The influence of institutional quality on the economic environment has been long acknowledged by researchers, notably as a main driver of Foreign Direct Investment (FDI). Despite the abundant literature, the majority of papers analyze advanced and emerging economies either separately or without making a distinction between them. Unfortunately, it is not yet fully understood how the influence of institutional quality varies across contexts. In particular, the idiosyncrasy of emerging economies—typically characterized by institutional voids, higher corruption and political risk, and lower financial development but also by recent higher economic growth—makes these countries likely to differ from advanced economies.

This Special Issue contains a collection of 14 papers dealing with several topics related to these themes. The authors of these contributions expand the existing literature in this field by offering new insights and future perspectives about the differences in the relationship between FDI and institutional quality in these two different contexts, and the potential repercussions in terms of sustainability for the countries.

In the first contribution, Oh and Ryu analyze the critical determinants that prevent corruption in multinational firms’ subsidiaries. Drawing on institutional theory, the authors review the determinants of bribery and also analyze their different impact on old versus young subsidiaries. Empirically, they collect data from a questionnaire survey in China and obtain evidence of the relevance of a cognitive pillar to minimize bribery practice, enhance institutional quality, and achieve sustainable development in emerging economies. By doing so, the authors offer useful implications for practitioners planning to conduct operations in China and for policymakers aiming to enhance their institutional environments.

In the second contribution, Zhou, Han, and Gou focus on the impact of family ownership and management on the internationalization of family firms from China. In particular, they are interested in the potential moderating effects of environmental munificence, institutional environment, and political ties. Building on a questionnaire survey and sample made of 274 family firms, the authors empirically demonstrate that both the depth and breadth of internationalization are positively influenced by family ownership and management. Additionally, family ownership and management have weaker effects on the depth of internationalization when environmental munificence is higher. Similarly, family management has a weaker effect on the breadth of internationalization when environmental munificence is higher, but a stronger one on the depth of internationalization. Moreover, the authors also find that the institutional environment strengthens the effects of family management on the depth and breadth of internationalization and that political ties weaken the effect of family management on the depth of internationalization but strengthen the effect of family ownership on the breadth of internationalization.

In the third contribution, Fernández González, Arce Fariña, and Garza Gil provide an in-depth case analysis of the nationalization case of YPF from the Argentinian government
in 2012 from the Spanish firm Repsol. This decision affected the reputation of the country as a destination of foreign investments, forcing the Argentinian government to reach a settlement agreement rather than offering no compensation. In this paper, the authors provide an institutional economic analysis of the case, the Argentine government’s decision, its impact on both the FDI and the credibility of the country’s institutional framework, and the resolution of the conflict through an agreement that aimed to avoid a costly judicial process.

In the fourth contribution, Pan, Wei, Muralidharan, Liao, and Andreosso-O’Callaghan study how China’s outward foreign direct investment affects the institutional quality of countries in the Belt and Road. Building on panel data statistical techniques, they analyze a sample of 63 countries from 2003 to 2016 and find a positive effect of Chinese investments on institutional quality, both in the short and in the long term. The authors also show that Chinese outward foreign direct investment can attenuate the effects of the “resource curse” as it helps improve institutional dimensions of “regulatory quality” and “rule of law” in countries with different natural resource endowments. By doing so, the paper contributes to the literature by showing the mechanisms of how foreign investments may contribute to sustainable development.

In the fifth contribution, Zhong, Sun, Zhou and Lee analyze how different ownership structures affect business strategy and cost stickiness. Drawing on an empirical analysis of firms from arguably the most important emerging economy, China, from 2002 to 2015, the authors find that, first, firms with different strategies exhibit different cost behaviors so that the cost stickiness of choosing a differentiation strategy is higher than that of choosing a low-cost strategy. Second, management expectations will affect cost stickiness so that optimistic expectations increase cost stickiness, while pessimistic expectations reduce cost stickiness. Finally, management expectations can adjust the relationship between business strategy and cost stickiness in terms of government-created advantages.

In the sixth contribution, Ma, Tang, Wang, and Gao focus on the role of risk culture as a critical determinant of FDI and multinational enterprises. Drawing on interviews with managers working in the Chinese international joint venture (IJV) securities, their results underscore the importance of risk culture in China compared to other developed economies. Risk culture also has a pivotal role in the adaptation to the Chinese capital market environment and performance. Finally, in addition to addressing the importance of risk culture, the authors also analyze the impact of risk culture differences between foreign and local shareholders, which are found to have a negative association with performance and efficiency.

In the seventh contribution, Repkine and Min identify economic factors affecting environmental efficiency scores in different regions of China from a spatial econometric perspective. They measure environmental efficiency scores relative to the theoretically consistent production possibilities estimated according to a novel iterative methodology. They find that environmental efficiency scores are negatively affected by the prevalence of the heavy industry sector in the economy, with a higher share of coal as a source of energy, exacerbating the problem. They also find evidence that strongly support the pollution halo hypothesis, which credits foreign-funded enterprises with production taking place in a more environmentally friendly way. Surprisingly, they find a negative association between the share of tertiary sectors in a regional economy and environmental efficiency—emphasizing the need to address the indirect effects inflicted upon the environment by the seemingly innocuous sectors.

In the eighth contribution, Wu, Bo, Wan, Ji, Chen, and Zhang investigate the impact of organization institutional inertia and host-country institutional quality on the choice of the IJV of Chinese manufacturing firms, as well as the effect and potential problems of the IJV choice on the firms’ innovation performances under institutional duality, based on the sample of listed Chinese manufacturing companies “going out” from 2003 to 2015. The main results of their empirical analyses provide evidence that the response to institutional duality means that Chinese firms have the possibility to choose IJV in entry modes ahead
of their capability support, and subject to insufficient professional field accumulation, cross-cultural management and joint governance capability, this premature choice of IJV actually hinders their innovation efficiency.

In the ninth contribution, Jung discuss that while many important links between institutional quality and FDI inflows and/or between inward FDI and economic development through productivity growth have been uncovered, the full links between emerging and advanced economies are not yet well understood. His paper develops a model of FDI with an explicit distinction between the two economies where domestic and multinational firms using different technologies compete on the final good market and highlights the institutional quality–FDI–productivity link within a unified theoretical general equilibrium framework.

In the tenth contribution, Song, Deng, Liu, and Peng revisit the appeal of emerging markets for FDI, despite the presence of comparative disadvantages. In particular, they focus on a type of place-based policy in China that provides a favorable institutional environment through the analysis of Special Economic Zones (SEZs). Using an extensive dataset of SEZs, the authors find that foreign entry is enhanced through the establishment of SEZs, and that institutional quality improvement of these is a key mechanism in the location of foreign investment.

In the eleventh contribution, Kim and Choi analyze the links between technology trade and institutional quality and their impact on inward FDI. Using a panel of 35 OECD countries, the authors find a U-shape relationship between net technological capability of a host country and its inward FDI. They also explore the diverse contingencies by moderating institutional quality measures, including size of government, legal structure and security of property rights, access to sound money and credit regulation, as well as labor and business. The former two negatively moderate the mentioned U-shape relationship, while the latter two are positive moderators.

In the twelfth contribution, Buitrago and Barbosa Camargo study the institutional determinants of outward Foreign Direct Investment (OFDI). Using factor analysis, the authors find six institutional factors that are key in OFDI flows: government transparency; research and development and innovation (R&D+i); inequality; rules for inward FDI; education and training; and the financial market. Furthermore, the authors find significant positive effects of R&D+i and government transparency, while financial markets have a significant negative impact.

In the thirteenth contribution, Silva, Ordeñana, Vera-Gilces, and Jiménez examine the role of institutional quality, financial development and FDI on current account balances in the context of a financial crisis. The authors estimate the current account determinants, incorporating three clustered indices of institutional quality, financial development proxies and FDI level. Silva et al. also considered a relative measure of financial crises and its interaction with openness. The results highlight the importance of institutional quality in explaining current account dynamics, particularly those representing economic and legal institutions.

In the fourteenth contribution, He, Pei, Lin, and Ye explore the relationship among marketing capabilities, market-based innovation and innovation performance, using firm-level data in China. The authors find that ambidextrous marketing capabilities can enhance innovation performance significantly, with ambidextrous market-based innovation playing a partial mediating role in this relationship. In particular, the authors find that marketing exploration capabilities affect innovation performance through the partial mediating role of exploratory market-based innovation, whereas marketing exploitation capabilities affect innovation performance through the partial mediating role of exploitative market-based innovation.

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