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Published Version

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Chen, X. ORCID: <https://orcid.org/0000-0002-0597-4352>
(2026) Cultural tightness-looseness and international expansion of emerging market firms: a cultural escapism perspective. *Management International Review*. ISSN 1861-8901 doi: 10.1007/s11575-025-00612-5 Available at <https://centaur.reading.ac.uk/128448/>

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To link to this article DOI: <http://dx.doi.org/10.1007/s11575-025-00612-5>

Publisher: Springer

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Cultural Tightness–Looseness and International Expansion of Emerging Market Firms: A Cultural Escapism Perspective

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Received: 17 January 2025 / Revised: 29 December 2025 / Accepted: 29 December 2025
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Abstract

Drawing on cultural tightness–looseness theory and institutional escapism view, this study develops a cultural escapism perspective to examine the impact of within-country cultural heterogeneity in emerging market context, specifically subnational cultural tightness–looseness, on firms’ outward foreign direct investment. Tight culture is characterized by strict social norms with low tolerance for deviant behaviors within a society. This study examines how emerging market firms navigate the constraints of cultural tightness through internationalization, such that firms located in culturally tight regions are more likely to engage in international expansion. In addition, the strength of the relationship between cultural tightness and a firm’s international expansion is contingent on government R&D subsidies and industry technological dynamism. The hypotheses are tested and supported through an analysis of Chinese listed firms during the period of 2007 to 2019. The cultural escapism perspective contributes to cultural tightness–looseness theory and international business research.

Keywords Cultural tightness · Cultural escapism · Outward foreign direct investment · Subnational culture · Emerging market

1 Introduction

Culture, defined as the set of beliefs, values, norms, as well as practices that are shared across members of a society (Triandis, 1996), influences how stakeholders perceive, interpret, and respond to the environment (Hofstede, 1980). The cultural tightness–looseness (CTL) construct, which refers to the strength of social norms and the severity of punishment for deviating from these norms (Gelfand et al., 2006),

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represents one of the most fundamental yet underexplored dimensions in international business (IB) research. Echoing the increased attention on how home country institutions influence a firm's international expansion (Luiz et al., 2021; Marano et al., 2016), this study expands this focus by exploring how firms adapt to the tight cultural environments.

In tight cultures, strict adherence to established rules and reluctance to change the status quo can hinder the exploration of novel ideas and experimentation (Chua et al., 2015). Consequently, cultural tightness can have a detrimental impact on firm development by impeding firms' ability to adapt to dynamic business environments and constraining innovative activities over the long term (Barkema & Vermeulen, 1998; Li et al., 2017). Integrating the CTL theory with institutional escapism view, this study argues that the misalignment between the restrictive home environments imposed by tight cultures and organizational needs for development motivates firms to pursue international expansions, as a form of *cultural escapism*.

Despite recent criticisms of the underlying cultural homogeneity assumption, existing research has predominantly focused on the influences of culture at the national level (Donnelly & Manolova, 2020; Miao et al., 2016; Thams et al., 2018). However, regions exhibit variations in demographic structures, ecological conditions, and historical threats, thus within-country variations in cultural tightness—manifested in how clearly and strictly social norms are expressed and adhered to—can be expected (Gelfand et al., 2011; Jackson et al., 2020). Recent research provides empirical evidence of provincial-level variation in cultural tightness–looseness within China (Chua et al., 2019), which serves an appropriate empirical context. Using a sample of Chinese listed firms during 2007 and 2019, this study explores the role of cultural tightness at subnational level in shaping firms' international expansions. To delve into the cultural escapism process, this study further examines the contingency effects of government R&D subsidies and industry technological dynamism.

This study makes several contributions to the culture and international business research. First, extending previous studies that largely center on cultural distance and emphasize the costs associated with cross-border differences (Hofstede, 1980; Kogut & Singh, 1988), this study shifts attention to the influence of home-country cultural characteristics. Furthermore, it contributes to the emerging consensus that cultural homogeneity within nations should be cautiously assumed by unpacking the role of within-country cultural heterogeneity (Thams et al., 2018; Tung, 2008). Second, this study contributes to the CTL theory. As a salient cultural dimension, CTL has received relatively scant attention in IB. Bridging the CTL and IB literature (Toh & Leonardelli, 2012; Venaik et al., 2021), this study argues that firms can actively implement strategic responses to navigate cultural environment they are embedded in, rather than remaining passive to tight cultures (Li & Gelfand, 2022). Third, this study advances institutional escapism research, which predominantly focuses on formal institutions, by integrating a cultural lens and proposing a cultural escapism perspective (Luiz et al., 2021; Gaur et al., 2018; Stoian & Mohr, 2016).

2 Theoretical Background and Hypotheses

2.1 Cultural Tightness–Looseness

Cultural tightness–looseness comprises two key components: “how clear and pervasive norms are within societies” and “how much tolerance there is for deviance from norms within societies” (Gelfand et al., 2006, pp. 1226). The CTL theory contrasts cultures with strong norms and low tolerance for deviance against those with weak norms and high tolerance for deviance. Tight culture implies clear and pervasive norms and low tolerance for deviant behaviors within a society, whereas loose culture is characterized with flexible and relaxed social norms and high tolerance for deviations from the expected behavior (Lee & Kramer, 2016; Venaik et al., 2021). Key outcomes of tight culture include order-following, norm-conforming, and low acceptance of change in the society, whereas key outcomes of loose culture include flexibility, norm-breaking, and greater openness to change (Gelfand et al., 2006; Li et al., 2017). For example, societal institutions in tight cultures are more likely to constrain behaviors and impose stronger sanctions on individuals who deviate from social norms (Uzuegbunam et al., 2021). In loose cultures, exploration and diversity are encouraged, and institutions are more permissive and impose less harsh punishment towards deviant behaviors (Chan, 1996; Lee & Kramer, 2016).

Although sharing conceptual similarities with other cultural dimensions, cultural tightness–looseness captures a distinct aspect of cultural variance. For examples, both cultural tightness and collectivism operate through adherence to group norms and clear role definitions (Hofstede, 1980). However, collectivism pertains to the importance of one’s ingroup as an integral part of the self, while tightness refers to the rigidity of social norms and the severity of sanctions imposed when individuals deviate from these norms (Li et al., 2017). Tightness–looseness is also conceptually distinct from uncertainty avoidance. Societies with high uncertainty avoidance may exhibit either high or low degrees of tightness. In tight societies, individuals might experience greater uncertainty avoidance due to stringent norms, or, conversely, they might feel less uncertainty because these norms provide clearly defined expectations (Harms & Groen, 2017). In summary, cultural tightness–looseness is “*unique and complementary to other cultural dimensions*” (Gelfand et al., 2006:1227).

Recent studies have begun to examine how CTL affects organizational outcomes, including their performance (Li & Gelfand, 2022; Pidduck et al., 2024), survival (Gelfand et al., 2021; Uz, 2015), and innovation (Chua et al., 2015; Shin et al., 2017). While insightful, two research gaps remain. First, although existing research has examined the costs or benefits associated with CTL (e.g., Crossland & Hambrick, 2011; Harms & Groen, 2017), it often assumes that firms are passively subjected to their cultural environments and overlooks the potential for firms to actively engage in strategic responses to overcome such constraints (Boisot & Meyer, 2008).

Second, CTL theory posits that even within a country, regional differences give rise to variation in the strength of societal norms and the severity of punishment for violations (Gelfand et al., 2011). Geographical, historical, and institutional factors collectively contribute to variation in cultural tightness across regions. Geographically, harsh and unpredictable climates, natural disasters, and limited resources often

necessitate stricter cooperation and collective problem-solving. Historically, regions shaped by prolonged periods of centralized rule or foreign invasion developed tighter norms as mechanisms for coordination and survival. Institutionally, the strength of local governance and regulatory oversight further shapes the extent to which norms are upheld.

Nevertheless, existing research has predominantly focused on culture at the country level, examining how differences in CTL across countries influence individual and firm behavior (Pidduck et al., 2024). One possible reason for the limited empirical investigation into subnational culture is the difficulty of accessing reliable measures of cultural diversity within a country (Beugelsdijk et al., 2017). Recently, a few notable studies have addressed this gap (e.g., Chua et al., 2019; Harrington & Gelfand, 2014). For example, Chua et al. (2019) conducted a large-scale survey across 31 provinces in China, revealing significant variation in cultural tightness among provinces. Building on this line of research, this study explores how firms respond to cultural constraints, with a focus on tightness–looseness at the subnational level in an emerging market context (Peterson et al., 2018; Venaik & Midgley, 2015). In emerging markets, where formal institutions are relatively underdeveloped, culture plays a greater role in shaping organizational behavior and decision-making. Consequently, the constraining effects of cultural tightness can be particularly salient.

2.2 Cultural Tightness and International Expansion

Drawing on the CTL theory and international business literature, this study posits that cultural tightness constrains firm development, which in turn drives firms to pursue international expansion. Tight culture impedes firms' ability to respond flexibly to environmental changes. In such rigid cultural environments, individuals and organizations are less inclined to engage in behaviors that challenge or disrupt the status quo (Harrington & Gelfand, 2014). Firms could encounter obstacles in implementing upgrades or reforms, as deviations from established norms are often discouraged or met with resistance (Toh & Leonardelli, 2012). Consequently, firms embedded in tight cultures may struggle to implement necessary organizational adjustments, such as restructuring and adopting new business models, required to adapt to dynamic market conditions and seize emerging opportunities. In contrast, firms in loose cultures are more open to challenging established rules, which enhances their flexibility and responsiveness.

Over the long term, these normative constraints hinder firms' innovation trajectories. In tight cultures, behaviors that challenge the status quo and established procedures are less common, and the strong emphasis on conformity limits organizational freedom in decision-making (Uz, 2015). In contrast, loose cultures foster creative thinking and encourage the exploration of novel ideas. These behaviors are known to serve as conduits for organizational creativity and innovation (Gelfand et al., 2006; Hewlett et al., 2013). Thus, in tight cultures, firms are likely to face constraints in accessing innovation resources and enhancing innovative capabilities. A growing body of studies have suggested that firms operating in tight cultures tend to undertake less innovative behaviors (e.g., Chua et al., 2019; Harrington & Gelfand, 2014; Li & Gelfand, 2022). When firms in tight cultures do pursue innovation, cultural tightness

also influences their innovation patterns in a way that favors incremental innovation over radical innovation, because tight cultures constrain firms' willingness to undertake transformative, overhauling actions, instead encouraging more cautious, step-by-step advancements (Chua et al., 2019).

Taken together, cultural tightness leads to misalignment between firms' needs and their cultural environments. This misalignment is particularly costly for emerging market firms, which often lack strategic assets such as advanced technologies and knowledge (Mohr & Batsakis, 2017). To cope with these challenges, firms are likely to adopt strategic responses (Stoian & Mohr, 2016; Witt & Lewin, 2007). Outward foreign direct investment (OFDI) is a critical channel through which firms can reduce their reliance on unfavorable domestic markets (Nuruzzaman et al., 2020; Oliver, 1991). More importantly, OFDI enables firms to access strategic assets that are unavailable in their home markets, thereby enhancing their competitiveness on a global scale (Luo & Tung, 2007). Therefore, cultural constraints at home may increase the likelihood of a firm's international expansion:

Hypothesis 1 (H1) *Home country cultural tightness has a positive effect on a firm's outward FDI.*

In understanding the consequences of culture, it is important to address the boundary conditions on how and when culture makes a difference, as not all firms are equally affected by cultural tightness (Leung et al., 2005; Tung & Stahl, 2018). Thus, this study examines contingencies that further delineate the theorized escapism mechanism, whereby tight culture constrains firms' innovative capability and operational flexibility, thereby motivating them to invest abroad. Specifically, this study proposes two moderating conditions that influence the effect of cultural tightness on a firm's outward FDI: R&D subsidy and industry dynamism.

2.3 The Moderating Effect of R&D Subsidy

Although tight culture may impede innovation potentials, firms can seek support for innovation from alternative sources (Koh, 2006). Therefore, the effect of cultural tightness on firms' international expansion could be dependent on the intensity of R&D support firms receive. Given the importance of technological progress for long-term economic growth, governments play a critical role in supporting firms' R&D activities (Furman et al., 2002). The economic rationale behind government involvement in firms' innovation is the imperfect appropriability and high risk associated with R&D (Guellec & Van Potterie, 2003). Therefore, governments provide R&D subsidies directly to individual firms, offering financial support to overcome market imperfections and stimulate innovation-related activities (Chen et al., 2018). These subsidies also help reduce uncertainty by encouraging firms to adopt a more risk-taking attitude toward innovation (Koh, 2006).

Accordingly, firms that receive higher levels of R&D subsidies are better positioned to mitigate cultural constraints; thus, they tend to be less sensitive and responsive to cultural tightness. Conversely, firms with lower levels of R&D subsidies face

greater constraints in overcoming the rigidity of tight cultural environments and are therefore more likely to pursue OFDI as a response.

Hypothesis 2 (H2) *The effect of cultural tightness on a firm's outward FDI will be less pronounced for firms receiving higher levels of R&D subsidies.*

2.4 The Moderating Effect of Technological Dynamism

Cultural tightness creates challenges for firms in adapting to evolving market conditions. However, the need for rapid adaptation often depends on the firm's operational environment (Wang & Chen, 2010). Therefore, environmental dynamism plays a crucial role in shaping how firms experience and respond to the cultural tightness.

Technological dynamism, referring to “the rate of change in and the unpredictability of new technologies”, varies significantly across industries and is an essential component of environmental dynamism (Wu et al., 2005:860). Technologically dynamic industries are characterized by high volatility, unpredictability, and rapid technological evolution (Mavroudi et al., 2020). For instance, the introduction of new products, technological breakthroughs, and the emergence of revolutionary business models accelerate market volatility. Due to the unpredictability of innovative outcomes, existing technologies in dynamic industries can quickly become obsolete with the frequent introduction of new discoveries, resulting in a mismatch between a firm's existing knowledge and the environment in which innovations are deployed (Kafourous et al., 2024).

The strong evolutionary forces compel firms to continually enhance their capabilities and adjust their strategies to keep pace with environmental changes (Cruz-González et al., 2015). However, tight culture often reinforces rigid organizational structures and resistance to change, impeding firms' ability to innovate and respond swiftly to environmental shifts. As a result, firms operating in highly dynamic industries may be more inclined to pursue outward FDI as a means of escaping such constraints. When technological dynamism is low, firms face reduced pressure to adapt due to reduced volatility, thereby weakening the incentive to escape. Accordingly, the relationship between cultural tightness and international expansion is more pronounced in industries with higher levels of technological dynamism.

Hypothesis 3 (H3) *The effect of cultural tightness on a firm's outward FDI will be more pronounced for firms in technologically dynamic industries.*

3 Method

3.1 Data Sources and Sample

Hypotheses are tested in the context of Chinese listed firms over the period from 2007 to 2019. China provides an appropriate setting for investigating how home country subnational culture influences firm's international expansion. First, China has been one of the largest outward FDI suppliers in recent years. Second, it is also a represen-

tative large emerging economy. Heterogeneous subnational geography and ecology, historical legacies, and economic and institutional development contribute to substantial variation in China's regional cultures, providing a rich context for examining the role of subnational culture. Information on listed firms is collected from the China Stock Market & Accounting Research (CSMAR) database. Provincial-level data is obtained from China Statistical Yearbook and China Regional Statistical Yearbook. Consistent with previous studies, the sample excludes OFDI projects in tax havens, such as British Virgin Islands and Cayman Islands, to mitigate the distortion caused by round-tripping FDI (Kolstad & Wiig, 2012). The Ministry of Finance promulgated the new accounting standard, *Accounting Standards for Business Enterprises No. 16*, which was implemented in 2007, when the disclosure of government subsidies became complete and comprehensive. Therefore, 2007 is selected as the starting year. After merging these datasets, the final sample consists of 29,781 firm-year observations, among which 3629 firms from 31 provinces between years 2007 and 2019.

3.2 Measures

3.2.1 Dependent Variable

OFDI decision $_{ijt}$ is operationalized as a binary variable, coded as 1 if a firm i from province j undertake OFDI project in year t , and 0 otherwise. This binary variable captures a firm's essential internationalization decision-making, that is, whether to internationalize (Shi et al., 2017). In the supplemental analyses, I employ triangulation by integrating two additional computations into the operationalization of dependent variable to better elucidate the cultural escapism mechanism. First, I examine the destination of OFDI to investigate whether home cultural tightness would influence the host country location choice. The findings reveal that firms located in culturally tighter regions are more likely to choose host countries with relatively looser cultures (Table 3). Second, I capture the motivation behind OFDI by differentiating strategic asset-seeking OFDI (Table 4).

3.2.2 Independent Variable

Cultural tightness is adopted from the index developed by Chua and colleagues (2019). The authors conducted a large-scale survey within China on people's perceived cultural tightness of their province/city. The survey questions are adopted from Gelfand et al. (2011), where cultural tightness is measured on six different items using 6-point Likert scales. The six items include "There are many social norms that people are supposed to abide by in my province/city," "If someone acts in an inappropriate way, others will strongly disapprove," "People always comply with social," "There are clear expectations for how people should act in most situations," "People agree upon what behaviors are appropriate versus inappropriate in most situations," and "People have a great deal of freedom in deciding how they want to behave in most."

According to Chua and colleagues (2019), a total of 11,662 participants across 31 provinces responded to their survey. Their results indicate that there is significant

consistency and agreement in cultural tightness within each province and great heterogeneity in cultural tightness across provinces within China. They then aggregated participants' responses within each province and assigned scores to the provinces. The lowest value of cultural tightness recorded is 0.85 for Guizhou province, whereas the highest is 5 for Guangdong province, indicating considerable variation in cultural tightness across provinces.

3.2.3 Moderating Variables

Government subsidies serve various functions, including advancing policy objectives, supporting R&D activities, and stabilizing employment. To distinguish between R&D and non-R&D subsidies firms received from governments, I code the text of each subsidy from their annual reports (Chen et al., 2018). Specifically, subsidies are classified as R&D if their title or objectives included R&D-related keywords (e.g., research and development, science and technology, intellectual property, patent, copyright, technology transfer, innovation, industry upgrade, new product, technology standard). Firm-level *R&D subsidy* is measured as the proportion of R&D-related subsidies relative to the total amount of subsidies received in a given year.

To proxy for industry technological dynamism, I employ the classification from prior literature that distinguishes industries based on widening and deepening patterns of innovation (Malerba & Orsenigo, 1995, 1996). Industries exhibiting deepening patterns of innovation are categorized as having high technological dynamism (Kafouros et al., 2024). Examples include industries undergoing frequent technological shifts, such as pharmaceuticals and computers. In contrast, industries with a more stable technological base and fewer innovations, such as furniture manufacturing, construction, and textiles, are considered to have low technological dynamism. *Technological dynamism* is coded as 1 for firms operating in industries with high technological dynamism and 0 otherwise.

3.2.4 Control Variables

This study includes a number of control variables. First, large firms typically have more resources for their global expansions. *Firm size* is defined as the natural logarithm of a firm's total assets. Second, *firm age* is measured as the natural logarithm of difference between the firm's year of founding and the observation year. Third, a firm's financial performance is also related to its internationalization strategy. *Historical performance* feedback is measured as the difference between a firm's performance and its historical aspiration level, captured by the firm's returns on asset (ROA) in prior year, while *social performance* feedback is measured as the firm's performance relative to the peer aspiration level, defined as the median ROA of firms in the same industry (Ye et al., 2021). *Leverage* is proxied by long-term debt scaled by total assets, while *financial slack* is proxied by current assets divided by current liabilities. *State ownership* is measured as the percentage of a firm's shares owned by government agencies, and *foreign ownership* is defined as the percentage of shares owned by foreign investors. *TMT international experience* is measured as the number of top management team (TMT) members with overseas work or study experience.

R&D intensity is calculated as a firm's R&D expenditure divided by total sales. The Herfindahl-Hirschman Index (*HHI*) is used to account for competitive intensity.

At the provincial level, *market size* is calculated as the natural logarithm of a province's population, *economic development* is measured as the natural logarithm of GDP per capita, and *economic growth* is defined as the annual GDP growth rate of each province. Home country economic development can reduce firms' transaction costs and provide business resources, thereby affecting firms' global strategies. This study also controls for *market openness* as a proxy for formal institutions, measured as the number of Economic-Technological Development (ETD) zones. *Inward FDI* is proxied as the value of a province's inward FDI as percentage of GDP. Year fixed effects and industry fixed effects are included to control for unobservable time-specific or industry-specific effects.¹

4 Results

Table 1 reports the means, standard deviations and correlations for the variables used in the main analysis. All the variance inflation factor values (ranging between 1.02 and 2.88) are well below the suggested threshold of 10. Hence, multicollinearity is not a material concern in this study.

Given the binary nature of a firm's OFDI decision, the hypotheses are tested using a logit model predicting whether a firm has engaged in OFDI in a given year. All time-varying explanatory variables are lagged by one year. Table 2 summarizes the results of logit regressions, incrementally adding the variables of interest. Model 1 includes only the control variables. Model 2 examines the effect of provincial-level cultural tightness on firm's OFDI decision. Models 3 and 4 add the moderating effects of R&D subsidy and technological dynamism.

Hypothesis 1 posits that cultural tightness increases the probability of undertaking OFDI. As predicted, the coefficient for cultural tightness in Model 2 is positive and significant ($\beta=0.135$, $p<0.01$), suggesting that it has a significantly positive impact on a firm's international expansion. The odds ratio for cultural tightness is 1.144 ($p<0.01$), suggesting that, a one-unit increase in cultural tightness is associated with a 14.4% increase in the odds of a firm engaging in OFDI. Hypothesis 1 is thus supported.

Hypothesis 2 argues that government R&D subsidy weakens the effect of cultural tightness on a firm's OFDI. In Model 3, the coefficient for interaction term Cultural tightness \times R&D subsidy is negative and significant ($\beta = -0.178$, $p<0.05$). I estimate and plot the marginal effects of cultural tightness, holding other variables at their mean values. Figure 1 illustrates that the effect of cultural tightness on international expansion is moderated by R&D subsidies, such that the negative impact of cultural tightness is attenuated when R&D subsidies are high, compared to when they are low. These findings thus support Hypothesis 2.

¹ This study uses the industry classification of listed companies developed by the China Securities Regulatory Commission. The sample includes 18 industries, with manufacturing firms comprising the largest share at 62.89%.

Table 1 Mean, standard deviation and correlation matrix

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1 OFDI decision	0.11	0.31	1.00									
2 Cultural tightness	3.81	1.01	0.07	1.00								
3 R&D subsidy	0.17	0.28	0.03	0.08	1.00							
4 Technological dynamism	0.32	0.47	0.04	0.02	0.18	1.00						
5 Firm size	21.80	1.32	0.14	0.02	-0.14	-0.14	1.00					
6 Firm age	2.88	0.32	-0.01	0.05	-0.04	-0.03	0.10	1.00				
7 Social performance	0.00	0.07	0.07	0.07	0.01	0.03	0.07	-0.05	1.00			
8 Historical performance	0.00	0.07	0.00	-0.01	-0.02	0.00	0.00	0.00	0.57	1.00		
9 Leverage	0.45	0.24	-0.01	-0.10	-0.19	-0.16	0.33	0.15	-0.28	-0.01	1.00	
10 Financial slack	2.54	4.31	0.01	0.06	0.11	0.09	-0.20	-0.11	0.09	-0.01	-0.45	1.00
11 State ownership	0.07	0.17	-0.06	-0.09	-0.09	-0.10	0.14	-0.18	-0.01	0.02	0.11	-0.07
12 R&D intensity	0.00	0.03	-0.02	0.04	0.05	0.06	-0.02	0.07	-0.08	-0.09	-0.06	0.02
13 Foreign ownership	0.01	0.07	0.03	0.06	0.02	0.02	-0.04	-0.08	0.06	0.00	-0.07	0.05
14 TMT international experience	0.07	0.32	0.04	0.06	0.02	-0.01	0.05	0.00	-0.01	-0.01	-0.01	0.02
15 HHI	0.21	0.16	0.00	0.00	-0.13	-0.24	0.26	0.00	-0.01	0.00	0.15	-0.06
16 Market size	8.50	0.67	0.02	0.28	0.09	0.09	-0.07	0.04	0.04	-0.01	-0.07	0.01
17 Economic development	10.91	0.54	0.11	0.63	0.08	0.01	0.14	0.26	0.04	-0.04	-0.14	0.06
18 Economic growth	0.12	0.06	-0.06	-0.13	-0.04	-0.01	-0.08	-0.24	0.00	0.03	0.07	0.00
19 Market openness	9.95	7.48	0.03	0.18	0.00	0.05	-0.08	-0.03	0.05	-0.01	-0.07	-0.01
20 Inward FDI	0.56	0.46	0.03	0.53	0.04	-0.03	0.05	0.12	0.01	-0.01	-0.05	0.02
Variables	Mean	S.D.	11	12	13	14	15	16	17	18	19	20
11 State ownership	0.07	0.17	1.00									
12 R&D intensity	0.00	0.03	-0.05	1.00								
13 Foreign ownership	0.01	0.07	-0.04	0.00	1.00							
14 TMT international experience	0.07	0.32	-0.03	0.02	0.04	1.00						
15 HHI	0.21	0.16	0.10	-0.05	0.01	0.05	1.00					
16 Market size	8.50	0.67	-0.09	0.03	0.04	0.02	-0.09	1.00				
17 Economic development	10.91	0.54	-0.23	0.16	0.02	0.07	0.01	-0.07	1.00			

Table 1 (continued)

Variables	Mean	S.D.	11	12	13	14	15	16	17	18	19	20
18 Economic growth	0.12	0.06	0.19	-0.01	0.02	-0.03	0.02	-0.05	-0.32	1.00		
19 Market openness	9.95	7.48	-0.10	0.02	0.04	-0.04	-0.08	0.44	0.17	-0.04	1.00	
20 Inward FDI	0.56	0.46	-0.02	0.08	0.04	0.05	0.04	-0.21	0.54	-0.04	-0.07	1.00

All correlation coefficient with absolute value above 0.012 is significant at $p < 0.05$

Hypothesis 3 proposes that industry technological dynamism would strengthen the relationship between cultural tightness and a firm's internationalization. Model 4 adds the interaction between industry-level technological dynamism and provincial-level cultural tightness. The coefficient is positive and statistically significant ($\beta=0.092$, $p<0.05$). Figure 2 plots the marginal effect. The results indicate that the effect of cultural tightness is more pronounced for firms operating in technologically dynamic industries compared to those in technologically stable industries, supporting Hypothesis 3.

4.1 Supplemental Analyses and Robustness Checks

4.1.1 Illustrating escapism mechanism through OFDI

Both international and domestic investments represent valuable channels through which firms can escape or buffer against local environmental constraints. Although IB research has long recognized the liability of foreignness when operating in foreign markets (Zaheer, 1995), OFDI remains an effective mechanism of “escapism” in response to home-country institutional constraints, particularly in the context of China, for several reasons. First, undertaking OFDI aligns with the Chinese government's “Go Global” strategy and is supported by various governmental incentives, thereby enhancing their legitimacy (Luo & Tung, 2007; Witt & Lewin, 2007). Second, firms are able to acquire strategic assets that are unavailable in their home country through OFDI. Third, scholars have suggested that conducting business across provinces can also present several challenges, such as local protectionism and limited mobility of individuals, which exacerbate the costs of cross-province operations (Boisot & Meyer, 2008; Shi et al., 2017).

To provide further evidence on the cultural escapism mechanism, I conduct the following supplementary analyses. First, I examine whether firms originating from tight cultures are more likely to invest in host countries with loose cultures. I measure host country CTL using the global cultural tightness–looseness index developed by Gelfand et al. (2021), which covers 57 countries and regions. I construct a subsample which covers sample firms that have conducted OFDI activities in host countries where CTL data are available, resulting in a sample of 2797 firm-year observations with foreign subsidiaries. Next, following previous research (e.g., Crotty et al., 2016; Shi et al., 2017), I compare the cultural tightness scores of each host country with China's score. Three new dependent variables are constructed to capture the association between OFDI decisions and host country's cultural tightness: (1) *loose-culture country entry*, coded as 1 if at least one foreign subsidiary is established in a host country with a culture looser than that of China, and 0 otherwise; (2) *loose-culture country count*, calculated as the number of a firm's OFDI projects in culturally looser countries in a year; (3) *loose-culture country proportion*, measured as the ratio of the number of OFDI projects in culturally looser countries over the total number of a firm's OFDI.

The regression results are reported in Table 3. Model 1 reports the results of logit regressions, modeling the likelihood of firm entering a relatively loose market. Provincial-level cultural tightness is significantly positively associated with cultur-

Table 2 The effect of subnational cultural tightness on OFDI decision

	Model 1	Model 2	Model 3	Model 4
Firm size	0.478*** (0.019)	0.480*** (0.019)	0.479*** (0.019)	0.479*** (0.019)
Firm age	-0.476*** (0.072)	-0.475*** (0.072)	-0.476*** (0.072)	-0.474*** (0.072)
Social performance	4.509*** (0.406)	4.474*** (0.406)	4.488*** (0.406)	4.473*** (0.406)
Historical performance	-2.520*** (0.425)	-2.507*** (0.425)	-2.513*** (0.425)	-2.511*** (0.425)
Leverage	0.160 (0.123)	0.163 (0.123)	0.171 (0.123)	0.156 (0.123)
Financial slack	0.010** (0.004)	0.010** (0.004)	0.010** (0.004)	0.010** (0.004)
State ownership	-1.174*** (0.160)	-1.164*** (0.160)	-1.166*** (0.160)	-1.162*** (0.160)
R&D intensity	1.320** (0.520)	1.335** (0.520)	1.316** (0.519)	1.338** (0.521)
Foreign ownership	0.672*** (0.235)	0.675*** (0.235)	0.686*** (0.235)	0.670*** (0.236)
TMT international experience	0.231*** (0.052)	0.229*** (0.052)	0.230*** (0.052)	0.227*** (0.052)
HHI	-0.136 (0.189)	-0.135 (0.189)	-0.139 (0.189)	-0.132 (0.189)
Market size	0.134*** (0.039)	0.022 (0.053)	0.022 (0.053)	0.019 (0.053)
Economic development	0.551*** (0.081)	0.306*** (0.118)	0.288** (0.119)	0.314*** (0.118)
Economic growth	0.601 (0.509)	0.945* (0.535)	0.965* (0.536)	0.942* (0.537)
Market openness	0.005* (0.003)	0.008*** (0.003)	0.008** (0.003)	0.008*** (0.003)
Inward FDI	0.039 (0.072)	-0.023 (0.077)	-0.016 (0.077)	-0.028 (0.077)
R&D subsidy	0.160** (0.068)	0.164** (0.068)	0.894*** (0.297)	0.162** (0.068)
Technological dynamism	0.092* (0.047)	0.091* (0.047)	0.091* (0.047)	-0.277 (0.190)
Cultural tightness		0.135*** (0.048)	0.172*** (0.050)	0.100* (0.051)
Cultural tightness # R&D subsidy			-0.178** (0.071)	
Cultural tightness # Technological dynamism				0.092** (0.046)
Constant	-18.796*** (1.034)	-15.955*** (1.414)	-15.905*** (1.417)	-15.881*** (1.412)
Year fixed effect	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes
Observations	29,781	29,781	29,781	29,781

Table 2 (continued)

	Model 1	Model 2	Model 3	Model 4
Wald chi-square	1849.418	1858.649	1852.725	1875.135
Log likelihood	-8976.241	-8972.157	-8969.439	-8970.136

Robust standard errors in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

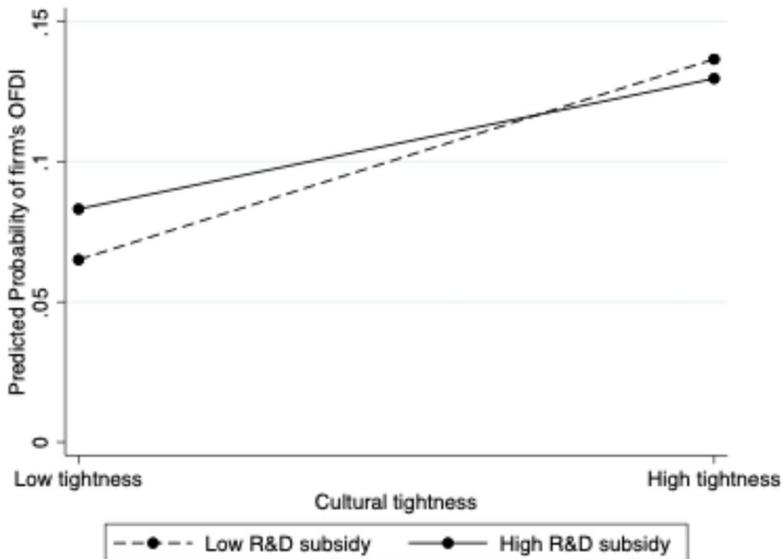


Fig. 1 Moderation effect of R&D subsidy on the relationship between cultural tightness and OFDI

ally looser host country entry ($\beta=0.291$, $p < 0.01$). Model 2 replicates the finding on the effect of provincial-level tightness with the *loose-culture country count* variable using Poisson regression ($\beta=0.158$, $p < 0.1$). Model 3 triangulates the results with Tobit Regression with the dependent variable *loose-culture country proportion* operationalized as the ratio of the number of foreign subsidiaries in culturally looser host countries to the total number of foreign subsidiaries ($\beta=0.058$, $p < 0.01$). The results of these alternative measures are highly consistent. In general, firms located in tighter regions are indeed more likely to choose foreign countries with relatively looser culture to establish their international operations. Taken together, these results provide indirect evidence for theorized mechanisms of “cultural escapism.”

Accounting for the impact of domestic expansion Firms often pursue domestic and international expansions simultaneously. Therefore, I control for the impact of domestic investment, as both international and domestic investments represent important avenues for firm growth. To capture whether a firm has invested in provinces with looser cultures than its home province, I collect information on the firm’s domestic subsidiaries from its annual reports, identify the province in which each subsidiary is located, and match each location with the corresponding CTL score. Domestic expansion is coded as the number of a firm’s domestic subsidiaries in cul-

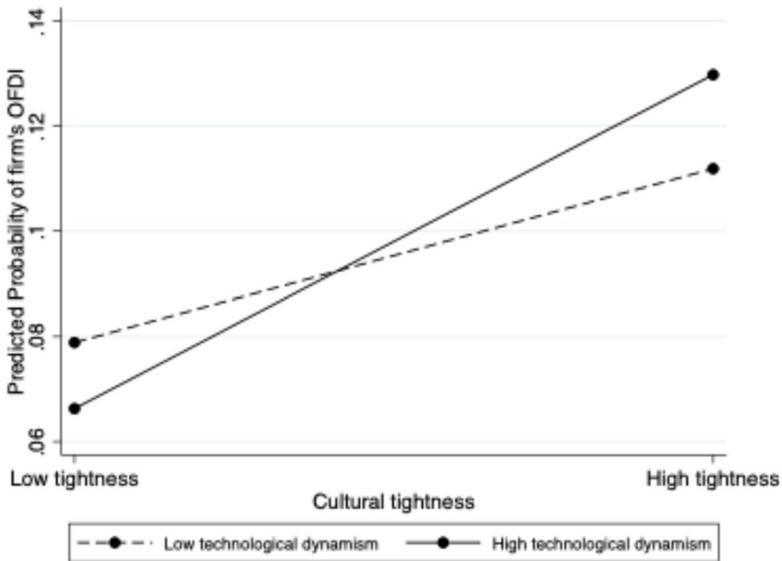


Fig. 2 Moderation effect of technological dynamism on the relationship between cultural tightness and OFDI

turally looser provinces in a given year. The results remain robust after including this control.

Testing the innovation-related mechanism of cultural tightness First, I examine whether cultural tightness contributes to an increase in OFDI with the purpose of seeking innovation and knowledge. Specifically, strategic asset-seeking OFDI aims to acquire assets in host countries that are unavailable at home, such as advanced technology, brand assets, and managerial know-how, to pursue long-term strategic objectives and enhance global competitiveness (Dunning, 1998). Consistent with Filippaios et al. (2019), which utilizes business activity information of foreign subsidiaries to differentiate FDI motivations, I identify an OFDI as strategic asset-seeking if the business activity includes R&D, patents, innovation, high-technology activities, or related activities. *Strategic asset-seeking OFDI* is coded as 1 if a firm has undertaken strategic asset-seeking OFDI in a year, and 0 otherwise. As shown in Table 4, the results remain highly robust, suggesting that tight culture is likely to motivate firms to conduct OFDI to secure strategic assets in overseas market.

Second, I examine whether the effect of cultural tightness on OFDI is contingent on the level of R&D investment in a region, measured as provincial expenditure on R&D over the local GDP. R&D investment plays a crucial role in fostering the technological capabilities of firms, enabling them to overcome innovation constraints imposed by informal institutions. Therefore, firms located in regions with higher levels of R&D investment tend to be less responsive to cultural tightness. Consistent with the influence of firm-level R&D subsidies, the interaction term between pro-

Table 3 The effect of subnational cultural tightness on host country choice

	Model 1	Model 2	Model 3
Predictor variables	DV: Loose-culture country entry	DV: Loose-culture country count	DV: Loose-culture country proportion
Firm size	0.050 (0.041)	0.114*** (0.015)	-0.007 (0.008)
Firm age	0.259* (0.148)	0.324*** (0.059)	0.043 (0.029)
Social performance	1.217 (0.958)	0.712* (0.365)	0.013 (0.186)
Historical performance	-0.909 (1.028)	-0.701* (0.406)	-0.139 (0.205)
Leverage	-0.442 (0.331)	0.022 (0.115)	-0.207*** (0.059)
Financial slack	0.045** (0.019)	0.008** (0.004)	0.003 (0.002)
State ownership	0.529 (0.410)	0.152 (0.144)	0.133* (0.073)
R&D intensity	-3.036 (3.633)	-9.178*** (2.451)	-0.854 (0.752)
Foreign ownership	0.314 (0.523)	-0.142 (0.214)	0.056 (0.101)
TMT international experience	0.088 (0.103)	-0.032 (0.044)	0.004 (0.021)
HHI	0.465 (0.387)	0.206 (0.144)	0.132* (0.077)
Market size	-0.275** (0.119)	-0.205*** (0.045)	-0.055** (0.024)
Economic development	-0.564** (0.263)	-0.284*** (0.100)	-0.119** (0.052)
Economic growth	2.430** (1.166)	0.218 (0.478)	0.577** (0.240)
Market openness	-0.007 (0.007)	0.017*** (0.003)	-0.002 (0.001)
Inward FDI	-0.312* (0.170)	-0.078 (0.064)	-0.071** (0.033)
R&D subsidy	0.262* (0.158)	0.146*** (0.043)	0.038 (0.027)
Technological dynamism	0.147 (0.101)	0.044 (0.039)	0.014 (0.020)
Cultural tightness	0.291*** (0.100)	0.158*** (0.040)	0.058*** (0.020)
Constant	5.412* (3.124)	0.327 (1.197)	2.016*** (0.624)
Year fixed effect	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes
Observations	2797	2800	2800

Table 3 (continued)

	Model 1	Model 2	Model 3
Wald chi-square	137.710	441.565	194.988
Log likelihood	-1659.654	-5243.094	-1638.535

Robust standard errors in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

vincial-level R&D investment and cultural tightness is negative and significant ($\beta = -1.525$, $p < 0.01$).

Using alternative measure of technological dynamism High-technology industries are typically characterized by rapid technological changes, fast innovation cycles, frequent product obsolescence, and continuously evolving competitive standards, whereas non-technology sectors operate in relatively stable environments with slower innovation trajectories. Therefore, I employ high-tech firms as an alternative moderator, using a dummy variable that takes the value of 1 if a firm operates in a high-tech industry and 0 otherwise. Consistent with the moderating effect of technological dynamism, the effect of cultural tightness on outward FDI is more salient for firms in high-tech industries.

Using alternative measures of OFDI I examine whether the results are sensitive to different measures of OFDI. I operationalize a firm's OFDI using two alternative dependent variables: (1) the count of foreign subsidiaries established by the firm in a given year and (2) the natural logarithm of registered capital of subsidiaries (Oh & Oetzel, 2011). The results are consistent with those reported in Table 2.

5 Discussion

This study proposes a cultural escapism framework to examine the impact of within-country cultural heterogeneity, specifically cultural tightness, on international expansion. Cultural tightness might set obstacles to firms' innovation and flexibility to maintain competitiveness, thereby motivating them to diversify their business and adopt an OFDI strategy as a form of escape to such constraints. Furthermore, this study examines that the effect of cultural tightness on international expansion is contingent on government R&D subsidy and industry technological dynamism.

This study offers several theoretical contributions. First, this study contributes to the research on culture in IB. Despite the extensive studies on the effect of cultural distance between host and home countries (Kogut & Singh, 1988; Lee et al., 2020), the influence of home country culture on a firm's international expansion remains relatively underexplored (White et al., 2013). This study treats home-country culture not merely as a background condition and elucidates how deeply embedded normative pressures act as a constraint that systematically shapes firms' strategic flexibility and propensity to engage in global expansion. In addition, the assumption of cultural homogeneity has been challenged, as cultural dimensions can vary significantly within national boundaries (Tung, 2008). This study echoes recent call for research

Table 4 The effect of subnational cultural tightness on strategic asset-seeking OFDI

	Model 1	Model 2	Model 3	Model 4
Firm size	0.486*** (0.020)	0.487*** (0.020)	0.486*** (0.020)	0.486*** (0.020)
Firm age	-0.149** (0.072)	-0.147** (0.072)	-0.145** (0.072)	-0.146** (0.072)
Social performance	1.783*** (0.405)	1.756*** (0.404)	1.759*** (0.405)	1.760*** (0.404)
Historical performance	-1.598*** (0.397)	-1.580*** (0.396)	-1.576*** (0.397)	-1.583*** (0.396)
Leverage	0.356*** (0.122)	0.359*** (0.122)	0.370*** (0.123)	0.353*** (0.123)
Financial slack	0.009** (0.005)	0.009** (0.005)	0.010** (0.005)	0.009* (0.005)
State ownership	-0.555*** (0.165)	-0.543*** (0.165)	-0.545*** (0.165)	-0.543*** (0.165)
R&D intensity	1.236* (0.724)	1.253* (0.734)	1.191* (0.684)	1.255* (0.724)
Foreign ownership	0.702*** (0.233)	0.704*** (0.233)	0.721*** (0.233)	0.700*** (0.233)
TMT international experience	0.100* (0.059)	0.099* (0.059)	0.100* (0.059)	0.095 (0.058)
HHI	-0.611*** (0.202)	-0.610*** (0.202)	-0.621*** (0.203)	-0.611*** (0.202)
Market size	0.127*** (0.040)	0.042 (0.058)	0.044 (0.059)	0.039 (0.058)
Economic development	0.755*** (0.085)	0.572*** (0.128)	0.540*** (0.128)	0.583*** (0.128)
Economic growth	-0.589 (0.417)	-0.365 (0.439)	-0.322 (0.443)	-0.383 (0.440)
Market openness	0.013*** (0.003)	0.016*** (0.003)	0.016*** (0.003)	0.016*** (0.003)
Inward FDI	-0.047 (0.073)	-0.094 (0.077)	-0.079 (0.076)	-0.098 (0.077)
R&D subsidy	0.467*** (0.075)	0.471*** (0.076)	1.535*** (0.276)	0.470*** (0.076)
Technological dynamism	0.180*** (0.044)	0.180*** (0.044)	0.179*** (0.044)	-0.209 (0.189)
Cultural tightness		0.101** (0.052)	0.169*** (0.054)	0.056 (0.056)
Cultural tightness # R&D subsidy			-0.261*** (0.067)	
Cultural tightness # Technological dynamism				0.098** (0.046)
Constant	-23.083*** (1.132)	-20.935*** (1.566)	-20.876*** (1.573)	-20.832*** (1.564)
Year fixed effect	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes
Observations	28,686	28,686	28,686	28,686

Table 4 (continued)

	Model 1	Model 2	Model 3	Model 4
Wald chi-square	1940.687	1949.450	1950.670	1968.388
Log likelihood	-8643.208	-8641.012	-8634.023	-8638.738

Robust standard errors in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

on within-country cultural heterogeneity by investigating the impact of culture at more detailed subnational level (Donnelly & Manolova, 2020; Hutzschenreuter et al., 2020; Miao et al., 2016).

Second, this study contributes to the CTL theory that has been increasingly shown to have implications for organizational outcomes (Li & Gelfand, 2022; Shin et al., 2017). While research across disciplines, including anthropology (Pelto, 1968), psychology (Gelfand et al., 2011), economics (Eun et al., 2015), and sociology (Jan Piskorski & Gorbatâi, 2017), has established the powerful impact of CTL on shaping activity and functionality within societies (Jackson et al., 2020), research on CTL within the IB field remains relatively limited, despite culture being a core construct for explaining internationalization strategy (Hofstede, 1980). In addition, existing studies on CTL theory, investigating how transaction costs and economic performance are affected, often implicitly assume that firms cannot actively respond to these normative pressures. This research highlights firm agency by showing how firms use internationalization activities as strategic responses when the cultural norms do not align with their needs. In doing so, it also demonstrates the applicability of the CTL framework as a valuable perspective in IB research.

Third, this study extends the escapism view by developing a cultural escapism perspective. Institutional escapism perspective offers a powerful lens for understanding internationalization; however, previous research on escapism predominately focuses on the influence of formal institutions (Gan & Qiu, 2019; Gaur et al., 2018). In the context of emerging markets whereby formal institutions are often underdeveloped, informal institutions have been playing a key role (Li et al., 2019). This study complements the research on institutional escapism with an emphasis on informal institutions (Gelfand et al., 2011; Luo & Tung, 2007; Oliver, 1991). Tight culture may create a misalignment between business environments in which firms are embedded and their organizational needs, prompting firms to adopt an escape response by investing abroad. The boundary conditions of R&D subsidies reflect the local innovation resources available to firms, and technological dynamism, which determines the desirability for change, further helps illustrate the theorized mechanism.

In the supplementary analyses, I further unpack the cultural escapism mechanism by considering the *direction* of cultural distance, distinguishing between expansion toward looser versus tighter cultural environments. The results reveal that firms originating from tighter cultural contexts are more likely to expand into countries characterized by relatively looser cultures. Whereas traditional research often treats cultural distance as a symmetric construct capturing similarity versus dissimilarity, this directional perspective provides a more nuanced understanding of how firms leverage

cross-cultural variation, recognizing that cultural differences may have asymmetric implications for firm behavior (Shenkar, 2001).

The findings also have implications for practice. First, this study provides insights for policymakers by highlighting the importance of considering cultural characteristics in the design of policies aimed at enhancing local business innovativeness and attracting investors. For example, policies intended to improve the business environment may be effective in regions with loose cultures but less so in regions with tight cultures. For international business practitioners, the results help interpret and understand how culture shapes firms' international strategies and emphasize the importance of being mindful of both formal and informal institutions. Finally, the findings caution organizations to recognize the constraints imposed by cultural tightness while also highlighting how firms can leverage external resources to overcome the challenges associated with tight cultures.

This study has several limitations that open up opportunities for future research. First, firms' OFDI decision-making is shaped by a constellation of internal and external influences. Accordingly, additional determinants and boundary conditions warrant further exploration. Externally, it would be valuable to investigate the specific conditions under which firms originating from culturally loose regions engage in international expansion. Such contexts, characterized by greater tolerance for ambiguity, weaker normative constraints, and higher individual autonomy, may cultivate distinct strategic orientations and risk-taking behaviors. Internally, factors such as managerial capabilities, organizational structure, and executive characteristics also interact with cultural tightness to influence firm outcomes. An important avenue for future research concerns the interplay between CEO ethnicity and cultural tightness, which the present analysis is unable to examine. CEO ethnicity may shape how top executives interpret external normative pressures, potentially amplifying or attenuating the influence of regional cultural norms (Li et al., 2019).

Second, the cultural tightness index, derived from computer-based survey platforms as noted by Chua et al. (2019), may introduce certain biases. For instance, these platforms could lead to sample selection bias, as they may exclude certain populations. Third, recent studies have started to explore a dynamic view of culture (Beugelsdijk & Welzel, 2018). Future research could examine the influence of cultural tightness dynamics over time. Additionally, further research could explore how the relationship between culture and OFDI has evolved in light of the shifting geopolitical landscape, characterized by rising protectionism, trade tensions, and the reorientation of global economic power.

Acknowledgements The author thanks the editor, Dr. Michael-Jörg Oesterle, and three anonymous reviewers for their insightful comments. The author would also like to thank Dr. Mengzi Jin and Roy Chua, particularly for their seminal work on cultural tightness in the Chinese context and for their insightful comments and suggestions on this research.

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