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RESEARCH INSIGHTS

"DODGING EXPROPRIATION? THE ROLE OF CASH HOLDINGS AS A FIRM-LEVEL DRIVER OF RISKY FDI LOCATION CHOICES"

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EXECUTIVE SUMMARY

Corruption is a significant barrier to foreign direct investment (FDI). While many multinational enterprises (MNEs) avoid investing in highly corrupt countries due to risks of expropriation, some still choose to enter these markets. This study examines the relationship between corporate cash holdings and investment decisions in corrupt environments. Findings reveal that firms with higher cash reserves are less likely to invest in corrupt countries, as liquid assets increase their exposure to financial risks. Strong corporate governance further reduces a firm's willingness to enter such markets. Effective anti-corruption measures and transparent legal frameworks can enhance investor confidence, encouraging economic growth and stability. Countries that reduce corruption attract more FDI and create a more predictable investment environment.



KEYWORDS

- Corruption
- Expropriation
- Foreign Direct Investment (FDI) Location
- Cash Holdings
- Corporate Governance
- Investment Risks
- Multinational Enterprises

RESEARCH RELEVANCE

- Corruption discourages investment by increasing financial risk, emphasizing the need for strong governance and policy interventions.
- Governments should implement stronger anti-corruption frameworks and improve institutional transparency to foster a more investment-friendly environment.
- Firms should assess corruption risks before entering foreign markets and consider governance mechanisms to safeguard their assets.
- Firms with strong governance structures are better equipped to navigate corruption risks and should enhance their internal controls when operating in high-risk regions.

BIBLIOGRAPHIC INFORMATION

King, T., Loncan, T., Khan, Z. (2025). Dodging Expropriation? The Role of Cash Holdings as a Firm-Level Driver of Risky FDI Location Choices.

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"Cash-rich firms with strong governance are particularly cautious about investing in corrupt countries, a trend which becomes more significant by the Trump administration's recent pause on enforcing overseas bribery laws".

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