THE EFFECT OF INSTITUTIONS AND FAILURE-BASED LEARNING ON ENTRY MODE CHOICE

By

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Abstract

This study investigates the role of learning from failures and how learning from failure of others shapes the entry mode choice of subsequent entrants – a choice between joint venture (JV) and wholly owned subsidiary (WOS). A review of the entry modes and institutional perspective literature has revealed that research to date has focused on the effect of successes rather than failures. While it recognises the effect of other firms' entry mode on the entry mode decisions of subsequent entrants, it has overlooked the influence of failures' on entry mode. It is important to investigate the effect of failure of other firms since it has been recognised by organisational learning scholars as a valuable source of information for firms to improve their performance, decrease their uncertainty and consequently influences their actions.

Therefore, the present research applies institutional and organisational learning perspectives as the underpinning theories to examine how the failure of others determines the entry mode choice of a firm. Further investigation was carried out on how a firm's entry mode decision in response to regulative and normative institutions might be asymmetric. Additionally, firms' responses to institutional dimensions were analysed further by investigating how they would change with experience in the host country and in other foreign countries.

This study applied a quantitative approach to answer these questions in the context of China. The data for this study consists of 1021 observations invested by 622 foreign firms from 2003 to 2012. Through a logistic regression analysis, this study found that the failure of prior entrants with JV structure increases a new entrant's tendency to choose JV over WOS. Moreover, regulative distance negatively influences the choice of JV whereas the effect of normative distance was found to be positive. Regarding the effect of experience, host country experience was found to be an influential factor that mitigates the effect of regulative and normative distance on the entry mode choice.

The findings of the present research contribute to both institutional and entry mode literature by demonstrating that firms make their entry mode decisions based on information inferred from prior entrants' failures. This research also contributes to organisational learning literature by showing that responses to failures are not merely avoidance-based, but rather based on the firm's evaluation of the cause of failure.

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Chapter 1: Introduction

1.1 Research background

Over the last two decades, there has been a growing interest in institutional theory among international business (IB) scholars. This legitimacy-driven theoretical perspective has been adopted from sociology to explain firms' nonefficiency-driven strategies. The institutional perspective asserts that firms operate in a social and normative context to which they need to conform to achieve legitimacy (D'Aunno, Sutton, & Price, 1991; Galaskiewicz, 1985). When entering a foreign country, firms face institutional pressures imposed by three forces in the host country: regulative, normative and cognitive institutions (DiMaggio & Powell, 1983; Scott, 2001). Studies that applied institutional theory in the IB field posit that firms need to choose a strategy that mitigates the institutional pressures of the host country and gives them legitimacy (Ang, Benischke, & Doh, 2015; Chan & Makino, 2007; Yiu & Makino, 2002).

While these studies contribute greatly to our understanding of the institutional effects, evidence from organisational learning and transaction cost studies suggest that they have two main deficits. The first is the absence of failures in the large and growing body of literature on cognitive institutions, while the existing research in the organisational learning field clearly recognises the critical role played by failures in a firm's base of knowledge. Hence, drawing from organisational learning theory, this research tends to extend institutional theory by answering how failure of a strategy chosen by an incumbent would influence the tendency of subsequent entrants to choose the same strategy. The second deficit is the over-emphasis on legitimacy-seeking motives, while the concern for survival might be efficiency related. Drawing from transaction cost theory, this research intends to extend institutional theory by explaining how the combination of legitimacy-seeking and self-interest motives reflect in a firm's response to regulative and normative institutions.

To conform with cognitive institutions, the literature demonstrated that firms turn to other firms' behaviour and follow the prevalent strategy chosen by prior entrants in the host country that matches the most acceptable pattern defined by institutions (Ozmel, Reuer, & Wu, 2017; Wu & Salomon, 2015; Xia, Tan, & Tan, 2008). They posit that firms infer information from observing other firms' behaviour that reduces risks and uncertainties that

are associated with unfamiliarity with the host country social framework (Delios, Gaur, & Makino, 2008; Rhee, Kim, & Han, 2006). As valuable as the findings of prior studies are, they are mostly limited to the effect of successful firms.

Failure of foreign operations have been ignored in the existing IB literature despite its frequent occurrence across various industries and countries. For example, the history of foreign direct investment (FDI) is riddled with the failure of renowned multinational firms in China. Yet, this lucrative but challenging country has maintained its position as the second largest foreign investment recipient in the world. For instance, French food company Danone formed a 51/49 joint venture with Wahaha Group in China, a fairly standard cooperation based on integrating capital, technology and local knowledge. However, Danone ended up selling its share of the venture to Wahaha and exited China in 2009 after 10 years of successful partnership. While Danone is not an isolated incident and plenty of firms face a similar fate, the topic of failures has received little attention particularly in the context of China. The abundance of these incidents and the lack of research in this field raise the question that if a firm decides to expand its operation to China today, how would such occurrences influence the entry mode choice of a subsequent entrant? Would it encourage or discourage the firm to choose a joint venture?

The first serious discussion on the effect of unsuccessful firms emerged among institutional scholars during the 1990s when outcome-based imitation was introduced. While the role of extreme negative outcomes – failures – is still overlooked, there is a small number of studies that has investigated the effect of negative outcomes such as weak performance (e.g. Haunschild & Miner, 1997; Haveman, 1993; Lu, 2002). These studies have generally concluded that firms are less likely to follow decisions that produce a less successful outcome. These studies compared target firms based on the level of success. They defined less successful firms as those with a performance weaker than others, however, their performance might be profitable and satisfactory overall. So, less successful firms are not necessarily failures in these studies. Failures are firms that have terminated their operation and ceased to exist. As such, by focusing on success as a relative term these studies overlooked failures as an outcome. Further, these studies composed their sample out of existing firms that have survived, but they disregarded firms that ceased to exist. It is important to study the influence of failures and survivors separately because the learning process differs across these two samples. Learning from survivors as theorised in outcome-

based imitation studies is a blind adaptation of others' successful actions and might lead to a competency trap. On the other hand, failures encourage firms to evaluate the failed firm and condition under which failure happened in a search for potential issues and a better solution to avoid a similar outcome (Madsen & Desai, 2010; Miner, Kim, Holzinger, & Haunschild, 1999).

Organisational learning researchers have long addressed the role of failures by asserting that firms learn from both survivors and failures (Cyert & March, 1963; Levitt & March, 1988). They have investigated observational learning and learning from others and like institutional theorists, they introduced imitation as a mechanism through which firms attempt to learn by observing other firms (Chandler & Hwang, 2015; Miner et al., 1999). They examined and confirmed the effect of learning from failures in various contexts not only at inter-organisational level (Baum & Ingram, 1998; Kim & Miner, 2007), but also within a firm (Khanna, Guler, & Nerkar, 2016; Yu, Chen, & Nguyen, 2014) and across individuals (Bledow, Carette, Kuhnel, & Bister, 2017; Deichmann & Ende, 2014). These studies have shown how failures influence survival chance and performance, however, little is known about the role of failures in foreign investment strategy when legitimacy is a concern.

Drawing from organisational learning theory, this study addresses the gap in institutional studies and IB by showing why failures, similar to survivors, should be a part of cognitive institutions, and how they affect firms' entry mode choice. This research builds its argument based on the assumption that firms learn from failures. Although observing the learning effect of failures in a firm's decision might be challenging, it is visible in its positive effect on performance which has been demonstrated in a number of organisational learning studies (Baum & Dahlin, 2007; Kim & Miner, 2007; Yang, Li, & Delios, 2015). Hence, like survivors, failures of other firms are a rich source of information for firms to learn about the environment and strategy. Therefore, this research suggests that the conclusion firms make on the failure of a strategy depends on whom they attribute the cause of failure to, the outlook of the market and the appropriateness of the alternative choice.

Foreign market entry strategies are distributed across a broad continuum ranging from non-equity modes to fully owned greenfields (Ang et al., 2015; Chen, 2008; Gulati & Singh, 1998; Hennart & Park, 1993; Oxley, 1997). This study focuses on the entry mode choice, the choice between a joint venture (JV) and a wholly owned subsidiary (WOS). This choice has

always been a challenging decision for foreign investors as the JV mode has been found to have a high rate of failure, around 30 to 70 percent (Inkpen & Beamish, 1997; Kogut, 1989). Yet still, it is one of the common investment strategies as both JV and WOS provide firms with benefits while also exposing them to certain costs (Chang, Chung, & Moon, 2013b; Gaur & Lu, 2007; Hennart & Larimo, 1998; Pan & Chi, 1999). A WOS demonstrates more flexibility in response to environmental changes due to centralized decision making, and it is less prone to opportunistic behaviour because it has more control over operations (Chung & Beamish, 2005; Hill, Hwang, & Kim, 1990). The cooperative nature of joint ventures facilitates firms' access to local resources and distribution networks, provides faster market entry and reduces resource commitment (Agarwal, 1994; Anderson & Gatignon, 1986; Hennart, 1988; Luo, 2002). However, it creates an inefficient internal governance which leads to higher coordination cost and increased opportunistic behaviour (Belderbos & Zou, 2007; Luo, 2007). In sum, this research intends to investigate the effect of entry mode failure on the choices of subsequent entrants. In doing so, it aims to find out how the failure of an entry mode influences its future applications.

A substantial number of studies have investigated how firms balance the benefits and costs associated with the choice of JV over WOS (Brouthers, 2002; Chang & Rosenzweig, 2001; Demirbag, Glaister, & Tatoglu, 2007). Often, however, their theoretical perspective such as transaction cost theory is mainly efficiency-driven. These studies investigated firms' entry mode choices in response to environmental uncertainties and found that firms opt for an entry mode that offers more efficiency and minimizes costs. For instance, in the face of environmental uncertainties such as political risks and economic instability, firms are more likely to choose JV to avoid high resource commitment (Anderson & Gatignon, 1986; Chari & Chang, 2009). Some researchers, however, have challenged the outcome of choosing an entry mode based on efficiency-driven perspectives. They found that the choice formed by these perspectives leads to weaker non-financial performance (Kim & Gray, 2008). Therefore, IB researchers have applied the institutional perspective, a legitimacy-driven framework, to explain non-financial motivations in firms' entry mode choice (Cui & Jiang, 2012; Yiu & Makino, 2002).

To conform to regulative and normative institutions, firms need to identify and understand rules and norms of the country and choose their entry mode accordingly (Chari & Chang, 2009; Delios & Beamish, 1999). The process of conformity and legitimacy

achievement is hampered by unfamiliarity with the host country, for the difficulty to understand institutions increases with the distance between home and host country institutions (Hernández & Nieto, 2015; Powell & Rhee, 2013). These works overemphasized the role of legitimacy and failed to address other influential factors such as the desire for economic efficiency. This notion is supported in theoretical papers that challenge underlying assumptions of institutional theory by proposing to consider both legitimacy and self-interest as determinant factors influencing firms' behaviour (Oliver, 1991, 1997).

In addition to theoretical arguments, contradictory findings in empirical papers are further evidence that suggests a re-examination of the assumptions of institutional theory is necessary. Some studies suggested JV as the appropriate choice in response to high normative and regulative distance for it gives firms access to local resources and decreases the liability of foreignness (Demirbag et al., 2007; Yiu & Makino, 2002). On the other hand, other scholars found the strong control mechanisms of WOS to be more valuable in response to high institutional distance as it protects firms against weak enforcement of law and opportunistic behaviours (Chung & Beamish, 2005; Dikova & van Witteloostuijn, 2007).

So far, very little attention has been paid to the simultaneous presence of legitimacy and self-interest motivations. A limited number of studies have addressed this argument in the context of the direction the institutional distance (Hernández & Nieto, 2015). By focusing on the direction of the institutional distance, they suggested that a firm chooses a lower level of ownership in response to negative institutional distance. This choice is motivated by the firm's concerns about legitimacy rather than efficiency as it faces more difficulty in confirming with weak and poorly established institutions. But, these studies made the comparison between two directions of one institutional distance, either regulative or normative. So, these studies do not investigate how the presence of legitimacy and efficiency motives influence a firm's response to regulative institutions as compared with normative institutions. Few prior studies found support for the concurrent role of legitimacy seeking and self-interest in firms' responses to regulative and normative institutions (Ionascu, Meyer, & Estrin, 2004; Meschi, Phan, & Wassmer, 2016; Zhang, Zhong, Wen, & Jiang, 2014a). What is not yet clear is the concurrent impact of both motivations on the choice between JV and WOS. Present research addresses this gap by arguing that when both factors are considered, a firm's entry mode choice varies in response to regulative and normative distance depending on the primary source of concern for survival. The source of concern differs in the face of

regulative and normative distance because of their inherent difference such as the difficulty of obtaining information and the degree of potential opportunistic and expropriation hazards.

As firms' response to institutional dimensions evolve around dealing with uncertainties, it is expected to change with the level of a firm's experience. Firm experience is categorised into three main groups based on the source of experience: international experience, host country experience and home country experience. Extensive studies have been carried out on the direct and moderating effect of international experience on firms' market entry strategies (Anderson & Gatignon, 1986; Buckley, Elia, & Kafouros, 2014; Chetty, Eriksson, & Lindbergh, 2006) and particularly entry mode choice (Guillén, 2003; Jung, Beamish, & Goerzen, 2010; Powell & Rhee, 2013). However, a few studies examined this boundary condition on institutional dimensions (Dikova, Sahib, & van Witteloostuijn, 2010; Garcia-Canal & Guillén, 2008; Lu, 2002).

While these studies have contributed to our understanding of the effect of international experience, their findings were inconclusive on whether international experience weakens the effect of institutional factors. A group of researchers borrowed the notion of absorptive capacity from Cohen and Levinthal (1990) and have concluded that international experience is not transferable to a new country because similar related knowledge is critical to enable learning (Barkema & Schijven, 2008; Perkins, 2014). They posit that the experience a firm accumulates in a particular country is specific to that business environment as it encompasses information such as how to identify and establish a relationship with suppliers, customers and other stakeholders, and how to manage and recruit local employees.

On the other hand, other studies suggests that international experience decreases firms' dependence on local partner knowledge as it helps them to develop routines and procedures on how to operate in a foreign country (Slangen & Hennart, 2008; Wu & Salomon, 2015). They posit that firms with international experience have the knowledge to recognize what information is useful and where to find it (Chetty et al., 2006). The effect of international experience in this stream of research has also been justified by the importance of relevant learning and the notion of absorptive capacity. In addition to relevance, absorptive capacity also enhances the diversity of the existing knowledge (Cohen & Levinthal, 1990). Diverse international experience increases firms' absorptive capacity by increasing the chance of finding related information in the existing pool of knowledge. Therefore, some researchers have concluded that both intensity and diversity of international experience are

important in developing a firm's knowledge (Brouthers, Brouthers, & Werner, 2007, 2008; Luo & Peng, 1999). Extending this line of research, the present study intends to investigate the combined effect of intensity and diversity of international experience on a firm's entry mode choice in response to institutions.

With respect to host country experience, although its effect is congruent with the argument of learning from related experience, the findings are not consistent regarding the choice of JV. Some researchers found that host country experience decreases firms' reliance on the local partner and reduces the probability of choosing JV (Luo, 2001). However, others showed that the capabilities a firm develops in a host country regarding how to cooperate with a local partner and maintain the relationship mitigate its uncertainty perception in running a cooperative operation (Chang & Rosenzweig, 2001). These contradictory findings are also seen in institutional studies examining the moderating effect of host country experience (Estrin, Baghdasaryan, & Meyer, 2009; Henisz & Delios, 2001).

Overall inconsistent findings on the effect of international and host country experience highlight the need for further investigation of their effects. As a step towards developing a more elaborate understanding of institutional factors and extending existing literature on experience, this study investigates the role of experience as a boundary condition on institutional dimensions. More specifically, it examines how international and host country experience impact firms' entry mode choices in response to regulative and normative distance, and cognitive institutions.

1.2   Research questions and objectives

According to the above-mentioned research background, this research seeks to answer the following questions:

- How does institutional distance shape the entry mode choice of a firm?

- How does a firm's experience make it resilient to institutional distance?

The present research addresses the following objectives to answer these questions:

- To examine the influence of prior failure of an entry mode on the subsequent entrant's choice between JV and WOS.

- To examine the influence of a firm's primary concern for survival on its entry mode choice in response to regulative and normative distance.

- To examine the moderating effect of diversity and intensity of international experience, and host country experience on the relationship between entry mode choice and institutional distance – regulative and normative – and cognitive institutions – survivors and failures.

1.3   Research methodology

This study probes the research questions in the context of China using a sample of foreign manufacturing subsidiaries. China is an interesting context for this research as it receives a large number of foreign investments (the second global investment destination), while it suffers from weak institutional environment and abundance of foreign investment failures (UNCTAD, 2017; Peng at al., 2008). The quantitative approach is taken in this study to investigate the effect of various dimensions of institutions on entry mode decision and the moderating effect of international and host country experience. This research uses secondary data that were drawn from four main sources: the Chinese Industrial Survey, the World Governance Report, the World Competitiveness Report, and Factiva. 1,021 foreign investments from 27 two-digit industry codes in China formed the sample, with investments made by 622 parent companies from 29 different countries. Logistic regression was applied to validate the conceptual model by examining proposed hypotheses including direct relationships and moderators. The research sample was examined for sample selection bias using the Heckman test. The sensitivity and robustness of the results were examined by conducting multiple tests using various time lags between dependent and independent variables and alternative proxies for the variables of interest.

1.4   Research contributions

The present research investigates several important factors that shape the entry mode decision of firms, thereby improving our understanding of how institutional factors influence firms' choices between JV and WOS. In so doing, it contributes to the literature in four different ways:

First, this research contributes to institutional theory by extending its cognitive aspect from merely focusing on survivors to also addressing failures. The fundamental underlying assumption in prior institutional studies is that firms infer information on cognitive institutions from the behaviour of previous entrants, but their main focus is on the behaviour of survivors (Haunschild & Minor, 1997; Lu, 2002). Limiting their samples to existing firms, these studies considered the level of success as a factor that stimulates a firm to learn and found that a firm is more likely to learn from more successful firms. The present study adds to this stream of research by expanding the sample of imitation studies from merely survivors to including failures. Moreover, this study introduces a new source of learning about cognitive institutions by recognizing that the failure of others carries implicit information from which subsequent entrants can infer valuable information about the institutional environment of a focal host country. Particularly, this research shows that the number of JV failures in the host country is an influential factor in a firm's choice of entry mode.

Second, this research contributes to organisational learning studies by extending their findings and suggesting that firms' response to failures is not merely avoidance. In particular, the present research shows that after evaluating the cause of prior JV failures, firms have a higher tendency to choose JV over WOS as the number of JV failures increase. This provides interesting evidence that learning from failures, unlike imitation, is not a mindless adaptation of others' actions. But, it is deliberate learning that encourages deeper processing of information, which might lead to choosing the same action.

Third, this research contributes to institutional theory literature by providing a better understanding of the effect of institutional distance on entry mode choice. It adds to the existing literature on institutional theory and entry mode choice by incorporating self-interest along with legitimacy in the asymmetric response of a firm to regulative and normative distance. As stated in prior studies, although legitimacy provides benefits for firms in a foreign country, its priority might subside as other immediate concerns for survival escalate. In so doing, the present research shows how regulative and normative distance could have an asymmetrical effect on entry mode choice when firms simultaneously account for legitimacy and self-interest. More specifically, this research shows that as regulative distance increases, firms are more likely to choose WOS over JV. When normative distance is high, firms tend to choose JV over WOS. Hence, it reinforces theoretical arguments in prior studies that a firm's

response to institutions is not purely legitimacy oriented (Cantwell, Dunning, & Lundan, 2009; Oliver, 1991).

1.5 Structure of this thesis

This thesis comprised five chapters. It starts with the introduction which gives an overview of the research background, rationale and importance of this study. This chapter also presents research questions and objectives along with a brief review on methodology and contributions.

Chapter two, literature review and hypotheses development, reviews the literature on various foreign investment strategies and particularly entry mode choice. It critically reviews how three theoretical frameworks explain antecedents and consequences of entry mode choice, with a focus on institutional factors as the main antecedents. In this chapter, other theories were combined with institutional theory to enhance its explanatory power of entry mode choice. In the last section, Chapter 2 presents the conceptual model and develops hypotheses to justify how institutional factors influence entry mode choice and how their effect is mitigated by the focal firm's experience.

Chapter 3 focuses on the methodology and research context of this study. The reason behind choosing China and manufacturing industry, the measurement of each variable, the data collection procedure and the statistical method are described in this chapter. It also reports on characteristics of the sample.

Chapter 4 reports on data analysis and findings of this research. It presents an evaluation of the logistic regression assumptions, describes the outlier management method, and gives an overview of descriptive statistics along with regression results. It also presents the results of sensitivity and robustness tests.

Chapter 5 summarizes and assesses the main findings of this study. It includes a discussion on managerial implications and theoretical contributions that this research makes to the existing literature. It also identifies areas for future research and outlines the limitations of the present study.

Chapter 2: Literature Review and Hypotheses Development

This chapter reviews the literature on foreign investment strategies, institutional dimensions and experience. It first explores various types of foreign investment strategies with a focus on entry mode choice. It then uses prominent theories in the field to discern antecedents and consequences of the choice of entry mode. Combining institutional theory with transaction cost and organisational learning theory, this research proposes eight hypotheses. The last section covers the hypotheses development and the conceptual model.

2.1   Foreign investment strategies

Existing research suggests that firms choose between different strategies when they internationalise to a foreign country. Foreign investment strategies are categorised into various types among which there is no consensus in international business research. So much so that in a rigorous literature review Brouthers and Hennart (2007) identified 16 different modes of entry. Nevertheless, it is possible to categorise prior studies into two main groups in terms of their view on entry mode. Those that put all strategies, from contractual agreements to mergers and acquisitions, on a continuum (Contractor & Ra, 2002; Hill et al., 1990; Meyer, Estrin, Bhaumik, & Peng, 2009a) and those that propose a hierarchical classification (Kumar & Subramanian, 1997; Pan & Tse, 2000). The former perspective allows firms to evaluate all alternative strategies concurrently, while the latter argues that not all types compete at the same level, and hence proposes a hierarchical structure.

A hierarchical decision contains two main stages: in the first, a firm decides between equity and non-equity mode and in the second stage the firm chooses between strategies in the equity or non-equity group. This line of research concludes that variables that influence equity mode decision might not be the same as or have the same influence as those that affect level of ownership decision (Hennart & Park, 1993). Pan and Tse (2000) posited that macro-level factors such as host country risks, the trade relationship between the home and the host country and the asset specificity of the industry have a stronger influence on the choice between equity and non-equity rather than within each group.

2.1.1 Equity and non-equity

Non-equity modes are various contractual agreements between two or more parties such as licensing, distribution, supply agreements and technical contracts. Equity modes involve financial investment in the form of acquiring or establishing an entity through partial or full ownership (Hennart, 1988).

Conceptually, each mode differs based on the parent firm's need for control, resource commitment, dissemination risk and its need for complementary knowledge. Equity modes are characterised by an integrated and internalized structure which is important to mitigate risks but more complex to manage and control. Non-equity modes provide a less demanding and more flexible structure when it comes to termination of relationship (Dacin, Oliver, & Roy, 2007). Although they require more investment and commitment, equity modes facilitate transfer of resources between partners (Liang, Musteen, & Datta, 2009). Based on their abilities to control, to align incentives and to provide monitoring mechanism, equity modes are identified as the appropriate structure in the face of behavioural uncertainties. Nevertheless, they hold other concerns such as coordination and cooperation costs among partners (Gulati & Singh, 1998; Oxley, 1997). All in all, equity mode requires more careful consideration as its higher resource commitment complicates changing the mode of investment or withdrawing from a country. Hence, this research focuses on equity mode structure because it is important to add to the existing body of knowledge and shed more light on how firms make this decision.

In a review of the literature on international entry mode choice, Brouthers and Hennart (2007) classified equity mode structures into four principal groups based on establishment and level of ownership. Establishment mode encompasses two types of investment naming acquisition and greenfield. Acquisition indicates whether the foreign subsidiary is established through acquiring an existing firm while greenfield happens via establishing a new entity from scratch. Further, equity mode is divided into two groups of full (WOS) and partial ownership (JV) based on the level of ownership. In this regard, Brouthers and Hennart (2007) suggested four types of equity mode investment: greenfield JV, greenfield WOS, acquisition JV and acquisition WOS. The basic assumption here is that establishment mode choice and the level of ownership are two independent decisions and should not be mixed under similar determinants (Hennart & Park, 1993; Padmanabhan & Cho, 1999). In other words, the choice of full or partial ownership is available to all firms

regardless of their establishment mode (Chen, 2008). This research is particularly limited to the decision on the level of ownership which will be called entry mode choice throughout this thesis. But, before getting into more details on the level of ownership, I first briefly discuss establishment modes and their characteristics.

2.1.2 JV and WOS

Entry mode choice is a decision between joint venture (JV) and wholly owned subsidiaries (WOS) where firms decide whether to own part of a subsidiary or take full ownership. Foreign investment is a JV when the foreign partner has partial ownership. JV could happen through greenfield when two or more partners bring their assets to a new entity or via acquisition when a partner acquires partial ownership of another partner (Hennart, 1988; Kogut, 1988). WOS is a structure in which the foreign partner has full ownership. This structure could take place through either greenfield which involves establishing a firm from scratch or acquisition that happens by acquiring full ownership of an existing firm (Meyer, 2004; Slangen & Tulder, 2009).

WOS enjoys more level of control and authority over operation and lower risk of dissemination while it requires higher degree of resource commitment (Hill et al., 1990). Having high ownership, WOS brings larger shares of profits, yet it entails more responsibility (Anderson & Gatignon, 1986). In addition to the fact that WOS imposes large expenses on the investing firm, sudden expansion in size might sometimes create unnecessary management issues (Hennart, 1988). In WOS, firms face the risk of overpayment due to an inability to assess the value of the target firm or because they have to deal with the trouble of a long establishment time (Chang & Rosenzweig, 2001). Some researchers propose that WOS subsidiaries perform better than JV ones due to more control, easy transfer of codified knowledge and a fast decision-making process (Chang et al., 2013b; Chung & Beamish, 2005). A meta-analysis study on performance outcome of entry mode has shown that higher control entry modes leads to higher performance particularly in developing host countries (Giachetti, Manzi, & Colapinto, 2019).

The benefit of a JV is to facilitate access to the resources of the local partner. Through JV, firms get access to local managers' skills as well as the distribution network of the local partner (Agarwal, 1994; Chen, 2008; Hennart, 1988). The presence of a local partner who provides country-specific knowledge and access to its network makes a JV less susceptible to

environmental uncertainties (Luo, 2002). Hence, by partnering with local firms, foreign firms overcome their liability of foreignness and may even outperform comparable local counterparts through harnessing local knowledge (Chang, Chung, & Moon, 2013a). Another benefit of sharing ownership is to keep local managers motivated to share their knowledge and actively participate which increases the performance of the subsidiary (Chari & Chang, 2009; Child & Yan, 2003; Owens, Ramsey, & Loane, 2018). Moreover, drawing from institutional theory some researchers view the level of ownership as a social identity reflecting a firm's conformity to internal and external institutions (Chan & Makino, 2007). Therefore, JVs benefit the foreign investor in many ways such as awarding faster market entry and wider access to a market as well as drawing on support from the local government and increased legitimacy mainly due to the spill over effect. Highlighting the benefits of JV, Pan and Chi (1999) showed that JVs have better financial performance as compared to WOS.

Although in some perspectives JV is the favourable mode of entry as it reduces resource commitment and gives an option for future growth, it comes with disadvantages as well. As compared to WOS, JVs demonstrate less flexibility in response to environmental changes because of the shared decision making process, less control over operations and cultural differences which can result in communication problems (Belderbos & Zou, 2007). Therefore, the inefficient internal governance leads to higher coordination costs (Boone & Özcan, 2016). Furthermore, despite the benefits of risk and resource sharing that make JVs the appropriate entry mode in uncertain environments, internal uncertainties of this entry mode increase opportunistic behaviour of partners in volatile environments (Luo, 2007). Accessing tacit industry knowledge, natural resources and motivating local managers benefit firms when host country provides an environment that facilitates controlling opportunistic behaviour of the partner (Hennart, 1991). Linking the opportunistic behaviour to the chance of survival, some researchers give priority to having better control mechanism as opposed to accessing local knowledge and the network of local partners through JV (Gaur & Lu, 2007). Relying on the same argument that JV structure involves a high degree of interaction and complexity, Choi and Contractor (2017) showed that R&D alliance performance is higher for those alliances with a moderate or intermediate degree of communications (non-equity).

Another disadvantage of JV as compared to WOS is its higher level of instability that is attributed to the 'double-layer acculturation' of this mode where firms not only have to deal with cultural differences at the country level but also face cultural differences at the

corporate level (Barkema, Bell, & Pennings, 1996). Furthermore, a primary factor contributing to the instability of JVs is the change in the bargaining power of partners when they acquire local knowledge or technological knowledge that supports their independence (Inkpen & Beamish, 1997). All in all, when choosing between JV and WOS, firms need to take into account not only the benefits but also the costs associated with the chosen entry mode. The present research will discuss how firms balance the costs and benefits of JV in response to institutional factors.

2.2 Theoretical perspectives and their predictions

Several theories have been proposed to better understand entry mode choice, the most prominent of which are transaction cost theory, resource-based view and institutional theory. These theories proved to be useful for discerning the determinants and motivation behind the choice of JV or WOS as the preferred mode of entry into a foreign country. In the context of this research, institutional theory is the most pertinent one. In addition to these three prevalent theories, this chapter also covers organisational learning theory which is one of the three pillars of the conceptual framework of this research.

When a parent company with certain attributes, from a certain industry and country invest into a specific host country, entry mode decision will be under the influence of factors at three levels of firm, country and industry. There is a long history of research on antecedents of entry mode choice at each level and the present research review how they would influence entry mode choice based on prevalent theoretical perspectives in the field.

2.2.1 Transaction cost theory

Transaction cost theory (TCT) has been commonly used in International Business studies to explain the entry mode decisions of firms (Makino & Neupert, 2000). First developed by Williamson (1985), this theory explains firms' choice of governance structure between internalizing an activity and exchanging with the market. It suggests firms need to first identify dimensions with respect to which transaction costs differ, then identify and assess the comparative advantage of alternative organisational structure and finally choose the structure that provides highest efficiency with least transaction costs (George, 1987; Williamson, 1979).

In 1986, Anderson & Gatignon applied the transaction cost framework in an international context and offered a set of propositions regarding the most appropriate entry mode with consideration given to characteristics of the firm and environment. Since then, this theoretical perspective has been applied in several studies in the international business field to explain foreign investment strategies (Ahsan & Musteen, 2011; Zhao, Luo, & Suh, 2004). According to TCT, a good entry mode choice is one that offers more efficiency while incurring the lowest cost of foreign transactions that are associated with activities such as writing and enforcing a contract, negotiating terms and conditions and coordinating activities (Kogut, 1988). Studies revealed that firms tend to choose high integrated forms of governance structure when transaction costs are high, such as choosing a higher degree of ownership (Delios & Beamish, 1999; Gatignon & Anderson, 1988), greenfield over acquisition (Brouthers & Brouthers, 2000; Hennart & Park, 1993) and equity over non-equity mode (Maekelburger, Schwens, & Kabst, 2012).

TCT suggests that firms' decisions are primarily efficiency-driven and asset specificity and uncertainty are known to be the two core attributes that determine the efficiency cost of a governance choice. Asset specificity as a firm-level factor refers to attributes that are not easily redeployable to another firm or that, if redeployed, will lose their value, such as employees' skills and know-how (Freeman, 1987; Williamson, 1991). Intangibility and the proprietary nature of these assets subject them to opportunistic behaviour and piracy which necessitate extra safeguarding measures. Asset specificity has been operationalised with various factors such as R&D intensity (Agarwal, 1994), advertising intensity (Chang et al., 2013b), educated employees (Villalonga & McGahan, 2005) and in general proprietary technological knowledge (Chari & Chang, 2009). Prior studies have shown that firms with higher asset specificity prefer a higher degree of integration and control as it mitigates risks pertaining to opportunistic behaviour of the local partner and exposes the firm to less costs associated with monitoring the partner's behaviour (Anderson & Gatignon, 1986; Liang et al., 2009). In terms of entry mode choice, Chen and Hennart (2004), in a study on Japanese firms, examined the antecedents of the choice of partial over full acquisition and found that high R&D intensity leads to partial acquisition.

However, not all studies corroborate these findings. For instance, Hennart (1991) found no significant effect of R&D intensity and advertising intensity on Japanese firms' entry mode decision in the United States. Mani, Antia, and Rindfleisch (2007), in a

multidimensional study, found a modest effect of transactional factors among which the effect of advertising intensity was found to be significant and R&D intensity non-significant. The contradictory findings can be explained with the argument that firms with high asset specificity are more likely to choose JV over WOS as partial ownership motivates the partner to cooperate and refrain from behaving opportunistically (Chen & Hennart, 2004). In doing so, the costs that firms may incur to protect against opportunistic behaviour are decreased.

Uncertainty is the other core attribute of TCT, which has been investigated at internal and external levels. As a firm-level factor, internal uncertainty primarily arises from a firm's inability to operate successfully in a market and pertains to a firm's level of experience in the country and cultural differences between partners. When partners are from culturally distant countries, the very structure of the JV, cooperation between at least two partners, is likely to result in communication problems and an inefficient internal governance system (Belderbos & Zou, 2007; Boone & Özcan, 2016). While firms with WOS structure might face some issues due to a lack of knowledge about host country culture, those with JV structure need to deal with cultural differences not only at country level but also internally with employees (Barkema et al., 1996). Therefore, the cost of establishing WOS outweighs the cost of negotiating with a partner in a culturally different country (Kim & Gray, 2008; Meyer, 2001). Several studies have reported that high cultural distance is associated with the choice of WOS over JV (Brouthers & Brouthers, 2003; Hennart & Reddy, 1997).

Another factor that contributes to internal uncertainties is a firm's experience in foreign countries or in the focal host country itself (Zhao et al., 2004). Inexperienced firms face difficulties in their operations abroad due to a lack of knowledge about how to run a business in a foreign country and more specifically in the host country. They tend to choose cooperation with a local partner mainly to facilitate their access to local knowledge (Brouthers & Brouthers, 2001; Chari & Chang, 2009). Given its tacit nature, firms will incur lower transaction costs in acquiring knowledge from a partner (Slangen & Hennart, 2007). Several studies, for instance, have reported that JV is the preferred mode of entry where firms don't have the capability to deal with management issues and risks arising from cultural differences (Agarwal, 1994; Hennart & Reddy, 1997). Hennart (1991) demonstrated that the experience of Japanese firms in the host country reduces their need for JV and increases the probability of choosing WOS. In the context of China, Luo (2001) reported that foreign

investment in an emerging economy by firms with prior experience in that country is more likely to be in the form of WOS.

In addition to internal uncertainties, firms encounter external uncertainties in their foreign investment. External uncertainties are mainly created by country and industry characteristics such as host country political and economic uncertainties and industry growth rate. The literature posits that the risk and equity sharing in JV makes it the preferred entry mode over WOS in uncertain environments (Anderson & Gatignon, 1986; Chari & Chang, 2009). Moreover, in response to country risks such as political and economic instability where investments might be at risk, firms are more likely to choose low-control entry modes to avoid resource commitment. Ingham and Thompson (1994) also suggest that firms with high asset specificity in high risk countries opt for shared rather than full ownership to overcome resource constraints, facilitate risk sharing and to access specific assets without acquiring the entire firm. However, internal challenges of this mode increase the probability of opportunistic behaviour in those environments. Knowing that it is hard to control external volatility which eventually influences the prosperity of a joint venture, both parties act opportunistically hoping to minimise volatility-induced transaction costs and maximise their benefit (Luo, 2007).

In terms of external uncertainties that arise from industry characteristics, Cui and Jiang (2009), motivated by understanding the behaviour of firms from emerging economies, explored the effect of host industry competition and growth on Chinese firms' choice between JV and WOS. They found that in highly competitive industries firms are more likely to choose WOS over JV to gain more control over operation and exploit their competitive advantage. Thereby, the results of studies on the role of external uncertainties is inconclusive, which is also suggested in the meta-analysis study of Morschett, Schramm-Klein, and Swoboda (2010). Their study showed that existing research demonstrates contradictory findings related to the majority of country-level factors including cultural distance, market size, volatility of demand, openness to FDI and industry.

In terms of consequences, some studies have shown a positive influence of TC-based entry mode choice on performance (Brouthers, 2002; Brouthers, Brouthers, & Werner, 2003). However, this effect has been questioned by other researchers. It is found that entry modes shaped by this theory lead to weaker non-financial performance and there is no significant effect on financial performance (Kim & Gray, 2008). Researchers also found that TCE has

considerably less explanatory power compared to other theoretical perspectives such as institutional theory (Lu, 2002).

2.2.2 Resource-based view

Unlike transaction cost theory which focuses on external factors such as opportunism and uncertainty as the determinant of firms' behaviour, resource based view (RBV) emphasizes on firm's internal resources and capabilities (Peng, 2001). Introduced by Barney (1991), this theory is built on two basic assumptions, heterogeneity among firms' resources in an industry and the immobility of resources between firms, which sustains heterogeneity. He suggests that to create sustained competitive advantages resources need to possess certain attributes such as scarcity and inimitability, while they add value to the firm and are organised properly. This theory asserts that resources, such as reputation or tacit knowledge that are hard to transfer from one firm to another and are hard to imitate by competitors create competitive advantage for the focal firm.

Resource-based theory posits that, in addition to a desire to exploit existing resources and competitive advantage, firms' foreign investment decisions are motivated by the need to develop new competitive advantages using the resources and capabilities of the target firm (Shan & Song, 1997). Complementary resources of indigenous firms such as natural resources, government links and managerial expertise influence the entry mode choice of foreign firms (Chen, 2008). In a more detailed analysis, Das and Teng (2000) assert that not only the need to access others' resources but also the specification of one's own resources determine a firm's entry mode decisions. They conclude, driven by protecting their own competitive advantage, firms choose more integrated modes when they want to gain others' tacit knowledge and share the knowledge of their own that is protected by property rights. Thus, international business researchers who apply RBV theory to analyse the choice of joint venture believe that motivations for this choice are retaining and developing one's own capabilities as well as obtaining other firms' resources providing they are valuable and essential in achieving competitive advantage (Kogut, 1988).

Previous RBV studies have identified several firm resources that influence foreign investment strategies. One of the key resources being studied is experience. Through experience, firms obtain market and country specific knowledge as a by-product of operating in an industry or a country. Therefore, international and host country experience is a valuable

resource that creates competitive advantage. Relying on organisational learning as part of the resource-based view, empirical findings have reported that firms with international or host country experience are more likely to choose WOS (Delios & Beamish, 1999; Jung et al., 2010). Firms lacking experience choose JV as it is the best entry mode to access a partner's tacit knowledge such as market and country-specific or product-specific knowledge (Chen, 2008; Hennart, 1988). I confine discussion on experience to this general review as it will be further described in the experience section.

In addition to experience, a number of other firm-specific resources that have been found to be influential are: internal funds (Chatterjee, 1990), production knowledge (Kogut & Zander, 1992), performance (Jandik & Kali, 2009), technical resources (Gaur, Kumar, & Singh, 2014), size (Hillman, Keim, & Schuler, 2004), reputation (Musteen, Rhyne, & Zheng, 2013) and political resources (Frynas, Mellahi, & Pigman, 2006). In relation to entry mode choice, Karhunen, Löfgren, and Kosonen (2008) proposed that when brand image is one of the key assets of a firm, a high degree of ownership and control is the preferred mode to sustain a standard procedure across countries. Ingham and Thompson (1994) examined the size of the firm and found that in terms of financial resources large firms are less likely to choose JV given that collaboration is a means of easing resource constraints. Taken together, firms holding tangible and intangible resources are more likely to choose high integrated modes such as WOS.

While resources might create competitive advantage for a firm and encourage it to choose WOS over JV, researchers have established that their effect is contingent upon context. Integrating resourced based view with institutional theory, Oliver (1997) suggested that firms' sustainable competitive advantage depends on the context in which resources are obtained and deployed. Brouthers et al. (2007) have shown that for firms to sustain the value of their firm-specific resources and create competitive advantage, they need to adjust their structure according to the institutional environment of the host country. According to their findings, when there is a large difference between home and host country institutions, firms with high firm-specific resources tend to choose WOS over JV to have more control over how to exploit their resources in a different environment. Supporting this argument, Al-Habash, Mmieh, and Cleeve (2017) demonstrated that MNEs are more likely to choose WOS over JV when they enter countries such as Syria and Jordan.

2.2.3 Organisational learning theory

Before proceeding to discuss institutional theory as the main theoretical underpinning, it is necessary to explain organisational learning theory which is one of the applied perspectives in the conceptual framework of this research. Organisational learning theory offers the foundation for firms' knowledge. It assumes that firms are entities with learning abilities that can accumulate their knowledge at organisational and inter-organisational levels. Therefore, it suggests two sources of knowledge that affect a firm's decision. First is the firm's experience at the organisational level (experiential learning). It suggests that firms learn by interpreting the past and incrementally adapting routines based on feedback from actions and their outcomes (Dencker, Gruber, & Shah, 2009). A firm's experience helps it to develop routines and procedures it needs to operate in a foreign country in order to achieve legitimacy.

In International Business, experiential learning can happen in various contexts such as managing a foreign operation in general, dealing with rules and norms of a host country, managing a specific type of investment and negotiating an acquisition. All of these were found to significantly improve firms' financial and non-financial performance while decreasing challenges a firm might face in achieving legitimacy in a new country (Child & Yan, 2003; Kostova & Zaheer, 1999; Luo & Peng, 1999). Barkema and Drogendijk (2007) investigated Dutch firms in Central Eastern Europe and found that firms with international experience demonstrated higher performance. This was mainly because they transferred to the new operation, skills that had been accumulated through prior experience such as problem-solving and foreign operation handling skills. In another study on the internationalisation of Dutch firms from 1944 to 1966, Barkema, Shenkar, Vermeulen, and John (1997) demonstrated that learning how to cooperate through domestic joint ventures contributes to the performance of the firm's international JV and increases the longevity of the JV.

In terms of decision making, research has shown that experienced firms are more risk-taking and adventurous, less sensitive to political hazards and they perceive a significantly lower cost of internationalisation than inexperienced firms (Agarwal & Ramaswami, 1992; Delios & Henisz, 2003a; Eriksson, Johanson, Majkgard, & Sharma, 1997). Therefore, the general opinion in the literature is that experienced firms are more likely to internationalise

and invest in a foreign country, as their experience facilitates subsequent entries (Delios et al., 2008; Hennart & Park, 1994). Moreover, firms with experience are willing to choose highly integrated foreign investment strategies that are challenging but give them more control and profit (Anderson & Gatignon, 1986; Brouthers & Brouthers, 2000). For example, Schwens, Eiche, and Kabst (2011) showed that German firms with international experience are more likely to choose equity investment over non-equity in their internationalisation. Jiménez, Benito-Osorio, Puck, and Klopf (2018), in a study on the internationalisation of Spanish firms, found that experienced firms are more likely to shift from export to direct investment in their subsequent entries. However, there are some controversial debates in the literature regarding the effect of experience that will be discussed further in the experience section of this chapter.

In addition to experiential learning, organisational learning perspective posits that firms turn to other firms' experience as a source of learning (vicarious learning) (Baum & Ingram, 1998; Cyert & March, 1963). The behaviour of other firms and its consequences provide the firm with valuable information on acceptable social behaviour. It is suggested that in this type of learning, firms imitate or avoid specific behaviours based on the perceived results of observing others (Levitt & March, 1988). This section only covers learning from successful firms and imitation while learning from failures and avoidance is explained further in the failures section of this chapter.

Considerable evidence in the existing literature supports the notion that firms learn from the experience of others through observation to decrease uncertainty. For example, Baum, Li, and Usher (2000) showed that for acquisition decision, Ontario nursing home chains imitate the location choice of other chains' most recent acquisitions. Similarly, Jiang, Holburn, and Beamish (2014) proved the uncertainty reduction effect of vicarious learning in a study on Japanese firms' foreign investment. They showed that new entrants' entry decisions were less influenced by the institutional distance, as the experience of other firms increases in a host country. Yang and Hyland (2006) examined the acquisition decision of firms in the financial industry and found that unrelated acquisition is more likely to happen when there are more unrelated acquisitions by other firms in the market.

While vicarious learning plays an important role in a firm's decision, there is growing evidence that learning from others is contingent upon a number of factors such as the firm's own experience and other firms' experience. For instance, Shaver, Mitchell, and Yeung

(1997) contributed significantly to this discussion in the literature by showing that a firm's ability to learn from others' experience is subject to its experience in the country and industry. They demonstrated that firms are more likely to learn from others when they lack prior experience in the target industry and when they have a certain level of knowledge about the country. Having experience in the country helps a firm to interpret the information inferred from the experience of others. Similarly, Li, Qian, and Yao (2015) have shown that the decision of firms to enter a country is influenced by previous entrants in that location and this effect varies according to the experience of target firms and the focal firm's experience. Using data on the investment of US firms in China, they indicated that firms are more likely to trust the actions of experienced firms. Moreover, they found that the firm's own experience moderates the effect of learning from others, meaning that the focal firm tends to rely on its own experience rather than that of others. Relying on the same argument, Posen and Chen (2013) demonstrated that, compared with incumbents, inexperienced US commercial banking firms are more likely to rely on vicarious learning when they encounter a problem, to overcome their lack of internal knowledge.

Collectively, these studies outline the importance of experiential and vicarious learning. They illustrate that not only do firms learn from their own experience, but the experience of others is also a valuable source for them to decrease uncertainty. However, their reliance on others' experience is subject to a firm's own experience. Therefore, the present study extends this line of research by examining the effect of firms' experience accumulated from three different sources on their response to others' successful and failed experience.

2.2.4 Institutional theory

While TC perspective focuses on how to prevent opportunism and RBV emphasizes how to create competitive advantage using firm resources, institutional theory provides insights on non-financial motivations. Researchers consider institutions an important determinant in a firm's strategic decisions for "institutions directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy and to create competitive advantage" (Ingram & Silverman, 2002, p. 20). Peng and others stress the importance of institutions by introducing them as the third leg of the 'strategy tripod' in addition to industry based theory and RBV, and consider it a determinant factor in a firm's

strategic decision which is assumed to be the outcome of the interaction between firms and institutions (Peng, Sun, Pinkham, & Chen, 2009; Peng, Wang, & Jiang, 2008). Although the influence of the environment was studied before the emergence of institutional theory, the focus of those studies was mainly on economic efficiency. To overcome this issue, institutional theory suggests that a firm's decisions derive from its need to achieve legitimacy in the environment even when it does not increase efficiency (Kostova & Zaheer, 1999; Meyer & Rowan, 1977). Therefore, contributing to the existing theories in the International Business field, institutional theory provides more insights on the effect of the environment and how it conditions a firm's strategy (Delios & Henisz, 2003a; Lu, 2002).

According to institutional theory, the economic activities of a firm are embedded in a social and normative context to which firms need to conform to achieve legitimacy. In this regard, firms adapt their structures and actions to the most acceptable pattern in their environment as defined by institutions to give a meaningful justification to their behaviour (D'Aunno et al., 1991; Galaskiewicz, 1985). North (1990) describes institutions as the rules of the game that structure human interactions. Likewise, Scott (2001, p. 48) defines institutions as a combination of "cultural-cognitive, normative and regulative elements that, together with associated activities and resources, provide stability and meaning to social life". Institutional theorists suggest that institutions impose pressure on firms through coercive, normative and cognitive forces (DiMaggio & Powell, 1983). Therefore, three types of institutional pressures are studied in the literature: regulative, normative and cognitive.

Although all institutions shape firms' strategic decisions, they differ in various aspects. Scott (2001) summary and differentiation is presented in Table 2.1, according to bases of compliance and order, mechanism and logics as well as indicators and basis of legitimacy. It is depicted in the literature that each type of institution can have a distinct significant effect on a firm's decision and that firms need to achieve legitimacy in terms of each type of institution (Abdi & Aulakh, 2012; Gaur & Lu, 2007; Schwens et al., 2011). However, researchers vary in the emphasis they put on each type. For example, some researchers favour regulative institutions by arguing that rules are an exogenous hazard that firms face and that they change more rapidly than other types (Dikova et al., 2010; Hernández & Nieto, 2015). On the other hand, scholars who stress the importance of normative institutions believe that regulative institutions are easier to understand and interpret as they are codified and thus have a weaker influence on firm's decision (Cui &

Jiang, 2012; Kostova & Zaheer, 1999). However, North (1990) stated that an institutional system is complete only when formal and informal institutions are taken into account. Therefore, the present research examines the effect of all three types of institutions.

Given that institutions vary across countries, firms investing in a foreign country are subject to various difficulties. While the institutional environment in which the firm operates, shapes its processes, routines and practices, institutions of the country in which firms intend to invest are a source for identifying acceptable behaviour in that environment (Wu & Salomon, 2015; Yiu & Makino, 2002). Therefore, distance between home and host country institutions creates a lack of knowledge that hinders operation and legitimacy achievement in the host country. Moreover, the lack of shared understanding and a cognitive framework resulting from different institutions challenge coordination and cooperation among partners from different countries. The operations of multinational firms across the home and the host country have forced researchers to consider both institutional environments in examining the decision of these firms (Kostova, 1999). A firm's unfamiliarity with host country institutions due to institutional differences works as a hindrance to conformity and legitimacy achievement (Gaur & Lu, 2007; Hernández & Nieto, 2015). As a result, institutional researchers focus on institutional distance – the difference between the home and the host country – as a strong determinant of firms' market entry strategies (Brouthers et al., 2007; Kostova & Zaheer, 1999), which will be the approach of this research.

Table 2. 1: *Characteristics of Each Type of Institutions*

	Regulative	**Normative**	**Cultural-cognitive**
Basis of compliance	Expedience	Social obligation	Taken-for-grantedness Shared understanding
Basis of order	Regulative rules	Binding expectations	Constitutive schema
Mechanism	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules Laws Sanctions	Certification Accreditation	Shared logic of action
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognisable Culturally supported

Source: Scott (2001)

2.3 Independent variables and moderators

2.3.1 Regulative institutions

Regulative institutions in a country determine the rules of the game that structure interactions, and ensure stability and order in society (North, 1990; Williamson, 2000). They are imposed by coercive powers of authority, force, inducement and threat for sanction (Scott, 2001). Drawing on early institutional studies that defined regulative institutions as external forces imposed by the state (North, 1990; Slack & Hinings, 1994; Zucker, 1987), it is possible to categorise institutions into rules and laws created by government, and political system of the country. Rules and laws are formulated and implemented to control business transactions in a way that creates a reliable environment and encourages foreign investment. However, in less developed regulative institutions, regulative control increases to a level that instead of facilitating business, creates additional management challenges, difficult to predict violations, high costs and barriers to reaching an agreement with local partners (Arregle, Miller, Hitt, & Beamish, 2013). Besides, the political system of a country refers to the level of checks and balances on government, freedom of speech, and stability of the government. A host country government can influence prices and investment incentives by introducing policies and regulations in a way that harmfully influences foreign firms (Garcia-Canal & Guillén, 2008). Each of these dimensions has been investigated in IB studies both separately and as a multidimensional factor.

Less developed rules and laws expose foreign firms to discriminatory rules in the host country such as tariff cost, mandatory exporting and limited equity ownership (Meyer et al., 2009a). Firms entering these countries, especially from a different regulatory environment, require knowledge about how to deal with challenges. A lack of this knowledge can put them at a disadvantage compared with domestic firms. Should that be the case, existing research suggests firms either avoid investment or adapt their entry strategy accordingly. Holmes, Miller, Hitt, and Salmador (2011) supported this argument by examining foreign investment in 50 developing and developed countries and demonstrating that regulative institutions that highly control the behaviour of firms and intervene in market, discourage foreign investment. Delios and Beamish (1999), for instance, in a study on Japanese investment in East and Southeast Asia revealed that when the country has restrictive rules regarding foreign investment, firms are more likely to choose lower ownership.

Alternatively, research has shown that a weak political environment leads to higher mortality rates for foreign subsidiaries (Dhanaraj & Beamish, 2009).When there is a weak political system, there is less transparency and subsequently a higher chance of sudden changes in rules, corruption and political instability (Henisz, 2000; Macher & Mayo, 2014; Meyer, 2001). In this case, foreign firms reduce their exposure to regulative pressures by either avoiding investment, using their knowledge and capabilities or alternatively, through adjusting their investment strategy (Delios & Henisz, 2000; Rodriguez, Uhlenbruck, & Eden, 2005). Using a data set of 55 countries, Mudambi, Navarra, and Delios (2012) tested if the level of corruption influences firms' behaviour and found that higher levels of corruption are associated with lower levels of FDI in a country. Holburn and Zelner (2010) tested the impact of firms' knowledge and capabilities on their behaviour in a politically uncertain country. They showed that firms from home countries with weak institutional constraints develop political capabilities that help them to mitigate political risks in the host country. Chen, Yang, Hsu, and Wang (2009) showed that when local government policies are inconsistent, tax-policies are non-transparent and market transactions are subject to intervention, Taiwanese firms prefer lower levels of control with the aim of enhancing their legitimacy through cooperation with a local partner. Sartor and Beamish (2018) in a study on 643 Japanese investment in 30 countries found that firms are more likely to choose a JV rather than WOS when grand corruption is high in the host country. High grand corruption is complicated and risky as it involves large payments to higher ranking officials. Therefore, firms rely on the local firm's knowledge to deal and to learn about the corrupt environment.

Several other researchers studied a broader concept of regulative institutions encompassing the development of rules, laws, and political system (Gaur & Lu, 2007; Pan et al., 2014; Schwens et al., 2011). They offered a similar argument to the other two streams of literature, asserting that entering an institutionally distant country encompasses difficulties and uncertainties which necessitate knowledge and capability to understand and respond to them. In a country with weak regulative institutions, foreign firms might face challenges in learning how to deal with corruption, an uncertain and weak legal system and ambiguous property rights protection (Elango, Lahiri, & Kundu, 2013). So, it is suggested that when firms face difficulties in legitimacy achievement, equity participation of the local partner helps to compensate for those challenges by mobilising local legitimacy and facilitating access to local resources (Xu & Shenkar, 2002). For example, investigating foreign investment of firms from emerging countries, Ang and Michailova (2007) found that in

restrictive regulative institutions of the host country, firms from emerging economies' (EEs) choose acquisition rather than alliance because they are familiar with the environment and also the unpredictable environment requires more control over operation. I use the same concept of regulative institutions in this research as it comprehensively covers all the aspects related to regulatory institutions in a country.

When it comes to entry mode, literature suggests that one possible means to mitigate these challenges and to achieve legitimacy is to choose JV over WOS. It is supported in the literature that when the focus is on learning and actions of the alliance entity (such as legitimacy enhancement), JV is a better choice. For example, in a multi-perspective study on foreign investment in Turkey, Demirbag et al. (2007) examined the effect of institutional factors and found that firms choose JV over WOS in face of factors such as political constraints, cultural and linguistic distance. A further study (Demirbag, Tatoglu, & Glaister, 2009) supports the findings in the context of the internationalisation of EE firms. Examining the internationalisation of firms from emerging countries into emerging countries, Demirbag, McGuinness, and Altay (2010) found that factors pertaining to the institutional environment of a host country such as corruption, risk of intervention and law and order uncertainties cause firms to choose JV over WOS with the purpose of risk sharing. Similarly, Slangen and Tulder (2009) found that firms prefer JV over WOS in host countries with low quality government.

Opposing this line of reasoning is a school of thought that emphasizes the challenges firms face in JV due to the inherent characteristics of cooperation with a local partner especially in weak or distant regulative institutions (Barkema et al., 1996; Boone & Özcan, 2016; Dikova & van Witteloostuijn, 2007). For instance, in the context of German R&D firms, Choi and Contractor (2016) asserted that a high difference in rule of law between the home and the host country, encourages firms to choose more integrated alliance modes. Similarly, Dow, Baack, and Parente (2018) showed that when there is a high threat of opportunism, firms tend to choose a higher level of ownership to protect their firm and intellectual properties. These contradictory findings can be partially explained by the fact that dealing with regulative institutions involves dealing with regulations and risks. The main aspects of regulative institutions are executive, legislative, judicial and bureaucratic functions of the government as well as definition and enforcement of property rights (Williamson, 2000). Therefore, foreign firms need to identify and conform to regulations but will also

suffer from appropriability hazards and the threat of opportunistic behaviour of the local partner in weak regulative institutions. Especially when those institutions are characterised by unclear rules, weak intellectual property protection and weak enforcement of law. Nevertheless, previous research is limited to either assessing and conforming to rules or overcoming the risks of opportunistic behaviours. Thus, the response of firms to regulative institutions is not fully understood.

2.3.2 Normative institutions

Institutional theorists suggest that firms operate in a social framework of norms and values that determine what is socially acceptable economic behaviour. They refer to this as normative institutions (DiMaggio & Powell, 1983; Scott, 2005). Normative institutions are social obligations in a host country that impose prescriptive, evaluative and obligatory dimensions on social life (Scott, 2001). They impose restrictions on social behaviour by defining both preferred and desirable standards as well as appropriate ways to achieve them (Scott, 2001; Williamson, 2000). Researchers have attributed normative institutions to factors that influence the way of doing business such as socialism or nationalism, modern environmentalism, and shareholder value maximisation (Cantwell et al., 2009). Normative institutions take the form of rule of thumb and standard operating procedures which guide organisational actions largely through social obligation and professionalization (Hoffman, 1999). For example, Association of MBAs (AMBA) takes the role of normative institutions for business schools. it provides standard operating procedures and occupational standards in their field. Schools adapt to MBAs out of professionalization.

Therefore, in addition to regulative institutions, firms adapt their strategies to normative intuitions to achieve social legitimacy (Demirbag et al., 2007; Kostova & Zaheer, 1999). They do so because complying with normative institutions enhances the firm's reputation and legitimacy, whereas failure to conform causes boycotts, sanctions, loss of opportunities and deterioration in consumer and community support (Dacin et al., 2007; Meyer & Rowan, 1977; Philippe & Durand, 2011). Similar to regulative institutions, a proper response requires identification and interpretation of socially accepted values and norms and a high difference between the home and host country is again a huge hindrance. High institutional distance results in unfamiliarity with the host country making it difficult to understand the requirements of legitimacy providers such as supplier, customer, and other public service groups. This liability is stronger for normative institutions given that they are

deeply embedded in society and are harder for foreign firms from a different institutional environment to identify (Kostova & Zaheer, 1999).

The impact of normative institutions has been investigated and supported in various international business fields. Investigating the ownership decision in M&As, Liou, Chao, and Yang (2016) showed that emerging economies MNEs tend to choose lower degree of ownership in their cross-border merger and acquisition when informal institutional distance is high. Using a lower degree of ownership, helps to overcome their legitimacy-achievement deficiencies such as lack of knowledge about the host country and lack of local network. Focusing on culture as normative institutions of the host country, Yiu and Makino (2002) examined Japanese firms' investment decisions and found that in restrictive normative institutions of the host country, firms tend to rely on a local partner to gain legitimacy. The choice of JV is mainly because when normative institutions of a country are restrictive, in other words, ethnocentric and xenophobic, it would be harder for firms to achieve social legitimacy. Ang and Michailova (2007), in a study on the choice between acquisition and alliance by firms from BRICs countries in the European union, proposed that normative distance creates information asymmetry that requires firms to have more flexibility in their structure. This flexibility could be provided by alliance mode; however, they didn't find significant results. Gaur, Delios, and Singh (2007) examined why firms change their staffing strategies in face of institutional distance. They found that firms are more likely to appoint a parent country national in the general manager role in their foreign subsidiary when normative distance is high. A parent company national is the preferred choice since institutional differences mitigate knowledge transfer and the parent company could transfer its routines, organizational practices and required capabilities through this staff member.

In addition to a direct effect, uncertainty caused by normative distance changes the impact of other factors on firms' behaviour. Dikova et al. (2010) studied announced acquisition deals in the international business service industry from 1981 to 2001 to examine how the probability of completion is influenced by institutional differences. They found that when informal institutional distance is high, the probability that an acquisition deal will be completed is low. This decrease in probability of completion is mainly because firms have to overcome challenges pertaining to institutional differences such as standards of conduct and social conventions which requires greater cultural sensitivity. Investigating SMEs' choice between equity and non-equity mode, Schwens et al. (2011) reported that firms with high

proprietary knowledge are more likely to choose equity mode when informal distance is high. Their findings showed that firms tend to internalize their transactions when they face high uncertainty and risk. Despite the value these studies add to our knowledge on how normative institutions shape firms' behaviour, our collective understanding of normative institutions is mixed, for the definition of normative institutions varies across studies.

A number of existing studies have equated normative institutions with culture (Demirbag et al., 2009; Estrin et al., 2009; Quer, Claver, & Rienda, 2011), whereas others use a broader concept of normative institutions with culture as a subcategory (Gaur et al., 2007; Peng et al., 2008). Previous research has extensively explored and supported the effect of culture and its differences between the home and the host country on firms' foreign investment strategies (Agarwal, 1994; Kogut & Singh, 1988; Slangen & Hennart, 2008) and their success or survival (Barkema et al., 1996; Bauer & Matzler, 2014; Dikova & Sahib, 2013). Though it is important to acknowledge the similarity and overlap between these two concepts, it is helpful to point out differences.

Culture is a collective programming of the mind which distinguishes members of one group or category of people from another (Hofstede, 1991). It refers to the shared values and norms in a society and demonstrates differences towards respect for authority, individuality, trust and the value of work and family (Berry, Guillén, & Zhou, 2010). Institutions, like culture, are shared values, norms and socially constructed patterns, but, they are exterior and objective constraints that will be taken for granted whether or not one understands, scrutinizes or evaluates them (Jepperson, 1991; Kostova, 1999). Therefore, equating culture with institutions obscures the development of institutional theory because culture does not essentially hold qualities pertaining to institutions (Jepperson, 1991). Thus, following this school of thought, normative institutions in the present study entail a normative management aspect of the institutional environment in the host country that affects foreign investment such as a country's level of corruption, responsiveness of a government to economic challenges and transparency in business governance (Ang et al., 2015; Gaur et al., 2007; He, Brouthers, & Filatotchev, 2013).

Overall, the empirical findings of institutional studies have provided evidence that the difficulty of identifying, understanding and conforming to normative institutions in a host country influence firms' entry mode decisions (Chen et al., 2009; Estrin et al., 2009; Powell & Rhee, 2013). The difference between normative institutions of the home and the host

country creates information asymmetry and makes it challenging to achieve legitimacy in the host country (Gaur & Lu, 2007). Firms overcome the barrier of distance by a choice of market entry strategy that gives them access to information on normative institutions such as acquisition and JV (Cui & Jiang, 2010; Delios & Beamish, 1999).

2.3.3   Cognitive institutions

In addition to regulative and normative institutions, firms encounter pressure from cognitive institutions. Cognitive institutions symbolize words, signs and gestures as well as a socially constructed framework through which meaning is made (Hoffman, 1999; Scott, 2001). In other words, cognitive institutions are "those standardized activity sequences that have been taken for granted" and are treated as exterior constraints (Jepperson, 1991). Firms will often adopt to cognitive institutions out of social desire and mainly because they want to not because they have to (Palthe, 2014). Cognitive institutions create an unquestionable base of legitimacy, that is culturally supported (Hoffman, 1999). For example, widely shared stereotypes adopted by people in a country. Another good example of cognitive institutions in the context of international business is the location choice. When a number of firms in an industry expand their operation abroad, a firm in a similar field might face pressure from stakeholders to expand their operation and increase their profit. The focal firm would face extensive uncertainty, if it has no experience in foreign investments. Facing the cognitive pressure in their field to expand abroad and experiencing lack of knowledge and uncertainty, the firm would observe others' foreign investment strategies and would enter the location that has been frequently chosen by other firms in their field. The focal firm considers the location choice of others as the acceptable behaviour that could give legitimacy and meaning to its decision.

Institutional theory suggests that in search of legitimacy, firms conform to cognitive institutions by imitating the prevalent strategies repeated by other firms in that country even if this contributes negatively to their performance (D'Aunno et al., 1991; Galaskiewicz, 1985). To stress the importance of legitimacy achievement in imitation, Barreto and Baden-Fuller (2006) showed that Portuguese banks imitate their legitimacy-based group branching decision even if it is unattractive. Empirical evidence of imitation is provided by studies from a variety of contexts such as foreign direct investment (Chan, Makino, & Isobe, 2006; Greve, 2000), product relatedness (Yang & Hyland, 2012b), alliance formation (Garcia-Pont &

Nohria, 2002; Yeniyurt, Townsend, Cavusgil, & Ghauri, 2008) and governance structure (Lee & Pennings, 2002).

Institutional scholars believe that imitation is more likely to occur in uncertain environments where social considerations outweigh technical ones. In such uncertainty where it is difficult for firms to obtain information and evaluate decisions, they rely on other firms decisions to mitigate ambiguity (Rhee et al., 2006; Salomon & Wu, 2012). For example, Moatti (2009) showed that in uncertain and competitive environments in which quick decision making is required and thorough decision analysis is hard, firms' choice of expansion through M&A relies highly on the number of M&As made by other firms. To empirically support imitation in uncertain environments, Salomon and Wu (2012), examined the effect of institutional distance and found that the tendency of firms to imitate others soars as the cultural, economic and regulatory distance increases. They believe that institutional distance boosts the level of uncertainty by making it harder for firms to understand host country rules and norms.

In terms of consequences, institutional theorists argue that imitation increases the chance of survival and success of the firm (Kondra & Hinings, 1998; Meyer & Rowan, 1977). Wu and Salomon (2015) confirmed the endogenous role of imitation by examining the performance of foreign banks in US that opt for imitation as compared to those that do not. They found that imitation will increase performance in uncertain environment especially for inexperienced firms. Similarly, Lévesque and Shepherd (2004) proposed that not only does the mortality rate decrease through imitation, but the marginal difference is higher in uncertain environments such as emerging economies as compared to developed countries. In a similar vein, scholars observed a number of other consequences such as competitive advantage and reputation. For example, Ross and Sharapov (2014) uncovered that in US match racing, the imitating actions of followers are an effective competitive strategy even for leaders. Philippe and Durand (2011) examined 90 US firms and found that firms gain reputation when they conform to goal procedural dimensions of the norm.

While the act of imitation is extensively supported in a substantial number of studies, imitation choice is proved to be selective (Haunschild & Miner, 1997; Haveman, 1993). Scholars attributed selective imitation to inter-organisational factors such as size, similarity and success. Three types of imitation are identified: frequency based, trait based and outcome based imitation (Henisz & Delios, 2001; Lu, 2002). Frequency based imitation refers to

decisions made based on the number of other firms executing a given strategy. In this type of imitation, while all firms have an equal impact on the focal firm's decision, firms tend to imitate actions performed by a large number of firms because the frequency of an action is an indicator of its legitimacy. In this type of imitation, cognitive institution refers to actions that have most frequently been used by other firms in the host country (Li & Parboteeah, 2015). Several studies empirically supported the effect of frequency-based imitation. In their analysis of Japanese firms' foreign entry decisions, Delios et al. (2008) found that the density of home country entrants increases the likelihood of Japanese firms' entry to a certain location. Lu (2002), for example, claims that foreign firms imitate entry modes adopted by other firms in the host country because the frequency of decisions by other firms increases the legitimacy of similar decisions.

With trait-based imitation, firms imitate the actions of other legitimate firms while legitimacy is inferred from certain traits such as size and performance (Haunschild & Miner, 1997). Examining the entry mode choice of a Taiwanese company in China, Chen et al. (2009) found that firms are likely to follow the behaviour of their successful predecessors. In terms of size, Greve (2000) studied the branching decision made by Japanese banks and found that a bank is more likely to imitate decisions of larger banks. Moreover, similarity is also another important trait that defines the imitation group, assuming that similar firms encounter similar risks and opportunities. As Yang and Hyland (2006) showed, a firm's choice of unrelated M&A is associated with the number of M&As made by other firms inside their product market. Some researchers associate similarity with being from the same home country and or industry. For example, in their study on German biotechnology firms, Oehme and Bort (2015) asserted that firms imitate the internationalisation mode of their competitors in the industry. Focusing on both national origin and industry type, Li, Yang, and Yue (2007) verified the positive effect of the rate of established wholly owned subsidiaries from the same industry and same country on the entry rate of wholly owned subsidiaries. In addition to industry and home country, business group is also found to be an influential trait in imitation decision (Guillén, 2003). International experience is also recognised as an influential trait. Delios et al. (2008) observed that the international experience of previous entrants increases the likelihood of imitation by the focal firm. Similarly, Li et al. (2015) showed that while firms learn from a reference group, they learn from the more experienced investors.

Unlike other types, the third type of imitation – outcome-based imitation – depends neither on the number nor on the traits of other firms. It occurs when a firm selects its reference group based on the outcome of the actions exhibited by other firms. Supporting this idea, Haunschild and Miner (1997) found that US firms in various industries are more likely to choose an investment bank for an acquisition based on its outcome which in this case is the average premium paid by other firms using that bank. Examining Japanese firms' entry mode decisions, Lu (2002) showed that in a selective imitation process, firms observe the outcome of entry mode decisions of other firms and then imitate the mode that has the highest success rate.

In sum, evidence of imitation is offered in various literatures from entry mode to alliance formation, location choice and other strategic decisions. Some researchers extended this literature by identifying some contingencies in the imitation behaviour. They argue that although firms imitate the decisions of others, not all firms show similar tendencies for imitation. Given that imitation decreases uncertainty, it is influenced by traits such as experience that mitigate uncertainty. Henisz and Delios (2001) showed that although Japanese firms imitate location choice of other firms from the same industry, imitation tendency decreases for experienced firms. All in all, this research proposes that imitation occurs for those actions that have been most frequently used by other firms in the host country and it is more likely for the actions of other firms from the same industry.

2.3.4 Extending institutional theory

2.3.4.1 Regulative and normative institutions

In terms of theoretical explanation, institution and transaction cost theories are the two major perspectives to explain the relationship between institutions and entry mode choice yet they offer contradictory arguments. Emphasizing isomorphism and conformity, institutional theory suggests that a firm's response to institutions is an entry mode that increases their legitimacy in the host country even if it might not seem profitable. According to this argument, for firms to overcome the uncertainty of institutional distance, they need to choose an entry mode that gives them access to the local partner's knowledge and network and helps them to build relationships with local legitimacy providers (Cui & Jiang, 2010; Xu & Shenkar, 2002). Despite the value these studies add to our understanding of the

institutional effect, they overemphasize the heterogeneity in firms' responses while undervaluing their interest in profitability.

On the other hand, transaction cost theory asserts that the preferred choice in response to institutions is an entry mode that maximises economic efficiency and minimises risks and transaction costs. When rules and regulations that are supposed to structure interactions, and protect firm's operation and rule inter-firm interactions, are weak in the host country, a foreign firm might be exposed to opportunistic behaviour and expropriation hazards. Therefore, to mitigate these hazards, firms need to choose an entry mode that gives them more control over their operations and more flexibility in response to environmental changes (Chung & Beamish, 2005). However, the importance of legitimacy achievement in firms' survival is undervalued in this line of research.

To overcome these discrepancies, researchers emphasize not limiting firms' decisions to purely financial or legitimacy based ones, and advocate for the importance of a multi-perspective decision model. Some researchers, for example, amend institutional theory by questioning its total conformity to institutions (Bascle, 2016; Kostova, Roth, & Dacin, 2008). They argue that although it is useful to recognize the influence of the social environment on firms' strategic decisions, it is also important to acknowledge that firms consider their self-interest as well. As firms' decisions are not only motivated by social acceptability but also by economic efficiency, they are not as legitimacy-oriented as depicted by institutional theory (Oliver, 1997; Scott, 2001). Supporting this argument, Oliver (1991) emphasizes a more self-interested strategic response and explains that firms' responses to institutions are based on their resources and vary from conformity to avoidance and manipulation. She mentions that even conformity depends on a firm's perception of whether its response will be in accordance with its interests. Re-examining the basic assumptions of institutional theory and isomorphic behaviour of firms, Cantwell et al. (2009) also posit that sometimes isomorphic behaviour of firms is by choice, given that some powerful foreign firms with valuable resources are valued for what they add to the country not for their capacity to conform to norms. As such, firms conform to those institutions that are essential for gaining minimum legitimacy (D'Aunno et al., 1991). All in all, it is not enough to accept a pure legitimacy-based response to institutions, but we need to acknowledge the influence of firms' self-interest in their strategic decisions.

Some researchers have tried to explore heterogeneous effect of institutions, their theoretical perspective, however, was merely focused on institutions. They empirically examined the importance of enhancing institutional theory by exploring heterogeneous responses of firms to institutions. They subject institutional effect and legitimacy achievement to factors such as degree of state ownership in a firm and its need for intangible assets (Cui & Jiang, 2012; Meyer et al., 2009a; Pan et al., 2014). Their results indicate that while firms conform to institutions, their responses vary based on their specifications that mitigate their uncertainty perception or expose them to more obstacles. For example, Pan et al. (2014) showed that firms with government ownership have access to more resources and they are empowered by government support. These features make them more risk tolerant to the extent that change their subsidiary ownership in response to institutions as compared to firms without any connection to governments.

However, there are a limited number of studies that acknowledge and investigate the role of legitimacy seeking along with self-interest in firms' responses to institutions. One stream of research has investigated this subject across the negative and positive institutional distance. They suggest that firms' entry mode choice varies depending on the direction of institutional distance (Hernández & Nieto, 2015). They found that in response to a negative institutional distance (when firms from developed countries expand to developing countries), firms are more likely to give priority to legitimacy over efficiency and to choose a lower level of ownership. This is because the partnership with a local firm helps them to overcome difficulties in adapting to weak institutions of the host country. On the other hand, in response to positive institutional distance, firms are more likely to give priority to efficiency criteria and choose a higher level of ownership as it is easier to conform to institutions in a developed host country and to achieve legitimacy.

Another line of research in this field has focused on the subject of legitimacy and self-interest in the context of firms' response to regulative institutions as compared with normative institutions (Ionascu et al., 2004; Kostova & Roth, 2002). For example, Zhang et al. (2014a) emphasize differences between the effect of regulative and normative distance while investigating their moderating effect on the relationship between asset specificity and degree of control. They explain that firms choose a high degree of control when they have high asset specificity, however, this choice will be strengthened by regulative distance

whereas it will be weakened by normative distance. Nonetheless, it is still not clear what entry mode firms choose in response to institutions when a similar logic is applied.

To shed more light on the concurrent effect of legitimacy seeking and self-interest, this research investigates how it manifests itself in entry mode choice. It argues that, firms' entry mode choices vary for each institutional dimension because, although firms conform to institutions, the priority in firms' interests differs in response to each one. In high regulative distance, firms give priority to self-interest, since in weak regulative institutions firms are more in need of a stronger control mechanism for they are more likely to face potential opportunistic behaviour. Moreover, in stronger regulative institutions that are easily identifiable and support business operations, survival concerns change from legitimacy to self-interest to get access to higher technology or other resources. Whereas in response to normative institutions that are less codified and harder to identify, the need for the help of a local partner grows.

2.3.4.2 Cognitive institutions- failures

Observing and imitating existing firms is not the only way for firms to reduce uncertainty perception and identify acceptable social behaviour in a country. Failures are also an important source of information for new entrants and are traditionally overlooked in the literature (Chandler & Hwang, 2015; Denrell, 2003). Failures, like existing firms, generate knowledge that can be absorbed by other firms in the population. Being salient and highly publicised, failures are observable across various industries (Ingram & Baum, 1997; Kim & Miner, 2007). Accessing information on failed firms is probably easier than existing ones as they no longer try to protect their competitive position (Ingram & Baum, 1997). Moreover, accumulation of knowledge on other firms in statistics, books, media, and employees enable firms to benefit from the experience of others even after they cease to exist (Baum & Ingram, 1998). A summary of literature in support of the role of failures is provided in Table 2.2.

Supporting this idea, organisational learning theory has long acknowledged the role of failures by asserting that firms not only learn by imitating successful firms but also by avoiding failures (Cyert & March, 1963; Levitt & March, 1988). Evidence of the vital role of inter-organisational learning from failures can be found in studies across various contexts. For example, Baum and Dahlin (2007), in a study on US railroad accidents from 1975 to

Table 2. 2: *A Selection of Literature on Learning from Failures*

Authors	Sample	Dependent variable	Independent variable	Important findings
Inter-organisational learning				
(Baum & Ingram, 1998)	558 transient hotels in Manhatan between 1898 and 1980	Rate of organisational failure	Experience of related organisations	Failure decreases by the experience of population only before their founding and not after.
(Chuang & Baum, 2003)	Ontario nursing home chain from 1971 to 1996	Change in common naming	Others' strategy performance experience	The effect of other firms' failure on adopting a similar strategy is positive.
(Kim & Miner, 2007)	US commercial bank industry from 1984 to 1998	Bank failure rate	Industry bank failure experience Industry bank near-failure experience	Failure or near-failure experience of other banks increases the survival chance of the focal bank.
(Baum & Dahlin, 2007)	Freight railroads active in the US from 1975 to 2001	Performance feedback	Others' failure	Organisations emphasize learning from others when performance deviates from aspirations.
(Hora & Klassen, 2013)	Managers	Knowledge acquisition	Operational loss of others	Firms learn from the operational loss of those that are high in operational similarity and are market leaders.
(Yang et al., 2015)	822 Japanese subsidiaries in China	Survival rate of FDI	Rate of failures experienced by others from the same industry and home country	Late entrants benefit from the failures of prior entrants in their industry.
(Madsen & Desai, 2010)	Orbital launch attempts by all organisations worldwide from 1957 to 2004	Organisational failure	Success/ failure experience of others	Organisations learn more effectively from their own and others' failures than successes. The knowledge gained from failures fades more slowly than knowledge from successes.

Authors	Sample	Dependent variable	Independent variable	Important findings
Intra-organisational learning				
(Khanna et al., 2016)	97 pharmaceutical firms between 1980 and 2002	Quality and quantity of R&D output	Number, importance and timing of small failures	Attributes of failure have an opposite effect on R&D output. More failures, higher importance and early failures increase the quality of R&D output. But, the effect of number of failures is insignificant on R&D quantity. Importance and timing decrease the quantity.
(Muehlfeld, Rao Sahib, & Van Witteloostuijn, 2012)	4973 acquisition attempts in the newspaper industry in 1981-2008	M&A completion	Success experience (completed deals) Failure experience (abandoned deals)	The effect of firms' prior successes and failures on M&A completion is subject to context which in this study is domestic acquisition, cross border acquisition, hostile acquisition and friendly acquisition.
(Desai, 2015)	Hospitals performing CABG surgery within California 2003-2010	Organisation's subsequent failure rate	Failure concentration	Concentration of failures within an organisation increases subsequent failures.
(Yu et al., 2014)	176 new high-tech technology ventures	New product development (NPD) performance	Knowledge acquisition Mediator: Learning behaviours from failures Moderator: Knowledge application	Knowledge acquisition facilitates NPD performance positively and the relationship is partially mediated by learning behaviour from failures.
Individual learning				
(Bledow et al., 2017)	Fifty students of the social sciences	Learning transfer	Failure vs success stories Mediator: Elaboration Moderator: Error orientation	Failure stories led to more elaboration and learning transfer, for those who see the learning potential of failures.
(Deichmann & Ende, 2014)	1,792 radical ideas suggested by 908 employees	Repeat initiative taking Initiative success	Initiator's prior experience of success and failure	Failure experience encourage individuals to repeat initiative taking Success experience increase the possibility of initiative success.
(KC, R. Staats, & Gino, 2013)	71 cardiothoracic surgeons who completed over 6,500 procedures	Individual current performance	Own success Own failure Others' success Others' failure	Individuals learn more from their own success than failure But, they learn more from others' failure than success.

2001 found that the railroad benefitted from others' failures when its performance was differed from expectations. In the context of the US banking industry, Kim and Miner (2007) investigated whether firms learn from the failure of others and whether this learning depends on geographic market and industry. They found that local failure of banks has a stronger survival-enhancing influence than non-local, because inferred information is more related and accessible. Similarly, Baum and Ingram (1998) examined the effect of failure on performance in the hotel industry. They showed that the failure of others at the time of founding played a significant role in lowering the failure rate of Manhattan hotels.

To depict a clear image of the role of failure, it is important to outline a review of the existing literature in other fields. As noted by earlier studies, learning from failures also has an effect at intra-organisational level. This body of literature posits that firms try to decipher what happens within the firm. Doing so, they learn from their own experiences of success or failure. Khanna et al. (2016) examined how number, time and importance of prior small failures influence firms' R&D output and quality. The results revealed that attributes of failure have opposing effects on quantity and quality of R&D. It means while more failures during early stages increase the quality of R&D output, they decrease the quantity. Yu et al. (2014) studied learning from failures in new product development (NPD) and found that knowledge acquisition from failure increases NPD performance. Although findings are inconclusive, they show the many factors that determine how firms learn from their own failure. In an interesting research on 1020 re-entry events Surdu, Mellahi, and Glaister (2018a) found that failure influence a firm's commitment in re-entry strategies. They showed that exit motives have a significant impact on a firm's re-entry decision.

Learning from failure is also investigated at the individual level. In the context of management education, Bledow et al. (2017) examined how managers learn from stories about managerial successes and failures. They reported that the knowledge gained from failures is more likely to be applied in a transfer task because failures motivates people to process the content of the story. Deichmann and Ende (2014) investigated the effect of learning from own failures in employees' radical initiative taking. As they separate success from failure, their study showed that individuals' experiences of failure, unlike their success, encourage them to repeat initiating new ideas.

Now that it has been established that learning from failures has a pivotal role in various fields, it is important to evaluate the position of institutional theory on this matter.

Comparing organisational learning and institutional theory studies, it becomes clear that the concept of imitation in both fields shares a fundamental feature. They both stress the influence of observational learning on focal firms' actions (Chandler & Hwang, 2015; Miner et al., 1999). Though, the degree of attention to failures seems to vary substantially between them. Unlike organisational learning theory, institutional theory hardly acknowledges the role of failures despite all the efforts it puts into investigating imitation.

To understand why failures should be part of cognitive institutions, it is helpful to trace the origin of imitation in institutional theory. According to Scott (2001), institutional theorists in sociology developed the concept of cognitive institutions by bringing together the developments in cognitive, cultural theories and ethnomethodology. They defined cognitive institutions as the shared conceptions that constitute the nature of social reality and the frames through which meaning is made (Scott, 2001). Therefore, the emphases is on how the meaning a firm attributes to an action is shaped by routines and common frameworks in society (DiMaggio & Powell, 1983), regardless of the outcome. However, overtime this idea was interpreted to apply more generally to how firms conform to cognitive pressure by imitating existing firms that have survived. As such, our understanding of the role of failures in cognitive institutions remains unclear. Thus, this study proposes adding failures as a new dimension to the cognitive institution of institutional theory.

It is important to incorporate failures in the ongoing discussion on the effect of cognitive institutions as learning from failures is different and more challenging compared to learning from successes (Hora & Klassen, 2013). Successes of a firm encourage others to imitate whereas failures trigger a search for an alternative plan (Miner et al., 1999; Sitkin, 1992). Therefore, firms learn more effectively from failures than successes (Madsen & Desai, 2010). Failure draws a firm's attention to potential issues, deeper processing of information and stimulates its search for solutions, while success may create a competency trap that limits firms' in their search for underlying causes and encourages them to follow the successful strategy as there is no need to change something that operates properly (Sitkin, 1992). Empirical findings corroborate this idea by showing a distinct relationship between learning from failures and the survival rate of the focal firm (Ingram & Baum, 1997; Kim & Miner, 2007; Madsen & Desai, 2010).

To address the above-mentioned gap in institutional studies, the present research aims to examine the effect of cognitive institutions on entry mode decision. More specifically, it

investigates the effect of existing firms as well as failures on the choice between JV and WOS.

2.3.5 Experience

In addition to learning from others, firms' own experience is found to be one of the fundamental mechanism that facilitates learning (Huber, 1991). Traditionally, one of the essential elements of foreign expansion is considered to be experience, the accumulation of which develops a sequential process of internationalisation (Rhee & Cheng, 2002). Johanson and Vahlne (1977) argued that firms gradually develop their commitment in a foreign country as they accumulate experience because a lack of knowledge is a hindrance to successful internationalisation. In other words, the level of commitment in foreign operations depends on the knowledge and capabilities generated through experience. Although the idea of gradual internationalisation based on the level of experience has been challenged by the emergence of some concepts such as the internationalization of firms from developing countries or SMEs, the influence of experience on capability development and uncertainty reduction is well-supported.

Several types of experience have been identified and investigated in relation to internationalisation decisions and more specifically entry mode choice. Accordingly, it has been categorised into three main groups based on the source of experience. The first type is international experience which is accumulated from prior foreign business operations in multiple countries (Chetty et al., 2006). Operation in multiple countries enhances firms' capabilities by exposing them to a wide range of market characteristics and market actors such as suppliers, customers and competitors (Barkema & Vermeulen, 1998). International experience makes firms competent in how to deal with legitimacy issues in a foreign country, how to scan host country institutions to identify key legitimacy actors and to understand their requirements (Kostova & Zaheer, 1999). Hence, international experience determines firms' sensitivity to environmental uncertainties by enhancing their understanding, competence and confidence to the extent that experienced firms are willing to take more risks (Anderson & Gatignon, 1986; Jung et al., 2010). Empirical studies have shown that these strengthened capabilities encourage firms to take more risk and control in their choice of internationalisation mode (Barkema & Drogendijk, 2007; Brouthers & Brouthers, 2000; Slangen & Hennart, 2008). However, not all studies corroborate the influence of international experience (Barkema et al., 1996; Delios et al., 2008).

Inconsistent findings on the effect of international experience can be attributed to multiple factors. One reason might be firms' absorptive capacity, the ability of firms to assimilate new knowledge, which increases when the new knowledge is related to what they already know (Cohen & Levinthal, 1990). Hence, experience is transferable to another country when it is sufficiently specific to enable learning (Barkema & Schijven, 2008). It is suggested that the resources and capabilities a firm acquires during its operation in a country, such as an established network with suppliers and customers and knowledge of local practices, is country specific and not applicable to other destinations (Delios & Beamish, 2001; Delios & Henisz, 2003a). Related experience is manifested in similar contextual factors such as cultural block, institutions and industry. Investigating the performance of acquisitions in the EU made by firms from emerging countries, Buckley et al. (2014) asserted that prior experience is not always beneficial, but the usefulness of experience depends on its type and location. They demonstrated that the performance of acquisitions in the EU improves through prior experience in acquisition and developed countries. Similarly, it is found that firms with experience in politically hazardous countries exhibit less sensitivity to hazards in the host country (Delios & Henisz, 2003b) and experience increases survival rates in similar regulative environments (Perkins, 2014).

While related experience is important, international experience still adds value to a firm's expansion to a new country. Although international experience might have been acquired somewhere different from the target country, the capabilities it creates support firms in their internationalisation process to any country. A study by Eriksson et al. (1997) could explain why international experience is applicable in a new context. It suggests that international experience not only adds to firms' country specific knowledge such as suppliers, customers, rules and norms, but enhances their internationalisation knowledge regarding how to expand operations to foreign countries. Through international experience, firms develop learning skills that help them absorb new concepts in a new country and translate them into routines and procedures that are applicable in other countries as well (Barkema & Drogendijk, 2007). Firms with international experience develop the ability to adhere to diverse laws, and effective communication strategies (Dikova et al., 2010). Drawing on this argument, the present research considers that international experience is applicable to investments in a new country.

The prevalence of a unidimensional perspective may be another explanation for the discrepancies in the effect of international experience. The majority of studies either examined intensity of experience (Delios et al., 2008; Jung et al., 2010; Lu, 2002) or its diversity (Delios & Beamish, 1999; Jung et al., 2010; Slangen & Hennart, 2008). Organisational learning researchers, however, emphasize the importance of both in shaping firms' future actions (Cohen & Levinthal, 1990; Levitt & March, 1988). Intensity is mainly the length of the foreign operation measured by the number of years, and diversity is the variety of countries in which the firm operated, measured by the number of countries (Erramilli, 1991). Higher intensity provides firms more time to accumulate knowledge, develop and enhance routines and create abilities that mitigate environmental uncertainties (Luo & Peng, 1999). On the other hand, diversity of experience exposes firms to a variety of challenges and ideas leading to a richer knowledge base and wider mental models (Barkema & Vermeulen, 1998; Huber, 1991).

A limited number of studies has investigated and observed the effect of intensity and diversity of experience in various contexts. In the context of entry mode and location choice, for instance, Erramilli (1991) suggested that the intensity of experience, not diversity, plays an important role in explaining entry mode choice whereas, diversity of experience effectively contributes to firms' entry into culturally distant countries. In the field of policy risk, Jiménez et al. (2018) asserted that while firms learn from both intensity and diversity of experience in managing policy risks, each dimension has a distinct effect on firms' internationalisation scope. As for performance, Luo and Peng (1999) found that both intensity and diversity influence performance, but diversity has a more sustainable contribution, whereas the effect of intensity diminishes over time. In view of existing evidence on the importance of both dimensions, the present research operationalises international experience by considering both intensity and diversity.

The second type of experience is host country experience which is obtained from prior operational experience in the focal host country. As firms operate in a country, they learn about local culture, norms and the way of doing business. They develop networks with suppliers and customers, all of which decrease their liability of foreignness in that environment (Basuil & Datta, 2015; Chang & Rosenzweig, 2001). Thereby, the experience a firm acquires in the host country improves its understanding of the business environment and decreases uncertainties it associates with risks and returns of investment, thus determining its

mortality rate (Zeng, Shenkar, Lee, & Song, 2012), survival rate and performance (Delios & Beamish, 2001; Luo, 1999; Luo & Peng, 1999). As a result, inexperienced firms are more risk averse and need a structure that mitigates their liabilities while giving them access to country-specific knowledge. Supporting this argument, studies have found that experienced firms prefer to invest where they have prior experience (Hennart & Park, 1994), opt for a higher degree of ownership (Delios & Beamish, 1999), and more-specifically prefer to choose WOSs (Lu, Li, Wu, & Huang, 2018; Luo, 2001).

On the other hand, some studies do not support the positive influence of host country experience on firms' propensity to choose larger investments and solo operations (Hennart & Park, 1993; Larimo, 2003). While experience in the host country enhances firms' knowledge about the country and its rules, norms and ways of doing business, it also teaches them how to negotiate with a local partner, cooperate and manage post-investment challenges (Chang & Rosenzweig, 2001). Advancing in these capabilities mitigates the uncertainties a firm associates with having a local partner. Implementing cooperation with a local partner, such as JV or acquisition, entails integration of corporate cultures, which requires experience to smoothly maintain the relationship and operation (Barkema et al., 1996). To avoid the challenges associated with cooperative structure, firms tend to move towards full ownership structures that have more flexibility and fewer challenges in the face of uncertainty. So, experienced firms have a weaker need to rely on full ownership to deal with unexpected challenges (Jung et al., 2010). Adding to the inconsistent findings, Surdu, Mellahi, Glaister, and Nardella (2018b) showed that length and depth of a firm's experience in the host country have different impacts. In the context of re-entry decision, they found that the length of experience from initial entry to exit does not have any influence on the speed of re-entry, whereas the depth of experience has a positive effect.

In addition to experience in foreign countries, researchers believe that the experience a firm accumulates during its operation in the home country is an important source of knowledge that complements its experiential learning. When a firm operates in a country, it accumulates knowledge on how to deal with a certain kind of institutional environment and develops abilities through interaction with government, suppliers and customers. Although detailed characteristics of institutions vary country by country, firms develop broader abilities to identify institutional requirements and to manage them, and these are applicable in other similar counties (Henisz, 2003). In this regard, while all foreign firms face disadvantages in

relation to local firms, those from countries with similar institutions have a competitive advantage over others. The ability to manage environmental uncertainties and be more flexible in response to an unpredictable regulatory system, abilities that firms from developing countries develop at home, makes them common investors in least developed countries than firms from developed countries (Cuervo-Cazurra & Genc, 2008). Firms from countries with weak institutional constraints on policy makers are more capable of assessing political dynamics and developing relationships with policy makers because of their need to be involved in policy making process as their operation depends on it (Holburn & Zelner, 2010). Institutional scholars have accounted for home country experience in the institutional distance variable which indicates the level of similarity between two countries. They suggest that firms from similar institutional environments rely on their own knowledge and experience to manage host country institutions and perceive less uncertainty (Hernández & Nieto, 2015; Salomon & Wu, 2012). In line with prior research, this study uses institutional distance to account for firms' experience in the home country.

Researchers further argued that in addition to direct effect, experience also moderates the internationalisation choices of firms. The underlying argument is that because internationalisation choices evolves around firms' uncertainty perceptions, the knowledge and capabilities they acquire through experience facilitate their operation in the foreign country and empower them in dealing with environmental uncertainties. Experience helps to develop new capabilities and these capabilities change the way a firm evaluates host country uncertainties, risk of investment and as a result, the need for a local partner (Agarwal, 1994). When a firm enters a country, its experience helps to identify and safeguard against challenges that might arise due to environmental uncertainties such as political hazards (Delios & Henisz, 2003b). As a result, for example, experienced firms tend to have higher equity ownership when public expropriation hazard is high as they are less sensitive to risks (Delios & Henisz, 2000). In a culturally distant country, internationally experienced firms tend to establish a subsidiary from scratch rather than acquiring an existing firm because the knowledge that a local firm could provide on local practices and local markets is less beneficial to an experienced firm (Slangen & Hennart, 2008). On the other hand, suggesting greenfield as the preferred choice over acquisition and JV in a culturally distant country, Chang and Rosenzweig (2001) found that the effect of cultural distance diminishes over subsequent entries.

A limited number of studies investigated the moderating effect of experience on firms' responses to institutions and more specifically entry mode choice. However, they largely used unidimensional international experience or focused mainly on one institution or one type of experience. In a study on the internationalisation of the Japanese automotive industry, Powell and Rhee (2013) observed that diverse international experience and host country experience moderate the effect of regulatory distance on entry mode choice. Regarding cognitive institutions, Lu (2002) showed that experienced firms tend to rely on their own knowledge in their choice of entry mode instead of imitating other firms. Similarly, in a comparison between vicarious and experiential learning, Aranda, Arellano, and Davila (2017) demonstrated that vicarious learning has a stronger influence in the early years of establishment. Taken together, this study adds to the existing body of research on experience by examining the effect of firms' experience, including international and host country, on their entry mode choice in response to institutional distances.

In sum, the review of the literature on entry mode choice and institutional dimensions and failures has demonstrated how the role of failure is lost in explaining firms' entry mode choices. Further, it shows how acknowledging the self-interest motivation of firms would explain contradictory findings in institutional literature. The next section will illustrate the conceptual model and hypotheses proposed to test the effect of failure and institutional dimensions. Specific consideration is given to experience as a moderator.
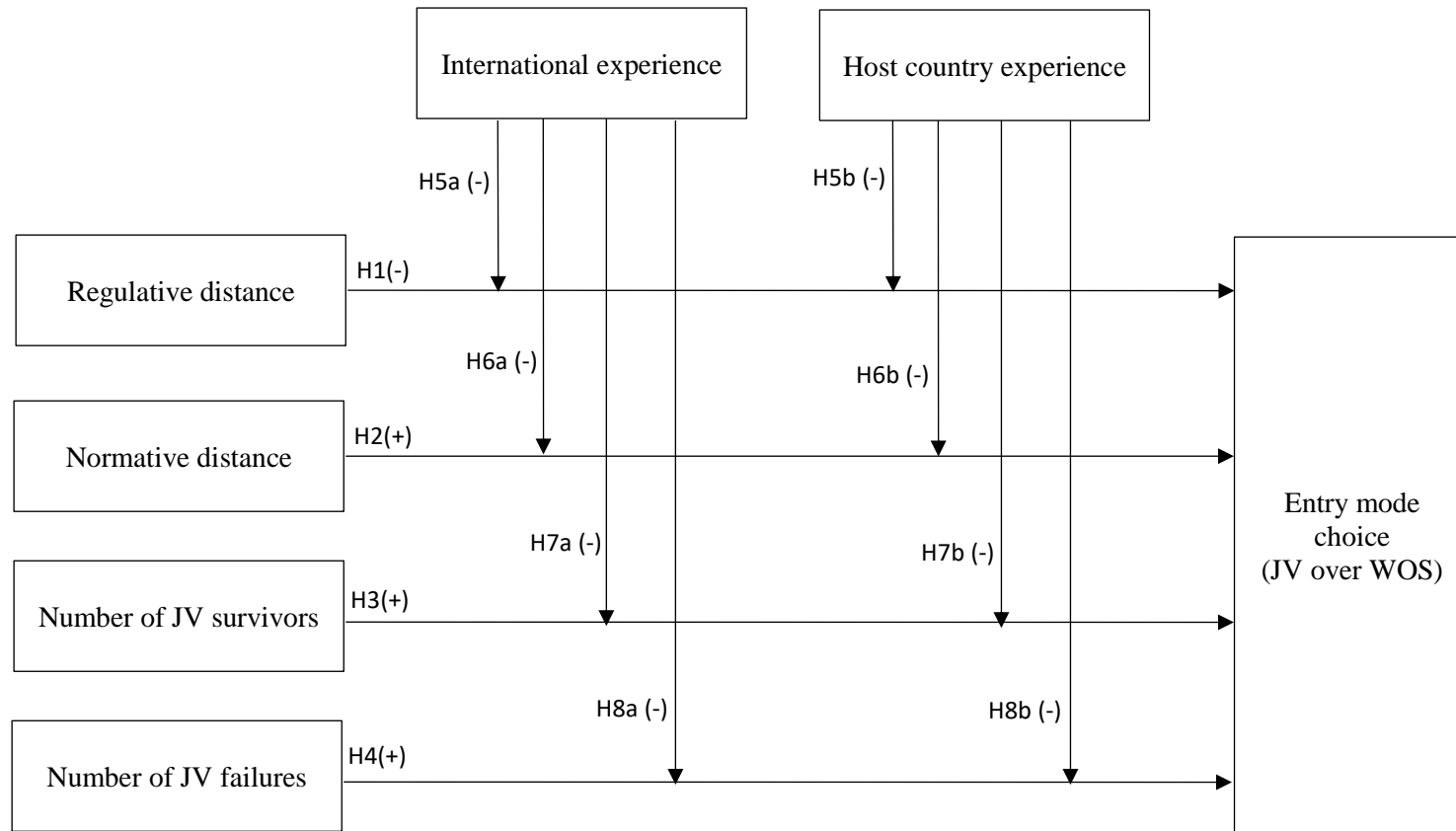
Figure 2. 1: *Conceptual model*

2.4 Conceptual model and hypothesis development

A conceptual model is depicted in Figure 2.1 that illustrates the effect of institutional factors including failure on entry mode choice. It proposes several relationships. First, the model shows that regulative and normative distance have asymmetric effect on entry mode choice. In other words, regulative distance negatively influences firms' choice of JV while normative distance increases firms' tendency to choose JV. Second, the number of JV failures positively influences the tendency of subsequent entrants to choose JV. Third, the experience of firms (in the host country and overall international experience) weakens the effect of institutional dimensions.

2.4.1 Regulative distance and entry mode choice

Firms are bound by the formal rules and laws of the host country to which they need to conform to achieve legitimacy. Regulative institutions in a country are rules and laws that structure interactions and ensure stability and order in society (North, 1990; Williamson, 2000). Hence, with different legal and political systems across countries (Berry, Guillén, & Zhou, 2010; Chao & Kumar, 2010), firms encounter several challenges to operate successfully and to achieve legitimacy. Existing research demonstrates that despite the challenges of the international business environment, firms expand their operations to foreign countries using market entry strategies to mitigate uncertainties (Chari & Chang, 2009; Delios & Beamish, 1999; Gaffney, Karst, & Clampit, 2016; Hill et al., 1990).

In high regulative distance, firms might face the liability of foreignness posed by unfamiliarity with local institutions due to a gap between the existing level of knowledge in the firm and the level required for operating in the host country (Kogut & Singh, 1988; Zaheer, 1995). They need to initially identify rules and laws in the host country and adapt their behaviour accordingly. For instance, foreign firms may face discriminatory rules such as tariffs, mandatory exporting or limited equity share (Meyer et al., 2009). In the face of these challenges, firms need to choose an entry mode that encounters the least regulative constraints while providing them the highest legitimacy.

With a JV structure, firms are able to conform to institutions, since it gives them access to complementary knowledge of the local partner and provides incentives for more participation (Agarwal, 1994; Chari & Chang, 2009). However, when a host country has

restrictive regulative institutions, foreign firms face management challenges, sudden changes in rules and laws and barriers to reach an agreement with the partner or government (Arregle, Miller, Hitt, & Beamish, 2013). Should that be the case, the potential risks of having a JV in high regulative distance offset its benefits. Although conforming to institutions and legitimacy achievement is a primary concern in a foreign investment, it is not the only issue. As stated earlier in this chapter, in addition to legitimacy, firms also need to consider economic efficiency and their self-interest to ensure survival. In entry mode choice, firms give priority to one or the other depending on whether the immediate source of concern for survival is legitimacy-driven or efficiency-driven (Martinez & Dacin, 1999).

In response to regulative distance, priority might be given to efficiency-driven concerns for two reasons. First, institutions differ in the degree to which they put firms' economic efficiency at risk. High regulative distance exposes firms to potential opportunistic behaviour, especially in emerging host countries where rule of law is weak and the foreign firm doesn't have enough knowledge to deal with regulative uncertainties. Existing literature stresses the importance of a strong control mechanism in a weak regulative institutional environment or large regulative distance where the protection of intellectual property rights is weak (Chung & Beamish, 2005; Oxley, 1999). Brouthers and Brouthers (2001) showed that while the choice of JV facilitates access to local knowledge, it happens when host country risk is low. According to this argument, weak enforcement of law and a corrupt judicial system necessitate a strong control and monitoring mechanism over operations to avoid unintended knowledge transfer and to overcome the potential threat of free-riding piracy (Dikova & van Witteloostuijn, 2007). Therefore, in this situation, firms need to choose an entry mode that reduces the appropriability hazard and enhances monitoring capabilities over operations. For example, Gaur and Lu (2007) praised the advantages of having better control mechanisms in WOS as opposed to accessing local knowledge and connections of local partners in JV. Having better control mechanisms protects foreign firms against potential opportunistic behaviour of partners, which gives them higher survival rates.

Second, regulative institutions that are easy to identify and learn from are of less concern in entry mode decisions. The main concern here is not so much the general uncertainty that regulative distance may cause as it is about the difficulty of understanding institutions and their complexity. The benefit of JV is to facilitate firms' access to local knowledge and resources, however the importance of acquiring knowledge from local

partners evolves around the difficulty in identifying the required knowledge (Anand & Khanna, 2000). In the case of regulative institutions that are formalized and codified and their institutional differences have a weaker influence on decisions as compared to other institutions (Kostova & Zaheer, 1999), it is possible that firms are less interested in JVs that give them access to local information. For example, if a firm is considering investing in a foreign country, it could easily identify before investment, whether any regulative restrictions exists on foreign investment in the focal industry.

Empirical studies support this argument by showing that in uncertain environments such as low legal protection and high political risk, firms choose WOS to protect their intellectual property, to impede the potential threat of free-riding and piracy, and to provide more flexibility in the face of sudden changes in policy (Chung & Beamish, 2005; Dikova & van Witteloostuijn, 2007; Elango et al., 2013). Supporting this argument but in the sub-national level, Bao, Wang, and Xie (2019) have shown that firms operating in a province of China with relatively weaker regulative institutions have more tendency to change the ownership from JV to WOS. Altogether, since the weak enforcement of rules undermines the capacity of JVs to benefit the focal firm and necessitates a strong control mechanism as a substitute for legal system deficiencies, it is expected that when regulative distance is high, firms are more likely to choose WOS over JV.

H1) Regulative institutional distance has a negative effect on a firm's choice of JV over WOS.

2.4.2 Normative distance and entry mode choice

Similar to regulative distance, firms suffer from liability of foreignness due to unfamiliarity with the normative institutions of the host country. Referring to the informal aspect of the institutional environment, normative institutions are the means by which firms pursue their valued ends (Scott, 2005). They contain a normative management aspect of the host country institutions, that affect foreign investment, such as level of corruption and transparency in business governance (He et al., 2013). So, firms need to assess and understand norms, values and the way of doing business in the host country to be able to conform to them. Hence, they should choose an entry mode that mitigates these challenges and facilitates legitimacy achievement.

Based on the argument that firms make entry mode decisions out of concern for survival, it is expected that JV is the preferred choice when normative distance is high. Having a tacit and less codified nature, normative institutions present a great challenge in legitimacy achievement as they are more difficult to sense and interpret (Kostova & Zaheer, 1999). Lack of understanding and conformity to normative institutions exposes foreign firms to social risks such as stereotyping and subjects them to different standards imposed by legitimacy providers (Kostova, 1999; Kostova & Zaheer, 1999). As such, firms' immediate concern for survival is mainly legitimacy-driven (Estrin et al., 2009; Liou et al., 2016; Zhang et al., 2014a). In these conditions, where firms are less assured of legitimacy, they need access to local knowledge to identify normative institutions, which may lead them to sacrifice economic efficiency for a more immediate concern such as legitimacy. To overcome these challenges, firms that don't have the required knowledge and capability need to cooperate with a local partner to collect and interpret local business norms.

As normative distance increases, firms benefit more from the advantages of JV. This mode helps firms overcome differences in normative institutions by providing them with knowledge on local norms and an ability to respond to the demands of legitimacy actors in the host country. Partnering with a local firm, while potentially inefficient due to the lack of full control or shared profit, does provide the firm with resources that cannot be generated internally and boosts the focal firm's legitimacy. In contrast, entering an institutionally distant country through WOS may create some difficulties for the firm as it needs to deal with normative issues on its own. Dhanaraj and Beamish (2009) showed on a sample Japanese firms' foreign investment, that under high social pressure, JVs increase the chance of survival of the firm in comparison to WOS. They argue that JVs have advantages over WOS because they provide not only access to local networks but to local knowledge and skills needed to survive in the host country.

Empirical studies support this argument by showing that greater normative distance causes firms to exchange advantages of WOS for the benefits of JV, to exploit the partner's existing networks of suppliers and customers, to utilise local managers and deal with internal cultural differences. An additional objective for this choice is to learn how to adjust to corrupt business practices and in general how to access a partner's knowledge on how to do business in the focal country (Chen et al., 2009; Liou et al., 2016; Yiu & Makino, 2002). All in all, it

is expected that firms demonstrate a greater tendency to choose JV over WOS in response to high normative distance.

H2) Normative institutional distance has a positive effect on a firm's choice of JV over WOS.

2.4.3 Cognitive institutions and entry mode choice

2.4.3.1 Survivors

When investing in a foreign country, firms often face considerable uncertainty stemming from a lack of information about business operation in the host country (Johanson & Vahlne, 1977). In this situation, firms face difficulty in assessing the environment and consequences of expansion to that country. Thereby, they turn to other firms' behaviour as a source of information on how to achieve legitimacy. Legitimacy is a general perception that the focal action is accepted and appropriate in a socially constructed framework (Suchman, 1995). Identifying the entry mode that gives firms legitimacy is important in ambiguous situations with unclear solutions, as in those situations the importance of social considerations outweighs technical ones and legitimacy becomes imperative for survival as indicated by institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977).

It is expected that the probability of a firm choosing JV rises as the number of previously adopted JVs by other firms increases. Operating in a foreign country exposes firms to legitimacy requirements from various sources of government, customer, suppliers and local activists, which complicates the process of understanding them and conforming to them. When firms lack the information and capability to deal with these requirements, they are likely to use frequently adopted entry modes to increase their legitimacy because prevalence of an action improves its legitimacy in the eyes of legitimacy providers (Henisz & Delios, 2001; Yiu & Makino, 2002). Frequency of foreign entries with a certain mode familiarize legitimacy providers with that decision so they perceive similar decisions to be legitimate (Chan et al., 2006; DiMaggio & Powell, 1983). Choosing an entry mode that is perceived to be legitimate decreases the obstacles firms would face in acquiring resources, and resistance from local stakeholders. High frequency of prior entry with a certain mode signals to new entrants that this mode is probably more accepted by legitimacy providers and would have higher chance of survival.

When firms learn from the entry mode decisions of others, they tend to focus more on the entry mode of firms from the same industry. They categorize their observations based on relevant similarities such as home country or industry to simplify understanding of the complex situation and ambiguous information (Garcia-Pont & Nohria, 2002; Haunschild & Miner, 1997; Li et al., 2007). A tendency to follow firms from the same industry mainly comes from similar restrictions and challenges competitors face in each industry. Industries vary substantially in governance mechanisms and institutional frameworks that structure behaviours (Scott, 2001). For example, some industries are under foreign investment restrictions due to national security concerns or for the protection of domestic firms. As industries vary in their guidelines and frameworks, firms in individual industries will be exposed to similar requirements and share the same perception on the complexity and ambiguity of operations given they share similarities in product, market, technology and suppliers (Xia et al., 2008). Evidence of selective imitation based on industry is reported in various studies such as the probability of choosing an IBanker (Haunschild & Miner, 1997), exit decision of Venture Capital firms (Gaba & Terlaak, 2013), and making unrelated M&As (Yang & Hyland, 2006).

Prior studies on cognitive institutions have shown that in the face of uncertainty, firms tend to seek legitimacy by imitating the behaviours of other firms. Examples of this are the probability of choosing geographic location for investment and expansion (Greve, 2000; Henisz & Delios, 2001; Hennart & Park, 1994; Li et al., 2015), acquisition (Baum et al., 2000; Umit, J., & Cheng-Wei, 2017), alliance (Garcia-Pont & Nohria, 2002), naming strategy (Chuang & Baum, 2003), internationalisation choice (Oehme & Bort, 2015) and more specifically entry mode choice (Li et al., 2007; Lu, 2002; Xia et al., 2008; Yiu & Makino, 2002). Guillén (2003), for instance, posits that entry mode decision is based on firms' characteristics and what they learn from their own experience and other firms. They predict that the higher the number of firms from the same home country industry using JV (WOS) the higher the rate of subsequent entry via JV (WOS) by any other firm. Moreover, Xia et al. (2008) shed more light on following other firms' actions by examining the number of JV adaptations and rejections by industry peers in the same home country and host country. They found that during the rise period of JVs, the number of JV adaptations by firms from the same home country and industry peers in the host country increases the probability of choosing JV. Only the number of JV rejections by industry peers in the host country was found to increase rejections of JV.

In summary, replicating findings of prior studies, this research argues that the number of existing firms in an industry with JV mode positively influences the probability of choosing JV by subsequent entrants in that industry. The choice of JV over WOS by a large number of firms provides information on the acceptability level of this decision and its consequences in the host country (Chan & Makino, 2007). From the low level of foreign ownership, firms could infer that there is a high level of preference for local governance, and cooperation is the accepted form of investment in the focal host country. It is therefore proposed that:

H3) The number of JV survivors in the same industry has a positive effect on a firm's choice of JV over WOS.

2.4.3.2 Failures

Grounding the theoretical framework on legitimacy-oriented motivation in uncertain environments, the present research proposes that the existence of higher number of JV failures, leads firms to choose JV over WOS for several reasons. First, JV failures provide a learning experience for firms that enhances their understanding of JV structure and how to manage it. For firms to actually learn from their observations in a way that changes their behaviour, the observation should motivate them to learn and lead them to valuable information (Madsen & Desai, 2010). The failure of others meets these criteria. Unlike success, which encourages blind imitation, failure motivates learning by prompting firms to evaluate the chosen strategy because the outcome indicates that the existing method of operation was not adequate (Baum & Dahlin, 2007; Bledow et al., 2017; Madsen & Desai, 2010). While these studies acknowledge the difficulty to observe learning from failures, they considered the positive influence of failure on performance as a sign that learning occurs and it's fruitful.

Failure of others not only motivates a firm to learn, but also creates a spill over effect. It means the larger the number of failures the larger will be the base of knowledge from which firms can learn (Knott & Posen, 2005). Having a larger base of knowledge facilitates the detection of causal effects and enables firms to encode those effects to their decisions (Muehlfeld et al., 2012). Moreover, failure of others leads firms to attribute the cause of

failure to the focal firm's actions because when firms make judgments regarding the cause of others' failure, they tend to overemphasize the role of involved parties and under weight the influence of the environment, as contended by attribution theory (Kelley & Michela, 1980; Weiner, 1974). This way, they are likely to understand what went wrong which stimulates firms to develop routines and procedures necessary to prevent similar events. In summary, the failure of others with JV structure motivates firms to learn and leads them to valuable information that advances their knowledge and capability to manage a JV in the focal host country.

This research proposes that a firm's tendency to choose JV increases as the number of JV failures increase. That is because as stated by entry mode studies, firms are more likely to choose an entry mode about which they have more information (Barkema & Vermeulen, 1998; Chang & Rosenzweig, 2001). Therefore, in an uncertain environment where firms are in need of a local partner's knowledge to gain legitimacy, a higher number of JV failures does not diminish the value of JV mode, but also provides firms with an opportunity to increase the survival chances of the JV while benefiting from the advantages of having a local partner. This happens through identifying potential issues and developing cooperation capabilities.

Another reason that firms tend to choose JV as the number of JV failures grows is that firms' strategic decisions depend on the market outlook (Gaba & Terlaak, 2013) as well as the appropriateness of alternative strategies (Greve, 1995). The failure of foreign investments draws attention to challenges in the host country and its openness towards foreign investors. Failure of JVs as a low risk entry mode in an uncertain environment indicate the high level of liability of foreignness that firms are going to face, which boosts the uncertainty perception of foreign investors. Although the number of JV failures in a country may cause firms to question the appropriateness of this strategy, the preferred mode of entry depends on the acceptability of the alternative strategy – WOS – in the host country. With WOS entry mode, firms enjoy higher levels of control and a larger share of the profits, however, this mode requires larger resource commitment (Anderson & Gatignon, 1986; Hill et al., 1990). On the other hand, JVs provide firms access to country specific knowledge and local networks with less resource commitment which makes firms less susceptible to environmental uncertainties (Luo, 2002). Therefore, with the increase of uncertainty perception and the need for legitimacy, the choice of WOS is less appealing as compared to JV. In other words, firms still

prefer to opt for JV and cooperate with a local partner than face the uncertainty on their own. Although the outcome of JVs by some other firms may not have been successful, the choice of JV seems sensible due to the advantages it could provide for the foreign partner in the uncertain environment. Therefore, it is hypothesised that:

H4) The number of failed JVs in the same industry has a positive effect on firms' choice of JV over WOS

2.4.4 Experience and regulative distance on entry mode choice

As discussed previously, the choice of WOS over JV in response to high regulative distance in a country with weak regulative institutions, acts as a strong control mechanism against the potential opportunistic behaviour of partners. Another reason was the decreasing value of the benefits of JV, such as getting access to local knowledge, in the face of high regulative distance. Although firms might face challenges of unfamiliarity with regulative institutions of the host country, the codified nature of regulative institutions facilitates identifying and understanding them.

Since the effect of experience revolves around dealing with environmental uncertainties, this study proposes that international experience weakens the effect of regulative distance on the choice of WOS. International experience shapes an accurate perception of risks and returns in the foreign market by enhancing a firm's understanding and knowledge. Firms with international experience are more competent and confident to take risk and manage their foreign operations (Anderson & Gatignon, 1986; Erramilli, 1991). International experience gives firms the knowledge and capabilities to deal with high regulative distance such as the ability to detect and safeguard against opportunistic behaviours of local competitors and governments (Delios & Henisz, 2003b). It makes them develop learning skills that help them absorb new knowledge (Barkema & Drogendijk, 2007), which facilitates understanding new regulative institutions. Examining the internationalisation of Japanese companies, Jung et al. (2010) found that experienced firms have less need to use full ownership to deal with unexpected contingencies arising from coordinating and communicating with a local partner. Therefore, as international experience

increases, the propensity to choose WOS as a means of mitigating institutional uncertainties decreases.

In terms of host country experience, this study argues that it also demonstrates a similar influence on the relationship between regulative distance and entry mode choice. While inexperienced firms might be concerned about risks associated with partners' behaviour, these concerns diminish for firms with host country experience for they have accumulated knowledge about how to manage a partner and protect themselves against opportunistic behaviour. Relying on the same argument, Chang and Rosenzweig (2001) showed that the association between competitive advantage and the choice of greenfield over acquisition is weaker for subsequent entry of Japanese and European firms into the US. Supporting the contingent effect of external uncertainties on firms' choice of ownership, Delios and Henisz (2000) showed that foreign firms' sensitivity to expropriation hazards decreases as they acquire capability through host country experience. On a sample of Japanese firms, Powell and Rhee (2013) found that similar experiences increase firms' confidence in managing regulatory differences and increase their tendency to choose full ownership. Hence, this research hypothesizes that the negative relationship between regulative distance and the choice of JV is weaker for firms with experience in the host country.

H5) The negative effect of regulative distance on the choice of JV over WOS weakens with a firm's a) international experience and b) host country experience.

2.4.5 Experience and normative distance on entry mode choice

This study proposed that the choice of JV over WOS in response to high normative distance is motivated by the desire to overcome firms' lack of knowledge about the host country. However, international experience equips firms with the ability to identify, learn and absorb new knowledge in a country (Barkema & Drogendijk, 2007; Kostova & Zaheer, 1999). So, although an experienced firm might not have direct knowledge of the norms in the host country, it has developed routines and procedures to carefully scan the environment, identify norms and understand them. These capabilities help firms to overcome differences they might face in normative institutions and diminish the need for having a local partner. In

line with this argument, Chao and Kumar (2010) asserted that the effect of normative distance decreases with firms' international experience. Hence, this research proposes that international experience weakens the effect of normative distance on the choice of JV over WOS.

As discussed earlier, normative institutions are tacit, uncodified and often hard to identify and decipher. Therefore, firms depend on the local partner to understand normative institutions. However, operating in the host country provides firms not only with skills to learn and operate in a foreign country, but also with direct knowledge about business practices, culture and communication styles (Li et al., 2015; Slangen & Hennart, 2008). Moreover, operating in a country gives a firm opportunities to interact with legitimacy actors, establish networks and enhance their legitimacy (Salomon & Wu, 2012). Therefore, experienced firms have the advantage of possessing internalized knowledge about host country norms. This leads to a smaller legitimacy gap. Therefore, this study hypothesizes that the positive relationship between normative distance and the choice of JV is weaker for firms with host country experience.

H6) The positive effect of normative distance on the choice of JV over WOS weakens with a firm's a) international experience and b) host country experience.

2.4.6 Experience and survivors on entry mode choice

The notion that firms imitate the entry mode choices of others from similar industries is based on the premise that firms search for legitimacy clues in other firms' behaviour when they enter a foreign country (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Recent institutional studies have acknowledged that this premise is often violated by factors such as experience (Lu, 2002; Oehme & Bort, 2015). Imitation is recognised as an approach to overcome uncertainties related to a lack of knowledge (Haunschild & Miner, 1997). Suffering from a lack of knowledge from their own experience, inexperienced firms turn to other firms' behaviour to search for information on the host country (Baum et al., 2000; DiMaggio & Powell, 1983). Therefore, it is expected that firms with international experience, that have learned the ability to operate in a foreign country and have lower estimate of risks and costs, demonstrate different imitation behaviour than inexperienced firms. The knowledge that

firms acquire through experience makes them less reliant on learning from other firms (Yang & Hyland, 2012a). On a sample of overseas subsidiaries of Korean firms, Kim (2013) demonstrated that the propensity for location choice imitation is lower for firms with international experience. Wu, Liu, and Huang (2011) examined the moderating effect of international experience on the internationalisation of Chinese firms but did not find significant result.

A similar line of reasoning suggests that host country experience is likely to weaken a firm's tendency to adopt another firm's behaviour. One of the pivotal factors contributing to uncertainty perception is a lack of knowledge about the host country institutions. Once a firm accumulates experience in a host country, its level of uncertainty will decrease. This uncertainty reduction leads to a lower tendency to imitate because its benefits decrease as the firm's experience increases (Delios et al., 2008; Salomon & Wu, 2012). Li et al. (2015) as well as Henisz and Delios (2001) demonstrated that the propensity of firms with host country experience to imitate location choice of others is lower than inexperienced firms.

H7) The positive relationship between the number of existing JVs in the same industry and the choice of JV by subsequent entrants weakens by a firm's a) international experience and b) host country experience.

2.4.7 Experience and failures on entry mode choice

It is argued that the large number of failed JVs is inferred as a sign of higher potential risks and uncertainties in the environment. This leads firms to opt for an entry mode that helps them achieve higher legitimacy in the uncertain environment of the host country. In this way, it was proposed that firms tend to choose JV over WOS because JV requires less resource commitment and gives access to country-specific knowledge. Prior experience in foreign countries allows a firm to perceive less uncertainty as it is equipped with routines and procedures to assess the environment and identify legitimacy requirements. Therefore, skills and capabilities acquired through international experience mitigate the uncertainty firms perceive from the number of failures. Supporting this argument, Chuang and Baum (2003) posit that nursing home chains learn less from others' failure in naming strategy when they themselves have experience.

A similar logic applies to the effect of host country experience. Firms possess accurate information on its environmental uncertainties, institutions and legitimacy requirements through their operation in the host country. Therefore, firms assess the risks and investment requirements based on their own experience rather than others. In this regard, host country experience weakens the effect of the number of failures on firms' entry mode choice. Additionally, a firms' tendency to attribute the cause of failure to other firms' actions was argued to be the reason for firms' choice of JV in response to a large number of JV failures. Having a better understanding of the host country environment, experienced firms enjoy more realistic view of the uncertainties and consequently, a better evaluation of the cause of failures. As a result, host country experience weakens the positive relationship between the number of JV failures and the choice of JV.

H8) The positive relationship between the number of failed JVs in the same industry and the choice of JV by subsequent entrants weakens with a firm's a) international experience and b) host country experience.

Chapter 3: Research Design

3.1 Introduction

In Chapter 2, a conceptual model was developed to shed light on the relationship between institutional differences, experience and entry mode choice. The resulting hypotheses stated how a firms' entry mode choices vary in response to different institutions and how this response is affected by the experience that firms accumulate either in the host country or other foreign countries. This chapter discusses the method used to investigate these hypotheses. After justifying the use of a quantitative method, this chapter explains the data collection process, data sources and measurement of variables. It also describes the suitable analytical method and finally the characteristics of the sample.

3.2 Research framework

Researchers posit that reliable research requires a well-crafted framework that emerges from the intersection of a theoretical perspective[1], methodology[2] and methods (Creswell, 2014). In addition to these three levels, Crotty (1998) stated that it is necessary to specify the epistemology of the research embedded in the theoretical perspective. Starting with epistemology, this research intends to determine the influence of firms' experience on the causal effect of institutions on firms' entry mode decisions. Thus, understanding and meaning are objectified in firms, and if we undertake comprehensive research, we can discover the objective truth. So, this research develops its theoretical perspective based on objectivism in which the meaningful reality of the object exists independently of the subject experience (Crotty, 1998).

Within the objectivism epistemology, the present research adopts a post-positivist theoretical perspective. To describe the post-positivist approach, Phillips and Burbules (2000) introduce basic assumptions that match the characteristics of the present research. In this perspective, research is the process of making claims and testing them. Moreover, it assumes that data and evidence shape knowledge. Further, research with a post-positivist perspective seeks to develop true statements that can describe the causal relationships. However, this

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[1] Researchers also used philosophical worldview (Creswell, 2014) or paradigm (Mertens, 2010).

[2] Researchers also used research design (Creswell, 2014; Mertens, 2010).

theoretical perspective acknowledges that reality cannot be known perfectly, and that researchers' limitations influence research through theories, hypotheses and background knowledge (Mertens, 2010).

Another aspect of a research framework that requires substantial attention is the appropriateness and rigor of methodology (Scandura & Williams, 2000). Methodology should be compatible with both the research question (Bono & McNamara, 2011) and the level of prior knowledge in the field (Edmondson & McManus, 2007). Edmondson and McManus (2007) developed Figure 3.1 to provide a guideline to match theory and method. They suggest the proper match lies on the diagonal in this figure. For example, it is better to use a qualitative method for a nascent theory while a hybrid method matches an intermediate theory.
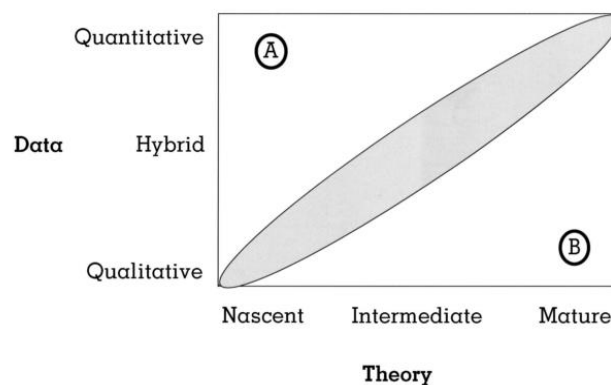
Figure 3. 1*: Methodological fit*

Source: Edmondson & McManus, 2007, p. 1168

Entry mode choice – the focus of this research – is a well-researched topic in the field of international business, with several studies investigating its antecedents and consequences (Chan & Makino, 2007; Hennart & Reddy, 1997; Li & Parboteeah, 2015; Lu, 2002; Pan & Tse, 2000). The literature review in Chapter 2 revealed that researchers have examined the determinants of entry mode choice from a variety of theoretical perspectives including transaction cost, resource-based and institutional theory. Their findings, however, are not conclusive. For example, the preferred entry mode choice in an uncertain environment differs when assuming a transaction cost or an institutional perspective. Moreover, it was concluded in the literature review that institutional theory needs to be refined and extended to give a better understanding of the effect of institutional factors. All these factors necessitate further

refinement of the existing relationships between institutional variables and entry mode choice, indicating the maturity of this field.

Moreover, drawing from prior literature, the present study identified independent and control variables of interest to develop a precise model of focal relationships and to explain underlying mechanisms. The research questions in this study address an issue that refines our knowledge of institutional effect and explore the effect of a moderator on an existing relationship. Moreover, to answer the research questions, testable hypotheses were developed using existing variables measured by established constructs. According to Edmondson and McManus (2007), the appropriate method for mature theory research is a quantitative method.

Therefore, in line with prior studies in the field of entry mode decision, a quantitative method was chosen for the present research. The quantitative approach is appropriate for testing predetermined hypotheses and for identifying factors that may determine an outcome (Creswell, 2014). Furthermore, it provides the capability to study the existence and strength of the relationship between two or more variables with a large number of observations (Ang, 2014). As mentioned before, these features make it a suitable method to investigate the research questions of this study. Non-experimental correlational design is used here in which the relationship between variables will be measured by correlational statistics (Creswell, 2014).

3.3   Data collection process

3.3.1   Data

To test the hypotheses, the dataset was built by aggregating data from various sources. Data on foreign subsidiaries come from various editions of the Annual Industrial Survey (ANS) collected by the Chinese National Bureau of Statistics (CNBS). This database is limited to firms with a sales value above 5 million RMB and covers both foreign and domestic firms. It provides extensive information such as industry type, total assets and type of ownership.

The number of domestic and foreign firms this database covers varies from 196,222 in 2003 to 311,557 in 2012. It is considered a reliable and comprehensive database as all firms

in China are obligated by law to participate in this survey and provide financial information. This database has been used to examine the behaviour of foreign firms in China by various international business studies published in prominent journals (Chang et al., 2013b; Chang & Xu, 2008; Zhang, Li, & Li, 2014b). Moreover, it is well suited for this research theoretical framework in terms of investigating the influence of failures for it allows to trace the existence of subsidiaries over a period of time.

This study focuses on foreign investments after the year 2003, because, prior to 2003, JV was the dominant entry mode encouraged by the Chinese government, while WOS faced more challenges and restrictions (Li & Parboteeah, 2015; Xia et al., 2008). So, the choice of entry mode was subject to fewer regulations and more based on market and firms' characteristics during the chosen time frame (2003-2012) of this study. Firms and country data were collected yearly for observed investments from the year 2000 to 2011 to enable the investigation of causality for which independent variables should be measured with a time lag minimum of one year prior to the investment year.

The initial list of new foreign investments in each year was generated using information from the ANS. The measure of foreign investment is subsidiary presence in China. As firms are compelled to report their information annually via this survey, year-on-year changes among foreign subsidiaries will be documented. So, it is fair to consider that a foreign investment takes place in year t when the subsidiary appears for the first time in that year and didn't exist in years $t-1$ and earlier. As such, new foreign subsidiaries were identified in each year by comparing later editions of the ANS with preceding ones. So, for example, foreign investments in the year 2008 were identified by comparing its list with that from 2007. Then, the presence of the identified firms was double-checked in preceding years (2003-2006) to make sure their absence in 2007 was not due to a lack of participation in the survey or some other reasons. In total, 57,880 foreign investments were identified that appeared during the sample period from 2003 to 2012.

From the conceptual framework of this research, it is clear that parent company information is one of the essential data sets required to test the hypotheses. The ultimate parent company, however, is not indicated by the ANS. Moreover, information on subsidiaries is in Chinese. To resolve this issue, the English name of identified subsidiaries was first obtained with the help of a translator fluent in English and Chinese and familiar with the international business field. Then the ultimate parent companies were identified from

multiple sources including the ITC Trade Map, Factiva, annual reports, and other Web sources. Information on parent firm variables and experience was collected using this list of parent companies. After discarding observations with missing information on subsidiary or parent company, the sample size dropped to 1,021 observations.

There are several reasons for the reduction in sample size. First, the ANS does not provide the name or any information on ultimate parent companies. As a result, the sample is limited to observations whose parent company was identifiable through other reliable sources. Moreover, attention was limited to non-regulated industries because of the limited entry mode choices firms have in regulated ones. As such, some firms were eliminated from the sample, more specifically, those from industries that face regulative restrictions on foreign investment based on the catalogue of restricted foreign investment industries provided by the China Ministry of Commerce (detailed information is provided in Appendix 1). A further restriction on the sample was caused by the availability of parent firms' financial information used as control variables. In sum, the sample was limited to observations for which there was readily available data on the subsidiary's English name, ultimate parent company name, international experience and financial information of the parent.

Although the final sample might seem imperfect due to manual data collection, this database is, however, the only one that allows the study of failures in China. Moreover, given the scale of data collection, it is hardly possible to contaminate the final sample through the collection process to intentionally influence the hypotheses. Over-representation of some countries or industries may also be of concern. Nonetheless, to test the representativeness of the sample and the existence of systematic bias, the Heckman test was conducted, and the results did not show any sample selection bias (detailed information is provided in Chapter 4).

In addition to the ANS database, several other sources were used to obtain information on variables. Information about regulative institutions, for example, was adopted from the World Bank Governance Indicators database (2003-2012). Further, the World Competitiveness Yearbook was the source for information on normative distance. In line with prior studies, parent firms information were compiled from the Compustat Global database (Basuil & Datta, 2015; Gamache, McNamara, Mannor, & Johnson, 2015; Philippe & Durand, 2011).

3.3.2 Sampling frame

Considering the theoretical framework of this study, China was chosen as the sampling frame for several reasons. One, it has been successful in attracting foreign direct investment over the last few decades. In the span of the present study (2003-2012), China was the second global investment destination after the United States and the number one among emerging economies (Table 3.1). Notwithstanding, UNCTAD (2017) states that by bearing around $171 billion of the world's inward FDI, China was the second global FDI destination in 2016. Further, like other countries in Asian region, China shows a high intention to increase its FDI inflow by applying more FDI liberalization and promotion policies (UNCTAD, 2017). Statistics (Fig 3.2) show that FDI flows to China increased from 2 billion USD in 1986 to 171 billion USD in 2016, with an average growth rate of 20%.

Table 3. 1: *FDI Inflows (Billions of Dollars)*

Year / Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
China	104	124	156	172	131	244	280	241	291	268	242	171
United States	117	247	228	318	158	210	242	211	217	212	477	468

The attractiveness of China as an investment destination largely depends on its infrastructure, market size, economic growth and the availability of low-cost factors of production. The progress China has made in building its infrastructure and in training skilled workers makes it more attractive as compared to other developing countries like India (Hoskisson, Wright, Filatotchev, & Peng, 2012). For instance, in terms of goods transported by railways and air transport, China has mostly ranked second after the US since 2005 (World Bank, 2017). Furthermore, having a population of more than 1.3 billion as well as the second largest GDP make it the largest market in the world.
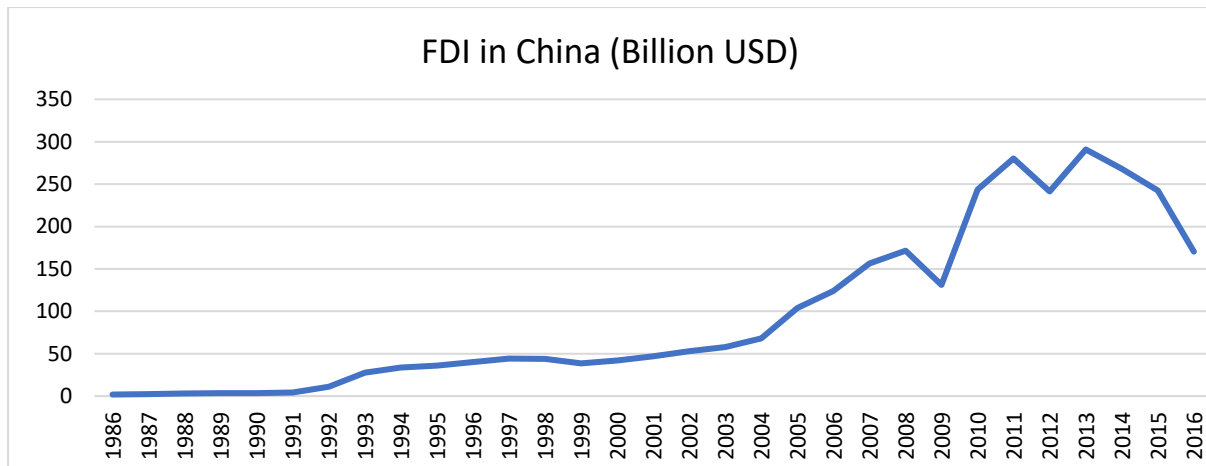
Figure 3. 2: *FDI trend in China*

Further, since initiating open market policies in the 1980s, China has experienced rapid economic development to which foreign investment has made a major contribution. It accounts for 3.5 percent of the GDP on average. This percentage translates to billions of dollars considering the size of the economy. Over the past three decades, the substantial economic growth of China boosted its rank from eighth largest economy in the world to the second after the US (World Bank, 2017).

There are also some theoretical reasons to choose China for the context of this study. Many IB scholars consider countries like China an appropriate context to study the effect of institutional factors that are a major source of uncertainties (Peng et al., 2008; Xu & Meyer, 2013). China has a highly complex and uncertain business environment that makes the role of institutions more significant. For example, known methods of intellectual property protection do not work in this country because, although it is a member of a number of global intellectual property rights treaties, it still suffers from a lack of social recognition of intellectual property protection (Keupp, Beckenbauer, & Gassmann, 2009). Moreover, different traditional ways of solving business disputes make it hard for firms to legally claim their rights (Weldon & Vanhonacker, 1999). According to the Global Competitiveness Report (2017), China's score of judicial independency is 4.5 out of 7 while ranked 46. Furthermore, based on the Transparency International Report (2016), China suffers from high levels of corruption in the public sector, ranked 79th among the 176 surveyed countries. Its corruption perception index is 40 out of 100. High level of corruption are a result of the lack of strong regulative institutions which increase the chance of opportunistic behaviour of partners (Meyer, 2001) or impede MNEs' access to local resources (Meyer et al., 2009a).

Viewed as a whole, the less-sophisticated environment in China indicates the difficulty of having successful operations in this country. Thus, China is an interesting context to investigate the role of failures in the context of foreign investment.

Moreover, China is also an appropriate context to study learning behaviour and experience which is also the focus of this research. Less developed formal institutions in China subject firms to more complex informal institutions that validate the importance of tacit knowledge in these countries (Xu & Meyer, 2013). Informal institutions are not codified and are embedded in the shared values of the society (North, 1990). That makes it hard for foreign firms from institutionally distant countries to identify them. In this environment, firms are more in need of local networks and local knowledge (Estrin et al., 2009; Wright, Filatotchev, Hoskisson, & Peng, 2005). Altogether, China is an interesting context for the purpose of this research.

3.3.3 Sampling

The sample of the study is defined to target all foreign subsidiaries in the manufacturing sector of China between 2003 and 2012. The manufacturing sector is an appropriate setting to test proposed hypotheses because according to the China Statistical Year Book, this sector has the highest foreign direct investment which has increased by about 50% over the past decade. The manufacturing sector has been China's competitive advantage and main focus of FDI liberalisation policies as compared to other emerging economies like India which have mainly focused on the service industry (Lebedev, Peng, Xie, & Stevens, 2015). The large number of investments could yield a diverse set of home countries which is necessary to increase the external validity of the results especially in this study that focuses on only one host country. Furthermore, the inherent characteristics of people-intensive service firms differ from capital-intensive manufacturing ones, which causes them to respond differently to the determinants of entry modes (Erramilli, 1991). Firms in the manufacturing sector, as compared to service sector, require substantially higher levels of financial investment and lower levels of investment in people. Therefore, the necessity to control differs based on the challenges they face in protecting their resources or mitigating cultural differences (Brouthers et al., 2003). Consequently, focusing on one sector helps to eliminate possible differences.

This research considers those subsidiaries in which the foreign investor is a company and not a person, as the focus is to study the behaviour of foreign firms. Subsidiaries with missing data at the parent firm and subsidiary level are discarded. Moreover, firms' choice of ownership is constrained by the Chinese government in some industries. This research only considers manufacturing industries that do not face any regulative restriction on the type of investment. Therefore, this research excludes industries such as Manufacturing of Weapons and Ammunition or Smelting and processing of radioactive mineral products (List of excluded industries is provided in Appendix 1).

3.4 Sample characteristics

Secondary data were collected by aggregating information from various sources. To achieve reliable results, an adequate sample size is required in logistic regression like any other multivariate regression method. The minimum requirement for overall sample size is 20 observations for each variable (Hair, Black, Babin, & Rolph, 2010). Hence, 1,021 observations meet the requirement of sample size in this research which consists of 13 predictors including independent and control variables. It is also suggested to consider the sample size per category of the dependent variable which is 10 observations for each variable (Hair et al., 2010). From 1,021 observations invested by 622 foreign firms from 2003 to 2012, 242 used a JV structure and 779 used a WOS structure. Considering the number of variables, the distribution of observations across groups meets the requirements of sample size per group.

Table 3.2 gives a detailed breakdown of the observations. The observations were from a wide range of manufacturing industries (27 two-digit industry codes) with most accounting for less than 10% of the sample. However, three industry groups of manufacturing of chemical raw materials, manufacturing of railways, ships, aircrafts and others, and manufacturing of instruments and meters accounted for 12%, 14% and 16% of the sample, respectively. Investments were made by parent firms from 29 different countries, of which nine belonged to emerging economies (EEs) as classified by Hoskisson, Eden, Lau, and Wright (2000). Moreover, over half of the sample (59%) was invested by parent companies older than 50 years. More information on the distribution of the sample across industries and home countries is illustrated in Appendix 2.

Table 3. 2: *Sample Characteristics-Survivors*

	Number	Percentage
Entry mode		
JV	242	24%
WOS	779	76%
Parent Country of Origin		
EEs	239	23%
DEs	782	77%
Parent Age		
<50	416	41%
51-100	429	42%
101-150	133	13%
151-200	27	3%
201-250	7	1%
251-300	1	0%
>300	8	1%

This research contains another set of data on failures in China. Table 3.3 reports in detail on those observations. Out of the 60 firms identified as failures during the research period, 67% were JV and 33% had WOS structure. Observations were distributed across years, with 2007 having the lowest number. Moreover, they were from 17 two-digit industry codes with the majority of them not accounting for more than 7% of the sample. The two industries of manufacturing of railways, ships, aircrafts, spacecrafts and other transportation equipment, and Instrument and meter manufacturing formed the exception, accounting for 17% and 37% of the sample, respectively.

Table 3. 3: *Sample Characteristics-Failures*

	Number	Percentage
Entry mode		
JV	40	67%
WOS	21	33%
Years		
2003	15	25%
2004	9	15%
2005	10	17%
2006	11	18%
2007	1	2%
2008	7	12%
2009	7	12%

3.5 Variables and measurements

In this study, all variables will be measured using pre-established measurements. An overview of variable measurement and definition is as follow:

3.5.1 Dependent variable – entry mode

The dependent variable in this research is the entry mode choice (JV over WOS) into China. Researchers have approached JV with different definitions. They have agreed on some similarities such as recognising JV as the bridge between no equity involvement and equity involvement (Anand & Delios, 1997) or that in JV, partners share their assets in return for access to other partner assets (Meyer, 2004). Also, they share the assumption that JVs occur when local and/or foreign firms are in need of the other party's advantages. Nevertheless, views are contradictory on the establishment mode of the JV. One group, for instance, defines JV as a new organizational entity created by a resource contribution of two or more partners (Cuypers & Martin, 2010; Kaufmann & O'Neill, 2007; Li, Lam, & Qian, 2001). This definition ignores the investments in which a foreign firm partially acquires a local firm.

On the other hand, other researchers have considered JV as a mode of governance that occurs through either greenfield when two or more parties bring their assets to an independent entity or acquisition when a firm acquires partial ownership of another firm (Belderbos & Zou, 2007; Brouthers & Hennart, 2007; Chari & Chang, 2009; Chen & Hennart, 2004; Hennart, 1988; Jung et al., 2010; Meyer, 2004). Since the ANS does not distinguish acquisitions from greenfields, this research is used the latter definition of JV that entails both establishment modes. For the same reason, WOS in this research is defined in a way that entails both establishment mode of greenfiled and acquisition as it is not possible to distinguish them in the database. So, WOS is establishing a new entity from scratch or acquiring an existing firm and gaining full control over its operation (Meyer, 2004; Slangen & Tulder, 2009).

The entry mode of foreign subsidiaries is obtained from the ANS. The ANS specifies the type of ownership with four different codes. A definition of these codes is provided in Table 3.4. Code 310 refers to a Chinese foreign equity joint venture, 320 is a Chinese-foreign co-operative enterprise, 330 is a foreign-invested enterprise, and 340 is company limited by

shares with foreign investment. Therefore, firms with the code 330 or 340 were considered as WOS, and the rest as JV.

In line with previous research (Dikova & van Witteloostuijn, 2007; Gatignon & Anderson, 1988; Hennart, 1991), entry mode was operationalised as a dummy variable that is coded 0 for a WOS and 1 for a JV. Regarding the level of ownership, 25% is the minimum foreign ownership that is required to consider a JV as a foreign investment, based on Chinese regulations (Chang et al., 2013b; Cuypers & Martin, 2010). The original dataset includes subsidiaries with more than 25% foreign ownership. The degree of ownership of foreign investments was not provided in this database preventing further sensitivity analysis.

Table 3. 4: *Entry Mode Coding*

Code- Name	Definition
310: Chinese foreign equity joint venture	Foreign enterprises or foreigners with enterprises in mainland China in accordance with the law on sino-foreign joint venture enterprise, as stipulated in the contract the proportion of investment to set up and share the profits and risks of enterprise
320: Chinese-foreign co-operative enterprise	Foreign enterprises or foreigners with enterprises in mainland China in accordance with the law on sino-foreign cooperative joint venture law, investment or provide cooperation in accordance with the terms of the contract conditions of establishing, distribution, and share the profits and risks of enterprise
330: foreign-invested enterprise	Foreign investments in accordance with the law of the People's Republic of China on foreign investment enterprise law, in the Chinese mainland enterprises invested by foreign investors in full
340: company limited by shares with foreign investment	Foreign investment in accordance with the law of the People's Republic of China on foreign investment enterprise law and the relevant legal provisions, in the Chinese mainland enterprises invested by foreign investors in full

3.5.2 Independent variables – institutions

This research investigates a causal relationship. Therefore, the data collection procedure of the independent variables should demonstrate that the cause preceded the effect to ensure the existence of internal validity (Scandura & Williams, 2000). Hence, data for independent and control variables were collected in year *t-1* where *t* is the year of subsidiary establishment (Chang & Rosenzweig, 2001; Li et al., 2015; Rabbiosi, Elia, & Bertoni, 2012). A one-year time lag was allocated because previous research showed that firms are likely to be influenced by factors such as the recent activities of other firms (Baum et al., 2000).

To understand whether results vary by the gap between independent and dependent variables, the results were examined with other time lags such as two years (Jung et al., 2010; Li & Parboteeah, 2015), three years (Ang et al., 2015) and no time lag (Chuang & Baum, 2003; Guillén, 2003; Yiu & Makino, 2002).

3.5.2.1 Regulative distance

Regulative distance refers to the difference between the home and the host country in terms of the existence, monitoring and enforcement of formal rules and laws. Various data sources have been used in the literature to operationalize regulative distance such as the World Competitiveness Report (Chao & Kumar, 2010; Gaur et al., 2007; Yiu & Makino, 2002), the Index of Economic Freedom (Estrin et al., 2009; He et al., 2013; Kang & Jiang, 2012), the International Country Risk Guide (Dikova et al., 2010; Holmes et al., 2011), the Hermes Country Risk Rating (Schwens et al., 2011) and the Worldbank Governance Indicators (WGI) (Abdi & Aulakh, 2012; Dikova & van Witteloostuijn, 2007; Lu, Liu, Wright, & Filatotchev, 2014).

WGI is the most comprehensive and widely used database for measuring the regulatory development of a country (Dikova & van Witteloostuijn, 2007). This database is compiled from 35 data sources and 414 individual variables to measure the status of countries' government infrastructure. It consists of six dimensions including *voice and accountability* (measuring a country's citizens' freedom of expression, association and media), *political stability* (measuring the perception of the likelihood of political instability), *government effectiveness* (measuring the perception of the quality of public services and their independence from politics), *rule of law* (measuring the confidence in the enforcement of rules in the society), *regulatory quality* (measuring government ability to create and enforce policies in favour of the private sector), and *corruption control* (measuring the perception of the extent to which public power is exercised for private gain).

Following previous research (Dikova & van Witteloostuijn, 2007; Slangen & Tulder, 2009), varimax factorial analysis was used for each year to test the theoretical conception of regulative institutions. One distinct factor resulted from the analysis on data from 2003 to 2012. Therefore, the six dimensions of WGI were used as a single variable.

After determining the level of the home and the host country regulative institutions, distance was calculated in line with previous studies (Gaur & Lu, 2007; Kogut & Singh, 1988) as follow:

$$RD_x = \sum_{i=1}^{n} [(I_x - I_c)^2 / V_i]/n$$

In this formula, RD_x is the regulative distance between the host country x and China as the home country. $(I_x$- $I_c)$ refers to the difference between each regulative dimension of country x and China. V_i is the variance of regulative dimension i, and n indicates the number of dimensions which in this research is 6.

3.5.2.2 Normative distance

Normative distance is the difference between the home and the host country in terms of socially appropriate behaviours that are embedded in shared understanding and meanings (DiMaggio & Powell, 1983; North, 1990). The normative aspect of a country encompasses how things should be done, in other words, legitimacy means to pursue valued ends (Scott, 2001). It contains a normative management aspect of the institutional environment in the host country that affects FDI (He et al., 2013).

Some studies equate normative distance with cultural differences. But, cultural distance does not capture the complicated nature of differences a firm might encounter during its operation in a foreign country (Brouthers, 2013; Cantwell et al., 2009). Hence, institutional researchers advised against using it as a proxy for normative distance (Jepperson, 1991). The differences between the cultural and normative aspects of a country are discussed in detail in Chapter 2.

In line with previous research (Ang et al., 2015; Gaur et al., 2007; Gaur & Lu, 2007), seven indicators were adopted from the World Competitiveness Year Book to represent the normative aspect of the country. These indicators are adaptability of political system and government policies to economic challenges, government transparency, political risk, bureaucratic corruption, independence of local authorities, and bureaucratic hindrance to economic development. Using varimax factorial analysis, results showed that all seven

indicators are loaded in one factor for each year. Hence, they all were used as one single variable.

Similar to regulative distance, first the level of the normative aspect of the home and the host country was measured and then normative distance was calculated as follow:

$$ND_x = \sum_{i=1}^{n} [(I_x - I_c)^2 / V_i]/n$$

In this formula, NDx is the normative distance between the host country x and China as the home country, (Ix- Ic) measures the difference between each normative dimension of country x and China. V_i is the variance of normative dimension i, and n indicates the number of dimensions which in this research is 7.

3.5.2.3   Cognitive institutions – JV survivors

JV survivors are existing foreign firms whose experience creates spill over knowledge in the host country (Guillén, 2003; Shaver et al., 1997). In terms of entry mode, cognitive institution has been operationalised with the number of JV or WOS of existing foreign firms in the host country (Guillén, 2003; Henisz & Delios, 2001). Therefore, in line with previous research (Baum et al., 2000; Chan & Makino, 2007; Haveman, 1993; Li et al., 2007; Yeniyurt et al., 2008), *JV survivors* is measured by the number of same-industry joint venture subsidiaries established by other foreign firms in the sample of existing subsidiaries in China in the year prior to entry.

3.5.2.4   Cognitive institutions – JV failures

JV failures are measured by the number of JV subsidiaries in the sample of failed subsidiaries in the host country in the year prior to entry. Failures were identified in a two-staged process. In the first stage, data were collected on firms that exited the market and in the second stage, exit motivations were identified to distinguish failures from exits that are associated with strategic change. In line with previous research (Barkema at al., 1996; Nadolska & Barkema, 2007), a subsidiary exited a market when it stops to appear at time t +1 while it existed at time t (Chang & Xu, 2008; Zhang et al., 2014b). To create the sample of exit subsidiaries, preceding editions of ANS were compared with later ones. Then the identified firms were traced in editions later than t+1 to make sure exited firms did not

appear in the following years. 27,262 firms were identified that ceased to exist from 2003 to 2012.

Previous literature tends to agree that voluntary exits from a market can be classified into two groups of strategic exits and failures (Benito, 2005; Surdu et al., 2018a). Strategic exits, for instance, might happen because of parent company strategy redirection. In case of JVs, strategic exit might occur because they have fulfilled their initial goal and they do not need to continue with the operation (Makino, Chan, Isobe, & Beamish, 2007), or they have changed to a merger and acquisition (Mata & Portugal, 2002). Exits due to failures are associated with unsatisfactory performance in the host country. Prior research showed that failed termination might be due to financial losses, low profit and disputes between partners (Geringer & Louis, 1991; Hambrick & D'Aveni, 1988; Lu & Xu, 2006; Meschi & Métais, 2013).

To identify truly failed subsidiaries, the motivation of subsidiaries at the time of exit was analysed following previous studies (Meschi & Métais, 2013; Shaver et al., 1997; Tsang & Yip, 2007). This information was collected from Factiva and the parent company annual reports. Reliance of the present research on media information stems from the basic assumption in failure studies that firms attend to failures and learn from them because they are salient and well-publicized. Literature suggests that firms collect their information about failures through media because coverage by media indicates the relative importance and general salience of the event to decision makers (Desai, 2014). This literature posits that firms have limited resources to scan their environment, so they limit their attention to the most important events that are covered by media. Therefore, failures that are covered by media are most likely to be the source that shapes a firm's learning from failures.

Factiva combines information from 35,000 global news and information sources from nearly 200 countries in 28 languages. It has been used as a reliable resource to discover alliance status in papers from top journals (Cui, Calantone, & Griffith, 2011; Desai, 2014; Lavie, 2007). Xia (2011) relied on Factiva to find termination date and type for alliances in 49 countries. Using the list of subsidiaries compiled from ANS, the motivation of termination was identified through a search by parent name or subsidiary name. Following prior studies (Xia, 2011), when the information was not available for some subsidiaries via Factiva, the shortage was covered via Google search and the company website. Identified motivations, in

this research, encompass financial loss, disputes between partners, governance issues and market conditions.

To ascertain the cause of failure, it was essential to obtain the English name and identify the ultimate parent company of failed subsidiaries. The process of collecting this information was similar to what was explained earlier for foreign investment, which again leads to a reduction in the sample size of failures from 27,262 to 13,000. A search was conducted in Factiva to identify motivations and to ensure that the lack of presence of 13,000 identified firms is due to voluntary exit and not because of a name change or other reasons. There were some observations that did not have media coverage in any of the above-mentioned databases. Thus, those observations whose motivation for exit was not available were dropped from the sample. After extracting motivations and dropping observations with missing information, 177 firms were identified as exists during 2003-2016 including 61 failures and 116 strategic exits. Therefore, the availability of motivation or cause of failure is another important factor contributing to the reduction in sample size.

3.5.3   Moderating variables

3.5.3.1   International experience

International experience is the operational history outside the home country excluding the host country. International experience has been measured through various proxies including number of subsidiaries (Barkema et al., 1996; Larimo, 2003; Nadolska & Barkema, 2007), number of countries in which an MNE operated (Barkema & Vermeulen, 1998; Kogut & Singh, 1988), number of years of operation in foreign countries (Chen, 2008; Erramilli, 1991; Li & Meyer, 2009) and total number of firm-years (Padmanabhan & Cho, 1999; Zhou & Guillén, 2015). As discussed in Chapter 2, these measurements are either limited to intensity or diversity aspects of international experience

This research operationalized international experience with both intensity and diversity. Intensity of experience was measured by the number of years of experience a firm has in prior foreign countries (Brouthers et al., 2007, 2008; Jung et al., 2010). Diversity of experience was measured by the number of countries in which a firm operates (Barkema & Vermeulen, 1998; Rabbiosi et al., 2012). Countries in which a firm had operated and the establishment year of subsidiaries were recognized via annual reports and the company

website or through other Internet searches. Finally, to create international experience, the centred value of these two aspects was summed and averaged in line with Brouthers et al. (2008).

3.5.3.2   Host country experience

Host country experience is the operational history a firm has in the host country (Delios & Beamish, 2001). Experience a firm accumulates by operating in a country is an intangible and hard-to-imitate resource that facilitates its operation and even improves its performance in uncertain environments such as emerging economies (Luo, 1999; Taussig & Delios, 2015). It also shapes firms' preferences for a mode of governance in terms of the level of control or investment. As it provides specific skills and knowledge required for operation in the host country, firms develop a better understanding of potential risks and opportunities. In this regard, firms are more inclined to use high control structures to gain more benefits, though high control entails a larger investment and more risk (Luo, 2001; Powell & Rhee, 2013).

Host country experience is measured by the number of years that a firm has operated in the host country (Chen, 2008; Luo, 1999). In line with prior research Slangen and Hennart (2008) and Zhou and Guillén (2015), the establishment year of subsidiaries was determined by reviewing annual reports and the company website or through other Internet searches.

3.5.4   Control variables

The literature asserts that control variables should be selected based on having a causal relationship with the dependent variable. Therefore, in line with previous studies control variables were chosen among those that are likely to influence the entry mode choice of firms at three levels including firm (parent), industry and country (Chan & Makino, 2007; Demirbag, Apaydin, & Tatoglu, 2011; Dhanaraj & Beamish, 2004; Hernández & Nieto, 2015). While year and industry were controlled by dummy variables, regulated industries were eliminated from the sample to ensure that the choice of entry mode is not influenced by government regulations. Moreover, this research focused on investments after the year 2003 when the government ban on WOS was loosened.

3.5.4.1 Firm size

Firm size has been viewed as an important determinant of firms' behaviour in general and their foreign investment and market entry strategies in particular. The size of a firm indicates its capability of overcoming risks and challenges. Firms with resources are able to cover the expenses of entring a new market such as market research, advertising, establishment and any other unexpeted cost that a firm might incur during its operation in a foreign country. Studies have also shown that large firms can influence public policy-making (Macher & Mayo, 2014), which could facilitate their operation. So, larger firms are more likely to choose high control entry modes which give them more flexibility and profit. In line with this argument, empirical evidence has demonstrated that larger firms have a higher tendency to choose equity mode market entry strategies (Agarwal & Ramaswami, 1992; Majocchi, Mayrhofer, & Camps, 2013; Sooreea, Sharma, & Luong, 2012).

To control for the effect of firm size, international business studies on entry mode choice have long been using it as a control variable, when the focus of study is on other charateristics of firms or countries (Meyer, 2001). As such, in line with previous research (Ang et al., 2015; Tsang & Yip, 2007; Wu & Salomon, 2015), the *firm size* was controled by measuring total assets. Firm size has also been measured by other proxies such as number of employees (Herrmann & Datta, 2006; Lin, Peng, Yang, & Sun, 2009) and amount of sales (Heimeriks, Bingham, & Laamanen, 2015; Kim, Lu, & Rhee, 2012). However, total assests are the more prevalent measure of size in entry mode studies and applying this proxy allows for consistency of this research with exisiting research. Data on firm size is collected from COMPUSTAT.

3.5.4.2 Return on assets (ROA)

A firm's financial performance is an indicator of its power which can influence its institutional ties and knowledge acquisition in the host country (Xu, Huang, & Gao, 2012). It also affects managers' hubris and firms' risk taking behaviour (Lin et al., 2009). Previous studies on the effect of performance suggested a relationship between firms performance and market entry strategy. Gulati (1995) argued that a firm's tendency to make an alliance relates to its performance because high performers utilise alliance structure as a growth strategy and low performers increase their performance through cooperation with a partner. Jandik and

Kali (2009) have shown that firms with a higher return on assets are more likely to choose JV and strategic alliances over cross-border mergers.

In this regard, performance has been extensively used in entry mode studies as a control variable and the most common measure of it is ROA (Chang et al., 2013b; Delios & Henisz, 2000; Salomon & Wu, 2012). Hence, following previous studies, I controlled for the profitability of the parent firm via return on assets (Jandik & Kali, 2009; Meyer, Ding, Li, & Zhang, 2014). Data on firms' ROA were compiled from COMPUSTAT.

3.5.4.3   Industry characteristics

It is also necessary to account for the unobserved effect of industry. Research suggests that industry factors such as R&D and advertising intensity, concentration ratio and growth rate can impact firms' entry mode choices (Dhanaraj & Beamish, 2009; Hennart & Reddy, 1997). For instance, in advertising-intensive industries, firms face more reputation barriers because consumers rely on advertisement as a guide to quality. Therefore, firms need to learn marketing skills that are specific to the host country or acquire them from local firms in joint ventures. In industries where local firms spend more on R&D, firms face more technology barriers and firms are more likely to choose JV to overcome those barriers. Therefore, in line with Dhanaraj and Beamish (2009) and Pan and Tse (2000) industries were grouped based on two digit industry codes and were controlled using dummy variables.

3.5.4.4   Market growth

Existing literature suggests that the attractiveness of a host country for foreign investment is not only associated with its institutional but also its economic environment. Economic development or market growth rate reflects the host country's attractiveness for investment and trade (Delios et al., 2008; Holburn & Zelner, 2010) and it also indicates host country economic uncertainties (Garcia-Canal & Guillén, 2008). A growing economy provides more opportunity for firms to profit and create more demand, which makes the country more attractive to foreign investors (Arregle et al., 2013; Kang & Jiang, 2012). On the other hand, uncertainties and challenges that firms might face in a low economically developed country increase the exit rate from that market (Song, 2015). When market growth in a host country is high, firms perceive less risk and are less in need of the support of a local

partner. So, research has found that firms tend to choose higher control modes of entry to gain more from profit-making opportunities (Chung & Beamish, 2005; Slangen, 2011). In order to have a better understanding of firms' entry mode decisions, host country market growth should be addressed.

One of the most widely used measures for market growth is the GDP growth rate of the host country (Hong & Lee, 2015; Li et al., 2015). Therefore, in line with the majority of existing research (Brouthers, 2002; Meyer & Nguyen, 2005; Morschett et al., 2010), *market growth of the host country* was controlled using GDP growth rate. Data on GDP were collected from the World Bank database.

3.5.4.5 Cultural distance

Cultural distance is a source of uncertainty in foreign investment that has proven to be a critical determinant of firms' market entry strategies. In support of the pivotal role of cultural distance, researchers revealed that the longevity of a subsidiary depends on the similarity between the investor's home country and the host country (Barkema et al., 1996). The lack of knowledge that firms experience in high cultural distance increases the uncertainty and the cost of transaction with local stakeholders for a foreign firm while local partners are more efficient in that matter (Puck, Holtbrügge, & Mohr, 2008). So, firms need local partners' knowledge to have a successful operation and survive in the host country. In this regard, the literature suggests that the proper entry mode have a structure that leaves part of the ownership to the acquired firm to elevate the motivation of local managers to cooperate (Anderson & Gatignon, 1986). Kogut and Singh (1988) examined the effect of cultural differences on entry mode choice and found that firms prefer JV over WOS in high cultural distance to use the skills and knowledge of local managers.

However, there is an opposing argument in the literature regarding the impact of cultural distance on entry mode. Cultural distance negatively influences performance and longevity of a JV for it could be a source of misunderstanding between partners (Barkema et al., 1997). As such, some researchers posit that firms are less likely to choose JV (Makino et al., 2007). Anand and Delios (1997) found, in their study on Japanese firms, that high cultural distance increases the probability of choosing WOS over JV.

Although these two streams of research offer different perspectives regarding the effect of cultural distance, they both agree upon its significant influence on entry mode choice. Following existing research (Chan & Makino, 2007; Oxley, 1999; Pan et al., 2014), cultural distance was controlled using Hofstede's cultural dimensions: power distance, uncertainty avoidance, individualism and masculinity. Then, distance was measured using the composite index developed by Kogut and Singh (1988).

3.5.4.6 Geographical distance

Firms operating across borders not only have to overcome challenges arising from cultural distance but also need to deal with the cost of coordinating an operation across geographically distant countries. Geographic distance between home and host country influences the ease of doing business, trade flow and information flow (Ghemawat, 2001). Low geographic distance allows firms to benefit from efficiency in using the existing infrastructure, supplier and labour forces (Phene & Tallman, 2014). Research has found that as geographic distance increases, firms move towards a more integrated hierarchical structure in market entry strategy to mitigate the costs and challenges (Oxley, 1999; van Kranenburg, Hagedoorn, & Lorenz-Orlean, 2014). Brouthers and Brouthers (2003) suggested that when the cost and difficulty of coordinating a foreign operation is high as the result of geographic distance, manufacturing firms tend to choose WOS over JV.

Therefore, geographical distance was controlled for because it contributes to the liability of foreignness. In line with prior studies (Boeh & Beamish, 2012; Cuypers, Ertug, & Hennart, 2015), geographic distance is defined as the physical distance between the capital cities of the home and the host countries measured by the Gaverstine Great Circle distance.

3.5.4.7 WOS survivors and failures

It is also important to account for the influence of entry modes other than JV. Literature suggests that while a firm's tendency to choose an entry mode is associated with prior choice of the same mode, it is influenced by prior choice of other entry modes (Guillén, 2003; Oehme & Bort, 2015). As stated by institutional theory, the frequent use of an entry mode by firms in the same industry enhances the legitimacy of the entry mode and reduces the uncertainty about the accepted entry mode in the host country. Accordingly, it is expected

that the emergence of WOS as the norm in the industry encourages firms to conform to it when they enter the host country.

3.6 Data analysis

This research examines the causal relationship between institutions and firms' entry mode choices. Therefore, its hypotheses are addressed by the regression method which explores the causal relationship between independent and dependent variables (Ang, 2014). As for the type of regression, Field (2013) mentioned that the decision between various methods of regression should be based on the number and nature of the dependent and independent variables. Accordingly, one dichotomous variable (JV or WOS) and more than one continuous independent variable (institutional distance) make binomial logistic regression a suitable method to test hypotheses in this research (Peng, Lee, & Ingersoll, 2002). Table 3.5 provides a review of the methods that have been used by a selection of researchers investigating entry mode decision.

In this research, binomial logistic regression explains the probability of choosing JV over WOS by the influence of regulative and normative institutional distance, cognitive institutions and experience. The regression coefficient determines the impact of the independent variables on the likelihood of choosing JV as the entry mode. The positive sign signals an increase in the likelihood of choosing JV, while the negative sign refers to a decreasing likelihood. The binomial logistic regression can be expressed by equation 1:

Equation 1 $$P(Y_i = 1) = 1/(1 + e^{-Z_i})$$

where $P(Y_i = 1)$ estimates the probability of JV and equals 1 if the ith observation is a JV. Z is a linear combination of dependent variables as in equation 2:

Equation 2 $$Z_i = \alpha + \beta_i X_i$$

where α is the intercept and β_i is the vector of the regression coefficient for the ith observation and X_i is the vector of its independent variables.

Table 3. 5: *A Brief Review of Methodology*

Author	Home country	Host country	Dependent variable	Method
(Yiu & Makino, 2002)	Japan	Multiple	WOS, JV	Logistic regression
(Uhlenbruck, Rodriguez, Doh, & Eden, 2006)	Multiple	EEs	WOS, JV and non-equity	Multinomial logistic regression analysis
(Slangen & Tulder, 2009)	Netherlands	Multiple	WOS, JV	Logistic regression
(Makino & Neupert, 2000)	Japan	US	WOS, JV	Logistic regression
(Luo, 2001)	Multiple	China	WOS, JV	Logistic regression
(Demirbag et al., 2007)	Multiple	Turkey	WOS, Majority JV, Minority JV	Multinomial logit
(Li et al., 2007)	Multiple	China	Entry rate of WOS	Negative binomial regression
(Musteen, Datta, & Herrmann, 2008)	Multiple	US	Full or partial ownership	Logistic regression To account for violation of independence in observations (multiple entries by one firm) they used non-linear mixed procedure
(Puck et al., 2008)	Multiple	China	WOS, JV	Logistic regression
(Cuypers & Martin, 2010)	Multiple	China	Percentage of ownership in JV	Multilevel Tobit model Higher level: country of origin
(Demirbag, Tatoglu, & Glaister, 2010)	Multiple	Turkey	WOS, DJV and MJV	Multinomial logit
(Yamin & Golesorkhi, 2010)	Multiple	UK	Level of equity share	Logit regression
(Tan & Meyer, 2011)	Multiple	Vietnam	Location choice	Conditional logit
(McCann, Reuer, & Lahiri, 2016)	Multiple	US	Acquisition or alliance	Logistic regression
(Hernández & Nieto, 2015)	Multiple	Multiple	Entry mode (three categories)	Multidimensional mode

The regression model to test the hypotheses of this research for the ith observation is as follows:

$$P(EntryMode_i = 1) = 1/(1 + e^{-Z_i})$$

$Z_i = \alpha + \beta_{1i}(RegDist)_i + \beta_{2i}(NorDist)_i + \beta_{3i}(JV\ Survivors)_i + \beta_{4i}(JV\ Failures)_i +$
$+\beta_{5i}(WOS\ Survivors)_i + \beta_{6i}(WOS\ Failures)_i + \beta_{7i}(Size)_i + \beta_{8i}(ROA)_i +$
$\beta_{9i}(MarketGrowth)_i + \beta_{10i}(CultDist)_i + \beta_{11i}(GeogDist)_i + \beta_{12i}(RegDist * IntExp)_i +$
$\beta_{13i}(RegDist * HostExp)_i + \beta_{14i}(NorDist * IntExp)_i + \beta_{15i}(NorDist * HostExp)_i +$
$\beta_{16i}(ExistJVIndust * IntExp)_i + \beta_{17i}(ExistJVIndust * HostExp)_i + \beta_{18i}(ExistFailJVIndust *$
$IntExp)_i + \beta_{19i}(ExistFailJVIndust * HostExp)_i + IndustDum + YearDum$

Where,

EntryMode = Entry mode of the subsidiary

RegDist = Regulative distance

NorDist = Normative distance

JV Survivors = Existing JVs from the same industry

JV Failures = Existing failed JVs from the same industry

WOS Survivors = Existing WOSs from the same industry

WOS Failures = Existing failed WOSs from the same industry

Size = Size of the parent firm

ROA = Return on assets of the parent firm

MarketGrowth = GDP growth rate in the host country

CultDist = Cultural distance

GeogDist = Geographic distance

IntExp = International experience of the parent firm

HostExp = Experience of the parent firm in the host country

IndustDum = Industry dummy variables

YearDum = Year dummy variables

Chapter 4: Data analysis and results

4.1   Introduction

Having discussed how to measure and analyse the proposed hypotheses, this chapter presents the results of this research. It begins with a report on the preliminary analysis and descriptive statics. The second part moves on to presenting the results of testing the hypotheses and the final section reports on robustness and sensitivity analysis of the results.

4.2   Assessing assumptions

To ensure accuracy of results, all regression analyses are required to meet certain assumptions which in the case of logistic regression, are linearity and no multicollinearity (Field, 2013). It is important to evaluate these assumptions prior to interpreting the results as the violation of an assumption might bias the regression coefficient or significance tests (Cohen, Cohen, West, & Aiken, 2003).

Linearity is an important assumption for ensuring that the regression equation between variables in the population is congruent with theoretically predicted relationships. As stated in Chapter 2, this study proposed a linear relationship between independent and the logit of dependent variable. This assumption can be tested via the Box-Tidwell (1962) procedure by checking the significance level of the interaction between independent variables and their natural log transformation.

Running a binary logit regression on independent variables and interactions with their natural log indicates whether independent variables are linearly related to the logit of the dependent variable. To have a linear relationship, interaction terms should be insignificant according to an adjusted level of acceptance of statistical significance. A Bonferroni correction (Tabachnick & Fidell, 2007) was applied on the *P<.05* level of significance based on *26* variables and the intercept resulting in new statistical significance of *.0022*. Results presented in Table 4.1 confirmed that all interactions were insignificant. Hence, the independent variables were found to be linearly related to the logit of the dependent variable.

Table 4. 1: *Linearity Assumption Test*

	Coef.	Std. Err.	P>z
Regulative Dist*Ln Regulative Dist	7.08	3.84	0.07
Normative Dist*Ln Normative Dist	-0.21	0.28	0.46
JV Survivors*Ln JV Survivors	0.03	0.02	0.16
JV failures *Ln JV Failures	0.33	0.19	0.09
WOS Survivors*Ln WOS Survivors	0.02	0.01	0.26
WOS failures *Ln WOS Failures	-0.68	0.66	0.30
International Exp* Ln International Exp	0.00	0.00	0.15
Host country Exp* Ln Host country Exp	0.00	0.00	0.83
Size *Ln Size	2.04	5.85	0.73
ROA * Ln ROA	0.00	0.00	0.41
Market growth *Ln Market growth	0.00	0.00	0.13
Geographic Dist*Ln Geographic Dist	0.60	2.40	0.80
Cultural Dist*Ln Cultural Dist	1.30	1.22	0.29

Another assumption in logistic regression is multicollinearity which requires a low correlation between independent variables. It is assumed in regression models that each independent variable contributes to the prediction of the dependent variable. The main concern is that when one variable creates a correlation with one or a set of other variables, it will become more difficult to identify its unique contribution. Therefore, it is imperative to check for multicollinearity as high correlation between variables changes the magnitude and sign of individual coefficients, which makes regression results unstable and hard to interpret.

Multicollinearity was examined by measuring variance inflation factor (VIF) which measures the degree of inflation in the regression coefficient caused by multicollinearity. VIF provides a numerical value which indicates how much a regression coefficient increases relative to what is expected when there is no collinearity (Field, 2013). The VIF test was carried out using the linear regression method, because the result of this test only depends on the set of independent variables regardless of the chosen dependent variable (Cohen et al., 2003). Table 4.2 presents the results.

Highly correlated variables were identified using the general benchmark of a VIF of more than 10 which has been widely applied in previous empirical research (Salomon & Wu, 2012; Yang, Lin, & Peng, 2011). As can be seen from the results in Table 4.2, VIF for all

Table 4. 2: *Multicollinearity Assumption Test*

Variable [a]	VIF	1/VIF
Entry Mode	4.24	0.24
Regulative distance	2.64	0.38
Normative distance	2.32	0.43
JV survivors	1.19	0.84
JV failures	1.64	0.61
WOS survivors	1.15	0.87
WOS failures	1.77	0.57
International experience	1.42	0.70
Host country experience	1.78	0.56
Size	1.06	0.95
ROA	1.99	0.50
Market growth	2.72	0.37
Geographic distance	1.67	0.60
Cultural distance	4.24	0.24

a. Dependent Variable: Entry Mode

independent variables is below 10 with the largest measure being *4.24*. Based on this assessment, multicollinearity is not an issue in this research. However, the exact value of VIF that could cause issues is subject to debate and some researchers posit that while VIF is a useful means it is not a substitute for basic screening such as the identification of extreme and influential outliers (Cohen et al., 2003; O'brien, 2007). To address this issue, a section is allocated to outlier management later in this chapter.

4.3   Outlier detection and treatment

Prior to interpreting the results, it is important to identify outliers that might influence the relationship among variables and lead to misleading results. An outlier is an observation that deviates extremely from others and sometimes changes the conclusion and relationship between variables by exerting a disproportionate influence. Researchers are, however, advised against eliminating these observations blindly without investigating the cause which might be, for example, miscoded data (McNamara, Aime, & Vaaler, 2005). It is suggested that researchers evaluate the influence of extreme observations on the regression coefficient and model fit in addition to their distance from others (Aguinis & Edwards, 2014).

Observations whose presence changes the model fit or parameter estimates are called influential outliers (Aguinis, Gottfredson, & Joo, 2013).

First, a box-plot graph was plotted to identify outliers, where extreme observations were detected for all variables. Extreme outliers were identified in the majority of variables except normative and geographic distance. Prior to undertaking any treatment, outliers were investigated to ensure they were not the result of error and inaccuracy in coding and calculation. No error outliers were identified. Following an evaluation of the error outliers, the process of outlier treatment was carried out. This is because extreme observations could affect the regression results even when they are consistent with the regression line (DeCoster, Iselin, & Gallucci, 2009). To begin the process, variables with extreme observations were transformed using Log 10 which is one of the most common methods used to pull the tails of skewed distributions. As a result, extreme observations disappeared in the majority of variables.

To deal with remaining outliers, the winsorizing method was applied. Winsorizing is a method that treats extreme outliers without deleting them and has been applied as a reliable method in several studies (Castellaneta & Gottschalg, 2016; Crilly, 2017; Gupta, Mortal, & Guo, 2016). It takes extreme observations and transforms them to a specified percentile of the data, thereby keeping them at the end of the trimmed distribution. For example, *20%* winsorizing transforms all observations below 10th percentile to the 10th percentile, and the same for those above 90th percentile. As such, regulative distance, international experience, return on assets and cultural distance were winsorized at *10%* on both tails. The cut-off point is chosen at a level that ensures the elimination of all extreme observations. The method of transformation used for each variable is noted in Table 4.4 and other tables in this chapter.

In the next step, residuals were investigated to identify influential observations. To do so, various residuals were offered in the literature including Dbeta, Pearson residuals and leverage (Stevens, 1984). Dbeta, or Cooks' distance, determines the changes in regression coefficients if an observation were deleted, while leverage measures the extent to which the observation is an outlier in the space of predictors (Stevens, 1984). According to the benchmarks provided by Field (2013), Dbeta should be less than 1, Pearson residuals less than 2, and finally leverage should not be more than *(k+1)/n* where *k* is the number of variables and *n* is the number of observations.

Table 4. 3: *Descriptive Statistics and Correlations*

	Variables	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Entry Mode	0.24	0.43	1													
2	RegDist.[b]	3.34	0.55	0.03	1												
5	NormDist	2.13	1.15	0.07	0.66	1											
3	JV survivors	12.39	11.56	0.07	0.01	0.15	1										
4	JV failures	0.30	0.77	0.08	-0.10	-0.08	0.19	1									
6	WOS survivors	6.09	12.74	-0.02	-0.04	0.07	0.59	0.23	1								
8	WOS failures	0.07	0.30	-0.03	-0.06	0.01	0.16	0.27	0.06	1							
9	IntExp.[b]	-0.24	0.27	0.09	0.30	0.13	0.14	0.03	0.08	-0.02	1						
7	HostExp.[a]	0.80	0.51	0.11	0.14	0.17	0.14	-0.03	0.07	0.03	0.38	1					
10	Size [a]	10.58	1.29	0.10	-0.37	-0.27	0.02	0.16	0.07	0.04	0.19	0.29	1				
11	ROA[a]	1.02	0.20	-0.03	0.01	0.01	0.05	0.12	0.17	0.02	-0.02	-0.04	-0.02	1			
12	Market growth	12.62	0.22	0.05	0.05	0.32	0.60	0.06	0.31	0.23	0.08	0.21	0.01	-0.04	1		
13	GeogDist.[a]	3.60	0.26	0.04	0.71	0.30	-0.01	-0.10	-0.10	-0.05	0.28	0.01	-0.46	-0.05	0.04	1	
14	CultDist.[b]	2.09	0.57	0.05	0.22	-0.08	0.10	0.02	0.03	-0.09	0.51	0.05	0.19	-0.03	-0.05	0.22	1

a. *Logarithm*
b. *Winsorized*

The results obtained from this investigation identified observations with values higher than benchmarks, though, these criteria did not converge for all of them. In other words, an observation may have a high influence on a regression coefficient but may possess small leverage. Therefore, an observation was considered influential if it has values higher than the cut-offs for all factors. No observations met these criteria.

4.4 Descriptive statistics

Table 4.3 summarizes the descriptive statistics and correlations for all independent variables. An examination of the correlation table showed moderate to high correlation between regulative and normative distance *(.66)* as well as geographic distance *(.71)*. The correlation between normative and regulative distance is not surprising as it is suggested in the literature that normative institutions of a country shape its regulative institutions (Williamson, 2000). With regard to geographic distance, its correlation with regulative institutions is somewhat expected because countries in the same region usually shares some similarities, for example strong enforcement of rule of law in western European countries or weak regulative institutions in the majority of East and Southeast Asian countries.

Table 4.4 shows a summary statistic of non-transformed variables including mean, median and standard deviation to develop a better understanding of variables and their distributions across two groups of entry modes. It shows that JV mode *(N=242)* was associated with regulative distance *M=3.39 (SD=1.14)*, normative distance *M=1.62 (SD=.83)*, JV survivors *M=13.9 (SD=13.01)*, JV failures *M=0.42 (SD=1.15)*, international experience (composite measure) *M=.14 (SD=1.10)*, host experience *M=13.64 (SD=16.44)*, firm size *M=1,190,499 (SD=3,213,149)* and geographic distance *M=4952.60 (SD=3098.41)*. By comparison, WOS mode was associated with numerically smaller independent and control variables except for WOS survivors *M=6.25 (SD=12.64)*, WOS failures *M=0.07 (SD=0.31)*, ROA *M=1.07 (SD=.40)*, market growth *M=11.67 (SD=1.97)* and cultural distance *M=2.25 (SD=1.01)*.

To test that JV and WOS entry modes were associated with statistically significantly different mean independent and control variables, a t-test with unequal variance was conducted as some of the observations in both groups might be dependent. As can be seen in Table 4.5, a t-test showed statistically significant effects for some variables. Thus, as

Table 4. 4: *Summary Statistics by Entry Mode Choice*

	Mean	SD	Minimum	Maximum
Regulative distance				
Full Sample	3.34	1.05	0.32	6.32
JV	3.39	1.14	0.32	6.32
WOS	3.32	1.02	0.32	6.09
Normative distance				
Full Sample	1.52	0.82	0.20	4.75
JV	1.62	0.83	0.20	4.38
WOS	1.49	0.82	0.20	4.75
JV survivors				
Full Sample	12.39	11.56	0.00	41.00
JV	13.90	13.01	0.00	40.00
WOS	11.92	11.04	0.00	41.00
JV failures				
Full Sample	0.30	0.77	0.00	7.00
JV	0.42	1.15	0.00	7.00
WOS	0.27	0.60	0.00	4.00
WOS survivors				
Full Sample	6.09	12.74	0.00	57.00
JV	5.57	13.06	0.00	57.00
WOS	6.25	12.64	0.00	57.00
WOS failures				
Full Sample	0.07	0.30	0.00	3.00
JV	0.05	0.23	0.00	2.00
WOS	0.07	0.31	0.00	3.00
International experience[1]				
Full Sample	0.00	0.98	-0.58	5.44
JV	0.14	1.10	-0.58	5.44
WOS	-0.04	0.94	-0.58	5.44
Host country experience				
Full Sample	11.12	13.84	0.00	93.00
JV	13.64	16.44	0.00	93.00
WOS	10.34	12.83	0.00	88.00
Size				
Full Sample	1,140,922	5,730,980	1.34	78,400,000
JV	1,190,499	3,213,149	1.34	22,600,000
WOS	1,125,520	6,313,578	5.96	78,400,000
ROA				
Full Sample	1.07	0.41	0.03	3.23
JV	1.05	0.45	0.23	2.98
WOS	1.07	0.40	0.03	3.23
Market growth				
Full Sample	11.57	1.97	9.54	14.23
JV	11.25	1.91	9.54	14.23
WOS	11.67	1.97	9.54	14.23
Geographic distance				
Full Sample	4,763.91	3,144.61	2,006.00	16,570.00
JV	4,952.60	3,098.41	2,006.00	12,970.00
WOS	4,705.29	3,158.50	2,006.00	16,570.00
Cultural distance				
Full Sample	2.26	1.01	0.36	5.13
JV	2.31	1.01	0.36	5.13
WOS	2.25	1.01	0.36	5.13

1.International experience is a measure composite of centralised intensity and centralised diversity of experience.

Table 4. 5: *Mean-Comparison Test*

Variables	JV N=242	WOS N=779	P	P (Transformed Var)	t	df
Regulative distance	3.39	3.31	0.39	0.39	-0.87	369.60
Normative distance	1.49	1.62	0.04*	0.04*	-2.06	395.05
JV survivors	11.92	13.90	0.03*	0.03*	-2.14	355.46
JV failures	0.27	0.42	0.05*	0.05*	-1.96	283.17
WOS survivors	5.57	6.25	0.47	0.47	0.73	391.53
WOS failures	0.049	0.07	0.24	0.24	1.18	527.01
International experience	-0.04	0.14	0.02*	0.00*	-2.34	357.60
Host country experience	10.34	13.64	0.00*	0.00*	-2.86	337.12
Size	1,125,520	1,190,499	0.83	0.00*	-0.21	806.44
ROA	1.07	1.05	0.50	0.26	0.67	372.74
Market growth	11.67	11.25	0.14	0.14	2.94	412.48
Geographic distance	4705.29	4952.60	0.28	0.16	-1.08	408.53
Cultural distance	2.25	2.31	0.40	0.08	-0.84	402.26

compared to WOS, JV choice was associated with a statistically significantly larger mean normative distance *t(395.05)=-2.06 p=.04*, JV survivors *t(355.46)=-2.14 p=.03*, JV failures *t(283.17)=-1.96 p=.05*, international experience *t(357.60)=-2.34 p=.00* and host country experience *t(337.12)=-2.86 p=.00*. Results for transformed variables were also reported in Table 4.5. A comparison demonstrated no difference in the results of the t-test except for the mean of transformed size which was found to be significantly different between JV and WOS.

4.5 Regression results

The dependent variable (entry mode choice) was given a value of 1 if it was a JV and 0 if it was a WOS. The hypotheses were analysed using logistic regression. In this analysis, a positive regression coefficient shows that the odds of choosing JV over WOS increase with an increase in the value of the independent variables. Different models were examined to test the influence of the independent variables and moderators. Mode l is the baseline model that examined the direct effect of control variables. In subsequent models, theoretical variables of interest were added incrementally. The main institutional variables were introduced in Model 2 while the interaction effects of international and host country experience were individually

added for each institutional variable in models 3 to 6. Finally, model 7 is the full model covering all variables. The result of the regression analysis is set out in Table 4.6.

4.5.1 Effect of regulative distance (H1)

Model 2 in Table 4.6 examined hypothesis 1 (H1), which posited that the likelihood of choosing JV over WOS increases as the regulative distance decrease. As expected, the direct effect of regulative distance is negative and significant at the $p < .10$ level with a regression coefficient of $\beta = -.54$, indicating that when other variables are held constant, the odds of choosing JV decreases $.58$ times with a unit increase in regulative distance since $e^{-0.54} = .58$.

4.5.2 Effect of normative distance (H2)

Table 4.6 reports on the results of hypothesis 2 (H2) which proposed that firms are more likely to choose JV over WOS when normative distance is high. From this table, it can be seen that there is a positive and significant ($\beta = .25, p<.05$) relationship between normative distance and entry mode choice, supporting H2. It suggests that when normative distance increases by one unit, the odds of choosing JV rise 28% for $e^{0.25} = 1.28$.

4.5.3 Effect of JV survivors (H3)

H3 predicted that the likelihood of choosing JV would increase by the frequency of existing JVs established by other firms from the same industry. The results shown by Model 2 in Table 4.6 revealed that there is no significant relationship between the probability of choosing JV and existing firms from the same industry.

Further analysis was conducted to investigate the effect of existing firms. As stated in chapter 2, traditional institutional studies mainly investigated the effect of the three dimensions of institutions, but the present research has added failures to the mix. Hence, the insignificance of H3 might have been related to the presence of failures for they could obscure the effect of existing JVs. To address this issue, model 2 was re-examined without failures. The results remained insignificant in the univariate model indicating that it was not obscured by the effect of failures. Therefore, H3 was not supported.

Table 4. 6: *Logistic Regression of Entry Mode Choice*

DV: JV=1 WOS=0	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)	Model (7)
RegDist[b] (H1)		-0.54†	-0.66†	-0.49	-0.52†	-0.55†	-0.66†
		(0.31)	(0.34)	(0.32)	(0.31)	(0.31)	(0.36)
NorDist (H2)		0.25*	0.29*	0.28*	0.24*	0.25*	0.31*
		(0.12)	(0.12)	(0.12)	(0.12)	(0.12)	(0.13)
JV Survivors (H3)		0.02	0.01	0.01	0.02	0.02	0.02
		(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
JV Failures (H4)		0.33**	0.34**	0.34**	0.33**	0.36*	0.41**
		(0.13)	(0.13)	(0.13)	(0.13)	(0.14)	(0.16)
RegDist * IntExp (H5a)			0.08				-0.08
			(0.09)				(0.13)
RegDist * HostExp (H5b)			-0.32*				-0.16
			(0.15)				(0.21)
NorDist * IntExp (H6a)				0.12†			0.19†
				(0.07)			(0.11)
NorDist * HostExp (H6b)				-0.21*			-0.14
				(0.10)			(0.15)
JVSurvivors * IntExp (H7a)					-0.13		-0.15†
					(0.09)		(0.09)
JVSurvivors * HostExp (H7b)					0.04		0.02
					(0.06)		(0.09)
JVFailures * IntExp (H8a)						0.01	0.07
						(0.08)	(0.11)
JVFailures * HostExp (H8b)						0.13	0.11
						(0.13)	(0.17)
WOS Survivors	-0.02†	-0.02†	-0.02†	-0.02†	-0.02*	-0.02†	-0.02*
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
WOS Failures	-0.05	-0.28	-0.28	-0.27	-0.31	-0.33	-0.39
	(0.32)	(0.32)	(0.32)	(0.32)	(0.32)	(0.33)	(0.34)
IntExp [b]	0.19	0.07	0.00	-0.03	0.07	0.04	-0.00
	(0.40)	(0.41)	(0.43)	(0.42)	(0.41)	(0.41)	(0.43)
HostExp [a]	0.25	0.30	0.29	0.28	0.29	0.32	0.27
	(0.19)	(0.19)	(0.20)	(0.20)	(0.19)	(0.20)	(0.20)
Size [a]	0.23*	0.23*	0.24*	0.23*	0.24*	0.23*	0.24*
	(0.09)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
ROA [a]	-0.24	-0.30	-0.31	-0.24	-0.29	-0.27	-0.18
	(0.41)	(0.42)	(0.42)	(0.42)	(0.42)	(0.42)	(0.43)
MarketGrowth [a]	1.60*	0.62	0.85	0.96	0.60	0.62	0.97
	(0.65)	(0.84)	(0.85)	(0.86)	(0.84)	(0.84)	(0.87)
GeogDist [a]	0.53	1.02†	1.27*	1.07†	1.03†	1.07†	1.25*
	(0.49)	(0.57)	(0.59)	(0.57)	(0.57)	(0.57)	(0.60)
CultDist [b]	-0.07	0.01	0.00	-0.03	-0.02	-0.00	-0.13
	(0.20)	(0.20)	(0.21)	(0.20)	(0.20)	(0.20)	(0.22)
Intercept	-25.41**	-13.94	-17.49	-18.66†	-13.76	-14.08	-18.90†
	(8.61)	(10.62)	(10.78)	(10.96)	(10.65)	(10.62)	(11.02)
χ^2	89.46	102.29	107.35	108.18	104.62	104.12	115.13
N	1,010	1,010	1,010	1,010	1,010	1,010	1,010
AIC	1083.82	1078.99	1077.93	1077.104	1080.66	1081.15	1082.14

a. Logarithm. b.Winsorized. Controlled for Industry and Year dummy variables
†*p<0.10; *p<0.05; **p<0.01; ***p<0.001 (two-tailed test)*

4.5.4 Effect of JV failures (H4)

Model 2 in Table 4.6 also examined H4 which predicted a positive relationship between exiting failed JVs and the likelihood of firms choosing JV. Consistent with H4, the direct effect of the number of existing JV failures from the same industry is positive and significant ($\beta = .33, p<.01$). A regression coefficient of *.33* reveals that a one-unit increase in the number of existing failed JVs rises the odds of choosing JV by *39%* as $e^{0.33} = 1.39$. Therefore, H4 was supported.

### 4.5.5 Moderating effect of experience and regulative distance (H5)

Model 3 in Table 4.6 presents the results of H5a and H5b. Hypothesis 5 predicted that international (H5a) and host country experience (H5b) weakens the relationship between regulative distance and the choice of JV. Contradictory to H5a, no significant results were found on the moderating effect of international experience, while the moderating effect of host country experience was found to be negative and significant ($\beta = -.32, p<.05$). Although, the regression coefficient is significant, it is not in the predicted direction. All in all, H5a and H5b are not supported.

4.5.6 Moderating effect of experience and normative distance (H6)

Hypotheses 6a and 6b proposed that the influence of normative distance on the choice of JV weakens as firms accumulate experience internationally and in the host country. As illustrated in model 4 in Table 4.6, international experience and host country experience significantly moderates the impact of normative distance at the level of *p<.10 ($\beta = .12$)* and *p<. 05 ($\beta = -.21$)*, respectively. The results, as shown in Table 4.6, revealed that international experience positively moderated the effect of normative distance, which is the opposite of the hypothesised direction. Therefore, H6 is not supported. Unlike H6a, H6b was supported. So, experience in the host country negatively moderates the relationship between normative distance and the choice of JV.

Fig 4.2 depicted the probability of choosing JV in response to normative distance for various measures of the host country experience. While the value of other variables was kept constant, host country experience was measured at minimum and maximum levels. It is clear from this chart that when the experience of firms in the host country increases, the probability

of choosing JV decreases for a constant measure of normative distance. However, as demonstrated in Fig 4.1, the negative moderating effect does not exist for lower levels of normative distance. In sum, an increase in host country experience weakens the effect of normative distance on the choice of JV.
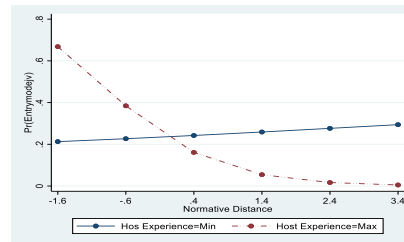
Figure 4. 1*: Normative distance and the moderating effect of host country experience*

4.5.7   Moderating effect of experience and JV survivors (H7)

Hypotheses 7a and 7b theorized that international and host country experience weaken the effect of the number of existing JVs from the same industry on new entrants' choice of JV. Model 5 in Table 4.6 examined these relationships and showed insignificant results. Results revealed that when firms gain experience, no significant difference was observed in their choice of entry mode in response to the number of existing JVs from the same industry. Therefore, H7a and H7b were not supported.

4.5.8   Moderating effect of experience and JV failures (H8)

Model 6 in table 4.6 addressed H8a and H8b. H8 proposed that the effect of existing failed JVs on the entry mode choice of new entrants is negatively moderated by international (H8a) and host country experience (H8b). However, no significant reduction is detected in the probability of choosing JV. It showed that the influence of existing failures on firms'

choice of JV did not change with firm experience. Therefore, the results did not support H8a and H8b.

4.5.9 Control variables

The effect of control variables is tested in Model 1 and the results are presented in table 4.8. It shows that WOS survivors negatively influence the choice of JV over WOS at the level of $p<.10$ $(\beta = -.02)$ while the effect of WOS failures was not significant. Firm size significantly $(\beta = .23, p<.10)$ influences firms' entry mode choice. It means that for each unit of increase in firm size, the odds of choosing JV increases by 26%. Moreover, market growth of the host country significantly $(\beta = 1.60, p<.05)$ improves the tendency of firms to choose JV structure over WOS. However, international and host country experience of the firm did not significantly influence the choice of JV. Firms' profitability (ROA) and cultural distance were found to negatively influence the choice of JV whereas geographic distance had a positive coefficient, but all were statistically insignificant.

4.6 Evaluations of logistic regression models

To gain a better understanding of the soundness and performance of logistic regression models reported in Table 4.6, a series of assessments was performed including overall model evaluations, a goodness-of-fit test and validations of predicted probabilities. Table 4.7 reports the results.

Overall model evaluation is based primarily on the Akaike information criterion (AIC) introduced by Akaike (1974), which tests model fit by estimating the performance of the model. It is used to compare the quality of focal models in which a smaller value indicates a better fit (Akaike, 1974). Table 4.7 illustrates that Model 1 which provides the results obtained from the analysis of control variables was significant at $p<.001$ and had an AIC of 1083.56. Model 2, in which institutional variables were introduced to test hypotheses 1 to 4, was significant at $p<.001$ with AIC equal to *1078.92*. In model 2, the AIC was lower than the baseline model indicating that introducing institutional variables adds value to the explanatory power of the model. Models 3, 4, 5 and 6, which tested the moderating effect of firms' international and host country experience on regulative distance, normative distance,

existing JVs and failed JVs, were significant at the level of *.001*. These models all showed a better fit than Model 1 as they have a lower AIC.

Goodness-of-fit, which evaluates the fit of the focal logistic model against the data, is assessed using the Pearson chi-square test. As reported in Table 4.7, the results were insignificant for all models at *p<.05*, which implies a good fit of all models.

Table 4. 7*: Evaluation of Logisitc Regression Models*

	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**
AIC	1083.82	1078.99	1077.93	1077.104	1080.66	1081.15	1082.14
Pearson Goodness-of-fit	884.01	898.31	894.55	890.04	896.35	900.26	900.26
ROC	0.69	0.70	0.70	0.70	0.70	0.70	0.70

Validation of predicted probabilities measures whether the model correctly distinguishes JV choices and non-JV choices by showing how well predicted probabilities agree with actual outcomes. It is measured by the area under the ROC (Receiver Operating Characteristics) curve which is created by drawing the probability of correctly predicting positive outcomes against incorrectly predicting positive outcomes. The area under this curve indicates the ability of the focal model to correctly identifying the probability of choosing JV and it ranges from 0.5 to 1. A value above 0.50 implies that the regression model can distinguish between the choice of JV and non-choice, while a value close to 1 shows a perfect separation between the two groups (Hanley & McNeil, 1982). The results in Table 4.7 illustrate that for all models, the area under the ROC curve is higher than 0.5, indicating that the generated regression equations can significantly distinguish the choice between JV and WOS.

4.7 Sensitivity and robustness check

To evaluate the sensitivity and robustness of the findings, several variations of the models were tested. First, the dependent variables were measured using alternative time lags

Table 4. 8: *Various Time Lags*

DV: JV=1, WOS=0	2 Years Lag (N=913)	3 Years Lag (N=889)
RegDist [b] (H1)	-0.63†	-0.40
NorDist (H2)	0.36*	0.07
JV survivors (H3)	0.06	-0.01
JV failures (H4)	0.29†	0.40*
RegDist * IntExp (H5a)	-0.02	-0.09
RegDist * HostExp (H5b)	-0.12	-0.31
NorDist * IntExp (H6a)	0.18	0.28*
NorDist * HostExp (H6b)	-0.21	-0.14
JV survivors * IntExp (H7a)	-0.04	-0.09
JV survivors * HostExp (H7b)	0.02	0.05
JV failures * IntExp (H8a)	0.03	0.06
JV failures * HostExp (H8b)	0.16	0.03
WOS Survivors	-0.02	-0.01
WOS Failures	-0.14	-0.46
IntExp [b]	0.55	0.24
HostExp [a]	0.35†	0.27
Size [a]	-0.12†	-0.14*
ROA [a]	0.45	0.45
MarketGrowth [a]	0.73†	1.54*
GeogDist [a]	0.12	0.42
CultDist [b]	0.26	0.02
Intercept	-9.67	-21.68

a. Logarithm. . b.Winsorized. Controlled for Industry and Year dummy variables
†$p<0.10$; *$p<0.05$; **$p<0.01$; ***$p<0.001$ *(two-tailed test)*

of two and three years. The results are presented in Table 4.8. Data from this table can be compared with the data in Table 4.6, which shows that the results are generally similar with a few differences at variables with a low-significance level. The moderating effect of host country experience that was significant in Table 4.6, were found to be insignificant for a larger time lag. This indicates that as experience exert a weaker influence on the decision of sample firms when it is measured at a larger time lag with the investment year.

The second robustness check used alternative proxies for cognitive institutions. The literature posits that firms not only imitate the behaviour of others from the same industry but also that of firms from the same home country (Delios et al., 2008; Li et al., 2007). Moreover,

it is found that the decisions made by other firms in the year prior to investment is also influential (Barreto & Baden-Fuller, 2006; Chan et al., 2006; Ozmel et al., 2017). To examine these effects, alternative proxies were used for cognitive institutions including existing JVs from the same home country, invested and failed JVs from the same industry, and from the home country in the year prior to the entry. Table 4.9 presents the results. The small sample size of failures meant that there weren't enough observations for the number of failures from the same home country. Therefore, this variable is not included in the related analysis. Nonetheless, the findings generally corroborate the results in Table 4.6. Though, regarding the effect of failed firms in the year prior to the entry, there is limited evidence to support the findings in Table 4.6. A lack of significant effect of failures from the same home country in the year prior to investment could be attributed to the fact that the effect of failures is not limited to only one year prior to investment but has a more significant influence when it accumulates over time.

Another issue that requires a robustness check in this research is sample selection bias. To address the issue of sample selection bias, existing studies have used the Heckman test developed by Heckman in 1976 (Ang, Benischke, & Hooi, 2018; Pan et al., 2014). Literature on the use of the Heckman model and its basic assumptions described it as a two-stage model in which the first stage uses a probit model to measure the probability of an observation's presence in the sample, and the second stage measures the main dependent variable (Certo, Busenbark, Woo, & Semadeni, 2016; Sartori, 2003; Shaver, 1998). As such, in the first stage a selection bias control factor called the Inverse Mill's Ratio (IMR), is produced which accounts for the effect of all the unmeasured characteristics which are related to the selection parameter.

In the present research, because of the sample selection method, there might be some concerns regarding the distribution of the sample over the firms' specifications that may have taken place in a selective way. A non-random sample might include firms that are large in size and have high experience. Thus, the distribution of firms over categories of small or large firms or experienced and inexperienced might not be random. Firms that choose WOS may differ in many characteristics from firms that don't. So, non-randomness in the selection process by which firms are divided into experienced and inexperienced disturb the estimation

Table 4. 9: *Alternative Proxies for Cognitive Institutions*

Existing	Home country	Invested	Industry	Home country
RegDist [b]	-0.78*	RegDist [b]	-0.64†	-0.39
NorDist	.25*	NorDist	.29*	0.21
JV Survivors	-0.05	Invested JV	-0.04	-0.02
JV Failures	N/A	Failed JV	0.55	N/A
RD * IntExp	-0.06	RD * IntExp	-0.06	-0.14
RD * HostExp	-0.24	RD * HostExp	-0.15	-0.13
ND * IntExp	0.15	ND * IntExp	0.16	.28*
ND * HostExp	-0.07	ND * HostExp	-0.13	-0.22
JV survivors.* IntExp	-0.02	Invested JV.*IntExp	-0.02	.27*
JV Survivors.* HostExp	-0.12	Invested JV *HostExp	0.03	-0.09
JV Failures* IntExp	N/A	Failed JV*IntExp	0.04	N/A
JV Failures * HostExp	N/A	Failed JV*HostExp	0.10	N/A
WOS Survivors	0.02	WOS Survivors	-0.03	0.00
WOS Failures	-0.21***	WOS Failures	N/A	N/A
IntExp [b]	0.07	IntExp [b]	0.01	0.07
HostExp [a]	0.33	HostExp [a]	0.25	0.28
Size [a]	0.26**	Size [a]	.25**	.25**
ROA [a]	-0.26	ROA [a]	-0.21	-0.29
Market growth	1.29†	Market growth	0.83	0.48
GeogDist [a]	2.58***	GeogDist [a]	1.28*	0.69
CultDist [b]	-0.15	CultDist [b]	-0.07	0.13
Intercept	-27.05**	Intercept	-17.21	-11.62
χ^2	107.39	χ^2	100.75	106.43
N	1010	N	1010	1010
AIC	1083.88	AIC	1092.36	1080.68

a. Logarithm. Controlled for Industry and Year dummy variables
†*p<0.10; *p<0.05; **p<0.01; ***p<0.001 (two-tailed test)*

of entry mode choice with which this research is concerned. The bias is caused by the existence of differences between experienced and inexperienced firms which are related to their entry mode choices. So, it is important to compare these two groups to find out their differences.

Hence, in the context of this research, the dependent variable in the selection equation (stage 1) is a dummy variable indicating whether firms have experience or not. Independent variables are the relevant characteristics of firms available in the dataset. The IMR that is gained from this stage is used as a control variable in the second stage which is the main logistic regression analysis. In other words, there is now a control variable in the main analysis for the effect of unmeasured factors related to entry mode decisions, which is also related to experience.

For the independent variables of interest in the first stage, three variables were used naming balance of trade, current account balance in international trade and direct investment flows abroad, based on data collected from World Competitiveness Report. These variables were selected because these attributes of the home country would partially explain the level of firms' experience but do not influence entry mode choice.

The results of the Heckman test are reported in Table 4.10. Models 8-13 demonstrate that after accounting for experience, the pattern of institutional effects remains consistent with previous findings except for regulative distance. As in H2, the probability of choosing JV increases as the normative distance between home and host country increases. The effect of existing JVs from the same industry remains insignificant, similar to the results in Table 4.6. As predicted in H4, the results demonstrate that the number of existing JV failures from the same industry increases firms' tendency to choose JV. Regarding the moderating effect of experience, findings on international and host country experience are consistent with prior results. Although, the effect of regulative distance did not fully corroborate previous findings, given its low level of significance in the main analysis, it is possible to conclude that the results continued to be largely the same after accounting for potential selection bias.

Another factor that needs to be addressed regarding the robustness of the results is the method of analysis. In the present research, logistic regression examines the effect of identified variables at country, industry and firm level on the choice of JV over WOS. However, recent studies in the context of international business challenge the assumption of

Table 4. 10: *Treatment Regression Results*

DV: JV=1, WOS=0	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13
Regulative distance (H1)	-0.45	-0.57†	-0.42	-0.44	-0.45	-0.57
Normative distance (H2)	0.30**	0.36*	0.34*	0.30†	0.30†	0.39*
JV survivors (H3)	0.00	0.00	0.00	0.00	0.00	0.00
JV failures (H4)	0.33***	0.34***	0.34***	0.34***	0.37**	0.39**
Regulative distance * International experience (H5a)		0.06				-0.06
Regulative distance * Host country experience (H5b)		-0.29*				-0.16
Normative distance * International experience (H6a)			0.11			0.15
Normative distance * Host country experience (H6b)			-0.19†			-0.13
JV survivors * International experience (H7a)				-0.06		-0.08
JV survivors * Host country experience (H7b)				0.02		0.01
JV failures * International experience (H8a)					0.03	0.06
JV failures * Host country experience (H8b)					0.09	0.08
Inverse Mill's Ratio	1.28*	1.20*	1.08†	1.25†	1.30*	1.06†
First stage estimation (DV: probability of being internationally experienced)						
Direct investment flows abroad	0.006***	0.006***	0.006***	0.006***	0.006***	0.006***
Balance of trade	0.003**	0.003**	0.003**	0.003**	0.003**	0.003**
Current account balance	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001

†$p<0.10$; *$p<0.05$; **$p<0.01$; ***$p<0.001$ *(two-tailed test)*

this method regarding the independence of observations (Hox, 1995; Hsiao, 2003). This assumption might be an issue when data is hierarchically structured at different, but nested, levels. In this research, for example, subsidiaries are nested in parent companies which are nested in home countries. With this structure of data, the assumption of independent observations might be violated (Macher & Mayo, 2014). Therefore, it is suggested that researchers use multilevel analysis to account for these issues (Mani et al., 2007).

Following prior studies (Cuypers & Martin, 2010; Hong & Lee, 2015; Mani et al., 2007), multilevel logit regression was used to evaluate whether the results were influenced by the hierarchical structure of data. In this analysis, the first level contains subsidiaries while the second level represents the parent firm of foreign subsidiaries, and the third level consists of the home country in which the parent firm resides. The results of the multilevel analysis are reported in Table 4.11, and are consistent with prior findings. They show that changing the method of analysis and relaxing the assumption of independence of the observations does not significantly change the results.

Table 4. 11: *Multilevel Logit Analysis*

DV: JV=1, WOS=0	Multilevel	Logistic
RegDist [b] (H1)	-0.78†	-0.66†
NorDist (H2)	0.36***	0.31*
JV survivors (H3)	0.02	0.02
JV failures (H4)	0.43***	0.41**
RegDist* IntExp (H5a)	-0.08	-0.08
RegDist* HostExp(H5b)	-0.18	-0.16
NorDist * IntExp (H6a)	0.20†	0.19†
NorDist * HostExp (H6b)	-0.15	-0.14
JV survivors * IntExp (H7a)	-0.18†	-0.15†
JV survivors * HostExp (H7b)	0.02	0.02
JV failures * IntExp (H8a)	0.05	0.07
JV failures * HostExp (H8b)	0.11	0.11
WOS survivors	-0.03***	-0.02*
WOS failures	-0.42	-0.39
IntExp [b]	-0.02	0
HostExp [a]	0.31	0.27
Size [a]	0.30***	0.24*
ROA [a]	-0.21	-0.18
MarketGrowth [a]	0.82	0.97
GeogDist [a]	1.64***	1.25*
CultDist [b]	-0.14	-0.13
Intercept	-19.37	-19.51

a. Logarithm. . b.Winsorized. Controlled for Industry and Year dummy variables
†$p<0.10$; *$p<0.05$; **$p<0.01$; ***$p<0.001$ *(two-tailed test)*

Chapter 5: Discussion and Conclusion

This study investigated market entry strategies using an institutional perspective on the choice between JV and WOS. The research design aligns with an ongoing debate in which scholars have stressed the need to address legitimacy and self-interest motives of strategic decisions (Martinez & Dacin, 1999; Oliver, 1991). The study addressed this issue by combining ideas from transaction cost and institutional perspective on firms' behaviour to show how these theories augment each other in explaining entry mode decisions. The findings illustrate how regulative and normative distance impose an asymmetric effect on entry mode decisions when consideration is given to legitimacy concerns as well as self-interest of the focal firm.

This study also aimed to achieve a better understanding of failures and their effects on firms' entry mode choices from the institutional perspective. The focus on failures was motivated by a growing body of research that emphasizes valuable knowledge that can be inferred from the unsuccessful experiences of others and the silence of institutional theorists on this matter. The present study addressed this theoretical gap by drawing from vicarious learning in organisational learning theory to show how failures are part of cognitive institutions and how they shape a firm's understanding of acceptable social frameworks in the host country.

The results of the present study revealed that regulative and normative distance significantly influence a firm's choice of JV over WOS but that they do so in different directions to balance self-interest and legitimacy requirements. In other words, it was found that WOS is the preferred choice for investment in China when regulative distance is high, whereas JV is chosen over WOS when normative distance is high. With regard to cognitive institutions, this research reported significant results on the impact of prior JV failures on the entry mode choice of subsequent entrants. In addition, the present study investigates how these relationships are contingent upon firms' experience in the host country and overall international experience. The results demonstrated that firms' preferential choice of JV in response to regulative and normative distance was subject to their host country experience but not their overall international experience.

This chapter describes and discusses the main findings that emerged from the statistical analysis presented in Chapter 4. The first section focuses on findings from this

research by comparing them to the existing literature and pointing out similarities and discrepancies. The second part moves on to make conclusions, offer managerial implications, highlight the study's limitations and to offer directions for future research.

5.1 Discussion

5.1.1 Influence of regulative distance on entry mode decision

The first hypothesis (H1) in this study sought to determine the impact of regulative distance which is found to be negatively correlated to the choice of JV. It proposed that the probability of choosing JV over WOS is lower in high regulative distance. It was argued that when firms decide on an entry mode, they balance the need for legitimacy and self-interest and give consideration to immediate concerns for survival. In the case of high regulative distance, this is self-interest.

Findings of this research correspond with the results of studies which found that in weak regulative institutional environments where there is not sufficient protection of firms' assets, there is a need for WOS that exhibits a better control mechanism (Chung & Beamish, 2005; Dikova & van Witteloostuijn, 2007). These findings, however, are in contrast to studies that show that regulative distance increases the likelihood of choosing JV (Meyer et al., 2009a; Slangen & Tulder, 2009). JV choices in some industries might be due to restrictions a firm faces on WOS (full foreign ownership) investment, however, it is not an issue in interpreting the results of this research as it is addressed in the sample selection process discussed in Chapter 3.

The inconsistency in prior studies and these findings may be explained by the fact that appropriability hazard is an important factor in entry mode choice and it has been overlooked by those studies that mainly focused on the institutional perspective. They argued that JV decreases external uncertainty and facilitates legitimacy achievement in high regulative distance by giving firms access to local partners' knowledge. However, they overlooked the uncertainties that firms might face by cooperating with a local partner in a weak regulative environment. It is proven that JVs increase appropriability hazard by causing one firm to share its resources with another firm in an environment where there is weak enforcement of rules and laws (Luo, 2007).

Although these results should be interpreted with caution as the significance level of the relationship is low, they support the internalization preference of protecting a firms' resources because WOS was found to be preferential over JV in high regulative distance. These findings suggest that firms perceive the external risks imposed by regulatory differences is easier to manage compared with the internal challenges they face in a JV that is located in an emerging economy. This result is probably driven by the emerging economy setting of this research because the risks a firm faces in controlling its intellectual property are higher in those countries (Oxley, 1999). Nonetheless, they confirm Oliver (1991) opinion on institutional theory, who urged researchers to acknowledge the motivation of economic efficiency in addition to legitimacy in firms' responses to institutions.

It should be mentioned that the argument proposed in H1, can also be applied to conditions where the home country is less developed than the host country. In more developed regulative environments, rules ensure safe business practices and political environment is more stable. In these conditions, firms from emerging economies are more likely to choose higher ownership in high regulative distance to access the technologies and resources of the local firm, as well as the developed institutions and practices of the host country (Hernández & Nieto, 2015; Lebedev et al., 2015; Liou et al., 2016). So again, preferring higher ownership in response to greater regulative institutions indicates that firms give priority to their economic efficiency when they can easily grasp requirements in the institutional environment.

5.1.2 Influence of normative distance on entry mode decision

The second hypothesis examined how normative distance influences a firm's decision between JV and WOS. Several studies have suggested that firms adopt their strategy to conform with normative institutions (Ang & Michailova, 2007; Cui & Jiang, 2012; Estrin et al., 2009; Liou et al., 2016). In line with these studies and incorporating the argument of simultaneous consideration for legitimacy and self-interest, H2 proposed that when normative distance is high, firms exhibit a higher tendency to choose JV over WOS to acquire information on the host country norms and to overcome their lack of knowledge.

With respect to the second hypothesis, the positive and significant coefficient on normative distance supports that firms tend to choose JV structure when they face high normative distance. Normative similarity between the home and the host country facilitates

legitimacy achievement and decreases the need to draw on a local partner's resources. These results seem to be consistent with previous studies which found that firms tend to rely on the local partner's knowledge and resources when they face normative pressure in the host country (Demirbag et al., 2009; Yiu & Makino, 2002).

It is interesting to note that normative distance demonstrated a stronger influence on firms' tendency to choose JV as compared with regulative distance on WOS. This difference could be attributed to the uncodified nature of normative institutions, which makes them harder to identify and conform with. As stated by Kostova and Zaheer (1999), legitimacy in the normative domain poses the hardest challenge to firms, as compared with regulative and cognitive. For instance, legitimacy in regulative institutions is something that a firm needs to achieve immediately to enter a country and can easily be identified by reviewing existing rules and regulations. So, the higher level of significance pertains to the difficulty of achieving legitimacy which creates a greater necessity for cooperation with a partner for firms that are not familiar with the country. JV mode facilitates the process of learning norms and values, to build relationships and acquire approval in the eyes of suppliers and customers. These results further confirm the idea presented earlier in Chapter 2 that a firm's tendency to choose JV differs in response to regulative and normative distance.

5.1.3 Influence of survivors on entry mode decision

Hypothesis 3 proposed that JV entry mode choice of prior entrants increases the probability of a firm to choose JV. Results, however, were insignificate. This finding is different from some published papers that showed that firms imitate the decisions of others from the same industry (Haunschild & Miner, 1997; Henisz & Delios, 2001). Nonetheless, it is consistent with those that did not find support for the same effect (Chan et al., 2006; Garcia-Pont & Nohria, 2002; Guillén, 2003; Hennart & Park, 1994). For instance, Hennart and Park (1994) in a study on Japanese firms' investments in the United States found that Japanese firms did not follow their industry rivals in investment decisions. With further analysis, they showed that a Japanese firm in an enterprise group is influenced by the investment decisions of firms in other enterprise groups, which indicates the influence happens between enterprise groups. So, although the insignificant finding was not expected, it is not surprising given the inconsistent results observed in previous studies on imitation effect.

This unexpected finding might show a firm's reluctance to imitate any other firm in the same industry. Garcia-Pont and Nohria (2002) findings could explain this result when they challenge the traditional literature on imitation. They have shown that for alliance formation, firms observe the actions of others in the same industry and learn from those that are similar such as firms in the same strategic groups or organisational niche. As such, the dynamics of imitation as a mechanism of learning from survivors via blind imitation is changed to a process of observing, evaluating and selectively choosing the reference group. Hence, firms might not imitate others in the same industry if they find more similar reference groups elsewhere.

The insignificant result of H3 is also likely to be related to confidence in imitation which is another factor pertaining to heterogeneity in the imitation behaviour of firms in the same industry. Firms might not follow the most prevalent action in their industry because they do not trust the observed firm or inferences drawn from their behaviours. As stated by Li et al. (2015), firms have more confidence in the behaviour of experienced firms in their industry. The adoption of an action by experienced firms validates the appropriateness of the focal action, as they already possess valuable knowledge gained from prior operations on how to invest.

A firm's confidence in information inferred from the behaviour of others also depends on market volatility and inference uncertainty. Firms might not imitate others because inferred information from observational learning is not reliable. To conform to institutions, firms observe the behaviour of others and try to identify the most appropriate actions that give them legitimacy. However, sudden unexpected changes in a volatile market decrease the precision of information inferred from others' actions and with that, also decreases a firm's tendency to imitate those actions (Gaba & Terlaak, 2013).

5.1.4 Influence of failures on entry mode decision

A key finding in this study was that a firm's entry mode decision is shaped by the failure of early entrants. It was hypothesised (H4) that a high number of JV failures from the same industry leads the focal firm to choose JV as entry mode. The significant positive coefficient supports the hypothesis. This relationship remained consistent in the presence of interactions and over different time lags, which shows its robustness. It suggests that the failure of earlier entries with JV structure works as a source from which firms draw

information about cognitive institutions of the host country. This interesting finding matches the idea of learning from failure in earlier studies which found that failure experience of others increases the survival chances of the focal firm (Baum & Ingram, 1998; Baum & Dahlin, 2007).

It was argued that firms choose their entry mode using information on the market outlook they draw from failures while bearing in mind the appropriability of the alternative option. The significant positive coefficient implies that the uncertainty introduced by the failure of the JV as a low risk entry mode encourages new entrants to choose JV, as the other available option (WOS) offers higher risks. In the uncertain environment of an emerging economy, JV helps firms to both share the risk of operation with the local partner and get access to complementary resources to achieve legitimacy. Hence, the significant effect of JV failures asserts that a firm's response to cognitive institutions is driven by observational learning from the failure of earlier entrants.

The observed differences between the effect of learning from existing firms and learning from failures corroborate the findings of existing research on the importance of failures. For example, Madsen and Desai (2010) showed that others' failures better explain the success of a focal firm than others' successes. Supporting these results Yang et al. (2015) assert that in the context of emerging economies, information inferred from the failures of early entrants is more valuable than information from their operating experience. These results might be explained by the fact that unlike survivors, failures induce deliberate learning and underscore a need for change. They provoke a search for the cause, which benefits firms in making better and more informative decisions. Successful actions might diminish a firm's motivation for a thorough investigation and convey a message that there is less need for change leading firms to ignore influential factors that vary case by case.

Further analyses were conducted to explore the effect of failures by utilising alternative measurements. In contrast to these findings, however, when observations were limited to failures in the year prior to entry, results were not significant. The lack of an adequate number of observations may be a possible explanation. Given the sample size of failures in this study, applying time limitations shrinks it further, which could influence the results. Another possible theoretical explanation might be that firms require time to learn from failures. As suggested by previous studies, they try to evaluate failures and identify causes leading to that outcome (Yang et al., 2015). So, recent failures do not have a strong

significant influence on firms' decisions as firms do not have motivation to learn from them. A firm's motivation to learn might be mitigated by the lack of enough time to infer reasonable information from failures. It may also be possible that there was not a significant meaningful difference between the mean of JV and WOS failures. Thereby, it is less likely that their failures are perceived to be entry mode related, and it is more difficult for a new entrant to infer useful information from the failure of a certain type of entry mode.

5.1.5 Moderating effect of international experience

It was hypothesised that international experience weakens the influence of each institutional dimension including regulative distance (H5a), normative distance (H6a), survivors (H7a) and failures (H8a). No significant results were found on the moderating effect of international experience except in the case of normative distance (H6a). Insignificant results suggest that the effect of institutional variables on entry mode choice does not change based on the international experience of the parent company. The uncertainty and institutional pressures they face remain the same for firms with and without international experience.

Although counterintuitive, these findings were not unexpected as the literature reported inconsistent results on whether firms could develop capabilities through international experience that help them in future investments. While a group of scholars observed no learning effects associated with international experience (Barkema et al., 1996; Delios et al., 2008; Powell & Rhee, 2013), others reported significant findings (Lu, 2002; Slangen & Hennart, 2008). The results of this research align with the latter.

H5a proposed that the effect of regulative distance on the choice between JV and WOS decreases as firms gain international experience. The insignificant results are consistent with those of previous studies (Buckley et al., 2014; Perkins, 2014) which found that international experience is not transferable to a new country. This result could be attributed to the difficulty in understanding and assimilating new information. Based on the concept of absorptive capacity introduced by Cohen and Levinthal (1990), experience is transferable only when the new context is related to what the firm has experienced. So, the knowledge firms acquire about rules and regulations from their experience in foreign countries is useful only when it is similar to rules and regulations in the new host country. Another possible explanation for this result may be that even when firms lack international experience they

may find the benefits of conforming to institutions to be low, as they may have accumulated related knowledge and acquired essential capabilities through their prior investment in the host country.

Interestingly, the results of H6a indicated that international experience significantly moderates the effect of normative distance on the choice between JV and WOS, but in a positive direction. These results are consistent with those of other studies in that the experience firms accumulate in other countries changes their behaviour in response to institutional differences. While these results should be interpreted with caution due to the low level of significance, the inconsistent effect of international experience on normative and regulative distance is somewhat interesting. This might be related to the earlier discussion on differences in the difficulty of conforming to and achieving legitimacy in regulative and normative institutions. The codified nature of regulative institutions makes it easier to identify and conform with them, whereas uncodified normative institutions necessitate more effort. So, accumulated knowledge and developed routines to deal with regulative institutions that a firm has acquired in prior foreign operations is not of significant value in its effort to conform with new regulative institutions.

On the effect of cognitive institutions, hypothesis 7a and 8a proposed that international experience negatively moderates the influence of survivors and failures, respectively. Analysis revealed that proposed interactions were not significant. Although, these results are in agreement with some earlier studies (Oehme & Bort, 2015; Yang & Hyland, 2012b), they do not support previous findings which showed that firms turn to others' actions to reduce uncertainty when they have insufficient information about the chosen strategy or, in general, operation in a foreign country (Baum et al., 2000; Wu et al., 2011).

The findings of H7a and H8a underscore the complex relation between learning from own experience and learning from others. Nonetheless, there are some explanations for these results. It seems possible that these results are caused by the unrelated knowledge that international experience provides. As discussed earlier, for firms to utilise their experience, it should be related to the target context. That might be the reason why firms refrain from substituting what they learn from other firms' actions with their own experience.

Another possible explanation for these results might be the experience a firm has in the target industry. As posited by Shaver et al. (1997), firms might find the benefits of learning from others to be low when they have experience in the target industry. Therefore, should international experience be in industries other than the target industry, firms would rely on others, survivors or failures, for clues about how to operate in the host country.

5.1.6 Moderating effect of host country experience

The present research investigated the effect of host county experience as a boundary condition on institutions. It was hypothesised that host country experience weakens the effect of regulative distance (H5b), normative distance (H6b), survivors (H7b) and failures (H8b) on the choice of JV over WOS. Even though this study did not find support for the moderating effect of the host country on a firm's entry mode choice in response to survivors and failures, it did identify that the choice of JV over WOS in response to normative distance is influenced by host country experience. It suggests that having experience in the host country changes firms' uncertainty perception that results from normative differences.

H5b proposed that host country experience negatively moderates the effect of regulative distance on the choice of JV over WOS. The results indicated that firms with experience in the host country show a significantly higher tendency to choose WOS over JV in response to high regulative distance. These results are in agreement with Powell and Rhee (2013) findings which showed that when a firm is experienced in the host country, it is more likely to choose WOS over JV in response to regulative distance. The present study shows that a firm with experience in the host country has more tendency to invest as its experience in the host country leads to a relatively lower level of uncertainty and the firm has a greater ability to operate in that country. These findings further confirm the idea presented in earlier studies (Luo & Peng, 1999; Zeng et al., 2012) that through prior operations in the host country, a firm learns the rules and laws of the focal country, improves its understanding of the business environment and become less prone to risks and challenges.

Analysis of H6b found that host country experience negatively moderates the influence of normative distance on entry mode choice. These results confirmed that familiarity with the host country decreases a firm's tendency to choose JV over WOS in response to normative distance. It was argued that choosing JV facilitates a firm's understanding of the host country normative institutions through local partner knowledge and

resources. With prior operation in the host country, a firm develops knowledge on the local business environment such as local culture, customer and other stakeholder preferences. It also establishes networks with suppliers and customers, which mitigates the challenges and obstacles of understanding the business environment of the focal country (Barkema et al., 1996; Delios & Henisz, 2000). This finding, that experienced firms prefer WOS, confirms the idea put forward in previous studies that familiarity with the business environment of a country diminishes a firm's reliance on a partner to acquire local knowledge (Delios & Beamish, 1999; Delios et al., 2008).

Regarding cognitive institutions, it was predicted that host country experience weakens the effect of JV survivors (H7b) and JV failures (H8b) on the choice of JV over WOS. Inexperienced firms have less information about acceptable behaviours and social frameworks in the host country, and thus acquire information by drawing inferences from the behaviour of existing and failed firms. Yet, contrary to expectations, the results did not support the idea that a firm's entry mode choice in response to cognitive institutions varies according to its experience in the host country. These results were not consistent with those of previous studies which found that experience in a related context decreases a firm's reliance on learning from survivors (Li et al., 2015; Malhotra, Zhu, & Reus, 2015). While the insignificant results of H8b did not support any substitutional interaction between experiential and vicarious learning offered in earlier studies (Henisz & Delios, 2001), they are consistent with those of Yang et al. (2015) who did not find that host country experience moderates firms' learning from the failure of others.

These inconsistent results might be related to the intricate relationship between experiential and vicarious learning. The existing literature demonstrated an interrelated relationship between the two by arguing that the interaction could be both supplemental and substitutional (Posen & Chen, 2013; Schwab, 2007). Supplemental interaction is based on the argument that to learn from external sources firms need to have related experience. Substitutional interaction suggests that experienced firms look internally for information on the host country instead of relying on others' experience. While this insignificant result is contrary to expectation, the lack of firms' interest in their own experience could be because observing other firms' behaviour exposes a firm to a broader collection of information and alternative actions which enhance the accuracy of information and efficacy of decision making.

These results could also be explained by the findings of Menon and Pfeffer (2003) who challenged the argument of favouring internal over external knowledge. They posited that under certain conditions external knowledge could be preferred over internal knowledge. In inter-organisational learning, the fear of getting outcompeted could motivate firms to learn and imitate the behaviour of others. In addition, the availability of internal knowledge reduces its value as it subjects the internal knowledge to greater scrutiny and exposes flaws and limitations. Thus, firms may value learning from the experience of others over their own experience because they have less knowledge about the potential flaws of others' action.

In general, therefore, it seems that accumulation of richer experience in addressing various obstacles moderates the uncertainty firms perceive in regulative and normative distance. With more experience in the host country, firms develop routines in terms of compliance to rules and laws, development of effective relationships with customers, suppliers and other public and private actors, as well as skills for managing the operation. However, the lack of significant influence of host country experience on learning from survivors and failures suggests that firms in this study have no preference for own experience over the experience of others.

5.2 Conclusions

5.2.1 Extending institutional theory – regulative and normative institutions

This study makes several contributions to institutional theory in general and to entry mode decisions in particular. First, it answers questions on whether to restrict a firm's motives for internationalisation to either legitimacy or efficiency. It extends prior arguments on balancing legitimacy needs and self-interest in firms' decisions (Kostova et al., 2008; Oliver, 1991) by comparing the effect of regulative and normative institutions in a specific context that captures idiosyncratic influences of each institutional dimension.

To examine the concurrent effect of legitimacy and self-interest motives, this study compared firms' entry mode choices in response to institutional distance in China, a host country with weak regulative and strong normative institutions. These institutional characteristics amplify the need for efficiency in response to regulative institutions and the need for resources to achieve legitimacy in response to normative institutions.

The findings were congruent with the argument discussed earlier in Chapter 2. The investigation of regulative institutions has shown that WOS structure is preferred over JV in high regulative distance, a choice that is motivated by the ease of identifying regulative institutions and uncertainty about firms' economic efficiency. It demonstrates that achieving legitimacy in regulative institutions which are accessible and uncomplicated to identify and evaluate is of less importance in entry mode decisions. This is more the case in countries like China where regulative institutions are weak and unable to protect the firm against opportunistic behaviour of partners. Sometimes this regulative environment becomes the source of the threat by exposing firms to expropriation hazard. The results indicated that under these conditions, protecting one's own resources and competitive advantage become the vital imperative. So, WOS with a strong control mechanism protects firms against potential opportunistic behaviour, while its uniform ownership creates high flexibility and quick responses against sudden changes in rules and regulations. As such, the advantages of WOS outweigh its disadvantages such as lack of access to local knowledge and resources possible via JV.

On the other hand, when achieving legitimacy is ambiguous with regard to the identification and interpretation of norms deeply embedded in a society, the results showed that firms are inclined to sacrifice economic gains for solutions that contribute to their legitimacy. For example, if a firm considers entering China and faces a high normative distance, it would experience difficulty identifying appropriate norms of doing business. Thus, it considers a structure that ensures access to resources required for legitimacy achievement, such as JV though it might not be as efficient a structure as WOS. With a JV structure firms relinquish full control and profit in order to access local knowledge and resources through cooperation with a local partner. In doing so, firms learn from their partners about the nuances of doing business in China.

This study contributes to the entry mode literature by helping to reconcile inconsistent findings. This is because while the necessity of further investigation on antecedents of entry mode choice has been questioned by some scholars (Shaver, 2013), others believe that addressing inconsistent findings in the existing literature and even replicating previous findings would help to advance the field (Hennart & Slangen, 2015). For example, Chung and Beamish (2005) found that Japanese firms choose WOS over JV when they enter Asian emerging economies to overcome volatility and chaos in institutional environment

concerning policy restrictions on FDI and policy uncertainties. Whereas, Yiu and Makino (2002) reported that firms tend to conform to regulative institutions by choosing JV over WOS. The results of this study suggest the dominant choice depends on the difficulty of achieving legitimacy and concerns for protecting self-interest. Institutional dimensions differ in the degree of difficulty of acquiring legitimacy. Regulative institutions that are codified knowledge and relatively easier to assess necessitate different organisational structures than normative institutions which are hard to identify for a foreign new entrant. Further, compared to normative institutions, weak regulative institutions amplify the need for an organisational structure characterised by strong control mechanisms to protect the firm and its resources against potential opportunistic behaviours. As such, this study also contributes to the entry mode literature by taking into account regulations and political risks of the host country. Harzing and Pudelko (2016) suggested that it is necessary for international business researchers to contextualise home and host country context by focusing on investment risks, political risks, and economic development.

In general, these findings strengthen the idea that institutions can have an asymmetric influence. However, I do not interpret this finding as evidence that responses to regulative and normative distance always differ. Nonetheless, it does show that entry mode choice depends on the uncertainty perception regarding ease of accessing information and enforcement of law in the host country. Indeed, the results are consistent with the notion that both institution and transaction cost theory simultaneously shape firms' decisions (Martinez & Dacin, 1999).

In sum, these findings confirm that institutional and transaction cost approaches to the explanation of firms' decisions complement one another. A firm's self-interest as well as legitimacy is an important factor in how institutional distance ultimately influences a firm's decision on how to enter a country. As such, the contribution of this study has been to confirm that at times, regulative and normative distance have an asymmetric effect on a firm's entry mode choice. While legitimacy concerns are detrimental, should other necessities prove more vital, legitimacy would not be the main predictor of entry mode choice. In this regard, this study provides a better understanding of the effect of institutions on entry mode choice.

5.2.2 Extending institutional theory – cognitive institutions

The most important contribution of this study is to the literature on cognitive institutions. Although research on cognitive institutions and more specifically on the concept of imitation explains how the behaviour of others shapes a firm's behaviour, it provides limited insights as to how another firm's failed action would influence the entry mode decision of the focal firm. Hence, the application of the concept of cognitive institutions to the role of failures needs further development. In the case of entry mode decision, this study found that the failure of others with JV structure significantly influences successive adoption of that entry mode. The results empirically confirm the theoretical argument presented in Chapter 2, that failures contribute to firms' understanding of cognitive institutions in the host country.

The present research theorized the choice of JV over WOS as the product of failures with JV structure. Two fundamental results emerge from the findings. One is that firms' choice of JV for their investment in China is influenced by the rate of failures of JV structure in that country. Second, learning from failures differs from the traditional definition of imitation, in that it stimulates deliberate learning. These findings underscore several important insights for both institutional theory and organisational learning theory.

First, the findings illustrate that to develop a more comprehensive understanding of how firms respond to cognitive institutions, it is important to account for the effect of failures. Institutional theorists conceptualise firms to infer information on cognitive institutions from predecessors who adopt a certain behaviour (Barreto & Baden-Fuller, 2006; Guillén, 2003; Lu, 2002). They assume that other firms exert an informational influence by sending information on acceptable social frameworks which could provide legitimacy and extend the chances of survival. Although this argument is built on informational influence, it does not acknowledge the signals the failures could send. This line of research is merely focused on the level of success as the outcome that motivates a firm to learn and imitate. They compared the influence of more successful firms to less successful ones. However, in this process, they overlooked the action of terminated firms as a source of information. The present study revealed that failures of prior entrants extensively influence the entry mode choice of subsequent entries. Hence, it clearly showed that firms could indeed learn from the

failure of others, further indicating that failure of other firms in the focal host country can be a source from which to identify cognitive institutions.

Second, this study contributes to the stream of literature on the effect of failures by empirically confirming theoretical arguments that the strategic decision of entry mode is made under the influence of the failures of others. Several studies have been conducted on failures by examining their influence on performance (Baum & Ingram, 1998; Kim & Miner, 2007). They showed that performance increases as firms learn from the failure of others. However, only a limited number of researchers such as Chuang and Baum (2003) examined the effect of failures on the strategy adoption process. The findings of the present study add to this body of literature by revealing that firms make their choice between JV and WOS by relying on the information inferred from the entry mode of failures. The results clearly corroborate this argument as they show that the rate of JV failures in China increases the tendency of subsequent entries to choose JV mode over WOS.

Another interesting contribution of this study is to organisational learning theory. It answers the question of how failures impact the entry mode choice of subsequent entrants. Although the results were broadly consistent with several organisational learning studies in which firms learn from the behaviour of failures, it poses challenges to the idea that firms learn from failure with the outcome of avoiding the failed action (Cyert & March, 1963; Levitt & March, 1988). The argument discussed in Chapter 2 stands in contrast to organisational learning studies in that it argues that learning from failures is not a blind avoidance but stimulates a deeper evaluation of failed behaviour and environmental conditions. The study results supported this view. It revealed that the failure of JVs in China does not prompt subsequent entrants to avoid JV structure.

Entry mode choice provides an interesting context for demonstrating that learning from failure contains rich information on causality. Previous studies posit that firms evaluate the failures of others and make decisions based on hypothesised causes (Baum & Dahlin, 2007). Deliberate learning is more evident in the context of entry mode decision making as it is stimulated by the uncertain environment of international investment where learning is less subject to myopic limits (Chiou, Magazzini, Pammolli, & Riccaboni, 2016; Muehlfeld et al., 2012). Hence, JV failures in the country did not lead firms to simply avoid JV structure but notoriety and salience of failures encouraged firms to learn and led them to choose JV as the preferred mode of entry.

These results reinforced the theoretical argument presented in Chapter 2 that firms derive meaningful knowledge from failures. It was theorized that firms attribute the cause of failure to the failed firm. Doing so, they actively try to analyse the failure, its performance and process. Findings of this study that firms choose JV in face of high number of JV failures, while confirm prior findings on the value of learning from failures (Kim & Miner, 2007; Yang et al., 2015), reveal that new entrants make their entry mode choice based on information inferred from failures. These findings support the argument that salience and importance of the JV failures in China attracts a firm's attention and creates a spill over effect. This base of knowledge gives other firms more opportunity to extract meaningful information and to identify potential issues and obstacles a JV investment might face in China. Thereby, they might develop capabilities to manage a JV structure which gives them confidence in choosing JV over WOS.

Moreover, it was also theorised that the choice of entry mode depends on market conditions and the alternative entry mode. Choosing JV when there is a high number of JV failures in China, supports the argument that firms draw inferences about the host country from failures. Failure of JVs, with all the advantages they provide by being associated with a local firm or sharing risks and resources with a partner, indicates the level of difficulty a foreign company is going to face in China. It could be argued that failure of JVs also indicates challenges of managing a cooperation in China's weak institutional environment. Nonetheless, JV is an appealing choice when it is compared to the alternative option (WOS). China's volatile institutional environment makes it difficult to predict the future and literature has shown that firms refrain from high resource commitment in these conditions to avoid incurring major losses in case of sudden changes in rules (Anderson & Gatignon, 1986; Brouthers et al., 2008; Hill et al., 1990). So, knowing about the challenging environment of the host country, firms prefer to choose JV which facilitates legitimacy achievement as compared to the alternative choice of having full ownership.

Overall, then, the contribution of this study has been to institutional theory by confirming that cognitive institutions are not limited to existing firms but also failures. This is in line with institutional theorists who view conformity to cognitive institutions as a complex proactive response rather than a mindless reaction (Cantwell et al., 2009; Oliver, 1991). Further, it contributed to organisational learning theory by confirming deliberate learning from failures and showing that it is not limited to avoidance and depends on inferential

information. It confirms the assumption that a considerable level of deliberateness exists in firms' responses to cognitive institutions. It also contributes to the literature on entry mode by showing that a firm's choice of JV is influenced by failed firms' entry mode choices.

5.2.3 Behaviour of experienced firms

This study investigated firms' experience to shed more light on the influence that experience, in the form of reducing uncertainty, has on entry mode choice in response to institutions. There is an ongoing discussion in the literature regarding the applicability of international experience in a new context. In support of the value of international experience, a group of scholars suggested that although international experience might not be directly related to the focal host country, the general skills and capabilities that firms develop over the course of their internationalisation make them competent in operating in any foreign country. Firms with international experience were found to be less susceptible to risks and uncertainties because through experience they obtain the ability to learn and absorb a new concept, negotiate, make networks, and scan the environment to identify key legitimacy requirements (Barkema & Drogendijk, 2007; Eriksson et al., 1997).

In contrast, another stream of research argues that experience is beneficial for firms in their foreign investment if only it is related to the focal host country. They argue that skills acquired through foreign operation are country-specific and not applicable to a new destination (Buckley et al., 2014; Delios & Beamish, 2001). Hence, in foreign investment, experience can only mitigate uncertainty if it is sufficiently related to the new destination, meaning experience in countries within a similar cultural block, similar institutional environment or in the focal host country.

To add to this conversation, this research examined the moderating effect of international and host country experience on institutional factors. It was proposed that the more experience firms gain at international level or in the host country, the weaker the influence of institutional distances. So, experienced firms should have a lesser tendency to choose WOS in higher regulative distances as they have developed abilities to deal with uncertainty and risky environments. Moreover, the tendency to choose JV in higher normative distance is lower for experienced firms that either have knowledge about the host country norms or possess the required skills to identify and understand them.

The results provided partial support for prediction by showing that in the context of this study, host country experience influences the effect of both regulative and normative distances while international experience does not have any impact. More specifically, this study showed that firms with experience in China are more likely to choose WOS in response to regulative distance and have a lesser tendency to choose JV in response to normative distance. These findings validate the effect of host country experience in decreasing the level of uncertainty a firm perceives when investing in an institutionally distant country. Previous operation brings about the knowledge and skills needed to manage host country complexities. Study results are consistent with prior studies, in that a firm's response to institutions is subject to its experience and that related experience in the host country is more influential than international experience.

This study adds to the boundary condition on institutional effect and additionally to organisational learning approaches in the international business literature by underscoring the transferability of related experience and its mitigating effect on uncertainty perception. The results stressed that experience seems to have an effect on subsequent entry mode decisions. Nonetheless, experience does not limitlessly transfer to a firm's ability to understand and invest in different countries. That is, firms learn from their experience in various foreign countries, only the experience in the host country can influence their entry mode choice by mitigating their perceived uncertainty in institutional distance. Comparing results on the host country experience with those of international experience, it is possible to conclude that firms with experience in China may be less prone to challenges stemming from institutional distance, as compared with firms having experience in other foreign countries.

5.3 Managerial implications

The foreign investment strategy of firms has been explored in this study in the context of the decision between JV and WOS and how it is influenced by the strategy chosen by prior entrants and the institutional differences between a firm's home country and the target host country. In addition to theory, the findings of this research also have implications for practitioners. The main managerial implication offered by the findings is that the decision of prior entrants is a valuable source of information that contributes greatly to a firm's entry mode choice. While this study does not encourage blind adaptation of other firms' foreign

investment decisions, it encourages observation, learning and attention to the actions of predecessors in the target country.

A significant implication derived from this research is that managers should consider failure of others as an indispensable learning opportunity. Failure of an entry mode represents a negative outcome and will increase concern regarding the legitimacy of that mode. But, the notoriety of the event attracts a firm's attention and the aggregated experience increases the base of available information on how to operate in the host country. Therefore, managers should not only pay attention to the failure of others, but they should also create improvement opportunities by collecting more information on failures through various sources to decrease the likelihood of experiencing the same result.

For managers intending to enter a foreign country, this research shows how they can mitigate the challenges that arise from unfamiliarity with the host country institutions through their choice of entry mode. It suggests that managers need to take into account in their entry mode choice the need for information to conform with regulative and normative institutions of the host country as well as the risks these institutions might impose. According to the findings of this research, the JV subsidiary and subsequent access to local knowledge and resources are essential when firms face high normative differences. Through JV, not only can a firm gain inside information on how to do a business in that country, but it can also gain access to local networks with suppliers, distribution channels and customers. But, JV might endanger a firm's intellectual property as it is susceptible to opportunistic behaviours when regulative distance is high, and enforcement of rules is weak in the host country. In this situation, the primary choice is establishing a WOS that gives more control over the operation. In other words, the implication for managers is that they need to choose their foreign investment strategy in a way that enables them to leverage advantages of each mode in face of the challenges caused by institutions.

Another implication is that managers should not only take into account institutional factors when they make entry mode decisions but also their firm's characteristics such as experience. The findings of this study show that managers should evaluate their firm's resources and capabilities prior to choosing an investment strategy in an institutionally different country to maximise the benefits and minimize the risks of their choice. However, in contrast with conventional wisdom that experienced firms are equipped with essential capabilities required in future foreign investment, and thus might not need a JV to gain

legitimacy, this research suggests that not all experiences are applicable in a new context. The implication for managers is that they should not overemphasize the general knowledge they acquire in prior foreign operations, but should rely more on knowledge related to the target host country.

5.4   Limitations and directions for future research

The main objective of this research was to extend institutional theory by examining the effect of institutional distance on entry mode choice. The study provided support for most of the proposed hypotheses, suggesting the importance of failures on firms' decisions and the value of integrating institutional theory with a transaction cost approach to understand entry mode decisions. However, the findings of this study are subject to a number of limitations that provides avenue for future research.

The dataset of this research provides information on the governance of subsidiaries in four codes representing two types of entry mode. As a result, this study applied a binary variable of entry mode decision with partial ownership (JV) over full ownership (WOS). While this is in line with earlier studies that have employed a similar measure for entry mode decision, the structure of a foreign investment is far more complex, so that categorising it into only two groups may not accurately capture the nuances of foreign investment decisions. Firms, for instance, could overcome the deficiencies of partial ownership such as lack of control by choosing a higher level of ownership. Therefore, future research could provide a better understanding of how firms choose foreign investment strategies by combining the binary measure with a fine-grained measurement of ownership.

Another limitation related to the measurement of entry mode choice is that no distinction has been made between greenfield and acquisition types of investment. This study mainly focused on full and partial ownership structures of investment due to limitations in the data set. It is well established in the literature that some aspects of challenges in foreign investment differ from these types. Acquisition mode accelerates market entry and provides access to local knowledge, but presents more post-entry management challenges (Chen, 2008; Chen & Zeng, 2004). On the other hand, a greenfield structure offers higher control over operation and smoother cooperation between parent and subsidiary, yet its lack of access to local knowledge might be a challenge (Estrin et al., 2009; Meyer, Wright, & Pruthi,

2009b). For example, the challenges a JV-greenfield would encounter differ from those faced by JV- acquisition. Although focusing on two types of investment (JV and WOS) was in accordance with existing studies, future studies using combination of establishment and entry mode choice would add to the findings of this research.

The main limitation of this study is the nature of sample drawn from a population of foreign investment in China. The lack of information on parent companies in the main data base meant that the ultimate parent companies had to be identified manually. This limitation resulted in a reduction of the sample size. Further, Chinese language of the database added to this limitation as it was not always possible to obtain the name of existing subsidiaries to then find the parent company. So, the sample of this research is limited to firms about which information was available. These limitations probably came about as a result of having outliers . These were treated by winsorizing. Although the selected database was a reliable source applied in several academic studies (Chang & Xu, 2008; Zhang et al., 2014b) and the sample selection bias and reliability of results were examined using various statistical analysis, utilising a database that encompasses detailed information on the subsidiary and the parent company would considerably add to the findings of this research.

This study grounds its conceptual model on the premise that firms learn from failures. However, it does not actually measure and observe whether learning occurs. Data in this research is at the population and firm level which gives the opportunity to analyse the effect of higher level factors on a firm's decision. Quantitative data in this research does not measure or provide evidence of actual learning. Future studies could examine firms' learning from failures by using survey data.

This study investigated the effect of failures on entry mode decisions of firms from multiple home countries in the context of foreign investment in China. It has been demonstrated in the existing literature that firms' decision vary based on the specifications of the host and the home country (Hernández & Nieto, 2015; Holburn & Zelner, 2010; Xu & Shenkar, 2002). While the database of this study was limited to one host country, future research could extend the context to other host countries among emerging economies and developed countries. This would add to the literature by extending our understanding of how the failure of others shapes firms' decisions. It could help to answer research questions such as how host country institutional attributes shape the inferences that a firm draws from

failures. If the role of failures is to be moved forward, future research should attempt to provide a deeper understanding of its effect.

A second possible area for future research is the effect of failures on other types of market entry strategies. The focus of this research was intentionally on the choice between JV and WOS to investigate the decision on whether to have a partner in a foreign operation. This decision is made based on various advantages and disadvantages that are attributed to shared ownership as compared to full ownership, such as shared risks, lower resource commitment, access to local resources but lower levels of control and less flexibility (Anderson & Gatignon, 1986; Hennart & Larimo, 1998). However, foreign investment strategies encompass a broader set including equity and non-equity mode, greenfield and acquisition, and vertical and horizontal alliances (Barkema & Vermeulen, 1998; Contractor & Ra, 2002; Dacin et al., 2007). This research showed that what firms learn from prior JV failures is partly drawn from specifications attributed to JV. As such, further research should be undertaken to explore how the failure of various types of investment would influence firms' decisions.

This study focused on learning from failures and how the entry mode of failures would define the entry mode of subsequent entries. While investigating this effect contributed to both institutional and organizational perspectives, it was limited to learning from others. Future research could extend this concept by investigating firms' learning from their own success and failure in various entry modes. A stream of research mainly in the organisational learning field has explored whether and how firms learn from their own failure (Desai, 2015; Khanna et al., 2016). Although there is substantial evidence that firms learn from their own mistakes, a limited number of studies in international business explored this effect (Chuang & Baum, 2003; Muehlfeld et al., 2012). Further research needs to be done to better understand the complex dynamics between learning from one's own failure and that of others, and whether firms learn differently from successful and failed experiences.

The measurement of experience in this research is limited to the form of international and host country. While they are a prevalent source of experience in international business literature, various other types have also been measured such as the previous entry mode decision of the focal firm which was found to be significantly influential on firms' subsequent strategies (Chang & Rosenzweig, 2001; Nadolska & Barkema, 2007; Padmanabhan & Cho, 1999). Investigating firms' knowledge about different entry modes on

their choice in response to institutional distances would contribute to institutional theory literature.

Past studies relating institutional distance to firms' decision making has mainly used an aggregated measure of regulative and normative distance. However, Cuervo-Cazurra and Genc (2008) demonstrated that individual facets of institutions might exhibit different effects, so in an institutional variable made by aggregating various dimensions, facets might cloud each other's effect. For instance, while high regulatory control in a country might discourage foreign investment, a lack of political democracy does not (Arregle et al., 2013). Moreover, Delios and Beamish (1999) posit that although legal restrictions might increase the probability of choosing JV, low levels of intellectual property protection force them to opt for higher levels of ownership. Future studies may wish to explore how the combination of legitimacy seeking and self-interest would explain the effect of each individual facet and whether the effect of an aggregated measure is similar or different from individual facets.

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Appendices

Appendix 1 Restricted foreign investment industries

Manufacturing Industry

1. Beverage Industry

- Processing of green tea and special tea with China's traditional crafts (famous tea, dark tea, etc.)

2. Medical and Pharmaceutical Products Industry

- Processing of traditional Chinese medicines that have been listed as the Regulations on Conservation and Management of Wild Chinese Medicinal Material Resources and Rare and Endangered Plants in China
- Application of preparing technique of traditional Chinese medicines in small pieces ready for decoction, like steam, frying, moxibustion, calcining, and production of the products of secret recipe of traditional Chinese patent medicines

3. Non-Ferrous Metal Smelting and Rolling Processing Industry

- Smelting and processing of radioactive mineral products

4. Special Equipment Manufacture Industry

- Manufacture of Weapons and Ammunition

5. Electric Machinery and Equipment Manufacture Industry

- Manufacture of open-lead-acid cells, mercury Button Type Silver Oxide Cells, paste dioxide-zinc battery and nickel cadmium cells

6. Industry Products and Other Manufacturing Industries

- Ivory carving
- Tiger-hone processing
- Production of bodiless lacquerware
- Production of enamel products
- Production of Xuan-paper (rice paper) and ingot-shaped tablets of Chinese ink
- Production of carcinogenic, teratogenic, mutagenesis and persistent organic pollutant products

Appendix 2 Descriptive statistics

Table 1:

Distribution of the Sample Across Industries

Industry Code	Description	No. Of Observations	Percentage
13	Agricultural and sideline food processing industry	9	0.9%
14	Food manufacturing	16	1.6%
15	Alcohol, beverage and refined tea manufacturing	51	5.0%
17	Textile industry	16	1.6%
18	Textile garment and apparel industry	4	0.4%
19	Leathers, furs, feathers and related products and footwear industry	5	0.5%
20	Wood processing and wood, bamboo, rattan, Palm fiber, and straw product industry	1	0.1%
21	Furniture manufacturing	5	0.5%
22	Papermaking and paper product industry	8	0.8%
23	Printing and recording media reproduction industry	2	0.2%
24	Manufacturing of stationery, industrial arts, sports and entertainment supplies	1	0.1%
25	Industries of petroleum processing, coking, and nuclear fuel processing	3	0.3%
26	Manufacturing of chemical raw materials and chemical products	128	12.5%
27	Pharmaceutical industry	5	0.5%
29	Industry of rubber and plastic products	23	2.3%
30	Industry of non-metallic mineral products	46	4.5%
31	Industry of ferrous metal smelting and rolling processing	46	4.5%
32	Industry of non-ferrous metal smelting and rolling processing	13	1.3%
33	Metal product industry	4	0.4%
34	General equipment manufacturing	33	3.2%
35	Special-purpose equipment manufacturing	95	9.3%
36	Automobile manufacturing	66	6.5%
37	Manufacturing of railways, ships, aircrafts, spacecrafts and other transportation equipment	146	14.3%
39	Manufacturing of computers, communications and other electronic equipment	77	7.5%
40	Instrument and meter manufacturing	168	16.5%
41	Other manufacturing industries	47	4.6%
42	Industry of comprehensive utilization of waste resources	3	0.3%
Sum		**1021**	**100%**

Table 2:

Distribution of the Sample Across Home Countries

Home Country	Number	Percentage
Australia	5	0.5%
Austria	4	0.4%
Belgium	3	0.3%
Brazil	1	0.1%
Canada	9	0.9%
Denmark	7	0.7%
Finland	9	0.9%
France	23	2.3%
Germany	61	6.0%
Hong Kong	55	5.4%
India	3	0.3%
Italy	7	0.7%
Japan	411	40.3%
Korea, Rep.	90	8.8%
Luxembourg	7	0.7%
Malaysia	6	0.6%
Mexico	4	0.4%
Netherlands	3	0.3%
Norway	1	0.1%
Poland	2	0.2%
Singapore	37	3.6%
Spain	5	0.5%
Sweden	25	2.4%
Switzerland	18	1.8%
Taiwan	120	11.8%
Thailand	12	1.2%
Turkey	1	0.1%
United Kingdom	5	0.5%
United States	87	8.5%
Sum	**1021**	**100.0%**