



VAASAN YLIOPISTO

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Institutional Distance –
Market Conforming Values in
the Host Country and Foreign Direct
Investment Choices of Multinational
Enterprises

ACTA WASAENSIA NO 245

BUSINESS ADMINISTRATION 100
MARKETING

UNIVERSITAS WASAENSIS 2011

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Julkaisija Vaasan yliopisto	Julkaisujankohta Lokakuu 2011	
Tekijä(t) Ahmad Arslan	Julkaisun tyyppi Monografia	
	Julkaisusarjan nimi, osan numero Acta Wasaensia, 245	
Yhteystiedot Vaasan yliopisto Kauppatieteellinen tiedekunta Markkinoinnin yksikkö PL 700 65101 Vaasa	ISBN 978-952-476-358-5	
	ISSN 0355-2667, 1235-7871	
	Sivumäärä 183	Kieli Englanti
Julkaisun nimike Institutionaalinen etäisyys – isäntämaan markkinoita säättävät arvot ja monikansallisten yritysten ulkomaiset investointivalinnat		
Tiivistelmä <p>Institutionaalisella etäisyydellä (eroavaisuudet monikansallisen yrityksen koti- ja isäntämaan institutionaalissa ympäristössä) on vaikutusta monikansallisen yrityksen suorien ulkomaisten investointien valintaan koskien yritysten perustamismuodon valintaa (investointi uuteen yritykseen vai yritysosto) ja omistusmuodon valintaa (kokonaan omistettu vai yhteistyitys). Myös isäntämaan markkinoita säättävien arvojen voimakkuudella (harvat rajoitteet ulkomaisen monikansallisen yrityksen markkinoille tulolle) voidaan sanoa olevan vaikutusta monikansallisten yritysten suorilla ulkomaisilla investointeilla koskeviin valintoihin.</p> <p>Tämä väitöskirja lukeutuu ensimmäisiin tutkimuksiin aiheesta analysoiden sekä suorien ulkomaisten investointien perustamis- että omistusmuotojen valintaa yhdessä, käyttäen institutionaalisen etäisyyden ja isäntämaan markkinoita säättävien arvojen konsepteja. Tutkimus on lisäksi ensimmäinen laatuaan esittäen hypoteeseja isäntämaan vahvojen markkinoita säättävien arvojen säätelevästä vaikutuksesta muodollisen ja epämuodollisen institutionaalisen etäisyyden ilmenemiseen monikansallisten yritysten suorien ulkomaisten investointien perustamis- ja omistusmuodon valinnoissa, nojautuen kansainvälisen liiketoiminnan, johtamisen ja kansantaloustieteen tutkimukseen ja kirjallisuuteen. Tutkimuksen teoreettisena viitekehysnä käytetään kansainvälisen liiketoiminnan instituutiopohjaista näkemystä, kontribuoiden institutionaalisen etäisyyden käsitteellistämiseen uuden institutionaalisen taloustieteen ja institutionaalisen teorian näkemyksiä integroiden.</p> <p>Tutkimuksen näyte koostuu suomalaisten (pieni ja avoin kansantalous) monikansallisten yritysten kehittyviin kansantalouksiin (Keski- ja Itä-Eurooppa, Aasia, Latinalainen Amerikka) suunnatuista 343 suorasta ulkomaisesta investoinnista vuosien 1990–2006 välillä. Muodollisen ja epämuodollisen institutionaalisen etäisyyden sekä markkinoita säättävien arvojen voimakkuuden mittauksessa pyritään ottamaan huomioon myös kohde- maissa tutkimuksen aikavälin sisällä tapahtuneet institutionaaliset muutokset ja kehitys. Tutkimuksen hypoteeseja testataan binomisen logistisen regressioanalyysin avulla.</p> <p>Tutkimuksen tulokset tukevat aikaisempia tutkimustuloksia ja asetettua hypoteesia osoittaen, että suuri muodollinen institutionaalinen etäisyys johtaa suomalaiset yritykset suosimaan yhteisyritysten käyttöä, mutta perustamismuodon valintaan sillä ei havaittu olevan suurta merkitystä. Tulokset osoittavat myös suuren epämuodollisen institutionaalisen etäisyyden johtavan yritysostojen ja kokonaan omistettujen tytäryritysten preferoimiseen suomalaisissa yrityksissä, eroten tulokseltaan aiemmista tutkimuksista ja asetetusta hypoteesista. Lisäksi vahvojen markkinoita säättävien arvojen läsnäolo isäntämaassa sai suomalaiset yritykset suosimaan ulkomaisissa suorissa investoinneissaan yritysostoja ja kokonaan omistettuja tytäryrityksiä tutkimuksessa asetettujen hypoteesien mukaisesti. Tutkimuksen ohjaavalle hypoteesille ei tutkimuksen tulosten valossa saatu kuitenkaan odotetun kaltaista empiiristä tukea. Akateemisen kontribuutioarvon lisäksi väitöskirja tarjoaa myös monia hyödyllisiä yritysjohtollisia implikaatioita.</p>		
Keywords: <i>Institutionaalinen etäisyys, markkinoita säättävien arvojen voimakkuus, suorien ulkomaisten investointien perustamismuodon valinta, suorien ulkomaisten investointien omistusmuodon valinta, suomalaiset monikansalliset yhtiöt.</i>		

Publisher Vaasan yliopisto	Date of publication October 2011	
Author(s) Ahmad Arslan	Type of publication Monograph	
	Name and number of series Acta Wasaensia, 245	
Contact information University of Vaasa Department of Marketing P.O. Box 700 FI-65101 Vaasa, Finland	ISBN 978-952-476-358-5	
	ISSN 0355-2667, 1235-7871	
	Number of pages 183	Language English
Title of publication Institutional Distance – Market Conforming Values in the Host Country and Foreign Direct Investment Choices of Multinational Enterprises		
Abstract <p>Institutional distance (i.e. differences in institutional environments of home and host countries of MNEs) can impact foreign direct investment (FDI) choices of MNEs including establishment mode choice (greenfield investments or acquisitions) and ownership mode choice (WOSs or JVs). Moreover, strength of market conforming values in the host country (represented by lesser restrictions on entry mode options of foreign MNEs) can also influence these FDI choices of MNEs. This dissertation is one of the first studies to analyze both FDI establishment and ownership mode choices using the concepts of institutional distance and market conforming values in the host country together. It is also the first study to hypothesize the possible moderating impacts of strong market conforming values in the host country on the influences of formal and informal institutional distance on FDI establishment and ownership mode choices of MNEs incorporating arguments from past international business (IB), management and economics studies. Moreover, institution-based view of IB studies is used as the theoretical basis in this study to conceptualize institutional distance integrating arguments from both new institutional economics and institutional theory. Therefore, this dissertation also contributes to the better conceptualization of institutional distance in IB studies.</p> <p>The current study uses a sample of 343 FDIs in selected emerging economies of Central and Eastern Europe, Asia and Latin America by the MNEs from a small and open economy (Finland) during 1990-2006. The measures of formal and informal institutional distance, as well as strength of market conforming values attempt to incorporate the institutional transition and development in sample countries during study time period. Binomial logistic regression analysis is used to test the study hypotheses. The empirical results reveal that high formal institutional distance results in preference of JVs by the Finnish firms, which is same as study hypothesis and findings of similar previous studies, while it is found to be non-significant for establishment mode choice. Moreover, the results indicate that high informal institutional distance leads to the choice of acquisition and WOSs by the Finnish firms in establishment and ownership mode choices (i.e. full acquisition), which is different from the study hypotheses and findings of previous similar studies. Further on, the presence of strong market conforming values in the host countries have been found to result in preference of acquisitions and WOSs in FDI establishment and ownership mode choices by Finnish MNEs (i.e. full acquisitions); thus supporting study hypotheses. The moderating hypotheses of the study do not receive empirical support in the expected manner. Finally, along with academic contributions, this dissertation also offers useful insights for the managerial audience.</p>		
Keywords: <i>Institutional distance, Strength of Market Conforming Values, FDI Establishment Mode Choice, FDI Ownership Mode Choice, and Finnish Multinational Enterprises.</i>		

FOREWORD AND ACKNOWLEDGEMENTS

*There are many fish in the ocean that swim and swirl
But it's the oyster that turns water into Pearl;
Ideas numerous, as many drops as the ocean can hold
But it's the person who can turn ideas into gold. (Shahriar 1997)*

Now, when I sit to write down the foreword and acknowledgements for my doctoral dissertation, I realize that it took me almost four years to turn my initial ideas into this dissertation (which I can consider as some kind of gold for myself). First of all, all the praises go to God Almighty for providing me the strength to go through this process and I pray for Him to continue to guide me in the journey of life.

This doctoral journey has been an interesting experience for me. During all this time, I have had the great fortune of meeting many inspiring people who have encouraged, motivated and guided me in my journey across the academic world. I would hereby like to thank them all for their generous support. I would like to particularly thank my supervisor Professor Jorma Larimo. His enthusiasm and commitment, and our useful discussions motivated me to work harder and be goal oriented during the research process. Jorma accomplished the remarkable task of expanding my limited intellectual capabilities by encouraging me to explore domains of knowledge that were totally new for me, when I started the research process. I am also obliged to him, for all the opportunities he provided me to meet knowledgeable and interesting people in exciting places by participating in international conferences and workshops in different countries. His guidance and support has been definitely precious during this whole process.

I am highly grateful to the pre-examiners of my dissertation Professor Desislava Dikova (Vienna University of Economics and Business Administration, Austria) and Professor Tuija Mainela (Oulu University, Finland). It has been a fruitful learning experience for me to follow your recommendations in developing my dissertation. I am especially thankful to Professor Desislava Dikova who accepted to act as the opponent for my doctoral defense. I also sincerely thank Professor Tuija Mainela who took time from her busy schedule to read my work and offered useful suggestions for its improvement.

The completion of this doctoral dissertation would not have been possible without the generous support and financing that I received from different academic bodies during this time period. I would like to especially thank Finnish Graduate School

of International Business (FIGSIB) for offering me the researcher position during 2009-2011. I am also grateful to the Academy of Finland for the research funding that I received while working on Academy's financed project as part time project researcher (July 2007 - July 2008) and full time project researcher (August 2008 - December 2008). Finally, I would like to thank Marcus Wallenberg Foundation and department of Marketing, University of Vaasa for the travel grants that I received for my international visits to the academic conferences and workshops.

I would like to express my special thanks and gratitude to Minnie Kontkanen for her comments on different versions of this dissertation including a review of my Licentiate Thesis. I would like to further thank her for her kind friendship and willingness to listen to my views at all the times. I would also like to mention my gratitude to my colleague and friend Markku Heiskanen for all the help and positive discussions during this time. I appreciate dearly our research collaboration on the areas of mutual interest and hope that we will continue it in future. I am also thankful to other members of International Marketing research group including Professor Peter Gabrielsson, Saba Khalid, Huu Le Nguyen, Sami Rumpunen, Johanna Hallbäck, Helena Olsbo, Tahir Ali, Ethiopia Segaro, Samuel Ato Dadzie, Alphonse Aklamanu and Wang Yi for their support and comments on my different research papers in the internal research seminars.

I would now like to mention my best Vaasa friends Daniel Tisza and Antonin Kadlcik for all their help, support and kindness during these years that made my stay in Vaasa delightful. You both made feel like home here, Thanks a lot for everything! I would like to further thank all the wonderful people and friends that I met during my stay in Finland and their friendship is extremely valuable to me. I would like to offer my gratitude particularly to Amr Sabet, Anna Martin, Anni Juvani, Abbas Haider, Muhammad Afzal and Syed Mujahid Hussain for their friendship during all this time.

One special person that I remember and miss dearly while writing these lines is my late grandmother (Aziz Fatima). I would like to only say to her that although you are now resting somewhere far away; you are still as close to my heart as you were when I was a little child whom you taught to walk gently and humbly on the long journey of life. I am also grateful to my grandfather (Inayatullah Chohan) for being there as a guide for me and providing wise advice in the time of need. My parents (Nayyar Sultana and Viqar Ahmed Khan) deserve special thanks for always supporting my endeavors to discover new things in life and experience life in a rather unconventional manner. Mom (Ammi Jee) introduced me to wonderful world of books and literature, and she deserves special applause for that because my passion for reading played a pivotal role in completion of this doctoral disser-

tation. Dad (Abbu Jee) always supported me in this journey with his useful insights to my ideas as well as mutual discussions on a wide range of topics. He has also been instrumental in development of my personality by providing me opportunities to learn new things from a wide range of perspectives. Thank you Ammi Jee and Abbu Jee for your unending love and encouragement during all this time. My sisters Sara and Misbah and my brother Furqan were always kind and supportive of their brother, even though sometimes I felt that I did not deserve their cheers. I would like to specially mention my uncle Anwar and aunt Fauzia with whom I have a special attachment since childhood, and I know that they must be very happy on the completion of my doctoral degree. Finally, I would like to thank my aunts Shazia and Rukhsana, and uncles Asif, Saqib and Rashid for all their support and encouragement during all these years.

Now, my thoughts turn to an important person in my life. Jorien! I feel lucky that I met you. I am thankful for all our interesting philosophical discussions and your motivational words that always opened new avenues of thoughts for me. I hope that God will be merciful on us and we will be able to explore the journey of life and discover its different facets in future together.

Ahmad Arslan
18th September 2011
Vaasa, Finland.

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LIST OF ABBREVIATIONS

CEE	Central and Eastern Europe
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IB	International Business
IMF	International Monetary Fund
JVs	Joint Ventures
M&As	Mergers and Acquisitions
MNEs	Multinational Enterprises
NIE	New Institutional Economics
OLI	Ownership Location and Internalization (Dunning's Eclectic Framework)
RBV	Resource Based View
TCE	Transaction Cost Economics
UNCTAD	United Nations Conference on Trade and Development
WOSs	Wholly Owned Subsidiaries

1 INTRODUCTION

This chapter provides an introduction to the study. In this chapter, the study background is discussed stressing importance of the research phenomenon under consideration. The chapter includes discussion about research question and study objectives by outlining the key research issues of the study and provides the rationale for studying the proposed area. The chapter also addresses the positioning and expected contributions of the study, highlighting the novelty and importance of this research in the field of international business studies. In order to offer readers a realistic view about the study context and applications of the study findings, the scope of study is also discussed in this chapter. The chapter concludes with providing definitions of the key terms used as well as explaining the structure of the dissertation.

1.1 Study Background

Increased globalization has changed political and economic maps in the last 2 decades and now the countries are more dependent on each other. Foreign direct investment (FDI) is an important indicator of the increased interdependence among economies globally. In fact, multinational enterprises (MNEs) have played a central role in advancing international trade and FDI and their share in global economy is continuously increasing (UNCTAD 2009). Kumar (2003: 6) refers to importance of MNEs while defining FDI as “*FDI usually flows as a bundle of resources including, besides capital, production technology, organizational and managerial skills, marketing know-how, and even market access through the marketing networks of multinational enterprises who undertake FDI*”. Hence, MNEs represent one of biggest pillars modern world economy and are the key driving force behind globalization by increased FDI activity across countries and continents (Dunning 1988, 1993; Dunning & Lundan 2008).

The International Monetary Fund (1993) defines FDI as a “category of international investment that reflects the objectives of a resident in one economy (the direct investor or source economy) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise or host economy)”. OECD (1996:7) provides similar definition of FDI where FDI reflects the objective of obtaining a lasting interest by a resident entity in one economy (“direct investor”) in an entity resident in an economy other than that of the investor (“direct investment enterprise”). The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise,

and a significant degree of influence by the investor on the management of the enterprise. The ownership of at least 10% of the ordinary shares or voting stock is the criterion for the existence of a direct investment relationship. Ownership of less than 10% is considered a portfolio investment. FDI mostly comprises of international mergers, takeovers/acquisitions (also referred to as brownfield investments), joint investments with local partners and new investments in the host economy i.e. greenfield investments (e.g. Dunning 1988; Hennart & Park 1993; Jansen & Stokman 2004).

The world economy has witnessed a rapid increase in FDI since mid 1980s due to general trend of economic liberalization in the world economies. Global FDI inflows have grown by an average of 13% a year in last decade compared with the average rates of 7% both for world exports of goods and nonfactor services and for world GDP at current prices (Carson 2003). Global FDI reached a new record in 2007 of \$1,833 billion, surpassing the previous peak of the year 2000, showing its increased importance as key driver of world economy (UNCTAD 2009). A similar trend of increased FDI activity can also be observed in case of FDI by the firms from Finland. The outward FDI undertaken by Finnish MNEs have increased from \$14,993 million in 1995 to \$116,126 million in 2008 (UNCTAD 2009). During the same time period, outward FDI from Finland as percentage of GDP increased from 11.5% to 53.0% (UNCTAD 2009). Therefore, this increased FDI activity shows that increased internationalization of Finnish firms in the global markets. Following the trend of firms from other developed western economies, Finnish MNEs are also increasingly investing in emerging economies of Central and Eastern Europe, Asia and Latin America which make this area an interesting research avenue for studying and exploration.

Global FDI flows were affected by the economic and financial crisis and it resulted in a decline from \$1.7 trillion to below \$1.2 trillion in 2009 (UNCTAD 2009). However, in 2010, there has been recovery to a level up to \$1.4 trillion and it is expected that they would reach \$1.8 trillion in 2011 (UNCTAD 2010). Despite the crisis, the FDI flows to emerging economies to the transition and developing economies is on rise (UNCTAD 2009). Figure 1 presents the growth in global FDI made by MNEs from the year 1980 till 2008, categorizing FDI inflows in developing, developed and transition economies (UNCTAD 2009). From figure 1, the increasing share of emerging and transition economies in attracting FDI is quite clear, despite the economic crisis of 2008. It is also expected that the importance of emerging economies of Asia and Latin America especially would continue to increase as a preferred destination for FDI by MNEs due to their attractive market potentials and growth rates (Economy watch 2010).

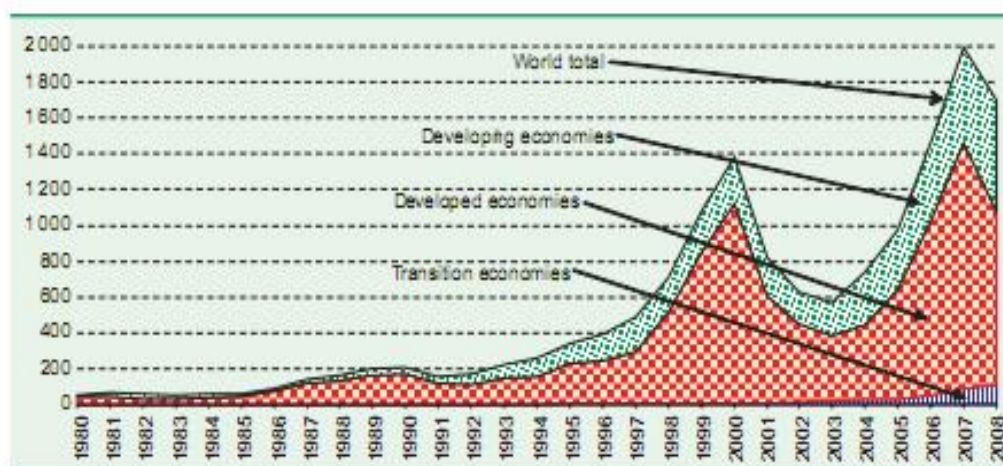


Figure 1. Growth in Global FDI Inflows 1980-2008 in Billions of Dollars
(Adapted from UNCTAD FDI database, World Investment Report 2009)

A country's economic environment, as reflected in the attractiveness of the market to foreign firms, is a fundamental factor that determines the amount of FDI by the MNEs that particular country attracts (Dunning 1988, 1993; Bevan & Estrin 2004). When MNEs enter new international markets through FDI mode; they face two important strategic choices (Hennart & Park 1993; Chen & Hennart 2002; Brouthers & Hennart 2007; Dikova & van Witteloostuijn 2007). The first choice is referred as establishment mode choice, where the firm needs to decide whether start operations from scratch i.e. greenfield investments or acquire already existing local firms i.e. acquisitions (e.g. Hennart & Park 1993; Padmanabhan & Cho 1995; Dikova & van Witteloostuijn 2007; Slangen & Hennart 2008). The second choice entails the subsidiary ownership level i.e. whether the MNE should establish wholly owned subsidiaries (WOSs) or form joint ventures (JVs) with local partners (e.g. Delios & Beamish 1999; Padmanabhan & Cho 1999; Chang & Rosenzweig 2001; Jung, Beamish & Goerzen 2008).

An MNE's subsidiary can be wholly or partially owned whether it makes a greenfield investment (Barkema & Vermeulen 1998) or acquires an existing firm (Barkema & Vermeulen & 1998; Larimo 2003), implying that acquisitions can be partially and wholly owned as well (Slangen & Hennart 2008). Many previous international business (IB) studies addressed the ownership mode choice of MNEs by studying the choice between a joint venture (JV) and full ownership (e.g. Andersen & Gatignon 1986; Luo 2002; Xu, Pan & Beamish 2004; Brouthers & Hennart 2007; Jung et al. 2008; Arslan & Larimo 2010). Other IB scholars

concentrated more on the establishment mode choice of the MNEs in their studies (e.g. Hennart & Park 1993; Brouthers & Brouthers 2000; Harzing 2002; Datta, Herrmann, & Rasheed 2002; Larimo 2003; Shimizu, Hitt, Vaidyanath, & Pisano 2004; Slangen & Hennart 2008; Demirbag, Tatoglu, & Glaister 2008). Moreover, some IB studies also attempted to perform an in depth analysis of equity entry mode choice by addressing the choice between joint ventures, acquisitions and greenfield investments by the MNEs (e.g. Kogut & Singh 1988; Chang & Rosenzweig 2001; Elango & Sambharya 2004).

It should be noted that each of the FDI market entry mode choices (full acquisitions, wholly owned greenfield investments, partial acquisitions and JVs) offers specific benefits and risks for MNEs (Chang & Rosezweig 2001). Consequently, FDI establishment and ownership mode choices emerge as significant decisions for MNEs (Kulkarni 2001; Chang & Rosenzweig 2001) because FDI choices are considerably inflexible and irreversible in nature due to large financial and resource commitment involved (e.g. Osland, Taylor & Zhou 2001; Elango & Sambharya 2004). Therefore, studying and analyzing both FDI establishment and ownership mode choices together can offer useful insights to FDI market entry mode studies as they are important decisions, and have not been addressed in depth in many past IB studies.

International business eventually means that firms (MNEs) engage in transactions in markets that represents very different characteristics compared to their home countries. Stephen Hymer (1960/1976) was the first scholar to theorize that firms experienced costs of doing business abroad that were not experienced by the local firms. A major source of these extra costs for foreign firms is the different structure of institutional environments of the countries that they enter (Guillen 2003a; Djelic & Quack 2003; Henisz 2004). Therefore, the economic activities including FDI choices and decisions cannot be analyzed without the consideration of formal and informal institutional context in which they occur (North 1990, 1997; Peng 2003). Consequently, it is also important to study the structure of institutions and institutional environments of the host countries in order to gain a thorough understanding of FDI establishment and ownership choices of the MNEs.

1.2 Study Objectives

An important issue that MNEs entering foreign markets through FDI face is that each host country represents a unique institutional environment, which can influ-

ence their choices and strategies substantially (e.g. Peng 2002, 2003; Hitt, Franklin & Zhu 2006; Estrin, Bhagdasaryan & Meyer 2009). Therefore, MNEs entering new international markets are confronted with formal and informal aspects of institutional environments of host countries (e.g. North 1990; Delios & Henisz 2003; Dikova, Sahib & van Witteloostuijn 2010). In many cases, these formal and informal institutions differ a lot from the institutions in home countries of investing MNEs. These differences or dissimilarities in institutional environments are addressed by a relatively new concept of institutional distance, which has gained prominence in IB research and literature in last few years.

Institutional distance has been described as the level of differences between the institutional environments of home and host countries of MNEs (e.g. Kostova 1997; Eden & Miller 2004; Xu et al. 2004; Gaur & Lu 2007). Institutional distance has been used and applied as an important measure of the country level differences by many IB studies addressing institutional differences across countries and their impacts on different aspects of MNEs' strategies (e.g. Kostova 1997; Kostova & Roth 2002; Busenitz et al. 2000; Yiu & Makino 2002; Xu & Shenkar 2002; Xu et al. 2004; Gaur & Lu 2007; Gaur et al. 2007; Pattnaik & Choe 2007; Choe & Kumar 2010; Arslan & Larimo 2010). Past IB studies have used the concept of institutional distance to empirically address either ownership mode choice (e.g. Xu et al. 2004; Gaur & Lu 2007; Arslan & Larimo 2010) or general market entry decisions of MNEs (e.g. Estrin et al. 2009). However, so far no study has attempted to address both FDI establishment and ownership mode choices together using the concept of institutional distance. As mentioned earlier that both FDI establishment and ownership mode choices are important for MNEs, and in-depth analysis of these FDI market entry choices has been lacking in IB studies. Therefore, studying the impacts on institutional distance on both FDI establishment and ownership mode choices can offer useful guidelines to better understanding of these important market entry choices and decisions of the MNEs.

It is also important to note that along with institutional distance, market economy institutions and their level of development in a country can also significantly influence the choices and strategies of MNEs. The countries with developed institutions also represent strong market conforming values and are considerably more open to the presence and operations of foreign firms (MNEs) because of removal or reduction of restrictions on the market entry and acceptance of foreign owned business in those markets (e.g. Luo 2000; Sethi, Guisinger, Phelan, & Berg 2003; Khanna, Palepu & Sinha 2005; Li, Yang & Yue 2007; Trevino, Thomas & Cullen 2008). It has also been shown in past IB studies that restrictions on the foreign ownership and establishment mode choices discourage high resource commitments and formation of WOSs by the investing MNEs (Gatignon & Anderson

1988; Henisz 2000; Makino & Beamish 1998; Yiu & Makino 2002; Bontempi & Prodi 2009). On the other hand, presence of strong market conforming values in host country can encourage MNEs to commit more resources (e.g. Child & Tsai 2005) and form WOSs (e.g. Chung & Beamish 2005; Li et al. 2007). Hence, analyzing the impacts of strength of market conforming values in host country along with institutional distance on FDI choices of MNEs is expected to enrich IB literature both theoretically and empirically.

MNEs are increasingly investing in emerging economies of Central and Eastern Europe (CEE), Asia and Latin America, due to attractive market potential and growth chances offered by them (e.g. Luo 2001; London & Hart 2004; Meyer & Nguyen 2005; Child & Tsai 2005; Estrin et al. 2009; UNCTAD 2009). As mentioned earlier, the national economies of the countries are shaped by the formal and informal institutions (North 1990; Peng et al. 2008), which govern the behavior of the firms. Past studies refer that even in developed economies; there are differences in terms of how market economy institutions operate (Hall & Soskice 2001; Whitley, Morgan & Moen 2005; Peng et al. 2008). In case of emerging economies, these institutions differ significantly from those in developed economies (e.g. Peng 2003; Khanna et al. 2005; Khanna & Palepu 2010). Consequently, while entering these new international markets in emerging economies, MNEs need to adjust to the requirements of formal and informal institutions which are different from the institutions in their home market (London & Hart 2004; Estrin et al. 2009). Moreover, IB literature mentions that the restrictions on market entry mode options by host country governments as a major issue for investing MNEs (e.g. Kwon & Konopa 1993; Delios & Beamish 1999; Khanna et al. 2005; Khanna & Palepu 2010). As mentioned earlier, in case of a host country representing strong market conforming values, these restrictions are expected to be removed or lowered substantially, which makes market entry easier for the MNEs. Based on the above discussion, institutional distance and strength of market conforming values in the host countries emerge as a major concern for MNEs entering new international markets especially in emerging economies. Therefore, this study aims to address the impacts of formal and informal institutional distance, along with strength of market supporting values in the host country on both FDI establishment and ownership mode choice of MNEs. The main research question of this study is

- *“What are the impacts of institutional distance and strength of market conforming values in the host country on FDI establishment and ownership mode choices of MNEs?”*

The answers to this question are drawn from both theory and empirical research. Therefore, the research question is approached and addressed by the following three sub-objectives.

1. To theoretically address FDI establishment and ownership mode choices of MNEs using institution-based view of international business (IB) strategy incorporating arguments from both institutional theory and new institutional economics.
2. To develop a research model illustrating the impacts of formal and informal institutional distance, and strength of market conforming values in the host country on the FDI establishment and ownership mode choices of MNEs.
3. To empirically test the developed research model to analyze differences in FDI establishment and ownership mode choices of Finnish MNEs in emerging economies of Central and Eastern Europe (CEE), Asia and Latin America.

The above mentioned sub-objectives are expected to offer a deep insight into the impacts of institutional distance and market conforming values in the host on both FDI establishment and ownership mode choices of Finnish MNEs in emerging economies in three geographical regions. Moreover, as the three host regions, CEE, Asia and Latin America represent very different formal and informal institutional environment, and had different approaches to adopting market economy, this dissertation is also expected to offer specific managerial guidelines based on empirical analysis and findings.

1.3 Positioning and Contribution of the Study

This dissertation is positioned to contribute to the application of institution-based view of international business (IB) strategy (Peng 2002, 2003; Peng & Khoury 2009) in FDI and foreign market entry mode choices literature. According to institution-based view of IB strategy, both formal and informal institutions have the capability to exert influences on the firms because they define “rules of the game” and firms need to conform to those rules (North 1990; Peng 2003; Peng, Wang & Jiang 2008; Peng & Khoury 2009). In IB studies and research, the effectiveness of country level institutions has been shown to have vital influence on the strategies of firms operating in those markets (e.g. North 1990; Peng 2003; Dunning & Lundan 2008; Peng & Khoury 2009). This perspective of institutions is rooted in new institutional economics (NIE) based on the works of famous

economic historian Douglass North and colleagues (e.g. 1970, 1973, 1981, 1990, 2005). The basic argument of NIE is that the economic performance differences between nations are due largely to differences in the effectiveness of their institutions for economic and business activity. Therefore, this perspective of institutions stresses what institutions are, and how they affect organizations and how they actions of organizations in the pursuit of their interests (Deeg & Jackson 2008).

It is worth mentioning that many previous IB studies have also used institutional theory (Meyer & Rowan 1977; DiMaggio & Powell 1983) and Scott's (1995) institutional pillars to study different aspects of MNE strategies and decisions (see e.g. Kostova 1997; Kostova & Zaheer 1999; Davis, Desai & Francis 2000; Kostova & Roth 2002; Xu & Shenkar 2002; Yiu & Makino 2002; Xu et al. 2004; Gaur & Lu 2007; Kostova, Roth & Dacin 2009). However, the arguments from both economic and sociological perspectives of institutions i.e. NIE and institutional theory are important in IB research (Peng 2002, 2003; Peng et al. 2005; Peng et al. 2008; Peng & Houry 2009). Therefore, this study incorporates the arguments from both institutional theory and new institutional economics (NIE) by using institution-based view of IB research, while addressing the impacts of institutional distance on FDI choices of MNEs.

This study also addresses the aspect of strength of market conforming values in the host country specifically, along with formal and informal institutional distance. Market conforming values in any country are strengthened when the host country provides favorable environment to the MNEs (Khanna & Rivkin 2001; Khanna et al. 2005; Child & Tsai 2005; Chung & Beamish 2005) and also make market entry easier by deregulation and reduction of barriers and restrictions to market entry of new firms (Luo 2000; Sethi et al. 2003; Khanna & Palepu 2010). The strengthening of market conforming values and removal or reductions of barriers to entry can also result in opening of new markets for the firms (MNEs), which were previously inaccessible (e.g. Haveman 1992; Pehrsson 2001; Sethi et al. 2003; Trevino et al. 2008; Aghion, Burgess, Redding & Zilibotti 2008). Consequently, this study is one of the first one to use institution-based view of IB strategy by specifically addressing strength of market conforming values in the host country also in relation to addressing impacts of institutional distance on FDI choices of the MNEs.

This dissertation is also one the first study to use the concepts of formal and informal institutional distance and strength of market conforming values in the host country together to study both FDI establishment and ownership mode choices of MNEs together. Most previous studies using institutional distance or similar con-

cepts either addressed general market entry decisions of MNEs (e.g. Xu 2001; Estrin et al. 2009), and ownership mode choice of MNEs (e.g. Xu et al. 2004; Gaur & Lu 2007; Arslan & Larimo 2010). Xu and Shenkar (2002) in their conceptual paper addressed both FDI establishment and ownership mode choices of MNEs and impacts of institutional distance, along with addressing other issues. Some studies like Dikova and van Witteloostuijn (2007) have addressed both establishment and ownership mode choices together in relation to institutional advancements in CEE countries. However, so far no study (at least to my knowledge) has addressed both FDI establishment and ownership mode choices of MNEs together in the context of institutional distance and strength of market conforming values in the host country. Strong market conforming values in the host country can be expected to not only impact the FDI establishment and ownership mode choices of MNEs, but they can also moderate certain influences of formal and informal institutional distance on these choices. Therefore, using these concepts together would attempt to offer an inclusive framework on the impacts of institutional environment on FDI establishment and ownership mode choices of MNEs.

This dissertation is also positioned to enhance the understanding and application of a relatively new concept of *institutional distance* at conceptual and empirical level in IB studies. Due to relative newness of the concept, different conceptualization and operationalization of institutional distance have been used in past studies by the researchers (Magnusson, Wilson, Zdravkovic, Zhou, & Westjohn 2008). A review of past studies reveal that most of these studies addressed institutional distance using Scott's (1995) institutional pillars (regulative, normative and cognitive) (e.g. Xu & Shenkar 2002; Xu et al. 2004; Gaur & Lu 2007; Chao & Kumar 2010; Arslan & Larimo 2010). It can be further observed that there is variation in the conceptualization and operationalization of institutional distance in past studies. Some studies only addressed the differences in one aspect of institutional environment i.e. legal and regulative institutions and their impacts on different aspects of FDI decisions and choices (e.g. Trevino & Mixon 2004). In some other studies like Brouters (2002), Xu et al. (2004), Gaur and Lu (2007), Gaur et al. (2007), Choe and Kumar (2010) and Arslan and Larimo (2010), two aspects of institutional environment (i.e. regulative and normative) have been used to address different aspects of MNEs' strategies. However, the operationalization of regulative and normative aspects of institutions has also been different in these studies. Some past studies have also used all three components of Scott (1995) institutional framework (i.e. regulative, normative and cognitive) to explain different issues related to MNE strategies and decisions (e.g. Kostova 1996; Busenitz et al. 2000; Xu 2001; Yiu & Makino 2002; Kostova & Roth 2002; Ram-

sey 2005). Nevertheless, operationalization of the institutional distance also varied even in these studies.

Institutional distance in the current study is conceptualized as being comprised of formal and informal institutional distance following North's (1990) classification of institutions of formal and informal institutions. This classification of institutions is same as the one referred in the theoretical basis of the study i.e. institution-based view of IB studies as being useful for IB studies (e.g. Peng 2003; Peng et al. 2008; Peng & Houry 2009). Moreover, it should be noted that Scott (1995, 2001, 2008) has also referred to the integration of North's (1990) ideas in his work on institutions and institutional pillars developed by him. The boundaries between normative and cognitive institutions are not always clear (Scott 2001, 2008; Gaur & Lu 2007). This is also evident from the different operationalizations of these institutional pillars in different studies. For example, cultural distance index has been used in some studies to address normative dimension of institutions (e.g. Delios & Henisz 2000; Yiu & Makino 2002). Furthermore, in some other studies, different items from world competitiveness yearbooks (IMD) or global competitiveness reports (World Economic Forum) have been used to address normative dimensions of institutions (e.g. Xu et al. 2004; Gaur & Lu 2007; Chao & Kumar 2010; Arslan & Larimo 2010). Some studies have also used the elements from global competitiveness reports (World Economic Forum) to address cognitive dimension of institutions (e.g. Wan & Hoskisson 2003). Scott (2001, 2008) also renamed cognitive pillar as cultural-cognitive; thereby shows the overlap in the boundaries of normative and cognitive institutional pillars.

Informal institutions in North's (1990) classification address the sociological dimension of institutional environment and encompass both normative and cognitive pillars of Scott's (1995) study. Therefore, this classification of institutions is inclusive in nature and suits the requirements of the current study. It should be noted that Gaur and Lu (2007) in their study also combine both normative and cognitive dimensions, though they refer to it as normative institutional distance, rather than informal institutional distance. So far the study by Estrin et al. (2009) is the only one that has used this classification to study the impacts of institutional distance on different entry mode strategies of firms. It is important to note that they (Estrin et al. 2009) used cultural distance index based on GLOBE studies for operationalization informal institutional distance. However, the current study addresses informal institutional distance based on yearly data of three items from world competitiveness yearbooks in the year of investment or nearest available year. These three items address informal business practices, as well as societal norms in a more inclusive manner (see the empirical part for details). Moreover, this study also separately addresses the impacts of the strength of market con-

forming values in the host country along with studying the impacts of formal and informal institutional distance on FDI choices of MNEs. The current study also addresses the moderating influences of strength of market conforming values on the impacts of formal and informal institutional distance on FDI choices of MNEs.

Figure 2 presents the focus of previous IB studies using the concept of institutional distance to address FDI establishment and ownership mode choices of MNEs. The figure shows that previous IB studies used either institutional theory or NIE to conceptualize institutional distance and their operationalization of institutional distance have also been overlapping as mentioned in previous discussion. Moreover, along with overlapping operationalizations, the previous IB studies addressed impacts of institutional distance either on general market entry choices (e.g. Estrin et al. 2009) or ownership mode choices/strategy (e.g. Brouthers 2002; Xu et al. 2004; Gaur & Lu 2007; Arslan & Larimo 2010).

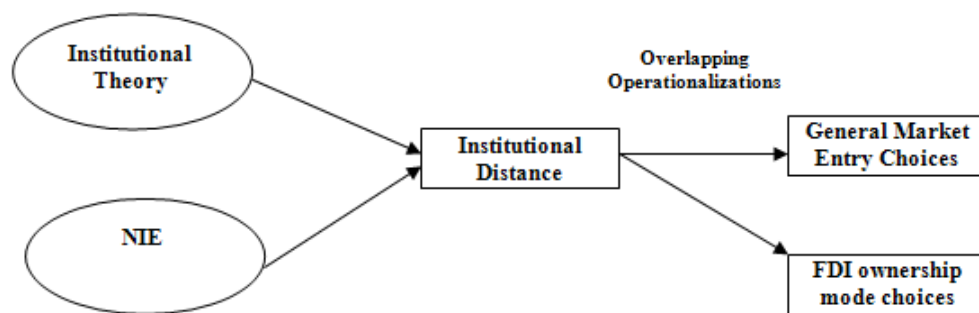


Figure 2. Focus of the previous IB studies addressing FDI establishment and ownership mode choices of MNEs

Figure 3 presents the focus, as well as contribution of the current study. The figure shows that the current study incorporates arguments from both institutional theory and NIE to conceptualize institutional distance, as well use the elements of strength of market conforming values based in NIE to address both FDI establishment and ownership mode choices of MNEs together. Figure 3 also shows an important contribution of this study by being one of the first to address the interaction effects of (both formal and informal) institutional distance and strength of market conforming values in the host country in relation to FDI establishment and ownership mode choices of the MNEs. It has been shown in past IB studies that the restrictions on the subsidiary ownership for the foreign MNEs tend to discourage formation of WOSs (Gatignon & Anderson 1988; Makino & Beamish 1998; Henisz 2000; Yiu & Makino 2002). However, strengthening of market

conforming values as shown by reduction of different entry barriers can allow investing firms to enter markets that were previously inaccessible for them (e.g. Luo 2000; Pehrsson 2001, 2004; Khanna & Palepu 2010) and commit more resources to those markets e.g. by opting for full ownership modes in their subsidiaries (e.g. Child & Tsai 2005; Flores & Aguilera 2007). Therefore, hypothesizing and testing for possible interaction effects of (formal and informal) institutional distance and market conforming values in host country is expected to offer new perspectives to the existing IB literature because the presence of strong market conforming values in host country can also possibly moderate some of the influences of institutional distance on these FDI choices of MNEs.

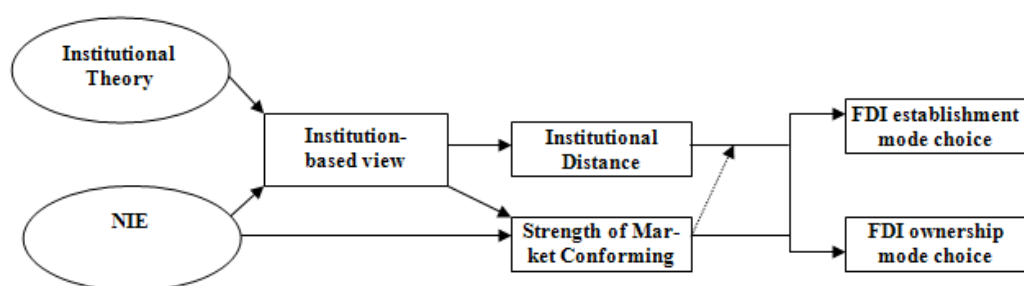


Figure 3. Focus and contribution of the current study

In the empirical part of dissertation, the developed hypotheses and research model will be tested on a sample of FDIs made by Finnish MNEs in selected countries in CEE, Asia and Latin America during the time period 1990-2006. As these geographical areas vary a lot in their institutional settings, it would provide necessary variance to study formal and informal institutional distance's impact on FDI choices of MNEs in those regions. Moreover, the transition process started in many of the CEE countries in 1990, as well as major economies in Asia and Latin America notably India, China and Brazil opened up considerably after 1990. Therefore, using 1990 as base year for the study's empirical time period is justified and is expected to provide interesting insights. This study also provides empirical contribution by developing formal and informal institutional distance, and strength of market conforming values indicators based on data of the year when FDI was made or data from nearest available year. Therefore, this study does not use institutional indicators for only one year to study FDI choices over a longer time period which has been done in some past studies (see e.g. Yiu & Makino 2002; Xu et al. 2004; Estrin et al. 2009). This approach reflects the attempt by this study to better incorporate the institutional transition and changes taking place in host emerging economies during the study time period.

This study is also the first one to develop measures of institutional distance using data of more than one year as well as calculating institutional distances of selected countries in CEE, Asia and Latin America from Finland. Finally, so far the studies addressing institutional distance's impacts on MNEs' entry mode choices have used sample based on FDIs made by Japanese firms (e.g. Xu 2001; Yiu & Makino 2002; Xu et al. 2007; Gaur & Lu 2007) or FDIs made by different countries of different origins in selected emerging markets (e.g. Estrin et al. 2009). This dissertation uses a unique dataset of FDI made by the MNEs from a small and developed economy (Finland) to analyze impacts of institutional distance. This empirical setting is expected to provide useful insights and interesting results as the FDI orientation of firms from this kind of economies differs from the orientation of MNEs from larger economies like USA or Japan.

Finally it is expected that this dissertation will also offer useful implications for managerial practice also along with academic contribution, based on study findings. The framework developed in this study is based on insights provided by the research in the fields of international business, institutional theory, new institutional economics, and institution-based view of firm's strategy. This framework attempts to integrate these perspectives and contribute to theoretical pluralism in the context of role of institutions in FDI establishment and ownership mode choices of the firms in emerging economies. The theoretical model developed in this dissertation aspires to offer better understanding about the different impacts of differences in institutions across countries on these FDI choices of MNEs.

This dissertation will offer managers a detailed review of how different aspects of institutional environment impact establishment and ownership mode choices of MNEs. Moreover, as this dissertation is one the first study from Nordic region to use these concepts to study FDI choices of MNEs, it would have several useful implications for managers of firms from this region. The sample countries in the study are from three regions i.e. CEE, Asia and Latin America represent emerging economies and many international firms are interested in those markets due to attractive opportunities offered by them. However, due to differences in institutional environments and relatively low strength of strong market conforming values, the choices of MNE managers can be hampered. This study used a sample of 343 FDIs by 121 Finnish MNEs during 17 year time period (1990-2006); the findings of the study can be generalized to offer a guideline on how institutional distance has impacted the FDI establishment and ownership mode choices in these emerging economies. Moreover, the measures of institutional distance and strength of market conforming values in the host country also attempt to incorporate institutional changes taking place in many of those countries during this time. Therefore, this dissertation is expected to offer MNE managers an opportuni-

ty to observe and understand, how institutional distance of Finland from these countries has varied over the sample time period. As a result, managers of MNEs from Nordic region aspiring to enter these countries in future would have specific guidelines on institutional impacts on the FDI establishment and ownership mode choices in these emerging markets. Hence, it is expected that the managerial audience will also find this study useful and interesting.

1.4 Scope of the Study

The scope of this dissertation is to address the FDI choices of MNEs explicit to their establishment mode choice (i.e. greenfield investments or acquisitions) and ownership mode choice (i.e. WOSs or JVs). Other elements of FDI choices of MNEs like location choice, choice of diversification and human resource strategy in the host country etc, are not addressed as they lie outside the scope of current study. Moreover, as the main aim of this study is to analyze the impacts of institutional distance and strength of market conforming values on FDI choices of MNEs; institutions and institutional environments are analyzed using the institution-based view of IB strategy (Peng 2003; Peng et al. 2008; Peng & Khoury 2009). Therefore, this dissertation addresses institutions being comprised of formal and informal dimensions (North 1990), as theoretical basis to study FDI establishment and ownership mode choices of MNEs. Institution-based view refers that arguments from both economic perspective of institutions (new institutional economics) and sociological perspective (institutional theory) are required in IB studies (e.g. Peng 2002, 2003; Peng et al. 2008). Consequently, theoretical discussion in the dissertation addresses new institutional economics as well as institutional theory (rooted in organizational institutionalism and sociology) specifically, in relation to their applications in IB studies.

New institutional economics is addressed in the theoretical part of this dissertation with main emphasis on the works by famous economic historian Douglass North and his colleagues (1970, 1973, 1990, 1993, 1997, 2005, 2009) on the institutions and institutional development in different economies across the world. This study also offers brief overview of development of institutional economics by referring to old institutional economics, as well as works of other institutional economists. Moreover, institutional theory which has often been used in organization studies and consequently IB studies to address different research phenomenon from an open environment perspective, is also discussed in detail in theoretical part of this dissertation. Institutional theory in organization studies (and consequently IB studies) has emerged from both rational choice and sociological in-

stitutionalisms (Scott 1987; Selznick 1996). The study also includes a brief discussion about the roots and history of institutional theory. However, the dissertation does not address the differences in sociological and rational choice institutionalism in detail, due to irrelevance to the key objectives of the study. Further on, recently a variant of organizational institutionalism termed as institutional entrepreneurship (e.g. Maguire, Hardy & Lawrence 2004; Garud, Hardy & Maguire 2007) has attracted researcher's attention, especially in the fields of entrepreneurship, technology adoption and change management. Nevertheless, institutional entrepreneurship literature is also not discussed in detail in this study as it lies outside the scope of this dissertation and is also lesser relevant to the research area.

It is also important to mention that this study offers background discussion on the concept of distance in IB studies by referring to both psychic and cultural distance. However, the discussion in this dissertation concentrates on institutional distance, which is the key construct of study. Therefore, the dissertation includes a detailed review of previous theoretical and empirical IB researches that used institutional distance. However, past studies that used psychic and cultural distance have are not reviewed in depth because this research area lies outside the main focus, scope and concentration of the current study. Moreover, the research model developed in this study only includes formal institutional distance, informal institutional distance and strength of market conforming values in the host country and their impacts on FDI establishment and ownership mode choices of MNEs. This research model is further strengthened in the discussion in later sections by the development of an extended research model that also includes control variables both at country and firm level, along with aforementioned independent variables. However, it should be noted that the scope of this research model is to address the study research question and objectives, and therefore its application is limited to that scope. Finally, as one of the sub-objectives of this study is analyze Finnish FDIs in emerging economies of CEE, Asia and Europe; therefore, the scope of empirical part of the dissertation will be limited to that geographic context.

1.5 Definitions of Key Terms

The key terms in this dissertation have been identified based on their importance in understanding the research phenomenon under study. These terms include *foreign direct investment, institutions, institutional distance, strength of market conforming values, establishment mode choice, ownership mode choice, acquisition,*

greenfield investment, wholly owned subsidiary and joint venture. The definitions of key terms used in this dissertation are summarized and presented in the table 1 along with the relevant references, so that the reader can follow conceptualization of these terms in this dissertation easily.

Table 1. Definitions of Key Terms

Key Terms	Definitions	References
Foreign Direct Investment	FDI is a category of international investment that reflects the objectives of a resident in one economy (the direct investor or source economy) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise or host economy).	IMF 1993; OECD (1996:7).
Institutions	Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (rules, laws, constitutions), informal constraints (norms of behavior, conventions, and self-imposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies.	Adapted from North (1990:3, 4), and North (1993).
Institutional Distance	Differences in the formal and informal institutional environments of home and host countries of the MNEs.	Adapted from North (1990); Peng (2003); Estrin et al. (2009).
Strength of Market Conforming Values in the host countries	Providing favorable circumstances due to developed market economy institutions especially by removing/ reducing restrictions on market entry options (establishment and ownership choices) of foreign firms.	Adapted from Peng (2003); Child & Tsai (2005); IMF 2003; Li et al. (2007); Caselli & Gennaioli (2008); Khann & Palepu (2010)
Establishment Mode Choice	The trade-off between greenfield investment or acquisition when MNE enters new market.	Adapted from Cho & Padmanabhan (1995)
Ownership Mode choice	The choice between wholly owned subsidiary and joint venture when MNE enters new market through equity ownership.	Adapted from Anderson & Gatignon (1986); Jung et al. (2008)
Acquisition	Purchasing part or all of the equity of an existing firm. This implies that acquisitions can be partially and wholly owned as well.	Adapted from Kogut & Singh (1988); Hennart & Park (1993); Cho & Padmanabhan (1995)
Greenfield Investment	Startup investment from scratch (operations and human resources) in a new host market.	Adapted from Kogut & Singh (1988); Hennart & Park (1993); Larimo (2003)
Wholly Owned Subsidiary	This form of market entry provides a company with full control over its foreign operations. This method of market entry requires large capital investment, commitment of time and effort, and normally a willingness of some employees /management to travel to and live in a foreign country.	Adapted from Root (1987); Kogut & Singh (1988)
Joint Venture	Joint venture is a cooperative operation formed by two or more independent entities from different countries to achieve common or complementary objectives. Joint venture partners may be privately owned companies, government agencies, or government-owned firms.	Adapted from Kogut & Singh (1988); Anderson & Gatignon (1986); Root (1987).

It should be noted that this study uses North's definition of institutions because it fits well with the study objectives. Moreover, it is the most often used definition

of institutions, when the aim of study is address impacts of country level institutions on the firm's strategies (e.g. Peng 2003; Deeg & Jackson 2008). Consequently the definitions of institutional distance and strength of market conforming values are based on the works of scholars that also used aspects of North's institutional framework in order to have conceptual consistency in the study. Finally, the definitions of establishment mode choice, ownership mode choice, greenfield investment, acquisition, wholly owned subsidiary and joint venture are based on most often cited and respected classical works in the field of IB studies. These definitions also match with the definitions of these concepts used in similar previous IB studies.

1.6 Structure of the Dissertation

The first chapter (Introduction) starts with a discussion about the study background and identification of research gap. This discussion is followed by the research question and study objectives. This chapter outlines the key research issues and provides the rationale for studying the proposed area. The discussion is further extended to discussion about the positioning and expected contribution of the study highlighting the novelty and importance of the current study. The scope of study is also addressed, in order to clarify the limits of the study context and its applicability to the readers. Finally, the chapter presents definitions of key terms used in this dissertation along with offering discussion about structure of the dissertation.

The second chapter (Theories and Research on FDI Choices of MNEs) aims to be a conceptual chapter. The chapter offers an in-depth review of past studies on FDI establishment and ownership mode choices of MNEs in light of different theoretical approaches used to study these choices. The chapter also includes discussion about institution-based view of IB studies along with rationale for its use in this dissertation is provided. As, institution-based view of IB studies incorporates arguments from both new institutional economics and institutional theory; they both are discussed in detail especially in context of their application in IB studies in the last section of this chapter.

Chapter three (Institutional Distance and FDI Establishment and Ownership Mode Choices of MNEs) discusses the key construct used in this study i.e. institutional distance in detail. Firstly, institutional distance is discussed along with related concepts of cultural distance and psychic distance by providing an overview

of historical development and interrelation of these concepts. In the next section, the conceptualization of institutional distance in this study is explained especially by reviewing its different conceptualizations used in past IB studies. Later on, theoretical discussion is provided leading to development of study hypotheses addressing the impacts of institutional distance and strength of market conforming values in the host country on establishment mode and ownership mode choices of MNEs. The chapter also includes theoretical discussion and hypotheses about the potential moderating influences of strong market conforming values in the host country on impacts of institutional distance on FDI choices of MNEs. The chapter concludes with development of the research model, thereby achieving one of the key sub-objectives of study.

Chapter four (Empirical Research Design) introduces the empirical part of the study. The chapter starts with description of data sources used in the study, as well as discussion about the reliability and validity of the used data sources. After that, the study variables are described along with their measurement and operationalization discussions. This section also explains the selection of control variables of the study based on their importance in FDI choices of MNEs in previous studies. The discussion about operationalization of variables leads to the expanded research model of the study, which shows the impacts of independent as well as control variables on the FDI establishment and ownership mode choices of MNEs. The chapter also offers the explanation of study sample and its key characteristics with the help of histograms. The chapter concludes with a summary table of sample characteristics.

Chapter five (Results) explains the empirical results of the dissertation. This chapter starts with the discussion about use of statistical analysis technique in this dissertation and reasoning for the use of this method of analysis. In next section, descriptive statistics and correlation matrix are presented along with some discussion about reliability of study results. Then the statistical models showing regression results for FDI establishment mode choice of Finnish MNEs are presented leading to discussion about the impacts of control and independent variables on it. This discussion leads to subsequent acceptance/rejection of the study hypotheses about FDI establishment mode choices. In the next section, FDI ownership mode choices of Finnish MNEs are discussed in similar manner leading to acceptance/rejection of relevant hypotheses. The last section reviews empirical results about both FDI establishment and ownership mode choices of Finnish MNEs and presents them in form of tables.

Chapter six (Discussion and Conclusions) is the last chapter of this dissertation. This chapter starts with a summary discussion about the key objectives and results

of this study. The next section refers explicitly to the key contributions of the dissertation both at theoretical and empirical levels. This discussion is followed by the discussion about the limitations of the study. The next section of this chapter provides guidelines for managers based on the findings of the study along with offering certain policy insights also. The last section refers to the research areas in IB as well as management studies that can be explored in future research using the concepts of institutional distance and market conforming values. Based on the discussion offered so far, the structure of dissertation is presented in a graphical format in the following figure 4.

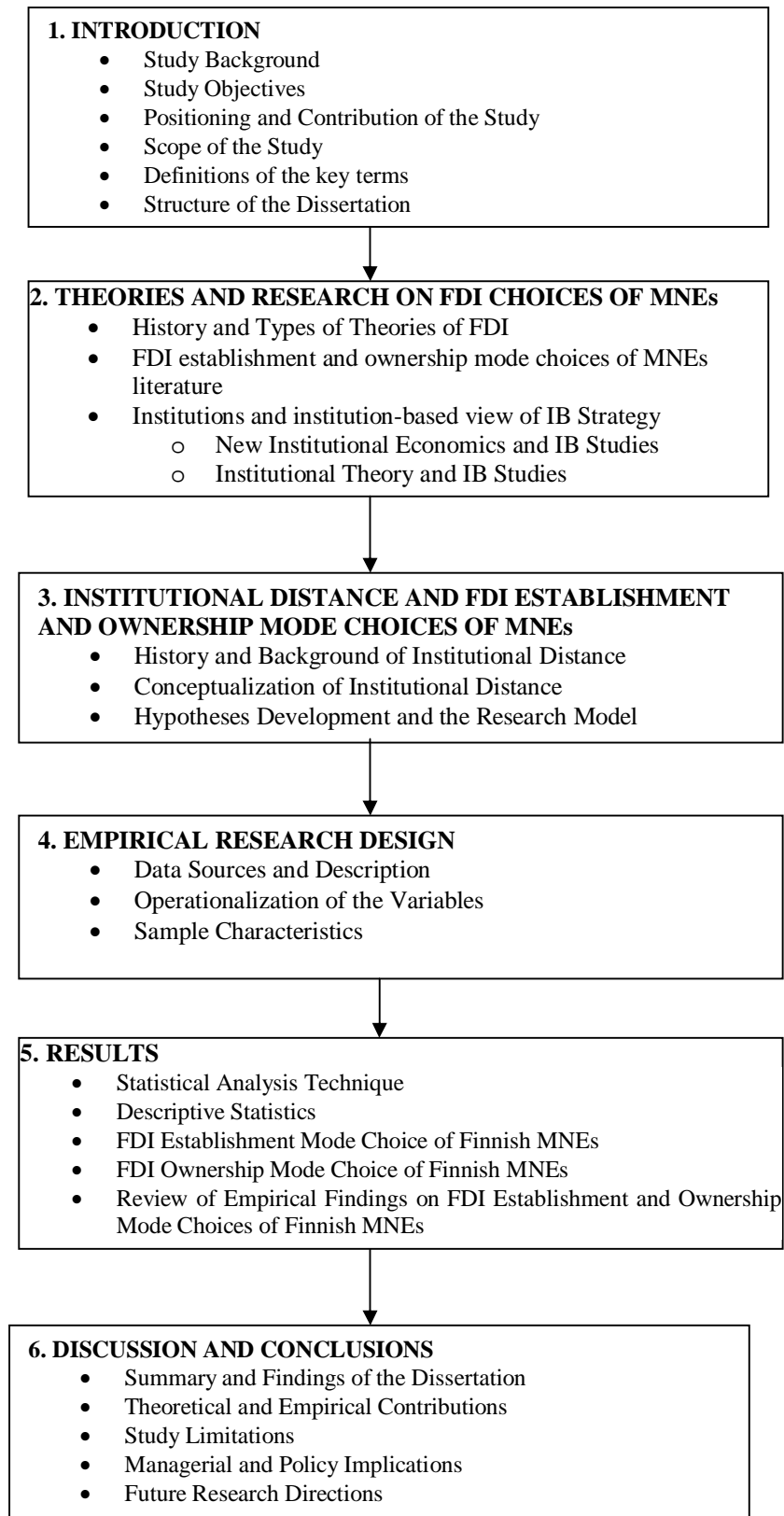


Figure 4. Structure of the Dissertation

2 THEORIES AND RESEARCH ON FDI CHOICES OF MNEs

This chapter builds conceptual bases of the dissertation. The chapter starts with a brief discussion on the history and types of theories of FDI. Further on, the chapter includes a thorough review of past studies on FDI establishment and ownership mode choices FDI in light of different theoretical approaches used in past studies. The theoretical approaches reviewed in this chapter include monopolistic advantage theory, Eclectic (OLI) paradigm, transaction cost economics/internalization theory, resource based view and organization learning perspective. Subsequently, the chapter includes discussion about institution-based view of international business strategy and the reason for its application in the current study. The institution-based view of IB strategy incorporates arguments from both new institutional economics and institutional theory. Therefore, these theories are also reviewed with particular reference to their use and application in IB studies in the last sections of this chapter.

2.1 History and Types of Theories of FDI

The academic interest in FDI as a phenomenon started in early 20th century due to development of better communication modes and increase in international trade. Dunning (2002:2) refers to the fact that in the first half of 20th century, most mainstream theories tried to explain particular types of FDI in a positivistic manner. So, these theories lacked integrated approach and their units of analysis also varied from macro analysis to micro (firm behavior) analysis. However, in the second half of 20th century, more holistic approaches addressing FDI started to develop (Chakrabarti 2003). There is a host of theories which attempt to explain the “*reason of existence*” of MNEs and FDI made by them. These theories try to answer three fundamental questions: (a) what motivates national firms to go and produce abroad? (b) what enables them to do so? (c) why do MNEs undertake different forms of investments abroad (e.g. acquisitions, full ownership or partial ownership)?

FDI theories can essentially be divided into two categories i.e. micro (firm and industrial level) and macro theories (finance, trade, cost of capital and country level theories) (Kojima 1984; Razin 2003). The literature explaining FDI theories in micro terms mostly focuses on market imperfections and the desire of MNEs to expand their market power (Razin 2003:4). This literature mostly addresses issues like firm specific advantages, product superiority, cost advantages from econo-

mies of scale and advantages in technologies, marketing or distribution for MNE. Some of these theories also show that firms may differ in their objectives when investing abroad e.g. profit maximization may in short run be overruled by other objectives like risk diversification and market access (Razin 2003). Moreover, later on numerous researchers have conducted studies on FDI, including investigating the fundamental theories of FDI, various macro economic variables that influence FDI, the impact of economic integration on the movement of FDI, and the advantages and disadvantages of FDI in the host countries (e.g. Cheng & Kwan 2000; Zhang 2001; Carstensen & Toubal 2004).

On the other hand, macro economic theories of FDI are dominated by logic of international trade theories (Hansen 1998:24). These theories mainly address the issues like why MNE would invest abroad rather than exporting their products to that market and how MNE can successfully compete with local firms despite of disadvantages like lack of market knowledge, cultural and linguistic differences etc. The starting point of the modern FDI literature in international business is the Coasean Theory of the Firm (see e.g. Coase 1937; Buckley & Casson 1976). In essence, prospective multinational firms are envisioned as possessing information-based firm-specific capabilities that they could profitably apply in foreign countries. Indeed, these capabilities compensate for local firms' "home court advantage" to let multinationals earn returns high enough to justify their investments abroad (e.g. Morck & Yeung 1991, 1992). This was also the core argument forwarded by Hymer in 1960 that MNEs must have certain unique advantages (termed as monopolistic advantages) that are not possessed by local firms so that these disadvantages (of newness and foreignness) in international markets can be offset.

Casson (1990 in Singh & Jun 1995) addresses FDI theories in a broader manner. He views theories of FDI as a 'logical intersection' of theories from the theory of international capital markets (explaining financing and risk sharing), the theory of firm (explaining location of headquarters, management and material utilization) and trade theories (explaining location of production and markets for sales of products). However, the forthcoming section specifically reviews the past literature addressing FDI establishment and ownership mode choices of MNEs in the light of different theories and theoretical paradigms. Therefore, the macroeconomic analysis theories of FDI addressing macro-environmental determinants such as exchange rates, tariffs, taxations and negotiations about subsidies in the host and home countries (that influence FDI establishment and ownership mode choices also) are not included in the forthcoming discussion.

2.2 FDI Establishment and Ownership Mode Choices Literature

MNEs can choose to enter foreign markets through licensing, turn key projects, strategic alliances, greenfield investments, acquisition, or partial ownership (Root 1987; Hennart 1991; Hennart & Park 1993). Pan and Tse (2000) divide entry modes into two categories: non-equity and equity. They explain that these two categories of entry modes considerably differ with regard to investment requirements, firm opportunities and risks and control. The first ones are non-equity modes (e.g., contractual modes such as licensing, R&D contracts, and alliances) that require lower levels of control and are less investment intensive (see also Anderson & Gatignon 1986). The second ones are equity modes (like greenfield investments, acquisitions, JVs and WOSs) which require high level of control from headquarters, due to large commitment to investment (Pan & Tse 2000). Empirical literature refers to the fact that equity entry modes are accomplished by FDI entry mode decision by the MNEs (Geroski 1991; Caves 1996; Brouthers & Hennart 2007; Dikova & van Witteloostuijen 2007; Jung et al. 2008).

Foreign market entry mode and FDI decisions of MNEs (that include FDI establishment and ownership mode choices) are one of the most researched fields in international business literature along with internationalization process of firms research (see e.g. Werner 2002; Brouthers & Hennart 2007). The literature review points to two streams of literature, one dealing with establishment mode choice while the other dealing with ownership decisions of MNEs (e.g. Cannibal & White 2006; Slangen & Hennart 2008). For example, the studies by Wilson (1980), Hennart and Park (1993), Andersson and Svensson (1994), Cho and Padmanabhan (1995), Brouthers and Brouthers (2000), Harzing (2002), Larimo (2003), Shimizu et al. (2004) and Slangen and Hennart (2008) addressed the choice between acquisitions and greenfield investments by the MNEs. On the other hand, the studies by Gatignon and Anderson (1988), Kim and Hwang (1992), Brouthers et al. (1998), Delios and Beamish (1999), Pan and Tse (2000), Luo (2001), Yiu and Makino (2002), and Jung et al. (2008) concentrated on the ownership mode choice by MNEs (i.e. WOSs or JVs).

Literature review of FDI establishment and ownership mode choice studies reveal that MNEs' choice between greenfield or acquisition and WOSs or JVs is result of a tradeoff between control and risk presented by each the options. Control refers to MNEs' ability to influence organizational practices and decisions in foreign subsidiary and is highly desirable for improving competitive position and maximizing returns (e.g. Deng 2003). Taylor, Zho and Osland (2000) referred

that greater ownership in the foreign subsidiaries of MNEs lead to greater control of operations. However, it is important to note that greater control options like can also raise the level of potential risk associated with operating in a foreign environment with which MNE is potentially unfamiliar (e.g. Agarwal & Ramaswami 1992; Rohades & Rechner 2001).

IB literature mentions that greenfield subsidiaries are unproven combinations of inputs and lack of relationships with local stakeholders and in some cases are likely to perform relatively poorly after their inception (Caves 1996). However acquisitions are going concerns with an established network and reputation (Haspeslagh & Jemison 1991; Caves 1996), can offer useful local knowledge to acquiring MNEs (Slangen & Hennart 2007). Although both partial acquisitions and JVs offer low control for MNEs, greenfield JVs can be considered relatively more risky as they include establishing a new entity with a local partner and different problems associated with greenfield JVs are mentioned in IB literature (e.g. Geringer 1988; Jaemin 2004). On the other hand, partial acquisition can also have similar problem, but they offer MNE an option to use network and resources of established firm (Chen & Hennart 2004) and in many cases also align with requirements of local authorities especially in transition and emerging economies (Meyer 2002). Figure 5 tries to present a synopsis of different FDI ownership and establishment mode options for MNE in relation to the control and risk associated with them. Based on the brief discussion and review offered in paragraph, the figure shows different levels of control and risk associated with different FDI establishment and ownership mode choices.

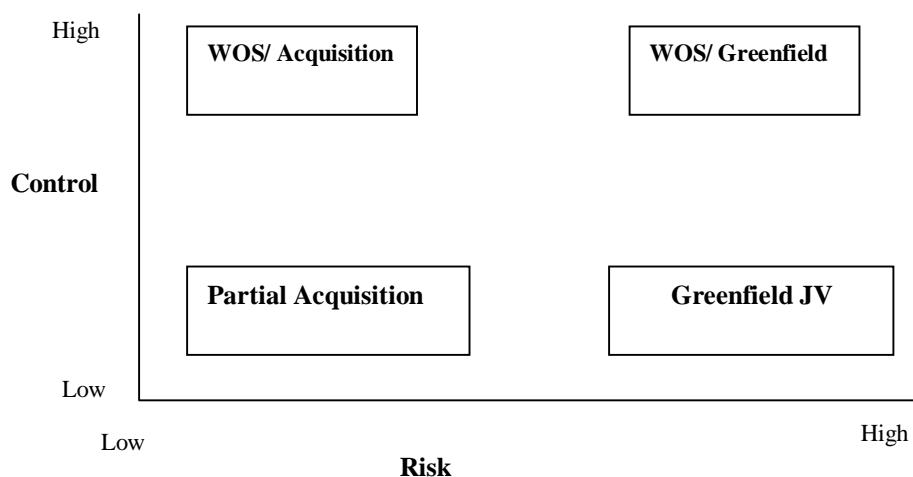


Figure 5. FDI establishment and ownership choices of MNEs in relation to control and risk

A comprehensive review of MNEs' international entry mode choice literature has been done by Cannabal and White (2006). Moreover, Zhao, Luo, and Suh's (2004) meta-analysis of transaction cost economics and ownership based entry mode choice, Sarkar and Cavusgil's (1996) review of common themes and trends in entry mode research, Brouthers and Hennart (2007) review of entry mode studies and Slangen and Hennart (2007) review of establishment mode choice literature also point to different variety of theories and theoretical paradigms used in studying establishment and ownership decisions of MNEs. Based on all these studies and review of other relevant literature addressing establishment and ownership mode choices of MNEs, four theoretical perspectives have been chosen to be discussed in this chapter. These theoretical perspectives include *monopolistic advantages theory*, *Eclectic OLI paradigm*, *transaction cost economics / internalization theory*, *resource based view and organizational learning perspective* based on frequency of their use in past studies and relevance to the current study. These divergent theoretical perspectives offer different assumptions about the relative importance of the various factors in the both FDI establishment and ownership mode choices of MNEs.

2.2.1 *Monopolistic Advantage Theory*

The *monopolistic advantage theory* resulted from the research and postpositions offered by Hymer (1960) in his famous study and later it was extended by Kindleberger (1969). Hymer (1976) and Kindleberger (1969) were among the first to criticize the neoclassical approach for its limited ability to explain FDI flows. They argued that the assumption of perfect competition in neoclassical theory could not explain FDI, which – in their view – needed structural market imperfections to flourish. FDI was assumed to be linked to the theory of MNEs, which are, by definition, large firms with control or market power. Both authors focused on the concept of 'monopolistic advantage' of the investing foreign firms (i.e. MNEs) to explain why firms undertake FDI and enter international markets. According to this perspective, foreign firms need ownership advantages such as product differentiation (imperfect good markets), managerial expertise, new technology or patents (imperfect factor markets), the existence of internal or external economies of scale or government interference to balance out the disadvantages of entering a foreign market (including higher risk, less information, more uncertainty, physical distance and differences in culture, business ethics, the legal system and other regulations) in order to compete efficiently with local firms (Hymer 1960, Kindleberger 1969; Hosseini 2005). Hence, the foreign market entry mode decision of MNEs (including establishment and ownership mode choices) are driven by the nature of proprietary advantage that a particular firm

possesses (e.g. in the form of differentiated or unique products, efficient production, administration and distribution techniques).

According to this perspective, local firms always outperform foreign entrants in the host market due to structural market imperfections for the final goods and the barriers against foreign entrants (Hymer 1960). These disadvantages faced by foreign firms have later been termed in the literature as ‘liability of foreignness’ (Zaheer 1995, 2002; Zaheer & Mosakowski 1997; Chen 2006). The main source of liability of foreignness is an interaction of social and cultural components that can create barriers for foreign companies (Granovetter 1985; Zaheer & Mosakowski 1997; Mezias 2002). In essence, liability of foreignness is a double-edged sword: foreign enterprises are “strangers in a strange land” (Hymer 1960). An obvious point is the uncertainty by host country buyers stemming from a lack of knowledge about the foreign company and the quality of its products. In addition, foreign companies feel estranged because they lack the relevant tacit knowledge to interpret the daily business in the way natives do (Hymer 1960; Kindleberger 1969).

These disadvantages for foreign firms in international markets may manifest themselves in more frequent errors or delayed decisions (Lord & Ranft 2000; Sofka 2006). Spatial distance (e.g. travel, transportation, time zones), higher learning costs, lack of host country reputation or legal home country export restrictions can be some of the reasons for these disadvantages (Zaheer 1995; Mezias 2002). To successfully overcome these disadvantages, foreign firms must exploit monopolistic advantages that they have developed in their home countries i.e. their core competencies (Hymer 1960; Zaheer 2002).

Some past empirical studies provided evidence on the relationship between high control mode choices (e.g. wholly owned greenfield investments or full acquisitions) and information sensitive assets of firm that provide firm with competitive advantages (e.g. Kogut & Chang 1991). Empirical literature also refers to firm-specific capabilities and advantages in terms of monopoly or oligopoly position (Hymer 1976; Kindleberger 1969; Flowers 1976); product life cycle (Vernon 1966); internalization advantages of the firm (Buckley & Casson 1976); proprietary assets like patent and know how, trademark and brand image, organization and management, marketing and finance (Dunning 1980, 1988, 1993, 2000), international experience (Johanson & Vahlne 1977, 1990), and network linkages (Thorelli 1986; Johanson & Mattsson 1988; Powell 1990). Therefore, firms in a specific country can develop firm-specific (monopolistic) advantages like “product and process technology, marketing and branding experience, management,

access to and expertise in international trade” (Lecraw 1992: 33) that they can use as a current or potential advantage in conducting international operations.

The prime drivers of a MNE’s market entry and FDI strategy (including the establishment and ownership mode choices) from this perspective are the unique competencies and capabilities of the firm (e.g. Ingham & Thompson 1995; Mutinelli & Piscitello 1998; Tan, Eramilli & Liang 2001; Erramilli, Agarwal & Cherkian 2002). In other words, FDI establishment and ownership modes that best exploit firm resources and competencies are likely to be favored by the MNE. However, it is important to note that for resources and competencies of firm to result in a competitive advantage, they must remain unique. As the shared control modes (like JVs) are typically associated with a greater dissemination risk (i.e. the risk that firm-specific advantages or knowledge will be expropriated by a partner in the foreign venture), firms with valuable firm-specific assets are likely to avoid such modes. Instead, they can be expected to choose modes that allow for higher control (Chen & Chen 2003; Claver & Quer 2005).

2.2.2 *OLI (Eclectic) Paradigm*

Dunning’s eclectic paradigm (also referred as OLI paradigm) (1977, 1988, 2000, 2001, 2004) has been for long time considered as an influential theoretical framework for empirical investigation of determinants of FDI. The eclectic paradigm offers a holistic framework to investigate the significance of factors influencing both the initial expansion of MNEs by foreign production and the subsequent growth of their activities (Dunning & Robson 1987; Estrella & Tolentino 2001: 191). This OLI paradigm facilitates comparison between different theories by establishing the common ground between various approaches and by clarifying the specific questions theorists have posed, as well as the different levels of analysis (Cantwell & Narula 2001). According to the Dunning’s OLI paradigm, a firm’s pattern of international production is determined by three configuration sets of advantages perceived by the enterprise as follows (Dunning, 1988, 1998, 2004; Cantwell & Narula 2001)

1. Ownership (O) advantages (one nationality or affiliates of the same over those of another) and they can refer to the origin of investment.
2. Location (L) advantages (may favor home or host countries), which can refer to the direction of investment.
3. Internalization (I) advantages (e.g., to protect against or exploit market failure) and they can refer to the externalization or reasons for foreign investments.

Therefore, MNE have various choices of entry mode, ranging from the market to the hierarchy i.e. from exporting and licensing to FDI market entry like greenfield investments or acquisitions (Cantwell & Narula 2001; Dunning, Pak & Beldona 2007).

Ownership Advantages: According to Dunning (1988, 2004), MNEs must possess unique, superior assets that earn sufficient economic returns to counter a high cost of servicing foreign markets. These assets constitute the ownership advantages of a firm. One of the important assets for a firm is the host country experience. MNEs with the host country experience show a preference for a high control mode of entry i.e. greenfield establishments and formation of WOSs as they can learn from prior entry that how to deal with the host country government and to bear potential political risks associated with changing host government policies. Some empirical studies have provided evidence that there is a positive relationship between the host country experience and formation of WOSs (Luo 2001). So, the firms with lower experience would prefer JVs as mode of entry.

Another form of ownership asset power for MNE is multinational experience. So, the MNEs with experience in managing geographically diverse subsidiaries and in competing with local firms on the production efficiencies prefer an investment mode like subsidiary while those without or with lower experience tend to form joint ventures to reduce the risk of failure (Meschi 2004). Firm size is another form of ownership advantage that an MNE possesses. MNEs are subject to the high costs of information search and patent enforcement when they enter new international markets, which require a huge resource commitment from them (Buckley & Casson 1976). Some previous studies have shown that larger MNEs prefer WOSs formation, while small and medium sized firms prefer JVs when entering a new market (Dunning 2001, 2004).

Location Advantages: The second important pillar of the OLI paradigm is 'location advantages'. Dunning (1993, 2004) found that host countries with high market potential in terms of market size and the growth rate attract foreign inward investment. In a study of entry modes and alliance formation in China; Tse, Pan and Au (1997) found that MNEs choose to form JVs with local firms to capture rapidly growing market. Location advantages of a market refer to the attractiveness of a host country. MNEs tend to enter foreign countries that offer marketing or management expertise, low costs for physical and natural resources, and inexpensive semi-skilled labor. By acquiring these factor endowments at a lower cost than can be obtained in home countries, MNEs can gain high returns from entering these host countries (e.g. Bevan & Estrin 2004). Conversely, the potential investment risks of operating in the target countries can deter MNEs from enter-

ing them (Disdier & Meyer 2004). If the target countries are characterized by changing government policies and unstable political situations, MNEs will be uncertain about the survival and profitability of their investment and subsidiaries in these countries (e.g. Bevan, Estrin & Meyer 2004; Pournarakis & Varsakelis 2004).

Previous empirical studies tend to suggest that the attractiveness of a host country is reflected by its market potential in terms of market size and growth rate, and by its potential investment risks in terms of economic and political conditions (Luo 2001; Bevan & Estrin 2004). Pan (2002) explored the impact of home country risk on equity ownership choice in China. His study found that MNEs from a home country with a strong currency, a low cost of borrowing, and strong export capability tend to own a high level of equity ownership in their foreign investments (i.e. WOSs or majority JVs). Furthermore, location advantages in OLI framework also incorporated complementary approaches as the institutional theory (Dunning & Lundan 2008), drawing on North (1990) and North (2005). This is due to the fact that earlier scholars concentrated initially on factor endowments, especially labor costs and productivity (Bevan et al. 2004: 45) to determine the attraction of location for MNE and subsequently its establishment and ownership choices. However, recently MNEs have increasingly focused on 'created assets' (Narula & Dunning 2000) including knowledge-based assets, infrastructure and institutions of the host economy.

According to Mudambi and Navarra (2002: 636) "institutions are important determinants of FDI because they 'represent the major immobile factors in a globalized market'. Therefore, for the potential investors, with institutional O specific advantages, the incentives and restrictions created by institutions 'shift the playing field favoring some deals and opportunities while discouraging others. They force the investing firms to think strategically about how to avoid the limits imposed by domestic laws as well as how to reap the benefits that the law and particular circumstances are capable of providing' (Spar 2001). Dunning and Lundan (2008) also referred to the importance of institutions in firm's ownership choices and have added institutional component to the original OLI framework.

Internalization Advantages: Internalization advantages explain the decision of MNEs to integrate within their corporate structure the activities previously performed by the market (Anderson & Gatignon 1986; Dunning 1988, 1993; Erramilli & Rao 1993). Internalization advantages in terms of FDI establishment and ownership mode choices of MNEs can refer to the direct or indirect costs of different FDI entry mode options available for MNEs. Fatica (2010) in his study found that due to high entry costs in a certain host economies, MNEs prefer ac-

quisitions rather than greenfield investments in their establishment mode choice. Madhok (1998) in his study on ownership mode choices discovered that MNEs tend to prefer a collaborative ownership mode (i.e. JVs with a local partner) rather than WOSs in order to avoid high entry costs in a new international market. Moreover, Brouthers and Hennart (2007) address the role of internalization in ownership mode decisions of MNEs by arguing that a key difference between WOSs and JVs is that the latter consist of joint internalization whereas WOSs represent sole internalization of activities.

Country risk has been referred as an important internalization variable by OLI paradigm researchers (e.g. Dunning 1993: 84). It has been mentioned that the level of risk perceived by the MNEs play an important role in entry mode decisions (Ahmed, Mohamad, Tan & Johnson 2002) and is significant for FDI decisions of both service and manufacturing firms (Brouthers & Brouthers 2003). Moreover, previous IB studies addressing the choice between greenfield investment and acquisition have found different results in choice of MNEs in high risk countries. Caves (1982) referred that acquisition is preferred in high risk countries by the MNEs. However, some studies found that greenfield investment is preferred rather than acquisition in high risk environment (e.g. Brouther et al. 1999; Ahmed et al. 2002). Finally, past IB studies (e.g. Aharoni 1966; Agodo 1978; Gatignon & Anderson 1988; Mutunelli & Piscitello 1997, 1998; Brouthers 2002) found that MNEs preferred low control collaborative modes like JVs in the host countries characterized by high risk environment.

2.2.3 *Transaction Cost Economics and Internalization Theory*

Efficiency rationale of the firm is the key argument for closely related transaction cost economics and internalization theories that have been widely applied in IB studies. *Transaction cost economics (TCE)* suggests that the appropriate governance structure for a given transaction (and, therefore, the appropriate establishment and ownership mode choices) is the one that minimizes total transaction and production costs (Williamson 1975; Hennart 1982, 1991). Firms internalize activities that they can perform at a lower cost and rely on the market for activities in which other providers have an advantage (Hennart 1982; Klein, Frazier & Roth 1990). In IB literature, TCE (Hennart 1981, 1982) has been widely applied to MNEs' foreign market entry mode decisions (Zhao et al. 2004). Transaction cost economics has been referred as one of the most influential schools of thought in IB research (Pan & Tse 2000: 537). This theoretical perspective has proven its applicability by explaining the market entry decisions and operations of firms from developed and large countries in their international markets (e.g. Gatignon

& Anderson 1988; Kogut & Singh 1988; Agarwal & Ramaswami 1992; Erramilli & Rao 1993). As a direct extension of Williamson's (1975) theory, researchers implementing TCE in IB studies have stressed that decisions and strategies of MNEs including FDI choices are predominantly a function of transaction costs associated with different options in market entry (e.g. Hennart 1982; Das & Teng 2000; Sharma & Erramilli 2004). Therefore, it is argued from this perspective that the firms should always seek for the most efficient entry mode, i.e. the one that ultimately minimizes its transaction costs (Anderson & Gatignon 1986; Luo 2001).

TCE has been broadly employed to explain MNE's FDI activities including the choice between a JVs or WOSs, as well as acquisition or greenfield investments, because this approach provides powerful explanation for the governance mode in international market entry (e.g. Kulkarni 2001). Some key studies that offer useful insights to the application TCE in foreign market entry studies are by Caves and Mehra (1986), Kogut and Singh (1988), Hennart and Park (1993), Andersson and Svensson (1994), Brouthers and Brouthers (2000) and Larimo (2003), which addressed the choice between greenfields and acquisitions (i.e. FDI establishment mode choice) of MNEs. Moreover, the studies Gatignon and Anderson (1988), Hennart (1988, 1991), Kim and Hwang (1992), Delios and Beamish (1999), Meyer (2001), Brouthers (2002), and Slangen and van Tulder (2009) examined the choice between WOSs and JVs (ownership mode choice) by the MNEs.

Transaction costs in TCE frameworks applied in IB studies tend to cover many aspects of business transactions that involve other market participants (including writing, negotiating and enforcing contracts as well as monitoring the other party's behavior) (Das & Teng 2000; Luo 2001). Further costs include the establishment of supplier networks, relationship management, movement of materials and people, the acquisition and usage of information, as well as risk management (Pan & Tse 2000). The main arguments behind TCE explanation of FDI choices (both establishment and ownership mode) of MNEs lies in transfer or use of firm specific advantages in their international operations. TCE stresses that asset specificity, behavioral and environmental uncertainties create market transaction costs and organizational control costs (Demirbag et al. 2008). Therefore, FDI establishment and ownership mode choices of MNEs depend on a comparison of costs associated with different alternatives i.e. JVs or WOSs in ownership mode and greenfield investment or acquisition in establishment mode (Slangen & Hennart 2007).

TCE proposes both host country and home country related factors that may influence the benefits and costs associated with alternative FDI establishment modes and ownership choices by MNEs (e.g. Demiberg, Glaister & Tatoglu 2007).

Some of the firm related factors include the size of parent firm (Caves & Mehra 1986; Kogut & Singh 1988), international experience of the parent firm (Kogut & Singh 1988; Hennart & Reddy 1997; Barkema & Vermeulen 1998; Padmanabhan & Cho 1999; Mudambi & Mudambi 2002), research and development/ technological intensity of the parent firm (e.g. Hennart & Park 1993; Brouthers & Brouthers 2000), relative size of the investment (Caves & Mehra 1986; Brouthers & Brouthers 2000), and degree of product diversity (e.g. Caves & Mehra 1986; Barkema & Vermeulen 1998). Some examples of the host country-related factors used in transaction cost theory are the level of development in the host country and the size of the host country market (e.g. Brouthers & Brouthers 2000; Mudambi & Mudambi 2002).

Internalization theory (Buckley & Casson 1976; Rugman 1981; Buckley 1988) can be viewed as a variant of transaction cost economics (Madhok 1997). Internalization theory has an historical antecedent in the ground breaking work by Coase (1937) and later on in the work of McManus (1972). Both emphasized the role of transaction costs in the development of foreign operations. It is based on the premise that the greater the danger of a firm losing its core competencies (e.g. unique knowledge or technology), the higher is the incentive for it to internalize transactions. This influences the firm's ownership choices when it invests abroad in the new host markets. For example, a firm might choose WOSs over JVs if the potential of losing specific knowledge/assets is high (Kogut & Chang 1991). MNEs may also want to exploit abroad their firm specific technological knowledge, which is often tacit and hence costly to exchange through the market (Hennart 1982). MNEs that possess this type of knowledge may want to exploit it abroad to realize economies of scale or scope in R&D or production. The transaction costs associated with exploiting such knowledge through greenfield investments are generally lower than those associated with exploiting it through acquisitions, as greenfields enable MNEs to install their technologies from the outset and to transfer the accompanying skills to a carefully-selected workforce capable of and willing to absorb them (Hennart & Park 1993).

MNEs' experience of successful international operations and experience of operating in a particular host country are also considered to be a key knowledge resource (Hennart 1982; Slangen & Hennart 2007). Such knowledge resource of the firm is primarily developed through experience in internationalization (Johanson & Vahlne 1977). MNEs with limited international or host-country experience will thus lack this knowledge. Such inexperienced MNEs are therefore likely to prefer acquisitions over greenfields in their establishment mode choice as acquisitions would give them access to the readily available required knowledge to operate in (Hennart & Park 1993; Larimo 2003). Transaction costs theory also relates host

country riskiness to establishment and ownership mode choices, predicting that low resource commitment modes like JVs are likely to be preferred in high-risk environments (Jaemin 2004; Mudambi & Mudambi 2002). High control advantages in high-risk environments are typically limited, and firms are likely to be better off using collaborative options like JVs.

In addition to the country characteristics, transaction cost theory also suggests that the FDI establishment and ownership choices depend on the host country industry characteristics. Transaction cost theorists (e.g. Hennart 1982, 1991) have argued that in resource intensive industries, firms often use shared-control modes like JVs to access local resources. Previous studies also suggest that shared-control strategies are likely to be preferred in technology-intensive environments. It can be expected that the foreign firm will prefer a shared-control entry mode with an incumbent with proven technological resources, as a full-control entry mode (e.g. acquisitions) may not justify the premium associated with ownership of assets (Kogut & Singh 1988). Transaction cost approach also holds that firms favor JVs in competitive international markets, since the threat of being replaced can force the host country JV partner to perform efficiently. However, when markets fail to suppress opportunistic behaviors from the partners, the firm may internalize transactions by choosing a high control mode like WOSs formation and minimize the costs of negotiation and supervision of partners (Baek 2003).

In some studies, transaction cost / internalization theory has been expanded to include cultural perspective in it (e.g. Franko 1989; Hennart & Larimo 1998; Makino & Neupert 2000; Brouthers & Brouthers 2001; Drogendijk & Slangen 2006; Pease, Paliwoda & Slater 2006; Magnusson et al. 2008; Slangen & van Tulder 2009). Researchers have found similar patterns in establishment and ownership mode choices of firms with similar country of origin. Franko (1989) in his study empirically showed that European firms have a higher propensity to establish joint ventures than U.S. firms have in their international markets. Hennart and Larimo (1998) addressed the impacts of cultural distance from home countries of investing MNEs (i.e. Finland and Japan) on ownership mode choice in their investment in US market. They found that Japanese firms tend to prefer JV formation over WOSs more compared to Finnish firms investing in USA, although cultural distance between Japan and USA is relatively lesser compared to that of Finland and USA. Moreover, in a study of foreign MNEs establishing their operations in China, Pan (2002) reported that firms coming from the home countries with high uncertainty avoidance scores show a preference for a high level of ownership strategy so as to ensure predictable outcomes and processes. Further on, Drogendijk and Slangen (2006) compared different operationalizations of cultural distance measure and found that the impact varies on the choice between

greenfields and acquisitions of multinational enterprises. Zhao et al. (2004) suggested that country risk and cultural distance are important elements of uncertainty for MNE. Uncertainty has been operationalized in transaction cost/ internalization theory's context by behavioral uncertainty (Delios & Beamish 1999; Santoro & McGill 2005), perceived political and economic stability in host country (Brouthers 2002; Brouthers & Brouthers 2003; Luo 2001), perceived market potential (Brouthers 2002), cultural distance (e.g. Contractor & Kundu 1998; Erramilli & Rao 1993; Luo 2001), perceived similarity in cultures (Kim & Hwang 1992; Brouthers 2002), and familiarity with country (e.g. Gomes-Casseres 1989). Zhao et al. (2004) in the meta-analysis of previous studies using transaction cost theory to address ownership mode choice of MNEs found that increased risk and uncertainty negatively impact the probability to choose WOS by MNEs and their preference for shared ownership increases. Figure 6 presents FDI establishment and ownership mode choices of MNEs from a transaction cost/ internalization theory perspective.

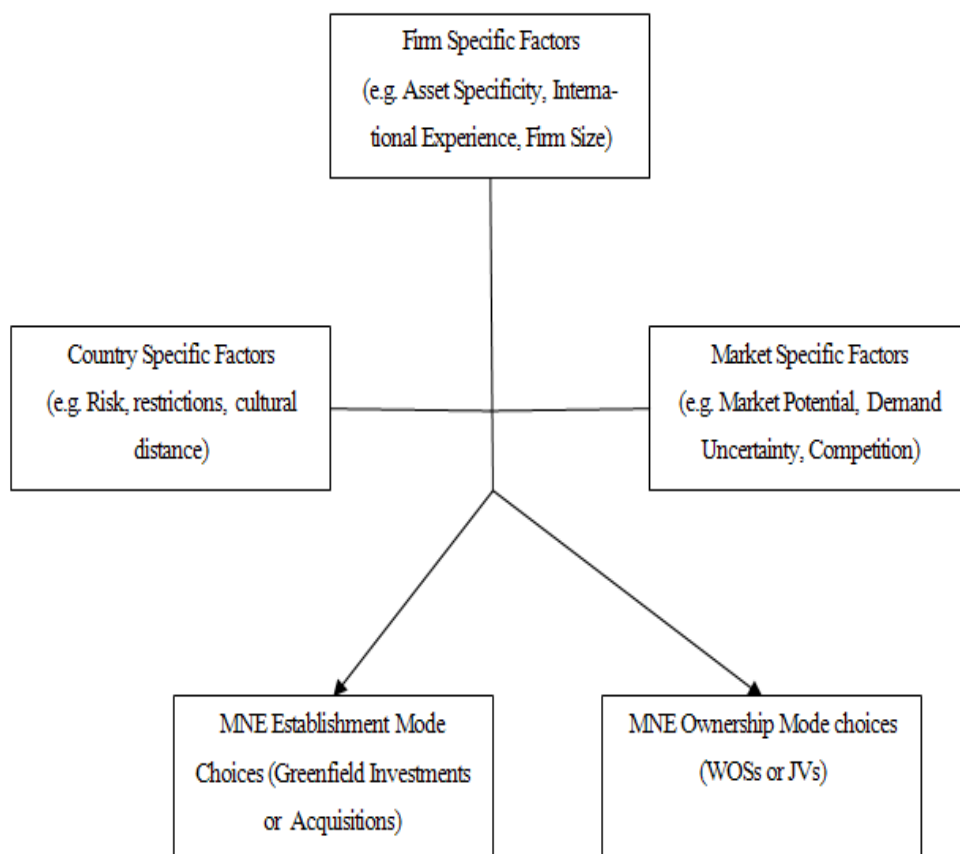


Figure 6. FDI Establishment and Ownership choices according to TCE

2.2.4 Resource Based View and Organizational Learning Perspective

The resource based view of the firm (RBV) has gained prominence in management and business research, due to an attempt by researchers to explain sustainable competitive advantage for the firm (Barney 2001). Based on Penrose's (1959) vision of a firm as a bundle of resources and an assumption of the heterogeneity of resources, RBV theory relates material and human resources to firm performance (Grant 2005). This theory is not only gaining influence in strategic management, but also in IB literature (Peng 2001; Wright, Dunford & Snell 2001; Khanna 2004), due to its importance in understanding the competitive strengths of firms.

As opposed to the transaction cost rationale, which focuses predominantly on cost and risk minimization, the RBV emphasizes "value maximization of a firm through pooling and utilizing valuable resources" (Das & Teng 2000: 36). RBV regards the firm as a unit, with heterogeneous assets created, developed, renewed, evolved and improved over time (Vivas 2005). The theory gives special attention to the factors that cause performance to vary between one firm and another (Grant 1996). It refers to organizational capability for self-renewal of resources, routines, capabilities and core competencies (Collis 1994). Learning both at individual and organizational levels (Zollo & Winter 2002) shapes dynamic capabilities of organization, enabling the creation of new process to respond to changing external conditions. It has been acknowledged in IB literature that resource based view is useful in explaining the entry mode choices of MNEs because of its dynamic foundations (e.g. Meyer 2006). RBV views an MNE as a collection of productive resources, suggests that firms seek to enter international markets in order to exploit their underutilized productive resources (Chang 1995; Chang & Rozewieig 2001).

Ahokangas (in Ruzzier et al. 2006: 479) defines RBV in relation to internationalization as *the process of mobilizing, accumulating and developing resource stocks for international activities*. Internationalization is therefore the exploiting of existing competences and competitive advantages beyond the domestic market. Lu and Beamish (2006) support this view by arguing that MNEs tend to adapt strategic configuration options (e.g. JVs or acquisitions) that offer optimal combination of resources, competences, and competitive advantages. Hence RBV offers a "unique opportunity to explain entry mode choices from the perspective of a firm's resource endowment and deployment" (Sharma & Erramilli 2004: 6). Consequently, the RBV helps to overcome one of the major shortcomings of all market-based perspectives, namely to account for the firm's idiosyncratic resources and capabilities (Ekeledo & Sivakumar 2004).

A basic notion in RBV is that the value of an MNE's resources does not depreciate through their use in other markets. Resources are worth more to an MNE's geographically diverse subunits than these subunits' individual markets because of economies of scale and scope. Furthermore, information-intensive resources, such as technology and marketing skills, are embedded in the global network of an MNE (e.g. Kogut & Zander 1993). The tacit nature of resources makes it difficult for an MNE to codify and transfer its resources to other firms. In these situations, MNEs should seek new markets for exploiting their underutilized, tacit resources (Barney 1991; Grant 2005).

The firms' (MNEs') strategic assets, resources and capabilities have been referred in IB literature as 'organizational resources' (Barney 1991), 'dynamic capabilities' (Teece & Pisano 1994), 'core competencies' (Prahalad & Hamel 1990), and 'invisible resources' (Tallman 2000). RBV recognizes three mechanisms for acquiring resources and capabilities: markets (buying resources or hiring people with desired knowledge from other organizations), hierarchies (internally creating them) and interorganizational relationships (through combinations of complementary resources and/or capabilities). Madhok and Tallman (1998) point out that fully internalizing resources is an expensive and uncertain process that may degrade or destroy the desired organizationally embedded competencies. Acquisition of another firm may bring all the physical assets, but the synergy issues appear as a potential problem (Madhok & Tallman 1998) as well as high costs of acquisitions and well potential constraints in the host country (Barney 1991, 2001). Therefore, JVs formation or alliances with others firms become attractive as they can result in new joint competencies by rapidly and inexpensively combining sets of resources and capabilities (Madhok 2000:76) Thus RBV refers to the exploitation of existing assets and the augmentation of resources to create new resources (competitive advantage). Therefore RBV establishes a link between firms' resource endowments and the likely path of international growth including both FDI establishment and ownership mode choices (Peng 2001; Meyer 2006).

Pan (2002) in his study on foreign JV operating in Chinese economy recommended that foreign firms' capability to export products and services to a host country reflected their competitive advantages over local partners, and that firms tended to exploit these advantages by making more investments locally. The possession of critical capital and non-capital resources that MNEs can bring into their local establishments represents an important source of bargaining power (Luo 2001; Meyer 2006). The capital resources include access to financial resources or proprietary properties, while the non-capital resources include technology, marketing skills, managerial expertise, the control of intra system sales, and geographical and industrial experience (Tsang 2000). An MNE's contribution of either capital

or non-capital resources like superior production technology can enhance its ability to bargain with host governments or local partners for a high ownership level in JVs or even establishing WOSs (Tsang 2000). Ekeledo and Sivakumar (2004) also applied resource based view in their study on entry mode choices of service and production firms. Their study also pointed out to the fact that the choice of entry mode is impacted by key non-capital resources like technology, knowledge, business experience, specialized assets, firm size, organizational culture, and reputation alongside capital resources (Ekeledo & Sivakumar 2004).

RBV is closely related to (knowledge based) *organizational learning perspective* of foreign market entry mode decisions by firms. This view suggests that the chosen mode of entry into the foreign markets reflects the most efficient way of exploiting an existing knowledge base and of exploring a new knowledge base (Kogut & Zander 1993; Madhok 1997). IB as well as strategic management literature has indicated that the basis of a firm's competitive advantage is knowledge (Buckley & Casson 1976; Grant 1996; Kogut & Zander 1993). Grant (1996), states that knowledge has emerged as the most strategically significant resource of the firm whose importance even increases when firms internationalize and go to new international markets. A classical internationalization study of Swedish MNEs provided support for the notion that choice of entry mode is determined by the compatibility between a firm's existing knowledge and the required knowledge for success in a particular market (Johanson & Vahlne 1977). Both internationalization process theory (Johanson & Vahlne 1977; Erramilli 1991) and organizational learning theory (March 1999) suggest a perceived knowledge gap will stimulate managerial actions in order to close the knowledge gap. One basic tenet of organizational learning theory is that firms learn when they experience problems (Cyert & March 1963). Problems are triggered by performance shortfalls – situations in which (actual or anticipated) performance would fall below aspiration levels. Therefore, MNEs' choices and decisions in the new markets are driven by the development of knowledge about the foreign markets and operations, and gradual commitment of resources to those markets (Johanson & Vahlne 1990; Johanson, Blomstermo & Pahlberg 1994). Based on the review of learning process conceptualizations in Uppsala model of internationalization, Forsgren (2002) suggests that firm's foreign investment behavior is related to its learning during internationalization.

Barkema and Vermeulen (1998) found that a firm with strong home-based competitive advantages tends to choose wholly owned greenfield investments over JVs as the transfer of firm-specific know-how within the hierarchy is more efficient than the transfer across firms. However, they also found that a firm with a need to tap local knowledge and skills tends to prefer JVs. Knowledge-seeking

foreign market entry perspective where learning is key determinant of entry mode choice (Madhok 1997; Colombo 2003) also provides useful insights to organizational learning perspective. This perspective suggests that MNEs invest in foreign markets, usually in developed countries, to explore new advantages and to improve innovative outcomes (Makino, Lau & Yeh 2002). The variation FDI establishment and ownership mode choices of MNEs in the host countries can be explained by the differences in terms of their capabilities to search, acquire, and integrate new advantages from external sources (White & Lui 2005). Moreover, MNEs entering into foreign markets need to negotiate with the host country governments because of the imposed local ownership restrictions on foreign inward investments (Luo 2001). In their study about entry mode decisions of Japanese firms, Chen and Hennart (2002) related firm's capabilities and learning to the entry mode choice finding preference of JVs when learning is needed. Therefore, according to this perspective, determination of establishment and ownership mode choices of MNEs are dependent on MNEs' willingness to learn and share its knowledge with potential partners in the host countries (Colombo 2003; White & Lui 2005). Table 2 presents a summary of all the theoretical approaches discussed so far with their core arguments and major contributors in IB studies in the context of FDI establishment and ownership mode choices of MNEs.

Table 2. Key Theoretical Paradigms in MNE Establishment and Ownership Mode Literature used in past studies

Theory/ Theoretical Paradigm	Main Arguments and Contributors in Context of FDI Establishment and Ownership Mode Choices of MNEs
Monopolistic Advantage Theory	FDI establishment and ownership mode choices of MNEs represent the best options to exploit monopolistic competitive advantages developed in home countries to offset costs (liability of newness and foreignness) in the host market. Therefore, firms that wish to invest abroad should have specific (unique) advantages in technology, managerial know how etc to gain competitive advantage over local firms. Firms with unique advantages would prefer full ownership (wholly owned greenfield/ full acquisition) in subsidiaries abroad rather than JVs or partial acquisitions (Hymer 1960; Kindleberger 1969; Lecraw 1992; Zaheer 1995; Zaheer & Mosakowski 1997; Hosseini 2005)
Eclectic (OLI) Paradigm	FDI establishment and ownership choices are driven by ownership advantages, location advantages of the market and internalization advantages of integrating transactions with in the firm. The attraction of a particular location (host country) and prior experience of MNE can result in preference of full ownership and greenfield investments (Dunning 1980, 1988, 2002, 2004; Narula & Dunning 2000, Dunning & Lundan 2008).

Transaction Cost Economics/ Internalization Theory	FDI establishment and ownership mode choices of MNEs are aimed to minimize transaction costs of organizing an activity under a particular governance agreement in the host country market. Therefore, MNEs' choice between JVs, acquisitions and greenfield subsidiaries is impacted by firm specific factors, country specific factors and market specific factors (Coase 1937; Rugman 1981; Williamson 1975, 1985; Hennart 1982, 1991; Hennart & Park 1993; Kogut & Singh 1988; Zhao et al. 2004).
Resource Based View and Organizational learning perspective	FDI establishment and ownership decisions of MNEs are determined by their quest to use the underutilized productive resources at a certain location. These resources generally include raw materials as well as knowledge resources; thereby firm learning is also a key factor choice between JVs, acquisitions and greenfield subsidiaries (Penrose 1959; Johanson & Vahlne 1977; Kogut & Zander 1993; Barney 1996 & 2005; Forsgren 2002; Makino & Inkpen 2002; White & Lui 2005).

2.3 Institutions and Institution-based View of IB Strategy

The theoretical perspectives addressing FDI establishment and ownership mode choices of MNEs discussed so far are driven by the notion that the strategies and decisions of MNEs (including FDI establishment and ownership mode choices) are driven by active and rational behavior, where they choose the option that best suits their needs and lowers the risk in those markets. Therefore, FDI choices of MNEs according to these theoretical perspectives are based on the criteria of utilizing firm's competitive strengths (unique advantages) in the foreign markets, minimizing transaction costs, location attraction and relevant ownership benefits offered in those markets, internalizing key activities, seeking the useful resources, lowering risks and uncertainties, protection of firm's key assets, and seeking new knowledge and competencies in foreign markets.

Despite the fact that FDI choices of MNEs are influenced by all these competitive advantages, economic, locational, resource seeking and learning motivations and rationales, it is important to realize that external environment always influences the economic decisions and choices of firms (e.g. Gulati 1998; Henisz 2000; Peng 2003; Deeg & Jackson 2008). It has also been mentioned in previous studies that organizations when understood as open systems (Scott 2003: 28) are in contact with their environment and as a result are subject to the influences of

institutions of that environment which impact their strategies also (DiMaggio & Powell 1991: 64; Scott 2008: 160). These influences are sometimes beyond firm's control to change or influence especially when they originate at country level e.g. regulations and business norms in a certain country. Given that MNEs invest in different geographical markets that vary in terms of their legal environments, market structures, and local culture; their FDI choices (including establishment and ownership mode choices) are also influenced by these requirements of these external factors that are referred as institutions in economic as well as sociological literature (North 1990; Scott 1995).

Institutions are highly relevant for firms involved in cross border businesses, because legal, political, and administrative systems are internationally immobile factors in most cases and their costs determine attraction of an international location (North 1990; Peng 2003). Therefore, the institutions affect the capacity of a firm to interact and therefore impact the relative transaction and coordination costs of production and ownership decisions in a particular location (e.g. Henisz & Delios 2001, 2002; Dunning & Lundan 2008). Institutions are defined as "humanly devised constraints that structure human interaction. They are made up of formal constraints (rules, laws, constitutions), informal constraints (norms of behavior, conventions, and self-imposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies. (North 1990:3, 4; 1993). Hoffman (1999:351) explains institutions with respect to organizations by defining them as "rules, norms, and beliefs that describe reality for the organization, explaining what is and what is not, what can be acted upon and what cannot".

Scott (2008:33) further elaborates on these definitions by referring to the institutions as "cultural-cognitive, normative and regulative structures and activities that provide stability and meaning to the social behavior. The approaches to studying institutions have been influenced by the different fields of social sciences, mainly *sociology* (Meyer & Rowan 1977; DiMaggio & Powell 1983) and *economics* (e.g. North 1981, 1990, 2005). The levels of analyses and the research objectives influence the conceptualization of institutions in different studies (e.g. Aoki 2001; Peng & Khoury 2009). Therefore different institutional perspectives have been used in management and organization studies (Scott 2001, 2008) and consequently in the IB literature. These institutional perspectives are broadly divided into new institutional economics (with its basis in economics and particularly economic history) and institutional theory (with its basis primarily in sociology and organization studies).

North's (1990:3) definition of institutions as being the 'rules of the game' has influenced the character of IB strategy research over the recent decade (see e.g. Peng & Heath 1996; Peng 2003; Wright, Hoskisson, Filatochev & Peng 2005). This important concept has expanded the scope of IB strategy research to account for aspects related to dimensions of national context, professional culture, government impacts, and social impacts on foreign and local firms. Moreover, this view of country level institutions underscored their significance in determining how economic and social exchanges unfold as functions of formal and informal institutional frameworks (Peng & Khoury 2009).

The term 'institution-based view of international business strategy', was introduced by Peng (2002) in response to the confusion in the literature and to avoid interdisciplinary turf battle between sociological and economic perspective of institutions. Peng (2003: 276) referred that although the economic (e.g. North 1990) and sociological (e.g., Scott 1995) versions of institutional theory have some differences; they are broadly complementary (Scott 1995). Following Peng and Heath (1996: 499), who suggested that 'a combination of the two is natural' for management and IB research, Peng (2003: 276) stressed on to use the best available insights from the institutional literature for IB research, regardless of the disciplinary background, whether economic or sociological. Therefore, institutions according to institution-based view of IB strategy govern transactions in a society and may include the elements of politics (e.g., corruption, transparency), law (e.g. regulatory regime), and society (e.g. ethical norms) (Peng et al. 2008).

Institution-based view of IB strategy uses North's (1990) categorization of institutions into formal and informal dimensions. As importance of country level institutions is paramount in IB research (Peng 2003; Deeg & Jackson 2008), North's metaphor of formal and informal institutions has been applied in many IB studies during last two decades. It should also be noted that Scott's (1995) institutional framework has also been widely used by researchers who applied institutional theory in management and IB studies. However, Scott (1995, 2008) also mentions that his work on institutional pillars (regulative, normative and cognitive/ cultural-cognitive) has been influenced by North's (1990) ideas on institutions and integrates some aspects of his work also. This integration of ideas is also visible by the fact that that regulative institutional pillar in Scott's (1995) categorizations of institutions encompasses similar elements as Formal institutions in North's (1990) classification of institutions. It should be further noted that the boundaries between normative and cognitive institutions are not always clear (Scott 2008). In the later version of his work, Scott (2001, 2008) renamed cognitive pillar as cultural-cognitive, showing that these boundaries are not strict. It can be said that informal institutions in North's (1990) classification include

both normative and cognitive pillars of Scott's (1995) framework because North (1990) refers to societal norms and beliefs explicitly. Recently, North (2005) also referred specifically to the importance of cognitive aspect of informal institutions of a society. Therefore, North's (1990) metaphor of informal institutions is encompassing in nature as it can include normative, cognitive and cultural elements without engaging in debate over their boundaries as they are inter related concepts and constructs. Therefore, this classification better suits the requirements of IB studies better than Scott's (1995) institutional pillars.

The main aim of this dissertation is to address the impacts of institutional distance and strength of market conforming values on FDI choices of MNEs. North's (1990) work on new institutional economics (NIE) specifically addresses impacts of country level institutions for economic activity and institutions are viewed as endogenous in nature. This approach to address the roles of institutions is relevant to the objectives of the study where the focus of analysis is on the impacts of differences in country level institutions of FDI choices of MNEs. Therefore, this dissertation addresses institutions as being comprised of formal and informal dimensions following North's (1990) classification. Consequently, institution-based view of IB strategy (e.g. Peng 2002, 2003; Peng & Khoury 2009) is used in this study and the relevant arguments from both economic and sociological perspectives of institutions (i.e. NIE and institutional theory) are incorporated to address the impacts of institutional distance and market conforming values in the host country on FDI establishment and ownership mode choices of MNEs.

As institution-based view of IB strategy incorporates the arguments from both new institutional economics and institutional theory, it is important to understand the basis and review the application of these theories in IB studies. Therefore, the following sections review both theories by briefly explaining their history and development. Moreover, the applications of both NIE and institutional theory in IB studies are discussed so that reader can have a view that how they have applied in a rather overlapping manner in many IB studies. Finally, the forthcoming discussion also reinforces the need for use of institution-based view of IB strategy, as both theories are capable of providing useful insights to not only IB studies, but also general management and organization studies.

2.3.1 New Institutional Economics and IB Studies

In IB studies, new institutional economics (NIE) which is strongly rooted in economic thinking and particularly economic history research has been used to study the impacts of country level institutions on firm's strategies (Peng 2002, 2003;

Deeg & Jackson 2008). Institutionalism in economics dates back almost over hundred years with the works of Thorstein Veblen and John Commons (Rutherford 1994). The scholarship of institutional economists (also referred to as institutionalists) challenged the orthodox economics view that economic behavior of individuals and organizations also conformed to natural laws (Veblen 1899, 1919). Institutional economists stressed that social institutions evolve and give shape to new economic arrangements (Hamilton 1919; Veblen 1919). The fundamental principle (old) institutional economics is that as all institutional features of society are interdependent (including individual preferences), and the analysis of economic problems cannot occur without taking into account the dynamics of the entire social system (Veblen 1899; Myrdal 1978; Rutherford 1994). Therefore, institutional economist think in terms of cause and effect, rather than disturbance and balance/equilibrium as their classical counterparts stressed upon (Miller 1978; Rutherford 1994).

Both old and new institutional economists acknowledge that institutions matter (Miller 1978). The crucial difference however is that new institutional economists view institutions as adaptable constraints, rather than as conditioning individual choice (North 1981). This approach permits a detailed analysis of both institutions and their effectiveness for individuals as well as organizations in a particular society (Miller 1978; Mayhew 1989). The most famous definition of institutions often used in NIE studies comes from economic historian Douglas North (1990:3), who states that “institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction”.

NIE has emerged from the influence of several major contributions: two pioneering papers from Ronald Coase, “The Nature of the Firm” (1937) and “The Problem of Social Costs” (1960/1988a), three defining books --- North and Davis on *Institutional Change and American Economic Growth* (1970) and North and Thomas on *The Rise of the Western World* (1973), North’s seminal book, *Institutions, Institutional Change, and Economic Performance* (1990), and the landmark book *Markets and Hierarchies* (1975) by Williamson. However, despite using similar names, Williamson and North have developed NIE along different tracks. Williamson focused especially on the vulnerability of contracts and property rights to opportunistic predation, on the distinction between de jure and de facto property rights, and on the predominant role of private ordering versus legal systems in enforcing property rights in different societies (Williamson 1975, 2000). The work of Williamson has also been mostly referred to as Transaction Cost Economics and has been reviewed in relation to its application in IB studies in the previous section (see section 2.2.3 of the dissertation).

North's focus has been on how property rights and their enforcement (via institutions) affect the ways in which societies develop and differ. North's approach is state-centered in that it focuses analytic attention on the role of the state in devising the underlying structure of property rights in society (North 1981; North, Wallis & Weingast 2009). In his view, the central task in explaining economic growth is to specify the events and conditions that provide incentives for political actors to establish formal institutional arrangements supporting efficient property rights (North & Davis 1970; North 1990). In the rise of the western economies and societies, this entailed the dilution of state control over resources and the emergence of some form of political pluralism (North & Thomas 1973, North 2005). Moreover, the tradeoff between the high cost of private protection of property using private police, private armies and the like, versus the risk of state protection of property, which might reduce private costs but invite state encroachment on rights (see e.g. North 1981; Greif 2005; North et al. 2009). Therefore, the state emerges as a major driver of institutional environment in this perspective as country level rules and regulations set the bases for organizations and businesses to operate.

Another important aspect of North's work is his emphasis on informal aspects of institutions of society and their role in economy of a country. Institutions in North's view (1991: 97) consist of formal rules like constitutions, laws and property rights and also informal elements such as "sanctions, taboos, customs, traditions and codes of conduct." On the other hand, the work by Williamson and colleagues is reflected in more focus on (compliance with) formal rules and regulations (Williamson 2000). Addressing the key issue of wealth and poverty in the nations, North (1990:110) says: "Third World countries are poor because the institutional constraints define a set of payoffs to political/economic activities that do not encourage productive activity". Ellickson (1991) explains that social norms, as 'customary law', which can have same standing as administrative or judicial dispute resolution among people with close social ties. Therefore, market interactions are impacted greatly by social relations and cultural context (Boulding 1972; Granovetter 2005). North (1981, 1990, 1994, and 2005) increasingly refers to the importance of informal institutions by arguing that radical reforms are also constrained by the societies' inherited belief systems, which fail to confront and solve new problems of societal complexity. The sticky nature of beliefs and institutions helps explain why underdevelopment has been so persistent in most of the world and why efforts to reform by importing rules, laws, and constitutions from elsewhere have been so unsuccessful. North (1993: 20) further refers "Formal rules are an important part of the institutional framework but only a part. To work effectively they must be complemented by informal constraints (conventions, norms of behavior) that supplement them". North (1990: 61) also

stresses that “Because of the costliness of measurement, most contracts will be incomplete; hence informal constraints will play a major role in the actual agreement”.

Therefore, the importance of informal institutions is also paramount in North’s work on NIE, which makes it more interesting to apply in the context of IB studies, as informal institutional environment of the host country offers complex challenges to foreign MNEs aspiring to enter new international markets. This fact is also visible in recent work on socio-economics, economic history and increasing stress on informal institutions by the institutional researchers in different fields of social sciences (Brette 2006; Hodgson 2003, 2007). In IB research, NIE approach has been used to address what are country level institutions, and on how and why they affect organizations especially foreign firms entering those markets. Deeg and Jackson (2008: 542) explain this approach to country level institutions as being the one, in which institutions are conceived as factors which can quite independently constrain IB activity. Therefore in IB research, NIE is often used in studies that address the effects of differences in the effectiveness of country-level institutions for MNEs’ strategies.

This theoretical approach has been used in the IB studies to analyze the influences of institutions on entry mode choice and FDI decisions of MNEs (e.g. Globerman & Shapiro 2003; Meyer & Peng 2003; Delios & Henisz 2003; Trevino & Mixon 2004; Trevino & Ross 2005; Chung & Beamish 2005; Dikova & Van Witteloostuijn 2007; Estrin et al. 2009). These studies found out that of presence of stable and less restrictive host country institutions attract MNEs to invest in those economies. Moreover, some of the studies also referred that different aspects of entry mode choices of MNEs (like establishment and ownership mode choices) are influenced differently by formal and informal aspects of host country institutions (e.g. Peng 2003). Further on, some of these studies also found that fewer differences from home country institutions (i.e. low institutional distance) can also motivate MNEs to commit more resource to the host countries (e.g. Estrin et al. 2009).

Finally, some studies applying NIE in the context of IB studies have also addressed the impacts of formal and informal institutions on firms’ strategies in relation to the institutional development in different transition and emerging economies (e.g. Khanna & Palepu 2000; Meyer 2001; Peng 2003; Mathews 2006; Dikova & Van Witteloostuijn, 2007; Peng et al. 2008). These studies revealed that firms may form JVs in early stages of transition in those economies as they would like to share risks and costs with a reliable local partner (e.g. Peng 2003). Acquisitions also emerged as preferred choice when institutional environment is

developed in the host economies in findings of some of these studies (e.g. Dikova & van Witteloostuijn 2007). Moreover, it has also been revealed in these studies that the transition process to the market economy for formal institutions can be completed relatively faster compared to informal ones as they are rooted and embedded norms in the society (Meyer 2004; Zweynert & Goldschmidt 2006). Therefore, it can be argued that the wide range of applications of North's work on institutions reflects its usefulness to understand the role of country level institutions on different aspects of IB strategies of MNEs.

2.3.2 *Institutional Theory and IB Studies*

Institutional theory has developed a large following for organizational analysis in sociological as well as management studies research (DiMaggio & Powell 1991; Scott 1995; Bowring 2000). It has developed into a school of thought that analyzes organizations and institutional environment and how organization responds to institutional environment (Bowring 2000; Palmer & Biggart 2002; Greenwood, Oliver, Sahlin & Suddaby 2008). Institutional theory in organizations studies also has its roots in classical or old institutional theory (e.g. Selznick 1949, 1957; Clark 1972), where the researchers addressed bureaucracy at organizational level primarily in public sector firms. Since the 1970s, the studies have also started to address the broader institutional environment at industry level (e.g. Meyer & Rowan 1977). These views were complemented with a neo institutional perspective, which bridges elements of both old and new institutional theory. As Greenwood and Hinings (1996: 1023) point out: "It is the convergence around multiple themes, the coming together of the old and the new institutionalism that we label neo institutionalism". This neo- Institutional theory (now mostly referred as institutional theory in the literature now) focuses on the pressures exerted by the internal and external institutions on the firm's strategies. Internal institutions refer to the institutionalized practices and norms inside the organizations (Oliver 1997; Weick 2001). While, external institutions may consist of regulatory structures, agencies, laws, courts, professions, interest groups, and public opinion (Oliver 1991).

Over the past three decades, institutional theory has become the dominant approach for explaining how organizations use rationalized formal structures and corresponding policies to adapt to institutionalized prescriptions emanating from their environments (Palmer & Biggart 2002; Greenwood et al. 2008). Institutional theory in organization studies is based on three core articles: John Meyer and Brian Rowan's "Institutional organizations: formal structure as myth and ceremony" (1977), Paul DiMaggio and Walter Powell's "The iron cage revisited: in-

stitutional isomorphism and collective rationality in organizational fields” (1983) and Lynn G. Zucker’s “The role of institutionalization in cultural perspective” (1977). The central question of the institutional theory for the organizations is straightforward: “What makes organizations so similar?” (DiMaggio & Powell 1983:147). An important characteristic of the institutional theory researchers is that in addressing this question, they primarily point at social rather than the technical factors. In a sharp contrast to neo-classical economic theories and their later versions that dominate the field of organization studies (and consequently IB studies) such as the transaction cost theory and RBV; institutional researchers do not see organizations as atomistic value-maximizing actors (Greenwood et al. 2008). They rather treat organizations as social acceptance-seeking actors, which are embedded in the institutional fields (Johnson, Dowd & Ridgeway 2006; Wooten & Hoffman 2008).

Hoffman (2001) referred to the importance of organizations’ functional structure and culture in explaining different responses to environmental pressures. Along with many other topics, institutional theory researchers have also addressed issues related to the firms facing new institutional environment and the industry level institutional environment. Aldrich and Fiol (1994), for instance, examined strategies that founders can pursue in seeking socio-political legitimacy and reshaping institutional environments. Haveman (1993) in his study tested the fact that organizations will follow similar and successful organizations into new market in order to counter the “liability of newness”. Bech and Walgenbach (2005) turned attention to more traditional variables like organizational size (which increases likelihood of adoption) and technology. These and similar other studies pointed out that organizations are unlikely to respond uniformly to institutional processes and pressures, although “choice set” (Greenwood & Hinings 2006) is institutionally defined. These kinds of studies paved the way for application of institutional theory to the MNE strategy research for the scholars, as they presented issues and challenges that are very much relevant for IB studies also.

Organizations when understood as open systems (Scott 2003: 28) are subject to the influences of institutions of that environment which impact their strategies also (DiMaggio & Powell 1991: 64; Scott 2008: 160). Given that MNEs invest in different geographical markets that vary in terms of their political and economic environments, market structures, and local culture, MNEs encounter uncertainty due to the institutional environments of these countries. Therefore, within the FDI, internationalization and entry mode studies literature of MNEs, even many classical research studies acknowledge that institutional knowledge is an influential factor for the success of internationalizing firm (Johanson & Vahlne 1977;

Davidson 1980; Kogut & Singh 1988). Hence, institutional theory has received considerable following and appreciation in IB studies.

Rosenzweig and Singh (1991) were one of the first ones to address MNE and environment relationship from an institutional theory view addressing tradeoff between conformance to internal and external institutions and its impacts on their strategies. Since last decade, institutional theory is being applied to MNE studies by an increasing number of international business scholars because it provides useful theoretical arguments and basis to examine a wide range of critical issues faced by MNEs (Djelic & Quack 2003; Kostova, Roth & Dacin 2008). Legitimacy can help an MNE to gain general support from the key stakeholders as a result the MNE can perform its activities relatively freely in a particular context to achieve its goals (e.g. Ahlstrom & Bruton 2001; Eden & Miller 2004; Henisz & Zelner 2005). Consequently, in different institutional environments, MNEs may choose to attain legitimacy by setting up their subsidiaries in a particular host country where their types of activities are perceived to be acceptable (Kostova & Zaheer 1999). Moreover, MNEs may engage in forming equity partnerships with local partners or by imitating organizational strategies of similar MNEs in the same host country (Myroslaw & Larissa 2009).

Institutional theory has been used in the IB studies has been used to address different aspects of market entry strategies of MNEs (e.g. Davis et al. 2000; Xu and Shenkar 2002; Yiu & Makino 2002; Lu 2002; Xu et al 2004; Eden & Miller 2004; Gaur & Lu 2007). These studies revealed that MNEs face pressures from external institutions (coercive, normative and mimetic) as well as internal institutions which impact their entry mode choices. Moreover, some of these studies referred that MNEs' also tend to mimic successful peer firm's entry strategies when they face uncertainty in the host countries. Institutional distance (i.e. differences between home and host countries) has also been found to impact entry mode choices of MNEs as well as other aspects of organizational strategy like diversification human resource strategy as well as organizational performance (e.g. Xu 2001; Xu et al. 2004; Gaur & Lu 2007).

Institutional theory has also been applied to study the issues of diffusion and adoption of organizational practices and strategies in global subsidiaries of MNEs and impacts of different institutional factors on them (e.g. Kostova 1999; Kostova and Roth 2002; Guler, Guillen, & Macpherson 2002; Gaur, Delios & Singh 2007). These studies found out that differences in national institutional environments as well as firm's internal institutional environment impact the transfer of knowledge and organizational capabilities across borders. Finally some studies using institutional theory have also addressed the issues of cost of doing busi-

ness abroad by analyzing different aspects of the liability of foreignness faced by firms in host countries as well as strategies to offset this liability of foreignness and gain legitimacy in local environment (e.g. Zaheer & Mosakowski 1997; Kostova & Zaheer 1999; Mezias 2002; Miller & Richards 2002; Eden & Miller 2004). These studies highlighted the fact that MNEs can gain legitimacy by complying with local institutional requirements and this legitimacy is necessary for organizational survival and better performance in those markets.

It is rather clear from the discussion provided in above sections that NIE and institutional theory have been used and applied in a rather overlapping manner in the field of IB studies. As mentioned earlier that for IB studies, insights from both NIE and institutional theory are useful for IB studies, rather than going into debate about the boundaries of both theories. Therefore this study is using institution-based view of IB strategy. However, there are certain basic differences in both theories that need to be understood by the researchers. Both theories approach and address the nature of institutions rather differently as well as the focus of analysis is different. The table 3 provides a summary of key elements both institutional theory and NIE along with their applications in IB field.

Table 3. Summary of Institutional Theory and NIE in IB Studies

Theoretical Approach	Focus of Analysis	Nature of Institutions	Roots	Main Applications in IB Studies
New Institutional Economics	'Rules of Game'.	Country level institutions	Economic	1. Impacts of country level institutions and institutional distance on FDI location, establishment and ownership mode choices of MNEs. 2. Development of formal and informal institutions during transition to market economy and its impacts on different aspects of market entry and other aspects of MNEs' strategies.
Institutional Theory	Organizational Forms and Structures.	Organization's internal as well as external institutions	Sociological	1. Internal and External Isomorphism (Coercive, Mimetic, Normative) and institutional distance in foreign market entry choice (greenfield, ownership and non-equity) and legitimacy in foreign markets for MNEs. 2. Transfer of knowledge and organizational practices (both internal and external institutions). Institutionalization of organizational practices and structures. 3. Mimicking of organizational strategies in response to uncertainty.

The table 3 shows that both theories have been used to address issues like FDI and market entry mode strategies, impacts of institutional distance and other aspects of MNE strategies. The main aim of this dissertation is to study the impacts of institutional distance and strength of market conforming values in host country on FDI establishment and ownership mode choices of MNEs. Therefore, this dissertation concentrates on the role of country level (external) institutions on these FDI choices of MNEs. Institutional theory also recognizes the impacts of external institutions, which can be considered similar to the emphasis on country level institutions by NIE. It should be noted that there are many research areas in IB studies including FDI establishment and ownership mode choices, where the insights from both theoretical perspectives can be useful. This objective has been achieved by the introduction of institution-based view of IB strategy by Peng and his colleagues (2002, 2003, 2005, 2009) that attempts to incorporate insights relevant to IB studies from both theories. Therefore, the current study also uses institution-based view of IB strategy as its main theoretical bases. In forthcoming discussions in the next chapter, this study aims to utilize the arguments from past studies using NIE that addressed the impacts of country level institutions on FDI and market entry mode choices of MNEs. Moreover, the insights from past IB studies using institutional theory and addressing impacts of external institutions on market entry strategies of MNEs will also be utilized in theoretical discussions preceding the study hypotheses development.

3 INSTITUTIONAL DISTANCE AND FDI ESTABLISHMENT AND OWNERSHIP MODE CHOICES OF MNES

This chapter addresses institutional distance in detail, which is the key concept of this study. The chapter starts with providing background discussion and history of institutional distance, by reviewing the similar concepts of psychic distance and cultural distance that have been used in IB studies. The discussion is continued in the next section about conceptualization and operationalization of institutional distance in different past studies, as there has been a lot of variance in past studies in this concern. This review builds the basis for discussion on the conceptualization of institutional distance in the current study. In the last section, theoretical discussion is provided leading to the study hypotheses addressing FDI establishment and ownership mode choices of MNEs and the impact of institutional distance and market conforming values in the host country on them. The chapter concludes with the presentation of the research model, thereby achieving one key sub-objective of the study.

3.1 History and Background of Institutional Distance

Institutional distance as a measure of differences in the institutional environments of home and host countries of firms (MNEs) is receiving a lot of attention from IB researchers since last decade. The literature review reveals that many IB studies have used and applied institutional distance to address its impacts on different aspects of IB strategies of firms entering new international markets (e.g. Kostova 1997; Kostova & Zaheer 1999; Busenitz, Gomez, & Spencer 2000; Kostova & Roth 2002; Brouthers 2002; Xu & Shenkar 2002; Xu et al. 2004; Gaur & Lu 2007; Pattnaik & Choe 2007; Estrin et al. 2009; Chao & Kumar 2010; Arslan & Larimo 2010). Institutional distance has its roots in Hofstede's (1980, 2001) seminal work on national cultural characteristics, Kogut and Singh's (1988) cultural distance index and Johanson and Vahlne's (1977) closely related concept of psychic distance which is subjectively perceived distance given to any foreign country. Researchers promoting the concept of institutional distance argue that while the insights from psychic and cultural distance have been helpful for the research community, they are limited in their application due to an overly narrow focus on national cultures (Eden & Miller 2004). Kostova (1997, 1999) and Kostova and Zaheer (1999) in their studies argue that it is not only cultural differences that are salient to international business, but also the 'institutional distance' between countries. Eden and Miller (2004) also support this notion by referring to

the comprehensiveness of the concept of institutional distance compared to cultural distance.

Psychic distance is the oldest of these three concepts (institutional distance, cultural distance and psychic distance) and it dates back to 1950s. Beckerman (1956) addressed the concept of psychic distance in relation to international trade and found out that it significantly influenced the level of international trade between countries. However, in 1970s, psychic distance gained prominence in IB literature due to research at Uppsala University, Sweden addressing internationalization of firms. Psychic distance was defined as “the sum of factors preventing the flow of information from and to the market,” and examples include differences in language, education, business practices, industrial development, and culture (Johansson & Vahlne 1977: 24).

Hofstede (1980) presented the results of his famous extensive study of national cultures. Based on data from 117,000 IBM employees from 40 different countries, he extracted four dimensions of culture which included individualism-collectivism, masculinity-femininity, power distance, and uncertainty avoidance. However, in later versions of his research (primarily due to collaboration with group of Asian scholars), a fifth dimension, long-term orientation was also added to the framework (Magnusson et al. 2008). The theoretical underpinnings for Hofstede’s framework (1980, 2001) can be traced back in writings Mulder (1976) for power distance, writings of Cyert and March (1963) and Pugh (1976) for uncertainty avoidance. Writings on Individualism-Collectivism can be traced to, Tonnies (1963) and masculinity-femininity is primarily based on writings by Mead (1962) and Barry, Bacon and Child (1957). Hence, Hofstede’s framework attempted to provide relatively comprehensive basis for analysis in cross cultural and international studies, due to multi-disciplinary roots in sociology, psychology and anthropology. Therefore, last two decades have seen a wide range of use of Hofstede’s cultural dimensions in studies covering almost all fields of social and economic sciences including IB studies.

Kogut and Singh (1988) suggested that managers’ psychic distance to a specific market would be influenced by differences in national culture, which they termed as cultural distance. They posited that a cultural distance index based on national culture is an appropriate proxy for managers’ psychic distance. Sousa and Bradley (2006) in their study also supported this contention by finding that differences in national culture strongly influence managers’ individual perception of psychic distance. Cultural distance has been used to study export relationships (e.g. Leonidou, Katsikeas, & Samiee 2002), product acceptance in the foreign markets by consumers (e.g. Craig, Greene & Douglas 2005), division of marketing activities

between firm headquarters and local partner (e.g. Hewett, Roth & Roth 2003), cultural similarity and its impacts on advertising standardization or adaptation (e.g. Karande, Almurshidee, & Al-Olayan 2006), and entry mode choice and international diversification strategies of MNEs (e.g. Tihanyi, Griffith & Russell 2005). Most of the above mentioned studies have relied on Kogut and Singh's (1988) cultural distance index, which is based on Hofstede's cultural dimensions (Tihanyi et al. 2005). However, Barkema & Vermeulen (1997) introduced a different way of calculating cultural distance by using Euclidean distance rather than Kogut and Singh's arithmetic distance. It should be further noted that the previous studies empirically discovered that both of cultural distance indices produced very similar results (Barkema & Vermeulen 1997; Drogendijk & Slangen 2006). Finally, like psychic distance and cultural distance; institutional distance has also been conceptualized and operationalized in many different ways in IB studies, as discussed in-depth in the next section.

3.2 Conceptualization of Institutional Distance

The conceptualization of institutional distance depends upon how institutions are conceived and conceptualized in a study. A review of past studies reveals that institutions can be conceptualized to include elements of the political system in a country, rule of law, transparency, regulatory environment, level of high education in the society, language, wealth, size of the economy, management attitudes in the society, risk, cosmopolitanism in the society, world bank's governance indicators and openness of a society to new economic realities (e.g. Kaufmann, Kraay, & Zoido-Labaton 2003; Xu et al. 2004; Dow & Karunaratna 2006; Gaur & Lu 2007; Gaur et al. 2007; Dikova & van Witteloostuijn 2007; Estrin et al. 2009). Institutional distance has been mostly conceptualized and operationalized using Scott's (1995) institutional pillars in previous IB studies. It has been suggested in past studies that institutional distance can be different for each institutional pillar: regulatory, normative and cognitive termed as cultural-cognitive in some studies (e.g. Xu & Shenkar 2002; Yiu & Makino 2002; Xu et al. 2004; Gaur & Lu 2007). Some studies have also used North's (1990) classification of formal and informal institutions to analyze the impacts of institutions and institutional distance on different aspects of IB strategies of the MNEs (e.g. Peng 2003; Dikova & van Witteloostuijn 2007; Estrin et al. 2009). It is clear from the brief discussion offered above that institutional distance has been conceptualized and operationalized differently in the past studies that used this construct to study different IB issues. However, predominantly Scott's (1995, 2001) classification of institutions in regulative, normative and cognitive (cultural-cognitive) categories has been used in conceptualization of institutional distance. Further on, a vari-

ance can be observed in conceptualization and operationalization of institutional distance even in these studies that applied same institutional framework based on Scott (1995, 2001, 2008) institutional pillars and North's (1990) classification of institutions. Table 4 presents a summary of major studies in last fifteen years that used institutional distance as key construct to study different aspects of IB strategies of MNEs. This table summarizes the study type (empirical or theoretical), conceptualization of institutional distance (based on the institutional classification/dimensions), and major finding of these studies.

Table 4. Use of Institutional Distance in IB Studies (1996-2010)

Study	Type of Paper: Theoretical/ Empirical	Conceptualization of Institutional Environment/ Distance	Operationalization of institutional environment/ distance	Major finding/ contribution
Kostova (1996)	Empirical study based on a sample of 3,845 managers and employees from 104 foreign subsidiaries of US based MNEs in 10 countries	Regulative, normative and cognitive aspects of country's institutional environment. Use of Scott (1995) institutional pillars in conceptualizing institutional environment.	Use of survey instrument of 18 items. Regulative institutional distance: 6 items from the survey. Normative Institutional Distance: 6 items from the survey. Cognitive institutional distance: 6 items from the survey.	Institutional distance is negatively related to implementation of organizational practices by foreign subsidiaries of the MNE.
Kostova & Zaheer (1999)	Theoretical	Differences of similarities between the regulatory, cognitive and normative institutional profiles of home and host country. Use of Scott (1995) institutional pillars in conceptualizing institutional environment.		High institutional distance may pose a challenge for MNEs to successfully transfer the organizational practice from home to the host country and establish legitimacy in host country.
Busenitz, Gomez & Spencer (2000)	Empirical study validating institutional profile of entrepreneurship across 6 countries including USA, Sweden, Norway, Spain, Italy and Germany, with primary data from 636 completed surveys	Differences in institutional profiles of countries based on regulative, normative and cognitive pillars. Use of Scott (1995) institutional pillars in conceptualizing institutional environment.	Use of survey instrument of 13 items. Regulative institutions: 5 items from the survey. Normative Institutions: 4 items from the survey. Cognitive institutions: 4 items	Country institutional profiles serve as viable alternative for exploring country differences (strengths and weaknesses) in entrepreneurship at a broader level than only concentrating narrowly on the cultures and cultural differences.
Xu (2001)	Empirical study based on a sample of 18206 Japanese Foreign Subsidiaries by 901 parent firms in different international markets (host countries)	The differences between regulative, normative and cognitive (cultural) institutional environments of the countries. Use of Scott (1995) institutional pillars in conceptualizing institutional environment.	Regulative institutional distance: <i>Institutions pillar of world competitiveness report 1995</i> Normative Institutional Distance: <i>Management pillar of world competitiveness report</i> Cognitive institutional distance: <i>Use of cultural distance index as a proxy</i>	Institutional distance impacts MNE's host country location decision, entry mode strategy, level of equity ownership and the presence of expatriates in the foreign subsidiary.

Xu & Shenkar (2002)	Theoretical	The extent of similarity or dissimilarity between the regulatory, cognitive and normative institutions of two countries. Use of Scott (1995) institutional pillars in conceptualizing institutional environment.		Development of propositions showing that regulatory, normative and cognitive pillars of institutional distance impact entry mode choice (establishment and ownership), international strategy and organizational diversity of MNEs differently.
Yiu & Makino (2002)	Empirical study based on a sample of 751 foreign subsidiaries of 10 biggest Japanese firms in home electronics and automobiles industry in the year 1996.	Regulative, normative and cognitive aspects of institutional environment. Use of Scott (1995) institutional pillars and DiMaggio and Powell (1983) work on isomorphism in conceptualizing institutional environment.	Regulative institutions: <i>Selected items from competitiveness report 1995</i> Normative Institutions: <i>2 components i.e. ethnocentrism (selected items from world competitiveness report 1995) and cultural distance index.</i> Cognitive institutions: <i>Mimetic entry and historical norms of market entry from the study sample.</i>	Larger regulative and normative restrictions on foreign firms are positively related to choice of joint ventures, along with the mimicry (follow the leader approach) and transaction cost influences on ownership strategy of firm.
Xu, Pan & Beamish (2004)	Empirical study based on a sample of 2,339 Japanese foreign subsidiaries in 45 countries in the time period 1986-2001	The extent of dissimilarity between the regulative and normative institutions of two countries. Use of Scott (1995) institutional pillars in conceptualizing institutional environment.	Regulative institutional distance: <i>Selected items from executive opinion survey (1997) from world competitiveness report.</i> Normative Institutional Distance: <i>Selected items from executive opinion survey (1997) from world competitiveness report.</i>	Larger regulative and normative distances are negatively associated with the extent of equity ownership and presence of expatriates in foreign subsidiaries of the Japanese MNEs.
Tevino & Mixon (2004)	Empirical study based on the data about inward FDIs in 7 Latin American countries during the time period 1988-1999.	The difference in reforms in legal institutional frameworks of the countries. Use of North (1990) formal institutions in conceptualizing the impacts of institutional environment.	Difference in reforms in legal institutions of the selected countries addressed by host country's <i>control over capital transactions, domestic privatization and political risk</i> (Source: various issues of institutional investor and data gathered by the researchers).	Analysis of FDI decisions of MNEs in Latin America reveals that MNEs prefer countries where market economy institutional reforms have been implemented rather successfully.
Ramsey (2005)	Theoretical	Differences in regulative, normative and cultural-cognitive institutional profiles of the countries. Use of Scott (2001) institutional pillars in conceptualizing institutional environment.		Institutional distance (regulative, normative and cultural-cognitive) is proposed to be negatively related to expatriate adjustment from home country group to host country group.
Gaur & Lu (2007)	Empirical study based on a sample of 20,177 Japanese foreign subsidiaries in 1986- 2001.	Differences in regulative and normative aspects of institutional environments of MNEs' home and host countries. Use of Scott (1995) institutional pillars in conceptualizing institutional environment.	Regulative institutional distance: <i>Selected items from World Competitiveness Yearbooks (1991-2001) and Euromoney country risk ratings.</i> Normative Institutional Distance: <i>Selected items from World Competitiveness Yearbooks (1991-2001)</i>	Subsidiary ownership level of MNEs is contingent on institutional distance and host country experience. High ownership in institutionally distant countries increases the chances of subsidiary survival.

Gaur, Delios & Singh (2007)	Empirical study based on a sample of 12,997 foreign subsidiaries of 2,952 Japanese MNEs in 48 host countries in year 2003.	Differences in regulative, normative and cultural aspects of institutional environments of MNEs' home and host countries. Use of Scott (1995) institutional pillars in conceptualizing institutional environment.	Regulative institutional distance: <i>Selected items from World Competitiveness Yearbooks (2001) and Euromoney country risk ratings.</i> Normative Institutional Distance: <i>Selected items from World Competitiveness Yearbooks (2001)</i> Cognitive Institutional Distance: <i>Use of Kogut and Singh (1988) cultural distance index as a proxy.</i>	MNEs rely on more expatriates in institutionally distant markets in order to transfer organizational practices effectively. Higher number of expatriates in foreign subsidiaries also has a positive influence on the performance.
Pattnaik & Choe (2007)	Empirical study based on a sample of 235 subsidiaries of 89 Korean firms in 30 countries.	The relative institutional difference between home and host country	Combined measure of institutional distance based on selected items from Global competitiveness report 2001-2.	Low quality of host country institutional environment and Institutional distance has negative influence on the subsidiary performance in the host country.
Magnusson et al. (2008)	Research Paper (Review of different cultural and institutional frameworks used in past studies)	Differences in regulative, normative and cognitive institutional environments		The institutional distance constructs are conceptualized broader than cultural distance constructs. Moreover, there is an overlap in conceptualization and operationalization of institutional distance and cultural distance in past studies.
Estrin, Bhagdasaryan & Meyer (2009)	Empirical study based on a sample of 417 manufacturing affiliates in Hungary, Poland, Egypt, Vietnam, India and South Africa by MNEs of multiple home countries.	Differences in formal and informal institutional environments of two countries. Use of North (1990) institutional categories.	Formal Institutional Distance: <i>Based on country score differences in regulatory factor from Heritage Foundation Economic Freedom index</i> Informal Institutional Distance: <i>Cultural distance index based on GLOBE.</i>	Formal and informal institutional distances impact entry mode choices of MNEs differently.
Chao & Kumar (2010)	Empirical study based on data about of Fortune 500 companies in the year 2004.	The difference between regulative and normative dimensions of institutions of home and host countries. Use of Scott (1995) institutional pillars in conceptualizing institutional environment.	Regulative institutional distance: <i>Selected items from executive opinion survey (2005) from global competitiveness report.</i> Normative Institutional Distance: <i>Selected items from executive opinion survey (2005) from global competitiveness report.</i>	Regulative distance is an impeding factor in foreign operations of firms and has more impacts on firm performance while normative distance influences are not significant.
Arslan & Larimo (2010)	Empirical study based on FDIs made by 122 Finnish firms in Central and Eastern European countries during 1990-2007.	The difference between regulative and normative dimensions of institutions of home and host countries. They acknowledge cognitive dimension but do not use it in the study. Use of Scott (1995) institutional pillars in conceptualizing institutional environment.	Regulative institutional distance: <i>Selected items from executive opinion survey (2008) from global competitiveness report.</i> Normative Institutional Distance: <i>Selected items from executive opinion survey (2008) from global competitiveness report.</i>	High normative institutional distance leads to preference of WOSs by the Finnish MNEs in CEE countries, while regulative institutional distance's impacts are found to be non-significant.

The studies by Xu and Shenkar (2002), Yiu and Makino (2002), Xu et al. (2004), Treviono and Mixon 2004, Gaur and Lu (2007), Estrin et al. (2009) and Arslan and Larimo (2010) more specifically addressed institutional distance and issues like FDI ownership in foreign subsidiaries and entry mode choices of MNEs, which are closer to the topic of the current study. However, while reviewing the past empirical literature, it can be observed that there has been variation in the conceptualization and empirical operationalization of the institutional distance. Some studies only addressed the differences in one aspect of institutional environment i.e. legal and regulative institutions. For example, Trevino and Mixon (2004) in their study only concentrate on differences in legal reforms across countries to study strategic FDI decisions. The studies by Brouthers (2002), Xu et al. (2004), Gaur and Lu (2007), Gaur et al. (2007), Choe and Kumar (2010) and Arslan and Larimo (2010) use two aspects of institutional environment (i.e. regulative and normative) in their studies. Some past studies have also used all three components of Scott's (1995) institutional framework (i.e. regulative, normative and cognitive) to explain different issues related to MNE strategies and decisions (e.g. Kostova 1996; Busenitz et al. 2000; Xu 2001; Yiu & Makino 2002; Ramsey 2005). However, operationalization of the institutional variables in these studies has also varied all these studies as shown in table 4.

Institutional distance in the current study is conceptualized as being comprised of formal and informal institutional distance following North's (1990) classification of institutions. Peng et al. (2008) and Peng and Khoury (2009) label this classification as institution-based view of international business strategy. It has been argued that for international business research, the arguments from both economic and sociological perspectives of institutions are important (Peng, 2003; Peng et al., 2005; Peng et al., 2008; Peng & Khoury, 2009). Scott (1995, 2008) has also referred to the integration of North's (1990) ideas in his work on institutional pillars. According to Xu and Shenkar (2002), regulative pillar of instructional distance reflects the existing laws and rules in a particular environment which promote certain types of behaviors and restrict others. Formal institutions in North's (1990) classification encompass similar elements as regulative institutions in Scott (1995) classification. Formal institutions are conceptualized and later operationalized in this study as being comprised of selected item from economic freedom of the world annual reports that address legal and regulative environment of the countries comprehensively (see empirical part for the details).

It should be further noted that the boundaries between normative and cognitive institutions are not always clear (Scott 2008). The cognitive pillar of institutional distance refers to differences in thinking patterns in societies i.e. it refers to inferential sets of ways that individuals in a society use to notice and interpret the

stimuli from the environment (Xu et al. 2004; Xu & Shenkar 2002). Therefore, cognitive pillar refers to cognitive structures of social environment, such as commonly held beliefs, widely shared knowledge and taken for granted mental schemas (e.g. Berger & Luckmann 1967; Meyer & Rowan 1977). These cognitive structures are also visible in firm's strategies operating/ originating from that institutional environment (Haveman 1993). However, as Scott (2008) himself acknowledged that the boundaries between normative and cognitive pillars of institutions are not fixed and inter pillar communication overlap exist. Therefore, cognitive pillar, later referred as cultural-cognitive pillar by Scott (2001, 2008), shares many attributes of normative pillar.

This is also evident from the different operationalizations of these institutional pillars in different past studies. For example, cultural distance index has been used in some studies to address normative dimension of institutions (e.g. Delios & Henisz 2000; Yiu & Makino 2002). Moreover, in some other studies world competitiveness yearbooks (IMD) or global competitiveness reports (World Economic Forum) have been used to address normative dimensions of institutions (e.g. Xu et al. 2004; Gaur & Lu 2007; Chao & Kumar 2010). Moreover cognitive institutions have been operationalized in some past studies as quality (Kostova & Roth 2002) and entrepreneurship (Busenitz et al. 2000). Some studies have also used the elements from global competitiveness reports (World Economic Forum) to address cognitive dimension of institutions (e.g. Wan & Hoskisson 2003). Additionally, it should also be noted that the mental frames and cognitive patterns of society are also greatly influenced by the culture, values and prevalent pattern norms (e.g. Oliver 1997; DiMaggio 1997). Moreover, Scott (2001, 2008) renamed cognitive pillar as cultural-cognitive; this also shows the overlap between the boundaries of normative and cognitive institutional pillars.

Informal institutions in North's (1990) classification of institutions address the social dimension of institutional environment and encompass both normative and cognitive dimensions of Scott's (1995) framework. Therefore, this classification of institutions is inclusive in nature, avoids confusion in overlap of boundaries of different pillars and suits the requirements of the current study. So far the study by Estrin et al. (2009) is the one of the first that has used this classification to study the impacts of institutional distance on the different aspects of entry mode strategies of MNEs. It is important to note that they used cultural distance index based on GLOBE studies for the operationalization of informal institutional distance. However, the current study also attempts to operationalize informal institutional distance based on yearly data of three items from world competitiveness yearbooks in the year of investment/ data from the nearest available year. These three items address informal business practices, as well as societal norms relevant

for MNEs (see the empirical part for details). The discussion offered so far makes it clear that the boundaries between cultural-cognitive and normative pillars in Scott (1995, 2008) institutional pillars are not fixed as both share many attributes. Moreover, the literature review also reveals that normative and cognitive distance have also been conceptualized and operationalized in similar and overlapping ways in previous.

Figure 7 depicts the relationships between different elements of institutional distance from both North (1990) institutional framework and Scott's (1995, 2008) institutional pillars. The figure clearly shows that using North's (1990) classification is useful as informal institutions encompass overlapping normative and cognitive aspects of institutional environment.

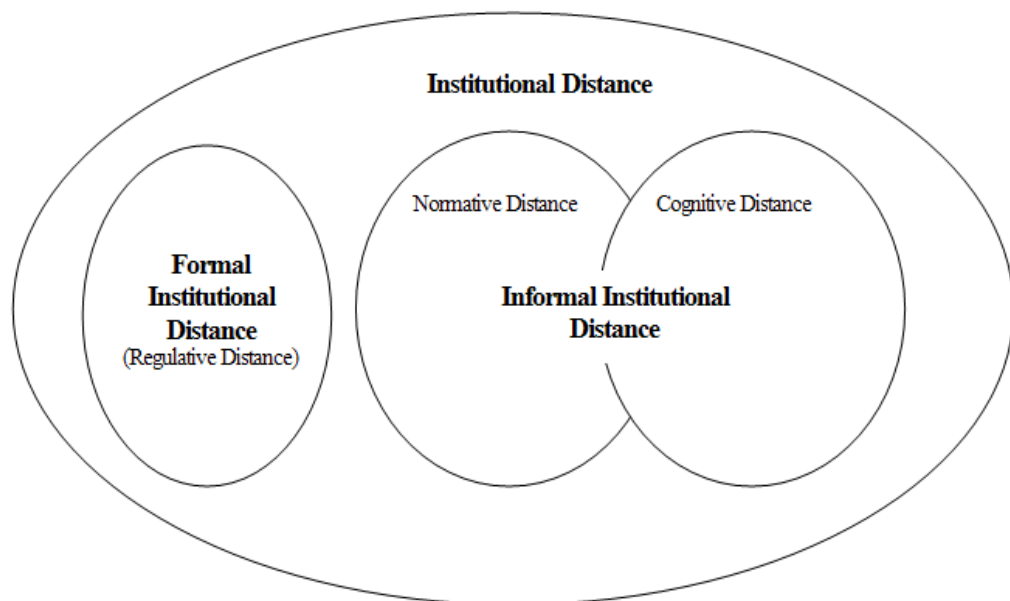


Figure 7. Dimensions of Institutional Distance

3.3 Hypotheses development and the Research Model

3.3.1 *Formal Institutional Distance and FDI choices of MNEs*

Formal institutional distance refers to the differences between the legal institutions, laws and regulations of the host country and home country of foreign investing firm (North 1990; Trevino & Mixon 2004; Gaur & Lu 2007). According

to Gray (1991), formal institutions tend to address three main functions: (1) setting rules and standards via laws and regulations, (2) law enforcement (3) dispute resolution. All of these three aspects of formal institutional environment are important for both local and foreign business firms operating in a certain country. Therefore, the existing laws and rules in a particular host country tend to promote certain types of business behaviors and strategies, while restricting others. In many cases, the laws and legal regulations of countries are rather clearly stated (Scott 2008) and MNEs tend to understand them rather quickly (Xu & Shenkar 2002; Eden & Miller 2004).

The formal and regulatory institutions in a country tend to operate on a standardized base with availability of similar centralized options such as Federal Court in USA or commercial (mercantile) courts in UK (e.g. Lenartowicz & Roth 2001; Milhaupt & Pistor 2008). Therefore, this standardization of regulations and legal institutions also helps MNEs to understand and address their requirements relatively easily compared to the informal institutions which are more embedded in nature and difficult to understand for a foreign firm.

It is important to note that systematic variations exist in the effectiveness of regulative and legal systems across countries. Researchers refer to the fact that these institutional variations in regulative systems and their effectiveness often result from different legal origins (e.g. Coase 1988; Beck, Demirguc -Kunt & Levine 2003) and different paces of development of legal frameworks for economic transactions in the countries (Kolodko 2000; Pistor, Raiser & Gelfer 2000). When MNEs enter unfamiliar or different legal context, they have to adapt their business practices such as their contracts with employees, agents and distributors (e.g. Chang & Rosenzweig 2001). However, the formal institutions can prove to be dual in nature for MNEs. On the one hand, rules and regulations of any country establish a stable structure consisting of rules to reduce uncertainty and transaction hazards for MNE (Meyer 2001). On the other hand, the formal institutions tend to coerce MNEs when the legislator puts a penalty on organizational deviance from the regulative requirements of the countries (Mezias 1990; Yiu & Makino 2002).

Past management and IB literature mentions that if an MNE is expanding to a distant market with high differences in formal institutions through acquisitions, it often needs to face governmental intervention in the organizational policies and strategies due to differences in antitrust regulations (e.g. Haspeslagh & Jemison 1991; Child, Falkner, & Pitkethly 2001; Schenepel & Guillen 2004). It has been empirically found in previous IB studies that MNEs preferred to establish greenfield subsidiaries, rather than acquisitions when country differences are higher

(e.g. Kogut & Singh 1988; Cho & Padmanabhan 1995). These high country differences have been found to increase management problems in acquisitions (Barkema & Vermeulen 1998). Moreover, the transfer of organizational practices to an acquired business unit operating under local legal rules in an institutionally distant market can also be problematic for the MNEs (Kostova & Roth 2002). Local regulations e.g. labor market laws may inhibit transfer of organizational practices and required restructuring of acquired firm especially if it involves staff redundancies and job losses (Estrin et al. 2009). Greenfield subsidiary establishment in an institutionally distance market can offer MNE the advantage to create an organization after its own image (Kogut & Singh 1988), as well as recruit and train suitable human resources to establish processes that fit MNEs' strategy as well as local regulations (Estrin et al. 2009). Therefore, it can be argued that greenfield investments are preferred by the MNEs in establishment mode choice when they enter host countries with high formal institutional distance.

It should be further noted that the most regulated aspect of FDI is of whole versus minority control (which also includes choice between JVs or WOSs) of MNEs' global subsidiaries (Xu & Shenkar 2002). In case of high formal institutional distance, JV formation with an established and reliable local partner can reduce uncertainty and ambiguity (e.g. Makino & Delios 1996; Dhanaraj & Beamish 2004) that emerge due to the differences in law and regulations of home and host countries. High formal (regulative) institutional distance has been referred as one of the causes of liability of foreignness for the MNEs (Xu et al. 2004), and JV formation with a local partner can also help MNEs to reduce this liability of foreignness. Some previous empirical IB studies have also shown that foreign firms (MNEs) preferred JVs in the ownership mode choice, when the differences in the formal (legal and regulative) institutions are high (e.g. Delios & Beamish 1999; Yiu & Makino 2002; Xu et al. 2004). Based on the above discussion, it is hypothesized that

Hypothesis 1: *High formal institutional distance leads MNEs to prefer greenfield investments in FDI establishment mode choice.*

Hypothesis 2: *High formal institutional distance leads MNEs to prefer JVs in FDI ownership mode choice.*

3.3.2 *Informal Institutional Distance and FDI Choices of MNEs*

Informal institutional distance refers to the differences in norms, values and beliefs of home and host countries of MNEs (North 1990, 1991; Peng 2003; Estrin et al. 2009). These shared norms specify the legitimate means to pursue the ob-

jectives defined by the values in a society (Scott 2003). Knowledge about informal institutions is often tacit in nature, embedded in social structures and requires intensive cross cultural communication (North 2005; Estrin et al. 2009). Moreover, informal institutions are embedded in the local context and key local organizations, certification authorities and general society establish them (Scott 2008). The informal aspect of a country's institutional environment can also include the issues like acceptability of corruption and flexibility of the society to adapt to new economic realities (e.g. Gaur & Lu 2007). These informal institutions of different countries have been shown to influence the economic behavior of the firms (Michailova & Hutchings 2006; Peng et al. 2008). In the context of foreign subsidiaries of MNEs, these informal aspects of institutions can also impact different issues relating to subsidiary management in the host country's local environment. These issues can include understanding the aspirations of the partners, transfer and management organizational routines and knowledge across subsidiaries, efficient monitoring, managing conflict, and the degree of adaptation to the local environment (e.g. Kostova 1999; Xu & Shenkar 2002; Michailova & Hutchings 2006).

Previous IB studies have addressed the differences in informal institutions of home and host countries of MNEs as normative distance (Xu et al. 2004; Kaynak et al. 2007), cultural distance (e.g. Kogut & Singh 1988; Yiu & Makino 2002), informal institutional distance (Estrin et al. 2009), and social acceptance in the host country (Li et al. 2007). Informal norms are tacit, and may or may not contrast sharply with formal norms, imposed by the legal and judicial systems (Scott 2003: 136). Hence, a violation of norms specified by the informal institutions may lead to results similar to the violation of legal rules (Peng 2003; Xu et al. 2004). Professional norms and social culture have also been shown to influence the firm's and strategies in some past studies (e.g. Singh, Tucker & House 1986; Dacin 1997). Some studies refer to the fact that the strategic behavior and choices of firms can be affected by these informal institutions to the extent that many societal norms can become internalized at firm level (Mathews 2006; Peng et al. 2008). Estrin et al. (2009) in their study also refer that greenfield investors have less local knowledge to draw upon and may find it harder to access the business practices and norms embedded in the local firms. Therefore, it can be difficult for the MNEs to understand the dynamics of informal institutions of host country on its own, especially if they differ a lot from the home country. However, it is important to note that past IB studies also found out that internal conformity is difficult to achieve through acquisitions, while it is relatively easy to realize through greenfield investments (Datta 1991; Datta et al. 2002). Organizational structures are typically part of the acquiring firm's administrative heritage, rooted in the national culture of the home country (Calori, Lubatkin & Very 1994; Dikova et

al. 2010). These organizational structures and practices tend to be difficult to change due to inertia, and MNE needs to work out how the resources of the acquired firm could be employed into the productive uses (Datta & Grant 1990; Meyer & Altenborg 2008). On the other hand, the greenfield investments are easy to integrate in the MNE's corporate network because they do not come with existing organizational structures, and operations systems (Datta 1991; Hennart & Park 1993), nor with a workforce with a different professional culture and work practices (Child et al 2001; Harzing 2002; Slangen & Hennart 2008). In case of high informal institutional distance, greenfield investments can still provide MNEs' with some local responsiveness because most of the employees of these greenfield establishments remain local workers who understand the norms, values, and preferred routines of the host country (Xu & Shenkar 2002; Xu et al. 2004).

In case of high informal institutional distance between home and host country of MNEs, the need for communicating with key stakeholders and access to local business networks necessarily becomes more important. Past IB studies have also mentioned JVs as a preferred ownership mode choice by MNEs, when the uncertainty and ambiguity is high due to the differences in normative and informal institutions of home and host countries of MNEs (Delios & Bemish 1999; Guillen 2003b; Xu et al. 2004; Kaynak et al. 2007). The local JV partner could act as a contact to local suppliers, distributors and authorities, thus reducing the MNE's direct interfaces with the unfamiliar environment and helping to create legitimacy in the local context (Lu & Xu 2006). It would also help MNE in understanding the embedded patterns of local business environment. Moreover, through these local partners/ acquired local firms, MNEs can also better understand the requirements of local professional associations to safeguard their interests and preferences. Based on the above discussion, it is hypothesized that

Hypothesis 3: *High informal institutional distance leads MNEs to prefer greenfield investments in FDI establishment mode choice.*

Hypothesis 4: *High informal institutional distance leads MNEs to prefer JVs in FDI ownership mode choice.*

3.3.3 *Market Conforming Values in the Host Country and FDI choices of MNEs*

FDI choices and decisions of MNEs are considerably influenced by the effectiveness of market economy institutions of their host countries (e.g. Sethi et al. 2003; Child & Tsai 2005; Caselli & Gennaioli 2008). The quality of institutions and

resulting strength of market conforming values in the host country are likely to be important determinants of the MNE's foreign market entry decisions including FDI establishment and ownership mode choices. In many emerging economies, the market conforming values are relatively weaker due to poor institutional infrastructure compared to the developed (mostly western) economies (London & Hart 2004; Khanna et al. 2005). This is largely because the institutional rules supporting market economy are absent, insufficient (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina 2004), or poorly enforced (Khanna & Palepu 1997; Hoskisson et al. 2000). With respect to FDI establishment and ownership mode choices of MNEs, restrictions on ownership and entry mode options by host governments due to developing market economy institutions (e.g. Luo 2000; Khanna & Palepu 2010) is a major concern for investing foreign MNEs (e.g. Gomes-Casseres 1989, 1990; Kwon & Konopa 1993; Makino & Beamish 1998; Delios & Beamish 1999; Sethi et al. 2003; Trevino et al. 2008).

An important issue reflected in economics literature is that the emerging and developing economies should attempt to remove restrictions on investments especially by the foreign MNEs, as it will result in higher entry rates (Krugman 1991; IMF 2003; Klapper, Laeven, & Rajan 2004; World Bank 2005; Flores & Aguilera 2007), which in turn also contributes to the economic development in those host countries (Aghion et al. 2008). Noble laureate economist Paul Krugman (1991:72) also sees economic regimes across countries "...defined by their restrictions". These restrictions by the governments can also result in pressures on MNEs to only form JVs at time of market entry (Taylor et al. 2000; Deng 2003). On the other hand, the results by Child and Tsai (2005) indicate that when firms operate favorable external circumstances, they tend to commit more resources to the host country. Therefore, the host countries representing strong market conforming values provide a favorable institutional context for MNEs, which in turn can motivate MNE to show more commitment to host country through wholly owned investments.

Hennart and Park (1993) in their study suggest that highly developed markets are symbolic with appropriate target firms for acquisitions; therefore the higher the level of host-country economic development (which is result of institutional development and strengthening of market conforming values); it is more likely that MNEs would opt for acquisitions in their establishment mode choice. It has also been pointed out in past studies that acquisitions activity is higher in economies that offer good investor protection (Baums 1993; Pagano & Volpin 2005), ease of transfer of control for acquirer (e.g. Baums 1993; Dietrich 1994) and less restrictions on restructuring and management of acquired firms (Jackson 2005). It should be further noted that for MNEs coming from home countries representing

munificent home country environments, there is intense rivalry and sophisticated demand which sharpens competitive advantage (Porter 1990; Wan & Hoskisson 2003:31). Highly developed institutions representing strong market conforming values enable the firms to acquire or develop advanced knowledge, while adequate protection of intellectual property rights protects them from losing their unique skills and encourages innovation. Furthermore, appropriate enforcement of antitrust regulations results in “survival of the fittest”: inefficient firms are likely to be acquired by efficient ones through an active external market for corporate control (Wan & Hoskisson 2003:31). The discussion presented above leads to the conclusion that acquisitions are more likely to be establishment mode choice in host countries with strong market conforming values than greenfield investments (which require longer time for establishment and competing successfully with highly efficient rivals, suffer from liabilities of foreignness and newness and may induce a retaliation response from the incumbents).

With regards to FDI ownership mode choices of MNEs, it has been mentioned earlier that lesser restrictions on ownership options can motivate MNEs to prefer WOSs over JVs (e.g. Chung & Beamish 2005). It is also argued in this dissertation that countries representing strong market conforming values are expected to ease market entry of foreign MNEs by removing or reducing restrictions on FDI and market entry mode choices (e.g. Henisz 2000; Trevino et al. 2008; Chen, Yang, Hsu & Wang 2009). Hence, the presence of strong market conforming values in the host country can motivate MNE to commit more resources by choosing WOSs in ownership mode choice. Finally, Li et al. (2007) in their study also found that if market conforming values in the host country are strong, then the institutions become less restrictive and WOSs become more acceptable in the host country. Consequently, it is expected that in a host economy with strong market conforming values, acquisitions of local firms and formation of WOSs can be a preferred strategy of MNEs.

Based on the above discussion, it is hypothesized that

Hypothesis 5: *Strong market conforming values in the host country lead MNEs to prefer acquisitions in FDI establishment mode choice.*

Hypothesis 6: *Strong market conforming values in the host country lead MNEs to prefer WOSs in FDI ownership mode choice.*

One of the often cited problems by MNEs in the context of expanding to overseas markets is restrictions on entry mode options and FDI strategies by the host country governments (e.g. Reardon, Erramilli & Dsouza 1996; Makino & Beamish 1998; Trevino & Mixon 2004). It should be further noted that the strength of

market conforming values in this study are addressed in particular context of providing favorable environments to investing MNEs by the removal/reduction of market entry (establishment and ownership mode choices) restrictions on them. These restrictions are obstacles preventing entrant firms from being established in a particular market totally or putting restrictions on their establishment and entry options (Porter 1980; Chen et al. 2009). It has been shown in past IB studies restrictions on the foreign ownership and establishment mode choices discourage formation of WOSs by MNEs (Gatignon & Anderson 1988; Makino & Beamish 1998; Henisz 2000; Yiu & Makino 2002). The reduction of market entry barriers i.e. abandonment of protectionist policies which often concern a country's strategic assets such as enterprises in key industries and industry deregulation attracts more FDI and also encourages acquisitions (e.g. Luo 2000; Djankov, La Porta, Lopez-de-Salinas & Shleifer 2002; Klapper et al. 2004). Moreover, previous research also shown that the institutional changes by the governments manifested by reduction of entry barriers stimulate adjustments of market entry strategies of the incumbent firms, as well as allowing them to enter markets, business sectors and industries that were previously inaccessible (e.g. Haveman 1992; Luo 2000; Pehrsson 2001, 2004; Delmas & Tokat 2005; Khanna et al. 2005; Chen et al. 2009; Trevino et al. 2008).

It is argued in this dissertation that those host countries in emerging economies that represent relatively strong market conforming values, they are expected to receive more interests from MNEs for FDI, as restrictions on market entry are lower. Although, significant differences can still exist in formal and informal institutions of home and host countries of MNEs, the removal or reduction of restrictions specifically on FDI establishment and ownership mode choices can motivate the MNE to commit more resources those markets. This argument is supported by some previous IB studies, where it was mentioned that favorable external environment results in more resource and investment commitments by the investing MNEs (Luo 2000; Child & Tsai 2005; Chung & Beamish 2005; Flores & Aguilera 2007; Dunning & Lundan 2008). It is further argued that the presence of strong market conforming values in host countries manifested specifically by lesser restrictions on establishment and ownership strategies of MNEs is expected to offer them relatively equal playing field and it can motivate them to acquire local firms and WOSs despite high differences in formal and informal institutions (as hypothesized in hypotheses 5 and 6 also). Consequently, it can be further argued that the presence of strong market conforming values in the host country can moderate the impacts of formal and informal institutional distance on FDI establishment and ownership mode choices of MNEs. Therefore, it is hypothesized that

Hypothesis 7: Strong market conforming values in the host country have a positive moderating impact on the relationship between MNEs' establishment mode choice and formal institutional distance: at high end of market conforming values MNEs investing in high formal institutional distance host countries are likely to choose acquisitions; while at low end of market conforming values, MNEs investing in high formal institutional distance host countries are likely to choose greenfield investments.

Hypothesis 8: Strong market conforming values in the host country have a positive moderating impact on the relationship between MNEs' ownership mode choice and formal institutional distance: at high end of market conforming values, MNEs investing in high formal institutional distance host countries are likely to choose WOSs; while at low end of market conforming values, MNEs investing in high formal institutional distance host countries are likely to choose JVs.

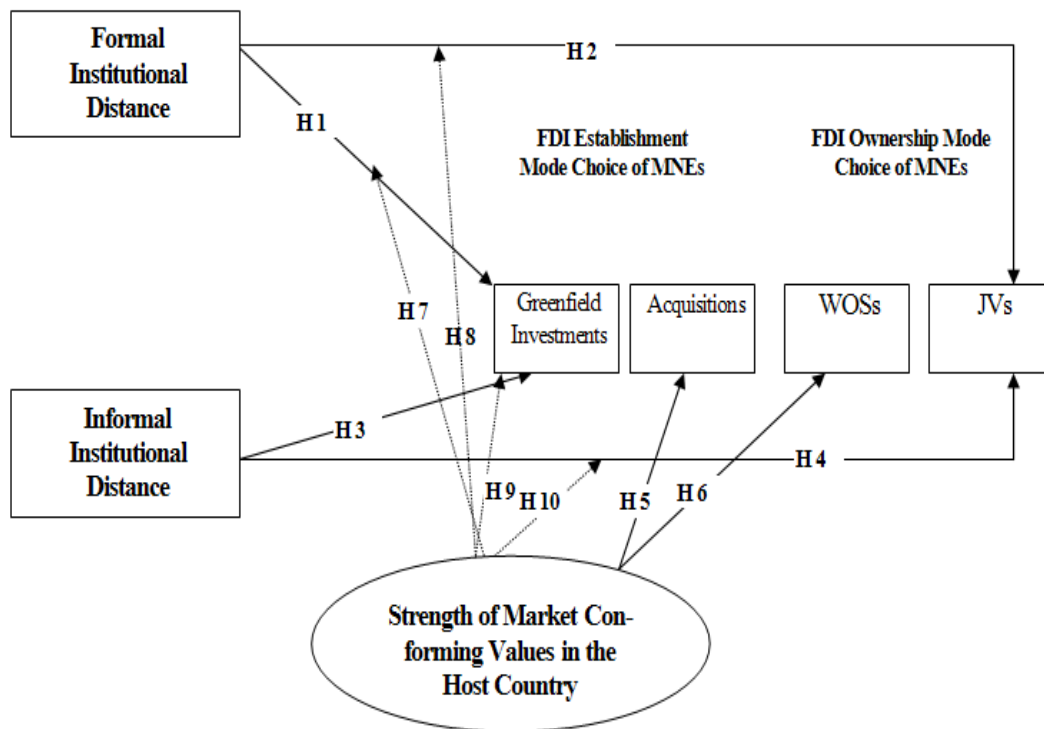
Hypothesis 9: Strong market conforming values in the host country have a positive moderating impact on the relationship between MNEs' establishment mode choice and informal institutional distance: at high end of market conforming values, MNEs investing in high informal institutional distance host countries are likely to choose acquisitions; while at low end of market conforming values, MNEs investing in high informal institutional distance host countries are likely to choose greenfield investments.

Hypothesis 10: Strong market conforming values in the host country have a positive moderating impact on the relationship between MNEs' ownership mode choice and informal institutional distance: at high end of market conforming values, MNEs investing in high informal institutional distance host countries are likely to choose WOSs; while at low end of market conforming values, MNEs investing in high informal institutional distance host countries are likely to choose JVs.

3.3.4 Research Model of the Study

One of the key sub-objectives of the study is to develop a research model depicting the impacts of institutional distance and strength of market conforming values in the host country of on FDI establishment and ownership mode choices of MNEs. Based on the discussion provided in previous sections and resultant hypotheses, a research model is developed showing the hypothesized relationships between dependent and independent variables. This research model is shown in the following figure 8. The research model depicts the impacts of both formal

and informal institutional distance on FDI establishment and ownership mode choices of MNEs. The research model also shows the impacts of strong market conforming values in the host country on FDI establishment and ownership mode choices of MNEs. Finally, in line with theoretical discussion and hypotheses developed in the previous section, the research model depicts the expected moderating influences of strong market conforming values in the host country on the impacts of formal and informal institutional distance on FDI establishment and ownership mode choices of MNEs. Finally, these moderating influences are depicted by the dotted arrows in figure 8.



Dotted Arrow = Moderating Influences

Figure 8. Research Model of the Study

4 EMPIRICAL RESEARCH DESIGN

This chapter offers the discussion about empirical research design of the study. The chapter starts with description of data sources for different variables used in the study, as well as discussion about the reliability and validity of the used data sources. In next section, the study variables are described along with discussion about their measurement and operationalization. This section also explains the selection of control variables of the study based on their importance in influencing FDI choices of MNEs in previous studies. The discussion about operationalization of variables leads to the expanded research model of the study that depicts the impacts of independent as well as control variables on the FDI establishment and ownership mode choices of MNEs. The chapter concludes with discussion about the study sample and its key characteristics.

4.1 Data Sources, Description and Reliability

The main source of firm and subsidiary level data in this study is an internal FDI database, which has been developed and constantly updated. This database of Finnish FDIs is primarily based on annual reports of 100 large Finnish firms in the manufacturing sector listed in Helsinki Stock Exchange and supplemented with the reports from Finnish business press and direct contact with those firms. Moreover, the foreign investments by other relatively smaller Finnish firms in their international markets are also noted down in this database based on news in business press and annual reports of those firms. Therefore, this database includes FDIs made by over 130 Finnish firms in their international markets during past many years. Hence, it can be said that this database is reliable and representative of the FDIs made in manufacturing sector by the Finnish MNEs, as it covers at least 90% of FDIs made by Finnish MNEs in the foreign markets.

Moreover, this database includes all the relevant information about FDIs made by Finnish MNEs. Some important firm and subsidiary level information that is included in this database includes names of investing firms, names of subsidiaries (and acquired firms), names of JV partners, location of subsidiaries equity share of Finnish firm in the subsidiary at time of investment, relatedness of investment, type of investment (greenfield investment or acquisition), timing of FDI, and divestment of the subsidiary (if applicable). For this study, data related to outward FDIs made by Finnish firms in selected countries in emerging economies of Central and Eastern Europe (CEE), Asia and Latin America during the time period 1990–2006 have been used from this internal FDI database. Therefore, in relation

to the current study, this internal FDI database is used for data about the dependent variables of the study i.e. *establishment mode choice and ownership mode choice*. Moreover, the data about some of the control variables of the study i.e. international experience of the investing firm, target country experience of investing firm, timing of FDI (dummy variable), BRIC (Brazil, Russia, India and China) dummy, is also taken from this internal FDI database.

The country level data in this study has been gathered from various reliable secondary sources. The institutional indicators for *formal institutional distance and informal institutional distance, and strength of market conforming values in the host country* in this study are based on the data in the year of investment/nearest year from Economic Freedom of the World reports and annual executive opinion surveys from World Competitiveness Yearbooks published by IMD Switzerland. Both Economic Freedom of the World reports and World Competitiveness Yearbooks have been referred as reliable and useful resources for analyzing institutional and business and environment of different countries, and have been used in previous IB studies (e.g. Delios & Beamish 1999; Gaur et al. 2007; Gaur & Lu 2007; DiRienzo, Jayoti, Cort, & Burbridge 2007). The details of operationalization of institutional distance and strength of market conforming values in the host country are provided in the later section (see section 4.2).

The data for the control variable *economic growth* in the host country in the year of investment has been taken from world investment reports published by UNCTAD. World investment reports are one of the major sources of data about economy and economic growth and have been used in many academic field including international business studies (UNCTAD 2009, 2010). The data for *country risk* has been taken from Euromoney country risk ratings, which is a reliable measure of risk and has been used in many previous IB studies (see. e.g. Cosset & Roy 1991; Larimo 2003; Click 2005).

Based on the discussion offered above, it can be said that the firm and subsidiary level data sources are reliable as well as comparatively unique. These data sources representative of FDI made by Finnish MNEs and have also been constantly updated during last many years. Moreover, country level data sources are also reliable as mentioned earlier. Further discussion about reliability of these country level data sources is offered in next section about the operationalization of variables.

4.2 Operationalization of Variables

4.2.1 *Dependent Variables*

The study has two dependent variables i.e. establishment mode choice (coded as 0 for greenfield investment and 1 for acquisition) and ownership mode choice (coded as 0 for WOSs and 1 for JVs). In this dissertation, if the investing Finnish established a subsidiary from scratch in the host country at the time of market entry, it is coded as greenfield investment. However, if the Finnish MNE acquired (both full and partial) an already established local firm at the time of market entry, it is coded as an acquisition. Further on, in case of ownership mode choice, if the investing Finnish MNE owned 95% or more equity ownership at the time of market entry, then it has been coded as a WOS, while less than 95% equity ownership has been coded as a JV.

4.2.2 *Independent Variables*

This study has three independent (explanatory) variables i.e. formal institutional distance, informal institutional distance and strength of market conforming values in the host country.

I calculate the scores for *formal institutional distance, informal institutional distance and strength of market conforming values in the host country* using country-level indicators of institutional environment from various editions of the Economic freedom of the world annual reports (formal institutional distance and strength of market conforming values) published by Economic Freedom Network and World Competitiveness Yearbooks (informal institutional distance and strength of market conforming values) published by the International Institute for Management Development (IMD), Lausanne Switzerland.

Economic freedom of the world reports measure country's openness to international business and trade by measuring and ranking them along five major pillars i.e. *Size of government, Legal structure and security of property rights, Access to sound money, Freedom to trade internationally and Regulations of credit, labor and business*. These pillars are further divided into different categories and finally country's summary ratings (1-10) are developed. Economic freedom of the world reports use data from World Economic Forum, World Bank, International Monetary Fund, United Nations and World Trade Organization to measure these variables (Economic Freedom of the World Reports). The higher country score

represents openness of the economy to international business, presence of strong market institutions, ease of business for foreign firms and sound financial and fiscal policies. This data source has been used extensively in studies in the field of international and institutional economics (see e.g. Ali 2003; Dawson 1998; Dreher & Rupprecht 2007) and political economy studies (e.g. Bengoa & Sanchez-Robles 2003; Boockmann & Dreher 2003). Recently DiRienzo et al. (2007) also used this source to study the impacts of corruption in the context of international business studies. Therefore, it can be said that the use of data from economic freedom of the world annual reports for operationalization of the variables formal institutional distance and strength of market conforming values in the host country is reliable and is expected to provide useful insights.

Formal institutional distance refers to the differences between the legal institutions, laws and regulations of the host country and home country of foreign investing firm (North 1990; Trevino & Mixon 2004). According to Globerman and Shapiro (2003: 19), “the rule of law in a country is codified by its governance infrastructure, which represents attributes of legislation, regulation, and legal systems that condition freedom of transacting, security of property rights, and transparency of government and legal process”. Therefore, this study used the country scores in the item of *legal structure and security of property rights* from economic freedom of the world annual reports. This item includes the aspects of judicial independence, impartial courts, protection of property rights, military interference, integrity of legal system, and legal enforcement of contracts. Therefore, it can be said that this item from economic freedom of the world annual reports addresses most of the attributes of formal institutions as described by North (1990). As already mentioned that Economic freedom of the world annual reports are a reliable source, therefore using the data from the element *legal structure and security of property rights* to address formal institutions is justified and valid. The operationalization of formal distance is shown as follows in the table 5.

Table 5. Operationalization of Formal Institutional Distance

Indicator	Economic Freedom of the World Annual Reports
Legal Structure and Security of Property Rights	Scores from 1-10.
Formal Institutional Distance	Finland Score – Host Country Score.

Since 1989, IMD analyzes the ability of nations to create and maintain an institutional environment, which is suitable for organizations operating there (IMD 2010). The World Competitiveness Yearbooks provide information about competitiveness of 58 countries in the world on criteria based on 327 factors. IMD

uses an annual survey of business executives to quantify different aspects of institutional environments in the countries. These annual surveys are crafted and employed in collaboration of 54 partner institutes worldwide and sent to business executives in top and middle management position in 58 countries around the world. These executives represent firms of various sizes, different industrial sectors and national backgrounds. In 2010, IMD received 4,460 completed surveys which are analyzed by leading scholars and reported in form of country competitiveness scores on different dimensions, as well as overall rankings (IMD 2010). Finally, as the respondents of the survey come from different nationalities and backgrounds representing international and local firms operating in those countries, the results of this survey do not have single country/ industry respondent bias, which makes it a reliable data source for country level institutional comparison studies.

World competitiveness yearbooks have also been used by many past international business studies addressing the influences of business and institutional environments of countries on the strategies of firms (e.g. Delios & Beamish 1999; Gaur et al. 2007; Gaur & Lu 2007). This study only uses the items from World Competitiveness Yearbooks that are result of annual executive opinion survey conducted yearly by IMD. The scores for the informal institutional distance are calculated by subtracting the score of host country in from the score of Finland in the year when FDI was made or score in nearest available year for some countries. This study is the one of the first to calculate different informal institutional distance scores for different years when FDI was made during the sample time period, rather than taking institutional distance scores based on indicators of one year as done in some past studies (e.g. Xu et al. 2004; Kaynak et al. 2007; Estrin et al. 2009).

Informal institutions are humanly devised constraints that are embedded in the shared norms, values and beliefs in a society (North 1990, 2005; Estrin et al. 2009). This study uses three survey items from IMD executive opinion surveys from world competitiveness yearbooks (1995-2006). These items include *corruption, national culture and social responsibility* that address the informal institutional environment systematically. Corruption or acceptance of corruption in a society has been referred as an example of informal (normative) institutions in previous IB studies (El Said & McDonald 2002; Tonoyan 2003; Rothstein & Eek 2006; Peng et al. 2008). Therefore, one of the elements of informal institutional distance in this study is country scores in the item of *corruption* from world competitiveness yearbooks in the year of investment or in the nearest available year.

Cultural distance has been used in some past studies to address informal (normative and cognitive) institutional distance or institutional environment (e.g. Yiu & Makino 2002; Estrin et al. 2009). However, I argue that the society's openness to the foreign ideas captured by *national culture* item in this study addresses the informal attitude to the foreign firms in these societies. North (2005) also referred to the importance of cognition in the informal behaviors of the society. This societal cognition impacts the openness of a society to the foreign ideas, which has been referred as one of the important characteristics of societies that developed and achieved economic competitiveness (e.g. North & Thomas 1973; North 1981). This is a better approach to address impacts of culture that are more relevant and specific to foreign ideas and consequently the acceptance of operations of foreign firms, rather than using cultural distance index (Kogut & Singh 1988) based on Hofstede's (1980, 2001) work as done in many past studies (e.g. Delios & Henisz 2000; Yiu & Makino 2002).

Finally, an important aspect of informal institutional environment is societal expectations from businesses (e.g. Dyllick and Hockerts 2002; Hopkins 2005; La Porta, Lopez-de-Silanes & Schleifer 2008). I argue that this issue especially becomes important for foreign MNEs entering new host countries, as they already suffer from liability of foreignness. Therefore, high differences in expectations from business in home and host country of MNEs can result in significant impacts on their strategies. This issue is empirically addressed by the element of *social responsibility* in the operationalization of informal institutional distance in this dissertation. Therefore, it can be argued that all three survey items from IMD annual executive opinion surveys attempt to address professional as well as societal aspects of informal institutions. Informal institutional distance in this study is calculated by difference in average of the country scores in three elements of executive opinion survey from world competitiveness yearbooks from the average score of Finland as shown in the following table 6.

Table 6. Operationalization of Informal Institutional Distance

Indicator	Survey Item from World Competitiveness Reports (1995-2006)
Corruption	Bribing and corruption do not exist. (Scores from 1-10).
National Culture	The national culture is open to foreign ideas. (Scores from 1-10).
Social Responsibility	Social responsibility of business leaders is high. (Scores from 1-10).
<i>Informal Institutional Score</i>	Country Scores in (Corruption+ National Culture+ Social Responsibility)/3
<i>Informal Institutional Distance</i>	Informal Institutional Score (Finland) – Informal Institutional Score (Host Country)

The variable strength of market conforming values in the host country is operationalized by using the average of country scores of the host countries in the item

acquisition freedom from annual executive opinion surveys by IMD Switzerland and *foreign investment/ownership restrictions* in the year of investment/nearest available year from Economic freedom of the world annual reports. Caselli and Gennaioli (2008) in their study address the legal reforms concerning businesses in two categories in their study i.e. deregulation of entry and enforcement reforms (i.e., reforms concerning corporate governance, bankruptcy legislation, shareholder protection, and judiciary). The deregulation of entry is an important issue for investing foreign MNEs, as it results in removal or reduction of restrictions on entry options of new entrants. These restrictions are obstacles preventing entrant firms from being established in a particular market (Porter 1980). The deregulation and removal of barriers have been found to encourage market entry of both local and foreign firms in past studies (Luo 2000; Djankov et al. 2002; Klapper et al. 2004; Caselli & Gennaioli 2008). Moreover, removal of restrictions and strengthening of market conforming values allows firms to enter those industries and business sectors that were previously inaccessible for them (Haveman 1992; Pehrsson 2001; Sethi et al. 2003; Chen et al. 2009).

Previous IB studies mention that lesser restrictions on operations of foreign firms motivate them to invest more in the host economy and commit more resources also (e.g. Sethi et al. 2003; Chung & Beamish 2005; Dunning & Lundan 2008). Past literature also mentions that in many emerging economies, host country governments place restrictions on acquisition of local firms by the MNEs in order to save local firms in strategic industries. The aspects of enforcement reforms have already been addressed in measures of formal and informal institutional distance of this study. Therefore, the deregulation of entry and removal of restrictions on foreign firms is addressed through the measure of market conforming values in the host country operationalized through the above mentioned item of acquisition freedom from world competitiveness yearbooks (IMD) and ownership/investment restrictions. Hence, the strength of market conforming values in the host country is calculated as follows in this dissertation.

$MKTCONFVALUES = \text{foreign ownership/investment restrictions in the host country}^1 (1-10) + \text{acquisition freedom in the host countries} (1-10) / 2.$

Appendix 1 shows formal and informal institutional distances of the host countries from Finland. It also shows the strength of market conforming values in those host countries in the year (nearest available years in certain cases), when

¹ The higher score on this item represents that there are less restrictions on foreign investment and ownership (Economic freedom of the world reports); therefore it works in similar way as acquisition freedom item from the world competitiveness yearbooks.

the FDI was made in those countries by Finnish MNEs. It is quite clear that the measures of institutional distance and strength of market conforming values are reliable, as they take into account institutional transitions and changes taking place in the host economies. The impacts of Asian economic crises of 1997 are visible on Southeast Asian countries' institutional distance scores (see Indonesia, Malaysia and Thailand in the Appendix 1), as they score lower on formal and informal institutions in the years after the economic crises and their institutional distance from Finland increases, despite relatively better scores on market conforming values. One reason for better score in market conforming values dimension in those countries is their increased interest to attract FDIs by MNEs (e.g. Krugman 2008) in response to the crisis of 1997 by lowering barriers, as well as boosting investor's confidence.

Moreover, transition to the market economy system in CEE countries is also visible by faster institutional development of some CEE countries (like Estonia, Hungary, Czech Republic and Slovak Republic) than others particularly Russia after economic crisis of 1998. It should also be noted that score of market conforming values scores of some CEE host countries are quite high even at start of the transition process, despite high institutional distance from Finland. One explanation for these high scores is the 'shock therapy' approach adapted there, in order to faster shift to market economy from socialism and as a result many sectors of the economy were fully opened up for foreign firms (Kolodko 2000; Krugman 2008).

An interesting observation is about scores of China on institutional distance dimensions as well as market conforming values. It can be observed that formal and informal institutional distance from Finland gradually increased a little during study time period. However, this increase also partially reflects high scores by Finland on these dimensions. Moreover, during 17 years of study time period, the market conforming values scores in China lie between maximum of 5.65 and minimum of 4.23, that does not show much change. This observation is in line with studies that addressed the characteristics of Chinese capitalism especially the main component of government plans to concentrate on certain industrial areas and sectors for FDI during certain years, and then concentrating on other area (e.g. Huang 2008).

Finally, it is worth mentioning that rather low formal and informal institutional distances of some host countries from Finland during 1990s can be explained by referring to the economic crisis of 1990s in Finland. During that time period, it can be argued that Finland received relatively lower scores in formal and informal institutional environment aspects by the executives responding to surveys of

IMD and World Economic Forum. However, Finland started to receive higher scores during late 1990s and 2000s due to increased competitiveness of economy and strong institutional infrastructure. Therefore, an increase in formal and informal institutional distances of some host countries from Finland can be observed despite they had also gone through transition process successfully. It can be said that these measures are close to reality and try to address the changes going on in the host country during the sample time period, as well taking into account MNEs' home country changes also during the sample time period.

4.2.3 *Control Variables*

To account for variance in FDI establishment and ownership mode choices of MNEs, a number of variables that have been shown to influence these FDI choices in past IB studies are included as control variables in this study. The addition of these control variables helps to enhance the reliability and validity of the study results. The control variables used in the study include parent MNE size, international experience of the investing firm, host country experience of the investing firm, economic growth in the host country, host country risk, BRIC (Brazil, Russia, India and China) dummy and timing of investment.

Parent MNE size has been shown as important firm level determinant of both FDI establishment and ownership mode choices in past studies (e.g. Hennart & Park 1993; Hennart et al. 1996; Larimo 1996, 2003), therefore it is used as firm level control variable. General international experience of the investing firm (MNE) has also been found to be an important determinant of both FDI establishment and ownership mode choice in past studies (e.g. Caves & Mehra 1986; Kogut & Singh 1988; Larimo 1997, 2003; Slangen & Hennart 2007) and therefore it is also used as firm level control variable. Along with general international experience of investing firm, host country specific experience also emerges as an important factor in FDI establishment and ownership mode choices in past studies (e.g. Johanson & Vahlne 1977; Slangen & Hennart 2007; Barkema & Drojendijk 2007), and therefore it is also used as control variable in this study.

Along with, firm level control variables, this study also use country level control variables. Economic growth in the host country has been found as an important factor for FDI establishment and ownership mode choices in past studies (e.g. Larimo 1997; Brouthers & Brouthers 2000) and therefore, it is used as control variable. Moreover, previous studies like Larimo (2003) and Click (2005) mention host country risk as important factor for FDI choices of MNEs and it is used as a control variable in this study. It should be noted that in the study sample, the

BRIC countries (i.e. Brazil, Russia, China and India) represent large emerging markets, and have been shown in previous studies to be more important for many MNEs (e.g. Trevino & Mixon 2004; Sauvart 2006; UNCTAD 2009). Therefore, this study includes a dummy variable for BRIC countries, where FDI made in BRIC economies are coded as 1 and FDIs in other countries are coded as 0 in order to see if there are any specific patterns of FDI choices made in those countries by the Finnish MNEs compared to the other host countries in the sample.

Finally, the study also includes a dummy variable for the timing of investment i.e. FDIs in 1990s vs. FDIs in 2000s. As the transition to market economy started in 1990s in the CEE countries (e.g. Kolodko 2000) and also many host countries from Asia and Latin America in the sample opened up more for foreign firms during 1990s, so this variable is expected address these issues. It has been shown that MNEs preferred to form JVs at early stage of transition in many of these countries (e.g. Peng 2003). Moreover, previous studies like Cho and Padmanabhan (1995) and Larimo (1997, 2003) have also used timing of investment variable to address the impacts of difference of timing on different FDI choices of MNEs. Therefore, it expected that this variable (i.e. timing of investment) would provide useful insights to difference in FDI choices of Finnish MNEs in these emerging markets. Table 7 summarizes the operationalization of the dependent, independent and control variables of the study, along with providing references to the relevant data sources used in this study.

Table 7. Operationalization of Variables of the Study

Variable Name	Operationalization
Establishment Mode	0=greenfield investment, 1=acquisition (of a local firm in the host country at the time of investment) (Source: Internal FDI Database)
Ownership Mode	0= WOS (95% or more equity ownership at the time of market entry), 1=JV (less than 95% of equity ownership at the time of market entry) (Source: Internal FDI Database)
Formal Institutional Distance	Difference in country score of host countries from Finland in the item: <i>Legal Structure and Security of Property Rights</i> (Scores 1-10) in the year of investment / nearest available year (Source: Economic Freedom of the World Annual Reports).
Informal Institutional Distance	The average of difference in host country score from Finland's scores in the following items in the year of investment / scores in nearest available year. (Source: World Competitiveness Yearbooks 1995-2006). 1. National Culture is open to foreign ideas (Scores from 1-10) 2. Bribing and Corruption do not exist (Scores from 1-10) (Scores from 1-10) 3. Social responsibility of business leaders is high (Scores from 1-10)
Strength of Market Conforming Values	Average of country rating in item <i>ownership restrictions</i> (Scores from 1-10) and country scores in the item: <i>Foreign Investors are free to acquire control in local firms</i> (Scores from 1-10) (Sources Economic Freedom of the World annual reports and World Competitiveness Yearbooks) in the year of investment/nearest available year.

Parent MNE Size	Natural Log of Global sales of the parent MNE in the year preceding to investment changed to Euros (e.g. Hennart & Park 1993; Hennart et al. 1996; Hennart & Larimo 1998; Larimo 1996, 2003) (Source: Internal FDI database)
International Experience of MNE	The number of earlier manufacturing FDI's made by the MNE (Larimo, 1993, 1997, 2003). (Source: Internal FDI Database).
Host Country Experience of MNE	MNE's length of earlier manufacturing experience in host country (no. of years) (e.g. Hennart & Park 1993; Cho & Padmanabhan 1995; Hennart et al. 1996; Cheng 2008) (Source: Internal FDI Database)
Economic Growth	The annual growth of GDP in the host country, in the year of investment (e.g. Hennart 1991; Gommès-Casseres 1990; Makino & Neupert 2000; Brouthers & Brouthers 2000) (Source: UNCTAD).
Host Country Risk	The host country risk in the year of investment based on Euro money country risk ratings (e.g. Cosset & Roy 1991; Click 2005) (Source: Euromoney country risk ratings).
BRIC dummy	1 for FDI's in BRIC (Brazil, Russia, India and China) countries. 0 for other countries.
Timing	1 for FDI's during 1990s. 0 for FDI's in 2000s (e.g. Peng 2003).

4.2.4 Expanded Research Model

Based on the discussion provided in previous sections, an expanded research model of the study is presented in the following figure 10. This expanded research model is an extension of the research model presented in the previous chapter as it shows the impacts of formal and informal institutional distance, strength of market conforming values as well as control variables on the FDI establishment and ownership mode choice of MNEs.

Therefore, the addition of control variables of the study helps in making the model more encompassing and representative of research and empirical design of this study. Moreover, this model is also developed in relevance to operationalization of the dependent variables of the study, and as a result it shows the expected signs of influences of the independent variables of the study based on the hypotheses developed in the previous chapter.

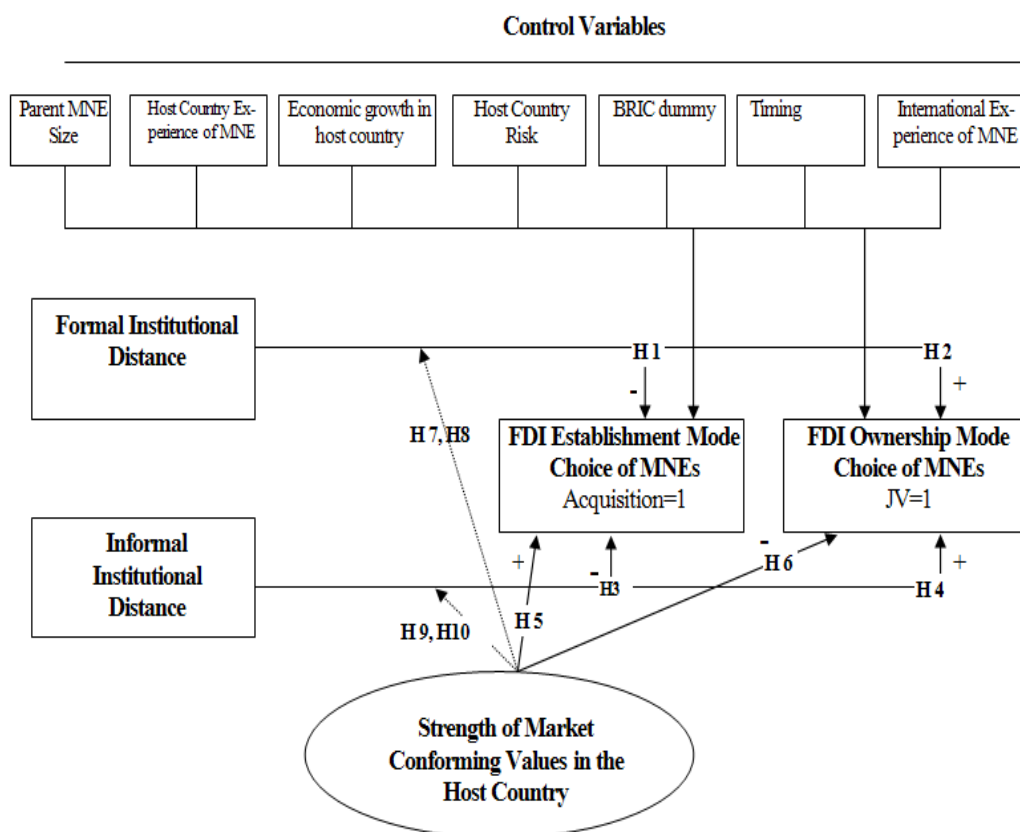


Figure 9. Expanded Research Model of the Study

4.3 Sample Characteristics

The study sample consists of 343 FDIs in the manufacturing sector made by 121 Finnish firms in emerging economies of Central and Eastern Europe (CEE), Asia and Latin America during the time period 1990-2006. The host countries in the study sample from CEE region include Czech Republic, Estonia, Hungary, Poland, Romania, Russia, Slovak Republic and Slovenia. The host countries from Asia include China, India, Indonesia, Malaysia, Thailand and Turkey. Finally, from Latin American region, the study sample includes FDIs made in Argentina, Brazil, Chile and Mexico.

4.3.1 Establishment Mode Choice

The study sample consists of 194 greenfield investments and 149 acquisitions made by investing Finnish firms in their international markets. It can be said that data is fairly normally distributed in the total sample for the dependent variable establishment mode choice. Detailed analysis of the study sample reveals that FDIs in CEE region consisted of 96 greenfield investments and 100 acquisitions. In Asia, it can be observed that a large number of FDIs i.e. 88 were greenfield investments and the rest 30 were acquisitions. Finally in Latin America, 10 greenfield investments and 19 acquisitions have been made by Finnish MNEs during the sample time period. The distribution of establishment mode choice of FDIs made by Finnish MNEs in the host regions is shown in figure 11 depicting rather normal curve of distribution.

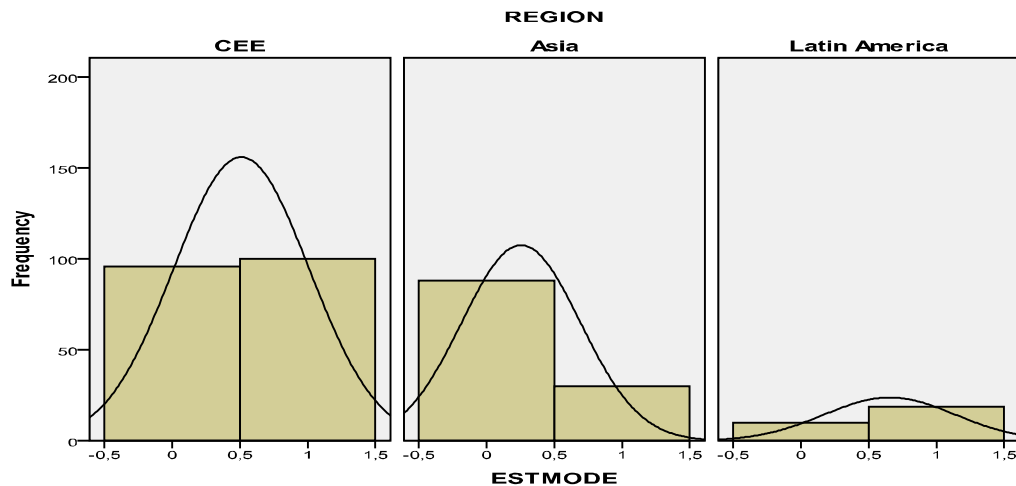


Figure 10. Establishment Mode Choice of Finnish MNEs in CEE, Asia and Latin America

4.3.2 Ownership Mode Choice

The study sample consists of 152 WOSs and 191 JVs with local firms at the time of investment. It can be said that data is fairly normally distributed in the total sample for the dependent variable establishment mode choice. Detailed analysis of the study sample reveals that FDIs in CEE region consisted of 95 WOSs and 101 JVs. In Asia, it can be observed that JVs were more prominent as 74 FDIs were JVs with local firms while 44 WOSs were made at time of investment. Finally in Latin America, 13 WOSs and 16 JVs have been established by investing Finnish MNEs at time of market entry during the sample time period. The distri-

bution of establishment mode choice of FDIIs made by Finnish MNEs in the host regions is shown in figure 12 depicting a rather similar kind of curve in all three regions.

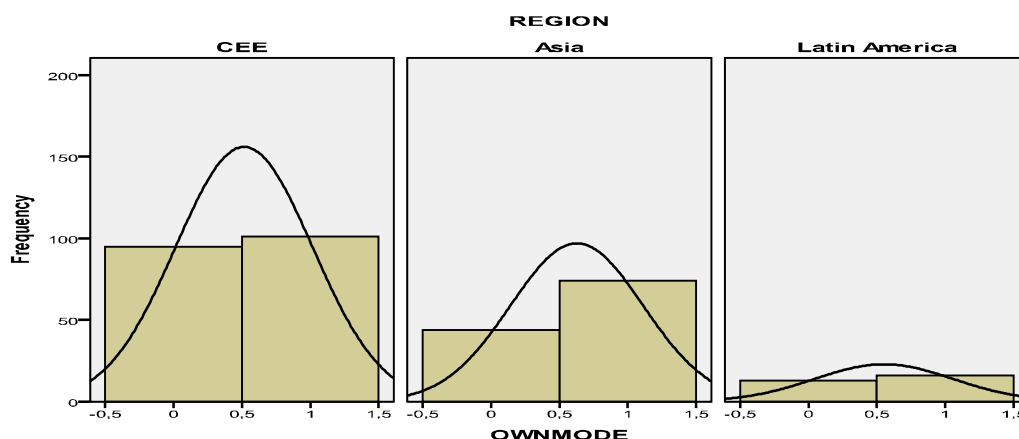


Figure 11. Ownership Mode choice of Finnish MNEs in CEE, Asia and Latin America

4.3.3 *International Experience of the Investing Firms:*

In the study sample, a range of international experience of investing MNEs can be observed. The highest international experience of investing MNE consists of 74 international investments, while minimum international experience consists of 1 (first) investment of the investing MNE. The average of study sample is 23.03 international investments. The detailed analysis of the sample reveals that the range of international experience is rather similar in all three regions. The highest international experience of the firm investing in CEE and Latin American regions was 69 international investments, and in Asia 74 international investments. Following figure 13 shows the graphical plot of international experience of MNEs in the study sample.

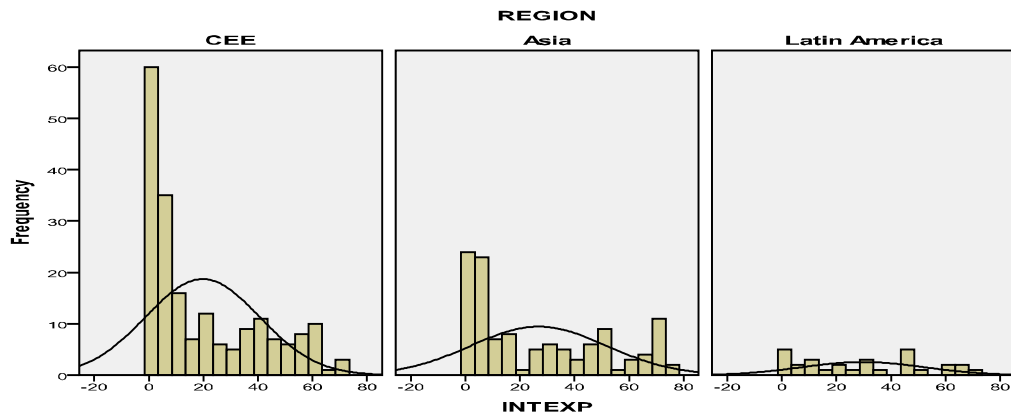


Figure 12. Host Region wise Frequency Plot of International Experience of investing MNEs.

4.3.4 Host Country Experience of the Investing Firms

In the study sample, a range of host country experience of investing MNEs can be observed. The maximum host country experience of investing MNE is 17 years, while minimum host country experience is 0 years (i.e. first investment in that particular host country). The average host country experience of the study sample is 1.66 years. The detailed analysis of the sample reveals that the range of target country experience is rather similar in all three regions. The highest host country experience of the firms investing in all three regions is 17 years at time of investment. Following figure 14 shows the plot of host country experience of MNEs in the study sample displayed region wise.

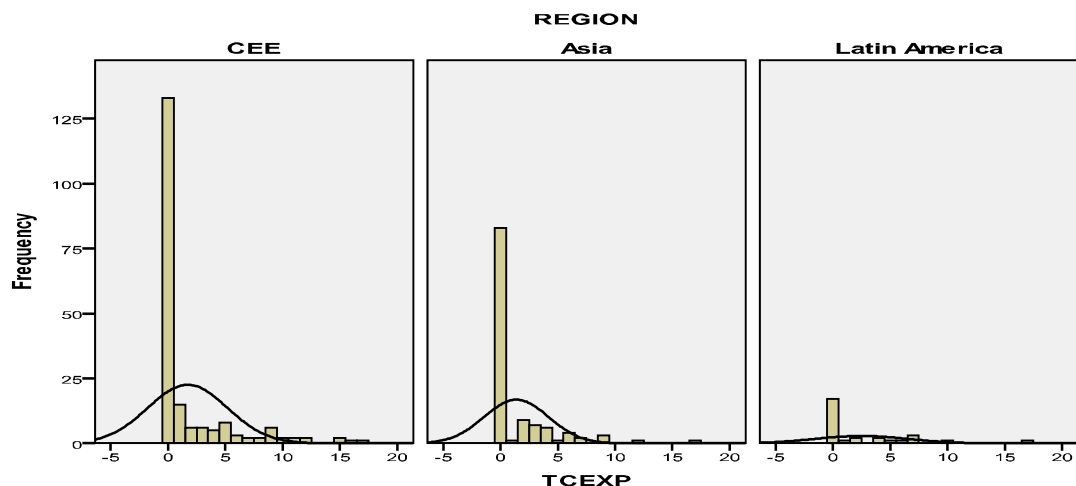


Figure 13. Host Region Wise Frequency Plot of Host Country Experience of Investing MNEs.

4.3.5 Annual FDIs Distribution

The study sample has a range of FDIs in a particular year ranging from a minimum of 13 in 1990 to 32 in 1997 and 25 in 2006, which shows increased international activity of Finnish firms due economic reforms and opportunities in these host emerging markets. Figure 11 depicts FDIs during the sample time period in the host regions showing that investments by Finnish MNEs in all the host regions shows similar pattern of increase and consistency during study time period.

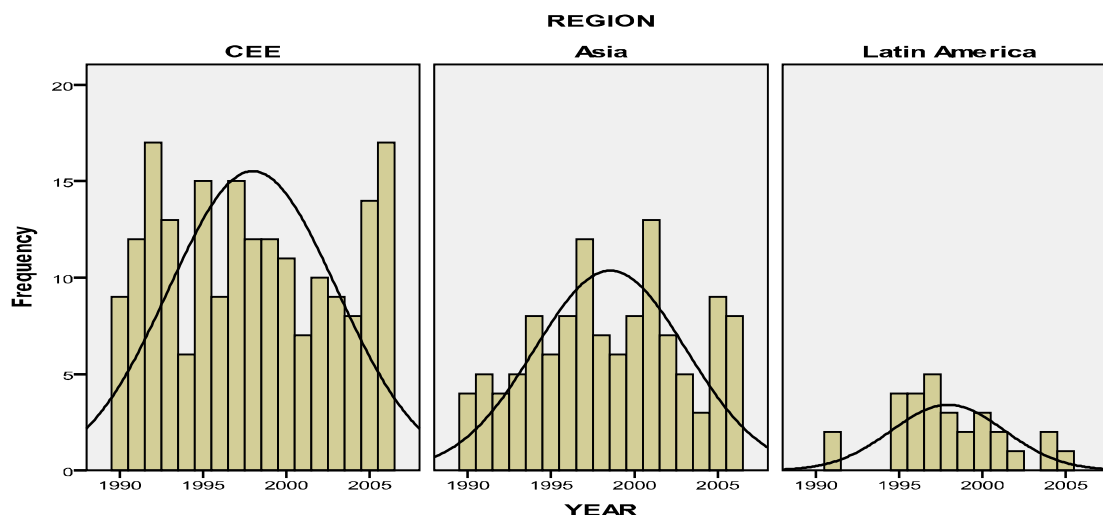


Figure 14. Host Region wise annual FDIs

The above mentioned figure 14 clearly shows that data is quite normally distributed during the sample time period, which increases the reliability and validity of expected results of the study.

4.3.6 Summary of Sample Characteristics

A more in-depth sample analysis reveals that 14 investing firms out of total 121 had invested in all three host regions i.e. CEE, Asia and Latin America. Moreover, 16 firms have also invested in at least 2 host regions. Out of these 16 firms, 13 firms have invested in CEE and Asian region, while 2 have invested in CEE and Latin America, while 1 in Asia and Latin America. The rest of 91 firms have only invested in one of the host regions. Out of these 91 firms, the majority i.e. 62 firms have invested only in the CEE host region, while 28 only invested in Asian regions and 1 in Latin America region.

Finally, the other important characteristics of the study sample are presented and summarized in table 8, as follows.

Table 8. Summary of Sample Characteristics

Sample Characteristic	Description
Establishment Mode Choice	194 (56.6%) greenfield investments, 149 (43.4%) acquisitions of local firms
Ownership Mode Choice	152 (44.3%) WOSs, 191(55.7%) JVs
International Experience of investing firms	Maximum 74 international investments, Minimum 1 (first) international investment, average of 23.03 international investments.
Host Country Experience of Investing Firms	Maximum 17 years of target country experience, Minimum 0 years of target country experience, average target country experience of 1.66 years.
Number of FDIs in a particular year	1990 (13), 1991 (19), 1992 (21), 1993 (18), 1994 (14), 1995 (25), 1996 (21), 1997 (32), 1998 (22), 1999 (20), 2000 (22), 2001 (22), 2002 (18), 2003 (14), 2004 (13), 2005 (24), 2006 (25).
Number of FDIs in the host regions	196 FDIs (57.1%) in CEE region, 118 FDIs (34.4%) in Asia and 29 FDIs (8.5%) in Latin American region. FDIs in BRIC Countries 146 (42.6%).
Host Countries with high number of FDIs by Finnish MNEs in sample during the study time period.	China (67 FDIs), Estonia (63 FDIs), Russia (51 FDIs), and Poland (42 FDIs).

5 RESULTS

5.1 Statistical Analysis Technique

The dependent variables of the study i.e. establishment mode choice and ownership mode choice are dichotomous. Therefore, binomial logistic regression is used in this study to analyze the impacts of control and independent variables on FDI establishment and ownership mode choices of MNEs. The use of this statistical approach is justified by the fact that logistic regression techniques have the ability to incorporate a wide range of diagnostics, the dichotomous characteristic of the dependent variables of the study, and the mix of continuous and categorical independent variables used in this study (Hair, Anderson, Tatham & Black 1998). Binomial logistic regression analysis has been frequently used in the studies addressing FDI establishment mode choices (e.g. Larimo 2003; Dikova & van Witteloostuijn 2007; Slangen & Hennart 2008; Dikova et al. 2010) and ownership mode choice of MNEs (e.g. Gatignon & Anderson 1988; Padmanabhan & Cho 1996; Pan 1996; Hennart & Larimo 1998; Dikova & van Witteloostuijn 2007; Kaynak et al. 2007). Therefore, it can be said that binomial logistic regression has proved to be a useful statistical technique to analyze establishment and ownership mode choices of MNEs in different IB studies and this study also employs this statistical technique.

Binomial logistic regression is used to test the hypotheses because both dependent variables are dichotomous. Binomial logistic regression model is formally expressed as

$$P(y_i=1) = 1 / 1 + \exp(-a - X_i B)$$

Where y_i is the dependent variable, X_i is the vector of independent variables for the i th observation, a is the intercept parameter and B is the vector of regression coefficients (Amemiya 1981). The recent version of SPSS i.e. PASW is used for the binomial regression analysis in this study. It should be noted that separate tests are conducted for establishment and ownership mode choices in this study. In the case of establishment mode choice, the dependent variable has value 1 if the establishment mode choice is acquisition. Therefore a positive regression coefficient indicates that a particular variable increases the probability of acquisition in establishment mode choice. Moreover, in the case of ownership mode choice, the dependent variable has value 1 if the ownership mode choice is JV. Therefore a positive regression coefficient indicates that a particular variable increases the probability of JV formation in the ownership mode choice by MNEs.

It should be further noted that Jaccard (2001:68) referred that product terms of relevant variables can be entered directly in a statistical package with other co-variates or predictors in order to test the potential moderating influences of a variable. Therefore, this dissertation follows this recommendation, and product terms of formal institutional distance and strength of market conforming values, and informal institutional distance and strength of market conforming values, are used in regression tests to analyze potential moderating influences predicted in study hypotheses.

5.2 Descriptive Statistics

Table 9 shows the descriptive statistics and correlations between the dependent, control and independent variables of the study.

Table 9. Means, Standard Deviations and Pearson Correlations among Dependent, Control and Independent Variables

Variables	Mean	S.D.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
Dependent Variables														
1. Establishment Mode	0.43	0.496	1											
2. Ownership Mode	0.56	0.497	0.119	1										
Control Variables														
3. Parent MNE Size	6.135	1.963	0.154*	0.010	1									
4. International Experience	23.03	22.740	0.046	0.065	0.718*	1								
5. Host Country Experience	1.66	3.309	0.153*	-0.091	0.256*	0.264*	1							
6. Host Country Risk	54.305	15.058	-0.129*	-0.047	0.136*	0.059	0.028	1						
7. Economic Growth	3.106	7.006	-0.100	-0.167*	0.110	0.015	0.103	0.685*	1					
8. BRIC Dummy	0.43	0.495	-0.207*	-0.110	0.041	0.043	0.144*	-0.112	0.169*	1				
9. Timing of Investment	0.60	0.491	0.023	0.381*	0.010	0.187*	-0.229*	-0.222*	-0.307*	-0.256*	1			
Independent Variables														
10. Formal Institutional Distance	3.538	1.111	-0.086	0.003	0.105	0.056	0.116	-0.292*	-0.042	0.661*	-0.144*	1		
11. Informal Institutional Distance	2.784	0.840	-0.036	-0.252*	0.026	-0.064	0.199*	-0.213*	-0.008	0.414*	-0.471*	0.517*	1	
12. Strength of Market Conforming Values	6.594	1.767	0.250*	-0.040	-0.065	-0.044	-0.119	-0.079	-0.233*	-0.701*	0.177*	-0.616*	-0.580*	1

* $p < 0.01$ (two-tailed test)

It can be observed from table 9 that there are relatively high correlations between some control and independent variables of the dataset. Therefore, I conducted the analysis of variance inflation factor (VIF) test as recommended by Wetherill (1986), in order to see if potential collinearity among variables is going to influence the results of study or not. (See Appendix 2 for the results of collinearity diagnostics for the dataset). According to Belsley, Kuh and Welsch (1980:105) and Wetherill (1986), in those regression models where the highly correlated variables was associated with the same condition index, the VIF value should not exceed 10. The VIF values of all the variables are far below than 10, the highest being 3.569. Therefore, it can be said that the potential collinearity among variables is not expected to impact the results of regression analysis of this study.

5.3 FDI Establishment Mode Choice of Finnish MNEs

Table 10 shows the statistical models depicting results of binomial logistic regression for FDI establishment mode choice of Finnish MNEs. In order to analyze the model strength and explanatory power, chi-square (χ^2) and p values are analyzed. Large chi-square values and small p values indicate a good fit as well as better explanatory power of the statistical models. The explanatory power of all the statistical models of the study is good, as their chi-square values are highly significant at $p < 0.01$ level. Moreover, the chi-square values increase from 51.254 in model 1 to 62.326 in Model 4 showing increased explanatory power with the addition of independent variables and product terms. The predictive ability of the statistical models can be assessed by the correct classification rate. All the statistical models for FDI establishment mode choice in table 10 have a higher correct classification rate than the chance rate of 50.8%, which is calculated using the *proportional chance criterion* (Hair et al. 1998) which is $a^2 + (1-a)^2$, where a is a proportion of acquisitions (43.4%) in study sample. The regression models show the correct classification rate of 67.3% to 69.1%; therefore showing 16.5% to 18.3% improvement. Moreover, the predictive capability of the statistical models is further strengthened by the fact that Nagelkerke R^2 values are good as well as they gradually increase from 0.186 to 0.223 from model 1 to model 4.

5.3.1 Control Variables

In Table 10, the Model 1 presents the results of the binary logistic regression tests, depicting the impacts of control variables on the FDI establishment mode choice of Finnish MNEs. The most significant control variables for FDI estab-

lishment mode choice of Finnish MNEs in the sample emerging economies are parent MNE size, host country experience of MNE, host country risk and BRIC dummy which are highly significant at $p < 0.01$ level. Moreover, international experience of the MNEs is also significant at $p < 0.05$ level.

Table 10. Logistic regression estimates for FDI establishment mode choice (acquisition=1)

Variables	Model 1: Control Variables	Model 2: Independent Variables	Model 3: Formal Institutional Dis- tance X Strength of Market Conform- ing Values	Model 4: Informal Insti- tutional Distance X Strength of Market Con- forming Values
Parent MNE Size	0.323***	0.325***	0.323***	0.339***
International Experience	-0.017**	-0.017**	-0.017**	-0.016*
Host Country Experience	0.112***	0.116***	0.115***	0.099**
Host Country Risk	-0.035***	-0.025*	-0.026*	-0.023*
Economic Growth	0.016	0.018	0.023	0.030
BRIC	-1.282***	-0.674*	-0.754*	-0.802*
Timing	-0.108	0.140	0.127	0.227
Formal Institutional Distance		0.077	0.346	0.034
Informal Institutional Distance		0.186	0.163	1.748**
Strength of Market Conforming Values		0.304**	0.431	0.918***
Formal Institutional Distance X Strength of Market Conforming Values			-0.040	
Informal Institutional Distance X Strength of Market Conforming Values				-0.233**
N (Acquisition)	343(149)	343(149)	343(149)	343(149)
Model χ^2	51.254***	57.822***	58.015***	62.326***
-2 Log likelihood	418.324	411.756	411.563	407.252
Nagelkerke R ²	0.186	0.208	0.209	0.223
Correctly classified (%)	67.3%	68.5%	69.1%	68.8%

Significance; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

The regression coefficients depict that large Finnish MNEs preferred acquisitions in establishment mode choice, rather than greenfield investments. This finding is in line with many previous studies that primarily applied transaction cost theory to address establishment mode choice and found large parent MNE size resulting in choice of acquisitions (e.g. Caves & Mehra 1986; Andersson et al. 1993; Hen-

nart & Park 1993; Cho & Padmanabhan 1995; Larimo 2003). This finding also confirms the findings of Larimo (1993, 1997) whose studies specifically concentrated on the behavior of FDIs made by the Finnish MNEs in their international markets and the found that large Finnish MNEs preferred acquisitions in their establishment mode choice.

It can be further observed from model 1 in table 10 that high host country risk results in preference of greenfield investments by the MNEs. Country risk has been referred one of the most influential variables in internationalization decisions of IB literature since last few decades (e.g. Robock 1971; Kobrin 1979, 1982; De La Torre & Neckar 1990). The studies by Woodcock et al. (1994) and Hennart et al. (1998) reveal that there are high costs associated with acquisitions compared to greenfield investments due to post acquisition integration and other structural changes in the subsidiary. Moreover, it has also been mentioned that the returns on the acquisitions of local firms are also uncertain in many emerging economies (e.g. Zejan 1990; Li 1995; Delios & Henisz 2000). Therefore, greenfield investments can emerge as a better option for the MNEs in some of the high risk host countries as it also strengthens the managerial link between parents firm and its subsidiaries (e.g. Brouthers et al. 1999; Ahmed et al. 2002). Hence, the finding that Finnish MNEs preferred greenfield investments rather than acquisitions in emerging economies of CEE, Asia and Latin America is understandable.

Further on, an interesting finding of regression results is about the different impacts of international experience and host country experience of Finnish MNEs on their FDI establishment mode choice in the sample emerging economies. Both international and host country experience are significant for establishment mode choice at $p < 0.05$ level and $p < 0.01$ level respectively. However, the regression results reveal that high international experience leads to preference of greenfield investments, while high host country experience leads to the preference of acquisitions by the MNEs. Brouthers and Brouthers (2000) also found that firms with high international experience preferred establishment of greenfield subsidiaries. It has been mentioned in the previous literature that international experience becomes salient when MNEs with operations in multiple markets develop a general structural ability to adapt (Tallman & Fladmoe-Lindquist 2002; Ellis 2008). Prior establishment mode research has also found out that the differences in practices between MNEs and local firms to be a barrier to cross-border acquisitions (e.g. Brouthers & Brouthers 2000; Child et al. 2001); these barriers may even increase if the host country is an emerging economy with totally different practices (Guillen 2003b; Uhlenbruck et al. 2003). The previous IB literature mentions that internationally experienced MNEs can adapt faster when encountering unfamiliar territory and market conditions (Henisz 2003). Consequently, the establishment of

a greenfield investment by the Finnish MNEs with high international experience is also expected to help in smooth transfer organizational practices to the foreign subsidiaries, which is one of the key aspects of organizational strategy of MNEs as referred in some past studies (e.g. Anand & Delios 2002; Kostova & Roth 2002).

On the other hand, host country experience is expected to provide investing MNE with better information about the local businesses, firms, their business networks and operations. As a result, it can be anticipated that high host country experience provides MNEs knowledge about the potential good acquisition targets representing established and successful local firms in certain industries and business sectors. Prior IB literature mentions that practices and routines of acquired firms offer certain advantages to the MNEs (Anand & Delios 2002; Shimizu et al. 2004), especially when host country represents very different institutional environment. Moreover, it can be expected that some of the practices of acquired firms are likely to be unique in nature based on firm's background and history (Kostova 1999). Therefore, such practices and strategies of the acquired firm can provide strategic advantages (e.g. Davis et al. 2000; Child et al. 2001) to the Finnish MNEs in those host countries that differ significantly from the home country. Therefore, choice of acquisitions in such cases by the Finnish MNEs with high host country experience is understandable.

BRIC dummy is significant at $p < 0.01$ level for FDI establishment mode choice in table 10. The regression coefficients indicate that investments in BRIC countries by Finnish MNEs tended to be greenfield investments, rather than acquisitions. This finding explained by referring to their large market size, high levels of growth and incentives for greenfield investments by the foreign MNEs (Sauvant 2006; UNCTAD 2009, 2010), as they increase economic opportunities for local firms and populations. Moreover, BRIC countries represent relatively developing institutional infrastructure, compared to some other countries in our sample like Czech Republic, Chile, Estonia, Hungary, Malaysia and Poland, where market economy institutions have strengthened during last decade. Calori et al. (1994) and Dikova et al. (2010) explain that when the host countries' firms are rooted in very different national and professional culture, they are difficult to change. I argue that the BRIC countries represent very different professional and organizational environment and culture compared to Finnish MNEs, which is expected to have influenced the choice of greenfield investments. The literature also mentions that restrictions on acquisitions in certain industry sectors still exist in some of these economies (e.g. Yiu & Makino 2002; Sauvant, Jost, Davies & Garces 2011), which is also evident by relatively lower scores of these countries in the acquisition freedom item of world competitiveness yearbooks (IMD 2010).

Therefore, it can be expected that greenfield investments have been preferred by Finnish MNEs to tap into the potential of these markets. Finally, the impacts of control variables, economic growth in the host country and timing of investment are found to be non-significant on FDI establishment mode choice of Finnish MNEs in the sample emerging economies during the study time period.

5.3.2 *Independent Variables and Hypotheses Testing*

The regression results show that the impact of formal institutional distance on FDI establishment mode choice of Finnish MNEs is non-significant in all the models (2, 3, 4) in table 10. However, the regression coefficient shows that high formal institutional distance results in acquisition of the local firms rather than greenfield investments, which is opposite to the study hypothesis. As formal institutional distance does not receive any statistical support about its impact on FDI establishment mode choice of Finnish MNEs; hypothesis 1 is rejected.

Informal institutional distance is significant at $p < 0.05$ level in the model 4 in table 10. The regression coefficient shows that high informal institutional distance results in acquisition of the local firms rather than greenfield investments as hypothesized in hypothesis 3 of the study. Estrin et al. (2009) in their study argued that the relationship between informal institutions and choice of greenfield investments tends to be curvilinear in case of high informal institutional distance. Therefore, it can be expected that MNE prefer to establish acquired subsidiaries to a certain point of informal institutional distance; after that their preferred establishment mode choice changes to greenfield subsidiaries. Moreover, it should be mentioned that different sample characteristics compared to past studies, gradual strengthening of market conforming values especially in some CEE and Asian countries and Finnish MNEs' need for local responsiveness in countries representing very different informal institutions explains this different results. Tan and Mohaney (2003) found that local knowledge is very important for MNEs entering the culturally distant host countries. The lack of local knowledge in culturally distant countries can create both operational and strategic difficulties for the MNEs (Caves 1996; Makino & Delios 1996; Hofstede 2001). The same argument can also be extended to the countries with very different informal institutional environment (of which culture is also a part) than home countries of MNEs (i.e. Finland in this case). There is high need of local responsiveness in such markets for the MNE because it leads to the adaptation of the subsidiaries' products and services to the local conditions (Perlmutter 1969; Doz & Prahalad 1991; Van Heerden & Barter 2008).

The acquisition of the local firms is expected to provide Finnish MNEs the opportunity to use their practices, routines and organizational structures of the acquired firms (Anand & Delios 1996, 2002; Barkema & Vermeulen 1998) in the sample emerging economies. Some of these practices, strategies and organizational structures of acquired firms are likely to be unique and can result in increasing local adaptation of MNEs (Kostova 1999; Child et al. 2001; Guler et al. 2002) and thus provide advantages to the acquiring firm. Moreover, in order to be locally responsive (Datta & Grant 1990; Slangen & Hennart 2008), it could be expected that MNEs can be expected to grant certain level autonomy to the acquired local firms (e.g. Chang & Rosenzweig 1991; Datta 1991; Uhlenbruck & De Castro 1998) in foreign markets with high informal institutional distance. Granting autonomy to the acquired subsidiaries also results in preservation of their certain unique practices and strategies (Haspeslagh & Jemison 1991; Child et al. 2001; Eischer & Kang 2005). These practices and strategies can prove to be useful for the MNEs (Amit & Schoemaker 1993; Slangen & Hennart 2008) as they are already aligned with the requirements of local informal institutions of the host countries (e.g. Guillen 2003a).

The host countries in the study sample consist of emerging economies representing very different informal institutions compared to Finland. It has been referred in the literature that some countries in emerging economies have successfully implemented the formal institutional reforms, but the development of informal institutional environment (including professional culture also) is rather slow (Peng 2003; Meyer 2004). Therefore, the foreign firms entering those markets need to rely on networking and relationships with local authorities (e.g. Henisz 2000; Henisz & Zelner 2005; La Porta et al. 2008), which can also be achieved by acquisition of the local firms and using their existing structures and network of relationships. Hence, it can be expected that Finnish MNEs preferred acquisitions rather than greenfield investments in case of high informal institutional distance, due to all the above mentioned reasons. As expected statistical support for hypothesis 3 is not received, therefore it is also rejected.

The strength of market conforming values in the host country is highly significant at $p < 0.05$ level in model 2 and $p < 0.01$ level in the model 4 of table 10. Moreover, the regression coefficient shows that strong market conforming values in the host country result in preference of acquisitions by the Finnish MNEs in the sample emerging economies during study time period. This finding is in line with hypothesis 5 of the study; therefore hypothesis 5 is accepted. These findings are also in accordance with certain previous studies that attempted to address similar issues. The strengthening of market conforming values by institutional development in particular host markets results in reducing the uncertainty for the invest-

ing foreign firms (Khanna & Rivkin 2001; Meyer 2001; Khanna & Palepu 2010). Moreover, these institutional reforms and resulting institutional development has been shown to have positive influence on market entry of firms due to reduction of barriers and administrative costs especially in emerging economies in CEE and Asia (Aghion et al. 2008; Yakaolev & Zhuravskaya 2008; Khanna & Palepu 2010). Therefore, the firms can commit more resources to the host country in presence of favorable institutional environment as found in the study by Child and Tsai (2005). As mentioned earlier that the strengthening of market conforming values results in removal of restrictions on entry and ease to start operations. This is also expected to result in lower restrictions on acquisition of local firms by foreign firms (MNEs) in that particular host country, which also explains this finding.

It can be further observed from table 10 that the regression coefficient of interaction term of formal institutional distance and strength of market conforming values is non-significant. Further on, in order to better analyze the interaction effects of formal institutional distance and strength of market conforming values on establishment mode choice; the plots depicting the predicted probability of investments being acquisitions in relation to high and low formal institutional distance as well as weak and strong market conforming values is presented in figure 15.

This plot shows that at high end of market conforming values, the predicted probability of acquisitions formation is quite similar in both high and low informal institutional distance countries. The plot also shows that at high end of the market conforming values, predicted probability of acquisitions is slightly higher than greenfield investments in both high and low formal institutional distance countries. Further on, at low end of market conforming values; greenfield investments formation appear to be more probable in both high and low formal institutional distance countries (as depicted by low predicted probability of acquisitions formation in the plot). The predicted probability of acquisitions formation decreases even further in high formal institutional distance host countries at low end of market conforming values. A clear inference about expected moderating influences of strength of market conforming values on formal institutional distance's impacts on establishment mode choices cannot be established from the interaction plot. Moreover, the interaction term is also statistically non-significant; therefore hypothesis 7 is not accepted.

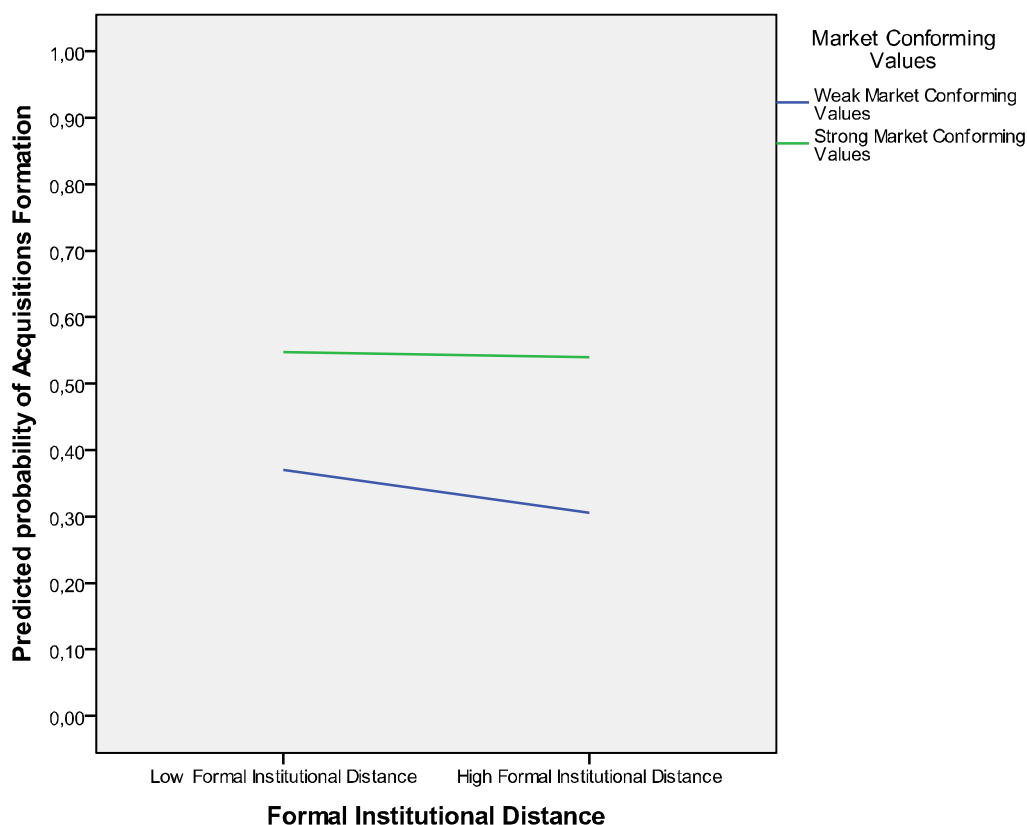


Figure 15. Interaction Plot of Formal Institutional Distance and Strength of Market Conforming Values in the Host Country for Establishment Mode Choice of Finnish MNEs

The non-significance of interaction term (of formal institutional distance and strength of market conforming values) can be explained by referring to the fact that development of market institutions and resultant strengthening of market conforming values in a host country reduces uncertainty for the MNEs (Meyer 2001; Peng 2003). However, the presence of large differences in legal and regulative environment (formal institutional environment) still can pose challenges for the Finnish MNEs in these host emerging markets. Moreover, the previous literature mentions that different legal origins (e.g. Coase 1988; Beck et al. 2003; La Porta et al. 2008) and different paces of legal development in the countries (Coase 1988; Pistor et al. 2000) have impacts on strategies of the foreign firms entering those markets. The host countries in the study sample from CEE region have a unique history of development of formal institutions from planned (socialist) economic system (Peng 2003; Zweynert & Goldschmidt 2006; Milhaupt & Pistor 2008). Moreover, China has also unique sets of rules and regulations governing businesses and has been referred as capitalism with Chinese characteristics (Huang 2003, 2008). Despite reforms and strengthening of market conforming values, Chinese legal environment is very different from legal environment in

western European countries (Huang 2008), from where Finnish MNEs also come from. Moreover, the other host countries from Asian region like India, and Malaysia inherited formal (legal and regulative) systems based on common law due to British colonial impacts on them (see e.g. Barns & Thomas 1975; Amsden 2007; Milhaupt & Pistor 2008). Finally, the host countries in Latin America represent their own legal systems influenced by their history and colonial background (Portugal in case of Brazil and Spain in case of others) (Marby 2002; La Porta et al. 2008; Trevino et al. 2008). Therefore, this variation in the bases of legal and regulative system of the host countries and their significant differences from formal institutional environment of Finland can be referred as one of the main factors to explain non-significance of moderating influences of market conforming values on formal institutional distance's impacts on establishment mode choice.

Finally, it can be observed from the table 10 that interaction term of strong market conforming values in the host country and informal institutional distance is significant at $p < 0.05$ level in model 4 of table 10. However, the regression coefficient also depicts the increased possibility of greenfield investments at high end of market conforming values in high informal institutional distance host countries; which is opposite to the expectation in hypothesis 9. The interaction plot to better analyze moderating influences is shown in figure 16.

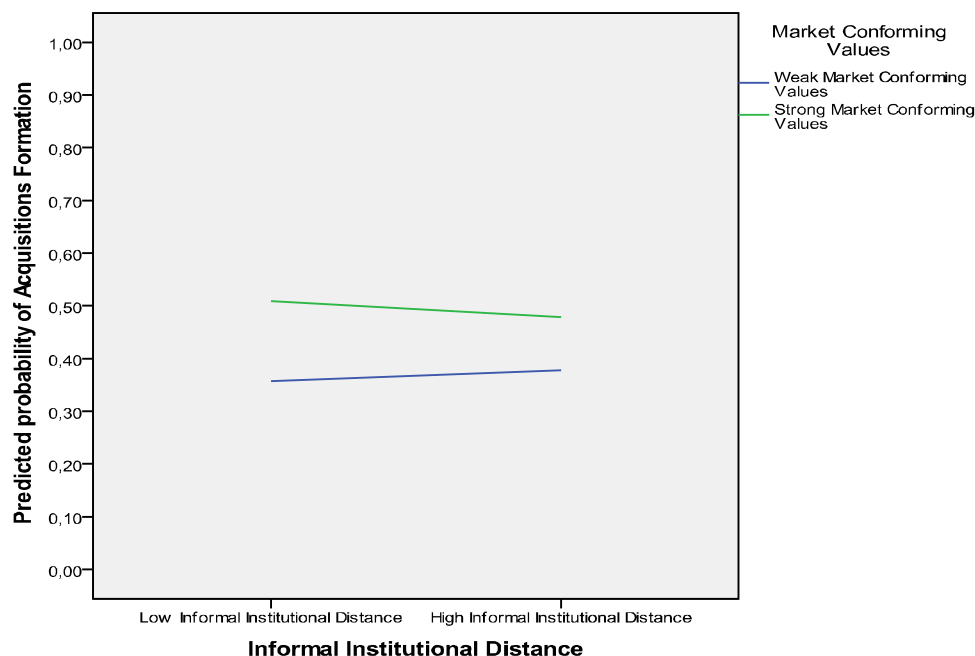


Figure 16. Interaction Plot of Informal Institutional Distance and Strength of Market Conforming Values in the Host Country for Establishment Mode Choice of Finnish MNEs.

The interaction plot depicts that at high end of market conforming values; predicted probability of investments in high informal institutional distance host countries is rather evenly distributed between greenfields or acquisitions (though acquisitions formation seems slightly more probable). Moreover, at low end of market conforming values in high informal institutional distance host countries; the greenfield subsidiaries formation appears as majority of investments compared to acquisitions (as depicted by low predicted probability of acquisitions formation). It is also interesting to note that at low end of market conforming values; the predicted probability of acquisitions formation slightly increases from low to high informal institutional distance countries. Hypothesis 9 of the study is not accepted because a clear pattern of expected moderating influences cannot be established from the interaction plots and also regression coefficient depicts results opposite to the expectations.

5.4 FDI Ownership Mode Choice of Finnish MNEs

Table 11 shows the statistical models depicting results of binomial logistic regression for FDI ownership mode choice of Finnish MNEs. In order to analyze the model strength, chi-square (χ^2) and p values are analyzed. The explanatory power of all the statistical models of the study is good, as their chi-square values are highly significant at $p < 0.01$ level. Moreover, the chi-square values increase from 56.384 in model 1 to 75.217 in model 4, showing a considerable increase in explanatory power with the addition of independent variables and product terms in the regression models.

The predictive ability of the statistical models for FDI ownership mode choice is assessed by the correct classification rate. All the statistical models for FDI ownership mode choice in table 11 have a higher correct classification rate than the chance rate of 50.6%, which is calculated using the *proportional chance criterion* (Hair et al. 1998), which is $a^2 + (1-a)^2$, where a is a proportion of JVs (55.7%) in study sample. The regression models show the correct classification rate of 69.7% to 71.4%; therefore showing improvement of 19.1% to 20.8%. Hence, the addition of independent variables and interaction variables significantly increase the predictive capability of statistical models. Lastly, the significant predictive capability of the statistical models is also evident from the good Nagelkerke R^2 values and their increase from 0.203 to 0.264 from model 1 to model 4.

5.4.1 *Control Variables*

In Table 11, the Model 1 presents the results of the binary logistic regression showing the impacts of control variables on the FDI ownership mode choice of MNEs. The most significant control variable for FDI ownership mode choice of Finnish MNEs is timing of investment significant at $p < 0.01$ level in all the models. Moreover, host country risk and economic growth are also significant at $p < 0.05$ level for ownership mode choice. Finally, it can be observed that BRIC dummy is mildly significant at $p < 0.1$ level in model 2 and significant at $p < 0.05$ level in model 4.

The regression coefficients further depict that host country risk is a significant variable for ownership mode choice and Finnish MNEs preferred JV formation in the high risk countries. Host country risk is one of the most significant variables in internationalization decisions MNEs as referred in many past IB studies (e.g. Robock 1971; Buckley & Casson 1976, 1998). Previous IB studies mention that high country risk is associated with the adoption of market entry modes involving lower costs and resource commitments (Buckley & Casson 1976, 1998; Rugman 1981; Anderson & Gatignon 1986; Brouthers & Brouthers 2003). In high risk host countries, MNEs tend to limit their equity involvement by avoiding full ownership, which offers necessary flexibility and low switching costs (Erramilli & Rao 1993). Therefore, JVs emerge in previous empirical research as a favored choice for the MNEs to share costs and risks with a local partner in a high risk environment (e.g. Gatignon & Anderson 1988; Hill et al. 1990; Kim & Hwang 1992; Aulakh & Kotabe 1997; Luo 2001; Nakos et al. 2002; Brouthers & Brouthers 2003; Pak & Park 2004), which is same as finding of this study.

It has already been found and discussed in previous section that high country risk resulted in preference of greenfield investments in FDI establishment mode choice by the Finnish MNEs in the sample emerging economies during the study time period. The host countries in the study sample represent a range of emerging economies where some host country institutions are in the process of development and score high on the country risk dimension. Therefore, it can be said that greenfield JVs have been the preferred mode of entry of the Finnish firms to share costs and risks with a reliable local partner, in sample emerging economies of CEE, Asian and Latin American region during 1990-2006.

It can be further observed from the model 1 in table 11 that high economic growth in the host country result in preference of WOSs by the Finnish MNEs. This finding is also in line with the results of previous studies, where it has been referred that high economic growth in the host countries offers the MNEs an opportunity

to take advantages of the market and growth potential they offer (e.g. Wilson 1980; Andersson & Svensson 1994). As a result, the MNEs can commit more resources to the host country and preferred WOSs in their market entry decisions (e.g. Makino & Neupert 2000; Barbousa & Louri 2002). Moreover, the formation of WOSs is expected to put Finnish MNE in a position to dominate the market in the long term (e.g. Taylor et al. 2000) as well as avoid the potential problems with foreign JV partners which is well documented in past IB literature (e.g. Gommess-Casseres 1989, 1990).

Table 11. Logistic regression estimates for FDI ownership mode choice (JV=1)

Variables	Model 1: Control Variables	Model 2: Independent Variables	Model 3: Formal Institutional Dis- tance X Strength of Market Conform- ing Values	Model 4: Informal Insti- tutional Distance X Strength of Market Con- forming Values
Parent MNE Size	0.029	0.011	0.012	0.023
International Experience	-0.004	-0.003	-0.003	-0.002
Host Country Experi- ence	0.006	0.016	0.016	0.002
Host Country Risk	0.024**	0.017	0.018	0.021
Economic Growth	-0.057**	-0.058**	-0.060**	-0.045*
BRIC	0.150	-0.714*	-0.682	-0.866**
Timing	1.652***	1.174***	1.176***	1.301***
Formal Institutional Distance		0.408**	0.294	0.376**
Informal Institutional Distance		-0.703***	-0.695***	1.082
Strength of Market Conforming Values		-0.224*	-0.278	0.489
Formal Institutional Distance X Strength of Market Conforming Values			0.017	
Informal Institutional Distance X Strength of Market Conforming Values				-0.277**
N (JV)	343(191)	343(191)	343(191)	343(191)
Model χ^2	56.384***	69.843***	69.875***	75.217***
-2 Log likelihood	414.671	401.212	401.180	395.838
Nagelkerke R ²	0.203	0.247	0.247	0.264
Correctly classified (%)	69.7%	71.4%	71.4%	71.4%

Significance; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

BRIC dummy is also significant at $p < 0.1$ in model 2 and $p < 0.05$ in model 4 for ownership mode choice of Finnish MNEs as shown in table 11. The regression coefficients indicate that investments in BRIC countries by Finnish MNEs tended

to be WOSs. It has been found and explained in previous section that Finnish MNEs preferred greenfield investments in BRIC countries. Therefore, it can be said that during sample time period wholly owned greenfield investments have been preferred by Finnish MNEs in BRIC countries. Large market size and high levels of economic growth in BRIC economies (Sauvant 2006; UNCTAD 2010) can provide enough investments for Finnish MNEs to form WOSs. Formation of WOSs in BRIC countries would provide Finnish MNEs to gain from market and economic potential offered by them, as well as acquire strong position in these attractive markets in the long run.

Finally, the control variable timing of investment is highly significant for ownership mode choice at $p < 0.01$ level as shown in table 11. The regression coefficient of timing of investment variable shows that FDIs made during 1990s was JVs. This finding is in line to some previous studies which refer that MNEs prefer to form JVs in emerging economies that are in early stages of transition (e.g. Peng 2003; Meyer 2004). The host countries in our sample from CEE region were in early stages of transition during the 1990s (Kolodko 2000; Peng 2003), therefore it is understandable that Finnish MNEs preferred to form JVs with local partners. Moreover, the host countries from Asia especially China and India also gradually opened up for foreign firms during 1990s (Luo 2000; Huang 2008; Aghion et al. 2008). Additionally, there were also restrictions on ownership permissible for the foreign firms in some of the host countries as they score rather low on market conforming values dimension. Therefore, it can be expected that Finnish firms also preferred JVs formation as a preferred entry mode choice in the sample emerging economies during the 1990s.

Finally, the control variables like parent MNE size, international experience and host country experience are found to non-significant for FDI ownership mode choice of Finnish MNEs during the study time period.

5.4.2 *Independent Variables and Hypotheses Testing*

It can be observed that formal institutional distance is significant for ownership mode choice of Finnish MNEs in sample emerging economies at $p < 0.05$ level in the model 2 and 4 of table 11. The regression coefficient shows that high formal institutional distance results in preference of JVs by the MNEs. This finding is same as the hypothesis 2 and therefore, hypothesis 2 is accepted. This finding also supports the findings of the previous studies where it has been found that high formal (regulative) institutional distance results in preference of JVs in the entry/ownership mode choice by the MNEs (e.g. Xu & Shenkar 2002; Xu et al.

2004). Xu and Shenkar (2002) explained that the choice of equity in a foreign subsidiary as a highly regulated aspect, and JV formation in case of high differences between home and host country has been shown to reduce insecurity for MNEs (Makino & Delios 1996; Deng 2003; Chen et al. 2009). High regulative (formal) institutional distance has also been referred as one of the causes of liability of foreignness for the MNEs (Xu et al. 2004), and JV formation with a local partner can also reduce it. Most host countries in the study sample represent the emerging economies where market economy institutions are still in process of development and differ from the developed formal institutional infrastructure of home country of MNEs of this study (i.e. Finland). Therefore, it is quite understandable that Finnish MNEs preferred JVs in the sample emerging economies with high institutional distance from Finland as JV formation with a local partner offered them improved external legitimacy (Rosenzweig & Nohria 1994) along with fitting to formal institutional requirements.

Informal institutional distance is significant at $p < 0.01$ level for FDI ownership mode choice of Finnish MNEs in emerging economies as shown in models 2 and 3 of table 11. The regression coefficients also show that high informal institutional distance results in preference of WOSs by the Finnish MNEs, rather than JVs as hypothesized in hypothesis 4 of this study. This finding is also in contrast to the results of some previous studies (see e.g. Yiu & Makino 2002; Xu et al. 2004; Kaynak et al. 2007), where it has been found that high difference in informal institutions (also referred as normative distance/differences in those studies) results in preference of JVs by the MNEs. However in a recent study, Arslan and Larimo (2010) found that high normative institutional distance (which is a similar concept of informal institutional distance) results in preference of WOSs by the Finnish MNEs in CEE countries. Although, they used the values of institutional indicators for only one year from global competitiveness reports, and this study uses informal institutional distance indicators from the year of investment of nearest available year. Nevertheless, still their results confirm similar ownership mode choice behavior by the Finnish MNEs in their international investments in the emerging economies.

It is also important to mention that the previous studies addressing institutional distance (differences) and market entry mode choices (e.g. Yiu & Makino 2002; Xu et al. 2004) concentrated on FDIs made by Japanese firms. This sample selection is also expected to have certain influences on their findings. It is argued that different sample characteristics compared to past studies, gradual strengthening of market conforming values especially in some CEE and Asian countries and Finnish MNEs' need for local responsiveness in countries to very different informal institutions explains this different results. Tan and Mohaney (2003) found

that local knowledge is very important for MNEs entering the culturally distant host countries. The lack of local knowledge in culturally distant countries can create both operational and strategic difficulties for the MNEs (Caves 1996; Hofstede 2001).

It has been discussed in previous section that high informal institutional distance resulted in preference of acquisition of the local firms by the Finnish MNEs in their establishment mode choice. This acquisition is expected to provide Finnish MNEs the opportunity to use their practices, routines and organizational structures of the acquired firms (Anand & Delios 1996, 2002; Barkema & Vermeulen 1998) in these emerging economies and gain local responsiveness (Datta & Grant 1990; Slangen & Hennart 2008). The host countries in the sample consist of emerging economies representing very different informal institutions compared to Finland. It has been referred in the literature that some countries in emerging economies have successfully implemented the formal institutional reforms, but the development of informal (normative, professional) institutions is rather slow (Kolodko 2000; Peng 2003; Meyer 2004). The problems faced by MNEs in working with a local JV partners that represent very different national and organizational culture are well documented in the IB literature (e.g. Gommers-Casseres 1990; Estrin et al. 2009). Therefore, Finnish MNEs entering emerging economies in CEE, Asia and Latin America with high informal institutional distance preferred to fully acquire local firms (i.e. WOS formation through acquisition mode), when it was possible for them.

It should be further noted that the measures of institutional distance and market conforming values are based on data from the year of investment or nearest available year in this study and are also expected to influence this finding. In many of the host countries, market conforming values have strengthened during the study time period, and as a result MNEs' choice of acquisition is understandable despite high informal institutional distance as acquisition restrictions on foreign firms are expected to have decreased. Therefore, it could be said that full acquisitions could be used as a preferred establishment mode choice by the Finnish MNEs despite high informal institutional distance, in these emerging economies due to advantages of location bound market knowledge (e.g. Wilson 1980; Rugman & Verbeke 1992) and local responsiveness (e.g. Harzing 2002). In case of high differences in informal institutional environment, the foreign firms entering those markets need to rely on networking and relationships with local authorities (e.g. Henisz 2000; Henisz & Zelner 2005), which can also be achieved by Finnish firms fully acquiring local firms in those markets and using their established networks.

The strength of market conforming values in the host country is mildly significant at $p < 0.1$ level for the ownership mode choice of Finnish MNEs in sample emerging economies. Moreover, the regression coefficient shows that strong market conforming values in the host country results WOSs formation by the Finnish MNEs in sample emerging economies during study time period. This finding is same as findings of previous studies addressing similar issues and hypothesis 6; therefore hypothesis 6 is accepted.

The literature refers that the restrictions on market entry can exert pressures on MNEs to only form JVs (Taylor et al. 2000; Deng 2003). However, in case of strong market conforming values, these restrictions are lowered and the pressures on the investing foreign firms are also reduced. The host emerging economies in this study represent a heterogenous sample where some score quite better than others in market conforming values, as mentioned in previous sections. Hence, it can be expected that those economies were successful in implementation of institutional and regulative reforms that resulted in deregulation and reduction of restrictions on the market entry for the MNEs. These factors are expected to have resulted in preference of WOSs by the Finnish MNEs in host markets representing strong market conforming values. Moreover, it has already been mentioned in previous section that strong market conforming values result in acquisitions of the local firms by Finnish MNEs in sample emerging economies. Therefore, it can be said that formation of WOSs (Chung & Beamish 2005; Chen et al. 2009) through full acquisition of local firms have been preferred by Finnish MNEs because wholly foreign owned businesses are considered rightful in host markets representing strong market conforming values.

The regression results further show that the product term of strength of market conforming values in the host country and formal institutional distance is non-significant for FDI ownership mode choice of Finnish MNEs. The interaction plot of formal institutional distance and strength of market conforming values in host country in relation to predicted probability of JVs formation is shown in figure 17. The interaction plot shows that at low end of market conforming values, the predicted probability of investments in high formal institutional distance host countries are rather evenly distributed between WOSs and JVs. However, it is important to mention that at low end of market conforming values, JVs formation decreases significantly in high formal institutional distance host countries compared to low formal institutional distance host countries. Moreover, at high end of market conforming values in high formal institutional distance host countries; the predicted probability of JVs formation is quite high. At high end of market conforming values; the predicted probability of JVs formation also increases significantly from low to high formal institutional distance host countries. The inter-

action plot depicts the predicted probability of JVs/WOSs formation which is rather opposite to the expectations in hypothesis 8. Moreover, it is important to note the statistical non-significance of the interaction term in regression results.

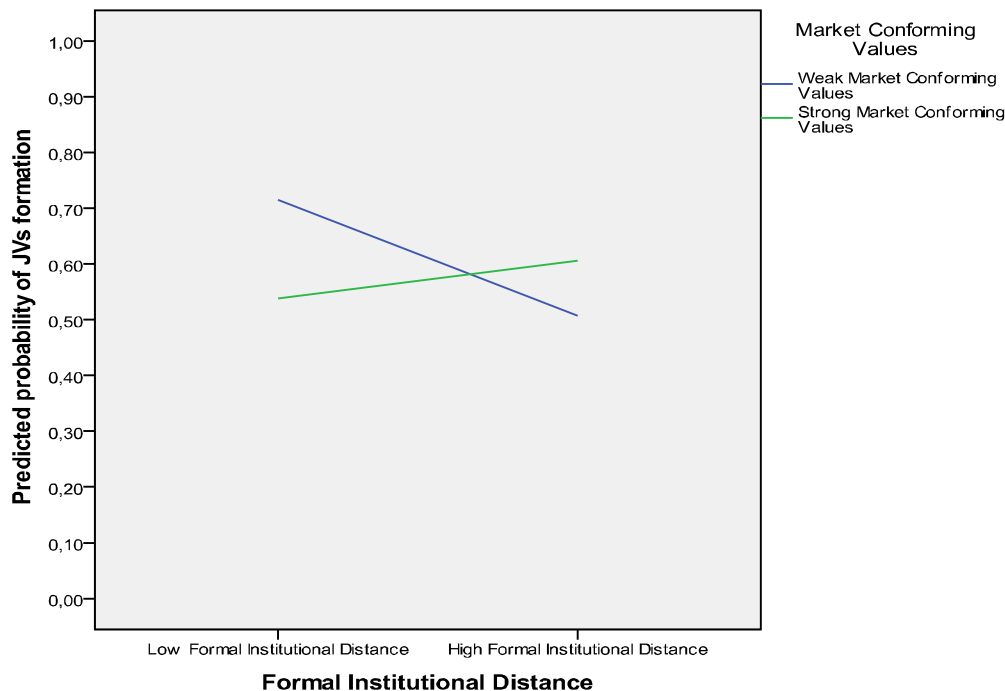


Figure 17. Interaction Plot of Formal Institutional Distance and Strength of Market Conforming Values in the Host Country for Ownership Mode Choice of Finnish MNEs

It has been already explained in previous section that moderating influences of strength of market conforming values in the host country are also non-significant for FDI establishment mode choice of Finnish MNEs in sample emerging economies. As already mentioned that different origins of laws and regulations (e.g. Coase 1988; Beck et al. 2003; La Porta et al. 2008) and different paces of legal development in the countries (Coase 1988; Pistor et al. 2000) impacts foreign MNEs' strategies entering those countries. The study sample represents an interesting mix of countries with a unique history of development of market economy regulations in CEE countries (Peng 2003; Zweynert & Goldschmidt 2006), as well hybrid model of socialism and economy in China (Huang 2003, 2008) and different colonial backgrounds of legal systems of other sample countries in Asia and Latin America (e.g. Barns & Thomas 1975; Marby 2002). This variation in the bases and background of legal and regulative institutional system of the host countries and their significant differences from formal institutional environment of Finland are important factors to be considered. It is argued that these factors

can offer some explanation for the non-significance of moderating influences of strong market conforming values in the host country on impacts of formal institutional distance on ownership mode choice of Finnish MNEs. Thus, a hypothesis 8 is rejected based on inferences from the interaction plot and the lack of statistical support for the product term.

Finally, the regression coefficient of product term of informal institutional distance and strength of market conforming values is significant ($p < 0.05$) as shown in model 4 of table 11. In order to better explain the findings, the interaction plot of informal institutional distance and strength of market conforming values in host country for ownership mode choices of Finnish MNEs is shown in figure 18. The plot shows that at high end of market conforming values in high informal institutional distance host countries; the predicted probability of investments being WOSs is very high (as depicted by sharp decline in predicted probability of JVs formation). Moreover, at low end of market conforming values in high informal institutional distance host countries; the predicted probability of JVs formation decreases compared to low informal institutional distance host countries. The predicted probability of JVs or WOSs formation seems rather even in high informal institutional distance countries at low end of market conforming values. This strange finding can be explained by referring to the regression results that depicted choice of WOSs rather than JVs by Finnish MNEs in host high informal institutional distance host countries (including host countries with both strong and weak market conforming values). Therefore, this choice of WOSs by Finnish MNEs in informally distant countries can be one of the explaining factors for this plot.

As mentioned earlier that the host countries in the sample consist of emerging economies representing very different informal institutions compared to Finland. Moreover, past literature also refer to slow pace of development of informal (normative, professional) institutions in emerging economies (Kolodko 2000; Peng 2003; Meyer 2004) despite legal reforms. The problems faced by MNEs in working with a local JV partners that represent very different national and organizational culture are well documented in the IB literature (e.g. Gommès- Casseres 1990; Estrin et al. 2009). Therefore, it is understandable that Finnish MNEs entering emerging economies in CEE, Asia and Latin America with high informal institutional distance preferred to form WOSs wherever it was legally possible for them. It was hypothesized in hypothesis 10 that at high end of market conforming values in high informal institutional distance host countries, WOSs formation is preferred; while at low end of market conforming values JVs formation is preferred. However, hypothesis 10 is not accepted as interaction plots do not depict the expected behavior of ownership mode choice of Finnish MNEs at low

end of market conforming values despite the statistical significance of the interaction term.

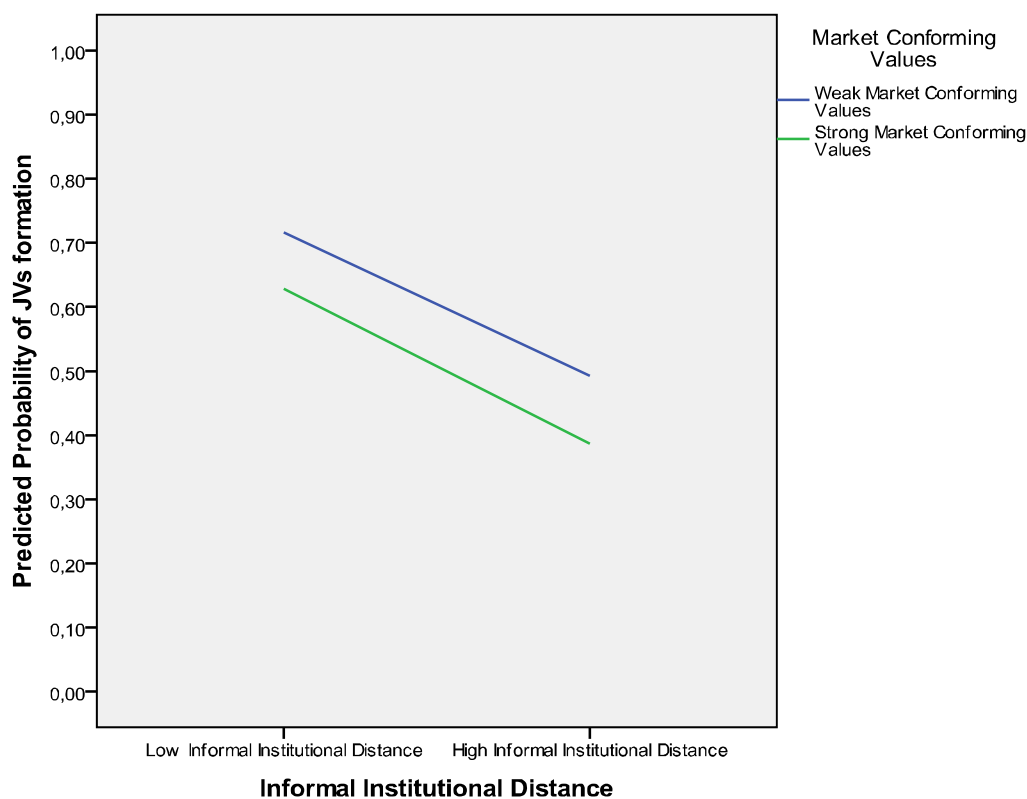


Figure 18. Interaction Plot of Informal Institutional Distance and Strength of Market Conforming Values in the Host Country for Ownership Mode Choice of Finnish MNEs

5.5 Review of Empirical Findings on FDI Establishment and Ownership Mode Choices of Finnish MNEs

The statistical analyses of FDI establishment and ownership mode choices of Finnish MNEs in emerging economies of CEE, Asia and Latin America during 1990-2006 has been discussed in previous sections. The study results reveal that control variables host country risk and BRIC dummy are significant for both FDI establishment and ownership mode choices. Other control variables have different significances in case of both FDI choices, as the results of previous similar studies indicate (e.g. Dikova & van Witteloostuijn 2007) that significances for control variables can be different for establishment and ownership mode choices of MNEs. Parent MNE size, international experience of firm and host

country experience of firm are also significant control variables for FDI establishment mode choice of Finnish MNEs. Moreover, economic growth in the host country and timing of investment are also significant for FDI ownership mode choice of Finnish MNEs. Table 12 shows the summary of impacts of control variables on FDI establishment and ownership mode choices of Finnish MNEs in sample host countries during 1990-2006.

Table 12. Empirical Findings on Control Variables for FDI Choices of Finnish MNEs

Control Variables	FDI Establishment Mode Choice	FDI Ownership Mode Choice
Parent MNE Size	Significant (Preference of Acquisitions)	Non-significant
International Experience of MNE	Significant (Preference of greenfield investments)	Non-significant
Host Country Experience of MNE	Significant (Preference of acquisitions)	Non-significant
Economic Growth	Non-significant	Significant (Preference of WOSs formation)
Host Country Risk	Significant (Preference of greenfield investments)	Significant (Preference of JVs formation)
BRIC dummy	Significant (Preference of greenfield investments)	Significant (Preference of WOSs formation)
Timing	Non-significant	Significant (Preference of JVs formation)

These control variables were selected based on the review of previous studies about both establishment and ownership mode choice. It can be said that in FDI establishment and ownership mode decisions of Finnish MNEs, different control variables had different significances; however as tables 10 and 11 show, all of them were significant in at least one of the FDI choices of Finnish MNEs, which confirms the relevance of selection of these control variables.

The regression results further revealed that impacts of high formal institutional distance are non-significant on FDI establishment mode choice of Finnish MNEs, while it results in preference of JVs in FDI ownership mode choice by Finnish MNEs. Therefore, hypothesis 1 is rejected, while hypothesis 2 is accepted. High informal institutional distance resulted in preference of acquisitions and formation of WOSs in FDI establishment and ownership mode choices of Finnish MNEs, which is opposite to the expectations. Therefore, hypotheses 3 and 4 are rejected. Moreover, strong market conforming values in the host country result in preference of acquisitions and formation of WOSs in FDI establishment and ownership mode choices of Finnish MNEs. These findings are same as hypotheses 5 and 6, and they are accepted.

The hypotheses regarding moderating influences of strong market conforming values on impacts of institutional distance of FDI establishment and ownership mode choices of Finnish MNEs do not receive support in the expected manner and they are not accepted. However, it is important to note that statistical significance of some interaction terms, as well as interaction plot do show a certain level of influence of strength of market conforming values in the host country on these FDI choices of Finnish MNEs. Therefore, it is important for future studies to address these issues with expanded datasets and different (and more comprehensive) measures of institutional distance and market conforming values, in order to gain in-depth understanding of these moderating influences. Hence, despite rejection of hypotheses, this study sets a precedence of probing these important interaction effects based on theoretical grounds, which can enrich current IB theoretical and empirical literature.

Table 13 summarizes the impacts of independent variables as well as results of study hypotheses on FDI establishment and ownership mode choices of Finnish MNEs. Finally, it should be said that as some results of this study differ from the results of the previous studies, it shows the importance of empirical context in IB studies, as many previous studies used datasets of FDIs from large developed economies rather than small, developed and open economies like Finland. Table 13 summarizes the results of this study by relating the hypotheses to their results, along with the reason for acceptance or rejection.

Table 13. Empirical Findings and Study Hypotheses

Hypotheses	Results
Hypothesis 1: High formal institutional distance leads MNEs to prefer greenfield investments in FDI establishment mode choice.	Not accepted: Statistically non-significant.
Hypothesis 2: High formal institutional distance leads MNEs to prefer JVs in FDI ownership mode choice.	Accepted: Statistically significant at $p < 0.05$
Hypothesis 3: High informal institutional distance leads MNEs to prefer greenfield investments in FDI establishment mode choice.	Not Accepted: Regression coefficient opposite than expectation; though statistically significant at $p < 0.05$
Hypothesis 4: High informal institutional distance leads MNEs to prefer JVs in FDI ownership mode choice.	Not Accepted: Regression coefficient opposite than expectation; though statistically significant at $p < 0.01$
Hypothesis 5: Strong market conforming values in the host country lead MNEs to prefer acquisitions in FDI establishment mode choice.	Accepted: Statistically significant at $p < 0.05$
Hypothesis 6: Strong market conforming values in the host country lead MNEs to prefer WOSs in FDI ownership mode choice.	Accepted: Statistically significant at $p < 0.1$

<p>Hypothesis 7: Strong market conforming values in the host country have a positive moderating impact on the relationship between MNEs' establishment mode choice and formal institutional distance: at high end of market conforming values MNEs investing in high formal institutional distance host countries are likely to choose acquisitions; while at low end of market conforming values, MNEs investing in high formal institutional distance host countries are likely to choose greenfield investments.</p>	<p>Not Accepted: Statistically non-significant. The interaction plot also did not offer any clear patterns of moderating influences.</p>
<p>Hypothesis 8: Strong market conforming values in the host country have a positive moderating impact on the relationship between MNEs' ownership mode choice and formal institutional distance: at high end of market conforming values, MNEs investing in high formal institutional distance host countries are likely to choose WOSs; while at low end of market conforming values, MNEs investing in high formal institutional distance host countries are likely to choose JVs.</p>	<p>Not Accepted: Statistically non-significant and the expected moderation influences cannot be inferred from the interaction plots.</p>
<p>Hypothesis 9: Strong market conforming values in the host country have a positive moderating impact on the relationship between MNEs' establishment mode choice and informal institutional distance: at high end of market conforming values, MNEs investing in high informal institutional distance host countries are likely to choose acquisitions; while at low end of market conforming values, MNEs investing in high informal institutional distance host countries are likely to choose greenfield investments.</p>	<p>Not Accepted: Regression coefficient of product term opposite than expectation; though statistically significant at $p < 0.05$ level. Moreover, interaction plot also did not show the expected moderating pattern.</p>
<p>Hypothesis 10: Strong market conforming values in the host country have a positive moderating impact on the relationship between MNEs' ownership mode choice and informal institutional distance: at high end of market conforming values, MNEs investing in high informal institutional distance host countries are likely to choose WOSs; while at low end of market conforming values, MNEs investing in high informal institutional distance host countries are likely to choose JVs.</p>	<p>Not Accepted: Product term is statistically significant at $p < 0.05$. However, the interaction plots also show decline in predicted probability of JVs formation at low end of market conforming values, which is opposite to expectation.</p>

6 DISCUSSION AND CONCLUSIONS

This chapter starts with a discussion about study findings along with providing a summary of the whole dissertation. In the next section, the chapter refers back to the key research question and study objectives and links them with the theoretical and empirical findings of this dissertation, thereby highlighting their novelty and contribution in the field of IB studies. This section is followed by the discussion about limitations of the study in order to present a rational picture about the applicability of this dissertation project. To enhance the practical applicability of this dissertation work, a section about managerial and policy implications based on the findings is also presented. Finally, the chapter ends with a section addressing the directions for future in the field of IB studies and thereby setting bases for expanding existing knowledge based on the findings of current study.

6.1 Summary and Findings of the Dissertation

Institutions play an important role in determining the success or failure of specific strategies of firms because of their capability to enforce favorable and unfavorable rules, structures or constraints on the firms (North 1990; Ingram & Silverman 2002; Dunning & Lundan 2008). MNEs operate in multiple institutional environments across geographical boundaries of different countries. IB literature has since long identified the importance of institutions of host countries for the better performance of firms in their internationalization path (e.g. Teece 1981; Johanson & Vahlne 1977). Therefore, the differences in institutional environments of MNEs' home and host countries (institutional distance) also substantially impact the choice between greenfield investments/ acquisitions (FDI establishment mode choice) and JVs/WOSs (FDI ownership mode choice) by the MNEs. An institution-based view (Peng 2002, 2003, 2005; Peng & Khoury 2009) is insightful for understanding the strategies of MNEs in their international markets as it incorporates elements of both NIE and institutional theory, which is required in IB studies. In this dissertation, I have tried to show the relevance and application of institution-based view of IB strategy in addressing the concept of institutional distance and its impacts on FDI establishment and ownership mode choices of MNEs, along with analyzing the influences of strength of market conforming values in the host country on these FDI choices, as well as possible moderation of institutional distance's impacts.

Firstly, in order to analyze the impacts of institutional distance on FDI establishment and ownership mode choices of MNEs, it is necessary to discuss the study background and the importance of research area in the field of IB studies. Hence, the dissertation starts with providing introduction and overview of the study in Chapter 1, where the study background along with research question and objectives are addressed. The expected contributions and positioning of the study are clearly mentioned followed by discussion about the scope of study, so that the reader has a realistic view about the applications of the study. The chapter concludes with providing definitions of the key terms used in this dissertation, as well explaining structure of this dissertation.

Chapter two is conceptual in nature and builds bases for the reader to understand use of main theoretical perspective applied in this dissertation. The chapter starts with brief discussion about the history and types of theories of FDI. This introduction briefly summarizes the overview of the development of different theories and theoretical paradigms in FDI studies. This is followed by a focused discussion of theories and theoretical paradigms mostly used in past studies to address FDI establishment and ownership mode choices of MNEs. These theoretical paradigms include monopolistic advantage theory, Eclectic (OLI paradigm), transaction cost economics /internalization theory and resource based view and organizational learning perspective. This discussion is summarized in form a table also (see table 2), thereby reader offering reader an opportunity to look on key concepts of these theories, as well as main contributors in the context of FDI establishment and ownership mode choices of MNEs in a glance.

The discussion in chapter two continues to the significant section addressing role and importance of institutions in IB studies and how institution-based view of IB strategy developed and its usefulness due to multi-disciplinary approach to addressing role of institutions. As institution-based view of IB studies incorporates arguments from new institutional economics and institutional theory, and in the next sub-sections both theories are discussed incorporating their historical roots and development, as well as specifically addressing their applications in IB studies. This discussion clearly reveals to the reader that despite being different in their roots, both theories have been used in a rather overlapping manner in IB studies, as it is required to incorporate both economic and social perspectives of institutions in this field. Therefore, the discussion justifies the use of institution-based view of IB strategy in this dissertation.

Chapter three addresses the main construct of this study i.e. institutional distance. It starts with a discussion about the background and history of the concept of institutional distance. The relevant concepts of psychic distance and cultural dis-

tance that have been used extensively in IB studies are also reviewed briefly in this discussion. This discussion reveals multidisciplinary roots of institutional distance, which is also visible in variance in its conceptualizations and operationalizations in different IB studies. The discussion continues in the next section where conceptualization of institutional distance is addressed by reviewing the past studies that used the concept of institutional distance. This section also presents a table (see table 4) that attempts to offer a detailed review of the studies using the institutional distance in IB studies during last 15 years, along with discussions about its conceptualization and operationalization in those studies. This discussion reveals that institutional distance has been mostly conceptualized using Scott's (1995) institutional pillars in past studies. However, these studies applied overlapping conceptualizations and operationalizations of institutional distance despite using same institutional framework. Some studies used all three pillars (regulative, normative and cognitive) of Scott's (1995) institutional framework, while other used two (regulative and normative/cognitive) and in some cases only one dimension (mostly regulative) has been used to conceptualize and operationalize institutional distance. This discussion sets basis for the conceptualization of institutional distance as being comprised of formal and informal institutional distance following North's (1990) classification in this dissertation, which is also in line with institution-based view of IB studies. Finally, an in-depth discussion is presented in this section on the use of this conceptualization of institutional distance (formal and informal), in relation to Scott's (1995) institutional pillars (regulative, normative and cognitive).

After the discussion about conceptualization of institutional distance in the current study, the debate is carried forward to address the impacts of formal and informal institutional distance on FDI establishment and ownership mode choices of MNEs. Moreover, the impact of strength of market conforming values in the host country on these FDI choices is also addressed. The expected moderating influences of strong market conforming values on impacts of institutional distance on both FDI establishment and ownership mode choices are also discussed. These discussions lead to development of study hypotheses, which further lead to the development of research model of the study. Therefore, one key sub-objective of this dissertation is achieved at the end of Chapter 3 i.e. the development of the study's research model conceptualizing the impacts of institutional distance and strength of market conforming values in the host country on FDI establishment and ownership mode choices of MNEs, as well as moderating influences of strength of market conforming values on the impacts of institutional distance on MNEs' FDI choices.

Chapter four addresses the empirical research design of the study. The chapter starts with a section about data sources used in this study, along with discussion about their reliability and validity. This section explains the sources used for firm, country and industry level data in this study for dependent, independent and control variables. This discussion is carried forward by next section that addresses the operationalization of study variables. The choice of different indicators of institutional distance and market conforming values in the host country is justified and explained by referring to different previous studies that found these indicators (aspects of institutional environment) as being important in understanding institutional environment of host country for IB studies. The discussion also addresses the fact that use of yearly data (from year of investment/nearest available year) incorporates the institutional transition and development taking place in the sample emerging economies. Then the choice of control variables is also explained by referring to important past IB studies where these variables have been found as important in both FDI establishment and ownership mode choices of MNEs. Later, this section concludes with presentation of an extended research model of the study, which is an extension of the research model presented in previous chapter, with the addition of control variables, as well as expected signs about the impacts of independent variables on FDI choices, based on variable operationalization.

The last section of chapter four presents the sample characteristics. The study sample consists of FDIs made by Finnish firms in three geographic regions (i.e. Central and Eastern Europe, Asia and Latin America) during the time period 1990-2006. This section presents graphical view of establishment mode choice, ownership mode choice, international experience of the firms, host country experience and number of FDIs in particular year. This discussion reveals that data has been generally normally distributed in three host regions, despite differences in number of investments. Therefore, it is expected that results of study are reliable due to relatively normal distribution of the data in the sample host regions of the study.

Chapter five presents the results of the study. The chapter starts with discussion about statistical analysis technique used in this study. Both dependent variables of the study are dichotomous in nature; therefore, this study uses binomial logistic regression to analyze the impacts of control and independent variables on FDI establishment and ownership mode choice of MNEs. Binary logistic regression has been widely used in past studies that addressed FDI establishment and ownership mode choices of MNEs and it has proved to be a reliable statistical technique for this kind of studies. However, before proceeding to the regression analysis, it is important to check for potential multicollinearity among variables and if it could impact the study results. Therefore, the next section provides descriptive

statistics showing correlations among all the dependent, independent and control variables. Moreover, VIF (variance inflation factor) tests are also conducted for collinearity diagnostics in the dataset. The results of VIF tests depict that potential collinearity among variables is not expected to influence the results of regression analysis due to very low VIF values. In next sections, the statistical models (regression results) for both FDI establishment mode and ownership mode choices are presented that lead to discussion about acceptance or rejection of study hypotheses. Along with separately presenting the impacts of control and independent variables on FDI establishment and ownership mode choices, the last subsection also presents the results jointly in order to have an overall view of the study results.

The regression results show that the control variables, host country risk and BRIC dummy are important for both FDI establishment and ownership mode choices of Finnish MNEs in emerging economies of CEE, Asia and Latin America. Moreover parent MNE size, international experience of firm and host country experience of firm are significant control variables for FDI establishment mode choice of Finnish MNEs in these emerging economies. While economic growth in the host country and timing of investment are significant control variables for FDI ownership mode choice of Finnish MNEs in these emerging economies. These control variables were selected based on review of previous studies about both FDI establishment and ownership mode choice. The statistical results further revealed that the study receives support for 3 out of 10 study hypotheses. Moreover, it is important to note that all three independent variables were found significant for either establishment or ownership mode choices of Finnish MNEs during study time period.

The empirical results reveal that the high formal institutional distance is non-significant for FDI establishment mode choice while it leads to the preference of JVs in FDI ownership mode choice by Finnish MNEs. Moreover, high informal institutional distance leads to preference of acquisitions and WOSs in FDI establishment and ownership mode choices of Finnish MNEs in emerging economies of CEE, Asia and Latin America, which is opposite to the study hypotheses. Moreover, as hypothesized, the strong market conforming values in the host country result in preference of acquisitions and formation of WOSs in FDI establishment and ownership mode choices of Finnish MNEs. The hypotheses regarding moderating influences of strong market conforming values on impacts of institutional distance of FDI establishment and ownership mode choices of Finnish MNEs are not accepted due to lack of expected statistical significance of product terms as well as depiction of unclear moderation pattern in their interaction plots.

Chapter 5 concludes with a section where empirical findings of regression analysis are reviewed for both FDI establishment and ownership mode choices of Finnish MNEs. This review reveals that although FDI establishment and ownership mode choices have been referred as related decisions, there are certain novel aspects associated to both of these choices. This is visible by the fact that only two control variables are found to be common in their significance for both of these choices. The other control variables were significant for either of the choices, but not both. Moreover, different impacts of formal and informal institutional distance along with strong market conforming values in the host country on FDI establishment and ownership mode choices can offer useful insights for IB studies. Finally, the hypotheses regarding moderating influences of strong market conforming values on impacts of institutional distance of FDI establishment and ownership mode choices of Finnish do not receive statistical support in expected manner and they are not accepted. However, it is important to note that statistical significance of some interaction terms, as well as interaction plots do show a certain level of influence of strength of market conforming values in the host country on these FDI choices of Finnish MNEs. Therefore, it is important for future studies to address these issues with expanded datasets and different (and more comprehensive) measures of institutional distance and market conforming values, in order to gain in-depth understanding of these moderating influences. Hence, despite rejection of hypotheses, this study sets a precedence of probing these important interaction effects based on theoretical grounds, which enrich current IB theoretical and empirical literature.

6.2 Theoretical and Empirical Contributions

This dissertation offers useful theoretical as well as empirical contributions to the existing stream of literature in the field of IB studies. Firstly, this study is one the first to use the concepts of formal and informal institutional distance and strength of market conforming values in the host country together to study both FDI establishment and ownership mode choices of MNEs. Most previous studies using institutional distance or similar concepts either addressed general market entry decisions of MNEs (e.g. Xu 2001; Estrin et al. 2009), and ownership mode choice of MNEs (e.g. Xu et al. 2004; Gaur & Lu 2007; Arslan & Larimo 2010). Xu and Shenkar (2002) in their conceptual paper address both establishment and ownership mode choices of MNEs and impacts of institutional distance, along with addressing other issues. The study by Dikova and van Witteloostuijn (2007) addressed both establishment and ownership mode choices together in relation to institutional advancements in CEE countries. However, no study so far (at least

in my knowledge) has addressed the impacts of institutional distance and market conforming values in the host country together on both FDI establishment and ownership mode choices of MNEs.

The theoretical contribution of this dissertation is also reflected by the fact that it is one of the first studies to use institution-based view of IB strategy (Peng 2002, 2003; Peng & Khoury 2009) in FDI and foreign market entry mode choice literature. Therefore, this dissertation theoretically incorporates arguments from both new institutional economics (North 1981, 1990, 1993, 1997, 2005) and institutional theory (DiMaggio & Powell 1983; Scott 1995) while addressing FDI establishment and ownership mode choices of Finnish MNEs in emerging economies in three geographical regions. Another important theoretical contribution of this dissertation relates to the conceptualization of *institutional distance*. A review of past studies reveal that most them conceptualized institutional distance using Scott's (1995, 2001, 2008) institutional pillars (regulative, normative and cognitive/cultural-cognitive) (e.g. Xu & Shenkar 2002; Xu et al. 2004; Gaur & Lu 2007; Gaur et al. 2007; Chao & Kumar 2010; Arslan & Larimo 2010). A variation in the conceptualization of the institutional distance can be observed in past studies despite using Scott's (1995) institutional pillars. Some studies only addressed the differences in one aspect of institutional environment i.e. legal and regulative institutions. For example, Trevino and Mixon (2004) in their study only concentrate on differences in regulative reforms across Latin American countries to study strategic FDI decisions. The studies by Brouthers (2002), Xu et al. (2004), Gaur and Lu (2007), Gaur et al. (2007), Choe and Kumar (2010) and Arslan and Larimo (2010) use two aspects of institutional environment i.e. regulative and normative (referred as cultural aspect by Brouthers 2002) in their studies. Some past studies have also used all three components of Scott's (1995) institutional framework (i.e. regulative, normative and cognitive) to conceptualize institutional distance and address different MNE related IB issues (e.g. Kostova 1996; Busenitz et al. 2000; Xu 2001; Yiu & Makino 2002; Ramsey 2005).

Institutional distance in this dissertation is conceptualized as being comprised of formal and informal institutional distance following North's (1990) classification of institutions. Formal institutions in North's (1990) classification encompass similar elements as regulative institutions in Scott (1995) classification. It should be noted that the boundaries between normative and cognitive institutions are not always clear (Scott 2001, 2008). The cognitive pillar of institutional distance refers to differences in thinking patterns in societies i.e. it refers to inferential sets of ways that individuals in a society use to notice and interpret the stimuli from the environment (Xu & Shenkar 2002; Xu et al. 2004). Therefore, cognitive pillar refers to cognitive structures of social environment, such as commonly held be-

liefs, widely shared knowledge and taken for granted mental schemas (e.g. Berger & Luckmann 1967; Meyer & Rowan 1977). These cognitive structures are also visible in firm's strategies operating/ originating from that institutional environment (Haveman 1993). However, as Scott (2008) himself acknowledged that the boundaries between normative and cognitive pillars of institutions are not fixed and inter pillar communication overlap exist. Therefore, cognitive pillar, later referred as cultural-cognitive pillar by Scott (2001, 2008), shares many attributes of normative pillar. Additionally, it should also be noted that the mental frames and cognitive patterns of society are also greatly influenced by the culture, values and prevalent pattern norms (DiMaggio 1997). Scott (2001, 2008) also renamed cognitive pillar as cultural-cognitive; this also shows the overlap between the boundaries of normative and cognitive institutional pillars. Informal institutions in North's (1990) classification of institutions address the social dimension of institutional environment and encompass both normative and cognitive dimensions of Scott's (1995) framework. Therefore, this study emerges as one of the few to conceptualize institutional distance using North's (1990) classification of institutions that also fits well the main theoretical perspective used in this dissertation i.e. institution-based view of IB strategy (Peng 2003; Peng et al. 2005; Peng et al. 2008; Peng & Khoury 2009).

This dissertation also contributes to the conceptualization of strength of market conforming values in the host country specific to restrictions on acquisition and ownership permissible for foreign firms (MNEs). Previous IB studies have referred to restrictions on entry mode choice options as one of the major problems faced by MNEs expanding to foreign markets especially in emerging economies (e.g. Reardon et al. 1996; Yiu & Makino 2002; Deng 2003; Khanna & Palepu 2010). It should be noted that this dissertation does not address general institutional development in host countries while conceptualizing strength of market conforming values as done in many past IB studies, but rather stresses issues specific to FDI establishment and ownership mode choices (like lesser restrictions on both of these choices) of MNEs. This dissertation also offer theoretical contribution by being one of the first studies to address the interaction effects of institutional distance and strength of market conforming values in the host country in relation to FDI establishment and ownership mode choices of MNEs. The current study developed hypotheses about expected moderating influences of strong market conforming values on impacts of institutional distance on these FDI choices of MNEs by incorporating arguments from not only IB studies but also economics and management sciences. Although the expected support for these interactions and possible moderating influences was not received, still some of the empirical findings offer new perspectives to understand these important FDI choices. Hence, this study has attempted to open a rather new area of discovery,

and future studies can try to further empirically analyze these interactions by developing more comprehensive measures of institutional distance and market conforming values. The application institution-based view of IB strategy in foreign market entry studies is also enriched, because significance of some interactions and interaction plots offer explanations for rather different findings of this dissertation compared to similar past studies.

A noteworthy empirical contribution of this dissertation relates to the operationalization of both formal and informal institutional distance. Formal institutional distance refers to the differences between the legal institutions, laws and regulations of the host country and home country of foreign investing firm (North 1990; Trevino & Mixon 2004; Estrin et al. 2009). The legal structure in a country is represented by its governance infrastructure, which includes the attributes of legislation, regulation, and legal systems that condition freedom of transacting, security of property rights, and transparency of government and legal process (e.g. North 1990, 1997; Globerman & Shapiro 2003). Therefore, this study used the country scores in the item *legal structure and security of property rights* from economic freedom of the world annual reports. This item includes the aspects of judicial independence, impartial courts, protection of property rights, integrity of legal system, and legal enforcement of contracts (Economic Freedom of the World Reports). Therefore, it can be said that this item from economic freedom of the world annual reports addresses most of the attributes of formal institutions as described by North (1990). Economic freedom of the world reports use data from reliable international sources like World Economic Forum, World Bank, International Monetary Fund, United Nations and World Trade Organization to measure these variables (2008). This source has been used extensively in studies in the field of international and institutional economics (see e.g. Ali 2003; Dawson 1998; Dreher & Rupperecht 2007) and political economy studies (e.g. Bengoa & Sanchez-Robles 2003; Boockmann & Dreher 2003). DiRienzo et al. (2007) have also used this source to study the impacts of corruption in the context of IB studies. Therefore using the data from the element *legal structure and security of property rights* of economic freedom of the world annual reports to operationalize formal institutional distance in this study provides useful empirical contribution to existing IB literature.

Informal institutional distance refers to differences in shared norms, values and societal expectations of home and host country of MNEs (e.g. Peng 2003; Estrin et al. 2009). This study uses three survey items from IMD executive opinion surveys from world competitiveness yearbooks (1995-2006) to measure informal institutional distance. World competitiveness yearbooks published by IMD Switzerland have been used by many past IB studies addressing the influences of

business and institutional environments of countries on the strategies of firms (e.g. Delios & Beamish 1999; Gaur et al. 2007; Gaur & Lu 2007). These items include *corruption, national culture and social responsibility* that address the informal institutional environment systematically. Corruption has been termed as an important aspect of of normative (informal) institutions in previous management and IB studies (e.g. El Said & McDonald 2002; Tonoyan 2003; Rothstein & Eek 2006). Therefore, one of the elements of informal institutional distance in this study is country scores in the item of *corruption* from world competitiveness yearbooks in the year of investment or in the nearest available year.

Cultural distance has been used in some past studies to address informal (normative and cognitive) institutional distance (e.g. Yiu & Makino 2002; Estrin et al. 2009). However, it is argued in this dissertation that a society's openness to the foreign ideas captured by *national culture* item from world competitiveness yearbooks and used in this study addresses the informal attitude to the foreign firms in these societies. This cognitive aspect of informal institutions also received more attention in later books by North (2005) and North et al. (2009). This societal cognition impacts the openness of a society to the foreign ideas, which has been referred as one of the important characteristics of societies that developed and achieved economic competitiveness (e.g. North & Thomas 1973; North 1981). This is a better approach to address impacts of culture that are more relevant and specific to foreign ideas and consequently the acceptance of operations of foreign firms, rather than using general cultural distance index as done in some past IB studies. Finally, an important aspect of informal institutional environment is societal expectations from businesses (e.g. Dyllick & Hockerts 2002; Hopkins 2005). This issue is addressed by the element of social responsibility in the operationalization of informal institutional distance in this study. Therefore, all three items used to measure informal institutional distance address the professional as well as societal aspects of informal institutions; thereby contributing empirical to the operationalization of informal institutional distance.

This dissertation also empirically contributes to development of a measure of strength of market conforming values in the host country specific to FDI establishment and ownership mode choices of MNEs (i.e. fewer restrictions on foreign firms for acquisition of local firms and holding majority ownership in subsidiary). The restrictions on FDI market entry (i.e. acquisition and ownership restrictions) are obstacles preventing entrant firms from being established in a particular market (Porter 1980). The deregulation and removal of barriers resulted in increased market entry of both local and foreign firms in past studies (Djankov et al. 2002; Klapper et al. 2004; Caselli & Gennaioli 2008). Moreover, removal of restrictions and strengthening of market conforming values allows firms to enter those indus-

tries and business sectors that were previously inaccessible for them (Haveman 1992; Pehrsson 2001; Sethi et al. 2003; Delmas & Tokat 2005; Trevino et al. 2008). The measure of strength of market conforming values in the host country in this study is based on both acquisition and ownership freedom (reduction in restrictions) on foreign firms in the host economies specifically. Thereby this measure encompasses the elements of removal or reduction of barriers to market entry of foreign firms, which can impact their choices significantly despite high institutional distance between their home and host countries.

Another empirical contribution of this dissertation pertains to the geographical setting of the study. The study hypotheses and research model are tested on a sample of FDIs made by Finnish MNEs in selected countries in Central and Eastern Europe (CEE), Asia and Latin America during the time period 1990-2006. These host geographical regions vary a lot in their institutional settings, as well as have a unique history of developing market economy institutions. Therefore, this study provides empirical contribution because the institutional indicators to measure formal and informal institutional distance, and strength of market conforming values in the host country, are based on the data of the year when FDI was made or data from nearest available year. This dissertation does not use institutional indicators for only one year to study FDI choices over a longer time period which has been done in some past studies (see e.g. Yiu & Makino 2002; Xu et al. 2004; Estrin et al. 2009). This approach provides a chance to better incorporate the institutional transition taking place in host emerging economies during the study time period. Hence, this study is the first one to develop measures of institutional distance using yearly data as well as calculating institutional distances of selected countries in Central and Eastern Europe, Asia and Latin America from Finland.

Finally, so far the studies addressing institutional distance's impacts on MNEs' entry mode choices have used sample based on FDIs made by Japanese firms (e.g. Xu 2001; Yiu & Makino 2002; Xu et al. 2007; Gaur & Lu 2007) or FDIs made by different countries of different origins in selected emerging markets (e.g. Estrin et al. 2009). This dissertation uses a unique dataset of FDI made by the MNEs from a small and developed economy (Finland) to analyze impacts of institutional distance. This empirical setting is also expected to provide useful insights and interesting results as the FDI orientation of firms from this kind of economies differs from MNEs of large developed economies like USA or Japan.

It is important for any doctoral dissertation that its key contributions answer the main research question, as well as address the study objectives. Table 14 and pre-

sent the summary of theoretical and empirical contributions of the study in relation to the main question and sub-objectives outlined in chapter 1.

Table 14. Study research question, sub-objectives and contributions

Research Question/Objectives	Theoretical Contribution	Empirical Contributions	Key Findings
<p>Research Question: What are the impacts of institutional distance and strength of market conforming values in the host country on FDI establishment and ownership mode choices of MNEs?</p>	<p>Use of institution-based view to address institutional distance and strength of market conforming values and their impacts on FDI choices of MNEs. A detailed review of both NIE and institutional theory's application in IB studies. Incorporating arguments from both streams of literature in hypotheses development. One of the first study to use theoretical arguments from IB, economics and management to develop hypotheses about potential moderating influences of strong market conforming values on institutional distance's impact.</p>	<p>One of the first studies to develop the formal and informal institutional distance indicators, as well as market conforming values indicators in host countries, based on yearly data. First study to empirically test the impacts of formal and informal institutional distance and strength of market conforming values in host country on FDI establishment and ownership mode choices of MNEs from a Nordic country and small and open economy i.e. Finland</p>	<p>Formal institutional distance is non-significant for FDI establishment mode, while it results in preference of JVs in ownership mode choice by Finnish MNEs in sample emerging economies. Informal institutional distance results in preference of acquisitions and WOSs formation in FDI establishment and ownership mode choice of Finnish MNEs. Strong market conforming values in the host country result in preference of acquisitions and WOSs formation by the Finnish MNEs. Empirical evidence for expected moderating influences of strong market conforming values in host country on impacts of institutional distance on FDI choices of Finnish MNEs is not received. However, statistical significance of some product terms and interaction plots depict some kind of potential moderating influences that can be explored further in future studies.</p>
<p>Sub-objective 1: To theoretically address FDI establishment and ownership mode choices of MNEs using institution-based view of international business strategy incorporating arguments from both institutional theory and new institutional economics.</p>	<p>One of the few studies to use institution-based view of IB studies and integrate the concepts from both NIE and institutional theory in the context of FDI establishment and ownership mode choice of MNEs. The discussion provides a thorough review of history, development and applications of both NIE and institutional theory in IB studies, along with discussion of institution-based view. (See chapter 2 especially 2.3)</p>	-	<p>Previous studies have used NIE and institutional theory in IB studies in an overlapping manner. It is important to understand the history and main differences between both of them. The use of institution-based view provides the chance to use arguments from both NIE and institutional theory that also helps in better conceptualization of institutional distance (see 3.2).</p>
<p>Sub Objective 2: To develop a research model illustrating the impacts of formal and informal institutional dis-</p>	<p>Table 4 provides a review of conceptualization of institutional distance in IB studies during last 15 years. The conceptualization of institutional distance</p>		<p>One of the first studies to address the moderating impacts of strength of market conforming values in the host country also, along with impacts of formal and informal institutional distance on FDI choices of MNEs (see. fig-</p>

<p>tance, and strength of market conforming values in the host country on the FDI establishment and ownership mode choices of MNEs.</p>	<p>in current study is presented in figure 8, which also shows the boundaries Scott's (1995) institutional pillars in relation to conceptualization of institutions in formal and informal dimensions in the current study. The research model and extended research model (figures 9 and 10) achieve this objective. The discussion on potential moderating influences of market conforming values on impacts of institutional distance on FDI choices of MNEs is one of the first to incorporate theoretical arguments from IB, economics and management to develop these hypotheses.</p>		<p>ure 9). This research model is also later extended with inclusion of control variables (see. figure 10). See chapter 3 (specifically sections 3.2, 3.3) and figures 8, 9 and 10.</p>
<p>Sub-objective 3: To empirically test the developed research model to analyze differences in FDI establishment and ownership mode choices of Finnish MNEs in emerging economies of Central and Eastern Europe, Asia and Latin America due to variances in institutional distance and strength of market conforming values.</p>	<p>-</p>	<p>First study to empirically test the impacts of formal and informal institutional distance and strength of market conforming values in host country on FDI establishment and ownership mode choices of MNEs from Nordic region (i.e. Finland). One of the first to develop the formal and informal institutional distance indicators, as well as market conforming values indicators in host countries, based on data from different years (see appendix 1).</p>	<p>Formal institutional distance is non-significant for FDI establishment mode, while it results in preference of JVs in ownership mode choice by Finnish MNEs in sample emerging economies. Informal institutional distance results in preference of acquisitions and WOSs formation in FDI establishment and ownership mode choice of Finnish MNEs. Strong market conforming values in the host country result in preference of acquisitions and WOSs formation by the Finnish MNEs. Moderating effects of strong market conforming values in the host country do not receive empirical support in the expected manner. (Chapter 4 and 5).</p>

6.3 Study Limitations

This study has several limitations like all the research projects. Firstly, the FDI choices of MNEs are only addressed specific to establishment mode choices (i.e.

greenfield investments or acquisitions) and ownership mode choices (i.e. WOSs or JVs) of MNEs. Therefore, the study does not include discussion about other elements of FDI strategy and choices of MNEs like location choice, diversification strategy in the host country, human resource strategy, product portfolio choice in the host country, marketing and branding choices in the host country and localization/global strategy choice. In the discussion about different theories and theoretical paradigms used in past IB studies, only those theoretical perspectives that have been mostly used to address FDI establishment and ownership mode choices of MNEs are reviewed. Therefore, the macroeconomic analysis theories of FDI addressing impacts of variables like exchange rates, tariffs, taxations and negotiations about subsidies in the host and home countries of MNEs, which have been shown to impact MNEs' FDI choices, are also not included in the discussion in this dissertation.

This dissertation uses the institution-based view of IB strategy (Peng 2003; Peng et al. 2008; Peng & Khoury 2009) by referring to institutions being comprises of formal and informal aspects (North 1990), as theoretical basis to study FDI establishment and ownership mode choices of MNEs. Institution-based view refers that arguments from both economic perspective of institutions (new institutional economics) and sociological perspective (institutional theory) are required in IB studies (e.g. Peng 2002, 2003; Peng et al. 2008). Therefore, theoretical discussion addresses new institutional economics as well as institutional theory rooted in organizational institutionalism and sociology, specifically in relation to their applications in IB studies. New institutional economics is addressed in this study with reference to works by economic historian Douglass North and his colleagues (1970, 1973, 1990, 1993, 1997, 2005, 2009) on institutional development in different economies across the world. However, this study does not address old institutional economics, as it is not much relevant to the main theme of study. Moreover, (neo) institutional theory (mostly referred to as institutional theory now) has been often used in organization studies and consequently MNE studies. Institutional theory has emerged from both rational choice and sociological institutionalisms; however sociological institutionalism had more influences on theory development since 1970s (e.g. Selznick 1996). The study also includes a brief discussion about the roots and history of institutional theory. However, the dissertation does not address the differences in sociological and rational choice institutionalism as well as not discussing a recent variant termed as institutional entrepreneurship, due to less relevance to the key objectives of the study.

In the empirical part, this study has tried to incorporate the impacts of firm level factors on FDI establishment and ownership mode choices of MNEs. Therefore, the study uses firm level control variables like parent MNE size, international

experience and host country experience of the investing firms. These variables have been shown to influence both establishment and ownership mode choices of MNEs in the past studies; therefore controlling them in the analysis contributes to reliability and validity of the results of the study. However, it is important to note that the main aim of this study is to analyze the impacts of institutional factors and distance on the FDI establishment and ownership mode choices of MNEs. Therefore, many other firm level factors that can influence FDI establishment and ownership mode choices of MNEs like innovation capability of the firm, technological intensity, organizational human resource and knowledge transfer practices are not included in the analysis, which can also be considered a limitation of the study. Moreover, many past studies have also found industry level variables like competition and industry density, and R&D intensity to be important factor for FDI establishment and ownership mode choices. However, as most Finnish firms are small and medium sized organizations and gaining access to this kind of data was very difficult, so these variables are not included as control variables in the study, which can also be considered a limitation.

Finally, the empirical part of the study concentrates only on FDIs made by Finnish MNEs in CEE, Asia and Latin America. This can also be considered as a limitation of the study. However, on the other hand, this is one of the first studies from Nordic region to use these concepts to study FDI choices of MNEs, as most previous studies used dataset comprising of Japanese FDIs. Therefore, the results of this study are expected to be useful as they would provide detailed insights on the impacts of institutional distance and strength of market conforming values in the host country on FDI choices of MNEs from Nordic region.

6.4 Managerial and Policy Implications

A prominent business historian Chandler (1962) argued long time ago that a firm's strategy and structure should be aligned with the characteristics of its environment. Therefore, it is important for the managers of MNEs to understand the impacts of differences in environments of countries (of which institutional distance is an important aspect) on the firm's strategies. This would help to them to develop the strategies that are more in line with the requirements of institutional environments of host countries they wish to enter. As this dissertation addresses similar kind of issues, therefore its findings have some useful implications of managers of firms from the Nordic region aiming to invest in manufacturing sector in emerging economies of CEE, Asia and Latin America. The importance of

formal and informal institutional distance and market conforming values in the host countries for the FDI choices of MNEs is evident from the study results. The findings of this study reveal that the knowledge of the local market area and the differences in institutions are an important consideration for MNEs from Nordic regions, when they enter emerging economies in CEE, Asia and Latin America through FDI.

The importance of institutional knowledge during internationalization of firms has been referred as a learning process for MNEs in the past IB studies (e.g. Johanson & Vahlne 1977; Lorenzen & Mahnke 2002). This institutional knowledge can help entrant firms reduce the knowledge gap i.e. the difference in current level of knowledge of entrant firm and the knowledge that is needed to operate in a foreign market (Petersen et al. 2008). Many scholars stress the importance of institutional knowledge during internationalization. It has been found to reduce the “liability of foreignness”, or the disadvantage foreign firms face due to their lack of familiarity with the local environment (Zaheer 1995, 2002); lessen project overruns, schedule delays and damages to reputations (e.g. Orr 2005); and diminish problems with understanding the laws and norms that apply in a foreign context (Eriksson et al. 1997).

The formal and informal institutional distance indicators developed by this study attempt to offer a knowledge source for the managers of Finnish MNEs to gain a general idea of differences of institutional environments of sample emerging economies from Finland. The elements of informal institutions in this study comprise of corruption acceptance, openness of national culture to foreign ideas and social responsibility of firms in this host countries. Therefore, informal institutional distance indicators developed in this study attempt to comprehend the important aspects of informal environment and have several implications for strategy of MNEs aspiring to enter these emerging economies.

This study found out that high informal institutional distance results in the choice of in the choice of wholly owned acquisitions by Finnish MNEs in the sample emerging economies. This finding has several implications for other aspects of MNE strategy in those markets. The countries with high informal institutional distance from Finland have different levels of acceptance of corruption, openness to foreign ideas (consequently acceptance of MNE activities) and social responsibility of firms. Therefore, managers of Finnish firms aspiring to enter these markets should know that acquisitions of local firms in those markets would help MNE to use an established name in the market and they do not suffer from liability of foreignness and newness (Li & Guisinger 1991; Pennings et al. 1994; Luo 2001; Slangen & Hennart 2008). Consequently, in those emerging economies, the

market conforming values are becoming stronger and restrictions on foreign firms are reducing due to openness for FDI inflow, acquisitions can be suitable entry mode option for Finnish MNEs despite high informal institutional distance.

Acquisition of local firms can further offer MNEs with local market knowledge, solid ties with government officials, and locally-accepted products and brand names. This finding also has implications for use of expatriates and retaining of local workforce by the MNE in wholly owned acquired subsidiary in the foreign markets. In such cases, Finnish (and also Nordic) MNE managers need to consider that in the host countries with high informal institutional differences, some of the practices of acquired subsidiaries could be very useful, as they are aligned with the embedded requirements of informal institutions. Therefore, for a relatively large MNE with high host country experience, acquisition of an appropriate local firm would help in reducing liability of foreignness, as well as offer opportunities to use existing networks of acquired firm to gain foothold in the new market sooner.

This study also found out that FDIs in BRIC countries (Brazil, Russia, China and India) by the Finnish MNEs are wholly owned greenfield investments. Large market size of these countries, high levels of economic growth and incentives for greenfield investments for the foreign MNEs (UNCTAD 2010) can be referred as major reason for this choice. The managers of Finnish MNEs aspiring to enter emerging economies need to remember that BRIC countries represent relatively developing institutional infrastructure, compared to some other countries in study sample. Therefore, acquisition of local firms could be a good option in countries that have developed institutional infrastructure like Czech Republic, Estonia, Hungary, and Poland from CEE region, Malaysia and Thailand from Asia and Chile from Latin America. However, greenfield investments can offer advantages to Finnish firms in BRIC countries, because their national and professional culture are very different from Finland and may prove difficult to change. Moreover, restrictions still exist on acquisitions by foreign firms in certain emerging economies. However, it is recommended for managers of Finnish MNEs to use higher local workforce in managerial positions also, along with using expatriates, so that the subsidiaries achieve a degree of localization. As BRIC countries represent very attractive markets for Finnish and Nordic MNEs, they need to use their earlier subsidiaries to enhance the knowledge of institutions and institutional development place there.

The interaction between foreign MNEs and local institutions in BRIC economies can also be characterized as a learning process due to rapid changes in institutional environment. Therefore, along with transfer of knowledge and manage-

ment practices from headquarter to the subsidiaries (Kostova 1999; Kostova & Roth 2002), headquarters of Finnish MNEs can also learn from their subsidiaries (e.g. Rugman & Verbeke 2001; Ambos, Ambos, & Schlegelmilch 2006). Therefore, following the conventional approach of knowledge acquisition through learning (March 1991); these subsidiaries can also provide Finnish (and Nordic) MNEs headquarters with information of which institutional formal and informal rules, they need to explore and understand better at local level in host countries.

An imitation strategy has been referred as being useful for MNEs entering an unfamiliar host or target country for the first time (e.g. Brouthers, O'Donnell & Hadjimarcou 2005; Gil, Nakos, Brouthers & Brouthers 2006). Therefore, Finnish MNEs entering these emerging economies can mimic the FDI establishment and ownership mode choices of relatively successful Finnish firms already operating in that host country. As this study found host country risk to be an important factor for FDI establishment and ownership mode choice. This mimicking strategy can be useful in high risk host countries. As a response to that, managers of Finnish MNEs can decide to mimic the FDI choices of firms from the same industry, or from same home country (i.e. Finland), based on the conditions and requirements at the time of market entry of those firms. Finally, success in unfamiliar host countries in emerging economies would be dependent on how quickly the managers perceive, diagnose and reconcile with potential problems from formal and informal institutions. Therefore, analyzing the experiences and strategies of firms from similar background that are already operating in those places would be critical and useful for Finnish (and Nordic) MNEs aspiring to enter same markets.

Along with managerial recommendations and guidelines, this dissertation can also offer certain policy implications. For policy makers in the developed economies (like Finland), an important main challenge is how to persuade MNEs to establish or retain their production/manufacturing activities in home country also, without causing distortions that reduce the overall efficiency of the firms as well as that of the economy. This debate is driven by the home country fears of loss of jobs and competencies as the MNE may have only a few headquarters functions in its home country, with most of production and manufacturing taking place in foreign countries (e.g. Narula 2003; Mudambi 2008). The increased FDI activity of MNEs from Finland in emerging economies in production and manufacturing sector also has certain impacts on employment within the home country.

The previous literature mentions that FDI activities of MNEs especially in manufacturing sector can result in increase in competitiveness of the firm investing

abroad in terms of productivity, output and trade, labor intensity and skills, managerial capabilities, technological sourcing (e.g. Agarwal 1997; Hansson 2005). Moreover, when these MNEs relocate their production facilities to a host country in the emerging economies, where production and labor costs are lower, it results in increased efficiency of MNE as well as comparative advantage for it in terms production and employment practices (Driffield 2006). However, this issue also results in job losses in production and manufacturing sectors in home countries of MNEs. In order to understand the impact of FDI made by the MNEs from developed economies in emerging economies, on the home country labor market, the differentiation between low skilled and high skilled human resources is useful (Castellani et al. 2008). The concerns about the influences of FDI by MNEs on local employment and loss of jobs are realistic, and also include potential for political losses for those in power. Increased outward FDI by the Finnish MNEs is expected to reduce the demand for low skilled labor in Finland as well as in some cases, the demand for high skilled workers also. Although it would be necessary to take into account all the complex relationships between foreign production, domestic employment and production, foreign trade and the variations in the investing firms' competitive advantages; nonetheless this study still attempts to offer some implications. The negative impacts on the home country employment by this shift in production of MNEs are expected to become unsustainable in the long term. This needs to be balanced by increased market seeking activities abroad by the MNEs as well as tapping into local sources of excellence especially for highly skilled activities (Driffield 2006; Castellani et al. 2008). Although the manufacturing FDI abroad result in reduction the home country jobs in the short run, it also increases investing MNE's competitiveness in the longer term. The greater supply of higher vocational profiles and the consequent need of additional investment in the human capital by Finnish policy makers can offer advantages to both MNEs as well as home country economy and job prospects. These investments are expected to result in supply of high-skilled human resources for the Finnish MNEs, as well sustaining their competitiveness internationally especially in the emerging economies.

6.5 Future Research Directions

A positive aspect of a research project is that it also generates ideas for future research, which is also the case with this study. While this dissertation offers several useful theoretical and empirical contributions to the IB research, it does have limited scope as outlined in the chapter 1. Moreover, the subject area of institution-based view of IB strategy, institutional distance and FDI choices of MNEs

still have a lot of potential offering several avenues for future research and discovery, which are mentioned in the this section. This study only focused on the impacts of institutional distance and market conforming values in the host country on FDI establishment and ownership mode choices. Moreover, the moderating influences of strength of market conforming values in the host country on formal and informal institutional distance have also been tested. However, an interesting avenue for research for future studies would be to look at this issue in a reverse manner and test the impacts of FDI made by MNEs on the strength of market conforming values in the host country.

Another interesting area for future research is to address FDI establishment and ownership mode choices in depth by studying the impacts of institutional distance on full or partial acquisition vs. full or shared greenfield establishment. Moreover, the ownership mode choice of MNEs can be further explored in depth by differentiating between minority, 50/50, majority JVs and WOSs, and analyze the impact of institutional distance on them. Moreover, this dissertation uses FDI made by the MNEs from only one home country (i.e. Finland). However, still the study provides interesting insights to FDI choices of the MNEs from Nordic region. For the future research, it is suggested to expand the sample size by also including the FDI made by MNEs from other Nordic countries i.e. Sweden, Norway and Denmark, and study the impacts of institutional distance on FDI establishment and ownership mode choices. This would allow gaining a comprehensive understanding of the impacts of institutional distance on ownership mode choices and would help in generalizing findings from a Nordic perspective.

The future research can also study the impacts of institutional distance on the other elements of MNEs' FDI strategy and choices like human resource strategy, diversification strategy, product strategy, technology strategy and marketing strategy choices in institutionally distance countries. This dissertation concentrated on FDI establishment and ownership mode choices of MNEs, where acquisition was one of the choices available to MNE in its FDI decision. However, as Peng (2008) mentions, 70% of FDI made by MNEs consists of mergers and acquisitions (M&A), therefore the future research has the possibility to in-depth analyze the different impacts of institutions and institutional distance on M&A choices and integration process in acquired firms in institutionally different countries. Due to economic slowdown at global level, M&As are expected even at a more rapid pace in certain industries which are in trouble e.g. electronics, automobiles etc (UNCTAD 2009). Therefore, such studies would be able to provide practical implications for the firm managers especially in those industries that going through tough times due to economic crisis.

This dissertation has attempted to open a new avenue of research by developing hypotheses regarding possible interaction effects of market conforming values in the host country and institutional distance. However, the empirical results did not support these hypotheses. Nevertheless, it is important to note that statistical significance of some interaction terms, as well as interaction plot do show a certain level of influence of strength of market conforming values in the host country on these FDI choices of Finnish MNEs. Consequently, it is important for future studies to address these issues with expanded datasets and different (and more comprehensive) measures of institutional distance and market conforming values, in order to gain in-depth understanding of these moderating influences.

IB and management scholars recognize the influences of firms' (and MNEs') internal institutions on their strategies along with the external institutions (e.g. Oliver 1991; Rosenzweig & Singh 1991; Kostova & Roth 2002). An organization's internal institutional environment consists of organizational factors like formalization of firms' internal structures, systems for control and reporting, and firms' strategic decision making structures (Oliver 1991; Ambergury & Miner 1992). Internal institutions exist inside the organization where the strategic actions are affected by inertia resulting from conventional culture and norms of the organization (Stopford 2003). These internal organizational institutions can force organizations to either repeat their previous strategic actions or take strategic decisions that conform to organizational structures and routines (Weick 2001; Tallman & Yip 2001). Previous research also indicates that intertwining functional activities between MNE headquarters and subsidiaries is related to conformity of practices across different subsidiaries of MNEs (Davis et al. 2000). Therefore, the future studies can also attempt to conceptualize and operationalize institutional distance at more firm level (e.g. the differences in the practices and strategies of global subsidiaries and HQ of the MNEs) and address the impacts of firm level institutional distance on FDI establishment and ownership mode choices.

Moreover, future research can also attempt to address the impacts of this firm level (internal) institutional distance of MNEs on the international alliances (JVs) strategies including the level of ownership, control, human resource management and diversification in the host country. This type of research would also provide newer insights to the impact of differences in firm level institutional environment of the JV partners on their strategic choices and decisions in managing the venture. Finally, operationalization of institutional distance at firm level can also contribute to the debate of global vs. local strategy of MNE from a relatively new perspective.

The interaction between foreign firms and the host country institutions can also be characterized as a learning process for the MNEs. While previous studies on this issue mainly focus on the transfer of knowledge from headquarters to their subsidiaries, recent studies have begun to pay attention to the reality of headquarters learning from their subsidiaries (e.g. Ambos et al. 2006). Therefore, a further avenue of future research could be to look into what knowledge, and by which mechanisms, foreign headquarters learn from their operations at the local level in new international markets and how that new knowledge about the local institutions impacts their strategies in that host country. Mimicking has been referred as one useful strategy in the face of uncertain institutional environment for the MNEs. So this local institutional knowledge can also offer a referral point for mimicking for the foreign MNEs when they enter a new market with similar institutional structures as compared to the country from where headquarters learnt this knowledge from subsidiary.

So far different institutional perspectives (NIE, institutional theory and institution-based view of IB research) have been used and applied for MNEs from developed economies entering emerging and developing economies. However, if it is applied also to firms/ MNEs from emerging economies entering institutionally developed economies, it could yield interesting results and open further avenues for discovery. Finally, the future research also has the potential to advance institution-based view of IB strategy's application by applying it to study the MNE's divestment decisions, and subsidiary survival and the impacts of institutional distance and strength of market conforming values on them in different international markets.

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APPENDICES

APPENDIX 1: Formal Institutional Distance, Informal Institutional Distance and Strength of Market Conforming Values in the Host Countries.

Country Name	Years of Investments	Formal Institutional Distance from Finland	Informal Institutional Distance from Finland	Strength of Market conforming Values in Host Country
Argentina	1991, 1997	3.41, 3.83	1.90, 1.99	9.31, 9.38
Brazil	1995,1996,1997,1998 1999, 2000, 2001,2002 2004	3.52, 3.52,3.52,3.52 3.52, 3.93, 3.93, 3.93 3.93	1.90, 2.19, 0.83, 2.16, 2.46, 2.46, 2.58, 2.63, 2.31	7.14, 7.50, 7.60, 7.94, 8.08,7.90, 7.60, 7.55, 6.62
Chile	1995, 1996, 1997	2.53, 2.53, 2.53	0.37, 0.09, 0.83	8.38, 8.57, 8.53
China	1991, 1992, 1993,1994 1995, 1996,1997,1998 1999, 2000, 2001,2002 2003,2004,2005,2006	3.66, 3.66, 3.66, 3.66 3.79, 3.79, 3.79, 3.79 3.79, 4.33, 4.33, 4.33 4.33, 4.16,4.16,4.16	2.58, 2.58, 2.58, 2.58 2.58, 1.65, 2.04, 2.45 2.79, 2.87, 3.04, 3.64 3.59, 3.17, 3.60, 2.73	5.65, 5.65, 5.65, 5.65 5.65, 5.26, 5.31, 4.70 4.51, 4.45, 4.23, 4.62 5.06, 4.87, 5.09, 5.34
Czech Republic	1992, 1993, 1994,1997 2005	2.73, 2.73, 2.73, 2.73 2.60	2.11, 2.11, 2.11, 1.98 2.89	7.67, 7.67, 7.67, 7.27 8.99
Estonia	1991, 1992, 1993,1994 1995, 1996, 1997,1998 1999, 2000, 2001,2002 2003, 2004, 2005,2006	2.82, 2.82, 2.82, 2.82 2.82, 2.82, 2.82, 2.82 2.82, 2.68, 2.68, 2.68 2.68, 2.68, 1.91, 1.91	1.96, 1.96, 1.96, 1.96 1.96, 1.96, 1.96, 1.96 1.96, 1.96, 1.96, 2.34, 2.71, 2.07, 2.07, 1.99	9.31, 9.31, 9.31, 9.31 9.31, 9.31, 9.31, 9.31 9.31, 9.31, 8.63,,8.50 8.27, 8.48, 8.43, 8.34
Hungary	1991, 1992, 1995, 1996 1997, 1998, 1999, 2000 2001, 2002, 2005, 2006	1.57, 1.57, 1.57, 1.68 1.68, 1.68, 1.68, 2.27 2.27, 2.27, 2.27, 2.27	2.42, 2.42, 2.42, 1.92 2.78, 3.00, 2.76, 2.92 3.42, 3.64, 2.83, 3.34	8.31, 8.31, 8.31, 8.44 8.40, 8.70, 8.44, 8.61 8.57, 8.76, 8.59, 8.70
India	1990, 1992, 1994, 1996 1999, 2005, 2006	5.10, 5.10, 5.10, 3.41 3.41, 1.99, 1.99	2.39, 2.39, 2.39, 2.91 3.44, 3.32, 2.91	5.62, 5.62, 5.62, 5.64, 4.95, 6.64,6.79
Indonesia	1991, 1994, 1995, 1997 2000, 2001	5.37, 5.37, 5.73, 5.73 5.92, 5.92	2.21, 2.21, 2.21, 2.66 4.01, 3.54	6.88, 6.88, 6.88, 6.87 7.47, 7.40
Malaysia	1990, 1991, 1992, 1993 1994, 1996, 1997, 1998 2002	2.59, 2.59, 2.59, 2.59 2.59, 2.65, 2.65, 2.65 3.66	1.66, 1.66, 1.66, 1.66 1.66, 1.72, 1.77, 2.17 2.26	6.11, 6.11, 6.11, 6.11 6.11, 6.02, 6.22, 5.63 6.00
Mexico	1991, 1995, 1996, 1998 2000, 2001, 2005	2.67, 3.98, 3.98, 3.98 5.03, 5.03, 3.88	2.66, 2.66, 2.86, 3.00 2.97, 3.51, 3.83	7.61, 7.61, 7.77, 8.15 7.98, 8.07, 6.86
Poland	1990, 1991, 1992, 1993 1994, 1995, 1996, 1997 1998, 1999, 2000, 2002 2005, 2006	2.92, 2.92, 2.92, 2.92 2.92, 2.44, 2.44, 2.44 2.44, 2.44, 2.78, 2.78 3.20, 3.20	2.77, 2.77, 2.77, 2.77 2.77, 2.77, 2.09, 2.53 3.34, 3.31, 3.28, 3.95 4.63, 4.30	5.45, 5.45, 5.45, 5.45 5.45, 5.45, 6.51, 5.86 6.60, 6.49, 6.69, 6.26 5.31, 6.14
Romania	1996, 1999, 2004, 2006	4.27, 4.27, 3.90, 3.90	4.03, 4.03, 3.69, 3.90	7.42, 7.42, 6.26, 6.28
Russia	1990, 1991, 1992, 1993 1994, 1995, 1996, 1997 1998, 1999, 2000, 2001 2002, 2003, 2004, 2005 2006	5.74, 5.74, 5.74, 5.74 5.74, 5.74, 5.74, 5.74 5.74, 5.74, 4.83,4.83, 4.83, 4.83, 4.70, 4.70 4.70	3.86, 3.86, 3.86, 3.86 3.86, 3.86, 3.69, 3.20 2.94, 3.66, 3.99, 3.83 4.08, 4.50, 4.08, 4.49 4.12	4.31, 4.31, 4.31, 4.31 4.31, 4.31, 4.50, 5.13 5.88, 5.37, 5.17, 5.65 5.07, 4.78, 5.32, 4.60 4.03
Slovak Republic	1997, 2005, 2006	2.78, 2.98, 2.84	2.97, 3.16, 3.25	6.57, 9.08, 9.16
Slovenia	2006	2.55	3.24	5.76
Thailand	1993, 1994, 1995, 1998 1999, 2000	2.99, 2.99, 3.87, 3.87 3.87, 3.29	2.07, 1.89, 1.89, 3.14 3.04, 3.08	6.26, 6.26, 6.26, 6.12 6.31, 6.76
Turkey	1997, 1999, 2006	4.60, 4.60, 3.85	2.31, 2.81, 1.97	7.11, 7.16, 7.84

Appendix 2: VIF Test (Collinearity Diagnostics in the Dataset).

Model	Unstandardized Coefficients		Standardized	Collinearity Statistics	
	B	Std. Error	Coefficients Beta	Tolerance	VIF
(Constant)	-,247	,439			
LOGSIZE	,065	,019	,257	,450	2,224
INTEXP	-,004	,002	-,161	,428	2,334
TCEXP	,025	,008	,165	,835	1,198
CORISK	-,005	,003	-,164	,358	2,792
ECONGR	,004	,005	,063	,458	2,182
BRIC	-,144	,085	-,143	,351	2,851
Time	,033	,072	,033	,498	2,009
FORMDIST	,019	,035	,043	,418	2,393
INFORMDIST	,044	,049	,074	,365	2,743
MKTCONFVA- LUES	,069	,027	,245	,280	3,569

a. Dependent Variable: ESTMODE

Model	Unstandardized Coefficients		Standardized	Collinearity Statistics	
	B	Std. Error	Coefficients Beta	Tolerance	VIF
(Constant)	,754	,431			
LOGSIZE	,002	,019	,010	,450	2,224
INTEXP	-,001	,002	-,025	,428	2,334
TCEXP	,003	,008	,017	,835	1,198
CORISK	,003	,003	,093	,358	2,792
ECONGR	-,012	,005	-,162	,458	2,182
BRIC	-,138	,084	-,137	,351	2,851
Time	,268	,071	,265	,498	2,009
FORMDIST	,078	,034	,174	,418	2,393
INFORMDIST	-,145	,048	-,244	,365	2,743
MKTCONFVA- LUES	-,047	,026	-,167	,280	3,569

a. Dependent Variable: OWNMODE