally, China scores quite low in uncertainty avoidance, with a score of 30. The Chinese are comfortable with ambiguity and Chinese companies are adaptable and entrepreneurial. In Europe, the uncertainty avoidance is often higher with an average of 70, although Denmark and the United Kingdom are exceptions with a score of respectively, 23 and 35. The USA scores below average, with a score of 46. In terms of masculinity, there are only small differences between Europa, USA and China.

Looking at SSA, Hofstede (1991) makes a distinction between South Africa, West Africa (e.g. Nigeria, Ghana, Sierra Leone) and East Africa (e.g. Ethiopia, Zambia, Kenya). East Africa and West Africa are both characterised by large power distance (64,77) and a middle score for uncertainty avoidance (52,54). East Africa scores also a low IDV (27) and West Africa even lower (20). Also on the Masculinity-femininity index, their scores are almost the same (both between 40 and 50).

It is important to note that within Europe there are large differences. For example, the masculinity score ranges between 5 for Sweden and 100 for Slovakia. Also, the IDV is much higher for United Kingdom (89) as for Portugal (27). On the other side, taking the average scores of the European countries has also an advantage, since focusing on one country doesn't always reflect the reality that MNCs face. For a foreign company that is entering a European country, it might be more useful to threat the institutional profile of the EU on a supranational level. Alternatively, a sub-national level may be appropriate when the MNC enters an industry with specific institutional characteristics with a great implication on the institutional distance (Bae & Salomon, 2010).

Table 7: The cultural dimensions of Hofstede applied to USA, Eastern Africa and West Africa

Dimension	China	USA	Eastern Africa	West Africa	Europe (average)
Power distance (PDI)	80	40	64	77	51
Individualism (IDV)	20	91	27	20	58
Degree of Masculinity	66	62	41	46	46
Degree of uncertainty avoidance	30	46	52	54	70
Total	**196**	**239**	**184**	**197**	**225**

5.6 Informal institutional distance in relation to the proposition

As stated in proposition 2, the informal distance between the host country and the home country of the MNC might play a role in the governance of PPPs. Looking at table 7, some significant differences between these (groups of) countries can be found. China scores almost the same PDI and IDV as Eastern- and West Africa. Here, the USA and Europe differ significantly. Between the other dimensions (masculinity, uncertainty avoidance) are the differences between the USA and SSA not substantially large. Europe scores much higher on uncertainty avoidance. Hence, the total score on informal institutions differs more between SSA and USA or Europe than between SSA and China. Concluding, the informal distance (cultural distance) is smaller between a Chinese MNC and a public actor in SSA compared to the informal distance between a Western (European or American) MNC and a SSA public actor. This has implications for the governance of the PPP, as shown in figure 5: The larger the informal institutional distance (measured as cultural distance) between the home and the host country of the MNC, the more likely the MNC will opt for a PPP with shared equity and authority. To illustrate this informal distance, two cases between a Western MNC and a SSA public actor and a Chinese MNC and a SSA public actor will be explained.

Figure 5: Overview of informal institutional distance between China-SSA, Europe-SSA and United States -SSA

	Informal distance	Influence on the governance of PPPs
China-SSA	3 %	■ *Larger share of private equity and authority* ■ *Complex contract*
Europe-SSA	18 %	■ *Shared equity* ■ *Shared responsibility and authority*
United States-SSA	25 %	■ *Shared equity* ■ *Shared responsibility and authority*

The numbers shows the differences between the informal institutions (e.g. the informal institutional distance) of the countries/continents. A green arrow, pointing downwards, means a small formal institutional distance. A red arrow, pointing up, means a large formal institutional distance.

5.7 Informal institutional distance illustrated by two cases

Nigeria is the world's 12th-largest oil producer and the eighth-largest oil exporter. Remarkably, the country imports 85% of its fuel needs, caused by mismanagement and disrepair of its state-owned refineries (BBC, 2010). To solve these problems finance and (technical) knowledge are needed. Nigeria has explored to what extent PPPs can help to overcome these problems.

First of all, in 2010 Nigeria's state-run oil firm (NNPC) and the China state Construction Engineering Corporation (CSEC) signed a USD 23 billion memorandum of understanding (a kind of pre-contract). This contract contains agreements on the building of three oil refineries financed by Sinosure and China Exim Bank. CSEC covered 80 % of the costs and NNPC covered the remaining 20 %. The Lagos State government guaranteed also the infrastructure and land. Besides, the oil refineries will be located in a Free Trade Zone. CSEC is responsible for the construction and running of the refinery. The government supported this partnership since it will generate many jobs and decrease the dependence of Nigeria on imported petroleum products (Egbula & Zheng, 2011). Since the informal distance between China and Nigeria is small, there is no need to share a large amount of equity with the local public actor, as stated in proposition 2.

This PPP can be compared with a European-Nigerian partnership in the oil industry. The Shell petroleum Development Company of Nigeria (SPDC) produces 39 percent of the nation's oil. The SPDC is a partnership between the NNPC which holds 55 %, Nigerian Agip Oil Company limited which holds 5 %, Total Exploration and Production Nigeria Limited holds 10 % and Shell (a Dutch-British independent oil company) holds the remaining 30 % (Shell, unknown). In this partnership, the equity is more spread over the different actors. This confirms proposition 2: the larger the informal institutional distance (measured as cultural distance) between the home and the host country of the MNC, the more likely the MNC will opt for a PPP with shared equity and authority.

5.8 Conclusion

Concluding, the formal and informal distance are larger between a Western (European or American) MNC and a public actor in SSA compared to the formal and informal distance between a Chinese MNC and a SSA public actor. A large formal distance leads to a PPP with a larger share of private equity and authority, whereas a large informal distance leads to a PPP with a more equal share of public and private partners in equity and authority. The different cases illustrate this ambiguity. In the WEMA partnership, the Western MNC takes a large share of private equity and authority, while in the SPDC partnership the Western MNC takes a more equal share of equity. It remains unclear when formal and informal distance are both large, which distance will predominate.

6 Discussion

In this discussion, the limitations of the methods and theories will be discussed. A critical note will be made about the propositions since there are more factors influencing the governance of PPPs. Moreover, the limitations of the cases used in chapter 5 will be discussed. Additionally, suggestions for further research are provided.

6.1 Limitations

In this research, formal and informal institutions are measured separately but eventually all institutions influence each other. Formal institutions are embedded in the cultural settings of informal institutions (Li & Zahra, 2012; Bae & Salomon, 2010). Moreover, the impact of one institution may depend on the existence of another institution (Jackson & Deeg, 2008). Besides, there is also a relation between formal institutions. Political institutions may influence the characteristics of regulatory and economic institutions (Holmes et al., 2013; Engelen et al., 2015)

Furthermore, the validity of the cultural variables of Hofstede (1980) can be discussed. Although this framework is the most widely used approach to compare national cultures, the data is really old and may not capture recent developments in the political environment of the country. Hofstede argues that culture is a stable factor to measure. This assumption of Hofstede (1980) has been undermined by many scholars who proves that cultural distance can change over time quite fast (Berry et al., 2010). Also, the calculation of distance based on Hofstede's dimensions suggests that the distances are symmetric. In other words, a Chinese MNC investing in SSA will face exactly the same cultural distance as an SSA MNC investing in China. Besides, the indicators of Hofstede assume homogeneity within each country, whereas there might be large differences within a country (Ghemawat & Reiche, 2011).

Moreover, it can be questioned to what extent a MNC is still part of a nations' culture. Scholars argue that the home country of the MNC keeps influencing the strategies of the MNC, but this can be questioned. In this globalising world, one may argue that a MNC, hiring employees from different countries, does not belong to one specific country/culture.

We can also discuss the indicators used to measure formal institutions. It is questionable to what extent the indicators, as proposed by Holmes et al., (2013) reflect regulatory, political and economic distance. Besides, also economic, political and regulatory distance can change over time quite fast (Berry et al., 2010). Furthermore, not all data was available. Therefore, the data used in this research may give an incomplete picture.

This research doesn't take into account the influence of the host country. A high degree of political uncertainty, caused by for example an underdeveloped institutional framework or a volatile political environment motivates private actors to choose for a partnership in which they are less dependent on public actors (Kivleniece & Quelin, 2012). When the institutional environment of the host country lacks intellectual property rights protection, it increases the chance on opportunistic behaviour by local partners (Xu & Shenkar, 2002), which can also influence the governance structure choice.

Moreover, one should not underestimate the role the public actor plays in the choice for a governance structure. The public actor is subject to legal requirements and criteria. The scope, complexity and detail of the legal requirements vary from country to country (Skelcher, 2010).

The size of the firm might also play a role, although there is a discussion between scholars how large this influence really is. Some argue that the larger the firm, the more it wants to share their equity since they want to diversify (Hennart & Larimo, 1998).

Furthermore, the experience of the public and private actors can exert an influence on the governance of PPPs (Quelin et al., 2014). The experience and capacities of the actors allow them to design PPPs with more benefits and fewer risks. Because of their previously acquired knowledge, the actors know about the risks of contractual renegotiation and expropriation and this increases the degree of success for the actors in adapting to different institutional environments (Jackson & Deeg, 2008).

Besides formal and informal distance there might be 'distances' that influence the governance of a PPP even more. It is plausible to think that for example, administrative distance (colonisation link, common language) decreases the risk for the private partner. Also, a demographic distance (based on life expectancy, birth rate) can increase the commonality and thereby the trust (Berry et al., 2010).

Using the selected cases has a number of disadvantages. First of all, the foreign private actor in the NNPC-CSEC partnership is a Chinese state-owned enterprise. Secondly, in both oil PPPs the public actor (NNPC) has private characteristics. Therefore these PPPs resembles closely a joint venture construction. Also, the NNPC-CSEC partnership has been started in 2010, while the SPDC partnership, under this participation agreement, is already collaborating since 1993 (Shell, unknown). This may affect the comparability of the cases.

Moreover, The WEMA partnership is a PPP with many actors. The share of equity between the actors is not entirely clear. Funding comes mainly from foundations and not from the MNC. In the PPP in Mozambique one may argue that Lianfeng Overseas Agricultural Development Co Ltd. does not meet the requirements of a MNC. Despite these shortcomings , the cases still contribute to the research by providing real examples of PPPs and making the propositions less abstract.

6.2 Suggestions for further research

The first and most important suggestion for further research is to test the propositions further with empirical cases. Detailed information about the governance structure of a PPP is needed to examine exactly the influence of the institutional background. Thereby it is important that the PPPs are established in the same sector (e.g. infrastructure, agriculture) and the MNCs are of the same size in order to make a valid comparison. Case studies and even more large datasets can test and might strengthen the propositions. This will also help to further refine the propositions.

Chapter five uses the theory of Holmes et al., (2013) to measure formal institutions. Different studies use different theories to measure them. Berry et al., (2010) and Bae & Solomon (2010) show in their research which indexes can be used to measure political distance and economic distance. For example, the CHECKS index is an alternative for measuring political institutions and the Global Competitiveness Report can be used to construct regulatory distance. It would be interesting to research if these different indexes/measurements lead to the same results.

Barkema and Vermeulen (1997) have tested in their research which dimensions of Hofstede's theory plays the most disruptive role in the development of international joint ventures. Differences in uncertainty avoidance caused the most problems. Cultural differences as power distance, the ratio of collectivism/individualism are less problematic, probably because these differences are easily resolved in the negotiations of the agreements. It would be also valuable to research which cultural differences in informal institutional distance impact the governance of PPPs the most.

Finally, this research argues that governance mechanisms can protect against opportunistic behaviour, but one should avoid onerous mechanisms since these can antagonise the partnership. Therefore, an optimisation of governance mechanisms is necessary (Dahlquist & Griffith, 2015). It would be extremely interesting and valuable to search for this optimisation in different circumstances and for different institutional distances.

7 Conclusion

This research investigated how institutional background and institutional distance influences the choice for a PPP governance structure. Thereby the emphasise was on PPPs between MNCs originating from a Western (Europe or the USA) country or from China and a Sub-Saharan public actor. Six propositions are developed. Propositions related to this influence are valuable since no study has examined the possible impact of institutional distance on the governance of PPPs before.

By focusing on literature in cross-cultural investments research, different formal and informal indicators of the institutional background are distinguished. Culture is an appropriate indicator to measure the informal institutions of a country and can be divided into power distance, uncertainty avoidance, the degree of individualism and the degree of masculinity. Formal institutions can be grouped in regulatory institutions, economic institutions and political institutions.

Formal governance mechanisms (contract, equity, scope, non- equity hostages) and informal (trust-based) governance mechanisms determine the governance structure of a PPP. These mechanisms are able to develop a governance structure in such a way to decrease (market) uncertainty (integrative PPP structure) or the chance on opportunistic behaviour (autonomous PPP structure). Formal and informal institutional distance between the home and the host country of a MNC have an influence on the use of these governance mechanisms, especially on contracts and financial commitments such as equity and non-equity hostages.

The differences between the formal institutions of the home and the host country can be summarised in the formal institutional distance. A higher formal institutional distance increases uncertainty and the chance on opportunistic behaviour by the public actor. This is reflected in a governance structure with a larger share of equity and authority for the private actor and a complex contract, including contractual safeguards.

A review of the literature identified two ways in which informal institutions of the home country of the MNC can have an influence on governance structure choices. Informal institutions (individualism index, the degree of uncertainty avoidance, power distance index, the degree of masculinity) of the home country of the MNC can have an influence on governance structure choices. Secondly, the distance between the informal institutions, also known as cultural distance, has also an influence. The larger the cultural distance, the more likely the MNC will opt for a partnership based on shared equity, where the private actor shares the operational tasks with the public actor and the actors collaborate on a large scale. Here, the benefits of collaborating outweigh the potential hazards the MNC can encounter, by intensively collaborating with an actor from a totally different cultural background.

Finally, this research has empirically explored the informal and formal distance between Sub-Saharan Africa and China and between Sub-Saharan Africa and a Western country and how this might influence the PPP governance. The formal and informal distance are larger between a Western (European or American) MNC and a public actor in SSA compared to the formal and informal distance between a Chinese MNC and a SSA public actor. A large formal distance leads to a PPP with a larger share of private equity and authority, whereas a large informal distance leads to a PPP with a more equal share of public and private partners in equity and authority. This ambiguity is illustrated by different cases.

Together, the findings of this research suggest that institutional dimensions do influence MNCs PPP governance structure decisions and that the type of distance between the home and the host country of the MNC can have differing effects. In addition, our findings suggest the need for more empirical, sophisticated studies to better understand how the different formal and informal institutions, independently or calculated in ‘distances’ influence governance structures.

Finally, this research advises MNC managers to examine institutional distance before making an investment. Once the MNC has targeted a public actor in a host country, governance structures for the PPP need to be chosen. Governance structures must be matched with institutional distance to the host country in order to enhance competitive advantages. These must be gained either from a small institutional distance or from the ability to mitigate the negative large distance impact (Xu & Shenkar, 2002). Xu & Shenkar (2002) argue this is the case for entry strategies, but we believe this is also the case for governance structures of PPPs.

8 References

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