

Top managers' entry mode choices: the impact of personal experiences and institutional differences

2010-09-29

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Abstract

Drawing on strategic management and international business literatures this study examines the relationships between top managers' experiences and their choice of foreign market investment modes in transition economies. We advance research by suggesting that institutional differences between the investing firm's country of origin and the country of investment moderate the relationship between the manager's experiences and the entry mode choice s/he makes. We test our hypotheses with a data on 146 foreign direct investments made by west-European MNEs in ten central and eastern European economies in the 1992-2002 period of transition. We examine two demographic features, top managers' age and international experience, and provide support for our theory that the effect of top managers' experiences on their entry mode choices is conditional on institutional differences or similarities.

Key words: entry modes, top managers' demographics, institutional differences

1. Introduction

Foreign entry mode decisions have been considered to be of critical strategic importance (Agarwal and Ramaswami, 1992), because this strategic selection has significant and far-reaching consequences for the subsidiary's performance and survival (Gatignon and Anderson, 1988; Terpstra and Sarathy, 1994; Konopaske, Werner and Neupert, 2002). In this field of research scholars have predominantly applied transaction cost theory and the resource-based view to examine firm and country-level predictors of foreign market entry strategies (Dikova and Brouthers, 2009). Despite extant evidence that the experiences of chief executive officers (CEOs) influence firm strategies (Smith and White, 1987; Govindarajan, 1989), relationships between executives' experiences and international strategic choices are relatively unexplored (Athanassiou and Nigh, 2002). Only Herrmann and Datta (2006) consider the impact of managers' personal characteristics on entry mode choice and find that CEO's age and experience determine whether s/he would chose a wholly owned (WO) greenfield, a WO acquisition or a joint venture to penetrate a foreign market.

Despite the merits of Hermann and Datta's (2006) conceptual approach, it is unlikely that CEOs choose investment entry modes based on their experiences only, irrespective of context. We argue that CEOs make a situational entry mode decision because the mode choice is influenced by a specific set of circumstances which are beyond managers' control. According to North's (1990) new institutional economics theory, individuals (and firms) face repetitious situations but they are also confronted with non-repetitive choices where information is incomplete and outcomes uncertain. An example of such a situation is taking a strategic decision in an unfamiliar context, i.e. entering a foreign country governed by significantly different local institutions. The greater the institutional unfamiliarity, the less likely it is that prior to choosing an

entry mode a manager is able to observe and interpret correctly the local environmental conditions. Managers often make strategic choices based on incomplete information (North, 1990). However, the degree of environmental unfamiliarity elevates the information asymmetry about investment choices thus creating greater investment complexity and uncertainty (North, 1990). Great investment uncertainty is likely to affect strategic decision-making; hence we deem it important to test the impact of institutional differences on the relation between CEOs experiences and entry mode choices. We contribute to the entry mode literature by examining for the first time whether, and if yes, how CEO personal experiences and institutional differences in interaction impact the entry modes managers make.

To provide a greater variation in institutional differences, we examine entry mode choices of CEOs of western European multinationals (MNEs) in the central and eastern European region during the period of economic transition (1992-2002). In this period of transition from centrally planned economy regimes to market economies the countries in the CEE region, Bulgaria, the Czech Republic, Hungary, Estonia, Latvia, Lithuania, Poland, Romania, Slovenia and Slovakia, gradually transformed their laws, regulations and court systems ultimately striving for a membership in the European Union. They all differed in the magnitude, the pace and the success of institutional transformation, demonstrated by the two waves of EU accession (in 2003 and 2007 respectively). All this provides us not only with a wide variation in institutional differences but with an opportunity to test our theoretical propositions in a different European context—the study by Herrmann and Datta (2006) examined only the investment mode choices of US manufacturing firm managers. This paper is structured as following—in the next section the theory and hypotheses are developed, then the data collection, the variables and methods are presented, all this is followed

by a presentation of the results and finally the paper is concluded with a discussion of the findings, limitations and future research possibilities.

2. Theory and hypotheses

2.1. The entry mode literature

Recent developments in foreign direct investment literature classify foreign market entry modes into three groups: 1) WO greenfields, 2) WO acquisitions and 3) joint ventures (JVs) (Meyer, Estrin, Bhaumik and Peng, 2009; Elango and Sambharya, 2004; Anand and Delios, 2002). An alternative bimodal approach to foreign entry mode choice implies that the ownership level (of the subsidiary) and the establishment mode are sequential decisions: managers first choose between partial and full ownership level and afterwards if full ownership is preferred they choose between greenfield or acquisition mode of subsidiary establishment (Ruiz-Moreno, Mas-Ruiz and Nicolau-Gonzalbez, 2007). However, according to Chang and Rosenzweig (2001) such decision-making sequence is unlikely because in practice the two stage sequence is often blurred. Therefore, in line with the recent developments in IB and strategy literature (Meyer et al., 2009; Chen, 2008) we here analyse three alternative foreign market entry modes simultaneously and consider them interdependent choices.

Choosing among the three alternatives, a JV entry strategy, a WO greenfield or a WO acquisitions, implies different types of tradeoffs between level of control, degree of investment risk, resource commitments and information search (Herrmann and Datta, 2006). For instance, a JV allows access to resources embedded in a local organization and offers strategic flexibility and reduced investment risk, however, it also requires sharing profits with the partner, often creates coordination challenges and exposes JV partners' proprietary assets to free-riding potential or piracy

especially in environments with reduced protection of intellectual property. WO greenfields allow for a high level of control over the foreign operation and a full benefit from subsidiary's profits; they also allow the transfer of strategic assets from the parent to the subsidiary which can create competitive advantages over indigenous firms. However, WO greenfields require the construction of costly governance structures and greater levels of information gathering and processing. Finally, WO acquisitions allow access to local resources that cannot be accessed in a disembodied form and imply a lower but more certain rate of return, however, they create challenges with respect to managing the acquired company and dealing with organizational and cultural clashes. In addition, acquirers often pay for unwanted assets because an accurate assessment of the value of foreign acquisition targets is often challenging or impossible.

Keeping in mind that every alternative entry mode has *pros* and *cons*, how do managers choose among the three entry mode options?

2. 2. *CEO experiences, institutional differences and entry modes*

Research has demonstrated that managers' personal characteristics make a difference in strategy formulation and implementation (Hitt and Tyler, 1991). Literature provides ample evidence of relationships between CEO experiences and firm strategies (Herrmann and Datta, 2006). Next we develop specific hypotheses regarding the influence of two demographic features, a CEO's age and international experience, on entry mode choice considering the moderating effect of institutional differences.

Age has been viewed as an indicator of a person's propensity for risk taking and change (Wiersema and Bantel, 1992; Guthrie and Datta, 1997). Research suggests that younger managers pursue more risky growth strategies (Markoczy, 1997; Tyler

and Steensma, 1998; Wiersema and Bantel, 1992). Older age is associated with conservatism (reduced risk-taking propensity) because older managers tend to put more emphasis on career security and financial stability. In the context of entry mode choices, the association between older age and risk-averse investment behaviour would result in older CEOs abstinence from entry modes that entail higher risks. Herrmann and Datta (2006) suggest that JVs are preferred by older CEOs over both WO greenfield and WO acquisition entries; according to the authors JVs are less risky as they require smaller equity commitment.

Furthermore, Herrmann and Datta (2006) argue that older CEOs would prefer WO acquisitions to WO greenfields because acquisitions are associated with relatively lower return risks than greenfields (Hennart and Park, 1993). They provide the acquirer with the tangible and intangible assets necessary to operate in the particular foreign market. Reversely, WO greenfields, or operations from scratch, are typically more risky because they require a specific combination of tangible and intangible assets which has not proven yet to be successful in the particular foreign market (Kogut and Singh, 1988). However, all the empirical support to this theorizing comes from examining decisions of CEOs from developed market economies investing in developed market economies. The entry mode choices of CEOs are likely to be different in more dissimilar institutional environments.

The structure and composition of institutions typically vary across national environments because most rules and regulations are country specific and created by local governments (Kogut, 1991; Kostova, 1996). When the home institutions differ significantly from those of the host country, the complexity of the investment increases substantially because managers (firms) understand and adjust more easily to an institutional environment that is similar to the one in their home country (Kostova

and Zaheer, 1999). Institutional differences are substantial in CEE because in the process of creating market-based institutions in the region, the political, economic and judicial regulations were subject to numerous changes (Meyer, 2001). Despite the aim of these changes to narrow the difference between planned economy institutions and developed market institutions, institutional differences such as corruption levels and bureaucratic inefficiency persisted in most CEE countries throughout the transition period (Dikova and van Witteloostuijn, 2007). We argue that in an institutionally very different setting older CEOs' preferences for entry modes may change because of an inability to properly decipher the foreign institutional environment which creates a greater investment complexity (North, 1990).

In institutionally different transition economies, JVs are highly risky entry modes for the following reasons. During institutional transition, the search for and negotiation with JV partners is challenging, costly and uncertain due to incomplete information about potential JV partners (Dikova and van Witteloostuijn, 2007) and the lack of local experience in international business negotiations (Meyer, 2001). In addition, investors' competitive advantages such as firm-specific competences and tacit knowledge are better protected against infringement and piracy in transition economies by setting up a wholly owned subsidiary, as this entry mode provides a vehicle for maximum control to safeguard proprietary knowledge (Luo, 2001). Because of the high investment uncertainties surrounding JVs in the institutionally different context of transition economies, it is unlikely that risk-averse older CEOs would opt for a JV entry mode entailing high management risk. We therefore argue that significant institutional differences may discourage older CEOs from choosing a JV entry mode.

Similarly, there are elevated uncertainties and risks associated with WO acquisition of firms in institutionally different environments. In a foreign environment where legal systems offer less protection of ownership rights or justify non-compliance with contractual agreements (Reuer, Shenkar and Ragozzino, 2004), the finalization of the acquisition deal is often jeopardised (Dikova, Rao Sahib and van Witteloostuijn, 2010). Moreover, under great environmental uncertainty greenfield ventures offer a better investment alternative as they require less upfront investments and therefore minimize investment risks (Pacheco-de-Almeida, Henderson and Cool, 2008). In sum, the investment uncertainty which institutional differences create may prompt risk-averse older CEOs to choose less risky WO greenfields over WO acquisitions and JVs; reversely, in institutionally similar contexts older CEOs will choose JVs over WO acquisitions and WO greenfields as predicted by Herrmann and Datta (2006).

Hypothesis 1: Institutional distance moderates the preference of older CEOs for a) WO acquisitions over WO greenfields and b) JVs over WO acquisitions and WO greenfields.

The international experience of top managers is associated with reduced levels of uncertainty in international operations (Sambharya, 1996), increased awareness of international opportunities and a superior ability to manage operations in different countries (Herrmann and Datta, 2002). The diversity of foreign markets challenges firms to deal with a broad array of demand specifics, rivals, suppliers and buyers (Barkema and Vermeulen, 1998). In such diverse international context, firm-level and personal learning associated with international experience may increase the likelihood

of success by reducing the number of potential mistakes made in a new international context (Herrmann and Datta, 2002).

Internationally experienced executives have accumulated richer knowledge about foreign countries and business practices. Literature finds that management experience has a direct (diminishing) impact on risk perceptions (Ahmet, Mohamad, Tan and Johnson, 2002). Experienced managers are likely to be more aggressive in committing resources and assuming control, so classic transaction cost theory predicts that they would prefer WO greenfield investments and WO acquisitions over JVs, and WO greenfields over WO acquisitions (Hermann and Datta, 2006). However, we have established that environmental circumstances alter the relative degree of uncertainty and the attractiveness of entry modes in an institutionally different context. For instance, greenfield entries offer reduced investment risk under great environmental uncertainty (Brouthers and Dikova, 2010). Hence, internationally experienced CEOs may opt for more risky investment alternatives (than a greenfield) in an institutionally different environment, especially if these alternatives offer additional advantages like speed of entry or access to valuable local resources.

Barkema and Drogendijk (2007) argue that internationally experienced investors typically follow a faster foreign market entry strategy. As greenfield ventures investments are made incrementally over a long period of time, internationally experienced CEOs may choose a WO acquisition in institutionally different markets because acquisitions offer investors a faster market entry creating a first-mover advantages (Pacheco-de-Almeida et al., 2008), and allow access to valuable local brands (Anand and Delios 2002; Capron and Hulland 1999; Hennart and Park 1993). In addition, internationally experienced CEOs are likely to possess the skills necessary to negotiate with prospective JV partners in the CEE region,

mostly inexperienced in business negotiations (Meyer, 2001); under such circumstances a JV entry may be chosen over WO acquisition in an institutionally different environment if the collaboration with the local partner provides valuable complementary resources (Belderbos, 2003). In addition, JVs have the advantage of providing access to specific strategic resources valued by the foreign investor while WO acquisitions often require purchasing of assets that are of little value or use to the foreign investor (Meyer and Estrin, 2001).

Hypothesis 2: Institutional distance moderates the preference of internationally experienced CEOs for a) WO greenfields over WO acquisitions and b) WO greenfields and WO acquisitions over JV.

3. Data and methods

3.1. Data collection

The database used to test our hypotheses was constructed in three stages in 2003. First, in the Amadeus database we identified firms originating from the EU-15 member states which made investments of at least 10 per cent ownership in the CEE region between 1992 and 2002; 10 per cent is a common investment threshold in international business research (Benito and Gripsrud, 1992; Padmanabhan and Cho, 1999; Larimo, 2002). Second, a questionnaire was created in English and translated into several European languages (German, Italian, French), and sent by mail to the CEOs of initially selected 2798 firms. The document included questions about parent firm-specific information and the entry mode employed in the most recent investment in the CEE region. As a result of returned 35 questionnaires as undeliverable and a large number of refusals for participation in the survey the final number of useable questionnaires reached 209 which represents 7 per cent response rate.

International postal surveys have a notorious history of very low participation and typically achieve response rates between 6 and 16 per cent (Dawson and Dickinson, 1988; Harzing, 1997); our survey is consistent with this research. We chose to conduct a mail survey merely because there is no alternative (secondary) data available—for instance, Amadeus database collects information about the percentage foreign ownership stake but no data on the establishment mode, i.e. a greenfield or an acquisition. Due to research budget limitations, conducting face-to-face interviews with managers from multiple European countries was not feasible. The sample composition with respect to investing firms country of origin is as follows—Germany (49 firms), the Netherlands (43 firms), France (30 firms), Belgium (18 firms), Italy (16 firms), Austria (16 firms), the UK (10 firms), Nordic—Sweden, Denmark, Norway, Finland (24 firms) Greece (2 firms), Spain (1 firm); 64 of the investments were made in Poland, 42 in the Czech republic, 40 in Romania, 21 in Hungary, 10 in Slovakia, 9 in Bulgaria, 18 in the Baltic republics (Estonia, Lithuania and Latvia) and 5 in Slovenia.

In the third stage (after the administration of the questionnaire data) we collected data on the CEOs' experiences at the time of entry in the CEE region; data were collected from various sources such as annual reports of the companies and press releases. When only partial information was available an email was sent to the CEO in order to retrieve further information. The original email was designed in English and then translated into several other European languages (German, Italian, French) in order to increase the chances of response. However, in a number of occasions we failed to obtain sufficient information because of confidentiality conflicts. As a result of missing data, we could use 146 observations in our analyses.

The firms in our sample have on average 8,656 employees and are primarily manufacturing firms (69 per cent of the total sample) and invested mostly in related businesses (82 per cent). We note a wide variation in the CEOs age—the youngest CEO is 35 years old and the oldest 77, and on average the managers' age is 51 years. The internationally experienced CEOs are 54 per cent of the sample and the inexperienced 46 per cent.

We test the representativeness of our data using t-tests comparing our respondents to firms that are not in our sample. Paired t-tests reveal that there is no significant difference in the number of worldwide employees or worldwide sales. In addition, following Uhlenbruck and DeCastro (2000), we determine a reliability coefficient that shows whether the primary data provided by our respondents matches the respective data published in secondary sources. We determine reliability coefficient for the respondent firms that had data in AMADEUS recorded for the year 2002 as to both worldwide employees and worldwide sales. To obtain this coefficient, we use the general form of the Spearman-Brown prophecy formula and incorporate the standard deviations and correlations of size and sales between the archival data and our survey information. The results confirm the reliability of our primary data (available upon request).

3.2. Variables

The dependent variable is the foreign market entry mode choice (WO Greenfield, WO acquisition or a JV) and it is obtained through the questionnaire. It is captured by a dummy variable which is denoted as 1 in the case of a WO Greenfield, 2 the case of a WO acquisition and 3 in case of a JV.

The first independent variable, *CEO Age*, is determined as the difference between the year of birth of the CEO and the year when the entry in the foreign market was made. The second independent variable, *CEO International Experience*, is a dichotomous variable denoted as 1 if the executive spent time abroad on assignments, in higher education, and/or in the firm's international divisions and 0 if otherwise.

The moderating variable, *Institutional distance*, is measured using a Euclidean distance index (between the home and the host country) based on the six governance dimensions by Kaufmann, Kraay and Zoido-Lobaton (2002) voice and accountability, political stability and the absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Alternative measures are Henisz's political constraints measure and the economic freedom index developed by the Heritage Foundation (Kane, Holmes and O'Grady, 2007). We chose our measure because of its extensiveness and accuracy: the measure by Kaufmann et al., 2002 covers a broad range of institutional issues, is updated every two years, and dates back to 1996 (the economic freedom index, for instance, covers only recent years). We collected data on the institutional measures of both the home and the host country matching the year of the CEE investment, linking all investments prior to 1996 (about 8 per cent of the total sample) to the measures for 1996 and the odd-year investments to the available even-year measures.

To account for investor firm-level effects we include several control variables in our analysis; all of these controls were used in past entry mode studies and they significantly affect the foreign market entry mode choice. First, we employ a dummy to distinguish between *Manufacturing* (denoted as 1) and service firms (denoted as 0) (Erramilli and Rao, 1993; Brouthers and Brouthers, 2003). Second, Harzing (2002)

finds that firms following a multi-domestic strategy experience a low level of global competition, have a decentralized-network structure and therefore prefer acquisition foreign entries; reversely, firms pursuing a global strategy prefer greenfields to ensure high centralization and standardization. We employ a dummy controlling for the parent's strategy which is denoted as 1 in case of a *Global strategy* and 0 in case of a multidomestic strategy (the data is derived from the questionnaire). Third, we control for *Investment relatedness* because Gomes-Casseres (1989) and Hennart (1991) note that firms entering an unrelated industry prefer JVs to WO subsidiaries. Fourth, we have *R&D Intensity and Advertising intensity*, empirically used in the past as determinants of entry mode choice (Hennart and Park, 1993; Brouthers and Brouthers, 2000; Tsai and Cheng, 2004). The data on these two dimensions are obtained from the questionnaire where the respondents specify on a 5-point Likert scale (from 1 low to 5 high) the amount of annual sales invested in 1) R&D activities and 2) Advertising activities. Fifth, we control for *Internationality* measured as the share of international sales to total sales (this information was reported in the questionnaire); more international firms show a propensity to choose more integrated entry modes (Erramilli, 1991; Gatignon and Anderson, 1988). Sixth, we have *Industry growth*, measured on a 5 point Likert scale as perceived industry growth by the respondents (derived from the questionnaire). High industry growth rate is found to influence the propensity of greenfields and integrated modes (Brouthers and Brouthers 2000; Elango and Sambharya 2004; Caves and Mehra, 1986; Davidson and McFetridge, 1985). Seventh, we control for *Acquisition and Greenfield Experience* (Padmanabhan and Cho, 1999), obtained by asking the respondents to indicate: (1) the number of countries worldwide in which their company previously undertook acquisitions and/or greenfield investments and (2) the number of times acquisitions and/or greenfields

were established internationally. For all the questions a factor analysis was performed and the products (2 factors) were entered in the analysis. Eight, we control for the intensity of local competition by employing *Industry concentration* measure (Hennart and Park, 1993; Elango and Sambharya, 2004). The data are derived from the questionnaire where the surveyed managers marked on a 5-point Likert-scale the number of local competitors in their line of business (1 denoting a few and 5 many). Finally, we control for the investor firms size and subsidiary size. *Firm size* is estimated by extracting the natural logarithm of the total number of employees worldwide, and *Subsidiary size* shows the number of subsidiary employees initially (the information on both measures is provided in the questionnaire).

3. 3. *Methods*

The hypotheses were tested with a multinomial logistic regression. Multinomial logit, involving maximum-likelihood estimation for polytomous dependents, is widely used in studies examining the choice between more than two entry modes (Agarwal and Ramaswami, 1992; Anand and Delios, 1997; Kim and Hwang, 1992; Kogut and Singh, 1988; Herrmann and Datta, 2006). It is the most appropriate method for this study testing the likelihood of choosing among three strategic outcomes. The multinomial logit method involves the use of a base category of the outcome variable that can be compared with the two remaining categories (Aulakh and Kotabe, 1997). As the groups formed by the categories of a polytomous dependent variable are not independent, multinomial logit deals with such non-independence by estimating the models for all outcomes simultaneously excluding the base category (Herrmann and Datta, 2006). WO greenfield is the base category in our analysis in panels A and C, while WO acquisition is the base category in panels B; JV is the base category in panels D and E, while WO acquisition is the base category in panels F.

The multinomial logit in our study estimates the effect of all explanatory variables on the probability that each of the three entry modes would be chosen. For instance, in panels A and C, the multinomial logit parameters are to be interpreted in reference to WO greenfield with coefficients size indicating the extent to which individual predictor variables contribute to the utility of choosing (1) JV and (2) a WO acquisition investment beyond the utility of choosing a WO greenfield. In panel B it relates to the utility of choosing a JV over a WO acquisition. The specification of the probabilities can be stated as:

$$P_{ij} = \exp(X_{ij}\beta_{ij}) / \sum_{j=1}^{j=3} \exp(X_{ij}\beta_{ij})$$

where P_{ij} is the probability that the i^{th} firm will choose alternative j , X_{ij} represents variables characterizing the i^{th} firm and the coefficients to the independent variables. Prior to the analysis all variables were converted to standardized z-scores because the dataset is composed of various types of constructs. Also, in order to avoid potential multicollinearity problems, all predictors used as part of an interaction term were centered before performing their multiplication.

4. Results

Table 2 provides the descriptive statistics (a mean and a standard deviation) and the correlation coefficients for all the variables included in the study. There appears to be no problems with multicollenearity in the data. Tables 3 and 4 present the results of the multinomial logit regressions.

Tables 1 and 2 here

Models 1 and 3 test the main effects of the independent variables (and controls), Models 2 and 4 add the interaction terms of institutional distance with the

two CEO experiences variables, age and international experience. Because all interaction terms contain institutional distance, each interaction term is entered in a separate model to avoid multicollinearity problems. The models are estimated with SPSS 16.0., using the maximum likelihood method.

The null hypothesis according to which all coefficients (β_i) except β_0 are zero is rejected based on all chi-square statistical tests ($p < 0.001$). According to these tests the set of independent variables used in this study can adequately explain the entry mode choice. In addition, the pseudo r-square of all models is relatively high: the r^2 of Model 1 is 0.65 and in Model 3 is 0.60 and by adding the interaction terms in Models 2 and 4 there is an increase in r^2 indicating a better model fit. The improvement in the model fit of the CEO age analysis is higher than the one of CEO experience analysis indicating that CEO age carries higher explanatory power than CEO international experience.

Here, only the significant control variables are presented. In line with theoretical predictions, MNEs following a global strategy demonstrate a preference for WO greenfield entries over JVs ($p < 0.05$). Contrary to classic TC theory predictions, the more international MNEs ($p < 0.05$) in our sample chose less integrated entry mode (JVs) over more integrated mode (WO greenfield) perhaps due to contextual differences. In line with theory, acquisition experience positively influenced the choice of a subsequent acquisition in the CEE region ($p < 0.05$) while greenfield experience positively influenced the preference for a greenfield ($p < 0.1$). The market concentration result also supports theory predictions that in more concentrated markets acquisitions would be preferred by foreign investors ($p < 0.05$). Finally, larger MNEs opted for WO greenfield over JVs or WO greenfield over WO

acquisition ($p < 0.1$), and larger subsidiaries were established as WO greenfields rather than JVs, and WO acquisitions rather than WO greenfields ($p < 0.05$).

The main effects of institutional distance and the two CEO characteristics, age and international experience, are significant, and the interaction effects in models 2 and 4 are also significant ($p < 0.05$). To help interpret the results obtained in Models 2 and 4 we plotted the predicted probability of the respective entry mode (Brambor et al., 2006). We use figures to illustrate the moderating effects of *Institutional distance* on the predicted probability of an entry mode for each of the predictor variables, *CEO age* and *CEO international experience*.

Figures 1, 2, 3 and 4 here

Figures 1 and 2 show the effect of the interaction between *CEO age* and *Institutional distance*. As we suggested in hypothesis H1, the relation between CEO age and entry mode choice is moderated by institutional distance. Our findings (presented in figure 1) indicate that when the institutional distance is large CEO age creates a significant decline in the predicted probability of JV entry modes. Yet when the institutional distance is small the predicted probability line reveals that CEO age has a positive impact on the probability of choosing JVs. Furthermore, figure 2 reveals that when the institutional distance is large CEO age creates a significant decline in the predicted probability of WO acquisitions. Yet when the institutional distance is small the predicted probability line reveals that CEO age has a positive impact on the probability of selecting WO acquisitions. Hence, regression model 2 provides support to hypothesis H1 suggesting a moderating effect of institutional distance on the relation between CEO age and entry mode choice.

Figures 3 and 4 show the effect of the interaction between *CEO international experience* and *Institutional distance*. Figure 3 indicates that, as suggested in

hypothesis H2, the relation between CEO international experience and entry mode choice is moderated by institutional distance. Our results tend to suggest that when the institutional distance is large, CEO international experience reduces the probability of a WO acquisition however when the institutional distance is small the predicted probability line shows a positive impact of CEO international experience on the WO acquisition probability. In figure 4 our findings indicate that when the institutional distance is small the CEO international experience creates a significant increase in the predicted probability of WO greenfield establishments. Yet when the institutional distance is large the predicted probability line is flatter, revealing that CEO international experience has less of an impact on the predicted probability of WO greenfield projects. We can conclude that regression model 4 provides support for hypotheses 2 indicating that institutional distance moderates the relation between CEO international experience and entry mode choice.

5. Discussion, limitations and future research

Literature shows that managers' strategic choices can be explained by examining their demographic characteristics (Hitt and Tyler, 1991). Despite the appeal of this concept, the relation between managers demographics and their strategic choices is relatively unexplored in the entry mode literature, where scholars typically apply classic theories such transaction cost theory and resource based view. Herrmann and Datta's (2006) approach linking CEOs' experiences to their foreign market entry mode choices is the first in the entry mode literature. We advanced their approach by examining the relation between CEOs' experiences and their entry mode choices within specific environmental context. Based on this we theorized that CEOs make a situational entry mode decision so their mode choice is influenced both by their

personal experiences and the extent to which the institutional environment of the foreign country differs from their home institutional environment. Our results provide some support.

First, we found that when the institutional differences between home and host countries are small as it is the case of investments in the CEE transition economies which have progressed the most in their institutional reforms, older CEOs tend to choose JVs or WO acquisitions over WO greenfields; this result is consistent with Herrmann and Datta's findings (2006). However, when the institutional differences are large, as in the case of west European investments in CEE transition economies with severely underdeveloped political and economic institutions older CEOs prefer WO greenfields over WO acquisitions; alternatively, WO acquisition are chosen over JVs. Our results show that the attractiveness of alternative entry modes to older CEOs changes with respect to context. In other words, institutional differences can increase the degree of risk or uncertainty associated with a particular entry mode, which in turn makes the respective entry mode less appealing to older managers.

Second, we found that when institutional differences are small internationally experienced CEOs prefer WO acquisitions over JVs, which again is in line with the findings of Herrmann and Datta (2006). However, when institutional differences are large experienced managers opt for JVs rather than WO acquisitions. Perhaps experienced managers go for more risky entry modes such as a JV in an institutionally different context because of a) their ability to manage risk efficiently and b) a JV allows an access to specific and valuable local assets. Similarly, WO acquisitions provide access to local assets, however, acquirers in transition economies often pay for unwanted assets or assets of little value which they discard during integration (Meyer and Estrin, 2001). For internationally experienced top managers, JVs has the

advantage of allowing an access to valuable assets that are in possession of local firms without the need of buying unwanted assets or dealing with post-acquisition integration hurdles, often challenging in early transition economies (Dikova and van Witteloostuijn, 2007).

Our results confirm the findings of Herrmann and data (2006) that internationally experienced CEOs prefer WO greenfields over WO acquisitions but only when institutional differences are small. When institutional differences are large, the preference for WO greenfields by internationally experienced CEOs diminishes significantly. For an internationally experienced CEO who can manage the investment risks involved, the more risky (uncertain) WO acquisition in an institutionally different transition economy offers a faster access to markets (customers) thus creating a first mover benefits, a competitive advantage over global competition and reduced local competition. All in all, our results suggest that top managers' choices of entry modes depend on their personal experiences and the institutional differences/similarities.

In sum, these results tend to provide support for our theory that the effect of CEO experiences on their entry mode choices is influenced by the institutional differences. Although we obtained positive results some caution is warranted. First, we only examined investment decisions of CEOs employed by west European companies entering ten transition economies in Eastern Europe. We chose this context deliberately in order to provide significant institutional difference variation however our results may not be generalizable to firms from other home countries entering other host countries. Second, we focused on two managerial characteristics only, CEO age and international experience. Our point of reference, the work by Hermann and Datta (2006), includes functional experience and organizational tenure. Despite our initial

ambition to include these managerial characteristics as well the limited data collected on these two demographic features prevented us from using the information in a meaningful way—the number of cases for each of the omitted variables dropped below 140 observations. Third, our small sample limits the wide generalizability of our results. Fourth, we captured context specificity by looking at regulative institutional differences. Future research may advance our approach and account for normative and cognitive institutional differences, such as cultural or psychic differences. Finally, we apply the type of managerial characteristics extensively used in the past literature. However, it must be acknowledged that such experiences may not fully capture the cognitive factors related to strategic decision making processes (Herrmann and Datta, 2006). Overcoming the challenges of data collection associated with the use of psychological constructs may bring a deeper insight in the relationship between CEO cognitions and their strategic decisions.

Despite these reservations, this study makes an important contribution to the literature. It introduces context to the subjective entry mode choice of CEOs. We presented support to the hypothesized moderating effect of institutional differences on the relation between CEO experiences and entry mode choices. By doing this we hope to encourage further research on both objective and subjective factors affecting firm strategies; we believe this will introduce a deeper understanding of the strategic decisions managers and firms make in foreign environments.

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Table 1: Descriptives and correlations

	<i>Mean</i>	<i>SD</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>	<i>12</i>	<i>13</i>	<i>14</i>	<i>15</i>
1. Entry mode	1.81	0.89															
2. Manufacturing	0.66	0.46	-.99														
3. Global strategy	0.42	0.49	.03	.22**													
4. Related investm.	0.82	0.38	-.08	.00	-.12												
5. R&D intensity	2.07	1.07	-.01	.21**	.11	-.04											
6. Adv. intensity	2.06	1.13	.02	-.10	-.09	.02	.14*										
7. Internationality	0.42	0.28	.17*	-.16*	-.15*	.07	-.04	.08									
8. Industry growth	3.20	1.06	-.07	.03	-.07	.03	.10	.08	-.03								
9. Greenfield exp.	0.00	1.02	-.17*	.02	.03	-.01	.00	.02	-.18*	.03							
10. Acquisition exp.	0.00	1.00	.08	.07	.11	.08	-.04	-.04	-.19**	-.02	.00						
11. Market concentr.	2.93	1.29	-.04	.02	-.06	-.01	-.06	.10	.09	.09	.07	-.05					
12. MNE size	3.19	0.84	.04	.04	.02	.06	-.02	.01	-.11	.14*	.31**	.36**	-.019				
13. Subsidiary size	346.3	1029.7	.21**	.08	.02	-.02	.05	-.00	-.04	-.15*	-.02	.37**	-.06	.35**			
14. Institut. distance	3.86	1.55	.04	-.09	.02	-.08	-.02	.02	-.25**	-.12	-.00	.08	-.07	.08	.05		
15. CEO age	51.82	8.29	.04	.06	.09	-.05	-.05	.04	.03	-.01	.05	.12	-.03	.22*	.08	.22**	
16. CEO	0.53	0.50	-.13	-.14	.00	.08	-.02	-.03	-.16	-.02	.11	.15	.04	.28**	.06	.20*	.09

* p < 0.05; ** p < 0.01.

Table 2: Multinomial regression results (CEO age).

	<i>Panel A</i>	<i>Panel B</i>	<i>Panel C</i>	<i>Panel A</i>	<i>Panel B</i>	<i>Panel C</i>
Variable	<i>JV vs. WO Greenfield</i>	<i>JV vs. WO acquisition</i>	<i>WO acquisition vs WO Greenfield</i>	<i>JV vs. WO Greenfield</i>	<i>JV vs. WO acquisition</i>	<i>WO acquisition vs WO greenfield</i>
	Model 1			Model 2		
Intercept	3.58* (2.04)	2.50 (1.72)	-4.57 (4.49)	3.49* (2.02)	2.56 (1.93)	-2.71 (4.63)
Manufacturing	0.05 (0.72)	-0.21 (0.93)	0.27 (1.05)	-0.05 (0.74)	-1.62 (1.43)	1.57 (1.50)
Global strategy	-1.42** (0.72)	1.39 (0.93)	0.02 (0.95)	-1.42** (0.74)	-3.16** (1.46)	1.74 (1.40)
Related investment	-0.62 (0.84)	-0.94 (1.36)	0.31 (1.41)	-0.72 (0.85)	-0.13 (1.52)	-0.85 (1.58)
R&D intensity	-0.51* (0.30)	0.27 (0.50)	-0.78 (0.50)	-0.56 (0.32)	0.35 (0.57)	-0.91 (0.56)
Advertising intensity	-0.20 (0.28)	0.90 (0.63)	-1.10* (0.65)	-0.25 (0.29)	0.96 (0.63)	-1.22* (0.65)
Internationality	0.89** (0.36)	-0.53 (0.50)	-0.36 (0.50)	0.98** (0.38)	-0.89 (0.56)	-0.09 (0.56)
Industry growth	0.44 (0.34)	0.14 (0.48)	0.29 (0.48)	-0.37 (0.35)	-0.02 (0.51)	0.40 (0.50)
Greenfield exp.	0.09 (0.37)	0.14 (0.48)	-1.93* (1.11)	0.13 (0.38)	3.53** (1.64)	-3.40** (1.69)
Acquisition exp.	0.66 (0.73)	2.02** (1.06)	1.62** (0.81)	0.59 (0.71)	-1.55** (0.71)	2.14** (0.89)
Market concentration	-0.02 (0.30)	-0.95** (0.46)	0.70* (0.42)	0.04 (0.31)	-1.16** (0.56)	1.20** (0.57)
MNE size	-0.71* (0.40)	0.36 (0.56)	-1.08* (0.62)	-0.72* (0.41)	0.36 (0.68)	-1.08 (0.73)
Subsidiary size	1.96** (0.61)	-0.45 (0.40)	1.54** (0.61)	1.45** (0.61)	-0.56 (0.43)	1.51** (0.61)
Institutional distance	0.45 (0.30)	1.25** (0.58)	-0.80 (0.59)	0.52 (0.33)	2.20*** (0.84)	-1.67** (0.85)
CEO age	-0.16 (0.32)	-1.06** (0.53)	0.10 (0.06)	-0.23 (0.33)	-0.81* (0.56)	0.07 (0.06)
Institutional distance*CEO age				0.37 (0.34)	2.77** (1.10)	-2.40** (1.10)
Chi-square	87.632***	87.632***	87.632***	97.532***	97.532***	97.532***
R ²	0.65	0.65	0.65	0.70	0.70	0.70
N	146	146	146	146	146	146

*p < 0.10; ** p < 0.05; *** p < 0.01; SE given in parenthesis

Table 3: Multinomial regression results (CEO international experience).

	<i>Panel D</i>	<i>Panel E</i>	<i>Panel F</i>	<i>Panel D</i>	<i>Panel E</i>	<i>Panel F</i>
Variable	<i>WO Greenfield vs. JV</i>	<i>WO acquisition vs. JV</i>	<i>WO Greenfield vs. WO acquisition</i>	<i>WO Greenfield vs. JV</i>	<i>WO acquisition vs. JV</i>	<i>WO Greenfield vs. WO acquisition</i>
		Model 3			Model 4	
Intercept	-3.34* (1.85)	-2.05 (1.53)	-1.28 (2.28)	-3.48* (1.86)	-1.94 (1.53)	1.53 (2.31)
Manufacturing	0.33 (0.71)	0.40 (0.83)	-0.06 (0.91)	0.40 (0.73)	0.24 (0.86)	0.16 (0.94)
Global strategy	1.24* (0.66)	1.21 (0.81)	-0.03 (0.86)	1.27* (0.69)	0.85 (0.86)	-0.42 (0.98)
Related investment	0.47 (0.83)	0.73 (1.26)	-0.25 (1.38)	0.55 (0.85)	0.59 (1.27)	-0.04 (1.41)
R&D intensity	0.39 (0.30)	-0.34 (0.43)	0.74 (0.45)	0.40 (0.31)	-0.46 (0.46)	0.86* (0.47)
Advertising intensity	0.12 (0.27)	-0.10 (0.44)	0.22 (0.46)	0.14 (0.28)	0.07 (0.43)	0.06 (0.45)
Internationality	-0.68** (0.33)	0.38 (0.40)	-0.29 (0.41)	-0.75** (0.34)	-0.25 (0.41)	0.49 (0.43)
Industry growth	-0.33 (0.32)	-0.14 (0.46)	-0.18 (0.46)	-0.34 (0.33)	-0.23 (0.45)	-0.11 (0.46)
Greenfield exp.	-0.01 (0.40)	-1.40* (0.80)	1.39 (0.88)	-0.01 (0.44)	-2.06** (1.05)	2.05* (1.13)
Acquisition exp.	-0.80 (0.70)	0.69** (0.35)	-1.50** (0.75)	-0.86 (0.73)	0.99** (0.45)	-1.86** (0.83)
Market concentration	0.11 (0.29)	0.41 (0.37)	-0.30 (0.38)	0.09 (0.29)	0.30 (0.38)	-0.21 (0.39)
MNE size	0.29 (0.40)	-0.07 (0.45)	0.37 (0.52)	0.31 (0.41)	0.05 (0.46)	0.30 (0.53)
Subsidiary size	-1.13** (0.55)	0.26 (0.29)	-1.16** (0.54)	-0.11** (0.44)	0.21 (0.31)	-1.17** (0.55)
Institutional distance	-0.43 (0.29)	-1.10** (0.49)	0.67 (0.49)	-0.36 (0.42)	-0.96* (0.54)	-0.09 (0.59)
CEO international exp.	1.21** (0.65)	0.41 (0.78)	0.79 (0.81)	1.41** (0.70)	-0.10 (0.86)	1.52* (0.92)
Institutional dist.*CEO int.exp.				-0.34 (0.27)	-2.26** (1.04)	1.92** (1.02)
Chi-square	79.381***	79.381***	79.381***	84.559***	84.559***	84.559***
R ²	0.60	0.60	0.60	0.63	0.63	0.63
N	146	146	146	146	146	146

* p < 0.10; ** p < 0.05; *** p < 0.01; SE given in parenthesis

Figure 1: The estimated probability of JV over WO acquisition.

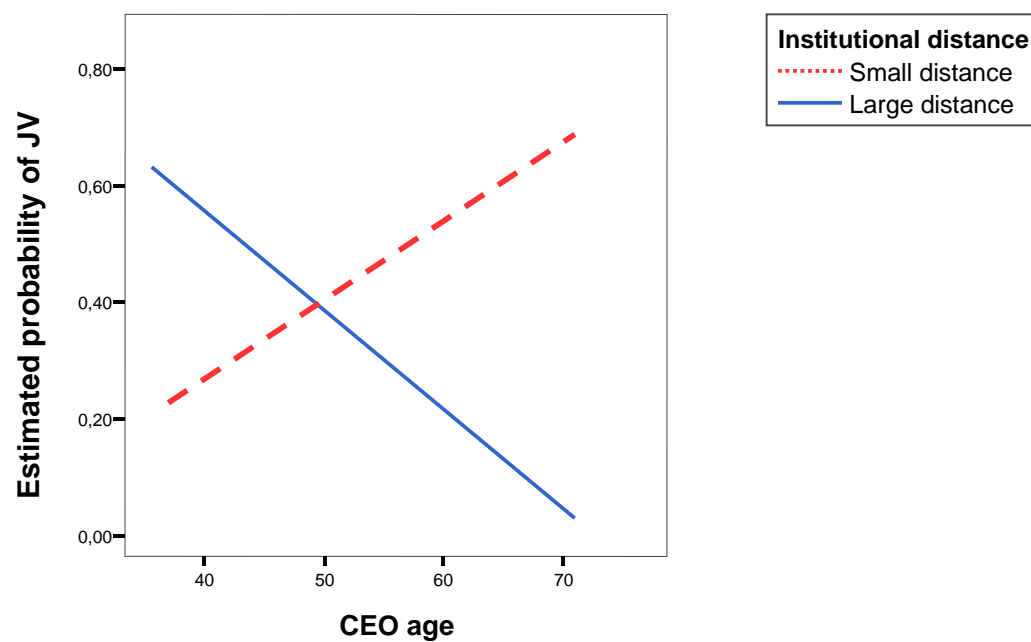


Figure 2: The estimated probability of WO acquisition over WO greenfield.

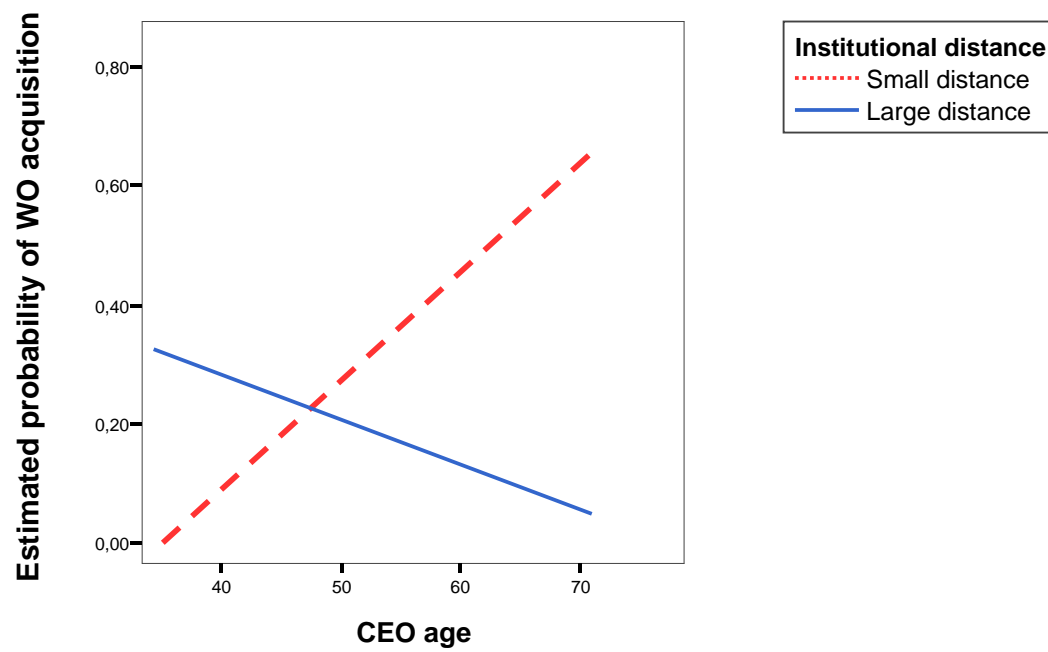


Figure 3: The estimated probability of WO acquisition over JV

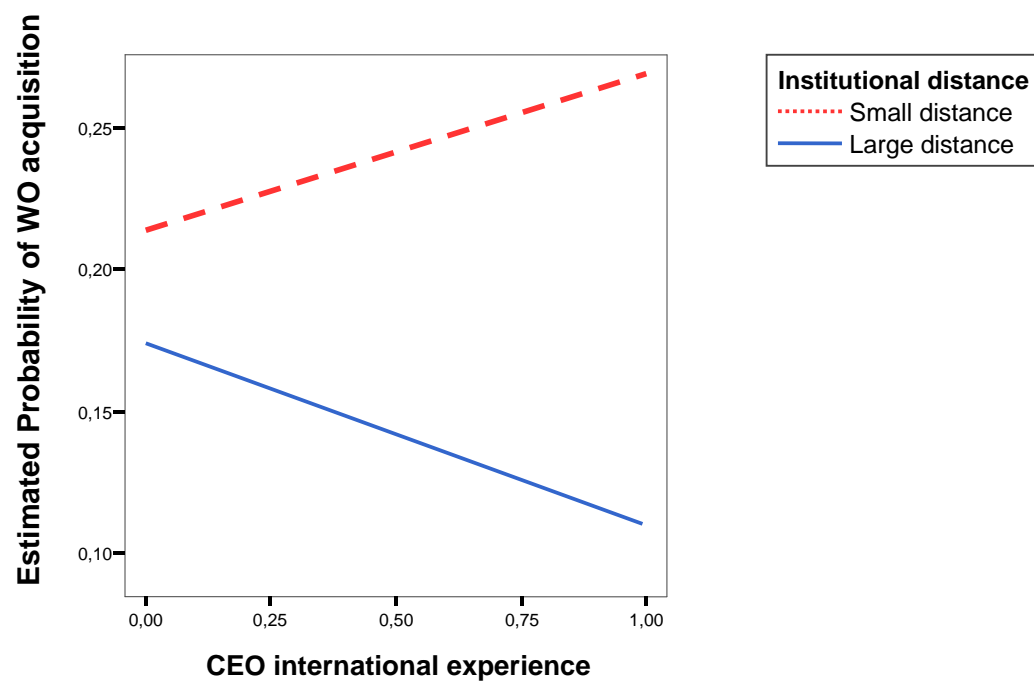


Figure 4: The estimated probability of WO greenfield over WO acquisition.

