Track 4: FDI in and from emerging market economies
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TOP MANAGEMENT TEAM INFLUENCE AND DISCRETION IN FOREIGN MARKET ENTRY MODE DECISIONS

ABSTRACT

This study investigates the top management team (TMT) and board level factors that influence Indian firms' foreign market entry mode preferences. Based on a conceptual framework that combines resource-based, behavioural, and agency perspectives, we develop a model predicting how firm- and TMT-level international experience as well as board monitoring influence the preference for full-control and shared-control entry modes at internationalising firms. We test our predictions based on 72 new market entries conducted by 25 affiliates of a large Indian business group during the period 2008-2011. In line with our predictions, findings show that full- and shared-control entry mode preferences are associated with firm-level and TMT-level international experience respectively. Contrary to our expectations, we find that the presence of outside board members is associated with higher levels of managerial discretion in foreign entry mode decisions. We discuss how our findings enhance our understanding of entry mode preferences and monitoring mechanisms in the internationalisation process of emerging markets firms.

INTRODUCTION

How firms expand beyond their home country is one of the most fundamental questions in international business. Taking the right decision on mode of entry is crucial given that it defines the boundaries of the firm, which can have a significant impact on performance (Brouthers, 2002; Brouthers, Brouthers & Werner, 2008). Furthermore, entry mode choices are hard to undo and may thus have long-term consequences for the firm (Pedersen, Petersen & Benito, 2002). In empirical research on choice of entry mode, economic theories have often been used to explain entry mode choice as a function of firm, industry, and country characteristics. These studies are based on rational choice (RC) models, suggesting that a firm's foreign direct investment (FDI) decisions can be explained on the basis of economic rationality. Meanwhile, only few scholars have employed a strategic decision-making (SDM) perspective to study firms' entry mode decisions. A rational-choice based logic does not take into account that managerial decisions are influenced by a variety of factors (Hitt & Tyler, 1991), including top managers' limited information-processing capacities, individual preferences, and myopia. In particular, the upper echelons (UE) perspective (Hambrick & Mason, 1984) suggests that decisions leading to strategic outcomes are affected by both the objective situation facing the firm as well as the characteristics of its top executives. Only few studies to date have utilized the UE perspective to study firms' choice of market entry mode (Herrmann & Datta, 2002; 2006; Nielsen & Nielsen, 2011). In a review of research on international entry modes, Brouthers and Hennart (2007, p. 419) conclude that a combination of RC and SDM perspectives is a necessary next step to advance our understanding of foreign market entry decisions.

The contribution of this paper is twofold. First, we contribute to the literature on international market entry by simultaneously testing the effects of RC- and SDM-based determinants of market entry mode decisions. Second, our data from internationalizing operating companies of a large Indian business group allows us to test the applicability of RC, SDM, and agency theory logics in the context of a large emerging market.

THEORETICAL BACKGROUND

International Experience in the RC and SDM Perspectives

While the RC perspective suggests that the choice of foreign market entry mode is a function of economically rational cost-benefit calculations, the SDM perspective argues that top managers' backgrounds, which shape behavioral preferences, are likely to have a decisive influence on the market entry decision. The vast majority of existing studies have invoked the RC logic of entry mode decisions (Brouthers & Hennart, 2007) based on Dunning's (1980; 1988) ownership-location-internalization (OLI) framework. The OLI framework integrates resource-based (ownership), institutional (location), and transaction cost (internalization) theories. It stipulates that a firm's choice of entry mode is determined by ownership advantages, location advantages, and internalization advantages in the form of a firm's propensity to internalize market failure. Based on the RC logic, firms choose the entry mode that enables them to optimally combine their resources and capabilities with location-specific advantages while minimizing the transaction costs of dealing with the distance to the foreign location and the idiosyncracies of operating there.

In contrast, only a few studies have adopted the SDM perspective to study the choice of foreign market entry modes. Herrmann and Datta (2002; 2006) and Nielsen and Nielsen (2011) find that demographic and experiential characteristics of chief executive officers (CEO) and top management teams (TMT) influence foreign market entry mode decisions. According to the SDM logic, top managers are 'boundedly rational' due to their limited capacity to acquire and absorb information in the strategic decision-making process. Key strategic decisions are therefore influenced by top managers' backgrounds and past experiences, which provide managers with cognitive shortcuts in the absence of complete information (Hambrick & Mason, 1984).

A central feature of the internationalization process and a key determinant of internationalization success is the concept of international experience (Athanassiou & Nigh, 2002; Contractor, Kundu, & Hsu,

2003; Johanson & Vahlne, 1977; Kirca, et al., 2012; Williamson, 1985). International experience has been widely studied in both the RC- and SDM-based internationalization literature.

From a RC perspective, international experience is the firm-level experiential knowledge that the firm has accrued throughout its internationalization process. As a non-location bound resource, it includes the firm's accumulated general knowledge about expansion into foreign markets, organizational learning about the internationalization process, and ability to achieve global integration and transaction cost minimization across an international network of subsidiaries (Johanson & Vahlne, 1977; Kirca, et al., 2012). Firm-level international experience is therefore likely to influence the choice of foreign market entry mode by enabling the firm to foresee the opportunities and challenges of entering a foreign market and to be more successful in selecting entry modes with higher risk-return profiles.

From a SDM perspective, international experience is the amount (or diversity) of international experiential knowledge held by the CEO or TMT (Athanassiou & Nigh, 2002; Herrmann & Datta, 2006; Nielsen & Nielsen, 2011). TMT members' international experience is likely to produce behavioral preferences that match the choice of foreign market entry modes with the TMT's cross-cultural capabilities and market-/region-specific knowledge, while minimizing the perceived risks and challenges of dealing with foreign markets. The SDM-based perspective is therefore likely to produce a different set of predictions about foreign market entry mode preferences than the RC-based model.

TMT Monitoring as a Moderator of SDM and RC Models

Recent work suggests that executives do not always have the same level of influence on a firm's organizational outcomes. For example, Hambrick, Finkelstein and Mooney (2005) argue that the concept of bounded rationality is most predictive when executive job demands are high. Under conditions of low executive job demands, on the other hand, strategic decision-making will be based on information that is more reliable, unambiguous, and complete, thus producing strategic decisions that can be described as more economically rational.

The concept of managerial discretion follows a similar logic. When discretion is high, the TMT composition has a major influence on organizational outcomes and therefore the explanatory strength of UE theory will be high. In low discretion environments, on the other hand, managers can shape organizations only to a limited extent due to the dominant influence of environmental forces and inertia (Hannan & Freeman, 1977; Lieberson & O'Connor, 1972; Salancik & Pfeffer, 1977). Executives' managerial discretion, i.e. *"the latitude of action available to top executives"* (Finkelstein & Hambrick, 1990, p. 484), lies within the zone of acceptance of powerful parties (Finkelstein & Hambrick, 1990). In some environments, only a narrow range of options are considered acceptable in the eyes of powerful parties, whereas in other environments the zone of acceptance is larger, leaving executives with more managerial discretion (Thompson, 1967).

From an agency theory perspective, the level of TMT monitoring can be employed as a proxy for managerial discretion. Executives' latitude of action is constrained by higher levels of TMT monitoring, which forces executives to rely less on their intuitive inclinations and past experiences, and rather pursue economic rationality in strategic decision-making processes. Agency theory (Alchian & Demsetz, 1972; Ross, 1973; Eisenhardt, 1989) suggests that the interests of principals and agents do not always coincide. While owners primarily want to maximize their profits, agents (executives) may have neither the incentive nor the interest to generate the highest possible profit (Berle & Means, 1932). As a result, company performance depends on the owners' ability to effectively monitor and control their executives (Gedajlovic & Shapiro, 1998).

Companies' decisions regarding their internationalization strategy are of high strategic relevance and are likely to be subject to outside scrutiny. A large body of research shows that internationalization has an impact on a firm's performance (e.g. Contractor, et al., 2003; Grant, 1987; Lu & Beamish, 2001; Ruigrok & Wagner, 2003; Sullivan, 1994). It can therefore be assumed that owners of a company will closely monitor decisions related to increasing involvement outside the home country. This is particularly the case for publicly listed companies where corporate governance laws ensure that shareholders have access to transparent information regarding the firm's (internationalization) strategy. However, the monitoring

effect does not only hold for publicly listed companies. In India, for example, the business group structure is prevalent. In such a setting, executives of unlisted group companies are monitored by the group's central governing body, which influences their decision making.

The more monitoring a TMT faces, the lower is its managerial discretion. That is under high TMT monitoring conditions the decision-making process takes place within a more closely observed (and potentially narrower) zone of what powerful parties perceive as acceptable. This, in turn, is associated with less room for executives to rely on their previously developed knowledge, past experiences, and intuition in decision-making. On the contrary, under such circumstances managers will be more conscious of 'living by the rules' and to have a clear (economic) rationale behind their decisions. In low TMT monitoring situations, on the other hand, executives are left with more room to rely on their intuition, which is influenced by their past experiences and their individual (career) characteristics.

HYPOTHESES

RC Perspective: Firm International Experience and Entry Mode Choice

In this paper we focus on firm-level international experience as a key ownership related variable often put forward by RC scholars. As Datta, Herrmann and Rasheed (2002) posit, the international experience of the entrant firm is one of the most extensively analyzed antecedents of the choice of entry mode. Internationalization (Johanson & Vahlne, 1977) and transaction cost theory (Williamson, 1985) discuss international experience as a factor which greatly influences firms' choice of market entry mode. As firms gain experience in internationalization they gradually develop the skills required to estimate costs and returns, to judge customer needs and to evaluate the overall economic benefit of foreign expansion (Davidson, 1980; Erramilli, 1991). Firms lacking international experience perceive significant uncertainty and tend to overstate risk and underestimate returns (Davidson, 1982; Gatignon & Anderson, 1988; Terpstra & Yu, 1988). As a result they often refrain from significant cross-border investments that require high levels of control (Johanson & Vahlne, 1977). However, with increasing experience firms acquire relevant knowledge and learn to deal with uncertainty, and as a result they become more

confident in committing resources and assuming control (Anderson & Gatignon, 1986). Kogut (1983) posits that internationally experienced firms have moved so far down the learning curve that it can become a competitive advantage that is hard for other firms to emulate. Overall, these arguments suggest that internationally experienced firms prefer high control over low control entry modes.

Hypothesis 1a: The degree of firm-level international experience prior to market entry is associated with a preference for full-control foreign market entry modes.

The extent to which top executives are monitored by the Board of Directors (BoD) influences the relationship between prior company experience and entry mode decisions. As the RC model predicts that it is economically rational for companies with higher levels of (firm-level) international experience to pursue higher-control entry modes, we expect that this inclination will be stronger with higher levels of monitoring of the TMT. Agency theory logic suggests that outside board members are more likely to question the actions and decisions of top managers. This puts pressure on top managers to be able to justify their strategic decisions on analytical grounds. A higher proportion of company outsiders on the BoD is therefore likely to intensify TMT monitoring and thereby encourage top managers to adopt a more rational and analytical approach to decision-making. Therefore, with higher levels of TMT monitoring, TMTs will increasingly make use of analytical tools and rational decision-making processes to assess arising opportunities relative to the company's strengths and weaknesses. Thus, we expect that the RC-based relationship between prior multinational experience and higher-control entry modes will become stronger with higher proportions of outside BoD members.

Hypothesis 1b: The association between firm-level international experience and full-control entry modes will be stronger with higher levels of TMT monitoring.

SDM Perspective: TMT International Experience and Entry Mode Choice

Over the last decade researchers have shown an increasing interest in executives' international experience and the outcomes associated with this aspect of career background (Finkelstein, Hambrick & Cannella, 2009). Scholars have argued that in the context of a firm's internationalization its executives face particularly high information-processing requirements (Thompson, 1967; Sanders & Carpenter, 1998). First, this can be explained by a "psychic distance" between the home and host country which complicates the process of accessing information (Johanson & Vahlne, 1977). Second, firms going global are exposed to a greater diversity of cultures (Gomez-Mejia & Palich, 1997; Hofstede, 2001), competitors, customers and regulatory realities (Brahm, 1994). Such an environment can be at odds with a *"domestic managerial mindset"* (Sanders & Carpenter, 1998, p. 160) of the TMT and pressures executives to allocate their attention to several geographical locations at the same time (Kim & Mauborgne, 1991). Thus, being able to draw on prior experiences and knowledge in different contexts will help executives to handle decision making relating to firm internationalization more confidently. This is in line with previous work which finds a significant positive relationship between executives' international experience and a firm's degree of internationalization (Carpenter, Sanders & Gregersen, 2001; Sambharya, 1996). Some recent studies have shown that TMTs with a high proportion of internationally experienced executives tend to prefer high control over low control entry modes (Herrmann & Datta, 2002; 2006; Nielsen & Nielsen, 2011)

Yet previous research provides support for the opposite argument. According to Athanassiou and Nigh (2002), the international business experience of TMTs facilitates access to international networks and with that increases executives' social capital. This, in turn, develops an executive's ability to identify and work with foreign partners effectively. Executive international experience helps to mitigate the challenges which are associated with coordination and communications between culturally distant partners (Child, Markoczy & Cheung, 1992). Furthermore, it augments executives' awareness of international opportunities (Tihanyi, Ellstrand, Daily & Dalton, 2000). Tung and Miller (1990) find that experience of international assignment increases managers' confidence in being able to manage their

firm's international activities effectively. Following this rationale, international experience reduces the perceived distance between international business partners and allows for more efficient cross-cultural management. Unlike high control entry modes, low control market entries, particularly joint ventures, provide companies with opportunities to expand their geographic market participation rapidly, create critical mass and build new intellectual property while taking comparatively low risks (Bleeke & Ernst, 1993; Park & Ungson, 1997; Slocum & Lei, 1992). Taken together these arguments propose that internationally experienced TMTs will be inclined to prefer low control over high control foreign market entry modes:

Hypothesis 2a: Higher TMT international experience is associated with a preference for shared-control foreign market entry modes.

The extent to which top executives are monitored by the BoD influences the relationship between TMT international experience and the choice of foreign market entry modes. In line with agency theory predictions, insider-dominated BoDs are less likely to be active and vigilant monitors of TMT decision-making, as the relationships between inside board members and top managers are often characterized by high levels of mutual dependence. A lower proportion of outside BoD members is therefore likely to increase TMT members' latitude of action, allowing top managers to act more intuitively based on their accumulated knowledge and past experiences to derive strategic decisions. Vice versa, outsider-dominated BoDs will reduce TMT members' discretion and require more analysis and rational justification in strategic decision-making processes. Thus, we expect that with decreasing levels of TMT monitoring, the SDM-based relationship between TMT international experience and lower-control entry modes will become increasingly pronounced, as top managers under such circumstances are able to fully utilize their international experience backgrounds to carve out foreign market opportunities and seek new partnerships abroad.

Hypothesis 2b: The association between TMT international experience and shared-control entry modes will be stronger with lower levels of TMT monitoring.

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Figure 1 goes about here

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METHODOLOGY

Sample

Our sample consists of detailed data on executive demographics, company finances and market entry mode strategies from operating companies of India's largest business group. On June 30, 2011, the Tata business house listed 92 independent group operating companies on its corporate website. We excluded 20 of these companies because they fell in one of the following categories: divisions or investment arms of the holding company; companies where the business group only has limited steering power; and small subsidiaries of larger companies in the group. Excluding these companies increased the comparability of the sample firms and means that the business group has significant steering power in all of them. Of the remaining 72 companies, 25 entered at least one new country between FY 2008-09 and FY 2010-11 (72 market entries in total). These companies entered an average of 2.9 new countries during this three-year period. FDI activities in a country where a company already had an established presence (independent or with a partner) were not considered. In our sample we reconstruct the TMTs (CEO and direct reports) of the 25 operating companies with foreign market entries in FY 2008-09, FY 2009-10 and FY 2010-11. If a company has entered at least one new country every year over a three year period three different TMTs are included in the sample (changes in TMT composition reflected). In total 297 detailed executive profiles are included in the analysis. The dataset holds complete data across all variables included in the analysis, both in terms of executive demographics and company financial/ market entry mode data.

Our analysis is based solely on primary data. To obtain the required information on executive demographics and company finances and internationalization, co-operation with the Indian business group was established. The group Chairman and Group HR Head endorsed the research project and facilitated access to group companies. Group affiliates were approached by the Chairman's or the HR Head's offices, requesting HR Directors and CFOs to provide the required executive demographic and company financial and market entry mode data respectively. A detailed description of the necessary data as well as a data input template was prepared to facilitate the data collection process. Data requests were sent out in stages to allow for timely follow-up. Once companies had submitted their data the HR Heads and CFOs were approached again by phone in order to make sure that the TMT definition employed in this study is followed consistently across all companies and to understand distinctive features of the submitted data (e.g. reasons for creating a new management position in a certain Financial Year) more thoroughly.

Measures

Dependent variable. The dependent variable employed in this study is defined as the varying levels of control associated with different choices of market entry mode. Shared control market entry modes are coded as 1. We include Greenfield JVs, Contracts (e.g. Licensing) and Partial Acquisitions (<=95% of equity) in this category. Greenfield JVs are new entities created by pooling the assets of at least two firms (Herrmann & Datta, 2006; Kogut & Singh, 1988). We define full acquisitions and greenfield entries as full-control entries where the investing firm owns more than 95% of the equity (Arregle, Hebert & Beamish, 2006; Brouthers, Brouthers & Werner, 2008). Full acquisitions and independent greenfield entries are coded as 2 and 3 respectively. This approach is in line with previous work which arranges the different modes of entries along a continuum of increasing control, commitment and risk (e.g. Erramilli & Rao, 1990; Hill, Hwang & Kim, 1990; see also Brouthers & Hennart, 2007). In this context control means authority over strategic and operational decision-making (Porter, 1986). Control has traditionally been perceived as flowing from ownership. That is, the greater the level of ownership of a venture, the greater

the control associated with it (Anderson & Gatignon, 1986). Resource commitment means deploying assets which cannot be redeployed in other ventures without loss of value (Kim & Hwang, 1992).

Independent variables. The analysis includes different predictor variables for the SDM and RC models. We employ two different independent variables in the SDM model (run in separate models) to capture a TMT's collective international experience. The first measure captures the extent to which TMT executives have built international experience in only a few versus many different geographic areas. It is calculated as $1 - \Sigma p_i^2$, where *p* represents the proportion of an executive's career spent in the *i*th country (Blau, 1977) and averaged for all TMT members. In addition we also measure TMT international experience as the percentage of TMT members with international experience.

We rely on a proxy measure to capture firms' multinational experience. In the RC model, prior multinational experience of the firm is measured as the average of the degree of internationalization (DOI, defined as foreign sales to total sales) of the three financial years prior to the analyzed market entry. A number of previous studies have measured companies' multinational experience (or international diversification) as foreign sales divided by total sales (see Tihanyi, Griffith & Russell, 2005, for a meta-analysis).

Moderating variables. We include the proportion of non-executive independent outside directors on a company's Board of Directors in the year the market entry takes place as moderator variable in both the SDM and RC models. We define non-executive independent outside directors following Clause 49 of the Securities and Exchange Board of India (2004). This means that non-executive independent outside directors are board members who have no executive or non-executive function in the promoter company or in any of the other operating companies of the business group. This definition is in line with what Peng (2004) calls non-affiliated outside directors. We employ the moderating variable as proxy for the level of TMT monitoring.

Control variables. We include the following control variables in our research models. Industry characteristics may influence the choice of foreign entry mode (Luo, 2001). We therefore control for industry affiliation. Operating companies of the studied business group are categorized in seven industry

clusters: Communications & IT, Services, Engineering, Materials, Energy, Consumer Products and Chemicals. From these clusters we build the industry categories 'Services' (Services, Communications & IT) and 'Manufacturing' (all other industry clusters).

Consistent with prior research we control for two aspects related to the host country which may influence the choice of entry mode (Nielsen & Nielsen, 2011; Slangen & van Tulder, 2009): cultural distance and quality of governance. We follow Kogut and Singh (1988) to measure cultural distance. The deviations of the host country scores from India are corrected for differences in the variance of each dimension and then averaged, using the following formula: $CD_a = \sum[(I_{ba} - I_{bc})^2 / V_b]/4$. I_{ba} represents the index for the *b*th cultural dimension and the *a*th country, *c* is India and V_b is the variance of the index of the *b*th dimension. We average Kaufmann, Kraay and Mastruzzi's (2009) six dimensions of host country governance quality (voice and accountability, political stability, government effectiveness, regulatory quality, rules of law and control of corruption) of the year a market entry takes place to control for quality of governance in the host country. Higher values indicate higher levels of governance quality.

Furthermore, given that firm size may impact choice of entry mode (Brouthers & Brouthers, 2003) we employ the total number of employees in the year of the market entry as control for company size (e.g. Gatignon & Anderson, 1988). Finally, in our SDM models we control for TMT size by the number of TMT members.

Analytical Strategy

Our dependent variable is treated as ordinal under the assumption that the levels of firm control, resource commitment and risk associated with a particular choice of market entry mode have a natural ordering (low to high), but the exact distances between adjacent levels are unknown. We therefore tested the hypotheses using staged ordinal logistic regression analysis (Menard, 1995). Separate SDM and RC models were employed. All control variables including the TMT monitoring proxy hypothesized to moderate the main effect were entered in the first step of regression. In a second step, the main predictor variables were added to the model (SDM: TMT international diversity/ proportion of executives with

international experience; RC: prior firm multinational experience). In Model III the moderator was added. It is acknowledged that in our research setup high internal validity (focus on market entries of one Indian business group) comes at the cost of a relatively small sample size (N=72). Nemes, Jonasson, Genell and Steineck (2009) find that in logistic regression models sample size determines the size of bias in regression parameter estimates. That is, logistic regression tends to overestimate odds ratios for small to moderate samples. This explains the high/ low odds ratios we report in our models (particularly in the full models, see below). However, all empirically tested models follow Peduzzi, Concato, Kemper, Holford and Feinstein's (1996) guideline not to fall below 10 cases per model variable to obtain valid results when employing ordinal logistic regression.

RESULTS

RC Model: Descriptive Statistics and Regression Results

The means, standard deviations and correlations among the RC study variables are presented in Table 1. The correlation matrix shows a very high correlation between the predictor and moderator variable with industry affiliation. This indicates that the inclusion of industry affiliation as a control significantly impacts regression results. No further potentially problematic correlations are identified.

Ordinal logistic regression results of the RC model including industry affiliation as control variable are presented in Table 2. In RC Model 2a there is no support for Hypothesis 1a, which proposed a positive main effect of prior degree of company multinational experience on the level of control in foreign market entry modes. However, after including the moderator (RC Model 3a), the proposed positive relationship in Hypothesis 1a becomes statistically significant, which suggests that the proposed main relationship is valid under the condition of the moderator. With regard to Hypothesis 1b, we find (contrary to our expectation) that the level of TMT monitoring negatively moderates the main effect. A higher proportion of outside board directors weakens the positive association between the predictor and outcome variable.

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Tables 1 & 2 go about here

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The magnitude of moderator effects in nonlinear models differs from the marginal effect of the moderator term (Ai & Norton, 2003), which is the reason why odds ratios in our full models deviate substantially from 1. Therefore, it is only possible to interpret the moderator term rigorously by plotting its effect in relation to the predictor and outcome variable. Figure 2 displays the moderating effect graphically. The positive association between firms' prior multinational experience and market entry mode level of control is stronger for companies with lower proportions of outside directors on their boards. In firms with many outside independent relative to dependent board directors the hypothesized RC main effect is weaker. Overall, RC Model 3a is statistically significant with a log likelihood chi-square of 34.33 ($p<0.001$) and a mean VIF of 2.67 (max. VIF = 5.79), which is well below the predominantly employed cut-off value of 10. Finally, the likelihood ratio test reveals that predictor and moderator variables significantly add to the prediction of our dependent variable (LR chi(3) = 12.31; p>chi2 = 0.0064).

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Figure 2 goes about here

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Given the relatively high correlation of the predictor and moderator variable with industry affiliation (0.65 and 0.76 respectively, $p<0.001$) we also ran our model excluding industry affiliation as control (see Table 3). Becker (2005) suggests that highly correlated variables may cause biased estimates of parameters and thus distort results. The resulting RC Models 2b and 3b are statistically significant at the 10% and 0.1% levels respectively. Without employing industry affiliation as control, Hypothesis 1a is supported at the 5% level. RC Model 3b confirms the results presented above. The final model has a mean VIF of 2.57 (max. VIF = 5.22) and the proportional odds assumption is met. The likelihood ratio test is statistically significant (LR chi2(3) = 12.67; p>chi2 = 0.0054).

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Table 3 goes about here

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SDM model: Descriptive Statistics and Regression Results

Table 4 presents the means, standard deviations and correlations among the SDM model variables. The very high correlation between company size and TMT size stands out (0.991, $p<0.001$). Following Becker (2005) we decided not to include TMT size in the ordinal logistic regression as highly correlated control variables could cause biased estimates of our parameters. The correlation matrix does not bring to the fore any further problematic correlations between variables included in the analysis.

Results of the staged logistic regression with average of international career diversity of the TMT as predictor are presented in Table 5. Model 1 includes all control variables and is statistically significant with a log likelihood chi-square of 25.5 ($p<0.001$). The addition of the main predictor variable results in a statistically significant model (Log likelihood chi-square: 29.6, $p<0.001$) confirming Hypothesis 2a. In terms of the reported odds ratio this means that increasing TMT international career diversity is associated with a significantly lower probability of companies choosing high versus lower control market entry modes. In Model 3a, inclusion of the host country governance control variable violates the proportional odds assumption. Given that this variable was not statistically significant at the 95% confidence level in SDM Models 1 and 2, we ran the final model without host country governance as control. The exclusion of this control does not change the statistical findings. The final SDM model (3a) is statistically significant with a log likelihood chi-square of 31.9 ($p<0.001$). The main predictor as well as the moderator variables were centered to avoid multicollinearity (mean VIF = 2.21, max. VIF = 4.52). The proportional odds assumption is met ($p>chi2 = 0.2458$). The likelihood-ratio test reveals that the inclusion of the predictor and moderator variables significantly improve the prediction of the choice of market entry mode (LR $chi2(1) = 6.35$; $p>chi2 = 0.0118$). As in SDM Model 2a, the TMT's level of international career diversity is negatively associated with the level of market entry control (Hypothesis

2a). Furthermore, the proportion of independent outside directors moderates the main effect negatively (contrary to Hypothesis 2b, $p<0.001$).

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Tables 4 & 5 go about here

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Figure 3 illustrates how the level of TMT monitoring moderates the main effect. The negative association between the TMT's international capacity and the level of entry mode control is stronger for companies with a higher proportion of outside directors on their boards, which is the opposite of our prediction in Hypothesis 2b.

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Figure 3 goes about here

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The results presented above are confirmed when we include the percentage of TMT members with international experience as predictor (instead of TMT level international career diversity) in our models. Here the proportional odds assumption is also met when we include host country governance as control (see Tables 6 and 7). Multicollinearity is not problematic (mean VIF = 1.83; max. VIF = 3.39). Again, the likelihood ratio tests confirm that predictor and moderator variables significantly add to the prediction of our dependent variable (LR chi(2) = 11.88; p>chi2 = 0.0026).

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Tables 6 & 7 go about here

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DISCUSSION AND CONCLUSIONS

The findings of this study have several key implications for our understanding of foreign market entry behavior and the interdependence of firm governance characteristics in strategic decision-making at Indian firms. We illustrate how TMT- and firm-level factors interact and complement each other to

determine firms' internationalization behavior, extending the finding of Kirca et al. (2012) that TMT- and firm-level characteristics are antecedents of firm multinationality. Furthermore, we challenge the established logic that both firm- and TMT-level international experience are associated with higher-control entry mode preferences in foreign markets. Instead, we show that opposing logics may apply to the effects of international experience at firm- and TMT-level on firms' internationalization behavior in the Indian context and explain how these logics may co-exist. Finally, our findings suggest that the monitoring and advisory roles of inside vs. outside BoD members in TMT decision-making processes require an alternative assessment in the context of our study.

First, we find that TMT international experience, regardless of whether it is measured as experiential depth or breadth is associated with a preference for lower control market entry modes. At the same time, firm-level international experience is associated with a preference for higher-control entry modes. These findings suggest that in the Indian context in which our study is situated, there may be two competing logics that co-exist with regard to the value of international experience in the internationalization process.

On the one hand, individually held international experience is likely to be a relatively rare commodity among TMT members, providing top managers that have such experience with the required levels of confidence and credibility to develop foreign market opportunities and build foreign partnerships at their own discretion on behalf of the company. As most Indian companies are at rather early stages of internationalization, such managers may prefer a rather low-risk, exploratory approach to foreign market entry, which is congruent with a preference for shared-control entry modes.

A second possible explanation may be related to ownership structure. Highly diversified business groups still dominate India's private sector (Khanna & Rivkin, 2001; Yiu, Lu, Bruton & Hoskisson, 2007). Unlike most Western companies, Indian business group affiliates are actively supported by the promoter company when expanding into new markets. Becker-Ritterspach and Bruche (2012, p. 240) argue that group embeddedness provides affiliates with access to *"internal project execution capabilities"* which can be converted into successful exploitation of international assets. TMTs with limited international capacity may particularly rely on the advice of the promoter company. Lack of self-confidence in

handling international partners in combination with extensive M&A expertise at the group center may explain the preference of such firms for high control entry modes. Western companies with low TMT international capacity cannot count on similar 'internal support'. As a result, as empirical studies show (e.g. Nielsen & Nielsen, 2011) they seem to display a preference for low investment market entries to minimize risks.

On the other hand, collectively held multinational experience at the firm-level is associated with a preference for higher control entry modes. Our findings suggest that previous results from Western contexts (Agarwal & Ramaswami, 1992; Anderson & Gattignon, 1986; Caves & Mehra, 1986; Rajan & Pangarkar, 2000; for a review see Datta, Herrmann & Rasheed, 2002) are also valid in the Indian context. The more cumulative international experience firms obtain the more confident they become to committing resources and to entering additional new markets with high control entry modes.

Taken together, our findings suggest that TMT- and firm-level factors are not only antecedents of firm multinationality, as outlined by Kirca, et al. (2012), but they also determine firms' internationalization behavior by influencing their strategic choices and entry mode preferences. These findings suggest that economic rationality and TMT backgrounds concurrently determine firms' internationalization behavior and strategic decision-making and that they need to be viewed as complementary lenses to be considered simultaneously to explain internationalization behavior in future research.

The monitoring context under which foreign market entry decisions are made helps us to further improve our understanding of the complementarity of the RC- and SDM-based models of internationalization behavior. Contrary to our hypotheses, the level of TMT monitoring moderates the main RC effect negatively. Likewise, in the SDM model we find opposite to expected moderating effects. Deviating from what was theoretically derived these results can be interpreted as follows: the more tightly the TMT is controlled the more scope seems to exist for executives to rely on their past experiences (bounded rationality) in the decision-making process. This seems to be a highly counter-intuitive finding.

Therefore, when putting the findings into a bigger context to draw conclusions it is crucial to discuss potential underlying reasons for the unexpected moderating effect found in the empirical models.

The underlying assumption of how we capture the level of TMT monitoring in our models is related to agency theory. Research and practice in corporate governance is predominantly based on agency theory and a focus on board monitoring tasks (Huse, 2005; Roberts, McNulty & Stiles, 2005; Shen, 2005). Following this line of thinking, independent outside directors are perceived as being best equipped to control the behavior and decisions of the TMT in order to maximize owners' value (Fama & Jensen, 1983). Their monitoring task typically includes control of company performance, the assessment of TMT behaviors, the monitoring of the company's activities and the like (Huse, 2005; Johnson, Daily & Ellstrand, 1996; Stiles & Taylor, 2001). The rationale that the higher the proportion of independent outside directors on a company board, the higher the level of monitoring of the TMT and the lower executives' latitude of action should be was built around this logic. However, the rationale behind agency theory is largely based on the US and UK contexts where the concept of independent outside directors originated. It is argued that our counter-intuitive findings may be explained by the inappropriateness of applying this rationale to the Indian context.

While in the US and the UK diffused shareholding structures are predominant, in India concentrated ownership structures are common (Zattoni, Pedersen & Kumar, 2009). These different structures lead to varying agency problems and corporate governance models. The US and the UK follow the outside model of corporate governance, where measures to enhance corporate governance are mainly aimed at resolving the principal-agent problem. India, on the other hand, follows the insider model of corporate governance, *"which is characterized by cohesive groups of 'insiders' who have a closer and more long-term relationship with the company"* (Varottil, 2010, p. 288). In such a setting, protecting minority shareholders vis-à-vis the controlling shareholders is more important (the majority-minority agency problem). These differences also explain why the role and effectiveness of independent outside directors, particularly with regard to TMT monitoring, in India may not be comparable with the West. In fact, contrary to what the traditional agency theory (Fama, 1980) logic predicts, a higher proportion of

independent outside directors on boards in India may be associated with more rather than less executive latitude of action.

Our findings have implications for scholars, practitioners as well as policy makers. In an update on UE theory Hambrick (2007) encourages researchers to apply the UE logic to contexts other than the US or Western Europe and proposes that outcomes may vary significantly depending on the macro social context. The main effect reported in the SDM model is a case in point. We find that the impact of international capacity of the TMT on firms' choice of market entry mode in the Indian context seems to be different than in the West. This stresses the importance of caution when generalizing UE findings across contexts. Moreover, our results illustrate that the logic of agency theory dominant in the literature is not directly transferable to countries with agency problems and corporate governance systems different than those typically found in the West. In fact, not taking these contextual particularities into account and blindly following the Western agency theory view may lead to misinterpretation of results.

More broadly, our paper should encourage both RC and SDM scholars to take a more comprehensive view when studying key strategic decisions such as choice of market entry mode and to find ways to integrate both lines of thinking. As our models show, the level of TMT monitoring by the BoD is a promising measure to gauge the validity of RC and SDM models depending on the study context.

For practitioners and policy makers alike our results provide confirmatory insights with regard to the effectiveness of monitoring by independent outside directors in India. The application of typical Western corporate governance measures to India does not necessarily have the desired effect. To enable independent outside directors to play an effective monitoring role in Indian companies, policies need to account for contextual characteristics, above all the predominant ownership structure in India. Overall, practitioners in general and Indian promoter companies in particular should take note that factors both of TMT composition and the level of monitoring of the TMT seem to have a profound impact on how key strategic decisions such as the choice of a foreign market entry mode are taken.

This study has limitations, some of which also serve to delineate potential future research directions. First, we employ a dataset of operating companies all affiliated with one Indian business group. While our

primary data capturing all geographic market entries of a large Indian business group over a three-year period has clear methodological advantages, generalizability of the results to other contexts may be limited. Second, we focus on prior multinational experience of the firm (RC model) and international capacity of the TMT (SDM model) to address how the validity of RC and SDM models varies depending on TMT monitoring levels. Going forward there is ample room to analyze whether our results are confirmed when tested with alternative specifications of the independent variables such as company size (RC) or constructs related to TMT size or executive tenure (SDM). Third, our conclusion that unlike in Western contexts a higher proportion of independent outside directors on corporate boards in India may increase rather than limit executives' latitude of action needs further (empirical) validation. More broadly, it would be interesting to explore further ways to measure effectively the level of TMT monitoring and how this impacts executives' latitude of action (e.g. culture or ownership structure related constructs). Finally, we acknowledge the 'black box' issues associated with the demography approach (Lawrence, 1997; Priem, Lyon & Dess, 1999). Our study intends to trigger further research integrating the RC and SDM perspectives to explain internationalization behavior and foreign market entry strategies of multinational enterprises across a variety of industries and national contexts.

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TABLES

Table 1: Descriptive statistics & correlations (RC model)

Variable	Mean	S.D.	1	2	3	4	5	6	7
1: Level of control of market entry mode choice	2.17	0.84							
2: Level of TMT monitoring	0.50	0.26	0.19						
3: Industry Dummy (Services)	0.36	0.48	0.44***	-0.06					
4: Market Entry Country Governance	0.60	0.81	-0.20†	-0.12	-0.05				
5: Market Entry Cultural Distance	1.51	1.26	-0.06	0.03	-0.14	0.38**			
6: Company Size	25789.92	50750.85	0.31**	0.08	0.39***	-0.05	-0.02		
7: Prior Company International Experience	0.35	0.34	0.35**	-0.18	0.65***	-0.18	-0.02	0.55***	
8: Moderator: Level of TMT monitoring x Prior Company International Experience	0.16	0.19	0.29*	0.29*	0.76***	-0.27*	-0.08	0.57***	0.76***

†p<0.1; *p<0.05; **p<0.01; ***p<0.001

Table 2: Regression results (RC model a)

Ordered Logistic Regression (N=72)	**Model I**			**Model IIa**			**Model IIIa**		
Level of control of market entry mode choice	*Logistic Coefficients*	*z*	*Odds Ratio*	*Logistic Coefficients*	*z*	*Odds Ratio*	*Logistic Coefficients*	*z*	*Odds Ratio*
Level of TMT monitoring	1.74†	1.83	5.71†	1.87†	1.85	6.51†	4.73**	2.14	49.55**
Industry Dummy (Services)	1.98***	3.29	7.23***	1.81*	2.50	6.14*	2.31**	3.04	10.07**
Market Entry Country Governance	-0.55	-1.60	0.58	-0.53	-1.52	0.59	-0.79*	-2.16	0.46*
Market Entry Cultural Distance	0.14	0.58	1.14	0.13	0.54	1.14	0.09	0.37	1.09
Company Size	0.00	1.21	1.00	0.00	1.01	1.00	0.00	1.49	1.00
Prior Company International Experience				0.50	0.40	1.57	3.90*	2.14	49.55*
Moderator: Level of TMT monitoring x Prior Company International Experience							-9.31**	-2.71	1E-4**
Goodness of fit (Log likelihood chi-square)	25.54***			25.70***			34.33***		
Pseudo R^2:									
Mc Fadden's R^2	0.165			0.166			0.222		
Mc Kelvey & Zavoria's R^2	0.376			0.337			0.452		

†p<0.1; *p<0.05; **p<0.01; ***p<0.001
Logistic Coefficients: N=72
Probability of odds test Model III:
chi2 (7) = 5.72
P>chi2 = 0.5734

Table 3: Regression results (RC model b)

Ordered Logistic Regression (N=72)	**Model I**			**Model IIb**			**Model IIIb**		
Level of control of market entry mode choice	*Logistic Coefficients*	*z*	*Odds Ratio*	*Logistic Coefficients*	*z*	*Odds Ratio*	*Logistic Coefficients*	*z*	*Odds Ratio*
Level of TMT monitoring	1.08	1.19	2.93	1.93*	2.00	6.91*	4.03**	2.75	56.61**
Market Entry Country Governance	-0.54	-1.61	0.58	-0.45	-1.29	0.64	-0.62†	-1.73	0.54†
Market Entry Cultural Distance	0.04	0.18	1.04	0.05	0.22	1.05	-0.01	-0.02	1.00
Company Size	0.00*	2.29	1.00*	0.00	1.00	1.00	0.00	1.40	1.00
Prior Company International Experience				2.15*	2.36	8.66*	4.96**	3.02	1.43E2**
Moderator: Level of TMT monitoring x Prior Company International Experience							-6.74*	-2.21	1.2E-3**
Goodness of fit (Log likelihood chi-square)	13.24**			19.17**			24.48***		
Pseudo R^2:									
Mc Fadden's R^2	0.086			0.124			0.159		
Mc Kelvey & Zavoria's R^2	0.227			0.302			0.354		

†p<0.1; *p<0.05; **p<0.01; ***p<0.001
Logistic Coefficients: N=72
Probability of odds test Model III:
chi2 (6) = 6.86
P>chi2 = 0.3340

Table 4: Descriptive statistics & correlations (SDM model a)

Variable	**Mean**	**S.D.**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
1: Level of control of market entry mode choice	2.17	0.84									
2: Level of TMT monitoring	0.50	0.26	0.19								
3: Industry Dummy (Services)	0.36	0.48	0.44***	-0.06							
4: Industry Dummy (Manufacturing)	0.64	0.48	-0.44***	0.06	-1						
5: Market Entry Country Governance	0.60	0.81	-0.20†	-0.12	-0.05	0.05					
6: Market Entry Cultural Distance	1.51	1.26	-0.06	0.03	-0.14	0.14	0.38**				
7: Company Size	25789.92	50750.85	0.31**	0.08	0.39***	-0.39***	-0.05	-0.02			
8: Top Management Team Size	11.82	12.73	0.31**	0.02	0.52***	-0.52***	-0.04	-0.10	0.91***		
9: Avg. Intrapersonal International Career Diversity	0.09	0.08	0.24*	0.00	0.49***	-0.49***	-0.05	0.04	0.85***	0.76***	
10: Level of TMT monitoring x Intrapersonal International Career Diversity	0.05	0.05	0.24*	0.41***	0.40***	-0.40***	-0.09	0.05	0.80***	0.70***	0.88***

†p<0.1; *p<0.05; **p<0.01; ***p<0.001

Table 5: Regression results (SDM model a)

Ordered Logistic Regression (N=72)	**Model I**			**Model IIa**			**Model IIIa**		
Level of control of market entry mode choice	*Logistic Coefficients*	*z*	*Odds Ratio*	*Logistic Coefficients*	*z*	*Odds Ratio*	*Logistic Coefficients*	*z*	*Odds Ratio*
Level of TMT monitoring	1.74†	1.83	5.71†	1.71†	1.73	5.54†	1.16	1.13	3.20
Industry Dummy (Services)	1.98***	3.29	7.23***	2.52***	3.64	12.49***	2.33***	3.54	10.28***
Market Entry Country Governance	-0.55	-1.60	0.58	-0.61†	-1.70	0.54†	*violates proportional odds assumption*		
Market Entry Cultural Distance	0.14	0.58	1.14	0.26	1.04	0.30	0.10	0.48	1.10
Company Size	0.00	1.21	1.00	0.00*	2.10	1.00*	0.00*	2.32	1.00*
Avg. Intrapersonal International Career Diversity				-11.86*	-1.98	7.09E-6*	-12.42*	-2.02	4.06E-6*
Moderator: Level of TMT monitoring x Intra-personal International Career Diversity							-59.10***	-2.16	2.15E-26*
Goodness of fit (Log likelihood chi-square)	25.54***			29.60***			31.89***		
Pseudo R^2:									
Mc Fadden's R^2	0.165			0.192			0.210		
Mc Kelvey & Zavoria's R^2	0.376			0.441			0.485		

†p<0.1; *p<0.05; **p<0.01; ***p<0.001
Logistic Coefficients: N=72
Probability of odds test Model III:
chi2 (6) = 7.9
P>chi2 = 0.2458

Table 6: Descriptive statistics & correlations (SDM model b)

Variable	**Mean**	**S.D.**	**1**	**2**	**3**	**4**	**5**	**6**	**7**
1: Level of control of market entry mode choice	2.17	0.84							
2: Level of TMT monitoring	0.50	0.26	0.19						
3: Industry Dummy (Services)	0.36	0.48	0.44***	-0.06					
4: Market Entry Country Governance	0.60	0.81	-0.20†	-0.12	-0.05				
5: Market Entry Cultural Distance	1.51	1.26	-0.06	0.03	-0.14	0.38**			
6: Company Size	25789.92	50750.85	0.31**	0.08	0.39***	-0.05	-0.02		
7: Proportion of TMT Members with International Experience	0.31	0.26	0.12	-0.04	0.30**	-0.13	-0.05	0.80***	
8: Moderator: Level of TMT monitoring x Proportion of TMT Members with International Experience	0.15	0.16	0.13	0.43***	0.27*	-0.15	-0.04	0.72***	0.85***

Table 7: Regression results (SDM model b)

Ordered Logistic Regression (N=72)	**Model I**			**Model IIb**			**Model IIIb**		
Level of control of market entry mode choice	*Logistic Coefficients*	*z*	*Odds Ratio*	*Logistic Coefficients*	*z*	*Odds Ratio*	*Logistic Coefficients*	*z*	*Odds Ratio*
Level of TMT monitoring	1.74†	1.83	5.71†	1.37	1.37	3.95	0.70	0.63	2.01
Industry Dummy (Services)	1.98***	3.29	7.23***	2.20***	3.50	9.03	2.61***	3.71	13.64***
Market Entry Country Governance	-0.55	-1.60	0.58	-0.72*	-2.00	0.49*	-0.70†	-1.92	0.50†
Market Entry Cultural Distance	0.14	0.58	1.14	0.16	0.70	1.18	0.12	0.52	1.13
Company Size	0.00	1.21	1.00	0.00*	2.40	1.00*	0.00*	2.23	1.00*
Proportion of TMT Members with International Experience				-3.83*	-2.28	0.02*	-3.92*	-2.04	0.02*
Moderator: Level of TMT monitoring x Proportion of TMT Members with International Experience							-18.90*	-2.39	6.21E-9*
Goodness of fit (Log likelihood chi-square)	25.54***			31.21***			37.43***		
Pseudo R^2:									
Mc Fadden's R^2	0.165			0.202			0.242		
Mc Kelvey & Zavoria's R^2	0.376			0.447			0.508		

†p<0.1; *p<0.05; **p<0.01; ***p<0.001
Logistic Coefficients: N=72
Probability of odds test Model III:
chi2 (7) = 12.77
P>chi2 = 0.0779

FIGURES

Figure 1: Overview of research model

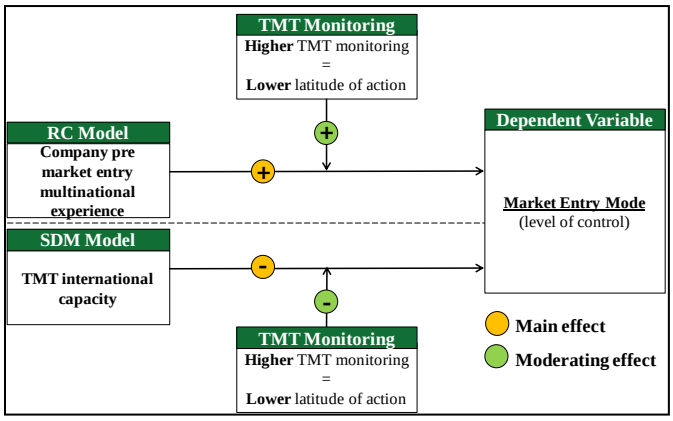

Figure 2: Moderating effect in rational choice model

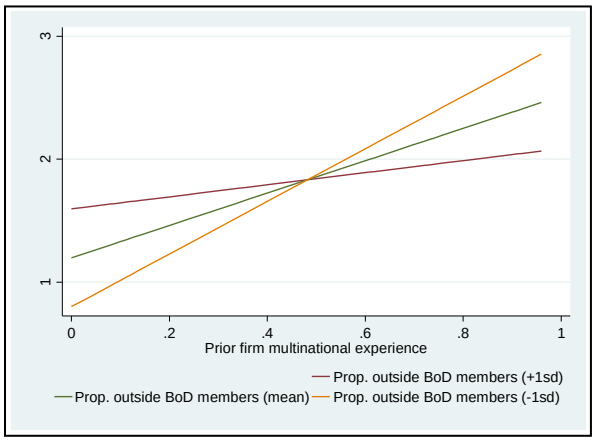
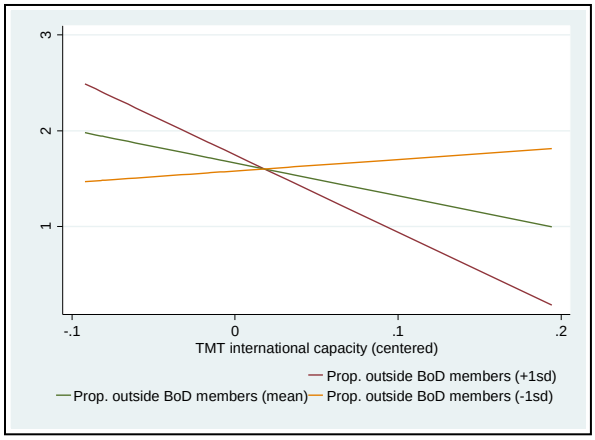
Figure 3: Moderating effect in strategic decision-making model