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The Effect of Status and Dynamics of Host-Country Institutional Quality on the Internationalization Speed of Multinational Firms

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ABSTRACT

The study at hand addresses the call for an expansion of the under-researched area of internationalization speed – i.e. the speed at which firms internationalize further after having already completed a first step beyond their home country's borders. We extend existing firm-level research by adding country-level factors to the analysis. Specifically, we analyze how status and dynamics of host-country institutional quality affect speed. Our findings contribute to the topic of internationalization speed as well as to the institutional quality literature. We find that dynamics of host-country institutional quality have a positive effect on internationalization speed.

INTRODUCTION

The paper at hand follows up on a recent stream of literature claiming that there is a need for further research on the speed at which firms internationalize further after they had already completed a first step beyond their home country's borders. From a theoretical perspective, the relevance of speed in the internationalization process of firms can probably best be apprehended when considering that the internationalization process itself features a temporal dimension as part of its conceptual basis. Internationalization speed can therefore be appreciated as the dynamic aspect of this process linking a firm's state of internationalization with the time elapsed to achieve it (Casillas & Acedo, 2013; Chetty, Johanson, & Martín Martín, 2014; Eden, 2009; Zahra & George, 2002). From a practitioner's perspective, the relevance of internationalization speed becomes evident when looking at previous studies. Those who have analyzed speed as an antecedent find significant effects which are of high managerial relevance and may have strong performance implications (Chetty & Wilson, 2003; Hilmersson & Johanson, 2014; Prashantham & Young, 2011; Vermeulen & Barkema, 2002; Wagner, 2004).

So far, however, there have only been two streams of research in the broader IB literature, which have given internationalization speed thorough consideration. The topic's initial consideration by researchers in the area of international entrepreneurship has concentrated on speed in terms of time between the advent of a company and its first internationalization. The second, rather recent stream by a small body of researchers focuses its efforts on the speed companies evince following their first internationalization (Casillas & Acedo, 2013: 16), who were among the first scholars dealing with this issue, state that "analysing the pace of a company's internationalization process following its first international activity is still wide open for further research" and consider it to be "one of the most important concepts for gaining a true understanding of how internationalization processes develop". Both the theoretical and practical relevance of internationalization speed lead a variety of scholars to demand further in-depth

research on the topic itself as well as on the factors influencing it (Casillas & Acedo, 2013; Casillas, Moreno, Acedo, Gallego, & Ramos, 2013; Chetty, et al., 2014). While trying to help filling this research gap, so far, studies on the topic have merely looked at firm-level variables. For example, (Casillas, et al., 2013; Chen & Yeh, 2012; Hilmersson, Johanson, & Papaioannou, 2014) analyze learning and experience effects and (Lin, 2012) consider family ownership as an antecedent. We believe, however, that this view is incomplete and therefore extend existing research by analyzing the topic on a country-level, using an institutional quality lens. In particular, we consider host-country institutional quality levels as well as quality change as antecedents to internationalization speed.

Institutions are described by (North, 1990: 3) as the rules of the game and as "the humanly devised constraints that structure political, economic, and societal interaction". Therefore, applying an institutional quality perspective to the decision making of MNEs in these conditions, highlights the "unique institutional complexity" they face and helps to further develop the underlying theory itself (Kostova & Roth, 2002: 215). So far, numerous studies have examined the impact of institutional quality on foreign market choice, entry mode or ownership choice and general foreign investment decisions (Capron & Guillén, 2009; Delios & Henisz, 2000; Iyer, 1997; Rueda-Sabater, 2000; Yeung, 1997; Yiu & Makino, 2002; Zaheer & Zaheer, 1997). To the best of our knowledge, however only very few studies exist so far that link institutional quality to the aforementioned temporal dimension of internationalization and none that link it directly to internationalization speed. This fact strikes us as surprising, as it seems highly plausible that, since institutional quality affects firms' internationalization decisions, it also affects the speed at which these decisions are implemented. We therefore intend to expand the institutional theory perspective to internationalization speed by analyzing the relevance of host-country institutions for speed in two ways: first, by considering institutional quality from a status quo perspective and second, by considering it from a dynamic

perspective. To analyze the status quo perspective we take the current quality levels of institutions in the host-country of every internationalization step as the independent variable in our analysis. We justify this approach with the strong evidence for an impact of institutional quality levels on firm's internationalization behavior that we find in extant literature on institutional quality (Kostova & Roth, 2002; Pournarakis & Varsakelis, 2004; Puck, Holtbrügge, & Mohr, 2009; Rueda-Sabater, 2000; Yiu & Makino, 2002). To analyze the second, namely the dynamic perspective of institutions we take the year-on-year change in institutional quality levels in the host-country preceding every internationalization step as the second independent variable in our analysis.

By adding the additional dynamic perspective we expand conventional institutional quality - based internationalization research. This strikes us as necessary as it seems reasonable to assume that firms do not (only) focus on the current institutional quality as a driver for their internationalization decisions. We do so as most steps in the internationalization process are associated with substantial sunk costs and, thus, can be considered longer-term decisions. Firms will therefore be reluctant to invest with strong commitment into regions with negative institutional quality developments as such negative developments represent negative managerial expectations towards the future. In line with (Dacin, Goodstein, & Scott, 2002; Newman, 2000) we therefore see a need for more attention on institutional quality changes. Since our data is based on firms and their internationalization steps into the CEE region – a region with substantial quality variation over the last two decades – we consider change a specifically important dimension in order to do the rapid development of this region justice. We find this assessment confirmed by (Hoskisson, Eden, Lau, & Wright, 2000: 259) who posit that "the essence of emerging economies is that they are dynamic and that it is necessary to take account of changes in the institutional environment".

The relevance of both topics, namely internationalization speed and institutional theory, combined with the large disregard with which their connection has been treated give rise to a large research gap. We intend to help filling this gap by contributing to the research in both fields of study. First, we contribute to the research on speed through a detailed study on the concept itself and more importantly through establishing a connection to institutional quality. This connection is investigated by analyzing the effects of host-country institutional quality on the speed a firm evinces when internationalizing in a foreign country. Secondly, we contribute to the literature on institutional quality by increasing its explanatory power towards the area of internationalization speed. By connecting these two major concepts in IB research that so far have only been addressed independently from each other, we not only add new factors to the analysis of which institutional quality plays a role, we also intend to foster the understanding of the underlying mechanism itself. Thirdly, we contribute to the understanding of a phenomenon that has hitherto been under-researched itself, namely the dynamic perspective on institutional quality in an internationalization context. In doing so, we intend to expand the application of institutional quality beyond purely analyzing static institutional quality levels by considering the change in these quality levels over time. We do so, as we believe such variation is helpful to understand managerial expectations towards the future.

In order to achieve these three objectives, we apply a two-level multivariate analysis to test our hypotheses. For this analysis we use a sample of 77 Austrian MNEs performing a total of 530 internationalization steps into 19 different countries of the CEE region. The starting point for this analysis is 1989 as this is the time when most CEE countries started to permit foreign entries.

THEORETICAL FRAMEWORK AND HYPOTHESES

Internationalization Speed

As outlined in the introduction, we argue that the theoretical relevance of internationalization speed can be appreciated when looking at its foundation in IB theory. For both, classical stage-model theory as well as international entrepreneurship research, a temporal dimension forms part of the basis for analysis (in the simplest case either the time between foundation and first international activity or the time between two stages of internationalization). This becomes evident when looking at some of IB research's most influential theories, at the center of which lies the presumption of company internationalization being a continuous process, following a step-wise increasing path over time (Bilkey & Tesar, 1977; Cavusgil, 1980; Johanson & Vahlne, 1977; Johanson & Vahlne, 2009). Other scholars explicitly acknowledge the relevance of time in the internationalization process by underlining the fact that, by definition, as a process, internationalization takes place over time and is manifested in a time sequence of internationalization events (Buckley & Casson, 1981; Jones & Coviello, 2005; Melin, 1992; Welch & Luostarinen, 1988). Internationalization speed is therefore considered to be the dynamic aspect linking the state of internationalization with the time elapsed to achieve it (Chetty, et al., 2014). Measuring it is deemed a good way to appreciate the internationalization process' underlying dynamic dimension as opposed to just taking the two traditional measurements of location and mode into sole account (Casillas & Acedo, 2013; Eden, 2009; Zahra & George, 2002).

Despite the seemingly obvious dependence of internationalization as such on a temporal dimension, the aspect of timing, yet more so of internationalization speed has been surprisingly disregarded while other aspects of the internationalization process, like location and entry mode, have received significant attention in IB research over the past years (Eden, 2009). While

we do admit that significant advances in research in the area of international entrepreneurship have been made with regards to internationalization speed, this research exclusively focuses on the speed of a company's activities leading up to its first internationalization (Chetty & Campbell-Hunt, 2004; Jones & Coviello, 2005; Malhotra & Hinings, 2009; Oviatt & McDougall, 1994; Zahra & George, 2002). (Autio, Sapienza, & Almeida, 2000: 909) first pointed to this research gap in 2000 by postulating that "research has not sufficiently distinguished between […] first, the time lag between the founding of a firm and its initiation of international operations [...] and, second, the speed of a firm's subsequent international growth". Since this call for attention on the topic, to the best of our knowledge, only a small amount of research has been conducted on the latter – the internationalization speed.

A thorough literature review on the topic of internationalization speed shows that of the twelve studies, which address the issue of speed after the initial internationalization, four are conceptual (Casillas & Acedo, 2013; Chetty, et al., 2014; Oviatt & McDougall, 2005; Prashantham & Young, 2011). The focus of these studies lies in large parts on the measurement of speed and not on its antecedents. We especially draw upon the research of the latter to studies as we measure internationalization speed on the basis of the same two premises. 1) We define our measure as the speed of a firm internationalizing in a given country after it has already underwent a first step of internationalization. 2) We define speed based on its physical definition (speed equals distance divided by time) as the number of internationalization steps a company has undergone in a country divided by the time since the first internationalization. In addition to these conceptual papers, eight papers use empirical methods to analyze speed quantitatively (Casillas, et al., 2013; Chang & Rhee, 2011; Chen & Yeh, 2012; Hilmersson & Johanson, 2014; Hilmersson, et al., 2014; Lin, 2012; Vermeulen & Barkema, 2002; Wagner, 2004). With only one exception, all of these nine empirical papers focus on firm-level indicators, such as mode and market experience (Casillas, et al., 2013; Chen & Yeh, 2012),

family ownership (Lin, 2012) and learning speed (Hilmersson, et al., 2014) as antecedents of speed. (Chen & Yeh, 2012), as the only exception, analyze institutional factors, do so however only as an antecedent for MNE location choice including speed only as a moderator.

The Influence of host-country Institutions on internationalization Speed

We agree that firm-level antecedents of internationalization speed are important in the process of understanding this complex matter - nevertheless, we argue that they provide a one-sided picture, only. We therefore propose that an institutional quality-perspective helps to complete the view on speed on a country level. The quality of institutions is widely posited to have an influence on firm decision making (Kostova, 1997; Kostova & Roth, 2002; Pournarakis & Varsakelis, 2004; Puck, et al., 2009; Rueda-Sabater, 2000; Yiu & Makino, 2002).

Several studies analyze the effects of institutional settings on firms' internationalization behavior. However, to the best of our knowledge only very few studies link institutional quality to the aforementioned temporal dimension of internationalization, much less to speed of internationalization: (Capelleras & Hoxha, 2010) show that strong institutional barriers tend to slow subsidiary establishment in a foreign environment and (Kiss & Danis, 2008) argue in their conceptual paper that the level of a country's institutional development has a moderating effect on the relationship between host country network ties and the speed of internationalization. With regards to specifically MNE-related research, only the study of (Dikova, Sahib, & van Witteloostuijn, 2010) strikes us as related to our research. In their paper they analyze the impact of institutional distance on the completion time of cross-border acquisition deals. They find support for their hypothesis that larger institutional distance between the two partner's countries has a positive effect on the completion time of the deal. However, besides focusing on a rather narrow dimension of internationalization speed (deal completion time), (Dikova, et al., 2010)

focus on institutional differences rather than institutional quality – thus taking a different conceptual point.

Overall, on the one hand, existing evidence and reasoning supports our general approach that the quality of host country institutions has an effect on a firm's internationalization speed. On the other hand, existing studies have never tested the effect of institutional quality on speed. We therefore argue that institutional quality has a positive effect on internationalization speed. Specifically, we argue that high institutional quality has two distinct effects on the internationalization process: a) firms are willing to be active with more committed forms of investment; b) firms are able to reach such types of commitment within a shorter period of time.

For the former effect, we argue that costs for setting up investments rise with decreasing institutional quality. Specifically, weak institutional quality can lead to increased transaction costs (including ex-ante costs) (Meyer, 2001), increased relevance but less accessibility of informal networks (Peng, 2000), and more frequent but less controllable governmental interferences on the market (Puck, Rogers, & Mohr, 2013), among others. Given such costs, investing MNCs will be reluctant to be active with very committed types of activities and prefer less committed activities.

For the latter effect, we argue that firms will need more time to reach higher levels of commitment. We do believe so, as learning will take longer with reducing institutional quality. Low institutional quality is frequently associated with less predictable and more complex institutional interventions (Bénassy-Quéré, Coupet, & Mayer, 2007; Brouthers, Brouthers, & Werner, 2000). (Meyer, 2001) for example, argue that weak institutional quality can lead to longer negotiation processes with administrations, management, and work forces, (Slangen & van Tulder, 2009) find that with lower institutional quality, firms will choose to establish a joint venture over a wholly-owned subsidiary. We expect that, the more complex and less predictable institutional environments are, the longer it will take firms to learn how to deal with such

environments and reduce the uncertainty stemming from such institutional arrangements. Such reductions of uncertainty, however, are crucial for firms' willingness to commit themselves stronger to host countries. Summing up, we reason that low institutional quality reduces firms' willingness to commit themselves and increases the time needed to do so. We thus posit:

H1 There is a positive relationship between the host-country institutional quality and the internationalization speed at which firms internationalize.

We believe that due to our sample being located in a region of rapid institutional change (Meyer & Gelbuda, 2006; Newman, 2000) it is necessary to not only look at institutional quality from a static point of view but also include a dynamic perspective on institutional factors. We assume that the internationalization speed of a firm is affected by (annual) improvements in institutional conditions in host countries. As (Hoskisson, et al., 2000: 259) outline, "the essence of emerging economies is that they are dynamic and that it is necessary to take account of changes in the institutional environment." Few prior studies have examined how institutional developments affect MNEs (Kim, Kim, & Hoskisson, 2010; Peng, 2003). The latter is a conceptual study examining how host-country institutional transitions change foreign MNEs' competitive and entry strategies, while (Kim, et al., 2010) examine how home-country (rather than host-country) institutional development moderates the relationship between an MNE's multinationality and its performance. (Puck, et al., 2009) analyze how perceived institutional improvements affect the propensity of firms to change their ownership mode. Moreover, some studies suggest that they focus on institutional development, but in the end still measure institutional quality levels (Cuervo-Cazurra & Dau, 2009; Park, Li, & David, 2006).

The lack of research on how MNEs' location choices are affected by institutional improvement rates is surprising, since such rates may be even more important drivers of internationalization behavior than absolute institutional quality levels. Developing countries and transition economies provide a case in point: While many of such countries still have relatively low

institutional quality levels, foreign MNEs are nowadays eager to enter them, presumably because their institutional conditions are improving relatively quickly. Connecting this observation to our research question, we expect institutional quality improvements in a country to have a positive effect on the speed at which firms internationalize within this country, above and beyond the positive effect of a country's institutional quality level in a given year. We therefore posit:

H2 There is a positive relationship between the host-country institutional quality change and the internationalization speed at which MNEs internationalize.

RESEARCH DESIGN AND METHODOLOGY

Data

We use data of Austrian firms' activities in CEE after 1989. The CEE region underwent two major waves of institutional change over the past decades: the fall of the iron curtain combined with the breakdown of Yugoslavia as well as the step-wise integration of the region into the European Union. We find, especially with regards to the testing of Hypothesis H2, the sample to be fitting as different countries portrait very different levels of institutional change over the period of analysis (e.g. Hungary vs. Russia) (Meyer & Gelbuda, 2006). We include firms of different age, size, industry and international experience. Our dataset contains 77 Austrian firms and information regarding their internationalization steps into and within the CEE region. In total the sample comprises of 530 such steps carried out in 19 different countries. For each of these steps we gathered the following data through extensive primary research. In particular, we contacted 199 Austrian firms, which we previously selected based on whether they were active in CEE. We then used personal interviews as well as public company information

including their homepages and annual reports to compile the dataset. Subsequently, we completed it with secondary information available in the two databases fdiMarkets and Zephyr to assure a holistic view on each company's international activity. In detail, the dataset consists of: 1) information on the timing including the year of entry and possible year of exit, 2) the mode used for this step including the information whether it is an entry mode or a mode change from a previous entity in this country (it is important to note here that our sample not only includes FDI but also information on direct and indirect exporting activities), 3) value chain information clarifying which value-adding activities are being performed in this entity and 4) company financial information for the year of and preceding the move including the companies turnover and total assets. Of the original 199 firms, 155 remained after we contended that, for this particular analysis, each company must portrait at least 2 or more internationalization steps in the CEE region to measure internationalization speed. Subsequently another cut in the number of firms down to 77 firms was necessary as those for which a complete set of secondary data was not available (financial data as well as host-country institution data for each country and year) could not be considered for the analysis either.

Measures

As noted by (Chetty, et al., 2014) there exists few commonality in the conceptual bases of speed measurement in extant studies. Following a thorough literature review we decided on a measure, which combines several views on the topic in order to do the complexity of our dataset justice. Contrary to several studies which measure speed simply as a time interval between two internationalization steps (a so-called uni-dimensional measurement) (Casillas, et al., 2013; Chen & Yeh, 2012), we define internationalization speed according to its physical definition as the length of time within which a certain target is achieved. This so-called multidimensional measurement of speed is in accordance with several previous papers on internationalization speed (Casillas & Acedo, 2013; Chang & Rhee, 2011; Chetty, et al., 2014; Hilmersson &

Johanson, 2014). We thereby connect two fundamental components in IB: 1) a firm's decision to commit or increase resources to a certain country, in this case a certain entry mode or commitment increase and 2) a specific indicator of time, in this case the difference in years between an internationalization step and its first internationalization. In order to operationalize this conception, we draw upon the research of (Sullivan, 1994) and code each mode on a scale from 1 to 4 (exports, portfolio resource transfer, joint venture and wholly-owned subsidiary) so that we can clearly identify commitment increases. Based on this information, a cumulated internationalization speed is calculated for each step by dividing the cumulated number of commitment increases (ci) per company per country so far by the time elapsed since the company's first internationalization (t). In the following, find the formula for the calculation of internationalization speed (v):

$$v = \frac{\sum_{i=1}^{s} ci}{t}$$

The two independent variables in this study are host-country institutional quality as well as host-country institutional change. Since a weak institutional framework means increased costs and greater risk for a company (Meyer, Estrin, Bhaumik, & Peng, 2009; Rienda, Claver, & Quer, 2013), we choose to base our analysis on the host-country's risk as an operationalization for institutional quality. In accordance with (Miller, 1992), we believe that an isolated consideration of uncertainties does not do the complexity of a country's institutions justice and therefore choose to base our analysis on an integrated measure. Accordingly, we draw upon the research of (Bevan & Estrin, 2000) and operationalize the host-country institutional quality using the "country risk score" provided by the Economist Intelligence Unit (EIU). In order to account for the fact that internationalization decisions in a company have to be made considerably ahead of time, we use the risk score for the year preceding an internationalization step as an indicator for this step ($CORS_{t-1}$) and continue with this logic for the other indicators

(Rev_{t-1}, and TA_{t-1}) as well. The change in host-country institutions is likewise operationalized with EIU's country risk score and calculated using a 2-year CAGR between risk scores 3 years and 1 year before the internationalization step ($\Delta CORS$).

We moreover added several control variables. Firm revenues as well as firm total assets (Rev_{t-1}, and TA_{t-1}) have been calculated in order to account for possible speed differences triggered by different financial- or size-related capabilities. Additionally, learning was measured as the number of cumulated years that the company has been active doing business in the CEE region (EXP_{CEE}) or operating an international venture with this mode (EXP_{mode}) in order to account for possible learning effects mirrored in the internationalization speed. Moreover we also include quadratic values for each of the two learning measures (EXP_{CEE}^2 and EXP_{mode}^2) to account for possible curvilinear learning effects as proposed by (Casillas, et al., 2013). Furthermore we include a dummy controlling for the type of internationalization step (*Type*). To the best of our knowledge this dummy represents a novelty in this line of research, which we consider to be of high value because it allows for distinction between different circumstances under which internationalization has taken place. Accordingly, we differentiate between the first step into a new country (after an initial entry into CEE has already taken place), a mode increase of an existing entity in a country, a commitment increase/decrease of an existing entity as well as an establishment of a new entity within a country (of higher or lower mode or commitment than the existing). Additionally we use this dummy to draw upon the research of (Casillas, et al., 2013) who differentiate between the two distinct measures of breath and depth. Lastly we include dummies for the year in which the internationalization step takes place (*Year*) and the industry in which the company is active in (*Industry*).

Methodology

We use hierarchical linear modelling (HLM) to account for variation on different levels in our observation. The clustering of activities into home countries and host countries and the

conceptualization of institutional quality on the national level make HLM necessary (Hox, 2002). While we explicitly treat the firm and country levels in a two-level regression model, we also account for fixed industry and time effects with respective dummies.

Our observations are clustered into 19 country pairs on level two (with Austria always being the home country). The average size of level two groups is 27.9 observations with the maximum at 73 and the minimum at one. Despite the quite low value of level two groups and its unbalanced structure the use of HLM is not principally impeded (Peterson, Arregle, & Martin, 2012) while optimally level two sample size would be approximately 30. We apply conservative tests for our hypotheses to account for potential downwards bias in the standard errors. We use the 0.05 level of two sided tests as a cutoff for significance even though our hypotheses are one-sided. As robustness checks we apply ordinary least squares regression, an alternative measure of country risk (economic distance), and heteroscedasticity-robust standard errors. These procedures do not yield significant different results.

---------- insert Table 1 approximately here ----------

The descriptive statistics shown in Table 1 give indication about the ranges of the respective variables. As evident from the definition above, the internationalization speed lies above 0 and the maximum in the sample is twelve. The revenues and total assets figures indicate that the sample is dominated by large companies, yet significant upward bias in the mean is explained by the extremely high maximum values. Mode and CEE experience are similarly represented in the sample while CEE experience generally is greater than mode experience. Country risk varies from index values of 25 to 74 with the mean at 48.04. Its change is positive or negative, depending on the case, and quite evenly distributed in the upward and downward directions.

Of the correlations, only the one between total assets and revenues requires justification. Both are of course strongly related. Yet, as two measures for firm size they capture the use of assets to generate revenues in the business activities when both are taken into account. We refrain from using profitability or earnings figures here because of potential conceptual simultaneity with the dependent variable and hence potentially serious endogeneity problems. Overall, collinearity appears to be only a minor issue in our analysis because the stepwise increase of variables does not significantly alter coefficients.

RESULTS

In a first step, we test an empty model to determine the degree of unexplained variation. The unexplained variance in Model 1 (Table 2) in the following is the reference for the computation of R^2 values for model fit. We find that there is significant variation on the country level and that our multilevel approach hence is superior to one-level moderated regression analysis. Model 2 includes firm-level determinants of internationalization speed of activities. We find evidence that the effects of experience that were proposed theoretically and empirically confirmed for Spanish multinationals by (Casillas, et al., 2013) are also present in our sample of Austrian firms internationalizing to the institutionally distant and diverse CEE region. Moreover, we find robust, but statistically not very strong evidence that larger firms tend to increase their international activities more slowly after having entered a foreign market. On the firm level we explain 35% of the variance that remains after clustering.

---------- insert Table 2 approximately here ----------

Not only country risk plays an important role for corporate decision making. Also, companies' expectation for the future based on previous institutional change in this variable plays an important role. Consequently, we test both hypotheses in Model 4, which represents our full model. While we do not find significant support for our first hypothesis, we find that positive changes in the institutional quality during the years preceding the internationalization step significantly positively influence the speed of implementing new operations after internationalization. Hypothesis 2 is supported. With regards to the explained variance and model fit, we significantly improve model fit with the addition of country risk changes. The final model explains somewhat below 37% of overall variation. In all models, we control for fixed industry and time effects as well as estimate separate regressions for different types of increases of international commitment. The reference case for mode changes is shown in Table 2.

DISCUSSION

In this paper we proposed an effect of host-country institutional quality on a firm's internationalization speed. Moreover we expanded existing institutional quality research and proposed a connection between change of institutional quality and speed that goes above and beyond the positive effect of static institutional quality levels. After having conducted our analysis we do not find significant statistical evidence for our first hypothesis that institutional quality levels have a positive effect on speed. H1 can hence not be supported. We believe that one of the foremost reasons for this might be the particular institutional setting in which the study was performed. According to (Meyer, 2001: 357), CEE represents a particularly "inconsistent and unstable" institutional framework with generally low levels of institutional quality. These facts are further amplified in the time following the fall of the iron curtain and the breakdown of Yugoslavia (Meyer & Gelbuda, 2006; Newman, 2000). Therefore we argue

that the effect of institutional quality on internationalization speed might have been diluted because of two reasons. Not only was the institutional level in CEE during the nineties so low that it might have impaired a clear analysis, more so might the quality levels and their improvement rates have been very different throughout the 19 countries that a consistent analysis was hindered.

Moreover, we want to raise the option of other factors also playing a role and thereby keeping us from considering the whole picture when it comes to the connection between institutional quality levels and internationalization speed. While we do control for learning and experience effects in speed as suggested by (Casillas, et al., 2013; Chen & Yeh, 2012; Hilmersson, et al., 2014) other theoretical constructs like transaction cost economics (TCE) may have added to the phenomenon. As (Meyer, 2001) point out, widely differing institutional levels throughout the CEE region force high transaction costs onto firms active in those markets. We purposely did not consider TCE within our framework; acknowledge however that it may have an effect on speed. As pointed out by many studies on the subject (Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986; Woodcock, Beamish, & Makino, 1994; Zhao, Luo, & Suh, 2004), TCE determinants have an impact on a firm's internalization level in a country. It could hence be argued that firms in specific situations are confronted with high transaction costs that reduce their willingness for a speedy expansion

We do, however, find significant support for H2 that the change in institutional quality does have a positive impact on the internationalization speed of firms. We attach substantial importance to this finding because it shows one thing clearly, which has hitherto not been stated clearly enough in the literature on institutional theory in an internationalization context: firms base their internationalization decisions not (purely) on institutional quality but more so, on the expectations about this quality in the future. This finding is underpinned by the setting of our study: the weak but rapidly changing institutional environment of CEE. It can be inferred from

our findings that regardless of the fact that institutions in CEE are weak at the time of decision making, if the manager of a firm infers positive development from the past changes in institutional quality he is willing to internationalize with high speed.

CONCLUSION, IMPLICATIONS AND LIMITATIONS

While our first hypothesis, stating that firms internationalize faster in environments of high institutional quality, has not been supported, we do find significant support for our second hypothesis. Through this, we are able to establish the fact that not necessarily is the institutional quality of a host country relevant for their internationalization speed decision but more so the change in institutional quality and the inferred expectations for the future.

Moreover we also set out to contribute to the existing literature on internationalization speed and institutional quality by expanding related research. The first objective of this paper was to contribute to our knowledge about internationalization speed by introducing a country-based perspective to its analysis. In doing so we show that host-country institutional quality does play a role in the analysis of speed – notwithstanding in a different way than expected, namely only from a dynamic perspective. In a similar vein, the second objective of this paper was also fulfilled by expanding the research on institutional quality through adding a new area in the analysis of which institutions play a role and elaborating upon the related effects. Lastly, the third objective – to expand institutional quality through researching the effect of a dynamic perspective on internationalization speed – was also fulfilled. We showed that the change in host-country institutional quality has a significant effect on the internationalization behavior of firms. In addition to these three explicit contributions, we also contribute to the general conceptualization of internationalization speed by consolidating conceptual literature on the measurement of speed and developing a measure that captures both, the complexity of the general concept of speed and the complexity of our data.

Also from a practitioner's stand point the study bears significant insights. We believe that the constant growth in pace of internationalization (Anderson, Graham, & Lawrence, 1998) gives rise to a need to understand the benefits and pitfalls of firm-specific internationalization speed. Hence, we believe that an exhaustive research on both speed as an independent and dependent variable is crucial to fully understand this concept. Moreover, firms that plan to enter or further expand their operations in CEE or other emerging markets may use our insights on firm internationalization and consequently benefit from other firms' prior internationalization processes through collective learning. Lastly, our research project may also be of interest to policymakers, as it points out how institutional developments affect firms' internationalization in emerging markets like CEE.

Our study is not without limitations. First and foremost we realized throughout the analysis of our study, that the operationalization of institutions by using the country risk score limited us in our explanatory power. While we do believe that this operationalization does not impair the validity of our results, we think that the research question and general setup of the study lend themselves for more far-reaching explanations and implications if institutional quality (and its change) are operationalized differently. Here the framework of (Kostova & Roth, 2002) comes to mind in which institutions are structured along regulative, normative and cognitive dimensions. Also, we regret to have lost more than 60% of our observations of the original dataset partly due to the fact that secondary data on firm financials and institutional data was not available for the respective year and country. For future studies, more research on firm-specific indicators could be useful in order to obtain more observations and hence increase the validity of findings. Also the operationalization of institutional quality is a topic which should be addressed in more detail in further studies.

	mean	*SD*	*min*	*max*	*1*	*2*	*3*	*4*	*5*	*6*
Speed (DV)	5.26	9.89	0	96						
1 TA_{t-1}	3.02	16.61	0.00	201.71	1					
2 Age	36.47	16.89	1.00	63.00	-0.04	1				
3 EXP_{CEE}	12.29	11.56	1.00	98.00	0.04	0.18	1			
4 EXP_{mode}	91.19	8.86	36.00	102.00	-0.06	0.11	0.04	1		
5 EXP_{count}	8.35	11.72	0.00	97.00	-0.02	-0.03	-0.66	0.00	1	
6 $CORS_{t-1}$	48.75	8.78	25.00	74.00	-0.01	0.02	-0.13	0.14	0.24	1
7 $\Delta CORS$	0.02	0.06	-0.14	0.17	0.05	0.01	-0.07	0.12	0.08	0.41

Table 1: Correlations and descriptive statistics. *TA_{t-1} in billion EUR, $CORS_{t-1}$ in the year before entry and $\Delta CORS$ from three years before to one year before entry*.

DV: Speed	Model 1	Model 2	Model 3	Model 4
Const	6.5362**	125.06	-104.33	-240.90
	(2.86)	(0.49)	(-0.37)	(-0.63)
TA_{t-1}		-0.0292†	-0.0301†	-0.0281†
		(-1.86)	(-1.91)	(-1.79)
Age		0.0410	0.0387	0.0396
		(1.61)	(1.52)	(1.56)
EXP_{CEE}		-0.0946	-0.1181	-0.1255
		(-1.10)	(-1.33)	(-1.42)
EXP_{CEE}^2		-0.0018†	0.0021*	0.0022*
		(1.90)	(2.14)	(2.20)
EXP_{mode}		-2.4655	2.9770	4.8464
		(-0.46)	(0.37)	(0.60)
EXP_{mode}^2		0.0126	-0.0147†	-0.0238
		(0.45)	(-0.35)	(-0.57)
EXP_{count}		0.5033***	0.5314***	0.5362***
		(6.73)	(6.72)	(6.84)
EXP_{count}^2		0.0015	0.0016	0.0011
		(1.59)	(1.20)	(1.18)
$CORS_{t-1}$			-0.0097	0.0410
			(-0.21)	(0.84)
$\Delta CORS$				12.135*
				(2.22)
R^2		0.35	0.34	0.37
AIC	3374.39	2953.662	2978.48	2970.57
LogL	-1668.20	-1449.83	-1456.24	-1451.29
N	477	477	477	477
G	18	18	18	18
Country	No	No	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Type	Yes	Yes	Yes	Yes

Table 2: Regression coefficients of multivariate two-level regression with fixed time and industry effects (z-values in brackets). ***, **, *, and † indicate significance on the 0.001, 0.01, 0.05, and 0.1 level for two sided tests, respectively. *TA_{t-1} in billion EUR. Country refers to country-level controls (GDP, GDP growth, population, area, and EU membership) that are not at the center of our research but controlled for. Industry dummies indicated by "yes" refer to NACE main industries, type refers to different kinds of commitment increase (new entity vs. increased commitment in an existing entity).*

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