Added distance, entry mode choice, and the moderating effect of experience: The case British MNEs in Emerging Markets

Abstract

We argue that a Developed Market Multinational Enterprise's (DMNE) decision regarding the mode of entry in an Emerging Market (EM) will be affected by the geographic and administrative distance between the locations in which the MNE has previously held operations. Drawing our arguments on the Transaction Costs Economics (TCE) and Internalization Theory we propose that for low and high geographic and administrative distance, DMNEs will opt to enter EMs via a wholly owned subsidiary (WOS), while for moderate levels of distance via a joint venture (JV). Furthermore, we argue that DMNE's previous international experience in EMs will have a positive effect on the suggested U-shaped relationship, alleviating the negative effects associated with the coordination and knowledge dissipation costs incurred due to the level of distance. We test our hypotheses against a dataset composed of 316 entries of FTSE 250 British MNEs in 39 EMs over the period 1971 – 2010. The results provide support for the U-shaped relationship, and partial support for the moderating effect of international experience.

Keywords; Foreign market entry; added geographic distance; added administrative distance; international experience; Emerging markets

Introduction

The decision whether an MNE will enter a foreign market via joint venture (JV) or as a wholly owned subsidiary (WOS) has been in the spotlight of International Business (IB) research for several years (e.g. Brouthers, 2002; Chen & Hennart, 2002; Guillén, 2003; Makino & Neupert, 2000; Yiu & Makino, 2002). Despite the growing interest and volume of research on this particular research stream, there are still unexamined or inconclusive research questions that could further enhance our knowledge (Hennart & Slangen, 2015). This study extends our understanding of the role of distance in the entry mode decision of DMNEs in the context of Emerging Markets. In this paper we, taking a cue in advances in IB reexamine and re-conceptualize the role of distance in the internationalization process (Hutzschenreuter, Voll, & Verbeke, 2011).

The traditional view in IB research has examined the role of distance as a rather monotonic dimension, simply involving a source (home) and a recipient (host) country. However, more recent developments have shown that firm internationalization comprises a much more complex and multidimensional process involving added levels of distance with regard to the (investments) steps that an MNE decides to take (Hutzschenreuter & Voll, 2008). As such, and on contrary to the conventional wisdom, we treat distance of a single expansion step as the MNE distance to the closest existing subsidiary, rather than as a direct distance to the MNE headquarters. We focus on two traditionally important facets of distance, that is geographic and administrative (added) distance and we argue that both types of added distance form a quadratic (U-shaped) relationship with the foreign entry mode choice (WOS vs. JV). We also argue that DMNEs' international experience in EMs is likely to act as a facilitator, thus providing the appropriate knowledge and capabilities to firms aiming to enter foreign markets via WOS as opposed to JV mode of entry. Accordingly, we argue that the aforementioned quadratic (U-shaped) relationship will be positively moderated by the level of DMNEs' international experience in EMs.

Our study thus addresses the following two research questions: (1) *How does the added administrative and geographic distance affect DMNEs' decision to enter via WOS as opposed to JV mode in the context of EMs?* (2) *How does international experience in EMs affect the relationship between added administrative/geographic distance and DMNEs' decision to enter via WOS as opposed to JV mode in the context of EMs?* We answer these questions by developing hypotheses based on the TCE and Internalization theories and through employing a binomial logit regression estimation against a dataset composed of 316 entries of FTSE 250 British MNEs in 39 EMs over the forty-year period 1971 – 2010.

Our study adds value in three specific ways to our existing knowledge on the subject. *First*, through adopting the concept of added distance we provide a comprehensive and realistic examination on the relationship between geographic/administrative distance and foreign entry mode choice. Past research has concentrated on examining such relationships through employing single-dimensional measures and concepts of distance. *Second*, we theorize and focus on international experience as an important moderator-- in the context of EMs. Extant research has highlighted the role of international experience in the process of internationalization (Clarke, Tamaschke, & Liesch, 2013; Mohr & Batsakis, 2014). International experience accrued via continuous presence in similarly idiosyncratic markets can act as a valuable learning asset for the MNE, thus further enhancing the chances of entering distantly located markets via a higher equity participation. *Third,* our empirical results provide insights for MNEs from the developed world aiming to expand overseas in emerging markets that are ready accept an ever larger proportion of global FDI.

The paper is structured as follows. Section 2 provides rationale on the conjectured relationships that lead to the hypothesis development. Section 3 describes data sources, conceptualization of our variables and methodology. Section 4 presents the findings, while Section 5 discusses the implications for theory and practice. Paper concludes with limitations and avenues for future research.

Theoretical background and hypothesis development

The role of (added) distance in firm internationalization

The role of distance (or proximity) between countries has emerged as one of the most studied themes in the IB literature. Distance has been viewed as a rather important institutional antecedent of the internationalization process. Although the concept of distance in IB has been traditionally connected to cultural differences, and consequently difficulties that firms encounter during the internationalization process (Barkema, Bell, & Pennings, 1996; Drogendijk & Slangen, 2006; Hofstede, 2001; Hutzschenreuter et al., 2011; Kogut & Singh, 1988; Tihanyi, Griffith, & Russell, 2005), more recent developments in IB research have introduced and highlighted the equally important role that other facets of distance play in terms of explaining several aspects of firm internationalization. As such, distance concepts including those of geographic (Ragozzino, 2009), institutional (He, Brouthers, & Filatotchev, 2013), administrative (Berry, Guillén, & Zhou, 2010), or even combinations of different distance measures (Ghemawat, 2001), such as the CAGE framework, have been introduced and have been empirically examined in the context of firm internationalization and its performance outcomes (Hutzschenreuter, Kleindienst, & Lange, 2014).

One of the most trivial aspects of distance in the context of IB literature is the method of assessing and measuring the actual distance in firm internationalization process. That being said, it can be argued that most of the existing studies examining firm internationalization mainly take a ‘static’, rather than a ‘dynamic’ approach when examining distance aspects during a firm’s expansion path (Hutzschenreuter & Voll, 2008). Simply put, most studies focus on simple dyadic distances between the home and the host country of investment, thus neglecting the fact that MNEs are organizations which are simultaneously active in multiple geographic locations. There are two important implications associated with this approach. First, entry in a new country does not imply that the most optimal calculated distance is this between the home location and the host location. Instead, firms may have been previously operating in more proximate locations than that of the home country, which means that the distance is smaller than the anticipated one. Second, expansion into more than one country in a given period of time (e.g. a year) implies that additional pressure is put on the firm, since an accumulative number of ‘added distances’ is likely to increase the liability of foreignness, especially in short time windows.

For the aforementioned reasons, we argue that the concept of added distance adds considerable value in terms of efficiently assessing the effect of distance on firm internationalization process. *Added distance* in a firm’s expansion path relates to the smallest of the distances between a newly entered country and the countries in which an MNE already has operations (Hutzschenreuter & Voll, 2008). We argue that this conceptualization of distance fits well with our attempt to assess the role of distance on foreign market entry mode choice of British MNEs in EMs. We therefore develop two direct hypotheses on the role of added (geographic and administative) distance on foreign entry mode choice.

The relationship between added geographic distance and foreign entry mode choice

In order to start with a simple and at the same time explanatory definition, we could describe *geographic distance* as the great circle distance between countries that affects transportation and communication costs (Berry, et al., 2010). Past research has paid comparatively more attention to aspects related to cultural and institutional distance than to those associated to physical/geographic distance (e.g. Boeh & Beamish, 2012; Ragozzino, 2009). Interestingly, while lately we observe a considerable increase in the number of IB studies attempting to examine the important role of cultural or institutional distance on the entry mode choice either separately (e.g. Tihanyi et al., 2005), or jointly with other forms of distance (e.g. López-Duarte & Vidal-Suárez, 2010; Slangen & van Tulder, 2009), at the same time it becomes apparent that other forms of distance attributed to the CAGE framework are not equally represented. We argue that geographic distance acts as an equally important antecedent of foreign entry mode choice. We also propose that instead of the traditional view that the relationship between distance and entry mode choice is either linearly negative or linearly positive, a quadratic (U-shaped) relationship exists, arguing that the option of a particular mode of entry over another will change rather non-monotonically. Drawing our arguments on the principles of TCE and internalization theory, we argue that firms will prefer to enter geographically remote and geographically proximate markets via WOS, while JV will be the preferred mode of entry for moderate levels of added geographic distance.

TCE theory suggests that firms need to develop organizational structures which will facilitate the minimization of costs and possible inefficiencies related to entry in a foreign market (Hennart, 1989; Williamson, 1979). Accordingly, entry via WOS in geographically proximate countries will be preferred mainly due to the comparatively better control and the relatively low costs of coordination activities of the subsidiary. The establishment of a subsidiary in a location near to an existing operation of the MNE can be efficiently controlled and managed due to the limited coordination costs. As such, a low added geographic distance from an existing location to a newly entered market is likely to foster the entry via full ownership rather than via collaborative efforts.

However, as the added geographic distance increases, the transaction costs and the relative coordination activities are expected to rise. We argue that firms will have to cope with higher costs of coordination, distribution (logistics) and other operational expenses, thus affecting the strategic choice of foreign market entry. Under such conditions, firms are likely to seek for strategic partnerships either with local actors or with other, potentially more experienced MNEs, leading to the assumption that entry via JV will be in general terms preferred as the geographic distance increases.

Finally, we argue that the choice of foreign market entry of an MNE in an EM will be different between moderately and highly distant geographic locations. We argue that DMNEs entering highly distant EM locations have to cope, not only with increased coordination costs, but also with idiosyncrasies and potential inefficiencies stemming from a diverse and comparatively weaker institutional environment. Ragozzino (2009) studying the effects of geographic distance on the foreign acquisition activity of U.S. firms shows that in culturally diverse and politically hazardous environments acquirers tend to prefer shared over full ownership for proximate investments. In order to complement the aforementioned argument, we draw on Internalization theory (Buckley & Casson, 1976; Coase, 1937) and the related internalization advantages which facilitate the reduction of transaction and coordination costs.

More specifically, it can be argued that a high geographic distance combined with entry via JV could potentially have detrimental effects for the MNE, mainly due to the fact that Home-base exploiting (HBE) FSAs might not be perfectly secured from rival firms, while a potentially weak institutional regime that characterizes most of the EM could also jeopardize any collaborative attempts, if these are not closely monitored by the MNE and its HQ. In order to deal with potential threats and knowledge dissipation occurrences - mainly stemming from the weak IPR protection regime -firms are likely to focus on utilizing internal knowledge channels and intra-firm knowledge sourcing in order to operate in the foreign location (Athreye, Batsakis, & Singh, 2016; Zhao, 2006). We also know from the literature that firms with a high level of FSAs are likely to operate under a sole venture mode, especially in countries characterized by high contractual risks (Agarwal & Ramaswami, 1992).

Based on the aforementioned argumentation, and drawing on TCE and internalization theories, we argue that the relationship between the added geographic distance and foreign entry mode choice will not be a linear one, but rather quadratic. For low and high levels of added geographic distance, DMNEs will prefer to enter an EM via full ownership (WOS), while for moderate levels of distance a collaborative entry mode (JV) will be preferred. We develop our hypothesis as follows:

H1: There will be a quadratic (U-shaped) relationship between added EM geographic distance and WOS mode of entry in EM.

The relationship between added administrative distance and foreign entry mode choice

Another important facet and antecedent of internationalization is the role of administrative or institutional idiosyncrasies of the host location and how these differ from the existing locations in which MNEs operate. In simple terms, *administrative distance* relates to the differences between countries in terms of bureaucratic patterns that result from differences in, for instance, language or legal systems (e.g., Berry, et al., 2010; Ghemawat, 2001; Guler & Guillén, 2010). The vast majority of the arguments related to the role of administrative or institutional distance between countries and their effect on firm internationalization is sourced from institutional theory (IST), which proposes that MNEs entering new (unexplored) markets will tend to imitate local firm actions in order to more efficiently adapt to host location's environment and strengthen their market presence (Kostova & Zaheer, 1999; Yiu & Makino, 2002). A number of studies have dealt with the effect of institutional distance (e.g. Brouthers, 2002; Schwens, Eiche, & Kabst, 2011), strength/weakness of institutions in the host location (e.g. Meyer, 2001; Meyer, Estrin, Bhaumik, & Peng, 2009), governance infrastructure (e.g. Yiu & Makino, 2002), and political risk (e.g. Agarwal & Ramaswami, 1992; Delios & Henisz, 2000) on foreign entry mode choice.

We argue that MNEs will prefer to enter EM via WOS in case of low administrative distance. In case of a comparatively low administrative distance, MNEs are likely to be familiar with the bureaucratic patterns and institutional idiosyncrasies of the host location, as this will be highly homogenous to another environment in which MNEs are already operating. As such, the MNEs are expected to have developed the knowledge, capacity and experience to deal with several inefficiencies and idiosyncrasies of the host location stemming from a complex legal or institutional regime. Past research has shown that low political risk is associated with foreign market entry via WOS rather than via JV (Agarwal & Ramaswami, 1992; Delios & Henisz, 2000) on foreign entry mode choice.

As administrative distance increases, firms are likely to prefer entry via collaborative modes of entry. We argue that firms experiencing a moderately high level of distance in terms of administrative procedures are likely to seek for collaborative opportunities in order to lessen the negative effects and complexities that may arise due to the increasing distance. This would be especially the case when administrative distance is increasingly unfavorable (i.e. low quality). Research has shown that low governance quality in the host location is likely to drive MNEs to form JVs with local actors (Slangen & van Tulder, 2009), while such ventures are less likely to be mistreated compared to their WOS counterparts (Delios & Henisz, 2000).

Finally, we argue that the relationship between administrative distance and entry via JV will not be a continuously (linearly) increasing one. Instead, we conjecture that as distance increases, firms will prefer to enter via a WOS mode. The theory on Time Compression Diseconomies (TCD) (Dierickx & Cool, 1989) during the process of international expansion (Vermeulen & Barkema, 2002) argues that the increasing uncertainty related to the expansion into countries that significantly differ from the firms' existing overseas markets is likely to lead to diminishing returns. We argue that firms can deal with local administrative complexities which arise due to the increasingly high distance, only up to a certain extent via a JV mode of entry. After a point, administrative complexity will not be efficiently dealt with collaborative efforts with local actors, as this would entail a greater level of control to the local firm, which could potentially put at risk the proprietary rights and intangible assets of the MNE. Simply put, while complexities that have arisen due to high administrative distance might be resolved, granting greater control and authority to the local firm might have detrimental effects on the MNE. For that reason, we argue that, at this stage, firms are likely to opt for a WOS mode of entry.

Based on the aforementioned argumentation we conjecture that the relationship between the added administrative distance and foreign entry mode choice will be quadratic (U-shaped).

More specifically, for low and high levels of added administrative distance, DMNEs will prefer to enter an EM via full ownership (WOS), while for moderate levels of distance a collaborative entry mode (JV) will be preferred. We develop our hypothesis as follows.

H2: There will be a quadratic (U-shaped) relationship between added EM administrative distance and WOS mode of entry in EM.

The moderating effect of EM experience

In the IB context, international experience generally refers to the "experience that firms accrue from operating internationally" (Clarke et al., 2013). International experience has increasingly attracted the interest of the academic community, which has positioned it as a significant intangible resource (which can be utilized to produce important knowledge) of the internationalizing firm (Fang, Wade, Delios, & Beamish, 2007; Mohr & Batsakis, 2014). The 'international experience factor' has been long argued to play a very important role for the internationalizing firm, in terms of a firm's successful internationalization (Luo et al., 2005; Mohr & Batsakis, 2014), firm survival (Delios & Beamish, 2001; Mudambi & Zahra, 2007), and its decision on foreign market entry mode (Agarwal, 1994; Brouthers, Brouthers, & Werner, 2001; Dow & Larimo, 2009; Erramilli, 1991; Evans, Mavondo, & Bridson, 2008; Yiu & Makino, 2002).

Extant empirical studies have shown that the internationalizing firm's level of international experience is positively related to high control modes of entry in early and late stages of internationalization (Erramilli, 1991), and consequently with choice of entry by a WOS (Chiao, Lo, & Yu, 2010; Dow & Larimo, 2009; Yiu & Makino, 2002), as opposed to a JV. The initial argumentation for the role of international experience on the firm's foreign mode of entry is based on the assumption that foreign market uncertainty can be mitigated only through operating in the related markets and not through acquisition of specific information and knowledge (Johanson & Vahlne, 1977).

In the context of our study, we argue that British MNEs' operational presence in EM, and thus acquired experience, will act as an important moderator, alleviating the costs of geographic and administrative distance associated with WOS mode of entry. First, we anticipate that past experience in EM can trigger knowledge absorption (Johanson & Vahlne, 1977), thus increasing the overall absorptive capacity of the firm (Gunawan & Rose, 2014). Given that higher geographic distance is expected to incur additional coordination, operational and communication costs to the MNE, a high level of international experience can be effectively utilized in order to mitigate the aforementioned negative effects. We argue that firms with previous experience in EM are likely to better cope with complexities, idiosyncrasies and abnormalities of the host location, thus dealing more effectively with the related costs of doing business in EM. As a result, MNEs will not be required to proceed to synergistic modes of entry (JVs) that would eventually make them lose a share of their operational control. Instead, MNEs could utilize the knowledge absorbed from their previous operation in EM and thus enter in subsequent foreign markets via a fully controlled mode of entry (WOS).

Second, we argue that experience in EM can facilitate the internationalization process and alleviate possible problems and complexities related to its liability of foreignness (Barkema et al., 1996). Firms with high levels of experience in EM will thus be able to mitigate complexities associated with a high level of liability of foreignness (LoF). In general terms, DMNEs entering EM and geographically/administratively distant countries are likely to face considerable institutional complexities. We know that potential lack of institutional market knowledge and business market knowledge is related to the LoF and the liability of outsidership (Eriksson, Johanson, Majkgård, & Sharma, 1997). Experience in EM can alleviate these liabilities and thus allow the firm to enter in other EM with a better controlled ownership (i.e. WOS mode of entry).

Overall, we argue that experience in EM can be perceived as an important intangible asset for the firm which can mitigate the negative effects of coordination and knowledge dissipation costs associated with increasing levels of added geographic and administrative distance, thus lifting upwards the U curve. Accordingly, we formulate the following hypothesis:

H3a: Previous experience in EM will positively moderate the U-shaped relationship between added EM geographic distance and WOS mode of entry in EM, such that the propensity of entry via WOS mode for moderate and high levels of added geographic distance will be even higher when MNEs hold a high level of EM experience.

H3b: Previous experience in EM will positively moderate the U-shaped relationship between added EM administrative distance and WOS mode of entry in EM, such that the propensity of entry via WOS mode for moderate and high levels of added administrative distance will be even higher when MNEs hold a high level of EM experience.

Data and methodology

Data sources

For the purpose of our analysis we required data on the following variables: MNEs undertaking overseas ventures in EMs, the year of their entry, the host nation and industry entered, and the size of the MNE that we measured in terms of its total employment. A first search revealed little data on these lines. Most literature on this topic focuses on FDI strategies in EMs, or takes a broad and generalized view of internationalization and FDI. Data from the Office of National Statistics (ONS) only shows an overall picture of the entirety of UK FDI. No database is available of UK firms that are engaged in international business in emerging markets, and the statistical information that is available on UK FDI abroad was not specific enough for the purpose of this study. This is largely due to restrictions imposed by the British Data Protection Act (1998), which does not permit bodies such as the Chamber of Commerce to disclose this information. Consequently, we decided to proceed first with a list of FTSE 100 and then FTSE 250 firms. The work took several months of going through each company report, its website, and other information to extract the dataset required for our purpose. In the final analysis, a total of 134 companies were found to be engaged in FDI in emerging markets, with a total of 316 projects. The Bureau van Dijk's Fame database was consulted to confirm that the companies used for the study were British companies registered in the UK. We went back as far as 1971; with regard to sourcing information for those companies that have engaged in FDI since 1971, information on businesses that have ceased trading is no longer available and therefore the study is limited to only 134 parent MNEs.

Variables

Our dependent variable is in a dichotomous formation, taking the value '1' if the entry in the emerging market is via a *Wholly Owned Subsidiary (WOS)*, and the value '0' if the entry is via a *Joint Venture (JV)*. Numerous past studies have used an identical operationalization in order to predict various antecedents of foreign market entry choice (Brouthers & Brouthers, 2003; Hennart & Larimo, 1998; Kaynak, Demirbag, & Tatoglu, 2007).

Our first independent variable is the *added geographic distance*. Traditionally, IB scholars have given a single-dimensional context to the distance between the source and the target country of investment. That is, until recently, the vast majority of IB emprical studies were calculating and testing the actual distance between the source country (UK) and the relative target country, regardless any potential interim investment in other countries. Hutzschenreuter and Voll (2008) and Hutzschenreuter et al. (2014) suggested a more sophisitcated and accurate measure of distance which takes into consideration entries to other, potentially neighbouring or proximate, countries. Such a measure takes into account strategic considerations of the firm, as MNEs tend to invest in small incremental steps and in proximate locations in order to better deal with complexities arising due to the LoF (Johanson & Vahlne, 1977). Therefore, we caclulate added geogrpahic distance as the geographic distance between the newly entered emerging market and the countries the MNE already operates in taking the smallest distance (Hutzschenreuter, et al., 2014; Hutzschenreuter & Voll, 2008). For the calculation of the variable we use data on the geographic latitude and longitude of the major city of each country (see, for instance, Hutzschenreuter, et al., 2014; Zaheer & Hernandez, 2011). This data was taken from the French research center in international economics (CEPII). Our second independent variable, *added administrative distance*[1] , is calculated using the same procedure as for measuring added geographic distance, using data on administrative distances between countries provided by the Penn Lauder Centre for International Business Education and Research (Berry, et al., 2010).

Our moderating variable is *international experience in EM*. Past research has highlighted the role that multinational experience plays in terms of entry mode choice (Brouthers & Brouthers, 2003; Erramilli, 1991). We previously argued that international experience in EM

[1] For the construction of this variable Berry et al. (2010) use three measures; colonizer-colonized link (whether a pair of countries share a colonial tie), common religion (percentage of population that share the same religion in the country pair), and legal system (whether a country pair shares the same legal system).

will also play a moderating, rather than a direct role, in the relationship between added geographic distance and foreign market entry mode. Following previous studies (Mohr, Fastoso, Wang, & Shirodkar, 2014), we measure international experience in EM as the total number of years a firm has operated in other emerging markets. Thus our measure is an accumulated number which takes into account both the duration of operation (in years) and the number of emerging markets the MNE has operated.

Finally, we incorporate a number of control variables which we expect to have an immediate relationship with the foreign entry mode choice. Specifically, we incorporate *firm size*, measured as the MNE's total number of employees. Past research has shown that larger firms are likely to enter via a WOS entry mode (Agarwal & Ramaswami, 1992; Brouthers & Brouthers, 2003). This can be attributed to the fact that large MNEs have slack resources which can be utilized for the entry via a WOS entry mode. Although the sample is somehow homogenous (FTSE firms) there are differences in terms of firm size that we expect to have an immediate effect on entry mode choice. A further control variable is the period that the foreign entry took place. Past research has used a similar measure in order to account for institutional changes that are likely to make the climate either more or less favorable for investment (Kaynak et al., 2007). In our study, the entry dates have three class intervals; Pre-1990; 1990–1999; and post-2000 period. We therefore create three dummy variables, each one corresponding to a unique period. We proceed to this categorization as the post-90s period indicates tremendous political and economic changes in the CEE (Post-Socialist economies) and the Asian region (China). Also, the post-2000 category aims to account for a new wave of EM economies that have been added to this of BRICS. We also control for industry variation. Specifically, we create an industry dummy taking the value '1' if the MNE operate in the service industry, and the value

‘0’ if the MNE operates in the manufacturing industry. Past scholarship has shown that differences exist between service and manufacturing firms in terms of international entry mode choices (Brouthers & Brouthers, 2003; M. K. Erramilli, 1996). Finally, we control for the region of foreign entry mode. Specifically, we generate four dummy variables, each one corresponding to a different geographic region (Africa and Middle East, Asia, Europe, and Latin America).

Estimation technique

Since our dependent variable is in a dichotomous formation we decided that the most optimal method for estimating our hypotheses is through a binomial logit regression analysis, as it provides an efficient way for estimating the probability of the occurrence of a specific event. In our case, the event is the foreign entry mode choice. Numerous past empirical studies have incorporated this estimation technique in order to assess foreign entry strategies (Agarwal, 1994; Brouthers & Brouthers, 2003; Hennart & Larimo, 1998; Kaynak et al., 2007). A positive sign of the reported coefficients increases the probability of entry via a WOS, while a negative sign increases the probability of entry via a JV.

Results

Table 1 presents the correlation matrix and descriptive statistics. The descriptive statistics show that on average, UK MNEs prefer to enter EM via a WOS mode (58%) rather than via a JV. The average level of international experience in EM is 7.53 years, while the average size of the MNEs is approximately 54,663 employees. Most of the UK MNEs in our sample entered EM during the post-2000 period (59%), while the three quarters of the target EM regions are Asia

(51%) and Europe (24%). Finally, the majority of our sample's MNEs originate in the manufacturing (60%), rather than the service industry (40%).

In terms of the correlation matrix, no high correlations between the independent and control variables are observed; with only exception the coefficients of the 1990-1999 and post-2000 period dummy variables. Following this concern, we calculated the variance inflation factors (VIFs) to check for multicollinearity. The highest VIF score was well below the commonly used threshold value of '10' (Hair, Anderson, Tatham, & William, 1998), indicating that multicollinearity is not a major concern for our analysis. Furthermore, we know that multicollinearity problems may also occur due to the inclusion of interaction and quadratic effects in the regression analysis. As such, we follow the technique suggested by Aiken and West (1991) and we mean-center the respective variables. This process aims to reduce non-essential ill conditioning between exploratory variables and their quadratic terms (Cohen, Cohen, West, & Aiken, 2003).

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Table 2 presents the results of the logistic regression. Model 1 tests the relationship between added geographic distance and foreign entry mode in EM. The results indicate a negative and significant coefficient ($p < .01$) for the first-order term of added geographic distance and a positive and significant coefficient ($p < .05$) for its second-order term. The combined findings provide a clear indication that the relationship between added geographic distance and foreign entry mode in EM via a WOS is indeed a U-shaped relationship. We are therefore in position to support Hypothesis 1. In order to further support our finding, we proceed to the graphic illustration of the quadratic relationship. Figure 1 shows that for low and high levels of added geographic distance UK MNEs prefer to enter EM via a WOS mode, while for moderate levels of distance firms opt for a JV mode of entry.

--- Insert Table 2 here ---

--- Insert Figure 1 here ---

Model 2 tests Hypothesis 2 and the conjectured quadratic (U-shaped) relationship between added administrative distance and foreign entry mode choice. The results provide support for our conjecture since the coefficient of the first-order term of the added administrative distance is negative and significant ($p < .10$), while the coefficient of the second-order term of added administrative distance is positive and significant ($p < .05$). We also proceed to the graphic illustration of the quadratic relationship. The quadratic effect in Figure 2 is relatively less pronounced than the plot we observe in Figure 1. Specifically, the relationship is a J-shaped, showing that the choice of a WOS entry is likely to occur mainly for both administratively distant and proximate locations. However, the level the propensity of entering via a WOS is much more intense for administratively distant locations, rather than for administrative proximate ones. Finally, in line with our conjectures, firms tend to enter foreign markets via JVs only for moderate levels of administrative distance.

--- Insert Figure 2 here ---

In order to test the moderating effect of international experience in EM we proceed to the development of interaction terms of added (geographic and administrative) distance and international experience in EM, as well as their quadratic interaction terms. Model 3 tests the moderating effect of EM experience on the relationship between added geographic distance and entry mode choice. Specifically, the interaction between the squared term of added geographic distance and international experience in EM is positive and statistically significant ($p < .05$), and at the same time the first-order and the second-order terms of added geographic distance coefficients retain their signs and acceptable significance levels ($p < .05$). Accordingly, Hypothesis 3a is supported. In order to better capture the effect of the interaction of added geographic distance and international experience in EM on WOS mode of entry, we split the sample to three subgroups based on the level of international experience in EM[2]. Figure 2 shows the change of the curve's position which is occurred due to the firm's level of international experience in EM. Specifically, MNEs holding a moderate to high level of experience in EM are more likely to opt for a WOS as opposed to JV entry mode for moderate and high levels of added geographic distance. The graphic illustration clearly shows this effect, since for moderate to high level of experience, the U-shaped curve moves upwards, thus indicating that international experience in EM is likely to facilitate UK MNEs' entry in EM via a WOS mode.

--- Insert Figure 3 here ---

[2] Aiken and West (1991) suggest the split of the sample of the moderating variable to subgroups (low, moderate, and high) based on the moderating variables' mean and standard deviations (i.e. mean ± 1 standard deviation). However, since the standard deviation of our moderating variable is greater than its mean, we decided to form the three subgroups (low, moderate, and high) based on the mean and ± ½ standard deviation (rather than the common ±1 standard deviation). As an alternative separation of the sample to subgroups we used percentiles (low ≤ 25%, moderate 25% – 75%, and high ≥ 75%). Both splitting methods provided very similar graphic illustrations. In this study, we provide the graphic illustrations as these emerged following the standard deviation splitting method.

Model 4 examines the moderating effect of EM experience on the relationship between added administrative distance and entry mode choice. The interaction between the squared term of added administrative distance and EM experience turned out to be insignificant. Thus we are not able to support Hypothesis 3b.

Discussion

One of the striking characteristics of modern globalized world is the dominance of MNEs in field of investment, trade, employee mobility, and innovations in the home and host nations where they operate. Host nations, broadly classified into developed and emerging, are attracting attention from MNEs as a favored investment destination. A central question in the field of IB that has attracted the attention of scholars has been the factors that facilitate MNEs to take a decision to enter (or not to enter) an emerging host nation. It is argued that how MNEs perceive the risk or otherwise of overseas location will influence their mode of entry in the chosen location. A central question that has rekindled interest in scholars is the concept of distance (see Hutzschenreuter et al., 2014 for a review; Zaheer, Schomaker, & Nachum, 2012) influencing the mode of entry. An important strand of debate in this area that can loosely be described as ‘Rugman hypothesis’ states that despite increasing trend towards globalization, major chunk of investment by MNEs has occurred in the vicinity of the home nations of MNEs (Oh & Rugman, 2012; Rugman & Verbeke, 2004, 2008). Embedded within this hypothesis is the contention that formal and informal institutional attributes (DiMaggio & Powell, 1983; Scott, 1995) and the organizational learning process (Barkema & Vermeulen, 1998; Eriksson et al., 1997; Lord &

Ranft, 2000; Welch & Luostarinen, 1993; Zahra, Ireland, & Hitt, 2000) works as an 'invisible hand' behind the expansion process of MNEs within the vicinity of their home locations.

Following this literature review and drawing on TCE and internalization insights we hypothesized that 'for low and high levels of added geographic and added institutional distance, MNEs will prefer to enter host nations as a WOS; while for moderate distances JV would be preferred'. The empirical findings confirmed our hypothesis and add an extra layer of information to our knowledge with regard to the effect of distance on foreign entry mode choice. More specifically, we show that this relationship is not a monotonic one, but it rather fluctuates depending on the level of distance. British MNEs having held operations in other highly proximate or highly distant markets are likely to prefer WOS as their strategic entry mode choice. This finding confirms the view that firms tend to internalize their resources and capabilities and thus prefer a WOS mode of entry under two instances. First, when they operate in geographically proximate countries and a comparatively better control and relatively low costs of coordination activities of the subsidiary are observed. Second, when firms function in geographically distant markets where potential IP-related threats and knowledge dissipation occurrences, especially in several EMs where institutional protection is still rather weak. Similar findings are observed for the relationship between added administrative distance and entry mode choice. However, this time the quadratic relationship (U-curve) is less pronounced, as firms are equally likely to enter a proximate (in terms of administrative distance) markets via a JV mode. This finding could imply that although WOS guarantees that the firm will potentially be less exposed to threats and risks, a familiar administrative background of the host market to the firm could ensure that such complexities and idiosyncrasies are likely to be already known and potentially effectively dealt with in the past. As such, a collaborative mode of entry might be equally preferred.

Secondly, we proposed that 'the propensity of entry via WOS mode for moderate and high levels of added geographic distance will be even higher when MNEs hold experience in operating in emerging markets'. Allied to this, we also proposed that 'the propensity of entry via WOS mode for moderate and high levels of added administrative distance will be even higher when MNEs hold a high level of experience of operating in the host nation'. Indeed, the empirical findings confirm our conjecture. MNEs with prior experience in EMs are more likely opt for a WOS mode even for moderate or high distance EMs. In geographically distant markets firms are likely to face considerable coordination costs due to several idiosyncrasies and complexities of the host market. Prior experience accrued via operating in other EMs can act as a buffer to these pressures, as the MNE is likely to have already absorbed considerable knowledge in terms of learning how to operate in such markets, and also have dealt more effectively with accumulative levels of LoF. Unlike the aforementioned relationship, the moderating effect of international experience in EMs was not significant for the relationship between added administrative distance and WOS mode of entry. A possible explanation to this outcome is that administrative distance entails institutional characteristics that are likely to substantially differ from market to market. As such, even though a considerable level of EM experience can have positive effects on the internationalization process, it might not be always adequate in order to solve problems and complexities that would otherwise guarantee an easier and smoother transition and entry into a new market. However, geographic distance is often related to operational issues, such as supply chain management and logistics, which are more likely to have been enhanced as mechanisms through the MNE's learning process in similar EMs.

Theoretical and empirical Contributions

Internalization concept initiated by Coase (1937) and elaborated by Buckley and Casson (1976), and Williamson (1981) lay out the case for minimizing transaction costs and protecting propriety rights by owing the business as a WOS entity. Our empirical results substantiate this widely held view. We found that in situations where the actual physical distance between the home country and overseas subsidiary is either very low or very high, preference to operate overseas is by way of a WOS entity. In-between these distances, preference is to operate by way of JV. Proximity to home territories with often similar formal and informal institutional set ups and idiosyncrasies (Globerman & Shapiro, 2002; Holmes, Miller, Hitt, & Salmador, 2013; North, 1990) generates familiarity and ease of doing business. Such reciprocal understanding between neighboring nations can give rise of WOS operations. When the physical distances are substantial, dissimilar institutional set-ups would make an MNE to go all alone as well (as a WOS entity). In between scenarios would lead to collaborative ventures. These results are validated in the context of administrative distances as well which have the same impact as physical distances on the choice of entry mode; i.e. for proximate and distant locations the preferred entry choice is by WOS; in between it is via collaborative ventures.

Our empirical work also captured the impact of previous overseas experience held by the MNE. We found that the inclination of entry as a WOS entity increases (in proximate and distant locations) when and the MNE has held previous experience in overseas operations. This is an important finding and one that substantiates the previously held view of an incremental approach to multi-nationalization proposed in the works of authors such as Johanson and Wiedersheim-Paul (1975) Johanson and Valhne (1977) and Welch and Luostarinen (1993). This result could also be linked to a more recent proposition made by Singh et al. (2011) who in an empirical study on FDI location factors in sub-Saharan Africa suggested that in many instances MNEs adopt a two-step approach to internationalization.

Finally, following recent advances in the IB stream with regard to the role and conceptualization of distance (Hutzschenreuter & Voll, 2008), we reexamine the unceasingly important relationship between distance and entry mode choice. Our study has adopted a more sophisticated measure and concept of distance, this of ‘added distance’. While past studies have rigorously focused on actual distances between the home and the host market, this study provides a new setup on how actual distance should be perceived when it comes down to the internationalization process of the MNE.

Implications, limitations and Avenues for future work

Our work implies that ‘Distance matters’ and so does the ‘experience’. MNEs protect proprietary information as advocated in the internalization theory by wholly owing the business and expanding their knowledge horizons before moving to new territories; we show that they do so after they have gained sufficient experience - on average about 7-8 years. There is a clear message here for budding MNEs wishing to expand in new territories. When distances matter, patience and learning the intricacies of the environment would pay before expanding further into new markets.

Owing to costs, time, and efforts involved in collecting firm level data, this study is limited to the entry of British MNEs in emerging markets. Future studies could replicate this work in the context of MNEs from other developed countries from Europe or North America. A cross section data, especially, of more recent nature would yield fruitful results. Data used in this work is *ex-post*; we did not collect any survey data asking senior management about the conditions under which entry decisions were taken, as with the change in time senior management also shifts and the survey replies would not have been very reliable.

Researchers working on cross section studies and inquiring about more recent entries in overseas emerging markets could quiz the management on the subjective nature of decision making process. Also, potential performance implications arising from the effect of added distance on entry mode choice would be particularly beneficial. Future studies could elaborate on other forms of distance, and potentially examine the role of traditionally important firm-level characteristics, as potential moderators of the relationship between added distance and entry mode choice.

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FIGURES

Figure 1. The quadratic relationship between added geographic distance and entry mode choice.

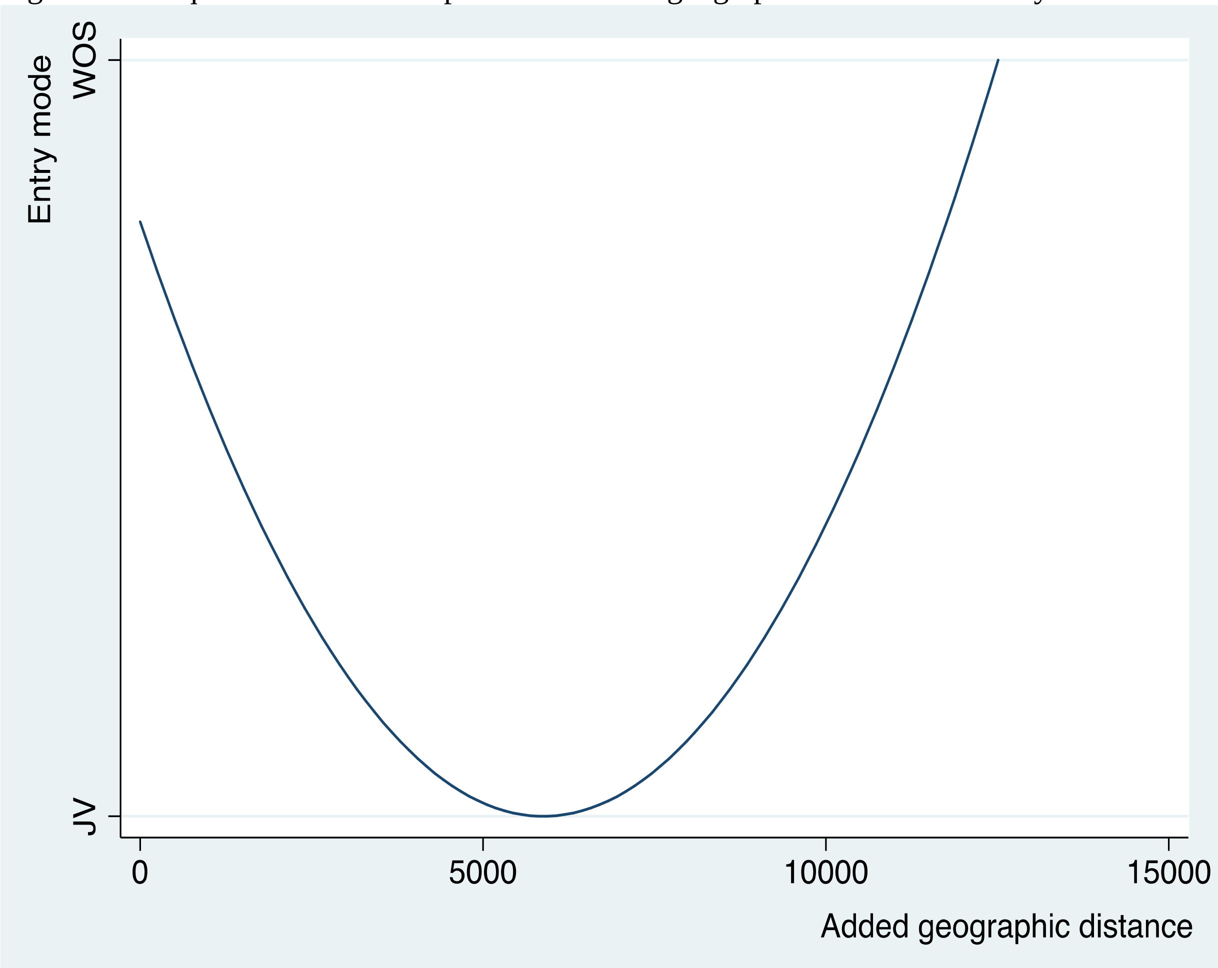


Figure 2. The quadratic relationship between added administrative distance and entry mode choice.

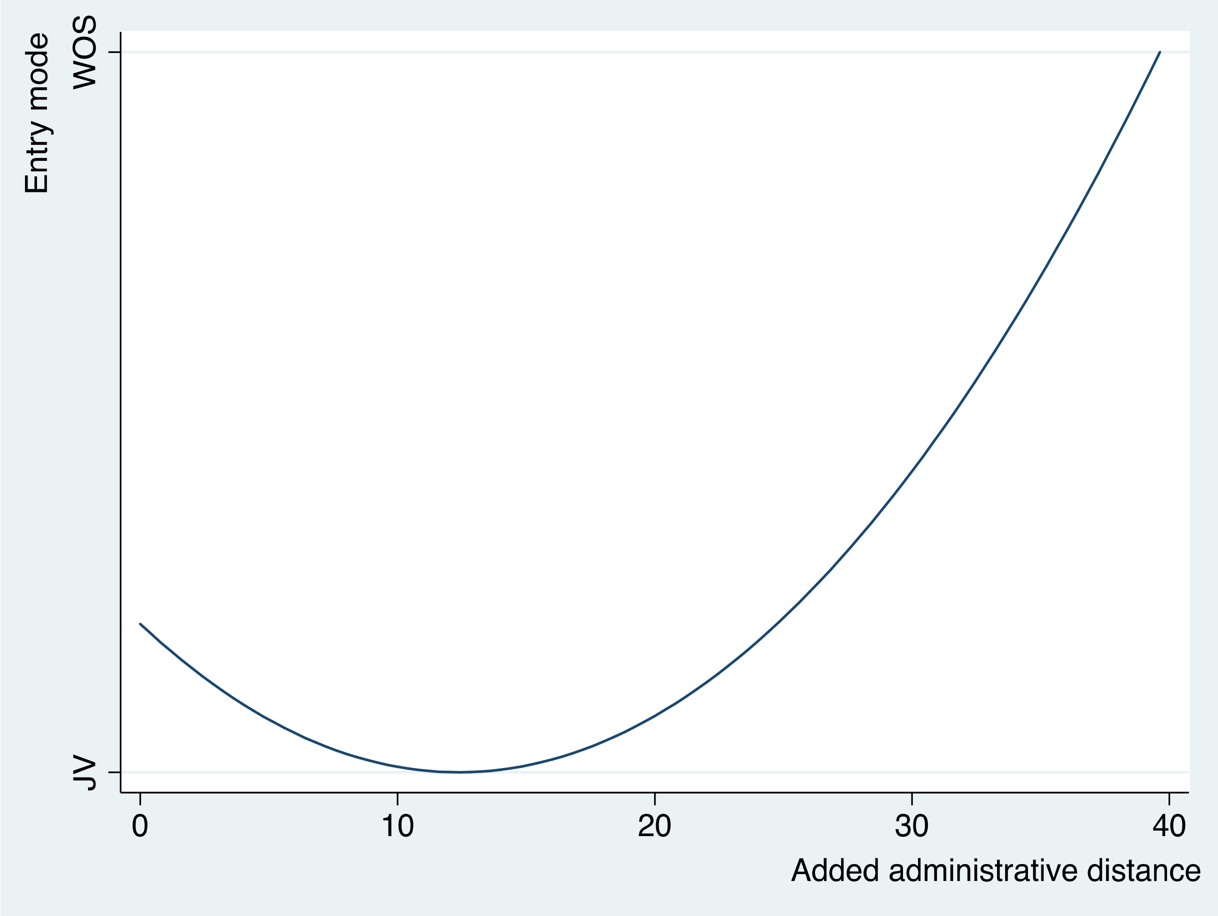
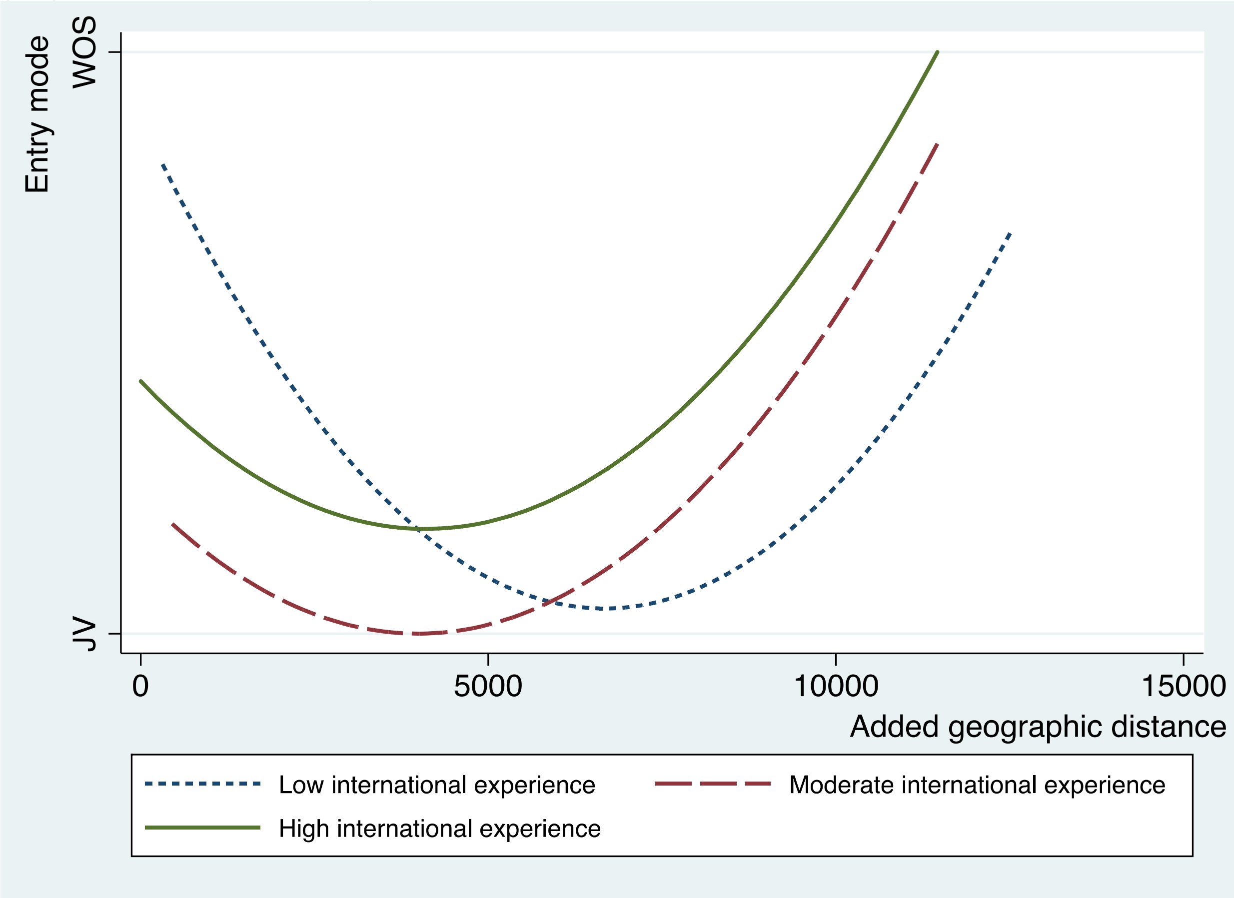


Figure 3. The moderating effect of international experience on the relationship between added geographic distance and entry mode choice.



TABLES

Table 1. Pairwise correlations and descriptive statistics

		1	2	3	4	5	6	7	8	9	10	11	12	13
1	WOS	1												
2	Added geographic distance	-0.09	1											
3	Added administrative distance	0.06	0.18	1										
4	EM experience	0.07	-0.28	-0.15	1									
5	Size	0.05	-0.22	-0.01	0.12	1								
6	Pre-1990 entry	0.01	0.13	-0.07	-0.12	-0.01	1							
7	Entry 1990-1999	0.01	0.16	0.10	0.03	0.11	-0.19	1						
8	Post-2000 entry	-0.01	-0.22	-0.06	0.03	-0.10	-0.33	-0.86	1					
9	Service	0.02	-0.12	0.00	-0.13	0.21	-0.12	-0.10	0.16	1				
10	Africa & Middle East	0.19	0.14	-0.19	0.00	-0.05	0.03	0.09	-0.10	-0.09	1			
11	Asia	-0.44	0.17	-0.07	-0.07	-0.10	0.09	-0.18	0.12	0.01	-0.35	1		
12	Europe	0.19	-0.59	-0.07	0.13	0.19	-0.12	-0.04	0.10	0.10	-0.19	-0.57	1	
13	Latin America	0.22	0.34	0.33	-0.06	-0.05	-0.01	0.22	-0.21	-0.06	-0.14	-0.43	-0.23	1
	Mean	0.58	5,357.08	10.73	7.53	54,663.85	0.07	0.34	0.59	0.40	0.10	0.51	0.24	0.15
	Std. Dev.	0.50	3,176.57	10.14	14.08	102,229.00	0.25	0.47	0.49	0.49	0.31	0.50	0.43	0.36

Correlations above |0.11| are significant at the 5% level.

Table 2. Logistic regression predicting WOS vs. JV.

	Model 1	Model 2	Model 3	Model 4
Added geographic distance	-0.000519***		-0.000531**	
	(0.000201)		(0.000217)	
Added geographic distance Squared	4.24e-08**		3.85e-08**	
	(1.72e-08)		(1.86e-08)	
Added administrative distance		-0.0802*		-0.115**
		(0.0470)		(0.0536)
Added administrative distance Squared		0.00212**		0.00234**
		(0.00106)		(0.00114)
EM experience	0.00759	0.00846	0.0148	0.00128
	(0.00982)	(0.00842)	(0.0173)	(0.0148)
Added geogr. distance x EM experience			-1.86e-05	
			(1.21e-05)	
Added geogr. distance Squared x EM experience			3.14e-09**	
			(1.42e-09)	
Added admin. distance x EM experience				-0.000711
				(0.00299)
Added admin. distance Squared x EM experience				0.000136
				(0.000106)
Size	-2.02e-07	-1.34e-07	-2.77e-07	-7.33e-07
	(1.40e-06)	(1.23e-06)	(1.40e-06)	(1.25e-06)
Pre-1990 entry [a]	0.524	0.504	0.598	0.570
	(0.491)	(0.505)	(0.502)	(0.509)
Entry 1990 - 1999	-0.391	-0.483	-0.354	-0.392
	(0.306)	(0.303)	(0.312)	(0.302)
Service	0.221	0.209	0.219	0.167
	(0.284)	(0.280)	(0.288)	(0.285)
Africa & Middle East [b]	0.169	-0.170	0.168	-0.407
	(0.628)	(0.653)	(0.641)	(0.671)
Asia	-2.241***	-2.617***	-2.129***	-2.839***
	(0.434)	(0.454)	(0.441)	(0.480)
Europe	-1.015*	-0.820*	-0.988*	-0.891*
	(0.556)	(0.482)	(0.564)	(0.489)
Constant	2.872***	2.339***	3.007***	2.794***
	(0.739)	(0.612)	(0.756)	(0.686)
Pseudo R-square	0.176	0.170	0.191	0.183
Log pseudo-likelihood	-177.399	-179.219	-174.046	-176.283
Wald Chi-square	63.17***	63.10***	70.20***	65.78***
Observations	316	316	316	316

Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.10; [a] Reference category *Post-2000 entry*; [b] Reference category *Latin America.*