The role of institutions in foreign entry mode: a comparative study between emerging and advanced economy MNCs investing in Latin America

The aim of this study is to extend the discussion about entry mode choice, the third most researched field in international business literature (Canabal and White III, 2008). Despite the extensive literature addressing this issue and a statement that scholars have already made enough progress in understanding this research topic (Shaver, 2013), there is a need for more entry mode studies (Hennart & Slangen, 2015). Particularly, scholars call for a better understanding of how does the institutional environment affect firm's choice under a specific context. For instance, Brouthers, Brouthers and Werner (2008) suggest that differences in countries' institutional environments may influence the impact of firm-specific resources on mode choice. In the same vein, Meyer & Nguyen (2005) found that subnational institutions affect entry mode choices.

In addition, scholars are looking for explanations that consider not only the host country institutions aspects, but also country of origin effects. More specifically, Cuervo-Cazurra and Ramamurti (2014, p.2) questioned "what ways are emerging multinational companies (EMNCs) different form earlier multinational companies (MNCs) that came from Europe, North America or, even Japan?". A number of studies investigates the impact of host country characteristics on firm's entry strategy, but only few investigations consider how a firm's country of origin influences its internationalization strategy (Cuervo-Cazurra & Ramamurti, 2014). In this way, this research intends to fill this gap and contribute to the entry mode literature by comparing and contrasting strategic behavior of advanced economy MNCs and EMNCs investing in emerging markets. Thus, it will be possible to analyze whether or not institution aspects in developing countries has different influences between early (advanced economy MNCs) and latecomers (EMNCs) multinational firms.

We develop the literature review on two main theoretical approaches. First, the transaction cost theory on entry mode research (Zhao et al., 2004; Brouthers & Hennart, 2007; Slangen & Hennart, 2007). Second, the institutional theory applied on entry mode (Slagen & Hennart, 2008). Then, we proposed an analytical framework build upon the recently development of institutional theory composed by four dimensions: (i) macroeconomic environment; (ii) financial markets; (iii) government and policy; (iv) innovation system.

For methodological procedures, we based on the collection of multiple secondary data. Initially, we gathering data from Brazilian (EMNCs) and Japanese (advanced economy MNCs) companies operating in Latin America (emerging market context). For the EMNCs, we used the data from Brazilian Multinationals Observatory published by ESPM, one of the few database available of Brazilian overseas investments. For the advanced economy MNCs, we collected data from *Kaigai Shinshutsu Kigyou Souran: Kuni Betsu* (Japanese Overseas Investments: by country) published by Toyo Keizai. Both datasets comprise on subsidiary-level data according to: (i) company/subsidiary name; (ii) industry sector; (iii) target country; (iv) year of entry; (v) entry mode (acquisition or greenfield). We restricted our sample to firms operating in Latin America during the 21st century. Our final sample covers 602 foreign

subsidiaries from EMNCs and advanced economy MNCs operating in 16 Latin American countries over the period 2000 to 2014.

We adopted the logistic regression model to run our analysis. This technique is robust for nonparametric variables and non-normal distributions, as is the case of the sample in this study (Hair, 2005). The logistic regression analysis requires the sample size to have at least five observations per independent variable, and the number of cases in the smaller group should be greater than the number of independent variables.

The dependent variable is entry mode (1=greenfield; 0=acquisition), and independent variables are institutional aspects associated with each host country in Latin America such as: (i) macroeconomic environment such as corporate tax rate, inflation rate, and GDP per capita PPP. (ii) financial support; (iii) government efficiency; and (iv) innovation environment. We collected the institutional data from secondary sources such as Global Competitiveness Index (2013), Heritage Foundation (2013), and OECD (2015). As control variables, we considered subsidiary industry sector and subsidiary age.

Among the 602 subsidiaries across 16 countries, we have the following descriptive statistics. Our sample contains 284 advanced economy MNCs and 318 EMNCs. In terms of entry mode, 45.3% cases of acquisitions and 54.7% of greenfield investments. For industry sectors, manufacturing firms represent 37.5% and 62.5% are non-manufacturing. It should be noted that 42.4% of the firms accessed the Latin America market before 2006. In terms of experience in the local market, 66.6% of subsidiaries have operated in Latin America for less than 10 years. In terms of host countries, subsidiaries are located majority in Mexico (31.9%), Argentina (18.1%), Chile and Panama (10% each).

Our preliminary empirical analysis provides interesting findings. First, institution aspect related to macro-economic environment do not influence mode selection. Second, there is a clear difference between the role of other institutions in Latin America for advanced economy MNCs and EMNCs. Third, for advanced economy MNCs, the findings suggest that innovation environment and financial support is associated to greenfield investments, while government efficiency is related to acquisitions. Forth, for EMNCs firms none of the institutions aspects influences entry selection. Only the control variable related to subsidiary age shows an association of greenfield investments. It seems that more experienced EMNCs are better able to act in week institutional environment through greenfield as postulate to traditional theories in the entry mode literature.

Finally, the implication of our preliminary results show that a firm's country of origin is an important aspect to be controlled when analyzing entry strategies in emerging markets. Advanced economy MNCs and EMNCs showed a distinctive internationalization behavior under the same context. For advanced economy MNCs institutions really matters, while for EMNCs institutions do not matters when investing in emerging markets. For EMNCs (Brazilian firms), operating in an institution environment (Latin America) that seems more similar to the domestic market, those institutional aspects do not play an important role for choosing the foreign entry. They already know how to operate in unstable markets. While for advanced economy MNCs (Japanese firms), as the institutional host country context is slightly more different and weaker from the home country, they have to consider more these aspects to select the way of accessing those markets.